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Protecting Your Loved Ones with Life Insurance

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How much life insurance do you need?

Your life insurance needs will depend on a number of factors, including the size of your family, the nature of your financial obligations, your career stage, and your goals. For example, when you're young, you may not have a great need for life insurance. However, as you take on more responsibilities and your family grows, your need for life insurance increases.

Here are some questions that can help you start thinking about the amount of life insurance you need:

- What immediate financial expenses (e.g., debt repayment, funeral expenses) would your family face upon your death?
- How much of your salary is devoted to current expenses and future needs?
- How long would your dependents need support if you were to die tomorrow?
- How much money would you want to leave for special situations upon your death, such as funding your children's education, gifts to charities, or an inheritance for your children?
- What other assets or insurance policies do you have?

Types of life insurance policies

The two basic types of life insurance are term life and permanent (cash value) life. Term policies provide life insurance protection for a specific period of time. If you die during the coverage period, your beneficiary receives the policy's death benefit. If you live to the end of the term, the policy simply terminates, unless it automatically renews for a new period. Term policies are typically available for periods of 1 to 30 years and may, in some cases, be renewed until you reach age 95. With guaranteed level term insurance, a popular type, both the premium and the amount of coverage remain level for a specific period of time.

Permanent insurance policies offer protection for your entire life, regardless of your health, provided you pay the premium to keep the policy in force. As you pay your premiums, a portion of each payment is placed in the cash value account. During the early years of the policy, the cash value contribution is a large portion of each premium payment. As you get older, and the true cost of your insurance increases, the portion of your premium payment devoted to the cash value decreases. The cash value continues to grow--tax deferred--as long as the policy is in force. You can borrow against the cash value, but unpaid policy loans will reduce the death benefit that your beneficiary will receive. If you surrender the policy before you die (i.e., cancel your coverage), you'll be entitled to receive the cash value, minus any loans and surrender charges.

Many different types of cash value life insurance are available, including:

- Whole life: You generally make level (equal) premium payments for life. The death benefit and cash value are predetermined and guaranteed (subject to the claims-paying ability of the issuing insurance company). Your only action after purchase of the policy is to pay the fixed premium.
- Universal life: You may pay premiums at any time, in any amount (subject to certain limits), as long as the policy expenses and the cost of insurance coverage are met. The amount of insurance coverage can be changed, and the cash value will grow at a declared interest rate, which may vary over time.
- Index universal life: This is a form of universal life insurance with excess interest credited to cash values. But, unlike universal life insurance, the amount of interest credited is tied to the performance of an equity index, such as the S&P 500.
- Variable life: As with whole life, you pay a level premium for life. However, the death benefit and cash value fluctuate depending on the performance of investments in what are known as subaccounts. A subaccount is a pool of investor

A note about variable life and variable universal life insurance

Variable life and variable universal life insurance policies are offered by prospectus, which you can obtain from your financial professional or the insurance company. The prospectus contains detailed information about investment objectives, risks, charges, and expenses. You should read the prospectus and consider this information carefully before purchasing a variable life or variable universal life insurance policy.

funds professionally managed to pursue a stated investment objective. You select the subaccounts in which the cash value should be invested.

- Variable universal life: A combination of universal and variable life. You may pay premiums at any time, in any amount (subject to limits), as long as policy expenses and the cost of insurance coverage are met. The amount of insurance coverage can be changed, and the cash value goes up or down based on the performance of investments in the subaccounts.

With so many types of life insurance available, you're sure to find a policy that meets your needs and your budget.

Choosing and changing your beneficiaries

When you purchase life insurance, you must name a primary beneficiary to receive the proceeds of your insurance policy. Your beneficiary may be a person, corporation, or other legal entity. You may name multiple beneficiaries and specify what percentage of the net death benefit each is to receive. If you name your minor child as a beneficiary, you should also designate an adult as the child's guardian in your will.

What type of insurance is right for you?

Before deciding whether to buy term or permanent life insurance, consider policy cost and potential savings that may be available. Also keep in mind that your insurance needs will likely change as your family, job, health, and financial picture changes, so you'll want to build some flexibility into the decision-making process. In any case, here are some common reasons for buying life insurance and which type of insurance may best fit the need.

Mortgage or long-term debt: For most people, their home is one of their most valuable assets and also the source of their largest debt. An untimely death may remove a primary source of income used to pay the mortgage. Term insurance can replace the lost income by providing life insurance for the length of the mortgage. If you die before the mortgage is paid off, the term life insurance pays your beneficiary an amount sufficient to pay the outstanding mortgage balance owed.

Family protection: Your income not only pays for day-to-day expenses, but also provides a source for future costs such as college education expenses and retirement income. Term life insurance of twenty years or longer can take care of immediate cash needs as well as provide income for your survivor's future needs. Another alternative is cash value life insurance, such as universal life or variable life insurance. The cash value accumulation of these policies can be used to fund future income needs for college or retirement, even if you don't die.

Small business needs: Small business owners need life insurance to protect their business interest. As a business owner, you need to consider what happens to your business should you die unexpectedly. Life insurance can provide cash needed to buy a deceased partner's or shareholder's interest from his or her estate. Life insurance can also be used to compensate for the unexpected death of a key employee.

Review your coverage

Once you purchase a life insurance policy, make sure to periodically review your coverage--over time your needs will change. An insurance agent or financial professional can help you with your review.