Protect yourself, your family, by making a budget for life insurance

by Denise Sautter

Seventy-three percent of U.S. adults think life insurance costs too much, according to a 2006 Mutual Life Insurance Co. survey conducted by Harris Interactive.

But declaring "I can't afford it" is not a good enough reason for not buying a life insurance plan, some experts say. They argue that life insurance is a good way of financially caring for loved ones after you die.

FINANCIAL ADVISER - Darrell Jones is a financial advisor with New Market Financial Advisors. He says for pennies on the dollar, a life insurance policy can leave your heirs with substantial amounts of income at your death. CNS Photo by Julie Vennitti.

There are two basic types of life insurance, according to the Ohio Department of Insurance. Term is the simplest and least expensive type, but is limited to the length of the contract. Whole life or permanent life insurance provides lifetime coverage at a premium rate.

"One thing about life insurance is it is a unique financial planning tool," said Darrell Jones, a financial adviser for New Market Financial Advisors. "For pennies on the dollar, you are able to provide your heirs with substantial amounts of income at your death."

The advantages are many, he said.

"Life insurance proceeds pass to the heirs on an income-tax-free basis," he said. "A lot of times, in conjunction with several different types of legal and financial trusts that are available, life insurance is used to pay for estate taxes in a very efficient way."

SIT DOWN WITH A PRO

To determine the proper amount of insurance someone should have, or the type, Jones recommends sitting down with someone who can help evaluate how life insurance should fall within your financial plan.

In some policies, $100,000 is the minimum amount of insurance you can get, said Jones, but today, that could be inadequate. It is important to buy what you need. "It is particular to everybody's situation. I never promote anyone buying more insurance than what they need," he said. "That is why it is important to sit down with an adviser and go through a needs analysis to determine the proper amount of insurance for you."

GET WHAT YOU NEED

The first priority in choosing the type of life insurance is to get the amount of coverage you need, then decide the best way to afford the insurance you need.

"That answer may be a combination of a couple different types of insurance," he said. "A permanent insurance is the best type of insurance to buy for your lifetime."

Financial planners could be insurance agents or they could be financial planners who don't sell products, said Scott Warburton, a partner with the Bruner Cox CPA firm.

"We look for deficiencies for people who need insurance," he said. "We try to calculate how much they need and try to point them in the right direction. The amount of insurance a person needs depends on the individual situation. "Every individual is different," he said. "In general, I would say most people are under-insured. Life insurance is to preserve, protect or create an estate. Those are the three reasons you would have it."

The younger you are when you invest in life insurance, the less expensive it is, said Joe "Buzz" Williams, of the Joe "Buzz" Williams Insurance Agency. "Whenever you can start affording it, that is when to do it," he said. "If you buy it when you are 19, or 20, even 25, it is going to be a good deal. If you have to wait until you are 45 to afford it, you may not be able to get life insurance because of high blood pressure or some other health problem. "Life insurance is one of the toughest things to sell because all you sell people is a piece of paper," Williams said. "It isn't something they can grab nor can they use it right now, today. People don't need it if they don't die. "The problem is, we don't know when we are going to die," he said. "You buy car insurance and house insurance. Life insurance is just as important, especially if you have children."

BEFORE YOU BUY

The Ohio Department of Insurance offers these tips for buying life insurance:

- Your life insurance plan should be structured to expand and contract in response to your changing circumstances.

- Do your research and ask questions. Be sure to look into the company's customer-service reputation and financial strength.

- Decide what type of life insurance policy you want - term, whole life, universal life, or a combination of these policies.

- Don't sign any life insurance application that has not been completely filled in and dated, and make a copy for your files.

- Immediately study the policy once you receive it and make sure it's exactly what you ordered.

An insurance glossary

Thinking about buying life insurance, but you are not sure of what all the terms mean? Here is a glossary of most-used insurance terms by the Ohio Department of Insurance. You may see these terms while choosing a plan that is right for you.

- Accelerated death benefit: A policy provision or rider that lets you collect part of your death benefit before you die. If you have a terminal illness, the policy advances you a specified part of your death benefit to pay medical bills or other expenses, then the amount is subtracted from the death benefit your beneficiary receives.

- Accidental death: A provision or rider that promises to pay more (usually double) if you die in an accident. Also known as double indemnity.

- Actuary: A mathematics expert who applies probability theory to the business of life insurance and is responsible for calculating premiums, policy reserves and other values.

- Administrative fee: Charges some policies deduct from cash value accumulation each year.

- Annuity: A contract purchased through an insurance company, usually to accumulate funds that can be used after retirement.

- Annuitant: A person who receives an income benefit from an annuity.

- Assignment: Giving rights under the insurance policy to someone else. You can assign beneficiary rights or policy ownership.

- Automatic premium loan: A provision in a policy that authorizes the insurance company to use money from your cash value to pay premiums.

- Beneficiary: The person you designate to be paid a death benefit when you die. A policy may have one or more beneficiaries.

- Burial policy: A policy with a relatively small death benefit, intended to cover your funeral and burial expenses.

- Cash value: The savings portion of a life policy. When your premium payments are more than the cost of insurance, the excess goes into a cash value account and draws interest.

- Certificate: The evidence of coverage received by persons insured through a group life policy.

- CLU: Charted Life Underwriter. A title that agents and other insurance professionals can achieve after taking a series of classes and passing exams. An agent with CLU after his or her name should know a lot about life insurance.

- Contestable period: The time during which an insurance company can challenge a life insurance policy after issue.

- Conversion: Changing a term life policy to some other form. This can be done only when the policy is described as convertible.

- Credit life: A policy intended to pay off a debt (loan for car, furniture, appliances, etc.) if you die.

- Death benefit: The money that a life insurance policy promises to pay your beneficiary when you die.

- Decreasing term: A term life policy whose death benefit goes down each year.

- Dividends: When a company collects more money from policyholders than is needed to cover the cost of insurance.

- Endowment: A cash value policy that sets a specific time at which the cash value will equal the death benefit. If you buy a $10,000, 20-year endowment policy, you will immediately be insured for $10,000. If you are still living at the end of 20 years, you will receive $10,000 in cash.

- Face amount: The sum a policy promises to pay when the insured person dies, or at the maturity of the contract.

- Family history: Information about medical or mental problems of your parents and other family members. Companies may charge you higher premiums or reject you if your family has a history of cancer, heart attacks, or such diseases as Huntington's.

- First to die: Provision in a policy that insures both husband and wife. When the first spouse dies, the survivor collects the full death benefit.

- Fraud: Any time you knowingly provide false or incomplete information on an application for insurance or on a claim.

- Free look: A time after you receive the policy for you to review and consider whether it is what you want.

- Genetic testing: Using modern scientific analysis of your blood to determine whether you have any genetic defects that might make it more likely that you would die earlier than the average person. Only a few companies require genetic testing.

- Grace period: The time after an insurance premium is due during which the premium can still be paid with no interest charged, and coverage remains in force. This period is usually 30 to 31 days.

- Group life: A policy issued to an employer, association, or other organization.

- Guaranteed issue: A policy that is sold to all applicants without regard to their health.

- Guaranteed rate: The only interest amount that the insurance company promises to pay on any cash value in the policy.

- In force: A policy is in force when all conditions have been met to establish or maintain the company's obligation to pay if you die.

- Insurable interest: In order to be the owner and beneficiary of a life insurance policy, there must be some relationship to the insured person.

- Lapse: The termination of an insurance policy as a result of failure to pay the premium.

- Loan: If your policy has accumulated cash value, you may borrow part of it. Interest rates are generally better than bank rates. The amount you borrowed will be deducted from your death benefit until you have repaid it.

- Mortality charge: The cost of insuring you at your current age.

- Nonforfeiture: If you cancel a cash value policy after several years, the company is required to refund part of the cash value.

- Outlay: The amount you pay the insurance company for insurance (same as premium).

- Paid-up: A policy on which all premium payments have been made.

- Participating policy: A policy that has the possibility of paying dividends.

- Policy owner: The person who contracts with an insurance company for a life insurance policy. The owner of the policy has the right to designate beneficiaries.

- Preferred rate: The rate the company charges people who have the lowest risks.

- Pre-need contract: A contract with a funeral home that makes it possible to pay your funeral expenses in advance.

- Reinstatement period: Restoration of a policy that has lapsed due to non-payment of premium after the grace period has ended. The reinstatement period in life insurance is 3 years from the premium due date.

- Renewable term: A term life policy that guarantees you the right to renew at the end of the term.

- Replacement: An insurance agent replaces your policy when he sells you a policy to take the place of one you already have.

- Rider: An addition or amendment to an insurance policy.

- Risk: The likelihood that you will die while insured.

- Risk factor: Things about you that affect your risk, such as age, smoking, hazardous occupation, or a family history of heart disease.

- Settlement option: How a beneficiary receives payment of the death benefit.

- Suicide clause: A life insurance policy will not pay a death benefit if you commit suicide within the first two years after you buy the policy.

- Surrender charge: If you surrender an annuity or life policy prematurely, the company may deduct a fee from the amount it owes you.

- Term life: The simplest form of life insurance, it generally offers no cash value feature. You pay a premium and the company promises to pay your beneficiary if you die.

- Underwriting: The insurance company's process for determining whom it will insure.

- Universal life: A flexible-premium life insurance contract that accumulates values and pays a death benefit. You choose the policy's premium and face amount, and you can adjust these as long as the policy is in effect.

- Variable life: A type of whole life insurance in which the face amount and cash value rely on the investment performance of a special fund. Reserves are placed in investment accounts that are separate from the company's general account.

- Viatical settlement: An agreement to sell the ownership of your life insurance policy to another, unrelated person, who becomes both the owner and beneficiary of the policy.

- Waiver of premium: A provision that suspends your obligation to pay premiums when you are disabled or you meet some other policy requirement. This is a common feature in life insurance polices.

- Whole life: Life insurance with a savings feature. Premiums generally are the same (level) every year. When you are young, your premiums are more than the cost of insuring your life at that time. The excess amount accumulates and resembles a savings account, called cash value. This excess is used by the company to insure you later in life, when your level premium is no longer enough to cover you.

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