

# WHAT KIND OF LIFE INSURANCE IS BEST?

July, 2010

If yesterday had been your last breath, your spouse would not care what kind of life insurance you had used. He or she just wonders if enough was bought to stay in his or her own world.

But yesterday has come and gone. You are still here, reading this article. So, let's discuss what kind of life insurance you should use.

There is a spectrum of noisy, confident advice out there. On one side, Dave Ramsey tells you to abruptly fire anyone who sells permanent insurance. On the other side are rogue insurance salespersons willing to harm a family to get the sale they want.

There have probably been enough rogue agents to justify Dave Ramsey's loud voice. He is trying to protect the masses from a very real problem.

But just because there is a problem doesn't mean it is correct to avoid permanent insurance in all circumstances. That would be financial malpractice.

There are two main kinds of life insurance: Term and Permanent. They both shift the economic risk of a death away from a family to an insurance company. However they are structured quite differently from each other.

Term life insurance covers for a period of years, usually 10 to 30, and is most appropriate for a young family needing to protect the earning power of the breadwinner. It provides the biggest bang for the buck for many families and is a simple solution to the economic risk of death.

Permanent insurance covers the entire lifespan if it's properly funded with a good company. As a result, more cash is needed in these policies.

Mainstream financial media almost blindly favors the use of term insurance rather than permanent insurance. I usually agree with this for young families who need to stretch their money. Buying term insurance and investing the difference can be the best course of action. However, investing the difference requires commitment, discipline, and patience.

But every situation is different. The issue starts getting cloudy when several factors are in play. Permanent insurance that builds cash value makes more sense when:

- There is a permanent or very long term need for life insurance
- Income is good enough to support it
- Tax brackets are higher



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- A client is risk averse
- There is a need for guaranteed liquidity in an estate at death
- An inheritance needs to be used AND passed along to children at death
- Families want to replace assets given to a charitable trust
- Families want higher retirement income. They can spend down their savings rather than just living on interest if permanent insurance is in place.
- Fairness in an illiquid estate is an issue
- A large IRA needs to be “detaxed” so the children receive a lump sum tax free inheritance

All else being equal I will recommend term insurance to my clients because it takes less money. But since every situation is unique I have seen many times where it would be wrong to use only term insurance. It is so important to use the right tool for the job.

So, which insurance is best? By now you know the answer—it depends on your situation. It’s the insurance that is in force at death. Use the right tool for the job.

Like to talk more? Give Pleasant Wealth Associates a call today.

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