What you need to know about life insurance

LIFE℠
A NONPROFIT ORGANIZATION

Chances are, you need life insurance

Life insurance is a simple answer to a very difficult question: How will my family manage financially when I die?

It's a subject no one really wants to think about. But if someone depends on you financially, it's one you cannot avoid.

There are many types of life insurance, but for all of them the bottom line is the same: It pays cash to your loved ones after you die, replacing your income and allowing the financial plans you put in place to continue uninterrupted. Life insurance payments can be used to cover daily living expenses, mortgage payments, outstanding loans, college tuition and other essential expenses. And, importantly, the death benefit proceeds of a life insurance policy are almost never subject to federal income taxes.

If you've worked hard to establish a solid financial framework for your family—investments, home equity, a savings plan, retirement accounts—life insurance is the foundation upon which it all rests. It can guard against the need to make drastic changes to future plans if the unexpected occurs. Certain types of life insurance even have a built-in savings feature that can help you reach asset accumulation goals.

Most Americans need life insurance, and many who already have it may need to update their coverage. This guide will help you sort through your options and show you how to find a plan that's right for you and your family.

Common Excuses That Shouldn't Stop You From Getting the Coverage You Need

"It's Too Expensive."
Not having any or enough life insurance coverage could be more costly to your family.

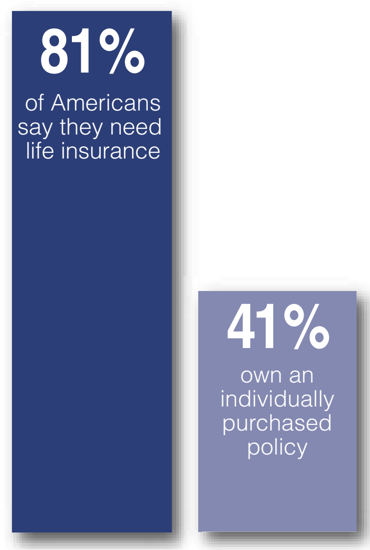
"I Haven't Gotten Around to It."
There are no guarantees in life, so don't procrastinate.

"I Prefer to Put My Money Elsewhere."
Might work if you're sure you're going to live a nice long life.

"I Worry About Making the Wrong Decision."
A qualified insurance professional can answer all your questions and guide you through the buying process.

"The Coverage I Have Through My Employer Is Sufficient."
Typically, employers provide a modest amount of coverage, and it can be costly to take with you when you leave.

DON'T HAVE LIFE INSURANCE? You're not alone.



Sources: Life and Health Insurance Foundation for Education; LIMRA International

LIFE
A NONPROFIT ORGANIZATION

This brochure is a service of the Life and Health Insurance Foundation for Education, a nonprofit organization dedicated to helping consumers make smart insurance decisions to safeguard their families' financial futures. **Learn more at www.life-line.org.**

Insuring the times of your life

If someone depends on you financially, you probably need life insurance. Here are some examples of specific life stages or life events that might trigger the need for life insurance.

Married or Getting Married

Most families depend on two incomes to make ends meet. If you died suddenly, would your spouse have enough money to cover your funeral costs, credit card balances, outstanding loans and daily living expenses?

A Parent or About to Become One

Raising a child is arguably the most rewarding thing a person can do in life. But it's also one of the most expensive. If you died tomorrow, would your spouse have the financial wherewithal to provide your children with the opportunities you always dreamed they'd have? From diapers to diplomas, would there be enough income to pay for day care, a college education and everything in between? Even parents who don't work outside the home need life insurance because they provide services that would be expensive to replace, such as child care, transportation and household chores. And what about single parents? They need life insurance more than anyone because their children rely on them for everything.

A Homeowner

If you're like most people, your home is your most significant financial asset. Life insurance can protect your investment and spare your family the disruption of being forced to find a new, less expensive place to live. Plus, it can provide the funds needed to help family members maintain the lifestyle to which they're accustomed.

Changing Jobs

If you've recently been promoted or changed jobs, it's a good time to re-evaluate your life insurance coverage. Why? You may not realize it, but when your income rises, your spending tends to rise, too. Updating your life insurance coverage can help ensure that your family would be able to maintain its new and improved lifestyle if something were to happen to you.

Retired or Planning for Retirement

If your children are on their own and your mortgage is paid off, you might feel your need for life insurance has passed. But if you died today, your spouse could outlive you by 10, 20 or 30 years. It's certainly possible nowadays. Would your spouse have to make drastic lifestyle adjustments to make ends meet? Adequate life insurance coverage can help widows and widowers avoid financial struggles in retirement.

Single

Most single people don't have a pressing need for life insurance because no one depends on them financially. But there are exceptions. If you're providing financial support for aging parents or siblings, or if you're carrying significant debt you wouldn't want passed on to family members, you should consider life insurance.

How much do you need?

The toughest part of buying life insurance is determining how much you need. Since everyone's financial circumstances and goals are different, there is no rule of thumb that can tell you with any precision how much to buy. But with a little bit of effort you can come up with a good estimate that takes into account your specific financial situation.

The best way to determine your life insurance needs is to have an insurance professional conduct what's called a Financial Needs Analysis.

Here's how it works. You'll start by gathering all of your personal financial information and estimating what your family members would need after you're gone to meet current and future financial obligations *(see right)*.

Next, tally up all of the resources that your surviving family members could draw upon to support themselves. The difference between their needs and the resources in place to meet those needs is your need for additional life insurance *(see below)*.

This mathematical equation seems simple enough, but coming up with all the inputs can get tricky. Plus, you'll need to factor in the effects of inflation and assumptions about how much your investments will earn over the long run.

For an estimate that takes all these variables into account, you can visit a variety of insurance needs calculators on the Internet (including one from the nonprofit Life and Health Insurance Foundation for Education at www.life-line.org). Just remember that online calculators are no substitute for the advice you'll get by meeting with a qualified insurance professional.

Calculating Your Life Insurance Needs

Current and future financial obligations − Spouse's earnings, savings, investments and life insurance you already own = **Life Insurance Needed**

How Much Is Enough?

The average insured adult American has roughly $176,000 in life insurance coverage, or about three times his or her gross annual income.* When you consider all the things that life insurance proceeds need to fund and how long the money will be needed, you begin to realize that your true need for coverage is often 10, 15 or even 20 times your gross annual income.

Life Insurance Proceeds Can Help Fund Many Types of Expenses

Immediate Expenses
- ✓ Funeral costs
- ✓ Uncovered medical expenses
- ✓ Mortgage and other debt
- ✓ Taxes
- ✓ Estate settlement costs

Ongoing Expenses
- ✓ Food
- ✓ Housing
- ✓ Utilities
- ✓ Transportation
- ✓ Health care
- ✓ Clothing
- ✓ Insurance

Future Expenses
- ✓ College
- s✓ Retirement

*Source: LIMRA International

Life insurance needs worksheet

This worksheet can help you get a general sense of how much life insurance you need to protect your family. However, you should consult with an insurance agent or other financial advisor before buying any insurance products. The worksheet assumes you died today.

Income

1. **Total annual income your family would need if you died today** $____________
What your family needs, before taxes, to maintain its current standard of living
(Typically between 60% - 75% of total income)

2. **Annual income your family would receive from other sources** $____________
Spouse's earnings (Social Security may be available)

3. **Income to be replaced** - Subtract line 2 from line 1 $____________

4. **Capital needed for income** - Multiply line 3 by appropriate factor in Table A $____________

Expenses

5. **Funeral and other final expenses** $____________
Typically the greater of $15,000 or 4% of your estate

6. **Mortgage and other outstanding debts** $____________
Include mortgage balance, credit card debt, car loans, etc.

7. **College costs for each child, in today's dollars** $____________
2004-2005 average 4-year costs; Private $118,602; Public $48,938[1]

8. **Capital needed for college** - Multiply line 7 by the appropriate factor in Table B $____________

9. **Total capital required** - Add lines 4, 5, 6 and 8 $____________

Assets

10. **Savings and investments** $____________
Bank accounts, money market accounts, CDs, stocks, bonds, mutual funds, etc.

11. **Retirement savings** $____________
IRAs, 401(k)s, Keoghs, pension and profit sharing plans

12. **Present amount of life insurance** $____________
Include group insurance as well as insurance purchased on your own

13. **Total income producing assets** - Add lines 10, 11 and 12 $____________

14. **Life insurance needed** - Subtract line 13 from line 9 $____________

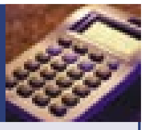
Table A

Years income needed	Factor
10	8.8
15	12.4
20	15.4
25	18.1
30	20.4
35	22.4
40	24.1

Table B

Years before college	Factor
5	.85
10	.74
15	.64
20	.56

Prefer to Use an Online Calculator?



☛ Visit the nonprofit LIFE Foundation's life insurance needs calculator at ***www.life-line.org/lifecalculator***. It will ask you for similar inputs and will even allow you to vary certain assumptions like the investment rate of return and inflation rate.

Important note: Inflation is assumed to be 3%. The rate of return on investments is assumed to be 6%. Changing either or both of these assumptions would change the results. [1]*Annual Survey of Colleges*, **The College Board, 2005.**

What kind should you buy?

The most basic feature of a life insurance policy is the death benefit: the lump-sum payment your beneficiaries would receive if you die. It's the core reason to own life insurance—but not the only one. Some types of life insurance offer other features that might play an important role in your financial game plan, such as the ability to accumulate cash value that grows over time.

Term or Permanent

	Term	Permanent
Length of coverage	A specified term, typically 20 years.	Until age 100 or later, as long as premiums are paid.
Premiums	Based on your age and health, but typically lower than those of permanent insurance.	Initially higher than term premiums, but often level for life.
Cash value	None.	Accumulates over time on a tax-deferred basis.
Key advantage	Typically offers the highest death benefit for the lowest cost.	Offers lifelong protection and tax-deferred savings.

Term Insurance

Life insurance that pays only a death benefit is called term insurance. It provides protection for a specific period of time—the "term"—and is designed for temporary circumstances. It makes the most sense when your need for coverage will disappear at some point, such as when your children graduate from college or when a debt is paid off. The most common term policies provide coverage for 20 years, but they can run the gamut from one-year policies to terms of 30 years or even longer. Typically, term insurance offers the greatest amount of coverage for the lowest initial premium and is a good choice for young families on a tight budget.

Permanent Insurance

Permanent insurance offers lifelong protection, and you can accumulate cash value on a tax-deferred basis. This cash account can be used for a variety of purposes, from helping you out of a tight financial spot, to providing funds to take advantage of an opportunity, to supplementing your retirement income. The downside? Initial premiums are considerably higher than what you would pay for a term policy with the same face amount.

Permanent insurance falls into four main categories. **Whole life** is the simplest and most common option. Premiums remain fixed for life, and the death benefit and rate of return on your cash value are guaranteed. With **variable life**, you can seek potentially better returns by allocating your fixed premiums among stocks, bonds and guaranteed-return accounts. **Universal life** offers the flexibility of varying the amount of your premium payments. It also offers the certainty of a guaranteed minimum death benefit as long as your premiums are sufficient to sustain it. If you do not maintain those minimum premiums, your death benefit can be reduced. **Variable universal life** premium payments are also adjustable after the first one, subject to the minimum needed to keep the policy in force, and you can allocate them among investments that offer varying degrees of risk and reward.

Features Unique to Permanent Insurance

Access to Cash
A policy's cash value can be surrendered, in total or in part, for cash that can be put toward important uses like a child's education, a business opportunity or supplemental retirement income. Also, you can borrow from your insurer at favorable rates—without credit checks or other restrictions—and use the cash value as collateral.

Flexibility
If you need to stop paying premiums, the cash value can keep your insurance protection in force for a period of time.

Guaranteed Coverage
As long as you pay your premiums, you'll have the coverage for life and won't need to worry about being unable to afford coverage if your health deteriorates.

Stable Premiums
With many types of permanent insurance, premiums will remain constant or stable over your lifetime. With term insurance, premiums will increase substantially as you age.

Tax Advantages
Cash value accumulates on a tax-deferred basis, just like assets in most retirement and college savings plans.

3 ways to buy life insurance

Through an Insurance Professional

Most people need help conducting the kind of detailed financial assessment needed to determine how much life insurance to buy. That's why they usually turn to an insurance agent or other financial advisor, a licensed expert who knows the right questions to ask to determine how much and what kind of insurance is right for you.

At Work

Many workplace benefits packages include an employer-paid basic life insurance benefit, often equal to one or two times your annual salary. While it's nice to have, it might not be enough to cover your needs and you typically can't take it with you. If you want additional coverage, you may be able to purchase it through your employer, or you can buy it on your own.

Direct Purchasing

You can purchase coverage via the Internet, over the phone or by mail. The better services, however, won't allow you to complete the purchasing process until you've spoken with a qualified insurance agent. Buying through a service where the onus is entirely on you to figure out which policy is right for you only makes sense when you're very confident that you know what you need. Also, keep in mind that typically only term insurance is available through direct-buying channels.

Smart Buying Tips

Don't rush into a decision. Make sure you fully understand any policy you are considering.

You have a "free look" period of 10 to 30 days after your purchase, during which time you can change your mind. Use the time to carefully read over your policy.

When you replace one policy with another you incur new costs and fees. That's why, generally speaking, it's in your best interest to keep a policy you already have and add on to your insurance protection instead of replacing an existing policy. If you do decide to cancel a policy, contact the original agent or company first to make sure you fully understand the financial ramifications.

If you have a concern or complaint, start with your insurance agent, who can often troubleshoot problems for you. If you're still dissatisfied, most state insurance departments have a consumer affairs division that handles complaints, or you can contact your insurance company's customer service division.

Review your coverage every few years, or when changes occur, such as purchasing a home or having children. An insurance professional can help you make sure your coverage is always aligned with your needs.

How to Find the Right Insurance Professional

- ***Get referrals from friends,*** relatives or a trusted advisor, such as a lawyer or accountant.
- ***Interview at least two agents*** to establish a basis for comparison.
- ***Find out about specialties*** to make sure the agent is an expert in the advice and products you need.
- ***Ask about education and training***. Professional designations, such as Chartered Life Underwriter (CLU), Chartered Financial Consultant (ChFC) and Certified Financial Planner (CFP®), indicate the agent has completed advanced training courses and is serious about professional growth and development.
- ***Work with an agent*** who is a member of a professional association such as the National Association of Insurance and Financial Advisors, which means he or she adheres to a stringent code of ethics.

© Ariel Skelley/CORBIS

LIFE INSURANCE ISN'T FOR THE PEOPLE WHO DIE. IT'S FOR THE PEOPLE WHO LIVE.

Dorsey Hoskins' father Bryan felt a tingling in his arm. The diagnosis—an inoperable brain tumor. Six months later, he died at the age of 33, leaving his wife to raise Dorsey and her sister Hattie.

Fortunately, Bryan bought life insurance when he married, and again when his daughters were born. Thanks to Bryan's foresight, Dorsey, Hattie and their mom are taken care of.

Are you prepared should the very worst happen? Without adequate life insurance, your financial plans may be just a savings and investment program that dies when you do. Consult a qualified insurance professional to help you create a plan that will continue to provide for the ones you love.

LIFE℠
A NONPROFIT ORGANIZATION
www.life-line.org

The Life and Health Insurance Foundation for Education is a nonprofit organization dedicated to helping consumers make smart insurance decisions to safeguard their families' financial futures. For more information about life insurance or tips on finding a qualified insurance professional, visit www.life-line.org or call 1 888-LIFE-777.

Dorsey Hoskins