

Important Points To Remember When Buying Life Insurance

How Much Insurance Do I Really Need?

No one would ever suggest that money can replace a precious human life; a loved one. However, it is possible to determine the earning power that must be replaced in the event of the death of breadwinner. Replacement of lost earnings is what life insurance is designed to accomplish.

Determining how much life insurance someone needs begins with an assessment of their current earnings. How much money would be needed to create an income that would replace the lost paycheck of the deceased?

There are only two ways to make money. Either we must rise up each morning and go to work; or, we must have money that gets up each day and goes to work for us. There really are no other alternatives.

Different Needs - Different Life Insurance

Everyone's needs are different.

A single individual with no dependents does not have the same insurance needs as a single individual with dependents.

A married couple with young children has a different need than a married couple whose children are nearly ready to attend college. Likewise, the needs of the couple whose children are grown and raising families of their own are different from either of the couples described above.

Different kinds of life insurance are designed to meet different needs. Let's look at the different kinds of insurance from which you can choose.

Term Life Insurance

Term life insurance provides protection for a specified period of time; the term. If the insured person dies while the term insurance is in effect, the insurance company pays the face amount of the policy; the "death benefit". This type of policy provides "pure protection" in that it builds no value for the individual who lives beyond the period for which the policy provides coverage.

Term policies can be written for many different lengths of time; but the most common are *annual renewable term* which provides a level amount of coverage for one year; *five, ten, twenty, or thirty year term* which provide level amounts of protection for the

number of years indicated in the policy name; and *decreasing term* policies that provide insurance that is reduced on a monthly or annual basis during the life of the policy.

When the term expires, the insured has three choices. He/she can drop the policy if the need for insurance no longer exists; renew the policy for an additional term at the premium required at the policyholder's new age; or, convert the policy to a permanent plan of insurance if the policy permits it.

Permanent Life Insurance

Permanent life insurance, also known as "cash value" life insurance provides a level or increasing amount of insurance protection throughout the insured's lifetime with, in most cases, premiums that remain the same for the entire time the policyholder owns the insurance. The policy builds "cash value" which is money that is returned to the policyholder if the policy is surrendered to the insurance company before the insured dies.

Permanent life insurance comes in several forms.

Whole Life or **Ordinary Life** insurance builds cash value on a guaranteed basis. This type of policy is designed so that the cash value equals the death benefit at age 100. When the insured dies, the policy pays the death benefit. The policy may, or may not, pay dividends which are defined as a refund of overpaid premiums. Dividends are paid when the insurance company enjoys a higher return on its investments than anticipated; or, when the company pays less in claims than anticipated. When the policy pays dividends it is said to be a "participating" policy. When the insured dies, any dividends that have accumulated are paid to the beneficiary along with the death benefit.

Universal Life also builds cash value for the policy holder. However, rather than having a fixed rate of return on the cash value to determine how quickly it grows, the insurance company pays a "current" interest rate on the cash value which can, when interest rates are high, result in a larger cash value than an ordinary life policy would accumulate.

Variable Universal Life invests the cash value into a portfolio of funds, similar to mutual funds, that invest in a variety of assets which can include stocks and bonds. When the investment assets perform well, the cash value can far exceed the amount that would accumulate in an ordinary life policy. When the investments perform poorly, the cash value can be significantly less than would build up in an ordinary life policy.

Both Universal Life and Variable Universal Life pay the face amount of the policy to the beneficiary when the insured dies. Both have the option of paying the cash value in addition to the face amount. This is known as an "increasing face amount" or is sometimes referred to as "option B".

Permanent plans of insurance should be viewed as an insurance plan with a cash value feature rather than being considered solely as an investment.

Use the worksheet on the back panel to determine how much life insurance you need to protect your family's financial security; or, contact The Center For Financial Management and allow us to customize an insurance plan for you.

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Use the worksheet below to determine how much life insurance you need to protect your family’s financial security.

Life Insurance Worksheet

How much money would your beneficiary need coming in each month to replace your paycheck?	\$ _____
Multiply by 12	
Annual Income Needed	\$ _____
What rate of interest could you earn on an investment to generate income?	_____
Divide the Annual Income Needed by the interest rate expressed as a decimal	<u>Income Needed</u> Interest Rate as Decimal
Insurance Needed	\$ _____

Consumer Debt Counselors does not sell, nor does it offer to sell, Life Insurance. We strongly recommend that you discuss any changes you may be considering with an agent who is licensed to sell Life Insurance.