

Is It Time to Buy Term Life Insurance?

You may have read that term life insurance rates are at historic lows and that now is the time to buy. A short primer on life insurance might be helpful before even considering whether you should take advantage of these “bargain” rates.

First, a quick definition of what term life insurance is: a term policy provides protection for a fixed period of time, or “term” – anywhere from one to 30 years – and when it reaches the end of that term, the protection ends. Unlike whole life or universal life policies, term policies provide no cash accumulation; they only pay a death benefit at the time the insured person dies. Because term insurance doesn’t include an investment component – a cash value that can be borrowed against – term is generally less expensive to buy than whole or universal life.

There is plenty of debate about whether consumers should buy term or whole life policies. Some critics argue that whole life is a poor choice because you arguably could accumulate more cash with other investments. Yet there are good reasons to buy these “permanent” or cash-value policies; for example many people use them as part of their estate-plan-

ning strategy.

But the first point to address is whether you need to buy life insurance, regardless of its type. The primary purpose of life insurance is to replace the income that is lost if a wage earner dies.

People without dependents may feel that they don’t need it, while those with spouses and families almost always do need it.

As for the decision on what kind to buy, it helps to get some advice. A financial planner can help you determine the right insurance products to buy, based on your needs and your present assets; he or she can also help you incorporate life insurance into your overall estate plan.

Here are some issues that need to be considered:

1. How much money would your spouse and your children need to replace your income over your remaining working years?
2. Will your spouse, or your children’s guardian, need money to pay for childcare?
3. Is there a mortgage to pay off?
4. Are there substantial short-term debts, such as credit cards or auto loans, to pay off?
5. What are estimated college expenses for your children or spouse, and when will those expenses start?
6. How much will your burial expenses be?
7. Do you have any other life insurance?
8. Are there anticipated caregivers’ expenses for elderly relatives, or for family members with special needs?
9. Do you anticipate substantial estate taxes when you die?
10. Do you have any other assets that can be liquidated sensibly, or that will produce income?

The online life insurance calculators found at many personal finance websites can help you address questions 1 - 8. The last two questions require a bit more strategic thinking in terms of what you or your spouse have done with overall estate planning. Keep in mind that your age and health will also be factors in determining how much insurance you can afford to buy.

Many term life policies are both “renewable” and “convertible.” ‘Renewable’ means you can renew your coverage without a medical exam, but generally at a higher cost, based on your age at renewal time. ‘Convertible’ means you can convert your term life policy into an equivalent cash value policy from the same carrier, should this make sense during the term of the policy. Again, the kind of coverage you choose

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should depend on your own personal needs, and a financial planner can help you determine what those are.

Also, as you check various companies, it's important to work with the most financially healthy carriers. Insure.com provides free ratings from Standard & Poor's on various insurers, and many public libraries have subscriptions to ratings from A.M. Best.

Finally, don't buy insurance and forget about it. Make sure that every few years you review your insurance portfolio as part of an overall financial review. Life circumstances change – incomes rise and fall and family size changes. Your insurance holdings always need to reflect current needs and conditions.

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