

Life Insurance

9 Everyday Life Insurance Mistakes

Because life insurance is designed to last years, if not a lifetime, it's easy to check a new policy off the to-do list and file it away. But the decisions surrounding life insurance – from who gets insured, to what kind of policy, to how much coverage – should be part of an ongoing conversation as your life evolves over time. Here are nine life insurance mistakes people commonly make that can be worked out in a comprehensive insurance review with your advisor.

BEFORE BUYING A POLICY

Procrastinating

Life insurance has proven to be something many Americans intend to get around to someday but never do. According to LIMRA's 2021 Insurance Barometer, more than 100 million adults reported either not having any life insurance or being underinsured. The biggest harm in waiting is, of course, leaving your family financially vulnerable if something were to

happen to you. But that's not the only risk: Life insurance premiums tend to increase as you get older, even if you remain in good health – plus you could be denied coverage should you develop a serious illness or fail a physical medical exam.

Relying Solely on an Employer's Life Insurance Benefit

While a group life insurance policy offered by employers can be a nice benefit, the payouts those policies provide – often 1–2x your annual salary – might not be sufficiently robust to meet your needs. (A good rule of thumb is closer to 10–15x, though as we discuss below, the amount that's right for you could be dramatically different.) Plus, it's not uncommon for your employer's coverage to end when you leave the company, leaving former employees without a safety net. ►

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WHEN BUYING A POLICY

Buying Too Short of a Term

If you're considering a term life policy (a policy that is in effect for only a set period of time), it makes sense to align your length of coverage with your biggest financial concerns in the event of your death. For example, many people who buy a house will take out a policy designed to pay off the mortgage. While a 20-year policy might be cheaper than a 30-year policy, if you have a 30-year mortgage, it also exposes you to more risk. One extra consideration is how long before your kids (current and planned) are living on their own: If you're young and just starting a family, you might consider longer coverage than someone whose kids are almost grown.

Buying Too Little Coverage

Arguably the biggest risk to buying a policy is purchasing too little coverage – reducing the death benefit can save you money up front, but it can also lead to financial hardship for your loved ones should the unthinkable happen.

There is a lot to consider when identifying the right amount of coverage, from how much you earn, to how much you owe, to the age and needs of your dependents. A good starting point is calculating your projected expenses over the period you're considering coverage – including living expenses, education, a mortgage and any existing debt. Subtract from that amount any assets you have or any life insurance policies already in force. Your Baird Financial Advisor can also support you in an insurance plan review to ensure you have adequate coverage.

Assuming Too Aggressive a Growth in Cash Value

When mapping out how a permanent life insurance policy (also referred to as a whole, variable or universal life policy) fits into your broader wealth management plans, you'll want to model how fast its cash value will grow, based either on current interest rates (for a universal life policy), investment performance (for a variable life policy) or a formula calculated by the insurance company (for a whole life policy). How quickly cash value could build will likely influence how you could use your wealth in other areas of your life.

Making such a projection can be challenging, though, especially in a volatile economy. Twenty years ago, a policy might have been sold with a "conservative" growth rate of 8% – today, that rate is likely closer to 4%. Assuming cash value growth that's out of step with today's economy can require future funds to be reallocated from elsewhere and reduce how long your coverage remains in force.

Neglecting the Value of a "Nonworking" Spouse

If you're in a single-earner household, you might think only the working spouse needs to be insured. However, it's worth considering the value provided by a spouse who cares for children or cleans the house, as you might need to cover expenses like childcare or housekeeping in the case of their death.

ONCE THE POLICY IS IN EFFECT

Skipping Premium Payments

Your insurance policy requires regular payments to remain in effect. For a term life policy, you have a grace period (usually 30 days) to bring your account back into good standing before your policy lapses. For a permanent policy, there may be a way to use the cash value your policy has built up to cover the cost of insurance charges, but – much like making a withdrawal from an investment account – those funds are no longer benefiting from compounding or helping to build wealth. In either case, skipping premium payments can become a significant impediment to achieving your broader financial goals and leave your loved ones financially exposed.

Not Telling Your Loved Ones

Some families are very private about their wealth decisions and are uncomfortable talking about money – even among themselves. It's worth remembering that life insurance is a two-part strategy: Taking out a policy is important, but to be a benefit, the beneficiary needs to know to make a claim. Informing your loved ones can also give them peace of mind that they'd have some financial relief were something to happen to you. Consider documenting all your life insurance policies in our Personal Information Guide with a trusted loved one. ►

9 Everyday Life Insurance Mistakes *continued*

Forgetting To Update Your Policy

Life insurance by definition is a long-term strategy – which makes it easy to take out a policy, set up a monthly payment and forget all about it. But think about all that can happen over the course of several decades – marriage, children, grandchildren, or even divorce and remarriage. Your wealth needs, coverage needs and beneficiaries can all change in only a few years – it's very easy to imagine an ex-spouse receiving a death benefit payout because the decedent forgot to update the beneficiaries on a life insurance policy.

Keeping a policy updated is especially important for term insurance, which is often taken out to cover a specific need. If you took out a policy designed to pay off a mortgage, for example, but that mortgage no longer exists or has been refinanced to different terms, you might find your existing policy insufficient to provide adequate coverage. Your Baird Financial Advisor can help review your policies and provide recommendations to ensure you are properly insured.

While it might be easy to be intimidated by life insurance or to forget to stay on top of your policy, life insurance can be an essential and surprisingly valuable part of your wealth management plan. Fortunately, you don't have to do it alone – your Baird Financial Advisor can walk you through a **comprehensive insurance analysis** that considers your existing needs, assets and circumstances and help you determine the role insurance can play. Contact your Financial Advisor today to get started.

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