

MoneySense

3 scenarios where term life insurance is a must

And how to get it right



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You should spend 99.9% of your time on your family and work and health and binge-watching TV. Simply living and loving the ups and downs of your crazy life. But I recommend that you save 0.1% of your time to plan for the unexpected, especially as you move towards some big milestones like marriage, home ownership and kids. That is when term life insurance, a type of policy that covers you for a specific length of time, can really make sense.

Newlyweds with debt

You registered for honeymoon luggage, 600-thread count sheets, and a four-slice Belgian waffle maker. But I bet you forgot to register for a year of term life insurance premiums. Here is one reason why you might want to consider buying it now: Debt.

Insurance is designed to protect you from calamity. Many young people start their marriages with a significant amount of student debt, for example. And it could be a calamity if only one spouse remained to cover the payments. Say you want to cover \$100,000 in debt. You can get a term life insurance policy to cover it for under \$200 a year, which is about the same price as a 13-piece cookware set.

Another scenario where term life insurance makes sense is when there is a big disparity in income. Insuring the difference means that if the higher income person dies, the lower income person can support their current cost of living while they rebuild his or her life.

Think back to wedding gifts again. You probably registered for Wedgwood china or some other really expensive thing. It was a mistake, wasn't it? You have it, never use it and feel bad about it. Life insurance, on the other hand, is something you can have. Hopefully never use. And feel good about.

Buying your first home together

There's "married". And then there's "married with a mortgage." It's an exciting step, for sure. But it also presents new risk. If one of you were to die, how would the surviving spouse manage the mortgage payments? To mitigate the risk, you could buy a mortgage life insurance policy. But a better bet is probably a term life policy, for a few reasons.

First, cost. Term life is less expensive than a mortgage life policy. Second, payout. The death benefit on term life doesn't change, but on mortgage life insurance it declines as you pay down the principal. Third, flexibility. Mortgage life insurance has a policy limit and isn't transferable, so the policy might be cancelled if you move.

If you can't get term life because of a disability or disease, mortgage life insurance is fine. Otherwise, just invest in term life. And a smoke alarm. And a BBQ. And a 77-inch quantum dot flat screen TV with wireless surround speakers.

Getting married and starting a family

There are a few things you are going to need if you're expecting a baby. A car seat, diapers, coffee—lots of coffee—and insurance. I know that might sound morbid at the same time you're anticipating a new life beginning, but it's important.

If you die, you want to make sure that your dependents are covered. Term life is less expensive and less complicated than whole life. The question is, how much do you need? The payout should cover your mortgage and replace income. For example, Amani is the breadwinner, earning \$100,000 per year. Ten times that is \$1 million, plus the \$300,000 mortgage. So Amani could buy a 20-year policy with a death benefit of \$1.3 million for \$800 per year, or \$70 per month.

Seasoned parents will be quick to tell you, you do NOT need a bottle sterilizer, a diaper wipe warmer, or a "pee-pee tee-pee," but you definitely need life insurance.