FAQs

What is life insurance and why do I need it?

A death in the family is not only emotionally devastating, it can also take a tremendous toll on the future financial security of a family. Suddenly, without the deceased's income, paying the mortgage or providing for a child's college education may become much more difficult.

Those who buy life insurance do so to help ensure their loved ones are taken care of financially. Life insurance is a promise by an insurance company to pay those who depend on you a sum of money upon your death. In return, you make periodic payments called premiums. Premiums can be based on factors such as age, gender, medical history and the dollar amount of the life insurance you purchase.

In the event of your passing, life insurance provides money directly to the individuals you select, your beneficiaries, who can use the money as they see fit, including:

- Replacing lost income
- Covering basic living expenses
- Paying household debts, estate taxes and funeral expenses
- Funding a child's education
- Supplementing retirement savings

What kinds of life insurance can I get at work?

Life insurance comes in two main types – term and permanent – which may both be available through your workplace.

Term life insurance pays a specific lump sum to your loved ones for a specified period of time – usually from one to 20 years. If you stop paying premiums, the insurance stops. Term policies pay benefits if you die during the period covered by the policy, but they do not build cash value. They may also give you the option to port. That is, you can take the coverage with you if your leave your company.
Generally, you should consider a term life insurance policy to:

- Get valuable coverage at an affordable price
- Help cover specific financial responsibilities like a mortgage or college expenses
- Supplement a permanent policy

Permanent life insurance policies do not expire. They are intended to protect your loved ones permanently, as long as you pay your premiums. Some permanent life insurance policies accumulate cash value. That means, the value of the policy will grow each year, tax-deferred, until it matches the face value of the policy. The cash can generally be accessed via loans or withdrawals, and can be used for a variety of purposes. This type of plan is typically portable so coverage can continue if employment terminates.

Consider a permanent insurance policy if you want:

- Protection for life
- Payments that stay the same each year
- To put additional money into the policy on a tax-favored basis
- Cash value you can use while you are living

What are the advantages of purchasing life insurance through work?

Getting life insurance through work can be an easy way to protect your family. If your employer offers a group plan, consider signing up for advantages that may include:

- Competitive group rates
- Guaranteed issue, meaning you can get a certain amount of coverage without answering health questions or taking a medical exam
- Convenient payroll deductions
- Easy access to enrollment and educational tools that can help you make the right decisions about the type and amount of insurance that's right for you
- The confidence of knowing that your employer has reviewed and selected the plan

All you have to do is sign up, and sometimes enrollment is automatic.

How much life insurance do I need?

While you won't be able to pinpoint the amount you'll need to the penny, you can make a sound estimate. Your goal should be to develop a life insurance plan that, following your death, will allow your family to live comfortably without your economic contribution. Also consider the effect of inflation over time. The amount needed for retirement or college 20 years from now is likely to be significantly higher than today.

To estimate the amount of life insurance your family would need, first calculate everything you now provide for your family including:

- Salary
- Benefits/health insurance
- 401(k) and retirement savings
- Personal services you perform for your family, such as child care, cooking, home maintenance, etc.

Then, subtract your personal expenses including:

- Annual spending on personal needs, such as food, clothing, entertainment, etc.

How many years should I choose for my policy?

It depends. The period of time you'll need coverage for should be the main factor. For example, if you have young children, you may want to consider 20 or 30 years of term life coverage to help your children for college or other future financial endeavors. On the other hand, if your children are out of college and supporting themselves, a shorter coverage period might suit your needs better.

How much does life insurance cost?

Life insurance through your workplace may be more affordable than you think. In fact, many people can get term life insurance coverage from a quality company for a surprisingly low price.[4]
Premiums are typically based on factors such as:

- Age, sex, height and weight
- Health status, including whether or not you smoke
- Participation in high-risk occupations

Life insurance gets more expensive as you get older, and the type of coverage you choose will also affect your premium. Rates for term insurance are typically lower, while rates for permanent policies are typically higher.

How can life insurance be more affordable?

To keep your premiums as affordable as possible and save money in the long run:

Buy it now. Premiums for the same coverage generally increase the older you become. And the longer you wait, the more you risk developing a health condition that could increase your premium further, or make you uninsurable.
If you want permanent life but you're on a budget, consider some term for now. You can save money initially by buying some term life in combination with permanent life. Then later, if your budget increases, consider converting the term policy to permanent life.[1]
Consider group life insurance offered through your employer. It may be available at a relatively low cost. But keep in mind that your group coverage may end or become more expensive when you leave your job or as you get older.

What are the tax advantages of life insurance?

Death benefits are generally received income tax-free by your beneficiaries. In the case of permanent life insurance policies, cash values accumulate on an income tax-deferred basis. That means you would not have to pay income tax on any of the policy’s earnings as long as the policy remains in effect. In addition, most policy loans and withdrawals are not taxable (although withdrawals and loans will reduce the cash value and death benefit).[3]

What if I already have life insurance?

It’s a good idea to review your coverage every few years to make sure it still meets your financial needs. Check to make sure that all information including your beneficiaries, is current. It might be time to re-evaluate your coverage if you:

- Recently married or divorced
- Received an inheritance
- Purchased a new home
- Refinanced your home mortgage in the past six months
- Have a child or grandchild who was recently born, adopted or about to enter college
- Provide care or financial help to a child or parent
- Want to ensure that financial resources are available for a loved one's assistance or long-term care

What is a beneficiary and why is it important to designate one?

To make sure your benefits are distributed to those you intend, you must select a beneficiary – the person (or persons) who receive the proceeds of your life insurance policy when you die.

Without a validly named beneficiary, the life insurance proceeds will be distributed according to the terms of the insurance contract. This may result in proceeds going to family members such as spouse, children, parents or siblings, or it may go to your estate.

Review your beneficiary choices yearly to make sure they are current and to avoid unwanted outcomes or probate. Consider changes in marital status, deaths or other life changes that may impact your beneficiary designation, and update accordingly.

Why should I choose a reputable insurance company?

In addition to being financially secure, the life insurance company you choose should have a good claims payment history, good customer service, and competitive pricing. You can find insurance company ratings online at resources that include Standard and Poor's, A.M. Best, Moody's, Fitch, and Weiss.

What are some basic life insurance terms I should know?

Policy owner

The policy owner is the person who owns the life insurance policy. In many cases, the policy owner is also the person who is insured by the policy. However, the policy owner may also be a relative of the insured, a trust, partnership, or a corporation.

Beneficiary

A beneficiary is the person(s) selected by the policy owner to receive the life insurance payments upon the death of the insured.

Premium

Premiums are the payments made to the insurance company to purchase and keep a policy active.

Death benefit

A death benefit is the amount paid to the beneficiary at the time of the death of the insured.

Face amount

The face amount of the policy is the amount of the death benefit as stated in the policy. This does not include additional amounts that the policy may provide.

Insured/insured life
Insurability refers to how likely an applicant is to be offered coverage based on current health, medical background, family history and other factors.