

Choosing the right life insurance

By [Karin Price Mueller/NJMoneyHelp.com](#) October 4, 2016 8:00 AM

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Q. I have a little extra money and I'm wondering if I should switch from term insurance to a permanent policy. How can I decide what I need?

— Planning

A. Before you talk life insurance, let's make sure your other financial concerns are in good order.

First, be sure to pay off all high interest credit card debt and any other debt that's laying around, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

Then, be sure you have an **emergency fund** of at least three to six months of living expenses.

After that, Aznar said, you should fully fund any employer sponsored retirement accounts that are available to you such as a 401(k) or 403(b) plan. And if your income level permits, consider funding a Roth IRA.

If you have already done all of this and still have extra cash available, Aznar said it's time to carefully determine **how much life insurance** coverage you actually need.

“If you are employed, fairly young and have young children, you probably need a significant amount of life insurance coverage,” she said. “The most cost-effective way of securing a large death benefit is to do so through a **term life insurance policy.**”

She said this simply means that the policy will remain in force for as long as you pay the premium and will eventually lapse when the term on the policy expires and/or you stop making premium payments.

And when you're older, term insurance premiums can become prohibitively expensive.

Term insurance lets you transfer the risk of dying onto the insurance company so that your family is made whole in the event of your death, said Jody D'Agostini, a certified financial planner with AXA Advisors/The Falcon Financial Group in Morristown.

“Most term policies expire without being used, but it can be a much needed safety net,” she said. “Many term policies now can be converted at any time during the term to a permanent policy without showing evidence of insurability.”

Unfortunately, cash value life insurance, also called permanent insurance, tends to be significantly more expensive than term life insurance, Aznar said. This is in part because this type of coverage combines insurance with an investment vehicle.

Permanent policies stay in effect for your lifetime, D'Agostini said.

“Permanent insurance is more expensive because at some point, someone will collect the death benefit,” she said. “They have a cash value involved, which is a savings component. This cash value grows income tax free and could be accessed income tax free at a later time to provide for a future need such as additional retirement income, pay for college, etc.”

The **cash value component** will build over time, Aznar said.

“Most of the time, it makes more sense to purchase the death benefit that you need in the form of term life and invest the difference. This allows you to accumulate funds, but simply do so outside of the life insurance policy,” she said.

Historically, individuals who were concerned with the possibility of a **large estate tax** would purchase a cash value life insurance policy to help their heirs pay the estate tax bill, Aznar said.

She said with the federal exemption amount up to \$5.45 million this year, the need for insurance for this purpose has declined significantly as fewer individuals are now subject to estate taxes. There may still be a need to cover state estate or inheritance taxes if the state in which you live has not increased the exemption amount in line with the increased federal exemption amount,” she said.

If you do choose to proceed with the purchase of a cash value policy, she recommends you
r consider a low-load policy.

“These policies are less expensive than fully loaded policies and therefore allow a greater amount of your premium to start working for you immediately,” she said. “Two companies to consider if you are in the market for a low-load policy are TIAA-Cref and Ameritas Life Insurance Company.”

Email your questions to ask@njmoneyhelp.com.