

Life Insurance Planning

We know that death is certain. *When* a person's death will occur is uncertain. With this uncertainty comes the risk of financial losses. Anyone whose death will result in a financial loss to others needs life insurance. Consider the following when planning for life insurance:

- First, calculate your life insurance needs today and every three years. Always recalculate whenever you experience a major life event change, such as marriage, divorce, the birth or adoption of a child, or purchase of a major item such as a home or business. The minimum amount of life insurance you need is enough to cover all your debts, your salary for at least a year, and your funeral and burial expenses.
- Avoid purchasing unnecessary life insurance. For instance, if you are elderly you may not need life insurance. Elderly individuals often have already built up enough assets to provide some income for survivors and to cover burial expenses.
- If you need life insurance, shop around for term life insurance. Try to get renewable or level-premium term life insurance, and then contribute as much as possible to your retirement plan. In the financial planning community, we advise you to “buy term and wisely invest the rest.” Term life insurance provides protection for a specified period. A death benefit is paid to the beneficiary if the insured dies within a specified period while the policy is still in force. You can solve the “dying too soon” problem with adequate term life insurance and the “living too long” problem with well-diversified investments. If you decide that you need a cash-value life insurance policy, get a guaranteed insurability rider.

Everyone's life insurance needs are different. In general, your needs are greatest from the time you begin a career or a family until you reach retirement, at which time many of your needs for life insurance decrease.

As you are making your decision about life insurance, you might want to make yourself familiar with some of the following terms used in life insurance:

Term insurance is purchased for a set amount of time, starting at 1-year

Life Insurance Planning

renewable ranging from 5 to 30 years. It is the simplest and least expensive form of life insurance. The cost increases as you get older.

A **level premium term** life insurance has premiums which remain level over a specified period. These plans have premiums that remain level for a period of 5, 10, 15, 20, 25, and 30 years. After the initial level period expires, the annual premium increases each year, subject to a guaranteed maximum.

A **renewable term policy** guarantees the right to renew the policy for a limited number of additional periods. For example, if you purchase a 10-year policy at age 25 and survive this period, you have the option of renewing the policy for an additional 10 years without having to prove insurability.

A **convertible term** policy gives you the right to convert your coverage to any cash value policy that the company might offer at current rates without having to take another physical exam. This feature may be of use if, as a holder of term life insurance, you subsequently decide you want cash value life insurance.

A **guaranteed insurability rider** guarantees that on specified dates, ages, or occurrences, such as marriage or newborn child, you may purchase additional monthly benefits in a disability policy or additional death benefits in a life insurance policy, without proof of insurability. The rate is based on attained age.

A traditional **whole life or cash value** policy builds guaranteed cash value, provides lifetime protection, and many times pays an annual dividend. Whole life is more expensive than term. The value of the policy grows over the years and will pay a lump-sum benefit to your beneficiary.

Variable universal life is both insurance and an investment. You take the risk of the guarantees off of the insurance company and put it on yourself by investing in the policy. The insurance company offers you a choice of funds, in which your money will be invested. The amount of money your beneficiaries will receive and the cash value of your policy depend on how well the insurance company invests your money. A portion of your premium goes to your investment and the rest goes to your insurance costs.

Life Insurance Planning

Sources:

Garman, E. Thomas, and Raymond E. Fogue. *Personal Finance*. Boston and New York: Houghton Mifflin Company: 2006.

Mintzer, Rich, and Kathi Mintzer. *The Everything Money Book*. Holbrook, MA: Adams Media Corporation: 1999.

Vaughn, Emmett J., and Therese M Vaughn. *Essentials of Risk Management and Insurance*. New York: John Wiley & Sons, Inc.: 2001