

It's Time to Review Your Life Insurance

Are you underinsured, or not insured at all?

provided by JOSEPH A. GARAFANO, CFP®

When was the last time you looked at your life insurance coverage? Why not do it now? Life insurance can be a remarkable utility as an estate planning and tax-saving tool. Whether you have no life insurance, or you haven't reviewed your policy in a while, it is always a good idea to be aware of your options and be prepared.

About 40% of Americans have no life insurance. LIMRA, an insurance industry group analyzing insurance trends in the U.S., recently found that among men and women, ownership of life insurance policies has hit its lowest level since 2004. LIMRA's study shows 39% of men without even term life coverage, and 43% of women in the same boat.¹

Alarming, the population of married men aged 35-54 who had life insurance dropped more than 10% from 2004-10. Men who fall into this age bracket are usually in or near their peak earning years, and about half of them are fathers.¹

Another alarming finding from the survey: a third of new parents admit they have insufficient life insurance coverage, yet only about 40% try to rectify that problem within two years of the birth of their first child.¹

Any family, anywhere, any time. Watch a life insurance commercial, and you're likely to see a young or maturing family. However, this is hardly the only context in which life insurance matters.

*It can be a vital part of a financial strategy for empty-nesters who want to retire to a comfortable lifestyle.

*A buy-sell agreement funded with life insurance can allow a surviving business owner to buy the company interest of a deceased owner at a previously established price. Key-person insurance can aid a business if a core employee passes away. (It is possible for a business to fund a buy-sell agreement and key-person insurance with pre-tax dollars, making these moves truly tax-efficient.)

There are numerous options when it comes to life insurance: whole life, term, and variable to name a few. But what are the differences? How do you choose? The differences between policy types can be significant. So, which is right for you? There are many factors to contemplate when deciding what type of life insurance will best suit your needs. If you haven't reviewed your insurance lately, or don't think you need life insurance, consider the following potential life factors:

*You are married and your spouse depends on your income

- *You have children
- *You have an aging parent or disabled relative who depends on you for support
- *Your retirement savings and pension won't be enough for your spouse to live on
- *You have a large estate and expect your heirs will owe estate taxes
- *You own a business, especially if you have a partner
- *You have a substantial joint financial obligation such as a personal loan for which another person would be legally responsible after your death

If your circumstances match with any of the items above, or you anticipate a change, you may have a need for life insurance, or to update your current coverage.

Life insurance is a way to protect your loved ones financially after you die. In each of these cases, the proceeds from a life insurance policy can help them manage financially as they adjust to life without your income. The proceeds can also be used to meet funeral and other final expenses, which can run into thousands of dollars.

Permanent life insurance offers a death benefit plus the opportunity to build cash value over time. There are even tax perks in such coverage: not only are the death benefits from the policy received tax-free, but the cash value has the opportunity to grow tax-deferred during your lifetime, and any loans taken against the policy's cash value aren't subject to federal income tax as they aren't considered cash distributions.²

Underinsured? Uninsured? If certain life events have caused you to think about insuring yourself, check in with an insurance professional before September ends. It represents the right thing to do for you, your spouse and your family.

A way to help you as you plan to build wealth. There are cash-rich life insurance policies with tax-advantaged savings features that offer you the potential to earn interest based on the gains of an equity index. Others permit you to direct a percentage of your premiums to investment sub-accounts which may generate tax-free earnings. These policies can be useful when it comes to business continuation and employee benefits, retirement planning, education planning and estate planning.

Are you adequately insured? Are you using life insurance smartly? Life insurance is like the Swiss Army knife of estate planning: there are so many ways you can use it as you plan to pursue your goals. Whether you simply need to insure yourself or need to protect your estate through sophisticated planning, it's time to think about life insurance – and all the ways it can potentially help you financially.

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Citations.

1 - limra.com/Posts/PR/Industry_Trends_Blog/LIMRA__Life_Insurance_Findings_and_Father%E2%80%99s_Day.aspx [4/14]

2 - newyorklife.com/products/tax-advantages-permanent-life-insurance [4/14]