

LIFE INSURANCE: TERM VERSUS PERMANENT



This primer explains the different approaches and when one might work better than the other.

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Life insurance is part of nearly every retina specialist's wealth planning. This is not surprising, because those with dependents use it to protect future income for their family's well-being in case of an untimely death. However, life insurance can help achieve other planning goals, including asset protection, tax diversification, wealth creation, and estate tax planning. To achieve these goals and more, doctors have two types of life insurance policies to consider: temporary (term) and permanent (cash value). This primer outlines the basics of both life insurance options to help you use them appropriately for far more than protecting against a worst-case scenario.

TERM LIFE INSURANCE

Term insurance is the least costly type of life insurance; because you are only paying for death benefit, there is no accumulation element. Thus, term insurance offers peace of mind for a limited time. For those nervous about investing in something that follows them throughout their lives (an understandably daunting prospect), term insurance offers a compromise between providing something versus nothing for their loved ones in the event of death.

As the name implies, term coverage lasts a finite time—usually between 10 and 30 years—with the average policy having a 20-year term. During this time, premiums are an expense; the policy doesn't accrue any value, but the beneficiaries receive a payout if you pass while the policy is active.

For ophthalmologists, this can be a cost-effective way to ensure that, if they die, their families receive a short- or long-term (depending on the payout amount) income replacement. This gives the beneficiaries the time they need to mourn and regroup without worrying about finances.

PERMANENT LIFE INSURANCE

Looking at life insurance as an investment instead of a cost opens you up to a plethora of other long-term options that fall under the umbrella of permanent (or "cash value") life insurance.

Like term insurance, permanent life insurance policies offer a payout to the beneficiaries in the event of the covered person's passing. However, this category of insurance also carries cash value along with the death benefit. Provided the premiums are paid regularly, permanent insurance can last for the policyholder's entire life.

Although permanent life insurance premiums are higher than term policy premiums, this type of coverage will eventually move from an expense to an investment. As you pay your premiums, your policy should begin to accrue tax-free cash value, which is attractive to many physicians. After a pre-determined period (covered in your policy terms), you can access this cash value if you need funds.

Within the permanent life insurance umbrella are five different types of policies, three of which are more commonly used. The two types of policies not covered here, and used less frequently by physicians, are variable life and variable universal life insurance, both of which have greater downside risk and upside potential.

Whole Life Insurance

Within the scope of insurance, whole life is often compared with term. This coverage type has existed for decades, becoming a preferred policy in the 1940s and beyond. Whole life has evolved since its inception, but the original "til-death" policy continues to remain popular.

Whole life insurance premiums are fixed and do not

increase throughout your lifetime—as long as you pay them on time. The coverage pays a death benefit to the policy's beneficiary (named by you) and provides a cash value account into which you can invest part of your income while ensuring tax-deferred cash accumulation.

Whole life coverage is frequently used to complement a savings account once your emergency safety net is covered. If you don't need to access your funds and want them to grow faster than they would in savings, the whole life premium does the work for you, typically increasing with the insurance company's annual dividends.

Also, if you need to borrow from the cash value of your policy, you can. Provided you have structured the policy correctly, the earnings are accessible tax-free. Whole life insurance is ideal for those looking for benefits such as:

- Tax reduction
- Asset protection
- Estate planning
- Wealth accumulation
- Asset class tax diversification

However, whole life insurance is tied to the insurance company's investments. You don't get to diversify where your premium goes or move it between accounts. And once you've chosen a death benefit amount, you can't change it. If these factors are important to you, universal life insurance may be a better fit.

Universal Life Insurance

Universal life insurance works similarly to whole life coverage, but it provides flexibility in the premium and death benefit choices. With universal life, your cash value should grow as interest paid by the insurance company. If the company's investments do well, you'll reap the benefits of your policy's cash accumulation. However, should the company's investments do poorly, your interest return will likely reflect this. When that happens, less money is available to cover your death benefits, and you'll need to pay higher premiums to meet the gap. Another option for universal life policies may be to reduce the death benefit, a flexibility option not available with whole life insurance.

Equity-Indexed Universal Life

A subset of universal life coverage, equity-indexed universal life insurance (EIUL) provides the policyholder with premium and policy flexibility. You can choose from a list of stock market indices in which the insurance company will invest your premium and grow your cash value at the same rate as stock market returns, with a cap and a floor. There are numerous investment options and elements to select with EIUL policies, and they need to be managed closely. As such, it is essential to work with an insurance specialist when investing in this type of policy.

PLAN AHEAD FOR PEACE OF MIND

While life insurance is a fundamental planning tool for many retina specialists, there are a host of options in the marketplace, falling under two broad categories: term and permanent insurance. We both use term and permanent policies in our personal planning because we recognize that each category has its benefits, risks, and use cases. We encourage all physicians, including retina specialists, to become more educated on them as well. ■

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