

# FINANCIALink®

Your Money Management Newsletter

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Title

## Think You Have Enough Life Insurance?

*Think Again, Especially If You're Relying on Employer-Provided Life Insurance*

Adequate life insurance is one of the cornerstones of family security. Yet according to a LIMRA study, Americans are underinsured when it comes to life insurance. In fact, almost one-third of U.S. adults have no life insurance at all, and one in four households only has group life insurance obtained at work.<sup>1</sup>

### JUST HOW MUCH LIFE INSURANCE IS ENOUGH?

Everyone's needs are different, but the general rule of thumb is that a growing family should consider at least *six to eight times its total household income* in life insurance coverage. Remember, if you depend on two incomes to support your family, then both you and your spouse should consider life insurance in the event that one of you is left to shoulder the load alone. Even if you're retired, life insurance can continue to play a role in estate planning.

### THE DRAWBACKS OF EMPLOYER-PROVIDED COVERAGE

Employer-provided life insurance is a great perk and, if available at a reasonable cost, may make sense for you as supplemental coverage. But it's important to recognize some major drawbacks. First, the amount of employer coverage available is often limited. Second, employer-provided insurance is generally canceled the moment you leave. Although you

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might be able to convert to permanent coverage, your premium will be based on your age at that time.

If you are concerned about not being covered between jobs or need more coverage than you can obtain through your employer — or if your situation calls for life insurance coverage that extends beyond your working years — it may be time to consider whether purchasing permanent life insurance would be appropriate now, when rates may be lower than they will become as you get older.

## TWO MAIN TYPES OF LIFE INSURANCE

**Term insurance** is the least expensive type of life insurance because it guarantees a death benefit for only a set period of time, with no asset accumulation feature. Term life insurance is often less expensive when you are younger, but it rises with age to the point where it can potentially become less affordable.

Of course, term insurance cannot be canceled as long as you pay your premiums. It may be appropriate if you want insurance protection only for a certain length of time or

until you are able to afford a more permanent type of life insurance.

**Permanent insurance** costs more to start, but it may become more valuable over the long term as an estate conservation tool. It is a lifetime contract (as long as you pay the premiums on a timely basis) that enables you to have lifelong death protection and, at the same time, accumulate cash value. The accumulated cash value can be used for a variety of needs during your lifetime. In other words, permanent insurance can be a *lifetime asset*.

Access to cash value through borrowing or partial surrenders will reduce the policy's cash value and death benefit, can increase the chance that the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy values or take out a loan, or if current charges increase. Any guarantees are contingent on the claims-paying ability of the issuing company.

The cost and availability of life insurance depend on factors such

as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

## CONSIDER AN INSURANCE CHECKUP NOW

How much coverage should *your* family have? How adequate is your employer-provided insurance, and what types of personal insurance should you consider? Because it may never seem like a good time to check the amount of your life insurance protection, why not make a commitment to review your coverage within the next 30 days?

Once you gather all your materials, please call us so we can review your family's current life insurance coverage and, if needed, develop an approach for stronger protection.

1) LIMRA, 2010

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