DJ GETTING PERSONAL: Avoiding Unnecessary Insurance Policies

By Shaheen Pasha

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NEW YORK (Dow Jones)--Insurance buyers beware: Your insurance agent may be selling you some unnecessary policies.

Insurance, by definition, is aimed at protecting a policyholder from various types of financial peril. But many consumers are unwittingly paying too much for insurance that really isn't in their best interest.

And it is their agents who are benefiting in the end.

"There is a ton of money to be made in selling oddball insurance," said Morris Armstrong, a fee-only financial planner at Danbury, Conn.-based Armstrong Financial Strategies. "And many insurance agents play psychological warfare by (implying) that if you don't take the insurance, you are a bad person that isn't providing for your loved ones."

These fear tactics are most often used on consumers contemplating the purchase of life insurance.

Purchasing life insurance is a morbid task for many. And consumers often completely rely on their agents to make the transaction palatable and guide them to the best policy. But financial experts warn that consumers should think twice if an agent promotes whole life and variable life products over term life insurance.

"Whole and variable life products have much greater restrictions, lower rates of return and tend not be as good an investment," said Gary Schatsky, a fee-only financial advisor and attorney at New York-based Objectiveadvice.com. "But (for agents) they tend to yield much higher commissions."

A whole life insurance policy combines protection against premature death with a savings account. Premiums are fixed and guaranteed, and remain level throughout the policy's lifetime.

But term life insurance, which covers an insured person for a certain period of time, is overwhelmingly the best choice for most individuals, Schatsky said. While premiums tend to increase with age, for most consumers, the need for life insurance also decreases as beneficiaries grow older and become self-sufficient. A policyholder can take a payout at the end of the term which can then be invested for a better return - a much sounder financial strategy, experts say.

Mortgage insurance is another form of insurance that is often touted, but may not be necessary. These term policies cover the life of a person taking out a mortgage. In the event of death, the outstanding balance on the mortgage is paid in full.

But Schatsky said a sound life insurance policy provides more than enough funds for beneficiaries to pay off a mortgage if they so choose, and could be 80% cheaper than a mortgage insurance policy. It also provides beneficiaries with the option of using the funds for another purpose, such as investment.

Life insurance for children can be another money pit, said New York-based insurance consultant Glenn Daily.

"There is an emotional impact of having a child die," Daily said. "The argument for this insurance is that it gives you time to grieve by taking the time off from work."

It is also touted as a smart move by parents to assure that their children have whole life insurance policies as they grow up, regardless of health issues. But what many consumers don't realize is that premiums for young children tend to be much higher than for adults, because insurers don't know if the children will be smokers, drinkers or develop health problems down the road.

"It's just not appropriate in most cases," Daily said. "If you're paying for that type of insurance, you're not buying coverage that's more likely to pay off."

So what kind of insurance coverage does the average consumer really need?

Keep it simple, advises Schatsky. Most people should opt for a basic term life insurance, homeowners' insurance and auto insurance with adequate liability coverage, based on their assets and the community in which they live.

Disability insurance is also a good bet, but financial planners and insurance consultants advise clients to avoid opting for riders - or add-ons - to current disability and life policies.

Marnie Aznar, principal of Aznar Financial Advisors, said some consumers consider adding an expensive disability waiver-of-premiums rider on a life insurance policy to insure that, if they are disabled and can't work, they won't have to pay the premiums on their life insurance. But she warned consumers to read the fine print, because the policy definitions are often so stringent that claimants may not qualify unless they are totally incapacitated.

Accidental death and dismemberment insurance riders may also sound like solid protection at little cost, but experts say this type of insurance is often unnecessary.

"Agents try to sell it by saying it's so inexpensive, why shouldn't you get it?" Schatsky said. "But if you already have a life insurance policy, it doesn't matter how you die."

Insurance experts suggest that consumers do their own due diligence in finding the policies that are right for them and not rely completely on the suggestions of commission-based agents.

"If your agent can't educate you or doesn't want to when it comes to a policy, then you need to find another agent," said Loretta Worters, spokeswoman for the Insurance Information Institute. "You hope that you have an agent that is looking out for your best interests, but you are the person that is ultimately responsible.

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