

What's In Your Life Insurance?

Life insurance is an integral part of an overall financial plan WHEN you have a need for life insurance. The key here is the word “when”. Some people just don’t have a need for life insurance. If you have a need for life insurance, you should have it.

Here are the two most common issues that I’ve seen in consumers life insurance portfolios:

1) They don’t have the right amount of life insurance.

There are many different methods to calculate life insurance, however, the bottom line is your need is based upon your personal financial situation not what necessarily what your agent recommends or the amount that your neighbor has. This is an individual decision that is based upon how much of your income the person you are buying the insurance to benefit is dependent upon. [An article here on the UP website can help give you guidance.](#)

The rule of thumb that I use is simple - determine the annual income stream that will be needed by your beneficiary and then calculate the amount needed to generate an income stream in that amount. As an example - if your beneficiary will need an annual income stream of \$50,000 and you assume that they could earn a 5% rate of return, the required amount of life insurance would be \$1,000,000 and yes, this is very general, however, it gives you a good starting point.

2) They don’t have the right type of insurance

Most people need term life insurance and only term life insurance. Yet cash value policies still account for well over half of the life insurance policies sold in the U.S. If you’re buying life insurance for your children, your need is as long as your children will be financially dependent upon you (hopefully their early 20’s) and if you’re buying it for your spouse - the need is temporary while you accumulate other assets for retirement. Using life insurance as an investment is a lengthier topic, with the bottom line that it’s a lot more expensive than an Exchange Traded Fund (ETF) with a .5% annual expense fee.

There are many other misconceptions and issues with life insurance planning. These are two good starting places. Look for more material on the United Policyholders website. Currently, a variety of calculators and planning tools can be found on my personal site at www.lifeinsurancesage.com and in my books “Questions and Answers on Life Insurance” and “The Questions and Answers on Life Insurance Workbook.”