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Life insurance needs rise as trends change. The time is right to review your risk and protect your life.

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INTRODUCTION

The U.S. economic recession of recent years has touched all Americans, and the working middle class has been especially hard hit. The market is healing, yet job prospects remain limited, wages are idle, and savings, investments and home values are low.

In this environment, consumers have had to reconsider their definition of financial security. Some have changed their behaviors to spend less, pay off debts and build emergency savings. Yet many more millions are missing out on true financial security because they don't have enough—if any—life insurance protection.

Solutions for life

Life insurance is a simple, affordable way for individuals and families to protect their present lifestyle and strengthen their future stability. Life insurance products are known to give consumers more choices, more control and more total protection.

While most people acknowledge their need for life insurance, ownership of such policies ironically remains at 50-year lows.[1] LIMRA, an international association that provides research and consulting services in the financial services industry, reports that less than half of middle-market consumers have individual life insurance[2] and one-third have no life insurance at all.[3] At the same time, the average amount of coverage has declined to $167,000—down 16% from a decade ago.[4]

At a time when more people need life insurance, why aren't they making it part of their financial plan? Some experts believe the sluggish economy forced consumers to cut all costs, even ones that contribute to their immediate and long-term well-being.

Another issue is education. Many people haven't considered the tragic impact on their family's finances if a wage-earner passed away prematurely.

According to LIMRA research, one-third of Americans would have immediate trouble paying everyday living expenses if their household's primary breadwinner died. Half could keep up with bills only a short time—up to six months at the most.[5]

Young families have the greatest financial risk, as they generally have little savings to fall back on. These families also have higher debt and lower salaries and savings. Rather than seeking out solutions, they've put off making decisions, perhaps because they lack knowledge of financial security products like life insurance.

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REVIEW YOUR RISK

As trends change, life insurance needs rise. Americans of all ages and income levels are wise to think about the future and begin planning now for long-term security. This is especially true for families who struggle to pay their mortgages and other debts, obtain stable jobs, save for college and pay food, fuel and utility bills.

"Why DO you have life insurance?"

LIMRA surveyed individuals who already own life insurance and asked them to name their reasons for purchasing coverage.[6]

Top reasons for purchasing life insurance	
Cover burial and final expenses	89%
Replace lost wages and income	61%
Transfer wealth and leave an inheritance	59%
Help pay off the mortgage	51%
Pay estate taxes and ensure estate liquidity	45%
Pay for home expenses	43%
Supplement retirement	42%
Save and invest with tax advantages	32%

"Why DON'T you have life insurance?"

While Americans may see the value and importance of life insurance, too many households still lack sufficient coverage. Why?

The most common reason given is the perceived cost. In a study, 63% described life insurance as "too expensive." Interestingly, consumers also grossly overestimate the cost of coverage—assuming the price is nearly three times more than it actually is. Younger consumers are most likely to make this assumption, yet they usually can qualify for cost-effective preferred rates due to their age and health status.[7]

Consumers also say they aren't adequately insured because retirement needs and other financial priorities come first. According to research, nearly 70% of consumers say regular cost-of-living expenses keep them from buying needed life insurance. More than 50% say extra living expenses, such as internet, cable and personal electronic device costs, take precedence over life insurance.[8]

TRADITIONS AND TRENDS

Consumers who don't have enough life insurance may be getting tripped up by three common myths. Below, find the truth behind each of these misconceptions.

Myth No. 1:
Life insurance is only for the wealthy.

The truth is that wealthy people are less likely to need life insurance because they may have sufficient liquid assets to pay final expenses and maintain their lifestyle in the event of premature death.

Fact: *Most of the people who most need life insurance are solidly middle class.*

Myth No. 2:
Life insurance is just for older people.

As people age, they tend to earn more and save more. These two factors add up to less need among seniors for life insurance.

Fact: *Young people on average earn less and save less. And half of all Americans would feel the financial impact within six month if a primary wage-earner in their home passed away—and young people believe they'd feel the impact much sooner.*[9]

Beneficiary: The person or party named by the life insurance policyowner to receive the policy's death benefit.

Cash value: The savings element attached to a permanent life insurance policy. The policyowner is entitled to receive the cash value when the policy does not remain in force until the insured person's death. Other terms for cash value are "cash surrender value" and "surrender value."

Death benefit: The dollar amount paid to the beneficiary when the insured person dies while a life insurance policy is in force. The death benefit may differ from the face amount. (If an insured borrows against a permanent life policy's cash value, for example, the death benefit is equal to the face amount minus the outstanding loan balance.)

Group insurance policy: An insurance policy purchased to cover a specific group of people—e.g., the employees of an organization.

Individual insurance policy: An insurance policy that covers the life of a named person. Some policies also insure the named person's immediate family members or a second named person.

Insured: The person whose life is insured by the policy.

Policyowner: The person or business that owns an insurance policy.

Premium: The specified amount of money an insurer charges in exchange for its promise to pay a policy benefit when a specified loss occurs.

Myth No. 3:
Life insurance is for men.

Men traditionally have been the target customer in life insurance sales. Yet women tend to have a greater need for life insurance. In 40% of U.S. households with children, a mother is either the sole or primary wage-earner for the family. Women with life insurance have coverage amounts equal to just 69% of the average coverage for men.[10]

Fact: *Life insurance is equally important for single mothers, two-income households and women who stay home with their children. In fact, the average at-home mom's services are valued at $118,905 a year, according to Salary.com's 2014 survey.[11] If she passed away, her family may struggle financially to arrange these and other services. No matter their income level, age or gender, all individuals should consider including life insurance in their financial plan.*

LIFE INSURANCE DEFINED

Life insurance is available in several forms, each with different features. The two main categories are term and permanent. A term policy covers an individual for a specified period—typically 10, 20 or 30 years—while the permanent policy is designed to cover his or her entire life. Both types pay a death benefit when the insured person passes away. The beneficiary can use the money as needed to replace lost income, pay off debt, save for future needs and similar objectives.

Types of life insurance

Term

Term life insurance generally pays a higher death benefit at a lower cost. If the insured person dies during the term, the death benefit is paid to the named beneficiary. Term insurance is a common choice for young individuals, growing families and those who prefer to have insurance protection for a specific timeframe.

Permanent

Permanent life insurance, also called whole life, costs more than term because covers the insured over a longer period of time for a level premium. Permanent life insurance also has a cash value that can accumulate over time. The insured person can take withdrawals or loans against the cash value to pay college tuition, medical bills or other expenses, or even supplement retirement income.

A variation is called ***universal life***. This type of coverage lets the policyholder adjust the death benefit amount as his or her needs change. The policyholder also can control the amount and timing of premium payments. An ***indexed universal life*** policy can link, in part, the interest credited under the policy to the performance of an external index. The cash value will never decrease strictly due to decreases in the external index, yet the credited interest rate is guaranteed never to be less than the guaranteed minimum interest rate. This design enables the policyholder to benefit from market growth without losing value because of downturns.

Variable life is another form of whole life insurance. Here, the policy's death benefit and cash value fluctuate according to the investment performance of a separate account. ***Variable universal life*** insurance is a hybrid policy. It combines the premium and death-benefit flexibility of universal life with variable life's investment flexibility and risk.

At first glance, life insurance can seem complex. But with a little education, the features and benefits become apparent.

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WHY IS LIFE INSURANCE SO VITAL?

$13,394

The average annual cost to raise a child in a middle-income, two-parent household[16]

$156,474

The average mortgage balance in the U.S.[17]

$33,424

The average student loan debt[18]

$15,480

The average amount of credit-card debt per household[19]

$17,860

The average annual tuition at a public four-year college[20]

$8,343

The average cost of a basic adult funeral, not including cemetery, monument, flowers and obituary expenses[21]

LIFE EVENT TRIGGERS

Your own insurance needs will vary according to your age and stage in life. When you get married, buy a home, become a parent or change careers, your financial risk and needs are affected. A periodic needs assessment can help ensure your coverage remains adequate.

You may want to evaluate your life insurance coverage when you or a member of your household:

- Gets a ***new job*** or a raise.
- Gets ***married***, ***separated*** or ***divorced***.
- Has or adopts a ***child***.
- Buys a ***home***.
- Starts a ***business***.
- Provides regular care for a ***dependent***.
- ***Retires.***

YOUR FAMILY'S FUTURE

As you evaluate your life insurance needs, begin by defining your future goals: to provide financial security for your family, own a home, become debt-free, send your children to college, enjoy a comfortable retirement and more.

As part of your planning, consider the impact if you died prematurely. Would your family be able to remain in their home? Would a stay-at-home spouse be forced to go back to work? Are your savings adequate to cover your final expenses?

Life insurance pays a death benefit that can be used to help:

- Replace ***lost income***.
- Cover ***final expenses***.
- Pay the ***mortgage***, ***medical bills***, ***credit card balances*** and ***other debts***.

- Ensure dependent children can complete their education.
- Allow your family to ***keep their home***.
- ***Leave an inheritance***.
- Provide for the ***surviving spouse***.
- Make a ***charitable donation***.
- Pay ***estate taxes***.
- Settle ***business*** or ***legal obligations***.

Life insurance benefits typically are not subject to income tax, so beneficiaries can expect to receive the policy's full amount due.

How much is enough?

Most Americans who have life insurance are covered at 3.5 times their annual income, according to LIMRA research.[12] But the recommended level is significantly higher. A needs analysis—conducted on your own or with an insurance agent—can help you determine an ideal coverage level. The analysis should consider the ages of family members and other dependents, your lifestyle, mortgage and other debts, average

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Future financial security

Every life has value. Use this simple worksheet to calculate your life's financial impact.

NEEDS ANALYSIS

Assets		
Checking account balance		________
Savings account balance		________
Investments		________
Life insurance benefits		________
Other assets	+	________
(1) Total assets	=	________

Expenses		
Final expenses		________
Mortgage		________
Debt		________
Needed emergency savings		________
Education/tuition		________
Other	+	________
(2) Total expenses	=	________

Income need		
Monthly income to maintain lifestyle		________
	x	120
(3) Total income need	=	________

WORKSHEET SUMMARY		
(1) Total assets		________
(2) Total expenses	–	________
(3) Total income need	+	________
Current life insurance need*	**=**	________

*This total indicates the amount of money your loved ones would need to continue their present lifestyle if you passed away. You can provide for and protect them with life insurance coverage equal to this amount.

expenses and survivors' earning potential. Other important factors are your anticipated final expenses and future obligations.

THE CASE FOR INDIVIDUAL LIFE INSURANCE

A majority of working Americans have access to group life insurance through their employers. But the amount offered may be insufficient for the typical family. In fact, households who own group life insurance alone have the lowest amount of total protection.[13] And while group life insurance is valuable, it typically is tied to employment. If an employee is fired, changes jobs, becomes disabled or retires, that coverage ends immediately.

For these reasons, group life insurance alone is rarely enough to provide a person's total needs. Individual life insurance—term, whole life, universal or some combination—helps consumers go from underinsured and at risk to fully covered and comfortable.

People who own both permanent and term life insurance policies have the most complete coverage and are best protected from risk.

HOW AND WHERE TO BUY

Life insurance is available through three primary channels: from an agent, in the workplace and online. More than 75% of consumers believe they'd benefit from the close guidance of a financial-services professional.[14] Buyers can use this time to ask questions, get answers and receive information on the spot. About 20% prefer to buy life insurance in the workplace.[15] Consumers can meet with an insurance representative from the convenience of their office and have premiums automatically deducted from their paychecks.

A NOTE ABOUT HEALTH CARE REFORM

The Affordable Care Act (ACA)—generically referred to as "health care reform"does not impact the individual life insurance—market, including the products described in this article. Individual life insurance is not tied to any other plan or program. When you purchase a policy, it is yours to keep.

As you consider your financial risks, your plans for the future and other benefits you have, the question to ask is, "Do I have enough life insurance to protect my loved ones from life's 'what ifs'?" If your answer is no, you may need to boost your security and reduce your risks with individual life insurance.

THE BOTTOM LINE

Financial stability is a top priority for American families. Yet more people are challenged to reach this goal in today's climate. A simple solution, which can be structured to help fit your budget, is individual life insurance. To help achieve peace of mind today and stability in the future, you can protect yourself and your loved ones with life insurance.

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