

Who Needs to Waste Money on Life Insurance? Probably You

If you think of life insurance as a useless postmortem payday, consider these “pro” arguments

By Suzanne Gerber

On the short list of things we don't talk about in polite company, death and money rank pretty high. Perhaps that's why life insurance, which involves both, doesn't typically make for lively cocktail-party banter.

If you're among the 60 percent of Americans who don't have life insurance, possibly because you consider it the ultimate loser's game, you might want to rethink your assessment.

It's an indisputable fact that to “win” at the insurance game you have to die. But to understand the larger issues of life insurance, “winning” needs to be redefined. Here's where we abandon the P+L and take a hard right into the philosophical.



Facts and Myths About Life Insurance

First, a disclaimer. Not everyone needs life insurance. Those who don't fall into two general camps: people who don't feel responsible for providing for anyone else, and those with grown children and sufficient funds to outpace inflation, keep their partner comfortable, cover all their own death-related expenses, including estate taxes, and be able to afford potentially very long-term care without plunging their beneficiaries into debt.

But the wage earners among us—especially couples and parents—have good reason to buy life insurance. While we all *want to believe we'll live to a ripe old age, unfortunately, that is not a safe bet.*

Far too commonplace are stories of people launching businesses, racking up debt, not squirreling enough away and then getting seriously ill and/or dying. This leaves the widow(er) and children so far behind the 8-ball that they have virtually no chance of climbing out of oppressive debt—let alone paying the monthly nut or staggering college tuition.

This is how you “win” at the life insurance game. When you die (and that's a when, not an if) and your income ceases, you can count on someone else stepping in and supporting your family. Bottom line: Life insurance isn't about a big payoff to *you*; at its essence, it's about love and honoring your commitment to take care of the most important people in your life.

A Life Insurance Primer

Life insurance, incidentally, **isn't a modern concept. It dates back to the glory days of the Roman Empire, a time when people believed a proper burial was necessary to ward off unhappy ghosts.** Because many soldiers were impecunious,

Caius Marius, a military leader, started a “burial club,” in which his troops contributed money to cover everyone’s funeral expenses. Eventually benefits included a payout for survivors.

Today there are two kinds of life insurance: term and life.

Term insurance provides a level premium and a level-death benefit protection for a stated period of time, say 20 years. Permanent insurance (of which there are several confusing-sounding types: whole life, universal life, index-universal life, variable life and variable-universal life) provides a death benefit *and* cash savings.

Ironically, the best time to purchase life insurance is when you’re in your 20s or 30s, because you can lock in lower premiums, yet young people are reluctant to buy life insurance because they feel invincible. Should they change their tune a few decades later, they could find policies too expensive or they might not qualify because of health issues. According to the U.S. Bureau of Labor Statistics, 75 percent of full-time workers are offered life insurance by their employers— **typically one to two times their annual salary. Yet, experts agree, that’s not sufficient coverage for married people and especially parents. The rule of thumb is seven to ten times one’s salary.**

But even that is a ballpark. Insurance agents will do a big-picture assessment based on total family income, assets and liabilities as well as your plans for the future (children, retirement, etc.). You can crunch your own numbers with this online calculator.

Benefits of Life Insurance

Some are obvious, but others less so. Here are five reasons to buy a policy (and there are others).

1. It provides income replacement.
2. It pays for funeral, burial and other related expenses, including estate taxes.
3. It offers mortgage protection.
4. It’s a legal way to transfer your wealth to relatives.
5. It can help finance children’s educations.

If you already have life insurance, you’re ahead of the game. But you need to keep on top of it. Financial needs change with time, and it’s up to you to keep your policy in sync. And don’t assume you know everything it covers. For peace of mind, review it **again with your agent. Just as you don’t want to leave your family unprovided for, you want to be sure they get everything you intended—and paid for.**