

Coverage Corner

Life Insurance “101”

Probably the most frequent question I am asked by potential life insurance clients is; “How much life insurance do I need?” I really can’t answer that question so I often ask back; “Why do you want life insurance?” By giving careful consideration to the “why” you can begin to answer your original “how much” question.

The most common need for life insurance is income replacement. In other words, the death benefit of the life insurance policy will be used to replace the years of lost income of a deceased spouse. If income replacement is the answer we plug in a new set of questions. For example: What is the income you need to replace and for how long? If you have a mortgage how much and how long is it for? Are there other loans? How old are the kids? How will you pay for the kid’s college? Etc., etc., etc. until we put together a number that works.

A very simple answer to the “why and how much” questions is the loan repayment answer. When I bought my agency from my ex-partner my new life insurance need was quite clear. I bought a 10 year term life insurance policy equal to the amount I owed so if something happened to me my wife could pay the loan immediately. At the end of the 10 years my policy and premium payments ended along with my loan payments.

A third important life insurance need is as part of an estate plan. In this scenario the life insurance death benefit (usually owned by a trust or other entity that is not the insured) is used to generate cash to pay the taxes due on the insured’s estate. This type of policy is usually written as part of a complete estate plan prepared by a professional estate planner. Estate planners and financial planners are very useful and should be consulted for any but the simplest life insurance plans.

I have only scratched the surface of this complicated subject. In “insurance 102” we can begin to investigate what type of insurance product should be used to satisfy the needs you identified.

Don’t despair! This is not as complicated or difficult as it sounds. With the help of a good life insurance agent and, if needed, the advice of a qualified financial planner or attorney, you can put your life insurance plan in place. But finally, please remember: It

is better to do something and get a slightly imperfect plan in place than to do nothing.

Thank you for reading and participating and remember “don’t be cornered by your coverage.”

This column is strictly for general insurance information please consult your local agent for the specifics of your insurance program.

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