Life Insurance Made Simple

(NAPSA)—Life insurance has long been considered a vital building block of financial security because it protects those most important to you in the event of a death. Although it comes in many forms, it has one core benefit: it pays an income-tax-free death benefit directly to your beneficiary when you die.

But that's not all today's life insurance policies offer. You can also use life insurance to reduce taxes today, build tax-advantaged income for retirement or provide assets to offset estate taxes.

Not as complex as it seems

Deciding what type of insurance best fits your needs may be simpler than you think. Some of the factors that will influence your decision are your age, number of dependents and overall financial goals. A basic understanding of your life insurance choices will enable you to narrow your scope.

To help you begin your research, here's information about the two categories of life insurance—term insurance and cash value insurance.

Term insurance provides protection for a specific time period. If you die during that period, a death benefit is paid to the policy's beneficiary. Generally less expensive than cash value insurance, term insurance can be likened to renting a property. You pay for it during the policy's "term" (for example, one, five, 10 or 15 years) and when the term expires, your coverage expires—without building equity (cash value).

Term insurance is generally purchased to cover specific needs; children until they are adults, a mortgage until its paid off, or other short-term obligations.

Life insurance helps provide financial support for loved ones after you die.

Cashing in on cash value

Unlike term insurance, cash value insurance can provide protection for your lifetime and—similar to owning property—it enables you to build up cash value. This is money that you can access for emergencies and other needs, such as college tuition or supplemental retirement income in later years. And like term insurance, cash value insurance also pays an income-tax-free death benefit at the time of your death.

The most common types of cash value insurance that people purchase are:

• Variable universal life—Typically designed for people who have longer investment time horizons, this insurance offers flexibility and control. When building cash values, you get to choose which of the variable investment options you want to invest in. Because variable investment options are similar in nature to mutual funds and fluctuate in value with the market, this type of insurance is better suited to couples with a higher risk tolerance.

• Variable second-to-die—Typically used for estate planning purposes, such as passing a family business, or other significant assets from one generation to the next, this insurance insures two lives and pays a death benefit at the death of the second insured. The fact that one policy covers two lives provides some premium savings over two separate policies.

• Whole life—Generally viewed as less flexible but secure, this insurance offers a guaranteed death benefit and guaranteed cash values.

• Universal life—This type of insurance offers the flexibility of variable universal life, but with a secure fixed rate of return for consumers who prefer less risk.

To help you simplify and determine how much and which type of life insurance best suits your financial situation, consult with a knowledgeable financial advisor or call American Express Financial Advisors at (800) 432-0788.

American Express Financial Advisors Inc. Member NASD. American Express Company is separate from American Express Financial Advisors Inc. and is not a broker-dealer. Insurance products offered through IDS Life Insurance Company, Minneapolis, MN outside New York, and through IDS Life of New York inside New York.

Note to Editors: This is the first in a two-part series.