

# Ultimate guide to retirement



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### Insurance

#### Basics

#### Health insurance

#### Life insurance

- Do I need life insurance?
- What if my spouse is financially dependent on me?
- What types of insurance are there?
- What is whole life insurance?
- What is universal life insurance?
- What is variable life insurance?
- What is term life insurance?
- What are the different types of term insurance?
- How much will life insurance cost me?

#### What's wrong with using insurance as an investment?

#### How big should my life insurance policy be?

#### How do I buy life insurance?

#### Long-term care insurance

Agents may try to sell you a cash-value policy as a way to invest for retirement. They'll tell you that the investing component serves as "forced savings." (Sure, but retirement plans like 401(k)s force you to save too, once you've taken the initiative to sign up for them.) They'll say the money you have building up in your cash-value policy can grow tax-deferred, but money in IRAs and 401(k)s does too. What they won't tell you is that cash-value insurance is generally a poor investment.

It is a very costly way to invest. There's the cost of the insurance protection itself - which, by the way, is usually more expensive than what you would pay for a regular term insurance policy. There are the marketing and sales commissions. There's also the "surrender charge" that may be levied if you decide to drop your policy within the first 10 years or so. The amount of a surrender charge varies by insurer and type of policy, but it is not uncommon for it to exceed the total amount of your first-year premium.

And, on top of all that, there are annual investment fees. Those are not broken out in all policies, so it's often hard to determine how much you're paying. In policies where they are disclosed (typically variable life or variable universal life policies), however, they can be substantial: 3% or more, year end and year out.

What makes up that 3%? Most of it is the investment management fee, which can run as high as 2% a year. Added to that is an annual fee called the "mortality and expense" charge, which also goes by the name of "M&E." This is essentially a fee thrown in to assure the insurance company a profit, even if all those other fees somehow don't.

The heavy fees involved with cash-value life insurance can really drag down your returns. Especially when you consider that index mutual funds often have annual expenses under 0.5%, and many actively managed mutual funds charge 1% or so. That's a lot less than the 3% or more you'll pay for the investment component on a cash-value policy.

The lesson: If you need life insurance, get term insurance. If you want to invest for retirement, invest in IRAs, 401(k)s or similar retirement plans.

NEXT: How big should my life insurance policy be?

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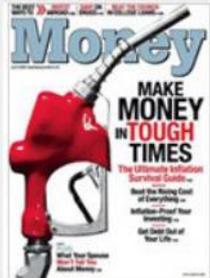
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