

Don't Overlook the Benefits of Life Insurance

By

Denise M. Clelan, ChFC

Douglas R. Clelan, CLU, ChFC

Ask people what they think about life insurance, and their initial reaction will often be negative. Yet ask someone who has been the recipient of life insurance proceeds how he feels, and your ear will be filled with stories of honor restored and promises kept. So, if the benefits of life insurance are so great, why the dismal reaction by so many? We contend that there are three primary reasons why life insurance is the product we love to hate.

First, life insurance has become a complicated product. Gone are the days when two pure and simple types of life insurance existed – term and whole life. Now, you're confronted with an array of choices, including various term products, whole life, blended whole life, adjustable life, universal life, variable life, etc.

Natural human reaction is to reject that which we don't understand as unnecessary. And so it often is with life insurance. Second, we have a million other things we would rather do with our hard-earned money than buy life insurance. Rather than taking the time to really understand the living benefits of life insurance and how they can enhance our future financial security, we tend to think of it as yet another unnecessary monthly expense.

Finally, we don't like purchasing life insurance because we don't want to think about our own mortality. Somehow buying the life insurance we desperately need becomes almost an omen – an admission of our own mortality, which is something we don't want to confront.

Despite these issues, many of us have choked it up, toughed it out and have made the sacrifice necessary to assure our family of financial security in case we don't make it to old age. But do you know if you have the right amount of coverage? Is the type of policy you own appropriate for your needs? The answers to these questions are dubious at best. If your family relies on your income and you don't have other substantial liquid assets, you probably need a considerable amount of life insurance. There are many formulas available to calculate the precise amount of coverage you should own.

Your life insurance agent can obtain detailed information about your current financial situation and your personal objectives and then can provide you with a specific number. However, as a quick reference point, we suggest you think in terms of the income that a lump sum of money would actually provide. For instance, if you wanted to assure your family of \$50,000 of annual income after taxes and inflation, they need about \$1 million, and you have a fairly good idea how much life insurance you would need.

Determining the type of life insurance coverage you should own is a little more complicated. There are two basic types of coverage, but a number of subtypes.

Term insurance is coverage which is designed to last for a “term” of time. It is essentially temporary coverage. You can purchase term life insurance with a level death benefit and increasing premium payments or with a decreasing death benefit and level premium payments. The latter is often used to cover a mortgage or other declining debt, but it is not as popular since the advent of universal life and other flexible premium products. Level death benefit term life insurance can be purchased with annually increasing premiums, or premiums which increase after a certain period of years. For instance, there is a five-year, 10-year, 15-year, etc. term insurance which typically provides a specified and guaranteed premium for that period of time. Following the expiration of that term, however, the premiums often become prohibitively expensive.

Term insurance is particularly useful if you have a short term need for insurance protection or if you have a need for a large amount of life insurance and do not have adequate cash flow to purchase all permanent protection. It used to be that whole life insurance was the only type of permanent insurance available. Whole life insurance requires a set premium payment and guarantees your coverage to age 100, assuming you continue your premiums.

Within the last two decades, significant strides have been made in the life insurance business, offering customers a potpourri of other options. Universal life, adjustable life, blended whole life and variable life insurance products have all come about as a result of consumers' desire for greater flexibility and control. Each of these products has its own unique set of advantages, but they also have limitations. For instance, many of these products allow you to pay lower premiums than you would have paid for a traditional whole life insurance product. With this lower premium requirement comes the responsibility of understanding that your policy does not carry with it a guarantee of coverage to age 100.

Instead, the continuation of the policy is subject to various assumptions, including the interest or other earnings rate on the product, the cost of insurance and others. Because of the complicated nature of these various tools, it is essential that you work with a competent life insurance agent who is willing to thoroughly discuss the various products and guide you in the decision-making process. Life insurance can be one of the most beneficial assets you own, not only for its death benefit but for its living benefit as well. Because it enjoys favorable income tax treatment, life insurance can serve as a unique and appealing mechanism for accumulating money for college education funds, retirement goals and other long-term objectives.

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