What you need to know about life insurance

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Chances are, you need life insurance

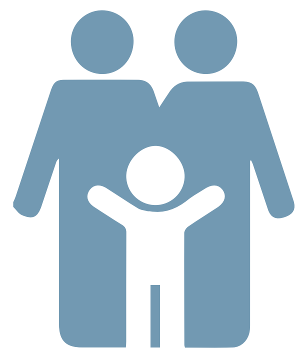
Life insurance is a simple answer to a very difficult question: How will my family manage financially when I die? It's a subject no one really wants to think about. But if someone depends on you financially, it's one you cannot avoid.

There are many types of life insurance, but for all of them the bottom line is the same: They pay cash to your family after you die, allowing loved ones to remain financially secure. Life insurance payments can be used to cover daily living expenses, mortgage payments, outstanding loans, college tuition and other essential expenses. And, importantly, the death-benefit proceeds of a life insurance policy are almost never subject to federal income taxes.

If you've worked hard to establish a solid financial framework for your family—investments, home equity, a savings plan, retirement accounts—life insurance is the foundation upon which it all rests. It can guard against the need for your loved ones to make drastic changes to future plans when you die. Certain types of life insurance even have a built-in cash-accumulation feature that can help you reach savings goals.

Most Americans need life insurance, and many who already have it may need to update their coverage.

It's not about how much life insurance you need, but how much your family needs if you aren't here.



A Parent's Sacrifice—and Gift

Roberto Loera would do anything for his family. That included leaving Mexico to live and work in Colorado so he could provide a better life for his wife, Maria, and sons, Roberto Jr. and Abel.

Finally, after years of waiting, he learned his family's visas had been approved. Roberto was overjoyed at having his family here, but it also meant Maria would not be working. After talking with his insurance professional, he understood how important life insurance would be and got a policy for less than $20 a month.

Less than a year after being reunited, Roberto learned that his terrible headaches were the result of a brain tumor. And while he fought bravely, neither surgery nor treatment was effective, and he died at just 47.

His life insurance allowed Maria to give Roberto the funeral he deserved. It also paid medical bills and provided for day-to-day expenses. "Roberto's life insurance was such a blessing," says Maria. "It's something every family should have."

Watch the complete story at **www.lifehappens.org/loera**.

Maria Landeros Lopez with her sons, (from left) Abel and Roberto Jr.

Insuring the times of your life

If someone depends on you financially, you probably need life insurance. Here are some examples of specific life stages or life events that might trigger the need for life insurance.

Married or Getting Married

Many families depend on two incomes to make ends meet. If you died suddenly, would your spouse have enough money to cover funeral costs, credit card balances, outstanding loans and daily living expenses?

A Parent or About to Become One

Raising a child is one of the most rewarding things a person can do in life. But it's also one of the most expensive. If you died tomorrow, would your spouse or partner have the wherewithal to provide your children with the opportunities you always dreamed they'd have? From diapers to diplomas, would there be enough income to pay for daycare, a college education and everything in between? Even parents who don't work outside the home need life insurance because they provide services that would be expensive to replace, such as childcare, transportation and managing the household. And what about single parents? They need life insurance more than anyone because their children rely on them for everything.

A Homeowner

If you're like most people, your home is your most significant financial asset. Life insurance can be used to pay down or retire the mortgage, sparing your family from moving to a less expensive place to live. Plus, it can provide the funds needed to help family members maintain the lifestyle to which they're accustomed.

Changing Jobs

If you've recently been promoted or changed jobs, it's a good time to re-evaluate your life insurance coverage. Why? You may not realize it, but when your income rises, your spending tends to rise, too. Updating your life insurance coverage can help ensure that your family would be able to maintain its new and improved lifestyle if something were to happen to you.

Retired or Planning for Retirement

If your children are on their own and your mortgage is paid off, you might feel your need for life insurance has passed. But if you died today, your spouse or partner could outlive you by 10, 20 or 30 years. Would they have to make drastic lifestyle adjustments to make ends meet? Adequate life insurance coverage can help widows and widowers avoid financial struggles in retirement.

Single

Most single people don't have a pressing need for life insurance because no one depends on them financially. But there are exceptions. If you're providing financial support for aging parents or siblings, or if you're carrying significant debt you wouldn't want passed on to family members, you should consider life insurance.

How much do you need?

The most important part of buying life insurance is determining how much you need. Since everyone's financial circumstances and goals are different, there is no rule of thumb to tell you how much to buy.

But do you really need $250,000, $500,000, $1 million or more? Sounds like a lot of money, but imagine if one of those amounts had to pay for a funeral, retire credit card balances and other debts, and support your loved ones for many years to come. Would it be enough? How would you know?

To start, estimate what your family members would need after you're gone to meet immediate, ongoing, and future financial obligations (see right for examples of each). Then, add up the resources your surviving family members could draw on to support themselves. These would include things like a spouse's income, accumulated savings, life insurance you may already own, etc. The difference between the two is your need for additional life insurance (see below).

This mathematical equation may seem simple enough, but coming up with all the inputs can get tricky. Plus, you'll need to factor in the effects of inflation and assumptions about how much your investments will earn over the long run.

Fortunately, there are plenty of resources you can turn to for assistance. A first step would be to visit an online Life Insurance Needs Calculator like the one offered by the nonprofit Life Happens (**www.lifehappens.org/howmuch**). Just remember that online calculators are no substitute for the advice you'll get by meeting with a qualified insurance professional, who can conduct a thorough analysis of your needs, and then help you determine the right amount and type of life insurance to protect the ones you love.

Calculating Your Life Insurance Needs

Current and future financial obligations − Spouse's earnings, savings, investments and life insurance you already own = **Life Insurance Needed**

How Much is Enough?

When you die, there are no more paychecks for your loved ones, but their bills stay the same. When you consider all the things that life insurance proceeds need to fund and how long the money will be needed, you begin to realize that your true need for coverage is often 10 or 15 times your gross annual income, sometimes more.

Insurance Proceeds Can Fund Many Types of Expenses

Immediate Expenses

- ✔ Funeral costs
- ✔ Uncovered medical expenses
- ✔ Mortgage
- ✔ Car loans
- ✔ Credit card debt
- ✔ Taxes
- ✔ Estate settlement costs

Ongoing Expenses

- ✔ Food
- ✔ Housing
- ✔ Utilities
- ✔ Transportation
- ✔ Health care
- ✔ Clothing
- ✔ Insurance

Future Expenses

- ✔ College
- ✔ Retirement

Life insurance needs worksheet

This worksheet can help you get a general sense of how much life insurance you need to protect your loved ones, assuming that you died today. Before buying life insurance, it makes sense to consult with an insurance professional for a more thorough analysis of your needs.

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

Table B

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

Note: These tables help you determine 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.

Prefer to Use an Online Calculator?

Visit the nonprofit Life Happens' Life Insurance Needs Calculator at **www.lifehappens.org/howmuch**

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, as it is addressed later in the calculation) $ ____________
3. **Income to be replaced**
   Subtract line 2 from line 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 debts**
   Include mortgage balance, credit card balance, car loans, etc. $ ____________
7. **Capital needed for college**
   (2018-2019 average 4-year cost: Private $194,040; Public $149,720[2])

	Estimated 4-Year Cost		Appropriate 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 funds, annuities, etc. $ ____________
10. **Retirement savings:** IRAs, 401(k)s, SEP plans, SIMPLE IRA plans, Keoghs, pension and profit sharing plans[3] $ ____________
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, 2019, 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.

What kind should you buy?

The most basic feature of a life insurance policy is the death benefit: the lump-sum payment your beneficiaries would receive if you were to die. It's the core reason to own life insurance—but not the only one. Some types of life insurance offer riders or other features that can play an important role in your financial strategy, such as the ability to accumulate cash value that grows over time.

Term Insurance

Term life insurance provides protection for a specific period of time—the "term"—and is designed for temporary circumstances. It makes the most sense when your need for coverage will disappear at some point, such as when your children graduate from college or when a debt is paid off.

The most common term policies provide coverage for 20 years, but they can run the gamut from one-year policies to terms of 30 years or even longer. In some cases, a term policy may also be converted to a permanent policy. Typically, term insurance offers the greatest amount of coverage for the lowest initial premium and is a good choice for young families on a tight budget.

Permanent Insurance

Permanent insurance offers lifelong protection, and you can accumulate cash value on a tax-deferred basis. This cash account can be used for a variety of purposes, from helping you out of a tight financial spot, to providing funds to take advantage of an opportunity, to supplementing your retirement income. The downside? Initial premiums are considerably higher than what you would pay for a term policy with the same face amount.

Permanent insurance falls into four main categories. **Whole life** is the simplest and most common option. Premiums remain the same for life, and the death benefit and rate of return on your cash value are guaranteed. With **variable life**, you can seek potentially better returns by allocating your fixed premiums among investment sub-accounts, typically comprised of stocks and bonds. **Universal life** offers the flexibility of varying the amount of your premium payments. It also offers the certainty of a guaranteed minimum death benefit as long as your premiums are sufficient to sustain it. If you do not maintain those minimum premiums, your death benefit can be reduced. **Variable universal life** premium payments are also adjustable, subject to the minimum needed to keep the policy in force, and you can allocate them among investment sub-accounts that offer varying degrees of risk and reward.

If you'd like to know if term, permanent or a combination of both types of life insurance would work for you, use the easy product selector at **www.lifehappens.org/selector**.

Features Unique to Permanent Insurance

LIVING BENEFITS - ACCESS TO CASH
A policy's cash value can be surrendered, in total or in part, for cash that can be put toward important uses like a child's education, a business opportunity or supplemental retirement income. Also, you can borrow from your insurer at relatively low interest rates and use the cash value as collateral. The loan is not dependent on credit checks or other restrictions like loans from most financial institutions. Keep in mind that borrowing or withdrawing funds from your policy will reduce its cash value and death benefit if not repaid.

FLEXIBILITY
If you need to stop paying premiums, the cash value can keep your insurance protection in force for a period of time.

TAX ADVANTAGES
Cash value accumulates on a tax-deferred basis, similar to assets in most retirement and college savings plans. Death benefits paid to the beneficiary generally are not subject to federal income tax.

GUARANTEED COVERAGE
As long as you don't allow your policy to lapse, you'll have the coverage for life and won't need to worry about being unable to afford coverage if your health deteriorates.

STABLE PREMIUMS
With many types of permanent insurance, premiums will remain constant or stable over your lifetime. With term insurance, premiums often increase as you age.

3 ways to buy life insurance

1 Through an Insurance Professional

Most people need help conducting the detailed financial assessment needed to determine how much and what kind of insurance to buy. That's why they usually turn to a qualified insurance professional. To find one that's right for you, ask for recommendations from friends, relatives or a trusted advisor, such as a lawyer or accountant. Before agreeing to work with an insurance professional, interview at least two to establish a basis for comparison. Ask them about their education, training, professional designations, and if they are a member of a professional association.

2 At Work

Many employers, especially larger ones, offer life insurance as part of their benefits package—usually a term policy equal to one or two times your annual salary—at no cost to you. This is called group insurance, a nice benefit to have, but it's typically not enough to meet most people's needs. If you need more coverage than your employer's "basic" benefit, talk to your benefits manager at work. Many companies give their employees the option to purchase additional coverage through their employer's group plan. Often, you can purchase limited amounts of extra coverage without having to answer questions about your health. If you want to significantly increase your coverage, you may have to answer health questions in order to qualify.

If your employer doesn't offer a group life insurance benefit, you still might be able to get coverage through work. Some companies give their employees the option to buy life insurance on a voluntary, employee-paid basis. While you pay the full cost of the benefits under a voluntary arrangement, there are several advantages to buying insurance this way. Voluntary plans help workers get coverage more easily than if they were to purchase an individual policy on their own outside of the work-place. Plus, the premium can be automatically deducted from your paycheck, and can be less expensive because of efficiencies in application and billing procedures.

3 Direct Purchasing

You can purchase coverage online, over the phone or by mail. The better services provide qualified insurance professionals to guide you through the process, and offer competitive quotes from multiple life insurance companies for term life insurance. Based on your specific health situation, finding the right company is important in getting the best price available.

The Responsible Thing to Do

Summer was much like her name—bright and energetic. She was also hardworking. At 22, she was managing her own household, working full-time as a waitress, while attending school with dreams of becoming a doctor. She was also a single mom-to-be.

Although money was tight, Summer knew that getting life insurance was the responsible thing to do. That was a fateful decision. Just nine months after giving birth to Nathan, she was struck by a car and killed.

Summer's policy has allowed her mom, Coleen, to adopt and care for Nathan and set money aside for college. "I'm so proud of Summer for making that wise decision for Nathan," says Coleen.

Watch the complete story at **www.lifehappens.org/stokes**.

Coleen Stokes and her grandson Nathan