

Life Insurance Policy “Who Needs One?”

The Purpose of Life Insurance

Not everyone needs life insurance. If you are a single person and have no dependents, it may not be worth the expense. If, however, you have anyone who financially depends on you (even partially), life insurance may be appropriate for you.

Ask yourself this one question: “Would my death leave anyone to suffer financial hardship?” If the answer is “yes”, then it’s probably a good idea to invest in some form of life insurance.

A well structured policy can provide you with peace of mind, knowing that your loved ones will be taken care of in the event of your death.

It can protect your family from risk exposures such as repayment of debts, provide income for your surviving spouse, put your children through college or university, leave a charitable legacy, pay for funeral expenses, etc.

Originally life insurance was designed to protect the income of young families during the wealth accumulation phase of life, but today it is used for many other reasons including wealth preservation and estate tax planning.

Life insurance protection is also important if you are a business owner or a key person in someone else’s business, where your death (or your partner’s death) might wreak financial havoc.

Life insurance protection comes in many forms, and not all policies are created equal, as you will soon discover. While the death benefit amounts may be the same, the costs, structure, durations, etc. can vary tremendously between the different types of policies.

The Amount of Coverage Needed

Your need for life insurance will depend on your personal circumstances, including your current income, your current expenses, your current savings and your family’s goals.

A general rule of thumb is to purchase enough life insurance to cover 6 to 10 times your gross annual income, but that is just a rough guide.

Your particular family however may need more or less coverage than that, but before making any final decisions you should map out the details of what you have versus what goals you’d like for your family once you are gone, keeping in mind that their security can often carry a higher price tag than originally thought.

If you have any outstanding debts make sure the coverage is enough to pay them off in full. This includes car loans, mortgages, credit cards, personal loans, business loans, etc. You may also want to think about allowing for a little extra to take care of any interest charges.

The Duration of the Coverage

Many insurance consumers only need to replace their income until they’ve reached retirement age, have accumulated a fair amount of wealth, or their dependents are old enough to take care of themselves.

When evaluating life insurance policies for you and your family, you must carefully consider the purchase of temporary ([Term life](#)) insurance versus permanent coverage. ([Whole life](#); [Universal life](#))

The way that temporary and permanent policies are structured and how death benefits are determined differ greatly. There is also vast differences in the cost of insurance and in the duration of the life insurance protection.

It is not uncommon for individuals to buy term insurance as a temporary risk protection and then invest the savings (the difference between the cost of term and what they would have paid for permanent coverage) into an alternative investment, such as [segregated funds](#) or retirement plans.