

Basic Facts of Life Insurance

Thinking of a future without ourselves in it, is not the most pleasant of thoughts. . .however, it *is* necessary to do so for the financial security of your family. **Life insurance** may provide you with the opportunity to bequeath money to your survivors, while at the same time, provide the necessary liquidity to help pay estate taxes. This, in turn, may allow your assets to pass undiminished to your heirs.

As a general rule of thumb when purchasing life insurance, it is usually thought that you would need eight to ten times your salary in order to take care of your family's needs. A more accurate formula may be as follows:

- 1) Determine the amount needed to help meet specific needs such as providing funds for college, paying off your mortgage, or giving money to an heir. Label this figure as [A].
- 2) Determine the amount necessary for the support of your family. Label this amount as [B]. Begin with 80% of your annual family income (since your family is decreased by one) and subtract Social Security income and your spouse's salary for one year. [*Note:* Your assets will also have an effect on the amount of actual income you will need to provide for the support of your family.]
- 3) Add [A] to [B], the sum will give you a general idea of the amount of insurance needed.

Types of Insurance

1. **Term Life**—may be the least expensive form, but the rates *do* increase as you grow older. This type of policy is for a duration of 10-20 years. At the end of the policy's term, you may convert it to a **permanent** policy or another term policy with higher premiums.
2. **Cash Value Life**—includes whole life, universal life, or variable life:
 - **Whole life**—has a fixed premium payment and a fairly conservative minimum guaranteed cash value.

- **Universal life**—a flexible type of insurance that allows changes in the amount of, or payment rate of, premiums and the amount of coverage. The company providing the coverage invests your premiums or the amount of coverage into a tax-deferred account earning money market rates of interest.
- **Variable life**—allows you to choose where to invest the cash value of your policy (stocks, bonds, money markets, etc.). The annual premium is a fixed amount (with part going to investments) and you can move from one portfolio to another. As with any investment, you will be subject to risks as market conditions change.

This has been just a brief sketch of what to think about as you consider purchasing life insurance. An in-depth discussion with an insurance professional will provide you with more complete and pertinent information. With this professional guidance, you will be better able to determine the most beneficial coverage for your particular situation. Securing the *proper* coverage can help you provide for the future of your family.

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