

What are the different types of permanent life insurance policies?

Life Insurance

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Whole or ordinary life

This is the most common type of permanent insurance policy. It offers a death benefit along with a savings account. If you pick this type of life insurance policy, you are agreeing to pay a certain amount in premiums on a regular basis for a specific death benefit. The savings element would grow based on dividends the company pays to you.

Universal or adjustable life

This type of policy offers you more flexibility than whole life insurance. You may be able to increase the death benefit, if you pass a medical examination. The savings vehicle (called a

cash value account) generally earns a money market rate of interest. After money has accumulated in your account, you will also have the option of altering your premium payments – providing there is enough money in your account to cover the costs. This can be a useful feature if your economic situation has suddenly changed. However, you would need to keep in mind that if you stop or reduce your premiums and the saving accumulation gets used up, the policy might lapse and your life insurance coverage will end. You should check with your agent before deciding not to make premium payments for extended periods because you might not have enough cash value to pay the monthly charges to prevent a policy lapse.

Variable life

This policy combines death protection with a savings account that you can invest in stocks, bonds and money market mutual funds. The value of your policy may grow more quickly, but you also have more risk. If your investments do not perform well, your cash value and death benefit may decrease. Some policies, however, guarantee that your death benefit will not fall below a minimum level.

Variable-universal life

If you purchase this type of policy, you get the features of variable and universal life policies. You have the investment risks and rewards characteristic of variable life insurance, coupled with the ability to adjust your premiums and death benefit that is characteristic of universal life insurance.

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