

Six Questions To Ask Before Buying A Life Insurance Policy

I.I.I. Recognizes Life Insurance Awareness Month, A Reminder Of The Importance Of Proper Coverage

September 21, 2011

INSURANCE INFORMATION INSTITUTE
New York Press Office: (212) 346-5500; media@iii.org

NEW YORK, September 21, 2011 — Before buying a life insurance policy there are some important questions you should consider, and discuss with your insurance agent or company representative, according to the [Insurance Information Institute](#) (I.I.I.).

The benefits of a life insurance policy are clear: the coverage provides financial protection against the death of a policyholder in the form of a payment to the beneficiary; and life insurance proceeds are not taxable income. However, it is important that you find the policy that best fits your situation. In recognition of Life Insurance Awareness Month, here are six key questions to help you make the right choice.

1. Do I need to buy a life insurance policy?

If you and your spouse or partner have made financial commitments that rely on the continuation of your income, a life insurance policy is the most cost-effective way to provide the benefits your survivors would need. The proceeds from a life insurance policy also enables your estate to pay what it owes after your death, or fund a post-death gift to your beneficiaries.

2. Won't the life insurance benefits I receive from my employer be enough?

Maybe, but probably not. Group life insurance policies—often offered to employees by their employers—generally pay out a dollar amount equal to one year of the employee's salary, much less than what your survivors would need over time.

3. Can I count on my survivors getting Social Security benefits?

U.S. Social Security [survivor benefits](#) are available only if the surviving spouse has dependent children under the age of 18, or if the surviving spouse is aged 60 or over, so there may be a lengthy period where, in fact, he or she would not receive any benefits at all. Even when children and spouses are eligible for Social Security survivor benefits, the federal government caps them at a "family maximum," which is likely to fall far short of what the survivors need.

4. How can I figure out how much life insurance coverage I need?

Try to identify how much money your survivors will need for as long a time period as they will need it, and buy enough insurance to meet this dollar amount. Some people like to use a shortcut, such as a multiple of their current annual income, when deciding how much the face value of their life insurance policy should be. If you use this method, remember that your income is likely to increase over time, while the life insurance benefit is often a fixed amount, such as \$100,000 or \$500,000. In other words, a death benefit bought today as a multiple of your *current* income will be a smaller multiple of *future* income. Moreover, life insurance industry research has shown that most survivors struggled to meet their financial commitments when the life insurance policy proceeds they received were equal to three times the policyholder's annual income, or less. If you use a multiple-of-income shortcut, consider buying a life insurance policy with a face value equal to at least 10 times your annual income.

5. Should I purchase a term or permanent life policy?

Term insurance is a form of life insurance that pays out only if the policyholder's death occurs during the "term" of the policy, which is usually anywhere from one to 30 years. The premium rates for term policies are lower than for permanent life policies. Permanent policies, such as whole life, universal life, variable life and variable universal life, remain in force as long as the premium is paid, and some policies accumulate a cash value.

6. How can I save money on life insurance?

Life insurance premium rates, especially for term life policies, are now at virtually their lowest levels in history. However, there are a number of things you can do to keep the cost even lower, whether you are purchasing a term or permanent life insurance policy. For example, buy policies with face-value amounts that reflect "quantity discounts." It's possible that a \$500,000 life insurance

policy will cost less than one valued at \$450,000 because the larger policy might offer a discount for reaching the \$500,000 milestone. You can also save by paying premiums annually, rather than on a monthly, or quarterly, basis.

But the most important question to ask about price is: how much will it cost your survivors if you do not pay the premium at all?

RELATED LINKS

Insurance Topics: [Life Insurance](#)

Video: [Insurance IQ – Life Insurance](#)

Video: [Finding a Lost Life Insurance Policy](#)

[Life and Health Insurance Foundation for Education \(LIFE\)](#)

FOR MORE INFORMATION ABOUT INSURANCE: www.iii.org; **PUBLICATIONS:** [iii store](#) **AND** amazon.com

FACEBOOK: [InsuranceInformationInstitute](#); **TWITTER:** [@iiiorg](#)

THE I.I.I. IS A NONPROFIT, COMMUNICATIONS ORGANIZATION SUPPORTED BY THE INSURANCE INDUSTRY.

Insurance Information Institute, 110 William Street, New York, NY 10038, (212) 346-5500