

Life insurance options not completely understood

Editor's Note: This is the last in a two-part series on life insurance. Today's article deals with the types of policies available to consumers.

By JAN CORWIN
Daily Collegian Staff Writer

Life insurance often represents the largest single continuing investment the average person makes in a lifetime, but most policyholders have only a vague idea of the types of policies and options involved in insurance, according to Robert Brosterman, author of "The Complete Estate Planning Guide."

For the college graduate just starting in the work force, it is often difficult to buy the amount of insurance that will be needed later.

How does the average person assess his or her insurance needs? Brosterman states that you should assess the income needs of your family, in the event that you die.

For the college graduate just starting in the work force, it is often difficult to buy the amount of insurance that will be needed later—the insurance industry estimates that a married man should have at least five times his annual income in life insurance coverage. But you can make a start and add to the policy later.

According to a brochure published by the Szezyler Associates, Calder Square, the average college graduate will buy between \$75,000 and

\$150,000 of life insurance during his or her lifetime.

The estimate is based on government statistics that project the potential lifetime earnings of a graduate at \$90,000.

There are several types of life insurance policies to consider, and several options and benefits that can be added to these policies. Insurance agencies can give you specifics about the policies its company offers and the prices charged for each benefit or option.

Life insurance policies can be participating or non-participating. Participating policies are offered by mutual insurance companies, and the policyholders are part-owners of the company.

Gregory Stewart, representative of Pennsylvania Financial Group, Inc., said his organization mainly sells participating policies through the Provident Mutual Insurance Co.

Under the participating plan, the actuaries who establish the premium overestimate the company's need, Stewart said. At the end of the year, any additional funds or net profits are shared by the policyholders. As a result, the policyholder can use the dividend to pay the premium.

Stewart said that if you hold a participating policy with a reputable company, after about 30 years, the dividends will be larger than the premium and the insurance will pay for itself.

A.M. Best, an independent group that rates life insurance companies, also publishes dividend histories for mutual companies.

Stewart said by comparing the projected dividends and actual dividend history, you can determine the reliability of the company and whether it will pay the dividends it promises.

Best's January 1979-10 year dividend comparison indicates that most mutual companies paid

more dividends than had projected for 1968-77.

Non-participating policies do not pay dividends, and are usually offered by life insurance companies owned by stockholders. Both types of policies can be cashed in at any time, and you can borrow against the face value of your policy, for a nominal rate of interest.

Whenever you are comparing insurance policies, the key to remember is to tailor the coverage to your long-range plans and your budget.

Insurance coverage also comes in two varieties: permanent and term.

Permanent insurance pays the beneficiary if you die, or the policy can be cashed in at any time. The insurance is covered to age 100. Because of the whole life is the most economical type of insurance, according to the Szezyler Associates brochure, because the premiums are based on the expectancy that the policyholder will live to age 100.

Under "life paid up at 65," or limited payment life insurance, premiums are paid until age 65, but the insurance is covered to age 100. Because of the shorter paying time, premiums are higher.

Brosterman, in his book on estate planning, writes that limited payment life insurance is attractive for investors who want to use their life

insurance as retirement income.

He states that it is also good if you expect high income in the early working years and decreasing income as retirement years, for example professional athletes or entertainers.

Term insurance covers you for a specific period of time. If you die during the period covered, the beneficiary receives payment, but the policy cannot be cashed in if you live. Under a yearly renewable term insurance, you can renew until age 65, but premiums increase each year as you get older.

Another variation of term insurance is mortgage insurance. The amount of protection decreases each year, reaching zero in the last year. Premiums are level over the period covered.

Term insurance may appear cheaper in the short run, but Brosterman states that term insurance is more expensive in the long run because premiums rise with each renewal, and the policy cannot be continued after age 65.

For the young professional about to buy basic life insurance but unable to afford the higher premium of permanent insurance, Brosterman recommends convertible term insurance, which can be changed to permanent insurance as income rises.

Term insurance is "the simplest, least costly type of coverage," according to Sylvia Porter, author of "Sylvia Porter's Money Book."

When you recommend term insurance for young families and need funds, and also need a convertible policy.

Term insurance is the best answer if you need immediate protection. It is the only type of insurance that can be converted to permanent insurance. When you are comparing insurance policies, the key to remember is to tailor the coverage to your long-range plans and your budget. The only way to do it is to sit down and talk to an insurance agent, and to ask questions.

Allen Westbrook, State College agent for Fidelity Union Life Insurance Co., said that since most people do not pay for life insurance, they should be compared based on cost.

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