DOLLARS & Sense

Family Financial Education Foundation

Edition 6, Volume 1

Do You Need Life Insurance?

In the simplest terms, whether you need to buy a life insurance policy depends on whether you have people who are dependent on your income and how dependent they are. If you have a spouse, child, parent, or other individual who depends on your income, you probably need life insurance. If you own a business, particularly one that has employees, you might need life insurance for business maintenance purposes.

The unexpected death of a family member is devastating for survivors. Adequate life insurance coverage can protect your loved ones against the financial hardships of your death by providing them with the money needed to manage certain expenses. The cash they receive from your life insurance policy replaces your income and can help your family cover daily living expenses, mortgage payments, and college expenses.

Life insurance offers protection against a whole host of financial issues that can arise as the result of your death. The costs of dying can be very high. Burial costs are steadily increasing throughout the country. Funeral costs are also on the rise. Funerals and burial costs can easily add up to over $10,000. This is a lot of money and leaving all of these expenses for your loved ones to deal with might provide quite a burden for them. If you are the primary breadwinner for your family and you pass away without a life insurance policy, your family may have no resources to bury you. This would make dealing with your death even harder for your family.

A basic life insurance policy will be large enough to cover funeral expenses. A good policy will provide enough of a financial security blanket to cover funeral expenses and enough money to help your family safely transition into a life without you, providing them with the time they need to recover, both financially and emotionally. Rebuilding a life after a profound loss can be a difficult task in the best of situations. Leaving behind as much money as possible can really help ease this burden.

Life Insurance

Life insurance—do I need it? It's a good question—one that we all have to ask ourselves. The decision to buy life insurance is different for everyone and is influenced by many things. One more monthly payment can seem like a hurdle we'd rather put off until later. In this newsletter, we'll talk about how to determine if you need life insurance and how to decide how much you need, plus we've provided a few tips to increase your understanding of life insurance and help you make an intelligent choice when it comes to picking a policy. ■

To decide if you need life insurance, think about the worst-case scenario. If you were to die tomorrow, how would your loved ones get along financially? Would they at least have enough money to pay for your funeral costs? Would they have the money to pay your medical bills, taxes, mortgage, and credit card debt? Would they be able to meet ongoing living expenses like food, clothing, transportation, and healthcare? What about long-range financial goals? Without your contribution to the household, would your surviving spouse be able to save enough money to retire comfortably?

Here are some typical scenarios to help you decide what life insurance you need:

Two-income families with young children or other dependents: The

(Continued on page 2)

Do You Need Life Insurance?

(Continued from page 1)

younger your children, the more insurance you need. Because both spouses earn an income, both spouses should be insured, with insurance amounts proportionate to income amounts. If you cannot afford to insure both wage earners, insure the person who earns the most first, and insure the second wage earner as soon as that becomes possible.

Families with one stay-at-home parent: Could the working spouse afford to pay someone to provide the care the stay-at-home parent provides if the stay-at-home parent died? Just because one spouse doesn't earn a salary doesn't mean he or she doesn't make a financial contribution to the family. Childcare, transportation, cleaning, cooking, and other household activities are all important tasks, and the working spouse would likely have to pay someone to take care of these necessities. Some surveys estimate the value of these services at over $40,000 per year. Insurance should be purchased to cover the services being provided by the stay-at-home spouse. However, if funds are limited, insurance on the wage earner should be acquired first.

Single parent: As a single parent, you're the caregiver, breadwinner, cook, chauffeur, and more. Unfortunately, nearly 40% of single parents have no life insurance whatsoever. Your children and the caregiver left to take care of them will need financial support, which you can provide through a life insurance policy.

Married couple with no dependents: If your spouse could live comfortably without your income, then you will need less insurance than the people in the above situations. If you died suddenly, could your spouse maintain his or her standard of living on your spouse's income alone? Would your spouse have enough money to cover funeral and burial expenses? You will still need some life insurance. At a minimum, you will want to provide for burial expenses, paying off whatever debts you have incurred, and provide as comfortable a transition as possible for the surviving spouse. The amount of insurance you need depends on your salary level and that of your spouse, the amount of savings you have, and the amount of debt you both have.

Single adults with no dependents: You need only enough insurance to cover burial expenses and debts. Exceptions would include single people who provide financial support for aging parents, siblings, or others. If you're in these types of situations, you should consider owning additional life insurance.

Retirees: There is less of a need for life insurance after retirement. You will need some insurance to pay burial expenses, final medical costs, and debts. You may also need to provide income for your spouse after you die if your retirement assets are not large enough. ■

TIP: The most successful way to qualify for a low monthly premium is to maintain your health and prove to insurance companies that your health is of value to you. Habits like smoking or drinking or behaviors that result in frequent traffic violations can have a major impact on how much you will have to pay in monthly premiums. While some plans do not require you to have a medical exam to qualify, these policies are usually more expensive, so it is in your best interest to maintain your health in a way that helps you qualify for policies from reputable life insurance companies that do require medical exams. ■

Life Insurance for Children

Many parents question the purpose of buying a life insurance plan for children because children do not contribute to the family finances. Many financial experts are more in favor of investing in a child's college tuition fund than a life insurance plan. While it may seem that there is no compelling reason to buy life insurance policies for your children that pay out large benefits, there are a few reasons why basic life insurance for your kids would be a good financial decision: 1. None of us want to contemplate the loss of a child, but should such a tragic event occur, a life insurance policy would be of great help to cover the costs of a burial and proper memorial service.

2. Many times the death of a child stems from a fatal illness, which is just as unanticipated as a terrible accident. A life insurance benefit can help pay for costly medical bills not covered by health insurance.

3. Purchasing a life insurance plan while your child is in good health is generally inexpensive. If your child develops medical conditions such as asthma or diabetes, life insurance premiums become much more costly. Therefore, it is wise to purchase a basic policy covering each child while they are young and in good health. Many employers offer insurance plans that provide coverage for children at very low cost. If your employer offers this opportunity, you should consider taking advantage of it. ■

How Much Life Insurance Do I Need?

The answer isn't really how much life insurance you need, but rather how much money your dependents will need after you're gone. There are three basic steps to determining the ideal amount of life insurance for you.

- First, gather all of your personal financial information and estimate what your dependents would need to meet current and future financial obligations.
- Second, add up all of the resources you already have in place that your dependents could draw upon to support themselves.
- Third, subtract what resources are already in place from what your dependents need. The difference between their needs and the resources already in place to meet those needs is your optimum need for additional life insurance.

Use the questions below to help you estimate your need for life insurance. Remember that this is only a guide. For more help, please consult with your Family Financial Education Foundation counselor.

How much money will be needed for burial expenses?

Remember, average burial costs range from $8,000 to more than $10,000.

For how many years into the future will your income need to be replaced?

If you were to die today, consider how long your dependents would still need your income for support before they would be able to support themselves. Would your income need to be replaced until children finish their education, or until your spouse retires?

How much annual net income will your survivors need?

Look at day-to-day living expenses first. If your death would create the need to hire childcare, or your spouse would need additional education to qualify for a job, add those costs in. The total amount needed may be reduced if your dependents have income of their own.

Do you have any dependents who may go to college?

Remember that your dependents can apply for financial aid, available as low-interest loans. If you are deceased, your dependents may also qualify for grants, which they will not have to repay. However, they may need some additional money for books or day-to-day expenses while they are attending school.

Are there any one-time expenses you want to be able to pay for?

Weddings, new cars, home improvements?

Do you have any liquid or semi-liquid investments available?

This could be savings accounts, real estate, jewelry, artworks, antiques, anything that your dependents may be able to turn into cash in a short time. Don't include retirement funds such as an IRA or 401(k) as you will need that money to pay for your retirement.

Don't be discouraged if the above evaluation leads to a large sum of life insurance. You can begin with a basic policy and add to it as your income improves. Remember also that as the years go by and your dependents become more and more able to support themselves, your need for life insurance will decrease and you can reduce your coverage. ■

Make Sure Your Dependents Have Your Policy Information

Life insurance companies are not required to look for the beneficiaries named on a policy. What does this mean to you? It means that if the people you have named as beneficiaries on your policy don't know about your policy, the life insurance money remains in the hands of the insurance company after you die. This can easily happen if your employer provides a life insurance policy as part of your employee benefits and you do not tell your employer who you want named as the beneficiary or beneficiaries on that policy.

The best way to ensure your dependents receive the funds from your life insurance policy is to tell them about it. Ignorance of the existence of a policy is the #1 reason almost 50% of all life insurance policies go unpaid. If your dependents do not contact the insurance company to make the company aware that you have died within an appropriate amount of time, the policy will often be cancelled because the premiums are no longer being paid. This makes it very difficult, if not impossible, for your beneficiaries to receive the benefits you planned for them. So make sure your dependents know what company your insurance policy is held by, what the policy number is, and what the benefit is that will be due to them upon your death. ■

What If I Can No Longer Afford My Insurance Premium?

Difficult financial times can make it hard to handle the cost of a life insurance premium. Rather than just let a life insurance policy expire and lose everything you have paid into it because you can't make the premium payments, it is possible to sell the policy for cash value. One of the ways life insurance companies make money is policies that are never paid out, so selling the policy is not something you hear a lot about.

There are two ways that a policyholder can cash out a life insurance policy:

1. Sell the policy back to the life insurance company for its cash value.

2. Sell the policy to an investor or investment company.

Neither of these options will give you the full death benefit of the policy and both require some research to discover your available options so be sure to talk to a knowledgeable person you trust. Your Family Financial Education Foundation counselor can help point you in the right direction.

Another option to consider requires the cooperation of the dependents who will benefit from the policy at your death. Consider the policy as an investment for the family. After all, you won't be here to spend the money. Life insurance is an unselfish way to make sure your dependents are taken care of when you're gone.

When times get tough, it can be heartbreaking to think of giving up that investment in your family's future. It might be worth gathering your dependents together to talk with them about contributing to the cost of the monthly premium until you are back on your financial feet. If your dependents are too young to be wage earners, consider talking to parents or siblings. By dividing up the payment between several people, you may find the premium manageable. ■

What Determines the Cost of My Life Insurance?

Policy rates can vary greatly from one life insurance company to another, which makes it difficult to know how much you should expect an average life insurance policy to cost. Insurance companies generally do not like publishing information on their policy prices.

Your life insurance rates are going to be based on information about you. Your age and general health are important factors in determining the cost of an annual life insurance premium.

- If you are young, healthy, and a nonsmoker, you can expect to pay a much lower life insurance rate than someone your age that is a smoker. The possible damage smoking can cause to the health of an individual increases the smoker's insurance premiums because smoking increases the chance that the smoker will die at a younger age. This could potentially cost the life insurance company a lot of money because someone who dies young has not paid very much in premiums to make up for what the insurance company will pay out as a benefit.
- The area of the country you live in will also affect the cost of your life insurance because the cost of living varies drastically across regions of the country. Life insurance premiums vary accordingly. A life insurance policy that is considered reasonably priced on the West or East Coasts might be considered outrageous in a lower-priced area like the Midwest. For example, Iowa insurance quotes would be significantly lower than Florida insurance quotes.
- Your lifestyle will affect the amount of coverage you want to purchase and, therefore, how much your life insurance rate will run. If you want a life insurance policy that will cover just the costs of your burial, then you will need a lot less coverage than someone interested in leaving their families money to cover living expenses once they are gone. ■

We have new business hours!

Mon.-Thurs.: 7:00 a.m.-8:00 p.m.
Friday: 7:00 a.m.-7:00 p.m.
Saturday: 8:00 a.m.-1:00 p.m.

Family Financial Education Foundation

ACCESS EDUCATION SYSTEMS
724 Front Street, Suite 340
Evanston, WY 82930
contact: (877) 789-4175
www.ffef.org | info@ffef.org

FAMILY FINANCIAL EDUCATION FOUNDATION
ACCESS Education Systems

If you know of someone who would benefit from this information, please pass this newsletter along.