



# The Life Insurance Maze: TERM or PERMANENT INSURANCE Look To Your Core Values

If you listen to the radio, watch TV, read books and magazine articles etc., many will tell you that the cheapest and best insurance is "term insurance." Actually, the best policy to own is the one in force the day you die. The reality is that most term policies lapse before you do. While rates can be guaranteed up to 20-30 years, most people get "balloon shock" when those rate guarantees end and the cost goes up, sometimes by a significant amount. As a result, policy-owners may drop their policies, even though the need for insurance hasn't necessarily vanished.

Balloon shock can occur at the end of the guaranteed rate period. While the actual rates at the end of the term periods can be less than the rates illustrated, they are not guaranteed to be so.

Policy Year	Guaranteed Rate Period		
	15 year	20 year	30 year
1	\$155	\$185	\$323
15	\$155	\$185	\$323
16	\$2,923	\$185	\$323
20	\$4,185	\$185	\$323
21	\$4,610	\$4,610	\$323
30	\$11,105	\$11,105	\$323
31	\$12,328	\$12,328	\$12,328

Sample Illustration: \$250,000 death benefit for a male age 35 with a preferred plus non-smoker rating. Rates based on annual premium payments. Illustration summary from The Union Central Life Insurance Company, LT15, LT20 & LT 30 rates. UC8606

The policies you buy should match your needs, budget AND core values. Don't base your insurance decision on the hope or belief that you will retire wealthy and pass away without tragedy or losses during your retirement years. The question is, do you want to protect your family for PART of your life or ALL of your life? Many people overestimate what their actual retirement nest egg will

be, and they underestimate the cost of retirement and what survivors will need.

Term insurance is cheapest when it is used for its intended purpose to pay off upon death temporary obligations such as mortgages; to create instant college funds at death or to replace lost income during working years. Term policy rates are generally guaranteed for 10, 15, 20 and 30 years. Even though the policies may be "renewable" up to age 95, they may not be affordable after the "guarantee" period. At the end of the guarantee period rates generally begin to increase, especially on the 20 and 30-year guarantee products (see illustration).

Some people say, "Well, I'll just get a new policy." Yes, you MIGHT be able to get a new policy when your guaranteed rate expires, however, you will DEFINITELY be older so your rates will be higher. In addition you may be less insurable due to things like: blood pressure, diabetes, cholesterol, and weight etc., or, you may be uninsurable due to heart disease or cancer, etc. Should your family's financial security be dependent upon your hope or belief that insurance will be affordable or even available for you in the future?

Old Thinking for Old Experiences: Decades ago, people generally bought life insurance to replace lost income during working years and to pay off debt. While that need still exists and is still the primary need for insurance, life expectancy has changed dramatically. As a result, the hazards of retirement have also changed.

In previous generations people worked until they were 65, and the time frame for retirement was in years, not decades. The surviving spouse's economic needs may have been less because their life expectancy was also shorter. Reality has changed! People should now expect to have a retirement period of nearly two decades. Even with a large nest egg at the start of retirement that seems to be sufficient to maintain lifestyle, a lot can happen in two decades to diminish or wipeout savings. Here are a few examples:

- Uninsured nursing home expenses
- Poor performance in equities
- Lower interest rates on CDs and savings forcing you to spend principal
- Loss or reduction of health benefits from

the company you retired from

- Loss or reduction of pension benefits
- Changes in Medicare and Supplement benefits like reduced prescription coverage
- Rapid or growing inflation
- Changes in tax laws

Do you remember the days when municipal bonds and utilities were considered "safe?" Recent corporate and municipal bond defaults have changed all that. Today, it's a good strategy to create and maintain a financial safety net. The simplest plan is to maintain a life insurance policy until you die, and create a new pool of wealth to support your survivors. A good way to accomplish this is to diversify your insurance portfolio like you would an investment or real estate portfolio.

Old school thinking about life insurance is as outdated as the record player for listening to music. A sound way protect your family is to include 20-25% of your life insurance portfolio with permanent insurance policies and the balance of insurance in term policies. While there are three basic types of permanent policies that build cash value, there are many hybrids. Don't be confused. The three basic policies are:

- Whole life
- Universal Life
- Variable Universal Life

There are lots of bells and whistles that come with permanent policies. Agents may focus on the flexibility and tax advantages and even suggest use for retirement. I suggest you focus on the core value of insurance.... PROTECTION! Remember two things: 1) While life insur-

ance builds cash value, it is not an investment: it's PROTECTION! Along the way, if you need cash you can obtain tax-advantaged withdrawals or loans, which may reduce your death benefit. 2) Remember that *investments are not life insurance* and don't guarantee to provide for your family in the event of your death. An investment can be volatile and subject to change.

If your core values are to provide protection for your family for ALL of your life and all of the potential hazards of retirement, a well-funded permanent life insurance policy should be included in your insurance mix. If you want to protect your family for a specific period of time, term insurance could be right for you. Base your insurance decision on your core values and financial objectives.

Lastly, I suggest you dust off your policy and have it reviewed by a professional. You may have quit smoking, lost weight, or had other positive changes in your health or lifestyle that could lower premiums on your existing contract. **HB**

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