

How Much Term Life Insurance Should You Buy?

You may have read that term life insurance rates are at historic lows and that now is the time to buy. It's worth a quick primer on why life insurance is necessary and who should buy it before getting to specific amounts that individuals should own.

First, a quick definition of what term life insurance is. A term policy is a policy with a set duration on the coverage period – anywhere from one to 30 years – and when it reaches the end of that term, the policyholder decides whether or not to renew it. Term policies provide no cash buildup like whole or universal life insurance – it only provides a death benefit at the time the insured dies. Because term doesn't provide that investment component – the cash value that can be borrowed against – term is generally cheaper to buy than whole or universal life.

There is plenty of debate whether consumers should buy term or whole life. Some critics argue that whole life is a poor choice because you arguably could get a better return from other investments. Yet there are good purposes for these investment-feature policies – many use them as part of an estate-planning strategy.

But the first point is to decide whether you need insurance. People without dependents generally don't, while people with spouses and families generally do. The primary point of life insurance is to replace income if a breadwinner dies.

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 other assets. Better still, he or she can help shape your insurance purchases as part of an overall estate plan.

A planner can help a buyer decide how much life insurance to buy and over how long a period. Some critical questions that should be asked when purchasing insurance:

1. How much income would your spouse and your children need to replace your income over a period of years based on your current age?
2. Will your spouse or guardian need to provide childcare support?
3. Is there a mortgage to pay off?
4. Are there substantial short-term debts, like credit cards or auto loans, to pay off?
5. What are estimated college expenses for children and spouses, and when will those expenses start?
6. How much will burial expenses be?
7. Do you have any other life insurance?
8. Are there anticipated expenses for care giving for elderly relatives or children or 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 will bring in income?

Most online life insurance calculators found at most business news and 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 youth and health will also be factors in how much insurance you can afford to buy. And keep in mind that life insurers will investigate suspicious claims, so be honest about all facts you report.

Many term life policies are both "renewable" and "convertible." Renewable means you can renew your coverage without a medical exam. The latter allows you to 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 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.

One more thing. Don't buy insurance and forget about it. Make sure that every few years you are reviewing your insurance purchases as part of your overall financial plan. 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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