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Practice Management Information for Implant Dentists

Which Type of Life Insurance is Right for You?

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We all need life insurance for different reasons and in different amounts. While an in depth needs analysis will help to determine how much life insurance is needed, we still must determine what type should be considered; term or permanent. Like many financial product choices, people often purchase the lowest price product without reviewing the downside of such a choice. Before we discuss what mix of life insurance plans is best for you, let's take a minute to review the different types.

Term life is designed to cover a temporary need. When purchasing term life insurance, you essentially pay for the actuarial risk of dying during the term of the policy. Many companies offer plans with level premiums for 10, 15, 20 or 30 years. The most important consideration when purchasing term life is how long you will need the coverage. If you need the coverage for 10 years or less, you should purchase 10 year term. If you need the coverage for more than 20 years, then you should consider the 30 year level term. Making the wrong decision with term insurance could cost you thousands of dollars over your career.

Term insurance does not provide a savings element within the policy. With the exception of term life with a return of premium rider, the coverage will expire with no value when premiums are no longer paid.

Permanent life, which includes whole life, universal life or variable life insurance, may provide lifetime coverage. In addition to providing death benefits like the above mentioned term plans, each of these three permanent plans contain a savings feature or cash value. Growth of the cash value will vary by the type of plan and is not guaranteed. The earnings on a whole life policy are based on the underlying investments of the insurance company with a minimum guarantee. Universal life uses new money rates and Variable life offers a wide range of investment choices from a selection provided by the insurance company. Variable life returns are based on the actual performance of the investment choices. Whole life insurance also provides a guarantee of insurance costs, while the others normally charge non-guaranteed current rates for the insurance protection.

The different types of plans fall in and out of favor during normal investment cycles. During the past few years of down markets, Whole life has once again come to the forefront. Many current permanent life insurance buyers are drawn to Whole life insurance because it contains guarantees not generally found in any other life insurance plan. Ultimately, your tolerance to risk should be one of the main reasons for choosing the appropriate type of permanent life insurance.

To get back to the question of which type of life insurance is right for you, let's look at who should have term only, permanent only or a mix of the two.

Generally, term life is appropriate for those individuals who need insurance for a very short period of time; i.e. less than 10 years, or practitioners just finishing their training who need life insurance. While it makes sense to start a permanent plan sooner versus later, priority needs to be given in a situation of limited funds. In addition to life insurance, individuals finishing training will need to purchase disability income insurance, professional liability, medical insurance and an array of other insurance policies depending on their employment status. Therefore, when considering these very important insurance plans, term life insurance may make economical sense during these early years of practice.

Rarely will an individual purchase 100% of permanent insurance. As assets build and debts decrease, the needs of a 30 year old should not be the same at age 70, though an individual will still need some life insurance well into their retirement years. Overall financial planning is paramount to ensure that saving and spending goals are met in order to reach retirement age in a financially strong position.

Younger individuals often think that their need for life insurance will be non-existent at age 60 or 70. However, many will maintain their life insurance even after retirement. Because 30 years is typically the longest level premium period for term life, permanent insurance should encompass between 25-50% of one's life insurance portfolio. There are numerous factors that will affect your need for life insurance later in life. Inflation, health issues, business ventures and market conditions are few factors that could affect your long term life insurance needs.

Flexibility is one of the primary reasons for adding permanent insurance to your life insurance portfolio. Permanent life insurance provides death benefit protection for life. As long as you pay the premiums, the death benefit will be paid. (This guarantee is based on the claims-paying ability of the issuing company.) Permanent life insurance may have fixed premiums, generally accumulates cash value on a tax-deferred basis and may pay policy dividends.

Although more expensive initially than term life insurance, permanent life insurance may, over time, become the least expensive form of life insurance.

Although it is not as glamorous as buying stocks or real estate, insurance is an integral part of any financial plan and should be given the same time and consideration as the other components of your plan.

For more information regarding the differing types of life insurance that would benefit you and your family, contact Treloar and Heisel, Inc. at 800-345-6040.

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