The Value of Life Insurance

To protect you and your family from personal hardship as a result of death of a family member.

About 60% of Americans own some sort of life insurance (a drop from 70% in the 80s). Approximately half of those have inadequate coverage.

When a wage earner dies, his or her income is lost to other family members. Not only are they dealing with the loss, but now with the added financial burdens.

Even those who do not earn a wage contribute greatly to the family wellbeing. They take care of the home, children, keep family records, and maintain the daily functions of the home. You might need to hire others to take over the responsibilities at home. This will create new costs.

How does life insurance work?

When you buy life insurance you specify who will receive the payment, or ***death benefit***, if you die. The person you specify is your ***beneficiary***. (You can specify more than one)

From statistics, insurance companies know (on average) how many people of any age die each year. They will take this information into account, along with gender, type of employment, and the lifestyle of the policy holder. They use this information to calculate how much to charge for your insurance.

You then pay the assigned premium for your coverage.

Types of Life Insurance

Term Life Insurance
- Level Term Life Insurance
- Renewable Term Life Insurance
- Convertible Term Life Insurance

Permanent Life Insurance
- Whole Life Insurance
- Modified Whole Life Insurance
- Universal Life Insurance

Term Life Insurance

- Pays a death benefit if the policyholder dies within a specified period of time; its ***term.***
- It's a good choice for young people - less expensive
- Insurance companies can charge less because younger people are less likely to die during the term of the policy.
- You can choose a policy to protect your family that lasts 5 yrs., 10 yrs., to age 65.
- You may want a term policy if you want to cover specific purposes like funeral costs, college tuition, etc.

Level Term Life Insurance

- Pays a fixed benefit for a fixed premium over a specified number of years.
- Terms usually run 5, 10, 15 or 20 years.
- A 5 year policy with a death benefit of $20,000 would pay $20,000 no matter when the policy holder died within the term of the policy.
- Your premiums do not increase as you grow older.
- You will pay higher premiums for a longer term than a shorter term.

Renewable Term Life Insurance

- At the end of its term, most level term policies turn into renewable term policies.
- Allows you to renew your policy each year regardless of your health without physical examination.
- Premiums will increase each year to reflect age and life expectancy.
- Major advantage - it cannot be canceled if you become ill, or as you grow older.

Convertible Term Life Insurance

- Most term policies contain a convertible option. This means at anytime you can convert the term into a permanent policy without evidence of insurability.

  Evidence of Insurability: a physical examination or questionnaire about your lifestyle.
- The earlier in the term you choose to convert, the lower the premiums.
- Being able to convert without evidence of insurability is important because if you develop a major illness you can have the freedom to convert to a permanent policy.

Permanent Life Insurance

- Provides a death benefit plus a savings plan, and the coverage lasts throughout the policyholder's life. Policy has value besides a death benefit. Also called a ***cash value life insurance***. (book term)
- Premium is divided up, part goes towards death benefit, part goes into savings.
- Your policy cannot be canceled as long as you pay your premiums.
- When you die your beneficiaries will receive the amount you specified in your policy for the death benefit, plus the value of the savings.
- Can withdraw from your savings anytime (pay for college, retirement, etc.), you can also borrow against your insurance policy's cash value and use it as collateral.

Whole Life Insurance (ordinary or permanent)

- Most common and lease expensive of the permanent policies.
- Yours for life. You pay a fixed premium for a lifetime and cannot be canceled as long as you are paying the premium.
- No choices in changing amount in your saving contribution, amount of coverage, or how your funds will be invested.

Modified Whole Life Insurance

- Same as whole life, but payments increase throughout the life of the policy.
- Some people choose this because they expect to be able to afford more later.

Universal Life Insurance

- Most flexible.
- You can borrow or withdraw from your cash value.
- You can change the amount of coverage and your premium.
- Can not choose how your savings are invested.

Endowment Policy: Another type of cash-value policy.

- Protects the policyholder for a set number of years.
- At the end of the time period they will get the cash value of the policy.
- If the policyholder dies within that time period then the beneficiaries will get the full face value of the policy.

How much life insurance should I buy?

There is no "right" amount, instead you need to take into consideration:

- **Your current contribution** - to insure against the loss of your salary
- **Your family responsibility -** number of dependents, their ages, etc.
- **Your financial situation -** other debts vs. assets
- **Your future needs -** college, etc.
- **Your unique needs -** loved ones with special medical needs, etc.

Scenario – You make $60,000 a year. You are married and have 5 year old twins. Your spouse is a homemaker. You have $20,000 in student loans and owe $175,000 on your home mortgage.

Option 1: A minimum of 5 times your annual gross income. Your family would need to come up with a Plan B, but it buys them some time.

Example – $60,000 x 5 = $ 300,000 (your spouse will need to get a job, remarry, move in with other family members, etc.)

Option 2: 7-10 times your income gap (10 x is strongly recommended). Salary – Other sources of income (pensions, Social Security, emergency funds, etc.) = Income Gap. Or . . . to play it safe, 20 times your current income.

Example - $60,000 (current salary) - $25,000 (S.S. & savings) = $35,000
$35,000 x 10 = $350,000 (doesn't account for other debt, future needs, etc.)

Or . . . $60,000 x 20 = $1,200,000

Option 3: Annual salary x replacement years + mortgage balance + other debts + future debts = total needed

Example - $60,000 x 15 (support kids to age 20) = $900,000
+ $175,000 (mortgage balance)
+ $20,000 (other debt)
+ $50,000 (interim childcare and college)

Total = $1,145,000