

How Much Life Insurance Do You Really Need?

When it comes to life insurance, many people struggle to determine how much they actually need. Guessing at the answer can result in electing too much, too little, or the wrong policy or coverage for your needs, which can have costly consequences. Even if you have an existing policy, it's important to reevaluate your coverage every few years to accommodate any changes in your life or income, to ensure you have the appropriate coverage at an affordable cost.

So, how do you know what's right for you and your family now?

Determining how much coverage you need begins with understanding why you may need it in the first place. Life insurance helps to manage various risk factors throughout your lifetime, including the impact that an untimely death could have on your family's ability to maintain their lifestyle. In addition to replacing lost income, life insurance can provide a way to generate and pass wealth, cover tax obligations, and leave a meaningful legacy. Factors that will help determine the coverage you may need include your:

- Marital status
- Number of dependents
- Current and future earned income (anticipated lifetime earnings)
- Outstanding debts

Begin by determining your life insurance goals, which may include:

- Providing for your dependents' lifestyle needs
- Covering end-of-life expenses, such as funeral and burial costs
- Satisfying estate tax obligations
- Paying off debt, including medical debt or an outstanding mortgage
- Funding children or grandchildren's education costs
- Allowing a business to continue operating in your absence
- Leaving an inheritance for heirs or money to charity
- Solving complex estate planning challenges

By working together, we'll review your life insurance needs and goals and determine if you have the right protection. Next, we'll ensure we've gathered information on all policies you and/or your spouse may be covered under, including any policies purchased directly through an insurer or paid for by your employer(s), and any policies you may have carried over from former employers. This will help determine if there are any gaps in your current coverage or if you're paying for more coverage than your loved ones may need in your absence.

Term vs. Whole Life Insurance

There are two primary types of life insurance: term and whole life or “permanent” insurance.

- **Term life insurance** is purchased to last for a specified term or period of time, such as 1, 5, 10, or in some cases, up to 30 years. Since coverage expires when that period ends, the policy will payout only if the insured's death occurs during the specified period. If the insured person outlives the original policy period, coverage renewal may be an option, but the premiums may be higher. It's important to note that term policies do not build cash value. Your premiums go towards your payout. That makes the costs for policyholders comparatively lower than for permanent life insurance.

Term life insurance includes the following subcategories: level term and decreasing term insurance. Some insurers also offer term life products with a "return of premium" feature, returning a portion of the premiums you pay if a claim is not filed before the end of the coverage term. These policies are generally more expensive upfront than standard term life insurance.¹

- **Whole life insurance** provides coverage for the insured person's lifetime as long as premium payments are in good standing, which is why these policies are referred to as permanent. Unlike term life, these policies may build cash value, which a policyholder or their heirs can access under certain conditions. Premiums, as a result, can be higher than for term life policies. Whole life products include several subcategories, including traditional life, universal life, variable life, and variable-universal life.²

Keep in mind, it's important to review your insurance needs whenever you experience a major life change, such as a significant increase or decrease in your income, a change in your marital status, or in the number of dependents you support.

To determine if you have the right coverage at the right cost, call the office to schedule a comprehensive insurance review.

¹ “What are the principal types of life insurance.” Insurance Information Institute, <https://www.iii.org/article/what-are-principal-types-life-insurance>. Accessed 17 MAY 2023.

² Ibid.

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The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable by having the policy approved. As

with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.