The Importance of Life Insurance

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Conversations about life insurance can sometimes be uncomfortable. Let's face it – no one wants to think about death and what our loved ones will face once we are gone. But what many don't realize is that life insurance policies offer benefits that can be utilized while we are living, and Kristin Kelly, owner-principal of Kelly Financial & Insurance Services, shared some insight for individuals and business owners that might make those conversations more intriguing.

THE BASICS OF LIFE INSURANCE

Most people insure cars and homes, knowing that there is a chance they may never need to make a claim. It is peace of mind that if something happens, they will not suffer significant financial loss. Yet, they dismiss the opportunity to purchase life insurance– even though death is certainly going to happen. Life insurance can prevent financial ruin at the time of death for the insured's family members and business, and, unlike car or home insurance, it can provide cash flow throughout one's lifetime.

Life insurance is a contract between the insured and the carrier to provide the insurance beneficiaries an agreed upon sum of money upon the insured person's death. It's a safety net for families who often undergo financial hardship resulting from the loss of income from the deceased, debts incurred by the deceased and exorbitant funeral and burial expenses. It can also be a way to create legacy plans, cover unexpected financial crises and help supplement retirement accounts.

TWO TYPES OF LIFE INSURANCE

Kristin compared the two types of life insurance, term and whole life, to renting and owning a home.

Term life insurance, is like renting. It is temporary, and the cost is more affordable up front. You pay premiums each month, but you do not own it, and you can't withdrawal funds. It expires at a pre-determined age of death (i.e. a Term-70 policy is only paid out if death occurs up to age 70). Term policy funds would essentially replace income from the deceased, enable the family to pay off debts and provide a cushion for the family.

Whole-life insurance is like owning. It is permanent, and while it is more expensive than term insurance, it builds equity as long as premiums are paid. It will always be there, and it is tax-free income. You can access it any time, and it provides a guaranteed death benefit at any age. Withdrawals can occur at any time, and they can be used as supplemental funds for retirement, for medical emergencies during your lifetime or to pay for college tuition without any tax liabilities. You own it, and it gets passed on to your beneficiaries at whatever age you pass away.

Kristin stressed the importance of including both in your financial strategy.

LIFE INSURANCE IS FOR EVERYONE.

In fact, purchasing life insurance for your children or grandchildren at an early age is economical (with youth and good health on their side, young folks can be covered inexpensively). A large percentage of the premium is applied to the cash account when the children are young. By the time the child reaches 18, the policy will most likely be paid off, and the insured could use the money for college (no tax penalties for this), or the money can be used throughout the child's life to cover medical emergencies, treatments or other needs. The policy can also be transferred solely to the child, who could take over the premiums and carry the policy throughout their lives. Think of it as a grandparent sending a love letter to their grandchildren.

Life insurance can be obtained for anyone, though it is easier if the person being insured is healthy. There are policies, often through employers, that will provide life insurance coverage for those with lower health ratings or who have pre-existing conditions. This is one benefit of establishing a policy at an early age.

YOU CAN USE LIFE INSURANCE BENEFITS BEFORE DEATH.

Life insurance provides peace of mind and protection for your family in the event of death; however, there are policies with short-term benefits that provide a tax savings.

HOW MUCH IS ENOUGH?

Kristin offered this formula to help determine how much coverage is needed for a term life insurance policy:

10x salary + $100K/child + any outstanding debts = Total Life Insurance Coverage

BUSINESS OWNERS HAVE OPTIONS

Kristin shared some options for business owners and employers who have the option to purchase life insurance policies to reward, retain and incentivize key employees.

She said **businesses should consider employees valuable assets and insure them as they would any other company asset.**

Business owners can purchase life insurance policies on each other. Upon the death of one partner, the other can essentially use the payout to buy the deceased owner's shares, potentially saving the business from going bankrupt or being sold.

Employers with executive officers who may need an incentive to stay with the company for the long-term, could be offered a life insurance policy. The employer purchases the policy for the employee and their beneficiaries, essentially providing "golden handcuffs." If the employee breaches the contract by leaving, the policy can easily be transferred to another employee. In addition, if a company would be in financial hardship by the loss of a key employee, the company can purchase a Key Man life insurance policy on that employee and use the payout upon death to cover the costs of replacing the employee such as search firm fees and sign-on bonuses.

Kristin suggests talking to your financial planner and exploring options that best align with your financial goals and strategy.