

Yes, You Probably Need Life Insurance And Here's Why

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Life insurance is not sexy. It's not fun to talk about and it's definitely not a process anyone enjoys. However, much like death and taxes, buying life insurance is an essential part of life and a crucial element of sound financial planning. Most everyone is aware that they *need* life insurance but, from my experience, most people procrastinate until there is an important life event that pushes them to buy it. However, there are some serious benefits to buying insurance early on, especially if you have debt, are married or planning on marriage, have or are planning on starting a family, or you are a business owner.

How Does Term Life Insurance Work? Term life insurance is quite simple—use it or lose it. In other words, you pay an annual premium (determined by the insurance company) for the “term” of the policy (usually 20 years) and if you die

within those 20 years, your beneficiary will collect the specified amount indicated on the policy. For example, let's assume you purchase a \$1 million, 20-year term policy and the premium is \$600/year. Assuming you are current on your premium payment, if you die within the 20-year period, your beneficiary will receive \$1 million, tax-free. There are many other kinds of life insurance products but for our purposes today, we will focus on 20-year term.

Why Do You Need Life Insurance? One of the most fundamental questions you should ask yourself when contemplating life insurance is this: Will someone in my life be adversely effected (from a financial standpoint) by my untimely death? This is different from "Will someone be sad by my untimely death?" I will be sad. But I do not want to assume your financial liabilities.

- **If You Were To Die Tomorrow, Who Would Assume Your Debt?** If you own a home, a business, or have personal liabilities, someone else will become responsible for those liabilities (generally your next of kin). Therefore, your spouse, your parents or your siblings could end up having to pay your debts after the good Lord takes you.
- **Do You Have Children?** Guess what? If you have kids and you don't have life insurance, you may have put your entire family at risk. I know that seems a bit harsh but it is a potential reality. Enough said on that.
- **Are You A Business Owner?** What would happen to your business if something were to happen to you? Do you have a succession plan? If you a business owner and do not have a succession plan, speak to a financial advisor to get you on track to help you create one. This could mean purchasing some type of insurance product and creating some documents determining who would inherit your business and its assets and liabilities.

How Much Insurance Do You Need? This is not an easy question to answer and everyone is different. First, it depends on the variables I mentioned above. It also depends on your age, your sex (men are generally more expensive to insure than women), and how much insurance you can afford. The general formula used by insurance agents is somewhere between 7-10 times your annual salary. For example, if you make \$100,000/year, you should consider buying somewhere between \$700,000 to \$1,000,000 of insurance. That being said, if your life is complicated (kids, business, lots of debt), you should probably look to increase that amount. Again, consider seeking the advice of a financial advisor who understands your financials before making this decision.

Where Should You Buy Life Insurance? Insurance is an interesting industry. Some companies are better at certain products than others. My advice is to speak to a financial advisor as opposed to a “captive agent”. A captive agent is someone who works for an actual insurance company and only sells that company’s insurance. Whenever I present clients with insurance options, I generally show them 12-15 quotes from various providers so that the client can see the differences in price. Also, as I mentioned, term life may not be the best type of product for you. A financial advisor can assess your situation and help guide you towards a policy that makes the most sense for you. In most cases, advisors will not want to over insure you; however, I cannot say the same for a captive agent.

What Else Should You Know? Life insurance is a big purchase and one that will stay with you for many years. If you have an old policy laying around, consider having it reviewed by your financial advisor. It may make sense to buy more insurance (especially if your life has changed in the past few years) or to let the old policy lapse. Finally, even if you have a group life insurance policy through your employer, do NOT assume that it is an adequate amount. Most group life policies that are offered through employers will cover 3 times your salary. Even if it is an adequate amount, what would happen if you were to leave the company or get fired? You would suddenly be without any form of life insurance. Finally, insurance becomes progressively more expensive as you age. In fact, premiums can be almost 2 times as expensive for a 40-year old versus a 35-year-old. Try not to wait on buying insurance as it may only become more of a financial burden.

Like most things related to the financial planning arena, insurance can seem complicated and overwhelming at first. Seek some help from a professional you trust and don’t be afraid to ask questions. This is a big purchase and something that could seriously impact your loved ones down the road.