Understanding life insurance

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Life insurance is one of those things that most people do not like to talk about because it deals with their own mortality. It, however, needs to be considered within today's work as it is a critical part of any financial plan. There are a variety of life insurance products available today. I firmly believe that there are very few bad life insurance products; however, there is often bad application of the products. Life insurance policies generally fall into one of two categories: term and whole life. Term products are generally cheaper due to not having the buildup of cash values within the policy. Term life insurance is like homeowner's insurance; you will have life insurance protection as long as you continue to pay the premiums each year. The rates for the life insurance will vary based on the amounts of coverage you desire and the number of years you would like to be covered. At the end of this specified term, you have the option of renewing the policy (at higher rates) or let the policy expire. One of the provisions you would like to have is guaranteed renewability, which will allow you to set up a new policy with the old provider even though you may not qualify for the new policy because of heath related issues.

Whole life insurance, and the host of variations of this type, boils down to having both term insurance and savings that build through cash value. As the cash value of this policy increases, the insurance company's liability is reduced if something should happen to the insured person. For example, if a person has a $100,000 policy with $50,000 cash value, the insurance company is only responsible for the additional $50,000 if the loss occurs. There is often also a point at which the build-up of cash value will pay the costs of the life insurance protection. Although whole life is often recommended by agents, and scorned by the public press, it does provide life insurance protection for your entire life. The question often asked is if you need life insurance for your entire life. If you follow the guidelines of this book, there should come a point at which you have set up accounts for college, paid off your home, and built up a savings surplus. At this point life insurance may become an unnecessary expense.

I am a firm believer that life insurance should be used to protect oneself against catastrophic events and not as an investment. Just like you should always have home owners insurance if you own a home, life insurance is needed to protect your survivors should something detrimental happen to you. If you have small children and want to provide for their college education, provide spousal income for a number of years, and pay off the primary home, purchase the amount of insurance you need to accomplish this, and no more. Also, with the growing dependence on multiple household incomes, it may not be enough to cover just the primary breadwinner; both spouses need insurance to cover the possible needs of daycare should the spouse die unexpectedly.