

Diversity Article – August 2010

Who Needs Life Insurance (and What Kind)?

The first question to ask yourself when considering life insurance is whether anyone would suffer financially if you were to die unexpectedly. If the answer is yes, then you should consider purchasing life insurance. Some of the situations that could point to a need for life insurance include:

- You live with a spouse or a partner and you pay a portion of the household expenses.
- You have children that you provide some support for (even if they do not live with you).
- You are saving a portion of your income to pay college expenses for a child.
- You own a business, piece of land, or house with someone and you want them to be able to buy your portion. Or, even if you leave it to them through a will or other means, they might need funds to maintain the property or keep the business going in your absence.
- You want someone to have some funds that are immediately accessible if you die to pay expenses, including things like burial and estate settlement expenses.

The purpose of life insurance is to transfer the financial risk of someone's death to an insurance company. There are two basic types of life insurance, term and permanent. Term life is pure life insurance; the policyholder pays a premium and if that person dies while the policy is in place, the beneficiary(ies) get the death benefit. If the policy holder survives the term, the contract expires and the insurance company is relieved of any obligation to pay a benefit. The premium payments of those who survive the term are used to pay the death benefits of those who don't. Since most who buy term life insurance survive the term, it is relatively inexpensive.

Permanent life insurance bundles a term policy with a savings vehicle, called the cash value (CV). The CV is allowed to grow tax-deferred; no taxes are due on the interest earned until it is permanently withdrawn. Permanent life insurance policies are significantly more expensive than term policies because they include the cost of the term insurance as well as the CV. The most common form of permanent insurance is whole life. Generally, in a whole life insurance policy, the insurance company guarantees you a certain percentage return on the CV so that they are assuming the risk of return. You are usually allowed to cancel the policy and withdraw the CV, use the CV to pay premiums, and borrow from the CV.

As mentioned above, term life insurance provides the most life insurance for the least cost. A healthy 40-year old female could get a 20-year term policy with a \$200,000 benefit for about \$200 to \$300 per year. The health of the insured (and their family health history) has a big impact on the cost of insurance, and whether a life insurance

company will even offer a policy. Insurance companies usually require a fairly detailed health history, medical records, and a physical before providing a contract. It's good to get several quotes before deciding on a policy, and also to check out the financial health of the insurance company itself.

Kathy Stearns is a fee-only financial planner and investment advisor in Boise. She sells no products and earns no commissions. She is an Investment Advisory Representative of First Affirmative Financial Network (SEC File #801-5687), which serves socially conscious investors and has more than \$500 million under management. Prior to becoming a financial planner she spent more than 20 years working in the nonprofit sector to increase economic opportunities for the disadvantaged in developing countries and the US. Her website is: www.arcadvisers.net