Should You have Life Insurance?

In 1789, Benjamin Franklin notably wrote, “Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes.” While inevitable, death can result in unintended financial hardship if not properly prepared for. This is where life insurance plays an important role as part of a financial plan. In assessing the need for life insurance, first gauge the risk of financial hardship and the duration of that risk.

Life insurance comes in two generic flavors; term and permanent. Certain financial hardships from death are temporary such as the decedent’s loss of future income, children’s education expenses, and debt or mortgage payments. This is where term insurance is generally suitable. This type of insurance is generally used to cover financial hardship that can result from premature death. Term life insurance only provides a death benefit protection for a specific duration, typically 5-30 years. Term insurance is appropriate for temporary risk protection and is more inexpensive compared to permanent insurance.

However, there are some expenses that arise from death that are unavoidable, regardless of the decedent’s age at death. Permanent needs such as final burial expenses and possible estate planning techniques may best be covered by a permanent life insurance policy. Permanent insurance comes in different varieties and includes whole life, universal life and variable life policies. This type of insurance offers more built-in guarantees but costs more than term insurance. It is important to note that with permanent life insurance, there is a cash value and a death benefit component. Upon the insured’s death, only the death benefit portion is paid. The death benefit payment is only as good as the insurance companies paying ability to cover that claim.

How much life insurance you have is dependent on your personal situation, but a good rule of thumb is to have five to ten times your income in your working years. More insurance may be needed with higher debt loads and fewer assets, while less insurance, if any, may be necessary with lower debt and financial obligations.

Often, your employer will offer term life insurance as part of its benefits package. The costs and features of employer based life insurance should be explored as they vary from employer to employer.

Generally younger people have less assets and more financial obligations, such as raising children or paying a mortgage, so term insurance is generally more suitable. Older individuals commonly have accumulated wealth and have fewer financial obligations, so life insurance is often not necessary. Properly identifying the need for temporary versus permanent risk protection is imperative in determining if you should have life insurance.

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