

Abstract: Many people reach a point in life when buying some life insurance is highly advisable. Once they determine that they need it, the next step is calculating how much they should get and what kind. This article discusses both points.

Is now the time for some life insurance?

Many people reach a point in life when buying some life insurance is highly advisable. Once you determine that you need it, the next step is calculating how much you should get and what kind.

Careful calculations

If the coverage is to replace income and support your family, this starts with tallying the costs that would need to be covered, such as housing and transportation, child care, and education — and for how long. For many families, this will be only until the youngest children are on their own.

Next, identify income available to your family from Social Security, investments, retirement savings and any other sources. Insurance can help bridge any gaps between the expenses to be covered and the income available.

If you're purchasing life insurance for another reason, the purpose will dictate how much you need:

Funeral costs. An average funeral bill can top \$7,000. Gravesite costs typically add thousands more to this number.

Mortgage payoff. You may need coverage equal to the amount of your outstanding mortgage balance.

Estate planning. If the goal is to pay estate taxes, you'll need to estimate your estate tax liability. If it's to equalize inheritances, you'll need to estimate the value of business interests going to each child active in your business and purchase enough coverage to provide equal inheritances to the inactive children.

Term vs. permanent

The next question is what type of policy to purchase. Life insurance policies generally fall into two broad categories: term or permanent.

Term insurance is for a specific period. If you die during the policy's term, it pays out to the beneficiaries you've named. If you don't die during the term, it doesn't pay out. It's typically much less expensive than permanent life insurance, at least if purchased while you're relatively young and healthy.

Permanent life insurance policies last until you die, so long as you've paid the premiums. Most permanent policies build up a cash value that you may be able to borrow against. Over time, the cash value also may reduce the premiums.

Because the premiums are typically higher for permanent insurance, you need to consider whether the extra cost is worth the benefits. It might not be if, for example, you may not require much life insurance after your children are grown.

But permanent life insurance may make sense if you're concerned that you could become uninsurable, if you're providing for special-needs children who will never be self-sufficient, or if the coverage is to pay estate taxes or equalize inheritances.

Some comfort

No one likes to think about leaving loved ones behind. But you'll no doubt find some comfort in having a life insurance policy that helps cover your family's financial needs and plays an important role in your estate plan. Let us help you work out the details.

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