

# What is life insurance

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Life insurance is an investment with a bit of irony. The person investing pays a premium throughout the insured period; if the investor dies during the period it all goes to someone else. That is what is life insurance; you save for your family.

The policies are designed around a very basic truth: that everyone is mortal. You will seldom meet a salesman who doesn't begin his pitch with a cheerful lecture on mortality and the horrors that shall befall all those you love when you and your pay checks cease to come in. The logic works like a spark on dry tinder. Very few people can keep their heads on their shoulders when accosted with this heart breaking logic.

Yet you would do well to keep your feet firmly on the ground and give the life insurance policy the same neutral treatment that you would give your automobile insurance.

Now the truth is that you have a higher chance of wrecking your car than dying. In this day of medical miracles, death is almost a controlled variable. This makes an automobile insurance a rational proposition. You wreck your car, the insurance pays up and you use the money to either repair your vehicle or buy a new one. It is not so with life insurance though. Let's say you need to put your kid into college and you are no way near dying; the life insurance is unlikely to give you the money. You will quite literally have to die for it. On the face of it therefore, life insurance is not much of use when you are alive.

However, when a salesman comes calling, do ask what type of life insurance policies are on offer. Chances are you will be told of two categories: term insurance and other life insurance policies.

A term policy is a pure insurance policy. You buy insurance worth a certain amount and then pay for it periodically as premium over a certain period of time. In the unfortunate event of your death during the term period, the person you have named as your beneficiary receives the entire amount. If you survive the period, you get back the insurance amount along with an interest component.

However if you were to compare it with regular savings instruments, you would find life insurance to be quite inefficient; the returns and the benefits are usually at the discretion of the company subjects to its performance. So take a term policy if you must but be clear that you really would like to provide for someone in your absence.

You also have the option to buy Whole Life or Universal Life Policies. These have an added investment built in along with your insurance. You pay a higher premium; a part of it pays for your insurance and the other goes into some sort of investment instrument. Pay careful attention to what the investment offers. Usually making the investment independent of your insurance usually works out to be a better option.{mosgoogle left}