CHAPTER 5

Life Insurance Planning

It is extremely critical to have a trusted life insurance agent to advise you when choosing a policy to protect your family when you are gone.

Most people understand that they need life insurance to support their family when they die, but deciding what kind of life insurance to purchase, the amount of money you need from a death benefit, and how much you are willing to pay for the policy may be a confusing process. It doesn't have to be complicated, and in this chapter I will help explain life insurance in a simple way to assure that your family is really protected by your life insurance policy.

When you buy a life insurance policy, it pays to your beneficiary or beneficiaries (your spouse, children, family members, or anyone you list as a beneficiary) when you die. The money will provide for them when you no longer can do so. **This is a major decision requiring careful planning and should not be left to just a form you sign at work.**

It gives people peace of mind to know that if they die, they do not have to worry about their family being unable to pay for the house note, the utility bill, or groceries. I will explain the types of life insurance policies, how they help you, and when to choose one over another, depending on your particular needs.

Smart consumers use life insurance to protect their families because they know it will take care of their loved ones if they die. The United States has thousands of life insurance companies, so you want to choose one that is going to do well as a business. A weak company could fail and go bankrupt; you want a company that is going to outlast you.

Having an insurance agent who knows you personally is important because then you have a bond with someone who knows your name, face, and situation when you have a question or concern. It is best to establish and maintain a close relationship with an insurance agent working for a trusted firm.

Your Death Benefit

Your family gets by on a certain amount of money per year. If you and your spouse work, then you have a two-income household. Whatever you make in a year, multiply it by 6-8, and that is the amount of money you will need to set as your death benefit. If you die, the insurance company will pay that amount to your survivors. No one wants to think about dying, but the last thing you want is for your family to grieve for your loss AND have to struggle to survive themselves.

Term Life and Permanent

There are many kinds of life insurance, but they generally fall into two categories: term life and permanent insurance (also called "cash value").

Term life is designed to meet temporary needs. It provides protection for a specific period of time (the "term") and generally pays a benefit only if you die during that term. This type of insurance often makes sense when you have a need for coverage that will disappear at a specific point in time. For instance, you may decide that you only need coverage until your children graduate from college or a particular debt is paid off, such as the mortgage on your home.

Permanent insurance provides lifelong protection. As long as you pay the premiums and no loans, withdrawals, or surrenders are taken, the full-face amount will be paid. Because it is designed to last a lifetime, permanent life insurance accumulates cash value and is priced for you to keep over a long period of time.

It's impossible to say which type of life insurance is better because the kind of coverage that's right for you is dependent on your lifestyle and financial goals.

The best way to figure out the amount and type of life insurance that makes sense for your particular situation is to *meet with your life insurance agent.*

What You Need to Know about Term Life Insurance

Term life policies provide coverage for specific periods of time, sometimes as little as one year. While you usually can renew term life policies for one or more terms even if your health changes, there is potentially a big risk if you get sick during the term.

If your health does change, you probably will not be able to buy another term without seeing your premium skyrocket. You should ask your agent what the premium would be if you continue to renew the policy.

You should also ask if you would lose the right to renew the policy when you reach a certain age. Because this coverage is fairly cheap, it's often a good option for young people who are in good health and have fewer financial assets. Here are two term life policy options:

- **Yearly Renewable Term Life**: This coverage is for a longer term of 5, 10, or 20 years. The longer term also means that the costs are spread out to avoid the potential for huge annual premium increases.
- **Convertible Term Life**: This coverage can be renewed on a yearly basis with the option to convert it into a permanent policy in the future.

What You Need to Know About Permanent Life Insurance

Permanent, or cash-value, life policies have premiums that are higher at the beginning than they would be for the same amount of term insurance. The part of the premium not used to cover the yearly cost for mortality (funeral and burial) and other expenses is invested by the company and builds up a cash value that you may use in a variety of ways. Here are some specific examples of cash-value life insurance:

- **Whole (or Ordinary) Life**: Like other cash-value policies, this is permanent coverage, where the cost is stretched out over your entire life or what the insurance company expects your entire life period to be. Life insurers have tables that tell them how long, on average, someone of your age and physical health will live.
- **Universal Life**: This is the most flexible life insurance. You are allowed to change your premium and your death benefit at any time, although a substantial increase in the coverage usually requires you to prove you are still in good health.
- **Variable Life**: This is a combination of whole and universal coverage in which the death benefit depends on the investment performance of the insurance company's assets. You get to choose the investment vehicle for your premium from that of a money market fund, bond fund, or stock fund.

Choose the Type of Life Insurance Best for You

The more assets you have, the better and less risky it is to have a permanent life insurance policy. When choosing a policy, the most important factor is to make sure that you *buy the coverage from an insurer that has the best chance of performing well in the future*.

Look for an insurer that has low actual expenses and mortality costs. Insurers with these low costs will be able to offer better terms, including higher death benefits, higher cash value, and lower premiums.

Selection of the wrong type of term life insurance plan could cost you and your family dearly. As stated previously, term life insurance is the best option for young people in good health who have few significant financial assets. Unfortunately, even young people in fantastic shape can face serious and life-threatening illness.

Imagine your doctor tells you that you have cancer and you have two years left to live. When you look at your term life policy, you find out that your 10-year term plan that *you have paid for 9 1/2 years ends in 6 months*. You ask how much it will cost to renew the policy for the next 10 years and your insurer tells you that they ***won't be able to carry your insurance plan anymore because you have cancer***. After this unsettling news, you call other insurance agencies and find that no one will sell you insurance at any price. This seems like a nightmare, but sadly, it happens every day.

In addition to your illness and medical expenses, you now have the stress of knowing that your spouse, your children, the mortgage on the family home, and all the bills that go along with raising a family will not be covered when you pass away. When you need coverage the most, you are told by the insurance company that you cannot provide for your family.

I am telling you this because I receive calls from frantic people seeking term life insurance who are in this exact situation. I do not want this to happen to anyone, so I am educating you on what you need to do to protect yourself and your family. Choosing the right kind of life insurance policy depends a lot on your situation.

Let's start by deciding how much coverage you need and how long you need the coverage. Also think about what the coverage will be used to pay. You may need coverage that will pay for a mortgage on a home loan, a car loan payment, or for your children's college educations. It is so important to tailor your term life needs to fit the expenses in your life.

A qualified financial advisor will make sure that you have the correct term life insurance. There are many different types of term life insurance on the market today. I have listed the six common mistakes to avoid when choosing term life insurance because it is important to your financial stability to be informed about them so you can protect yourself and your family.

Avoid the 6 Common Mistakes of Term Life Insurance

1. No or Limited Time to Convert to Other Policy Types

Term life insurance generally offers an exchange, or what is called a *conversion option,* to another life insurance policy type. For example, if you want to exchange your 10-year term plan for a whole life plan with the company that you bought the term life plan from, you can without having to prove evidence of good health. This is something to watch out for when applying for term life insurance coverage. Many insurance companies that offer mortgage protection through the mortgage company offer no exchange option at all which is not a good option for folks who refinance. For term life plans purchased through an insurance company, whether it is through an agent, on the Internet or by calling a 1-800 number, there generally is an option for conversion. However, not all conversion options are the same. For example, if you obtain a 10-year term policy, some companies will allow you to convert at any time during the 10-year term, while other companies may only allow you five years from the initial policy date to make the change. The best companies will allow you to exchange to another policy anytime before age 65 or 10 years, whichever is later.

2. No Renewal Feature

If you buy a 10-year term plan from a company because it has the lowest premium, pay careful attention to the details of the policy. Many companies drop the policy after 10 years and you have no coverage at all. If you die during those 10 years, this isn't a bad deal; but if you live longer than that and develop a serious health condition during the 10-year policy period, with the wrong company, you're out of luck. Be sure that the term life policy you purchase has a renewal feature.

3. No Guarantee on What Renewal Rates or Term will be

This provision ties into the renewal feature explained above, but takes it one step further. If a term life policy renews, it generally renews on a one-year term basis. As an example, let's say that you buy a 10-year term policy and in the eleventh year it changes to a one-year term. Guess what, instead of the company raising your rates every 10 years, now it is raising your rates every year. If the company is having financial problems, it can raise the rates even more on top of the annual rate increases. From my experience, the one-year term rate companies charge past the initial guarantee period can be very high. This is not a good option for someone who can't re-qualify for the best rates. Some companies offer what is called a reentry provision. If they do, you generally have to qualify for reentry. Even if you can qualify for reentry, many companies don't offer the their very best rates to you like they would if you were a new customer coming in the door to apply for coverage. This is a bad way to treat a loyal, long-term customer. The best companies will offer to renew your coverage for the same term period that you applied for when you purchased the policy. So if you bought a 10-year term policy, the company should offer to renew for another 10-year term the second time, the third time and so on. If your life insurance company isn't protecting you and family with this type of policy, look for another one. Your insurance agent will help you get the best protection possible.

4. No True Premium Guarantee for the Term Period

For this information you have to read the fine print in your policy. Many companies selling term life policies for a 10 or 20-year term don't guarantee the premiums for those 10 or 20 years. They will give you an illustration or projection, showing the rates as stable for that particular period of time, but this price may only be guaranteed for five years. If you buy a 10 or 20-year term policy, then you should have a guarantee for that period of time.

5. Few Good Options When Changing Plans

When choosing the life insurance company that you want to do business with, be sure that you also find out about the other policies the company offers for conversion or exchange from the term life plan if you should decide to switch plans. Many companies have inexpensive term rates, but when you exercise your option for an exchange, you end up with a very expensive Whole Life or Universal Life Plan. If you know ahead of time what your options are, you'll end up in a much better financial position in the long run.

6. Life Insurance Company with a Questionable Financial Rating

I cannot stress this enough: *be sure that the life insurance company you choose is financially stable.* If the company you choose ends up going out of business or being bought out by another life insurance company, you may end up spending a whole lot more in the long run than if you had gone with a highly rated company in the first place. Be sure to ask about the financial rating of any life company before committing your hard earned dollars.

Proper Planning Will Help You Beat The Odds

The only way to be sure you have a good term life plan is to work with a professional who will provide you with a complete examination before recommending any solutions for your problems. *An advisor who recognizes the need for a thorough analysis of your situation is your best defense against leaving your loved ones without enough financial help if something happens to you.* I hope I have given you a good idea of what you should look for in a term life plan.