

Inflation snarls insurance care

Coping with inflation can become so distracting that it's easy to overlook its effect on one of our most important investments — our life insurance policies.

Coverage that was adequate 10 or even five years ago may no longer fill today's needs. More important, it may not be adequate tomorrow.

Re-evaluating life insurance, which should be done regularly, need not be a complex affair. By knowing how insurance works and what is available, you can easily upgrade your policies to provide the security your family will need in the future, as uncertain as it may be.

TERM VS. WHOLE LIFE: There are two general categories of life insurance — term insurance and whole life. Term insurance is protection that provides a death benefit only. It protects the insured for a specified time, such as one year, five years or 10 years. Most term policies are renewable, which means you can renew your policy until you reach a specified age, usually about 70, without providing new medical reports or other evidence of insurability.

Premium rates, however, are always higher with each renewal. Some companies offer term policies that are automatically renewable up to the age of

99 or 100, but these can be extremely expensive, especially in later years. Most term insurance is also convertible, which means you can transfer to a form of permanent life insurance without providing evidence of insurability. After a maximum age, however, conversion is not allowed.

DECREASING AND LEVEL TERM: Term insurance is divided into two basic types: level and decreasing term. As its name implies, level term provides constant coverage at an established premium until a specified age or term. When the term ends, the premium increases, but the benefit remains fixed.

With decreasing term, the death benefit decreases over a specified number of years. The premium, however, usually remains the same throughout the policy.

WHOLE LIFE: Whole life insurance, also known as ordinary life or cash value life insurance, provides in addition to a death benefit, an accumulation of cash that can be borrowed at any time or used in full when the policy is cancelled. Borrowed money doesn't have to be repaid, but interest will be charged and the death benefit will decrease by the amount of the outstanding debt.

When you buy a whole life policy, the premiums in the beginning years are greater than the actual cost of pure insurance protection. This allows the insurer to invest the excess premium and to keep both the protection and premium constant as the individual grows older.

RIDERS: Policy holders can also take advantage of supplementary benefits, called riders. These can usually be added to a whole life policy at a lower cost than if bought separately.

• **Waiver of premium** — If you become disabled, a waiver of premium maintains your policy in full without further payments for the duration of your disability.

• **Disability income** — This provides you a monthly income while you are totally disabled.

• **Accidental Death Benefits** — This double or triple indemnity policy will pay two or three times the face value of your policy in case of accidental death as long as it occurs before a specified age.

• **Guaranteed Insurability** — This gives you the option to buy additional whole life insurance at specific intervals up to about age 40, without presenting new evidence of insurability.

• **Level Term Rider** — Level term

allows you to purchase more insurance for a limited time in case extra protection is needed.

• **Settlement Options** — There are a number of different ways in which insurance benefits are paid. Various settlement options can be selected anytime during the life of the policy, or by the beneficiary at the time the policy becomes payable. Often, when an option is selected at the time a policy is issued, it cannot be changed when the policy becomes payable unless that right to change is specifically given to the beneficiary.

Some of the basic settlement options available include:

• **Interest Income** — With this type of settlement, the company holds the proceeds or benefits of the policy and pays interest during the lifetime of the beneficiary or for a specified period. The recipient may also be given the right to withdraw any or all of his money from the insurer.

• **Fixed Income** — With fixed income, the insurer holds all the money and pays specified, equal installments with interest until the money runs out. Again, the beneficiary may be given the right to withdraw all the money.

Carol O'Rourke is investor information specialist for Merrill Lynch, Pierce, Fenner and Smith.

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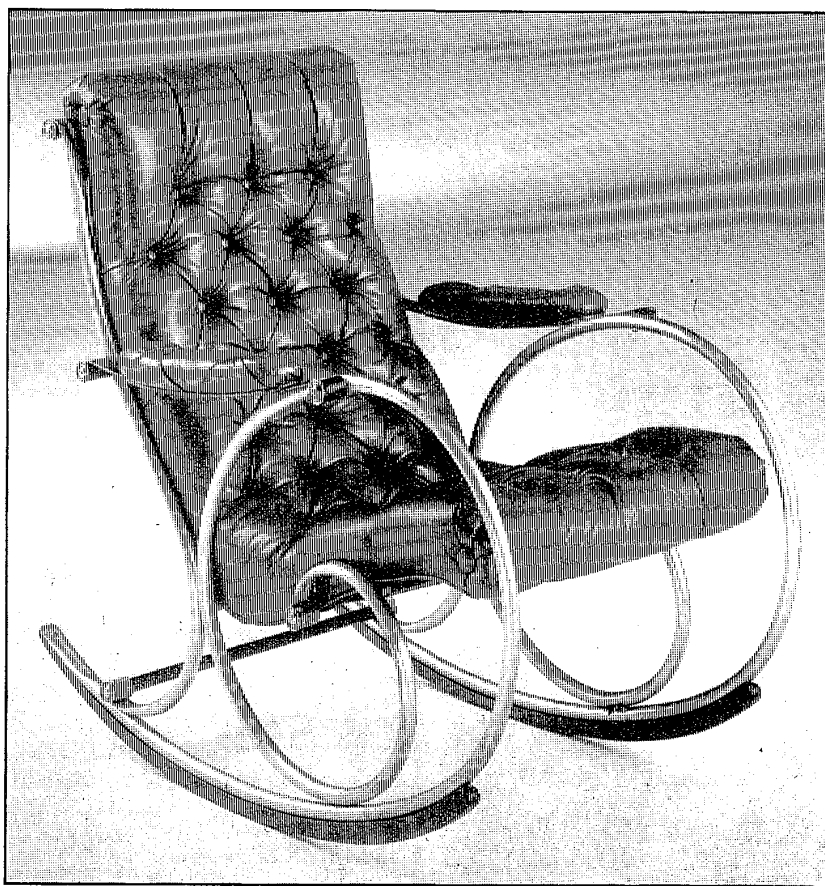
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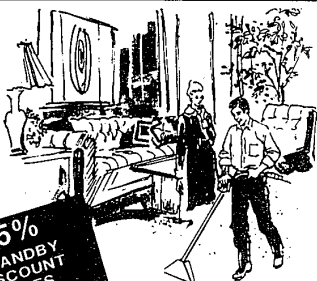


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