Corporate Exposure: When The Time Comes...

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Life insurance is one of the methods through which people provide financial security to beneficiaries in the event of death. It used to be a fairly straightforward type of insurance. Once the need for the product had been established, developing the policy was easy. The process began with the establishment of mortality tables and the development of statistics on the probability of death. Once finalized, rates were promulgated to cover the risk. This was a relatively simple process—until ongoing market demands paved the way for the development of a variety of life insurance products and options.

Nonetheless, the two most popular contacts are still "term" and "whole life" policies. Term life insurance contracts accrue no cash value and provide a specific death benefit for a determined premium. Because these policies have no cash value, they cannot be redeemed or borrowed against, and usually do not pay dividends. The costs of these policies are usually predicated on the benefit as well as the individual's age and health. As the policyholder ages, the premium usually increases until the policy's established expiration date or when a death benefit is paid. Term policies are usually purchased by younger adults who wish to have protection for a fixed period of time (usually ten years). Because, as noted, the premium is based on age and health, reviewing various premium quotes can be difficult and time-consuming. There is no standard rate for a 20-year-old in good health, so shopping for the cheapest price may not be the most beneficial approach. How much insurance one needs is also a difficult determination. Financial obligations and assets are probably the two most important factors. Once again, however, there is no standard formula or rule, and these decisions are personal in nature.

In New York State, term policies can be purchased through many savings banks and insurance carrier agents. As a result, the consumer in New York has a large selection of vendors from which to choose. Some term policies contain provisions allowing the policyholder to convert the contract to a "whole life" policy under certain conditions.

Whole life insurance policies build up cash value and are considered by some to be an excellent investment purchase, since the earnings on the investment portion grow tax-deferred. Bear in mind the premiums are considerably higher than for term policies, but in today's market, the interest rates provided by these policies are probably better than some other conservative investments. Interest rates on whole life policies are down from the 12 percent offered a few years back, but they are still higher than those of traditional bank savings or CD accounts. Many purchase these policies to help pay for the cost of college for their children, since the policyholder can borrow against the cash value accrued. These policies provide long-term coverage as cash values accrue, and usually the policy pays dividends to the holder. There is even greater variation in premium costs for whole life policies than term policies. Interest rates, commission pay outs, and carrier investment portfolios all affect the cost of the policy. Naturally, individual age and health are also major risk factors.

The importance of life insurance

Some Considerations

First, ask yourself why you are purchasing a life insurance contract. You must know where you are going before you can determine the best route and when someone is offering bad advice. If your purchase is an investment, perhaps the stock market may provide a better return. If it is for a specific time frame, then term life is probably the best option.

Regardless of the policy you purchase, review the carrier's rating. The A. M. Best Company rates insurance carriers' financial capabilities. There is little value in purchasing a life insurance contract from a carrier that may not be around to satisfy the death benefit. Several undercapitalized carriers have filed for bankruptcy protection, leaving some policyholders without coverage.

Carefully review the policy conditions before purchase. In New York and several other states, there is a grace period for review, during which an individual can cancel the policy and receive full reimbursement for premiums paid. Review the policy provisions for options in the contract. For example, can the contract be converted from a term to a whole life policy? In addition, if an illness or a disability occurs to the policyholder, does the premium increase or is it suspended? For a premium, some contracts offer the suspension of future payments under certain conditions.

As with any insurance contract, the life insurance policy must be carefully analyzed to determine your best options. Be certain your agent, broker, or financial consultant is qualified to render these types of risk analysis.

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