



Guide to Buying Life Insurance

Nearly everyone has some need for life insurance. Many people should have a life insurance policy by the time they reach adulthood. Life insurance provides financial protection for your loved ones after your death. It can cover funeral and burial expenses, and may also pay a lump sum payment to your beneficiary. Purchasing life insurance can be confusing because there are many types of policies and each has different terms and uses. Adding to the confusion is the reality that a person's life insurance needs may change at different periods of their lifetime. It is important to note that life insurance is a very individual choice – what is right for one person may not be the best option for another.

Utilizing an Insurance Agent

When purchasing a policy, you may want to use an insurance agent or broker. An insurance broker is an agent who provides you with a number of different insurance options and companies to pick from. An agent may work for a specific insurance company. Your auto insurance agent often sells life insurance as well, so you may already have a good agent that you can call. Insurance agents and brokers work with you to help you choose the type of policy and premiums that will work best for your situation. The most important thing to remember is to choose a reputable and experienced insurance representative. You can search online for a life insurance broker or agent in your area by searching "life insurance broker in (your zip code)" or "life insurance agent in (your zip code)". Look at the results and read reviews to find out what their clients have to say about them. If you prefer, you may purchase life insurance on your own; however, you will almost always need to go through an agent of the company to complete the purchase.

Types of Life Insurance

There are two main types of life insurance with many variations of each. These include term and whole life insurance policies.

Term Life Insurance

Term life insurance covers the insured for a specific period of time. For example, a term life insurance policy may be for a time period of one, five, ten, or twenty years. Term life insurance pays benefits only upon death and only if you die during the period of coverage. The premium payment must be made or the insurance will be terminated. This type of insurance is generally the least expensive choice. It may be beneficial for those who require a large amount of coverage for a specific period of time. Some term policies may be converted to whole life policies without the need for a medical exam.

Whole Life Insurance

Whole life insurance provides coverage that is put into place until the insured dies, as long as the premium continues to be paid. Premiums are usually at a fixed rate for life, generally at a higher rate than term life insurance, although there can be variations. One of the main benefits of the whole life policy is that it accumulates cash value over time. Some policies pay dividends, which are usually calculated and paid annually. There are a number of different variations on this type of policy.

Other Policy Considerations

Cash Value

Some whole life insurance policies accumulate cash value. A portion of the premium payment is set aside and the amount continues to grow over time. The cash value will be refunded to you if you cancel the policy. The policy holder may be able to take out a loan based on the cash value that has accumulated on the policy. While cash values are available for use by the policy owner during the insured's lifetime through the policy loan provision, it is important to remember that policy loans which remain unpaid at the time of the insured death will reduce the death benefit (or face amount of the policy) by the amount of the outstanding loan. An advantage of a cash value policy is that the cash value can be used for emergencies or to make premium payments in the event of a financial hardship. This is particularly important if you are unable to make a payment – the payment may be covered by the cash value of the policy through a provision called an Automatic Premium Loan.

Dividends

Some whole life insurance policies not only accumulate value but also pay dividends. Dividends are periodic payments. These types of policies are known as participating policies. Dividends are profits from the insurance company and may be available annually. Dividends are not considered part of the actual policy and the amount of dividends may change from year to year. Similar to stock ownership, dividends may not be paid at all if the company did not see a profit. Dividends may be allowed to remain with the company to collect interest. Additionally, sometimes dividends may be used to make insurance policy premium payments. If dividend values remain in the policy at the time of the insured's death, the accumulated dividends will be paid to the beneficiary in addition to the face amount of the policy.

Policy Variations

There are many variations on all of the types of policies, so it is wise to get advice from an insurance professional (agent or broker). Term policies may have various options available such as level term, decreasing term, or increasing term. Whole life policies offer a wide array of variations. Many insurance companies also offer universal life policies. A universal life policy is similar to the term life policy except it also offers cash accumulation. Adjustable life insurance policies allow you to increase or decrease coverage as required. Family and joint policies are purchased by two or more people together.

How Much Insurance to Buy

When you consider how much insurance to buy, you'll need to review your budget to determine how much money you can afford to pay for life insurance premiums. There needs to be a balance between the amount of insurance you purchase and the premium price. It is important to note that your insurance needs may change. Over the course of your life, the financial needs of your family in the event of your passing may change, so you should periodically review your coverage to see if it still fits your needs. You should consider the needs of your family should you die unexpectedly. For example, you may want them to have enough money to pay for funeral expenses, to pay off debt (credit cards, a financed vehicle, medical bills, home mortgage, etc.), and continue their children's education. Keep in mind that the higher the payout, the more expensive the policy.

Choosing a Life Insurance Policy

There are many things to think about when choosing a life insurance policy. Some of the factors to consider include:

- Your age
- Current health
- Whether you are single or married
- Whether you have children
- Ages of your children

Once you have determined the best type of policy for your needs, you can begin to shop for a policy. Compare all the features of the policy as well as the premiums. Some insurance companies offer online premium calculators to assist in figuring out potential payments. Some life insurance policies require you to take a medical exam. Your health and age will be factors used when determining the cost of your policy. If you are required to get a medical exam, this must be done before the company will provide you with a quote or approve and issue the policy.

Insurance Premiums

Insurance premiums or payments may be made on a monthly, quarterly or annual basis. It is important that you always make your payments on time and do not miss a payment. If you do, you are at risk of having your policy canceled. If your insurance policy is canceled, it could be difficult for you to obtain another one, especially if you are older or are now in poor health. As you shop for an insurance policy, it is important that you choose one that you can afford both now and in the future. It is worth noting that insurance premiums will be less expensive for younger people than for older individuals. For this reason, it is advisable to purchase life insurance at a young age.

Comparison Shopping

Life insurance policies can be difficult to compare because they have many different options and variables. An insurance product from one company may be called one thing and the same type of policy from another company may have an entirely different name. As confusing as it can be, it is worthwhile to take some time to review and compare information before you make a purchase. Once you buy a policy, it could be unwise to abandon it, so it is best to try to get it right the first time.

Beneficiaries

A beneficiary is the person who will receive the payout from your insurance policy upon your death. You can have more than one beneficiary and specify what percentage each person would receive of the benefit paid. You must provide the name or names of the beneficiaries as part of your insurance policy. It is important to modify your beneficiaries if your circumstances change. To make a change you will need to contact the insurance company and follow their procedure. This typically includes providing a notarized statement, or at least filling out their form for this purpose and returning it to the insurance company. If the policy is not changed and you die suddenly, the beneficiary on record will receive the payout.

Finding More Information

This guide is designed to provide you with some of the basic information necessary to make a decision about buying life insurance. To find out more information, there are many online resources, a few are listed below. Your state government insurance website may offer unbiased information on life insurance. Be sure that you read and understand the entire policy before signing it. Allow yourself some time to review the policy and get answers to your questions before you make the purchase. Choose a reputable insurance company and do not allow anyone to pressure you into making a decision. If you have further questions, contact an insurance broker or agent for more clarification.

Online resources:

http://www.naic.org/documents/consumer_guide_life.pdf

<http://www.kiplinger.com/article/insurance/T034-C000-S002-buying-life-insurance-at-every-life-stage.html>

<https://www.nolo.com/legal-encyclopedia/how-buy-life-insurance-29827.html>

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