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MONEY 101 LESSON 20: Life insurance

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Top things to know

1. All policies fall into one of two camps.

There are term policies, or pure insurance coverage. And there are the many variants of whole life, which combine an investment product with pure term insurance and build cash value.

2. Insurance is sold, not bought.

Agents sell the vast majority of life policies written in the U.S. because the life insurance industry has a vested interest in pushing high-commission (and high-profit) whole-life policies.

3. Whole life is expensive.

Policies with an investment component cost many times more than term policies. As a result, many people who buy whole life often can't afford an adequate face value, leaving themselves underinsured.

4. Whole-life policies are built on assumptions.

The returns quoted by the agent are simply guesses - not reality. And some companies keep these guesses of future returns on the high side to attract more buyers.

5. Keep your investing and insurance strictly separate.

There are better places to invest - and without the high commissions of whole-life policies.

6. Buy enough term coverage to fill your needs.

Life insurance is no place to skimp, especially with rates at historic lows.

In Lesson 20



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7. Match the term of the policy to your needs.

You want the policy to last as long as it takes for your dependents to leave the nest - or for your retirement income to kick in.

8. Buy when you're healthy.

Older people and those not in the best of health pay steeply higher rates for life insurance - so buy as early as you can, but don't buy until you have dependents.

9. Tell the truth.

There's no sense in shading the facts on your application to get a lower rate. Be assured that if a large claim is made, the insurance company will investigate before paying.

10. Use the Web to shop.

Buying life insurance has never been easier, thanks to the Internet. You can get tons of quotes - and avoid the pushy salespeople.

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