

What Flexibility Can Universal Life Insurance Offer Me?

Universal life insurance was developed in the late 1970s to overcome some of the disadvantages of term and whole life insurance.

As with other types of life insurance, you pay regular premiums to your insurance company. In exchange for these premiums, the insurance company will pay a specific benefit to your heirs upon your death.

And, like whole life insurance, a portion of each premium goes to the insurance company to pay for the pure cost of insurance. The remainder is invested in the company's general investment portfolio.

Most universal life policies pay at least a minimum guaranteed rate of return. Any returns above the guaranteed minimum will vary with the performance of the insurance company's portfolio.

You won't be able to exercise any control over where these funds are invested. The insurance company's professional portfolio managers will manage them.

But there is an area where universal life policies offer a great deal of control.

Universal life policies are very flexible. As the policy owner, you can vary the frequency and amount of the premium payments. You can also increase or decrease the amount of the insurance to suit changes in your situation.

If your financial situation improves significantly, you can increase your premiums and build up the cash value more rapidly. If you find yourself under a financial strain, you may even be able to deduct premium payments from the cash value of the policy.

With some universal life policies, you may even withdraw some of the cash value in your policy directly. Of course, you can also take a policy loan, just as you could with a whole life insurance policy. You have the flexibility to decide which will best meet your needs.

Changing the premium or withdrawing part of the cash value within your policy will affect the rate at which your cash value accumulates. It may also reduce the size of the death benefit.

And, unlike other tax-deferred investments, any cash you withdraw from your universal life policy is considered basis-first. You won't incur a tax liability until your withdrawals exceed the premiums you've paid into the policy. Any amounts that exceed the premiums will be taxed as regular income.

With many universal life policies, it is possible to structure your policy so that the invested cash value will eventually cover your premiums. You'll then have full life insurance coverage without having to pay any additional premiums as long as the cash value account balance is sufficient to pay for the pure cost of insurance and any other expenses and charges.

There can be surrender charges if the policy is surrendered prematurely.

For investors who want the flexibility to change their premium or death benefit, a universal life insurance policy may be ideal. The cost and availability of the type of life insurance that is appropriate for you depends on factors such as age, health, and the type and amount of insurance you need. If you are considering purchasing life insurance, consult a professional to explore your options.