The salesman may be right: You don’t have enough life insurance

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Free life insurance at work is a sweet deal. The employer pays for the coverage, and all you have to do is sign up during open enrollment for employee benefits.

But a pitfall awaits: While accepting the perk is a no-brainer, relying on it as your only coverage is risky if anyone depends on you financially.

“In many cases that coverage may not be enough,” says Todd Katz, executive vice president at MetLife.

Why you may need more life insurance

For the first time ever, more Americans are covered by employment-based life insurance than by individual policies they buy outside of work, according to LIMRA, a life insurance research and consulting group.

The troubling part? Most people rarely revisit the issue after signing up for employer-sponsored life insurance, and 44% never change their coverage, according to LIMRA research.

Rachel Podnos, a certified financial planner with Wealth Care LLC in Washington, D.C., sees that phenomenon among her clients. Asked if they have coverage, most say they have life insurance through work.

“But they don’t even know how much coverage they have,” she says. “Most of our clients come to us with inadequate life insurance.”

Typically, when employers offer life insurance benefits, the free coverage is equal to one or two times the employee’s annual salary, or it’s a small, flat amount, such as $50,000. The coverage ends when you leave the job. That’s fine if you don’t need life insurance; for instance, if you’re single and have no financial dependents or debts that would fall on others.

But you probably need more coverage if you have a family. One or two years’ worth of salary wouldn’t be enough to pay off the house, send the kids to college and support financial dependents for much time.

How to get the life insurance you need

Here’s what to do to make sure you have the right amount of coverage:

Decide if you need life insurance. Not everyone does, Podnos says. The test: If someone would suffer financially upon your death, then the answer is yes. Does anyone depend on your income? Would anyone be stuck paying off your debts?

Calculate how much coverage you need. Think about how much money your financial dependents would require if you died tomorrow. Craig Simms, senior vice president and chief marketing officer at Vantis Life Insurance Co., recommends parents buy at least enough coverage to pay off the mortgage and send their kids to a state university. In addition, decide how many years of income you’d like to replace.

Decide how long you need life insurance. There are two main types of life insurance: term and permanent, such as whole life. Term life provides coverage for a certain period, such as 10, 20 or 30 years. Permanent life insurance lasts your whole life, no matter when you die. Term life is sufficient for most people, Podnos says, and it’s affordable. Choose a term long enough to cover the years you’re raising kids and paying off debts. Ideally, at the end of the term, the kids are independent, there’s enough savings to provide for a spouse, and you no longer need life insurance.

Shop around. You can buy an individual policy through an agent or directly from an insurance company. Getting quotes online is easy, and more companies offer quick, online life insurance applications.

Many employers also offer the opportunity to buy additional term life insurance — beyond the free coverage — through their brokers. Unlike the free coverage, the life insurance you buy is usually portable, which means you keep it after leaving the job.

Buying through employer vs. on your own

Both ways of purchasing have pros and cons.

“The employer has already gone out and vetted carriers and shopped for the most competitive products,” Katz says. “It’s a very streamlined, convenient process.”

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And if you have a health condition, it may be easier to qualify for coverage through the employer than if you shopped for a policy on your own. Every employer is different, but typically you won’t have to supply any medical information if you buy the additional coverage when enrolling in benefits as a new employee, Katz says. You probably will have to answer a health questionnaire if you wait to buy additional coverage during open enrollment in later years.

The disadvantage of buying through the employer is that the coverage offered still might not fit your needs, Simms says. And if you’re young and healthy, you might find less expensive coverage elsewhere.

Katz says to ask these questions if you’re thinking about buying coverage through an employer:

- Can I buy enough to meet my needs?
- Can I keep the coverage after leaving the job?
- What will it cost now and in the future?
- What do I have to do to apply?
- Will I pay by payroll deduction or some other way?

Whether buying additional coverage on your own or through work, the key is to get enough. For the sake of loved ones, this is a decision that requires more than just checking a box during open enrollment.

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