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Ask the Biz Brain

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We were told it is better to put more money in universal life insurance, than putting it in 403(b)? From what I understand, there are living and death benefits, and at the same time our money is in an investment.

-- Judith, New Brunswick Sometimes, when the Brain is in a very dark place, thoughts turn to things like, what will happen to Baby Brain when ... well, you get the idea.

Life insurance certainly has its purpose and as you've likely discovered, there are lots of variations on one basic theme: providing money upon a person's death. Universal life basically provides coverage coverage for as long as premium payments are made, but allows a portion of those premiums to be invested in stocks or bonds on a tax-deferred basis.

But two financial planners the Brain consulted with were in agreement: Don't confuse life insurance with saving for retirement. Michael Kay, president of Financial Focus in Livingston and a certified financial planner, notes the expenses associated with VUL from commissions to surrender charges can be substantial.

It's also a good idea to examine the investment options available in such a plan, Kay says.

Stephen Craffen, a principal at Baron Financial Group in Fair Lawn and a chartered financial consultant, says many of the investment choices also may not be that good. Another potential drawback is when you borrow against the policy in retirement, you may actually borrow in amounts that put the policy in danger of lapsing, Craffen said.

The result is either resuming premium payments or letting it lapse. If it lapses, Craffen said tax-free withdrawals become taxable "to the extent that they exceed all the premium payments you made over the years."

He and Kay instead recommended fully funding tax-deferred investments such as the 403(b) or 401(k). There's much more flexibility and the costs are lower.

-- Greg Saitz

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