

Universal And Variable Life Insurance



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Alabama Cooperative Extension System, Alabama A&M and Auburn Universities

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Universal Life

Universal life is a type of whole life insurance. It is a mix between term insurance and a savings fund, and it earns interest at a **money market** rate. You pay a yearly fee for this insurance coverage, which includes a cost of managing the policy. Funds not paying for insurance earn tax-deferred interest.

With a universal life policy, the premium can vary. You decide how much to pay toward insurance and toward savings. You can change the **face amount** of the policy, or change the amount of premium payments and how often you pay them. However, you must be sure your savings are enough to cover the monthly premiums for insurance and policy expenses. If they are not, the monthly charges will use up the cash value and your policy will be worthless.

Universal life insurance has two options. Option A: the **death benefits** stay the same from year to year if you do not ask for any changes. Option B: the death benefit at any time is equal to the original face amount plus the policy's **cash value**.

Universal life often gives a high interest rate when inflation is high, even though the insuring company only guarantees a low rate. Due to this risk, premiums are lower than for whole life insurance but more than for term insurance for younger people. Also, when the charges for managing the policy are added to the premium, you get a lower return on your investment. Remember, changes in interest rates will affect both your yields and your premiums.

Variable Life

Variable life is one kind of permanent insurance that lets you target your premium to one or more separate investment funds. These could be fixed income investments, or stocks, bonds, or a money market fund. Depending on company policy, you can switch your investments two to five times per year. Unlike universal life, with variable life you can control the investment of your cash value.

The policy could be risky because the investment could go up or down. The cash value and investment will vary, depending on what your investment fund does. The death benefit cannot fall below the amount of insurance you first bought. As with traditional whole life, you pay fixed premiums and can borrow against the policy at fixed or variable rates.

Because you decide where your money is invested and take the risk, variable life is considered a **security**. Insurers must, by law, sell variable life by **prospectus**. A prospectus is a document that gives you important facts about the company and the policy. Variable life often costs more than other types of cash value life insurance. Under current law the cash value of variable life, like those of universal life and whole life, will not be taxed until you cash in your policy.

Universal Variable Life

Universal variable life is also called flexible premium variable life. This policy mixes the flexible features of universal life and the investment options of variable life. As with universal life, you can raise or lower your premiums in a single policy. As with variable life, you have the right to choose how your cash value will be invested.

The insurance company is not required to make any guarantee on your cash value. With universal variable life, the value of your cash fund is tied to the market value of the assets in the cash value fund. In theory, you could have \$15,000 in cash value one day and \$10,000 in the next, depending upon market fluctuation. So one of the main problems with universal variable life is that you can lose your insurance coverage.

Adjustable Life

Adjustable life is another kind of permanent protection that lets you change the amount of your premiums. You can also raise or lower the face amount of the policy, or shorten the protection period. If you increase the death benefit, you must prove that you are still insurable.



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For more information, call your county Extension office. Look in your telephone directory under your county's name to find the number.

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