

Life Insurance

What Type of Coverage Is Right for Your Family?

Life insurance, in all its varied forms, is quite simply a method for handling the risk of financial instability in the event of premature death. In order to prepare an effective life insurance strategy you will need to consider your financial obligations, and how a financial loss may affect your family.

Thinking of a future without ourselves in it can be emotionally difficult, although preparing for such an event may be necessary to secure protection for financial obligations. Certain life events often trigger the need to purchase life insurance. If you already own a policy, it should be reviewed over the years on a regular basis to ensure the coverage continues to meet your needs and stays current.

Group Life Insurance

If you are an employee, you may be offered life insurance as part of your benefits package. Some companies offer term insurance at no cost to the employee. Employer-paid life insurance is, of course, an excellent deal for the employee. Some companies offer coverage of as much as three times the annual salary of the employee. Keep in mind, however, that you will pay taxes on premiums paid by your employer for life insurance coverage in excess of \$50,000.

Even if you receive coverage through your company, an employer-paid policy is unlikely to be sufficient to meet the life insurance needs of your family. If you are married or have

dependents, you will likely require considerably more life insurance protection than an employer-paid policy provides.

Many companies offer employees the option of purchasing additional coverage through a group life insurance plan, or of contributing a portion of the premiums on an employer-sponsored policy. In some cases, paying into a group plan makes sense. If you are older, or have health problems that would make it expensive for you to buy life insurance on the individual market, you should consider taking advantage of your company's plan. Most group life insurance plans do not require medical evidence of insurability. But if you are young and healthy, you may find that you can get better rates outside the plan.

You should also find out whether your group plan includes accidental death and dismemberment benefits. This is an amount of insurance in addition to, and usually equal to, a term life insurance policy. It is payable in the event of accidental death or dismemberment, or upon the loss of certain important bodily functions such as sight, hearing, or speech, as a result of an accident. These benefits are particularly valuable for people who engage in high-risk activities or travel frequently. Purchased individually, this type of coverage may be more expensive for people who are involved in extreme sports because they are at greater risk of being injured in an accident. Many group life insurance plans provide these benefits as part of basic coverage.

There are, however, some potential drawbacks you should consider before you decide to rely solely on a group plan for your life insurance coverage. First, group life insurance is usually limited to a set multiple of your salary, and there may be a ceiling on the benefits provided. Depending on your family's needs, you may find you need additional protection.

Second, some group plans reduce the amount of coverage provided as an employee gets older. The cost of supplemental insurance may also increase with age.

Finally, you should also be aware that your employer could eliminate life insurance as an employee benefit, and you will lose your coverage if you leave your job, retire, or are forced to resign. In these situations, insurers often give employees the option of converting their group coverage to an individual policy, but usually at a higher cost. If you decide not to convert, you must make other arrangements immediately to avoid a gap in your life insurance coverage.

Some group life insurance plans also allow employees to purchase supplemental life insurance coverage for a spouse, domestic partner, or child. The premiums for these policies are generally deducted from an employee's pay on an after-tax basis. The maximum amount of coverage for a spouse or dependent is usually limited to half of the employee's coverage. There may also be a dollar limit on the maximum amount of coverage for a dependent, which may be significantly lower for a child than for a spouse.

Purchasing dependent life insurance through your employer may make sense if your family member has health problems, as no medical evidence of insurability is required under most group plans. But if the spouse or child you wish to insure is healthy, you may find that you can get the same or more coverage at a better rate with an individual life insurance policy. You should also consider whether you need more life insurance protection, especially for your spouse, than your group plan provides.

Conducting Your Own Need Analysis

Taking a closer look at the different types of expenses you face on a daily basis can leave you wondering: How much life insurance coverage should I purchase? A "needs analysis" can help you answer this question. It measures your assets and liabilities in order to calculate the amount of life insurance you may need.

First, total the value of all the things that you and your spouse own. These are your assets. Next, list and evaluate all the things that you or your family may be liable for, in case one spouse dies. These are your potential liabilities. When totaling your assets and insurance, you should include what you currently have in savings, retirement funds, and real estate. Take a look at these potential cash needs and assign a dollar amount to each:

1. **Loan, Mortgages, and Other Debts.** Total your mortgage and debt from credit card bills, school and auto loans, unpaid notes, outstanding bills, etc.
2. **Income Replacement.** How much does the insured earn annually? Multiply this amount by the number of years the family is likely to need this income, should the insured die prematurely.

3. **Final Expenses Fund.** The total cost of possible medical and hospital expenses, bills presented after death, burial costs, and attorney/executor fees.
4. **Education Fund.** The cost of funding your children's education and child care expenses.
5. The total of all of the above should give you your total life insurance need. Deduct from this total your liquid assets, your group insurance coverage, plus any individual insurance coverage you currently have. If an amount remains, you should consider covering it with an additional policy.

Purchasing an Individual Life Insurance Policy

As you consider the wide range of individual life insurance coverage available, you may be confused about what type fits your needs now, and what will suit your needs in the future. A good first step is to ask yourself why you are buying insurance, and how it will fill your personal and family financial security requirements. Do you want insurance to cover a new home or mortgage? A college education? A business investment? Your retirement? Your final expenses? Once you have the answers, you can look at the basic types of coverage: permanent life insurance and term life insurance.

Permanent Life Insurance

Permanent life insurance helps provide not only security from financial hardship upon death, but also a "living" savings and investment vehicle for the policyholder. This cash value insurance links insurance protection with savings, premium dollars paid contribute to the combined program. Premium payments first

pay the cost of pure insurance coverage, including expenses and mortality factors of the insurance company; the company then invests "leftover" dollars to build the policy's guaranteed cash value.

In addition to the guaranteed cash value buildup in the policy, policyholders are provided with regular dividend payments, the result of lower expenses, lower mortality rates, and higher investment results than were predicted when premiums were set.

Another permanent life insurance feature is predictability of expense: premium payments will not increase and continue until the policy endows (when the cash value of the policy equals the face amount of the policy). An "accelerated" payment plan may be chosen, which permits premiums payments later in life out of withdrawals from the dividend balance rather than out-of-pocket.

A guarantee of insurability comes with any permanent life insurance policy. Once the individual seeking coverage provides initial evidence of insurability—and as long as premium payment responsibilities are met—the insured is guaranteed coverage for life in accordance with the terms of the policy. Evidence of insurability will never be necessary again, as long as the original policy remains in force.

The final feature to consider is the value of permanent life insurance as a "creditor," if necessary. Funds may be borrowed against the cash value of the policy at any time, but outstanding loan balances will be deducted

from the death benefit in the event of the insured's death.

There are numerous variations on permanent life insurance as it was originally conceived. In keeping with the changing investment philosophy of policyholders, universal life was created. This policy provides all of the above benefits of permanent life, and adds the possibility for the policyholder to change both the amount of premium payments and insurance coverage as individual needs change. The policyholder does accept the investment risk associated with the investment portfolio choices available, which can include growth, income, money market, equity income, and diversified mutual funds. Either conservative or aggressive return options are thereby available for policyholders.

Term Insurance

As the name implies, term insurance provides pure insurance protection for a specific period—or “term”—of time. It generally does not offer any guarantee of premium cost, death benefit stability, or right of renewal. It does, however provide some of the most affordable protection available.

There are one-year policies offering a right of renewal, with the premium rising slightly each year to reflect the higher age of the insured. There are also decreasing term plans available to cover mortgages and loans. This means the face amount of the policy decreases as the mortgage or loan obligation decreases, thus moderating premium payments. Most term policies generally permit conversion to a whole life policy without a medical examination.

Your Personal Life Insurance Needs

The tax advantages associated with life insurance make it a very effective financial planning tool. Death benefits from life insurance policies are usually exempt from income tax, while some types of policies allow you to save on tax-deferred basis and withdraw money as needed.

Without a doubt, purchasing life insurance coverage will help solidify your family finances. It is also important to recognize that, like all financial matters, life insurance policies need to be reviewed on a regular basis with a qualified professional. An insurance professional can be a valuable resource when it comes to evaluating your present situation and determining an appropriate course of action.

In Summary:

- Group life insurance generally offers employees insurance protection at no cost, or at a relatively low cost, regardless of the health and age of the employee.
- Dependents of employees may be able to obtain a small amount of life insurance coverage through a group plan.
- The amount of coverage offered through a group life insurance plan is usually not sufficient to meet all the life insurance needs of employees with dependents.

- Some group life insurance plans include an accidental death and dismemberment benefit, which pay out additional amounts if the insured is killed or seriously injured in an accident.
- People who rely solely on a group plan for their life insurance coverage may find themselves without insurance protection if they leave their jobs, or their employer discontinues the plan.
- To provide full financial protection for their families, even people who have life insurance through a group plan should consider purchasing an individual life insurance policy.
- Individual life insurance policies are available in two forms: Term and Permanent. Both types potentially offer more complete life insurance protection than group insurance alone.

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