

## Life Insurance

### How are people classified for rate purposes?

To ensure that you receive the best rate possible it is useful to understand how these premiums are calculated by insurers. Firstly insurers will place people into four main categories:

- Preferred
- Standard
- Substandard
- Uninsurable

Someone who has a semi-serious illness such as diabetes or heart disease can be insured but will pay a higher premium. People with a chronic illness will be placed in the substandard category. Someone with a terminal illness will be rendered uninsurable. People with high risk jobs or hobbies will be considered substandard as well. The premiums that you are charged will correlate with the category that you are placed in. Since the categorizing is not an exact science, one company may place you in a different category than another, thus drastically changing the prices of your premiums. Once you are approved for coverage from a company, they cannot deny you coverage for any reason unless you cease payment.

**What should I be on the lookout for when I am purchasing life insurance?** First of all, beware that many insurance salespeople work on a commission basis, and may want to persuade you to purchase the policy that brings them the largest commission, rather than getting you the policy that makes the most sense for you. Most of all, be sure that the company you are buying from will be in existence when you need them. Make sure that you check the insurer's rating before you consider doing business with them. Always review the costs of any recommended policy. The commissions will be stated, and you can see exactly where the money that you contribute will go. Be sure to ask the insurance agent to explain the different policies and why the one you agree on is the best for you considering your circumstances.

### How can I easily compare prices between insurance companies?

In most states there will be a set of rules laid down by a group of insurance regulators. Agents may be required to calculate two different types of indexes to aid in price shopping.

- Net payment index
- Surrender cost index

The net payment index calculates the cost of carrying the policy for ten to twenty years. This can be judged easily by remembering that the lower this number is, the more inexpensive the policy is. This is most helpful if you are more concerned with the death payout than the investment. On the other hand, the surrender cost index is more useful to those who are concerned with the cash value of the investment. The lower this number is, the better. The cash surrender value is what you will receive in return if you were to surrender the policy, which is different than the cash accumulation value. If you are checking the prices of universal life policies, if the policies have different premiums and death benefits, the policy with the higher cash surrender value would be the better investment.

### Why should I have life insurance? Do I really need it?

The main reason that people purchase life insurance is to know that in the event of their passing, their children and loved ones will be taken care of. Life insurance can also help with the distribution of your estate. Your payout could go to family, charity, or wherever you choose to distribute it.

- The main reasons to buy life insurance would be because you have dependents that would be put in a tough position without you providing for them. For example, if you have a spouse, a child, or a parent who is dependent on your income, you should have life insurance.
- If you have a spouse and young children, you will need more insurance than someone with older children, because they will be dependents for a longer amount of time than older children. If you are in a position where you and your spouse both earn for the family, then you should both be insured in proportion to the incomes that you garner.
- If you have a spouse and older children or no children, you will still want to have life insurance, but you won't need the same level of insurance as in the first example, just enough to ensure that your spouse will be provided for, to cover your burial expenses, and to settle the debts that you have accumulated.
- If you don't have children or a spouse, you will only need enough insurance to make sure that your burial expenses are covered, unless you would like to have an insurance policy in order to help in the distribution of your estate.

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## Life Insurance (cont.)

### **What amount of life insurance should I have?**

In order to figure out how much insurance you need, you will need to explore your current household expenses, debts, assets, and streams of income. If you need assistance in this, consult either your accountant or financial advisor.

The amount of money that you want to leave behind for your dependents should allow them to use some of the money to maintain their current standard of living, then reinvest another lump sum to ensure that they will be well off in the future.

When attempting to calculate the amount of money that you need to leave behind, be extremely meticulous. If you err low, your family may not receive the help that they need from the insurance company, and if you err the other way, you will be spending more than necessary in insurance premiums.

**Which type of life insurance fits me best?** There are 7 major types of life insurance:

#### Term

Term insurance is best described as a policy for which you pay over a specific amount of time. In the event that you die within that period of time, your beneficiaries will receive a payoff. People that are under the age of 40 will find this package less costly than a whole life policy. These policies generally do not build in cash value. However, they can convert over to a whole life policy without a mandatory physical.

#### Renewable

The policy which is bought most frequently is the Renewable Term Policy. This policy renews every year without you having to do anything, and there is no need to input any new information or take physicals. This can continue every year until you are in your 70s. The policy will increase incrementally every year, along with your age.

#### Re-entry

With this life insurance policy, you will have to periodically take physicals for the company to judge your rate of risk. If you don't, you will be subject to paying an extra premium.

#### Level

In the Level Term policies, you will be locked into a given rate of premium and you will stay there during a certain period (although not necessarily during the entire period of coverage).

#### Decreasing

A Decreasing policy is one which decreases in face value with time while the premium remains the same.

#### Whole Life

Whole Life is the most traditional policy given; this has a cash-value build up, sometimes offers dividends, and provides death benefits. This is not a policy that needs to be renewed constantly, as long as the payments are made, the policy will continue until death.

#### Universal Life

This policy is similar to the whole life policy. However, it offers more flexibility in many ways; you will have different options in cash value growth and the payment of premiums.

#### Variable Universal

Variable Universal policies will give you the option to choose the investments for your cash value. This is more risky, but simultaneously gives you more control over where this money is invested.

#### Variable Whole Life

This is the same as the previous in regards to control over the investments that are made. The difference between these two is the same as the difference between Whole Life and Variable.

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