

WISERWoman

THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

Are You Sure About Your Life Insurance?

Whether through illness, accident or age, the difficulty of losing a spouse is a profound life experience. It affects all of us through the experiences of our mothers, aunts and friends. While we know that life goes on *after* the loss of a spouse, the financial impact can continue for a lifetime. Research has found that five to seven years after a loss, more than a third of survivors say they remain financially vulnerable. The reason often stems from having too little—or even no—life insurance protection.

Anna Marie McMillin knows all of this firsthand. She lost her husband when he was just 49 years old. They barely had enough life insurance to pay for the funeral. “It was devastating to lose him so young,” says Anna Marie, “But at 67, I still feel the pain financially.” Anna Marie lives on her surviving spouse Social Security benefits and the money her daughters send her when they have some to spare.

Consider what would happen to you financially if you unexpectedly lost your spouse. Even if you contribute substantially to the family earnings, a loss of one of the incomes can be devastating. Now turn this around — what would happen if you died unexpectedly? Can your family survive financially without you?

The purpose of life insurance is to replace income. The goal is to allow the surviving family to maintain their current lifestyle. How much is enough? Some financial advisors say five to ten years of salary may be an appropriate target, while others say 20 years. Each person's circumstances vary, so there is no easy

answer. Consider your outstanding debt and your family's ability to pay it off with one less income. Think about how long your kids will remain dependent. Finally, talk to a reputable licensed professional who can walk you through all the considerations.

There is a real need for women to take action; another study revealed that, although women express more concern than men about their family's financial security after their death (66% vs. 52%), they consistently have lower life insurance coverage than their male counterparts. Educating yourself and your spouse about the coverage options to determine the best policy for your family's situation is an essential step in securing financial security for a lifetime.

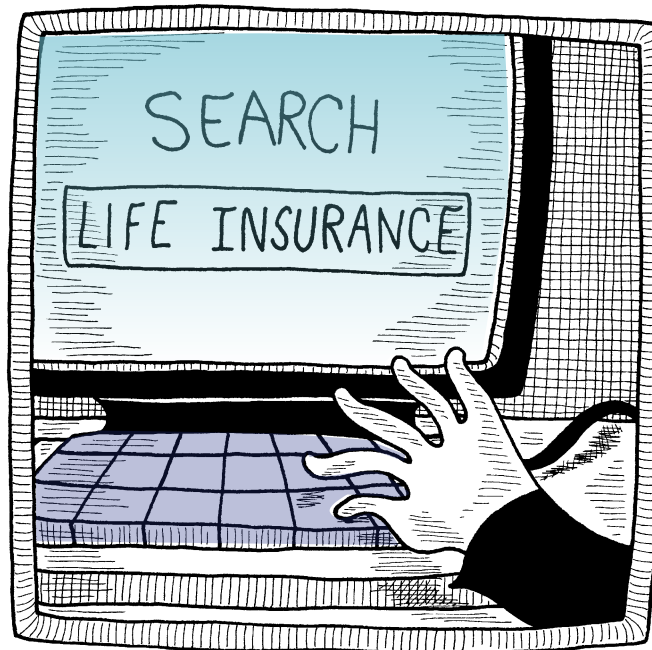


Illustration by Margaret Scott

The Basic Types

Life insurance comes in two types: *term* and *permanent*. **Term life insurance** provides coverage for a certain number of years (hence the word “term”). You can buy a policy that lasts 1 year or up to 30 years. The sole purpose of a term policy is to pay money to your beneficiaries if you die while you are under the policy.

Taking out a term life insurance policy requires a medical exam. When the term is up, you may be able to extend your policy, but you will probably have to undergo another medical exam. The older you are, the higher term life insurance premiums are, so your rate will increase when you renew. If you cannot afford permanent insurance, it is wise to buy at least some term insurance because it may be possible to convert that term insurance to permanent coverage later.

Life Insurance

continued

Permanent insurance is also called “whole life,” “universal life” or “cash value” insurance. This product is life insurance with an investment feature attached. When you pay premiums, part of the payment goes to provide life insurance death benefits and part goes to build up the cash value of the policy. The cash value of the policy grows on a tax-deferred basis. You can borrow against it, but be sure to understand the terms of the loan. Permanent coverage can also be combined with term insurance to provide more coverage during financially significant periods.

What type of insurance is right for you? As with all financial matters, it depends. One expert states, “Insurance isn’t an investment vehicle, so leave retirement savings to your retirement account, and use life insurance as...life insurance.” Other experts find the dual nature of permanent insurance worthwhile. Consider talking to at least two reputable professionals and ask around for referrals.



Another thing to keep in mind is if you choose to pay insurance premiums monthly or quarterly, your premiums will be more expensive than if you choose to pay them annually.

How Much Insurance Does Our Family Need?

Think about how much money your family would need to afford everyday expenses and save for things like college and retirement. Inflation will require your family to have more money later to pay for the same everyday expenses you consume now. A common rule of thumb is to use multiples of your income, depending on how old you are to determine how much life insurance you might want to purchase. For example, a 55 year old earner could consider having about 10 times her annual salary, while a 45 year old worker could consider having more or about 15 times as much. Younger employees will need even more: If an employee is 25

years old, she might consider how much insurance she would need to cover her annual income for a number of years.

If you or your spouse carry no life insurance or too little, your family is at financial risk.

Review your life insurance needs at major life stages, such as when you have children or change jobs. If you get divorced, you may want to change the beneficiaries of your policy or consider legally requiring your ex-spouse to have a policy that benefits you and your children. If you or your spouse carry no life insurance or too little, your family is at financial risk.

There are many online calculators to help you estimate your needs. Check out these from **Life Happens** ([lifehappens.org/life-insurance-needs-calculator](https://www.lifehappens.org/life-insurance-needs-calculator)) and **Bankrate** (<https://www.bankrate.com/insurance/life-insurance/life-insurance-calculator/>)

Tips for Buying Insurance

How to purchase life insurance

You can buy life insurance at an insurance agency, brokerage firm, bank, or directly from a life insurance company on the Internet, over the phone, or by mail. Most companies have websites describing their products and services and some sites will direct you to a local agent.

How to choose a company

Contact your state insurance department for a list of companies licensed in your state, then: ask friends and relatives for recommendations based on their own experiences; talk to an insurance agent or broker; and conduct an Internet search or research companies at a public library.

Source: ACLI, *What You Should Know About Buying Life Insurance*, 2018. For more information visit acli.com/consumer-info/life-insurance

Did You Know?

If you are single with no dependents, you probably do not need life insurance.