

Understanding Permanent Life Insurance Policies

Permanent Life Insurance comes in two distinct forms:

Whole Life - This type of Life Insurance policy is immune to factors that would otherwise cause an insurance policy's premium to increase. Two factors that determine insurance premiums are mortality rate and expense costs. As you age, your mortality cost increases and should therefore increase the insurance premium. But with a Whole Life policy, this isn't the case. The same applies for an insurer's operating expenses. If an insurance company has to increase its general staff or perhaps rent a larger office space, the cost is usually passed down to policyholders. This would not be the case for Whole Life policy holders. Those who purchase a Whole Life policy are buying a permanent life insurance policy without risk. The disadvantage to a Whole Life policy is if the policyholder decides to add additional coverage, he or she will be required to purchase an additional life insurance policy.

Universal Life - This type of policy is in direct contrast to a Whole Life policy. It is flexible in nature where a Whole Life policy is not. The two factors that determine a Universal Life insurance premium (mortality cost and expense cost) are passed directly on to the policyholder: if expense costs decrease or general interest rates rise, the policyholder benefits by having his or her insurance premium lowered. However, the opposite is also true: should expense costs increase or general interest rates drop, then the policyholder is subject to ever-increasing insurance premiums. Additionally, Universal Life policy holders are allowed the flexibility of increasing or decreasing policy limits without purchasing additional policies. Should you experience difficult times and be unable to afford the premium, you can simply lower the limits in order to decrease your policy premium. Increasing the benefit is also possible but may require the insured to prove good health to the insurer.

Other life insurance terms you should be aware of:

Variable - Variable means the policy holder is allowed to invest the cash value of the policy into areas such as the stock market. This can be beneficial if the cash value is invested wisely and the investment is profitable. However, if a poor investment choice results in a decreased cash value due to unexpected losses, the policyholder will be required to deposit additional funds to cover the cash value loss.

Cash Value Choices - Whenever a policy holder decides to terminate a permanent insurance policy early and that policy has established a cash value, the policyholder has several options available: receive the funds in cash, accept a prepaid permanent insurance for life (but at a decreased death benefit), or accept a term life insurance policy for the full death benefit.

Policy Loans - There is a fourth option to cash value called Policy Loans. The policyholder may borrow against the accrued cash value of his or her life insurance policy. If you decide to take a loan against your cash value and should you die before the Policy Loan is paid back, the insurer will deduct the unpaid loan amount from the death benefit. Although Policy Loans do have an interest rate, it is usually quite low in comparison to conventional loans (it may be as low as 3 to 4 percent when dividend payouts are also factored).

About the Author

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