

March 2008 Edition

Topic: Buying Life Insurance

Why do we need life insurance?

Life insurance does not protect us from death, but it does protect us against *untimely* death. Can you imagine what life would be like for your loved ones if you died today? If you can, you already understand the need for life insurance, but how do you determine how much insurance you need? What type of life insurance should you buy?

Determining how much life insurance you need

The first step in buying life insurance is to determine how much coverage you need. There are a number of programs that financial advisors can use to help you arrive at that number. Here is a simple process that only requires that you remember the word LIFE. “L” stands for liabilities. What outstanding debt do you want to eliminate with your life insurance proceeds? “I” is for income. Most people choose to cover two to five years of income to help their loved ones adjust to the family’s reduced earning power. “F” represents final expenses. I would recommend a minimum of \$10,000 to ensure funeral expenses are covered. Finally, “E” is for education. Do you intend to leave funds to cover higher education costs for your children? Put these four numbers together and you will know how much life insurance to purchase.

Group vs. Individual

Where you buy your life insurance is less important than that you buy it, but there are things you should consider regarding group and individual coverage. Group coverage is generally less expensive and you may have access to some coverage without consideration to your health. You will likely have limits as to how much you can purchase, and you will generally not have a choice of coverage type. Group coverage also may not be portable, so you should consider whether you expect to need coverage after retirement. Individual plans give you much more flexibility, but could be less advantageous or unavailable if you are in poor health.

Term vs. Permanent Insurance

I once had a life insurance agent tell me that they had never had a family member ask whether a policy was term or permanent when delivering a benefit check. His statement makes a good point. The type of insurance is less important than simply having the protection. Term insurance is the least expensive form of coverage. It covers you for a period of time, usually 10, 15, 20 or 30 years. Permanent insurance adds a savings component or cash value. There are multiple types of permanent insurance with different features and investment options. Work with your broker or agent to identify a group or individual plan that works best for you or your company’s employees. In the case of group plans, be sure to work with a broker that will provide an agent on site to provide your employees with any consultation they may need.