

# Life Insurance 101: The Dos and Dont's of Buying Life Insurance



There are different types of permanent life insurance. All of them have a death benefit, which is paid to your beneficiary when you die. Where they differ is in how the savings component—or cash value — is calculated.

- **Whole life insurance** is a policy in which part of the premiums go toward a savings account. With whole life insurance, you're guaranteed a certain death benefit, as well as a certain cash value by a certain date.
- **Universal life insurance** is a policy in which part of the premium goes toward a savings account that can be tied to an adjustable interest rate. As a result, you have fewer guarantees about how much money you'll ultimately make than with the whole life policy.
- **Variable universal life insurance** is the riskiest type of policy in that the savings component is invested in the stock market, so you could end up with a lot of coverage or a little depending upon how the market performs.

When choosing between the different types, don't get dazzled by all of the features of permanent life insurance policies, suggests Tony Steur, an insurance literacy advocate and author of [\*Questions and Answers on Life Insurance: The Life Insurance Toolkit\*](#). Think instead about what you actually need.

## Dos and Don'ts of buying life insurance

- **Do some research.** The insurance industry group LIFE has a financial calculator to help you calculate your life insurance needs at <http://www.lifehappens.org/life-insurance-needs-calculator/>
- **Do make sure the agent or broker is licensed to do business in your state.** “Insurance is regulated at the state level, so state insurance departments are charged with licensing life insurance agents and brokers,” says Michael Barry, a spokesman for the Insurance Information Institute.
- **Don't depend solely on the life insurance provided by your employer.** If the company changes the benefits package or if you change jobs, the policy may expire.
- **Don't overlook life insurance for a stay-at-home parent.** A non-working adult's death could cause financial hardship too.