Life Insurance Is Key Component of a Family Financial Plan

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NEW YORK, November 5, 2010 â€" Life insurance policies offer essential financial protection for families, especially those with school-age children, against a rare but potentially devastating event, the premature death of a householdâ€™s primary wage-earner. Yet a recent nationwide study found that the number of households covered by individual life insurance has decreased, according to the Insurance Information Institute (I.I.I.).

â€œYou need life insurance coverage if you are the primary wage earner in a household, or if someone relies on you financially,â€• said Michael Barry, the I.I.I.â€™s vice president, Media Relations. â€œAnd the premium payments are reasonable when you consider the level of protection a policyholderâ€™s beneficiaries receive.â€•
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According to LIMRA, its upcoming 2010 *Trends in Life Insurance Ownership* study indicates that 11 million U.S. households with children under the age of 18 have no individual life insurance policyholder in the family. LIMRA says in the same report that individual life insurance coverage in the U.S. has hit a 50-year low.
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LIMRA does note that one in four U.S. households in 2010 had a wage earner who was covered under a group life insurance policy, often secured through their employer. The economic downturn of 2008 and 2009, however, has had an impact in this area, too, because these wage earners often lose their only life insurance coverage if they become unemployed or have their work hours reduced.Â
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In the absence of an individual or group life insurance policy, a deceased wage earnerâ€™s spouse and school-age beneficiaries may need to rely largely on Social Security survivor benefits as their main source of income.
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Those in the market for life insurance need to know there are two major types of policies: Term and Permanent.Â

- **Term insurance** is a form of life insurance that pays out only if the death occurs during the â€œtermâ€• of the policy, which is usually anywhere from one to 30 years. The premium rates for term policies are comparatively less expensive than they used to be, as Americans as a whole live longer and healthier lives.

  If you are buying a short-term life insurance policy (under 10 years), look for renewal guarantees. A renewal guarantee gives you the right to start a new term after the current one ends. You will pay a higher premium based on your current age, but will not be required to undergo a new health exam nor submit any other â€œevidence of insurability.â€• Without the renewal guarantee, you would have to start from scratch when applying for a policy and, if your health has deteriorated in the interim, you might end up paying significantly higher premiums or not getting coverage at all.Â

- **Permanent life insurance** encompasses several subcategories, including traditional whole life, universal life, variable life and variable universal life. Unlike term life, permanent policies remain in force as long as the premium is paid, and some policies accumulate a cash value. The premium rates for whole life policies have generally remained stable in recent years.Â

â€œLook for a policy that meets your needs,â€• said Barry. â€œThere are ways to save money when buying life insurance but they don't always involve paying a lower premium immediately.â€•
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The I.I.I. offers the following tips to maximize your life insurance dollars when buying a policy:

Before You BuyÂ

1. **Assess the quality of the company**
   An insurance policy is only as good as the company that backs it. You should make sure that the company that issues your policy will be around to service it and eventually to pay the death claim. There are several ratings agencies that assess insurance companies on their ability to remain financially sound over the long term. A rating represents an independent assessment of the insurer's ability to pay its claims on time and meet all its other financial obligations; reviewing these ratings can help you find a financially strong company. It is a good idea to look at least two of the four leading ratings agencies: A.M. Best, Fitch, Moody's and Standard & Poor's. The I.I.I. also offers guidance on selecting the right life insurance company: How do I pick a life insurance company?
2. **Look into group insurance**
   Consider participating in your employer-sponsored group life insurance program, even if you have to contribute to it financially. Policies available through the workplace often have the advantage of group rates and limited medical underwriting. Employers may subsidize their group insurance costs as well. It is worth exploring what is available to you through the workplace and comparing it to coverage available to you as an individual. In comparing group to individual life insurance, remember that if you have over $50,000 of group life insurance, the Internal Revenue Service (IRS) determines how much it costs to provide the amount over $50,000 and imputes taxable income for that cost. If you are in your fifties or older, or are buying larger amounts of life insurance coverage, it is worth taking these IRS rules into consideration.
3. **Buy when you are healthy**
   Find out which rate class you will be grouped into and, if necessary, consider making some lifestyle changesâ€”not smoking, maintaining a healthy weight and exercising regularlyâ€”to qualify for a more favorable rate class. Buy when you are younger and healthier, if possible. Older people and those not in the best of health pay steeply higher rates for life insurance, so buy as early as you can once you have dependents.

WHEN YOUâ€™RE READY TO BUY

1. **Donâ€™t Shop Around on the Basis of Price Alone**
   While life insurance is a very competitive business, and you may find differences of hundreds of dollars in annual premiums among similar companies for the same face-value policy, it is important to consider the additional features that a policy may have as well as the insurerâ€™s overall reputation. The guaranteed cash value component of a higher-premium life insurance policy, for instance, may

justify the additional expenditure on the policyholderâ€™s part. When comparing policies, Internet quotes and online research can be a good place to start. You can also ask an agent or broker to get you a premium estimate for several life insurance companies.Â

2. **Look for premium discounts**
   Most companies offer rate discounts for specified insurance amounts. For example, you might actually pay a lower rate per dollar of coverage for $250,000 of life insurance than for $200,000, or for $500,000 of life insurance than for $450,000, because a discount kicks in at the higher insurance amount.
3. **Beware of â€œfractional premiumsâ€•**
   Typically, you can pay your annual life insurance premium in a single payment, or in smaller amounts more frequently during the year. Although the latter method might seem easier, some companies add steep charges for paying premiums in installments.

The I.I.I.â€™s Life Insurance Basics covers many of these issues in more detail, and the I.I.I. has two videos on the subject of life insurance. One highlights the issues prospective policyholders need to consider before buying a policy, and the other offers guidance on tracking down a lost life insurance policy. The Life and Health Insurance Foundation for Education (LIFE) is an excellent resource on this topic, as well.
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