

10 Things You Need to Know About Buying Life Insurance



We never know what life has in store.

Life insurance is a simple answer to a very difficult question: How will my family manage financially when I die? That's why planning for the future is one of the most important things we can do – for ourselves and for our families. While we can't always plan for the sudden change in direction our lives may take, we can plan for what happens after.

When it comes to personal financial planning, life insurance is one component that is critical to managing your finances and family affairs responsibly. A life insurance policy pays cash to your loved ones after you die, replacing your income and allowing the financial plans you put in place to continue uninterrupted.

Most Americans need life insurance, and many who have it might need to update their coverage. This guide will help you answer some common questions and provide you with important tips on finding the policy that's right for you.

1 What and who do you need to cover?

Since life insurance is meant to provide security to those you leave behind, it's never too early to start planning for your family's future – even if you haven't started a family yet. No two situations are exactly alike, which is why your need for a life insurance policy is as unique as you are. Below are some scenarios to give you a starting point when searching for the right policy.

Single with no attachment, or unmarried but supporting family

Many single adults help their families financially – or have accumulated debt that they do not want their families to incur after their deaths. A life insurance policy can protect your family, or future family, from your debt or expenses related to your death, as well as provide continued assistance to those you may already be supporting.

Married with Children, or Without

Think for a moment what your spouse's financial situation might be if they no longer had access to your income. Could

your spouse survive on their income alone? Could they afford funeral expenses, a mortgage, medical bills, legal fees or other debts? Married couples must consider how the surviving spouse will manage financially – add children to the mix and it becomes an even more important consideration.

Common Excuses That Shouldn't Stop You From Getting The Coverage You Need

IT'S TOO EXPENSIVE

Not having any or enough life insurance coverage could be more costly to your family in the long run.

I HAVEN'T GOTTEN AROUND TO IT

There are no guarantees in life, so don't procrastinate.

I PREFER TO PUT MY MONEY ELSEWHERE

This might work if you're absolutely sure you're going to live a nice long life.

I WORRY ABOUT MAKING THE WRONG DECISION

A qualified insurance professional will take the time to answer all your questions and guide you through the buying process.

THE COVERAGE I HAVE THROUGH MY EMPLOYER IS SUFFICIENT

Most employers provide only a modest amount of coverage, and you can't take it with you when you leave your job.

Stay-At-Home Mother or Father

A parent who does not work outside of the home contributes just as much to the household as one who does. From childcare to managing household responsibilities, most stay-at-home parents perform roles that would otherwise be done by someone hired to help.

Single Parent

Single parents know the financial strain of raising a child on a single income. From child care to health care, education and buying that first car, parents who are raising children without the support of a partner, financial or otherwise, need to have a solid life insurance policy to ensure that goals they put in place can still be met in their absence.

Empty Nester

Most older adults, especially those whose children are grown and self-sufficient, are focused on retirement. As living expenses decrease and mortgages are paid off, they become reliant upon retirement plans and social security for income. However, this might not be enough to help your dependents cover your final or other living expenses – which is why life insurance is important even at this stage in life.

Retiree

Estate planning is one step in planning your retirement, but another equally important part of the process is securing a life insurance policy. This ensures that your family will have resources to cover expenses such as medical expenses, funeral costs and any other unexpected expenses that arise.



2 How much coverage do you need?

The toughest part of buying life insurance is determining how much you need. Worksheets and online calculators can help you identify what costs you'd want to cover and how much you would need.

The best way to start is with a life insurance needs analysis to determine how much you will earn between now and the time you retire. This will give you an accurate picture of your income and financial situation compared to the future needs of surviving family members. A worksheet to help guide you through conducting a capital needs analysis can be found on the next page and is also available at www.lifehappens.org.

Start by identifying all your expenses – including current and ongoing expenses such as the mortgage, utilities and healthcare costs, as well as any future expenses like college and retirement. This will help you estimate how much your family would need after you're gone to meet all your current and future financial obligations.

Next you'll want to account for all forms of income for your family. This includes your salary, your spouse's earnings, savings accounts, investments and more. The difference between your expenses and income is your need for additional life insurance. Of course, you'll want to account for inflation, interest and other assets, which is where the calculation can get tricky.

For your convenience, we've included a needs assessment worksheet to get you started.

Life Insurance Needs Worksheet

(adapted from the LIFE Foundation (www.lifehappens.org))

This worksheet can help you get a general sense of how much life insurance you need to protect your loved ones, assuming that you passed away today. Before buying any insurance products, you should consult with a qualified insurance professional for a more thorough analysis of your needs.

Income

1. Total annual income your family would need if you died today

What your family needs, before taxes, to maintain its current standard of living (Typically between 60% - 75% of total income)

\$ _____

2. Annual income your family would receive from other sources

For example, spouse's earnings or a fixed pension.¹ (Do not include income earned on your assets here)

\$ _____

3. Income to be replaced

Subtract line 2 from line 1

TABLE A	
Years Income Needed	Factor
10	8.8
15	12.4
20	15.4
25	18.1
30	20.4
35	22.4
40	24.1

\$ _____

4. Capital needed for income

Multiply line 3 by appropriate factor in Table A. Factor _____

\$ _____

Expenses

5. Funeral and other final expenses

Typically the greater of \$15,000 or 4% of your estate

\$ _____

6. Mortgage and other outstanding debits

Include mortgage balance, credit card balance, car loans, etc.

\$ _____

7. Capital needed for college

(2007-2008 average 40 year cost: Private \$146,210; Public \$61,499)²

TABLE B	
Years Before College	Factor
5	.95
10	.91
15	.86
20	.82

\$ _____

	Estimated 4-Year Cost	X	Factor in Table B	=	NPV
Child 1	_____	X	_____	=	_____
Child 2	_____	X	_____	=	_____
Child 3	_____	X	_____	=	_____

8. Total capital required

Add items 4, 5, 6 and 7

\$ _____

Assets

9. Savings and investments

Bank accounts, money market accounts, CDs, stocks, bonds, mutual fund, annuities, etc.

\$ _____

10. Retirement savings that can be used for non-retirement expenses

IRAs, 401(k)s, SEP plans, SIMPLE IRA plans, Keoghs, pension and profit sharing plans³

\$ _____

11. Present amount of life insurance

Including group insurance as well as insurance purchased on your own

\$ _____

12. Total income producing assets

Add lines 9, 10 and 11

\$ _____

13. Life insurance needed

Subtract line 12 from line 8

\$ _____

¹ Social Security benefits, which may be available, have not been factored into this calculation.

² *Trends in College Pricing, 2007*, The College Board. Costs reflect total charges, which include tuition, fees, room and board.

³ Distributions from most retirement savings plans are subject to ordinary income tax rates.

Note: These tables help you determine the Net Present Value (NPV), the amount of capital required today to satisfy future income or college cost needs, given an assumed investment return of 6%, inflation of 3% for living costs and 5% for college costs

3 What type of life insurance is best for you?

If you've done any investigating into what life insurance is all about, you probably know there are two primary forms of life insurance policies.

Term Life Insurance

Term life insurance covers a specified period of time – usually 10, 15, 20 or 30 years; if your death occurs within that time period, your beneficiaries receive the face value of the policy, tax free. These policies provide the most amount of protection for a specified period at a fixed cost – with premiums that are normally guaranteed to remain the same for the duration of the term and increasing when the guaranteed policy period ends.

Permanent Life Insurance

Permanent life insurance, including whole life insurance and universal life insurance, provides protection over the course of a lifetime, not just a set period. These policies also have a cash value – a return on a portion of your premiums invested by the insurance company. The cash value is tax deferred, until you make a withdrawal and is available if you surrender a policy before your death. Premiums for permanent life insurance policies are considerably higher than term life policies.



4 Don't rely solely on life insurance through your employer.

One of the most common mistakes made by many is the sole reliance on employer-provided coverage. Many employers offer their employees group life insurance coverage, usually at one to two times your base salary, at no additional cost. As an employee, you have the option to buy additional coverage and have the premium deducted from your paycheck.

What Kind is Right for Me?		
	TERM	PERMANENT
LENGTH OF COVERAGE	A specified term, typically 10, 15, 20 or 30 years	Until age 100 or later, as long as premiums are being paid
PREMIUMS	Considerably lower than permanent insurance, when initially purchased	Initially higher than term premiums, but often level for life
CASH VALUE	None	Accumulates over time on a tax-deferred basis
KEY ADVANTAGES	Typically offers the highest death benefit for the lowest cost	Offers lifelong protection and, in some cases, tax-deferred savings

However, you may not realize that life insurance through your employer can actually be more expensive than an individual policy – often times 30-70% more. Consider that your employer offers group coverage – which means everyone pays the same rate. This includes your coworkers who are overweight, who may have diabetes or cardiovascular disease, or who smoke a pack a day. If you're relatively healthy and don't smoke, you may find a better rate on your own.

Worse, life insurance through your employer doesn't follow you when you leave, retire or change jobs. Older employees should especially consider this – health concerns increase with age making it more difficult and more expensive to purchase individual coverage. And, as job changes can arise unexpectedly, it's a good idea to have life insurance coverage outside of any coverage offered by your employer to ensure you are not left unprotected.

5 Review your current policy every few years.

Life changing events can be expected or unexpected – along with both comes changing insurance needs. Whether you already have a life insurance policy, or if you are planning to buy one it's important to carefully examine your current situation, even if you determined your insurance needs a few months ago, and make adjustments as your needs change.

Changes to your family or career can lead to financial changes as well. Here are some things to consider now, and



in the future, to get a true look at your insurance coverage needs: marriage; purchasing a home; starting a family; moving to a new home or new location; assuming large debts such as a mortgage; changing jobs; receiving a promotion; supporting aging parents; starting a college fund or planning for retirement.

6 Get 'apples-to-apples' comparisons to find the policy that's right for you.

Shopping for life insurance can be confusing – there are so many choices and differences in premiums that feeling confident about your choice can be a challenge. IntelliQuote can help you shop, compare and select the policy that works best for you. Working only with top rated carriers, we offer free, no-obligation quotes on the most highly rated life insurance products, and eliminate any pressure or time constraints you might feel or have. We take the time to understand your unique situation and give you all the information you need to make the best decision to fit your unique needs.

7 Make positive changes in your lifestyle to improve your health, and your premium.

Premiums are both determined and affected by the health class you belong to. While the processes for determining health class vary by insurance company, there are some basic

factors that come into play. Preferred rates are the best rates but require policy holders to be in excellent overall health and lead a healthy lifestyle. Tobacco use, weight to height ratio, cholesterol, blood pressure and notable personal health issues are all considered when putting applicants into a health class.

If you don't qualify for preferred rates, that shouldn't stop you from purchasing a policy to protect your family now. However, if there are any lifestyle changes or health improvement regimens you can start after buying a policy – such as losing weight, quitting smoking, managing your blood pressure through medication – you can reapply after these improvements to your health have been made. You may then qualify for a better health class and a lower premium on your policy.



8 Be sure to provide accurate information on your life insurance application.

It might be tempting to not disclose some information on your life insurance application to try and get a better premium, but doing so may affect your coverage or your claims. Before a policy is issued, applicants must undergo a complete medical examination which will determine many of the health-related considerations during the underwriting process. Additional questions relating to family health history, past drug or alcohol use or potentially dangerous hobbies may not come to light during the medical exam, but should be disclosed on your application.

Providing misleading information on your life insurance application can be considered an act of fraud. If your insurance company discovers that any part of the application was falsified they can decrease or terminate your coverage. This puts your family at risk of not receiving the full benefit of your policy; if your death is the result of something that was not revealed on your application your insurance company could very well deny the claim.

9 Understand your policy.


From legal jargon to unique terms, life insurance policies can leave you scratching your head in confusion. They are,



however, one of the most important purchases many of us will ever make, which is why it's critical you understand what you're paying for. Take advantage of the no-obligation free-look period and review your policy closely. Understand coverage, premiums, renewal, fees, termination clauses, etc. Additionally, you want to understand what your beneficiaries will need to do in order to obtain benefits after your death and then pass this information on to them. This is an ideal time to create or update a will – this can help explain how to manage or disburse your assets when you're gone.

10 There's No Time Like the Present!

No one likes to think about death, least of all their own or that of a close loved one. Yet there are practical aspects to doing so that will be tremendously beneficial to your family. Current rates are low, and the younger and healthier you are, the lower your rates will be. Shopping for life insurance early, before potential health problems arise, is one of the best possible times to purchase. Not only will your insurance premiums be cheaper, you'll find it's much easier to get a policy when you're younger and healthier.

Life is unpredictable, so it is important to be prepared. Life insurance is the perfect way to help protect you and your family from the unexpected. A life insurance policy will help take care of your family financially once you are gone, as well as assist you during other twists and turns your life may take. Whether you are single, married, just starting a family or retired, life insurance can help you and your loved ones find peace of mind. 

Some content and graphics provided by the LIFE Foundation (www.lifehappens.org).