



Life 101

The Purpose of Life Insurance

Life insurance is a unique financial and risk management product, but only 52% of Americans report having it.¹ The flexibility that life insurance can provide is often misunderstood. Some think it's designed simply to pay for funerals while others believe it is overly complex. That's why it's critical for you, an insurance industry professional, to understand and demonstrate the value of life insurance and how it can work in many different situations.

One of the guiding principles of life insurance is that it recognizes "...the value of a human life and the possibility of indemnification for the loss of that value."²

What kind of value does each human life have?

- Each person is unique
- Each person is special to other people
- Each person contributes to his or her family and society

A portion of that value is the earnings potential that people show over their life. Part of the purpose of life insurance is to indemnify (or make whole) in the event of a loss.

Who is made whole? The beneficiaries are made whole, to a degree, when the insured passes away and they receive the policy's death benefit.

What are the uses of life insurance

There are many uses for life insurance, but they can fall into some broad categories that can differ by a variety of factors, such as life stage and whether it is intended for personal or business use. For example:

	Affordable Protection/ Covering Essentials	Wealth Accumulation/ Ensuring Lifestyle	Wealth Preservation/ Preparing for the Unexpected	Wealth Transfer/ Leaving a Legacy
Personal	Income replacement, mortgage protection, final expense	Cash reserve for tax-advantaged savings and liquidity	Supplemental retirement income, long-term care/chronic illness protection	Legacy planning, charitable giving, estate liquidity
Business	Key person	Executive benefits to retain and reward key employees	Buy-sell agreement	Business succession

78%

of Americans overestimate the true cost of a term life insurance policy.¹

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Life insurance advantage: The death benefit is paid out income tax free.

¹ 2024 Life Insurance Barometer Study, Life Happens and LIMRA
² F. C. Oviatt, Economic Place of Life Insurance and Its Relation to Society, p. 181

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