15-5 Life Insurance

Explain why life insurance should be part of your financial plan
Identify different types of life insurance you may choose
What is Life Insurance?

- A person’s death can cause financial hardships for those left behind
  - Income is lost
  - Services provided are lost
    - Child care, home maintenance
  - Funeral Expenses
- Life insurance benefits help pay for these financial hardships
How Life Insurance Works

- When you buy life insurance, you specify who will receive the payment (death benefit) when you die
- Beneficiary — person who receives benefit
  - Can specify several
- You pay premiums for this coverage
- Premiums based on statistics
  - Gender, age, lifestyle, type of employment
Types of Life Insurance

Term Life Insurance

- Pays death benefit if the policyholder dies within a specified period of time (the **TERM**)
- If policyholder does not die during term, policy terminates with no remaining value
- Good for young people
  - Less expensive because less likely to die
  - Can get more protection for less money
Types of Life Insurance

- Level Term Insurance
  - Pays fixed benefit for fixed premium for specified number of years.

- Renewable Term Insurance
  - Most level term policies turn into renewable at end of term
  - Allows you to renew regardless of health and/or physical examination
  - Cannot be cancelled if you become ill/age
Types of Life Insurance

Convertible Term Life Insurance

- Most term policies contain a convertible option
- You can choose to convert the term policy to a permanent policy without evidence of insurability.
- Beneficial as lifestyle and/or health conditions change
- The earlier you convert, the lower the premiums
Permanent Life Insurance

- Includes a death benefit plus a savings plan
- Coverage lasts throughout policyholder’s life
- Also called *cash value life insurance*
- Part of each premium goes towards death benefit/rest goes towards savings plan
- Premiums are higher than for term life insurance
- Beneficiaries receive death benefit when you die
- Many allow you to withdraw savings at any time
  - College, retirement, borrow
Permanent Life Insurance

Whole Life Insurance
- Most common/least expensive
- Premium never increases
- Lasts your entire life
- Cam receive dividends
- Can borrow against cash value
- Do not have the flexibility to change the amount of savings plan or death benefit
- You have no say in how your funds are invested
Permanent Life Insurance

- Variable Life Insurance
  - Yours for life
  - You can select how your funds are invested
  - Riskier than whole life
  - Death benefit varies based on how well your investment does
  - May not withdraw cash value during your lifetime
Permanent Life Insurance

Universal Life Insurance
- A permanent policy with more flexibility
- Can borrow against cash value
- Can change the amount of coverage/premium
- Cannot choose who savings are invested
Is life insurance a good way to invest your money?

- Depends..
  - Review your investment options
  - It may be better to buy term insurance and invest on your own
How Much Life Insurance Should You Buy?

- Depends of several factors
  - Family Responsibilities
    - Children, primary wage earner, stay-at-home spouse
  - Your Financial Situation
    - Do others depend on your income?
    - Premiums less expensive the younger you are
  - Your Future
    - Children’s needs—college, weddings, etc
  - Your Special Needs
    - Disabled child? Large loans?