

TODAY'S Parent

Celebrating Family Life

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Life Insurance FAQs

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We all know we should have life insurance, but when it comes time to buying a policy the process can be daunting. With this basic information from SBLI USA Mutual Life Insurance Company, Inc., you will have the tools you will need to begin your research.

Why purchase life insurance?

No one likes to think about a time when they won't be there to support their family. But, with a little planning, you can help protect your family's financial future, no matter what comes your way. Life insurance is a key aspect of a strong, diversified financial plan. One of the main reasons for life insurance is to provide income replacement to your beneficiaries if you die. It also creates a reserve fund for when you won't be here to help support your loved ones or for any other unforeseen financial needs. It is the one way to protect against the unknown.

Who needs life insurance?

Everyone should have some type of life insurance coverage for the unexpected. Even if you have significant financial resources, it is prudent to purchase a life insurance policy. Since most of us live within a budget, life insurance will help you plan for the future and help provide financial stability for your dependents. Most people in their twenties and thirties don't want to think about life insurance, but they have to plan ahead. By the time you are in your sixties and septuages, it may be too

late, and probably more expensive, to get a policy.

Who should I buy from?

Contact your state insurance department for a list of companies licensed to do business in your state. Insurance companies are rated by independent ratings companies such as the A.M. Best Corporation, Fitch Ratings and Moody's Investors Services that assess the financial strength of companies. Rating information is available on the Internet or in publications usually found in the business section of your public library. Information is also available from the individual companies themselves. Before you purchase a policy, you should ask friends and relatives for recommendations, conduct an Internet search, talk to an insurance agent or broker, and research companies at a public library.

When should I purchase a policy?

Think about your life chronologically. As you marry and start your family, life insurance can help you protect your family on a limited budget. With the birth of each child, you should reassess your policy to make sure it is still sufficient. Also, anytime a new, significant debt is acquired, such as the purchase of a new home, you should consider updating your policy to cover that cost. The last thing you would want is to have your family struggling to keep a roof over their heads if something happens to you. As retirement approaches, you should also reassess your financial needs. While you may have social security pensions and other savings, a life insurance policy that accumulates a cash value can help you secure your financial future.

How much insurance do I need?

A quick way to determine how much life insurance your family will need to continue their same standard of living if you are not there to provide for them is to add up all your current and future obligations and then subtract your assets. This will give you a current picture of your financial capacity to deal with current debts. Then add to that the necessary amount to cover expenses for a specified number of years (for example 5 to 7 years). Add to that the future expenses such as your children's education. Your obligations

should include your mortgage balance, business debts, future education expenses for your children, funeral costs, income replacement and general living expenses. Your assets should include your personal savings, investments and employer-sponsored savings. If this is too complicated, a good way to get a ballpark figure of your needs is to multiply your salary by six or seven. For example, some one who makes \$50,000 annually could need approximately \$300,000 in insurance. In any case, this varies from person to person. An insurance agent will review your financial information with you to help determine the correct amount for your policy.

Who receives the funds?

When you purchase a life insurance policy, you choose a beneficiary - someone to whom the money will be left. Many people choose their spouse or children, but if you do not have dependents you can choose your parents or other family members. When making a child your beneficiary, it is important to remember that if the child is a minor, it is recommended that a trust be created and a trustee be named until the child can legally administer the funds.

I've heard of "term" and "whole life" insurance. What's the difference?

Term life insurance provides coverage for a limited period of time (or "term"). Generally, it may be renewed at the end of the term without additional proof of good health. The premiums initially are more affordable, but may increase over time. Term policies are ideal for those people whose insurance needs will decrease over time. Whole life insurance provides permanent coverage, with no need to renew. The cash value increases over time, but the premiums will not increase.

What about the medical exam?

One of the biggest fears people have about life insurance is the medical exam. Usually you can expect questions about your age, medical history, family medical history and personal habits. You may also be asked to have a medical exam. It is important to answer questions about your health and medical history truthfully because this information is crucial for the insurance company to evaluate your risk and establish a premium for your coverage. In the event of a claim, accurate and truthful

answers enable your beneficiary to receive prompt and full payment. However, some companies do have products, usually known as "guaranteed issue" products, that do not require a medical check-up.

With all the bills I already pay each month, how can I afford an expensive policy?

Life insurance does not have to be expensive. It is important to use care when shopping for a policy. Select a product that meets your needs at an affordable and competitive premium. Decide on how much coverage you need, how much you can afford to pay and the type of policy that best meets your needs. Compare products offered by different companies and differences in the costs. Where can I get more information?

Here are some good resources that offer more information about insurance and financial planning:

Books
"Personal Financial Planning," 6th edition, by G. Victor Haines and Jerry S. Rosenbloom

"Wall Street Journal Guide to Understanding Money & Investing" by Kenneth M. Morris, Virginia H. Morris and Alan M. Siegel

"Dictionary of Finance and Investment Terms (Barron's Financial Guides)" by John Dwyer and Jordan Elliot Goodless

Periodicals
"The Wall Street Journal"

Barron's
Kiplinger's Personal Finance

Web sites
The Personal Finance section of About.com
<http://financialplan.about.com>

The "University" at InvestorGuide.com
<http://www.investorguide.com/university/>

"This column is not intended to give legal, tax or financial advice. It is informational only, not a recommendation to purchase any insurance or financial product or service. Individual needs may vary. For advice on insurance, consult a professional advisor or agent for your specific situation."

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