

It's time to give your term insurance a check-up

By Lawrence B. Keller, CLU, ChFC

Why Purchase Life Insurance?

A life insurance policy is a contract with an insurance company that will pay your beneficiary a sum of money in the event of your death. If you are married, have children, or have an outstanding mortgage, you should make sure to purchase enough life insurance to allow your family to maintain their lifestyle or to replace your full economic worth, also known as your "human life value".

There are many types of life insurance policies available in today's market. However, all policies fall into one of four categories — Term Life, Whole Life, Variable Life, and Universal Life. For purposes of this article, I will limit my comparison to term and whole life insurance.

Term vs. Whole Life

Term Life

Term life insurance is usually the most appropriate for resident physicians. It allows you to purchase the largest death benefit while minimizing your (initial) premium outlay. Term insurance offers pure protection and does not build cash value.

When you purchase a term policy, you are buying coverage for a specified period of time. If you die within the term of the policy, the insurance company will pay the death benefit to your beneficiary. The majority of term policies purchased today have fixed premium rates for 5, 10, 15, 20, 25, or even 30 years.

It is important to note that there are two types of level premium term insurance available. The first type is guaranteed premium level term, where the premiums are guaranteed to remain level during the

"Term life insurance is usually the most appropriate for resident physicians."

entire term of the policy. The second type is non-guaranteed premium level term, where the premiums are only guaranteed

for a limited time period such as five or ten years. Once the guaranteed period ends, the insurance company reserves the right

"Term insurance is best used to cover short-term needs or when your income level makes the proper amount of whole life insurance unaffordable..."

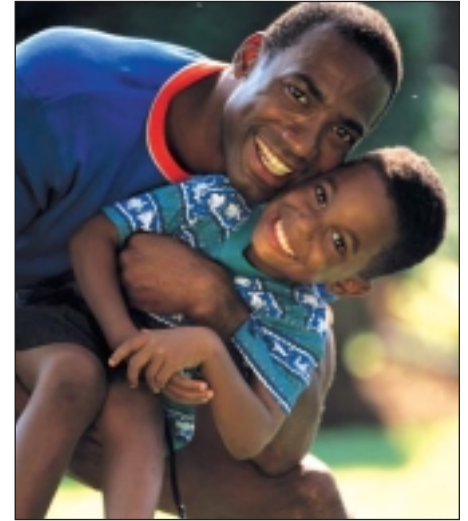
to increase your premium rates. Generally, you should avoid purchasing a policy that does not have a fully guaranteed premium rate for the entire term of the policy.

Term insurance is best used to cover short-term needs or when your income level makes the proper amount of whole life insurance unaffordable.

Whole Life

While providing the security of a death benefit, whole life insurance policies also build cash value. When you purchase a whole life policy, you traditionally pay a fixed premium rate for the life of the policy. Part of your premium payment goes to the insurance company to cover the cost of the death benefit, while the balance is invested in the insurance company's general account. The cash value of a life insurance policy grows on a tax-deferred basis and can be accessed through policy loans or by surrendering the contract.

In addition, life insurance is considered an "exempt asset" in many states — and is specifically protected from the claims of creditors, including malpractice. However, state laws vary widely when it comes to protecting life insurance. As a result, it is important to know whether or not your state exempts some, all, or none of the cash value in your policy. If you are in a state with an unlimited exemption, besides helping you accumulate wealth, it can play a vital role in your estate and asset protection plan.



Unfortunately, the advantages of whole life insurance have been minimized or often overlooked by the financial services industry. As a result, you may have read or been taught that you should "buy term and invest the difference". This strategy calls for

"By properly coordinating and integrating whole life insurance with other assets you can enjoy increased access, flexibility, and control over your wealth throughout your lifetime."

term insurance to be owned for a period of time and then cancelled when your other assets are considered to be "adequate", typically at the start of retirement. What you are not taught is that this strategy simply does not work!

In fact, by properly coordinating and integrating whole life insurance with other assets you can enjoy increased access, flexibility, and control over your wealth throughout your lifetime. This culminates with retirement options that may otherwise not be available. It is for these reasons

SEE IT'S TIME PAGE 5

IT'S TIME FROM PAGE 4

that whole life insurance should be the heart of a physician's financial plan.

Other Features to Look For in a Policy

Term Conversion Option

A large number of term policies allow you to convert some or all of the death benefit of your term policy to whole life regardless of your future health. This is an extremely valuable feature for residents and fellows, whose income and financial situation will change dramatically once their training is completed. Ideally, if your goal is to convert to whole life, you should only purchase your term policy from a company that has a reputation for offering a broad array of competitive whole life insurance policies.

"Waiver of Premium" Rider

Another important aspect of a life insurance policy is the waiver of premium rider. This rider enables you to have the premiums of the policy paid for by the insurance company in the event of your disability.



While most companies offer the waiver of premium on all types of life insurance, there is no more important application of this rider than with whole life. In addition to providing for the continuation of life insurance protection, the savings component of the policy is also maintained as cash values continue to build. This characteristic provides a unique benefit to the policyholder that cannot be matched by even the best stocks, bonds, or mutual fund investments.

Informed Choices

Life insurance can be used to help physicians accomplish a variety of goals. The type of life insurance that should be purchased depends on such factors as your age, health, budget and long-term financial plans. If you are considering the purchase of a new life insurance policy, or replacing an existing policy, it is best to consult with a knowledgeable insurance agent that represents several companies.

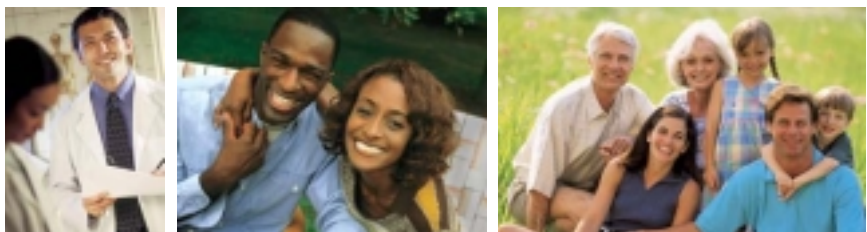
He or she can then review your situation and help you make intelligent and informed choices regarding your life insurance protection.

Lawrence B. Keller, CLU, ChFC is the founder of Physician Financial Services, a New York-based firm specializing in income protection and wealth accumulation strategies for physicians. He can be reached for comments or questions toll-free at (800) 481-6447, or by e-mail to lkeller@physicianfinancialservices.com. RR

Help Protect Your Future with AAD Insurance



The American Academy of Dermatology in conjunction with JLT Services, the 5th largest insurance broker in the world, has custom designed insurance programs to help protect your future and the future of your family.



Choose from various insurance programs including:

- Group Term Life
- Disability Income
- Practice Overhead Expense
- Long Term Care – NEW!*
- Health Savings Account – NEW!*
- Business Office Package – NEW!*
- Employment Practice Liability – NEW!*
- Medical Malpractice – NEW!*

*Not available in all states.

For more information on AAD Insurance Programs, visit our website at www.aad.insurance.com or call (888) 747-6866.