What Is Variable Life Insurance?

The insurance industry has introduced different types of insurance to meet consumers' needs. For example, universal life insurance was created to provide a solution for many of the perceived shortcomings of whole life insurance and term life insurance. (See "What Is Universal Life Insurance?")

When consumers demanded even more changes from the life insurance industry, it responded with variable life insurance and the concept of investment control. Whereas whole life insurance provides fixed rates of return on the account value, at rates determined by the insurance company, variable life insurance provides the policyholder with investment discretion over the account value portion of the policy.

If you own a variable life policy, you may allocate your account value among a variety of investment subaccounts. The premiums you pay are fixed throughout the life of the contract, while the performance of your chosen subaccounts determines the growth of your account value. The performance of the subaccounts can also determine the value of your death benefit.

There are usually several subaccount options to choose from, including stock, bond, and fixed-interest options. You can allocate your account value as you see fit, and you can be as conservative or aggressive as you wish.

A possible disadvantage is that the premiums of a variable life insurance policy generally are fixed and cannot be adjusted if your financial situation changes. A variable life policy does provide you with a guaranteed death benefit. If your subaccounts perform poorly, the death benefit could decline, but never below a defined level specified in the policy. Of course, any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Withdrawals may be subject to surrender charges and are taxable if you withdraw more than your basis in the policy. Policy loans or withdrawals will reduce the policy's cash value and death benefit, and may require additional premium payments to keep the policy in force. There may also be additional fees and charges associated with a VUL policy.

In sum, variable life offers the flexibility to design your own portfolio, together with the security of a guaranteed death benefit. As long as you pay your fixed premiums, your death benefit cannot go away. This is not the case with universal life insurance or variable universal life insurance.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Generally, policies have contract limitations, fees, and charges, which can include mortality and expense charges, account fees, underlying investment management fees, administrative fees, and charges for optional benefits. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Variable life policies are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association. The investment return and principal value of an investment option are not guaranteed. Because variable life subaccounts fluctuate with changes in market conditions, the principal may be worth more or less than the original amount invested when the annuity is surrendered.

Depending on your situation, variable life is an option to consider. If you are considering purchasing life insurance, consult a professional to explore your options.

Variable life insurance is sold by prospectus. Please consider the investment objectives, risks, charges, expenses, and your need for death-benefit coverage carefully before investing. The prospectus, which contains this and other information about the variable life policy and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.