



July 2018

Life Insurance: Term, Whole, and Universal

Buying life insurance is a way for an individual to protect their dependents from unpaid liabilities and uncovered expenses in the event of their own death. The benefits of a life insurance policy can be unclear and may lead to challenges when trying to determine which policy is the best for different situations. In this article, we will examine each of the types of life insurance, what they cover, and when individuals typically use them.

Term vs. Permanent

All life insurance falls under one of two categories: term and permanent. Term life insurance only covers a pre-set amount of time, whereas permanent life insurance can cover the duration of the insured's life.

Term Life Insurance

Term life insurance is a policy that lasts for a relatively short period of time—usually 10-20 years—and comes with a death benefit. Once the term ends, policies can typically be renewed, though usually at a higher cost (because the policyholder is older and inherently comes with higher health risks). Applicants usually need to pass a medical examination to qualify for term life insurance.

Term life insurance is typically the most affordable type of life insurance because it has a limited duration and no cash value that can be accessed. If the policyholder dies within the term, then beneficiaries will get a payment that they can use to cover lost income or to protect themselves from liabilities, such as a mortgage or outstanding personal debt. While this makes term life policies an efficient way to mitigate the biggest financial problems caused by early death, their temporary nature prevents them from being used in most long-term estate plans.

Whole Life Insurance

Whole life insurance is a type of permanent life insurance that guarantees a death benefit for the duration of the policyholder's lifetime, provided that all premium payments are made. Due to the lifelong coverage period, this policy is better equipped for estate planning and charitable giving strategies than term life insurance. While most whole life policies feature fixed premiums that will not increase over time, their premiums are much higher than those for term life. This is because whole life insurance both provides a death benefit and accumulates a useable cash value.

A whole life policy's cash value can be used to produce dividends for its policyholder (typically at a predetermined rate) or can be borrowed against if the policyholder is in financial need. It is important to note that insurers put restrictions on borrowing against a policy and that any withdrawals will decrease the policy's cash value.

Universal Life Insurance

Universal life insurance is another type of permanent life insurance that typically acts as a more flexible version of whole life. You are able to choose the length of guaranteed protection and the schedule for premium payments in advance. Both are guaranteed to remain unchanged (unless you choose to change them) so long as the premiums are paid on time and in full. As with whole life insurance, universal life provides both coverage and a cash value, so its premiums will tend to be higher than those for term life. However, universal life insurance policies typically offer more control over their cash value than whole life policies. Universal life insurance policyholders can increase their premiums to boost the policy's cash value or can use their accumulated value to cover premium payments. To qualify for most universal life insurance plans, individuals must pass a medical exam.

Variable Life Insurance



Variable life insurance, which is a variation of either whole or universal life insurance, permanently offers a death benefit to a beneficiary in the event of the policyholder's death. However, variable life insurance offers the ability to change premiums to adjust the amount of coverage. Like other forms of permanent life insurance, variable universal life insurance takes a portion of the premiums and invests them in a tax-deferred account. The investments are allocated in mutual-fund-type accounts and are therefore subject to market volatility, which will likely affect the total cash value of the account.

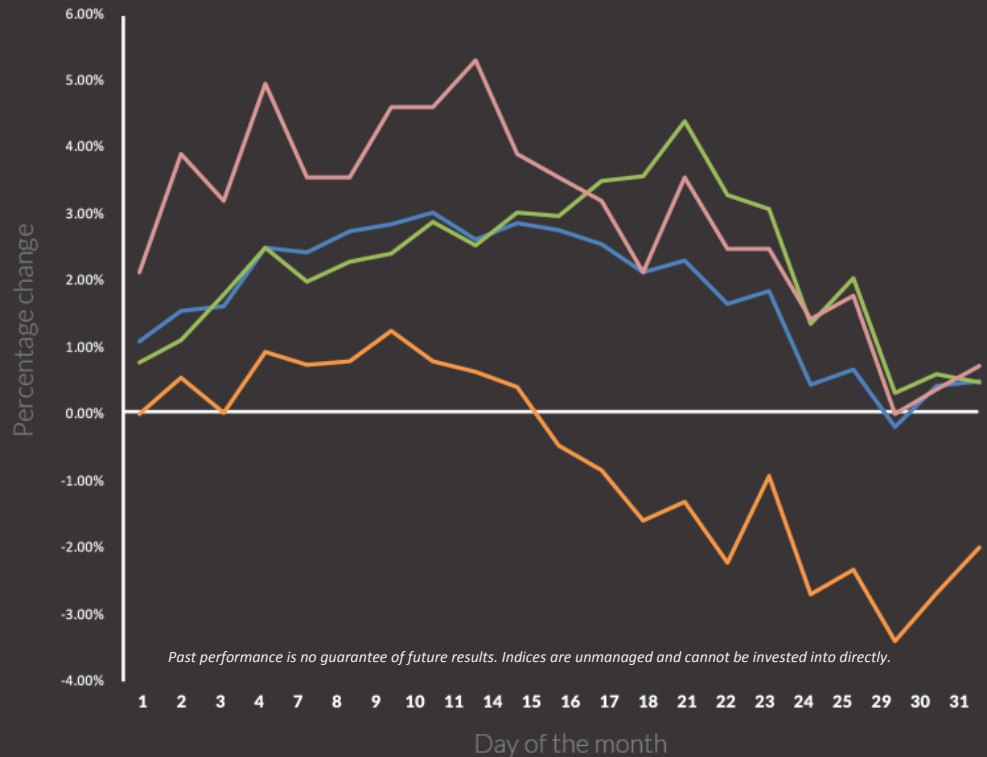
Insurance can be an important part of a comprehensive financial plan. However, different individuals have varying needs, and no single policy will be most appropriate for everyone. Ask your trusted financial advisor how a life insurance policy can best be integrated into your financial planning.



The market at a glance

June

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|  U.S. Large Cap (S&P 500) | 2,718.37 (0.48%) ▲ |
|  U.S. Mid/Small (Russell 2000) | 1,643.07 (0.47%) ▲ |
|  International Large (NYSE International 100) | 5,480.06 (-2.00%) ▼ |
|  U.S. Treasuries (U.S. 10-year Treasury yield rate) | 2.85 (0.71%) ▲ |



The market in action

- The Dow Jones Industrial Average made the decision this month to remove General Electric Co. from its index, replacing it with Illinois-based pharmacy chain Walgreens Boots Alliance Inc. The decision is largely attributed to the need for greater representation of the U.S. economy's consumer and healthcare sectors within the index.
- The American Civil Liberties Union delivered a petition and a letter from 17 investors to Amazon this month imploring the retail giant to forego future business opportunities that would deploy its image recognition technology for government use. The Orlando police department – one of two pilot cities leveraging the technology – announced it would not be immediately renewing its contract with Amazon shortly thereafter.
- Share values for drugstore mainstays Walgreens, CVS Health, and Rite Aid all dipped this month after Amazon announced the purchase of PillPack, a company specializing in the packaging and distribution of medication for individuals with chronic conditions and multiple prescriptions.
- Harley-Davidson Inc. faced more growth challenges this month with share values sinking after the iconic motorcycle manufacturer announced the European Union's 25 percent tariff levy would increase the cost of each bike by roughly \$2,200. The company said it would still avoid raising any suggested retail or wholesale prices.
- Comcast Corporation announced this month that they are no longer throttling users who consume substantial amounts of their network's bandwidth. The announcement came shortly after the FCC abandoned legal protections against content discrimination tactics enacted by internet service providers.

Investing in a Timeshare

A timeshare is a property with restricted usage rights that is commonly used for vacationing. Typically, timeshares are shared by many different individuals or families who use it at specific, non-conflicting times of the year.

Instead of planning a new vacationing every year, some families opt to buy a timeshare. In fact, according to a 2014 study from the American Resort Development Association, 7.9 percent of American households own a timeshare. The appeal of timeshares comes with the consistency of visiting a city that a family enjoys, staying at a place that typically offers more amenities than a standard hotel, as well as taking the guesswork out of planning a vacation.

Different Types of Timeshares

Deeded

Deeded ownership means owning a share of the real estate outright. Unlike the other two types of timeshare ownership, this involves an actual stake in the equity of the property.

Right-to-Use

This type of ownership is when a customer buys the right to stay at the property for a block of time. This can be either any free week during a specified season or a specific week of the year. There is no direct equity owned in this scenario. When purchasing a right-to-use timeshare, the buyer typically can select a term for any number of years ranging from 10 to 99 depending on the timeshare broker.

Licensed

Unlike more specific usage options, some timeshares give you a set amount of points based on how much you pay per year. Based on how many points you have, you can then select from options in that same range. Points can be rolled over into the following year to use for a more lavish vacation, or points can be borrowed from the subsequent year to pay for an expensive vacation in the current year. Like right-to-use, this option does not involve direct ownership.

Maintenance costs

These are recurring costs—in addition to mortgage payments— that often range between \$500 and \$1,000 per year depending on the property. These fees will apply regardless of use and if you've paid off the timeshare entirely. You will have to pay maintenance fees every year and there is a strong likelihood of these increasing each year.

Usage

An important factor to consider when thinking about investing in a timeshare is how often you would use it and when. Due to maintenance costs and recurring payments, it may not make financial sense to invest in a timeshare if you are not committed to visiting every year.

Peer-to-Peer

If you already have ownership of a timeshare but would like to switch up your vacation options, you can arrange a peer-to-peer swap with another family that has the same week as you but at a different location. While this may not be directly sanctioned by the timeshare company, you can explore swap options through third-party websites.

Resale value

If you buy a deeded timeshare, you have the option of selling it because you own equity in the property. However, doing so will likely result in a loss of capital. In a 2015 article by US News & World Report, reselling a timeshare typically only yields 10 to 25 percent of the original amount paid. Potential investors should understand that – in addition to maintenance fees – losing capital on a timeshare is a strong possibility.



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