LIFE INSURANCE

Are You Too Young for Life Insurance?

An even better question is this: Would someone who depends on you for their standard of living suffer financially if you were to suddenly pass away?

(Image credit: Getty Images)

A common perception of life insurance is that it's just for people well into their careers with good, if not high, incomes and a spouse or children who have become used to their standard of living. Until you've achieved all that, common wisdom says, life insurance simply isn't necessary.

That stance, however, is short-sighted. Life insurance isn't just for protecting comfortable or luxurious living conditions for your survivors. It's also, if not primarily, for protecting their ability to financially survive should you pass away unexpectedly.

Viewed through that lens, life insurance suddenly begins to make sense much earlier in life. A good rule of thumb to determine whether you should have a life insurance policy is to ask yourself, "If I were to die, would anyone important to me suffer financially?"

At the beginning of their career, most people are still in their 20s. They're still figuring out how "adulting" works and, for the first time, juggling a number of commitments with real stakes. Their priorities are often centered around getting a job with benefits that cover medical and other expenses. Often, first jobs require a massive time commitment; expectations for entry-level positions have never been higher than today.

Somehow, amidst working far more than 40 hours per week, those in their early careers must balance other life demands, from household tasks to staying in shape. Somewhere in there, maintaining some semblance of a social life is on the list of priorities as well.

A shift begins in your late 20s

In short, young people are busy, with the vast majority of their time commitments focused on building their individual lives. However, often in their late 20s, a shift begins. They start combining their lives with the lives of other people.

That doesn't always mean getting married. Simply moving in with a significant other, getting engaged or having children is enough to shift their focus away from themselves.

It's important to realize that even if you aren't middle-aged with kids in college doesn't mean you don't have expenses that would keep recurring should you suddenly pass away. If you live with someone, your landlord or bank is unlikely to reduce rent or mortgage payments simply because you have died; your partner will be required to pay the entire amount without your income to help.

Will they be able to do so without financial strain? Will they be able to pay your funeral expenses, which can cost upwards of $10,000? In short, will the loss of your income affect their finances? If the answer is yes, it may be time to consider a life insurance policy. Once you've reached that conclusion, it's important to understand the two main types of life insurance: term and whole.

What is the death benefit?

All life insurance includes what's called a death benefit. Simply put, this is an agreed-upon amount of money that will be paid to your designated beneficiaries after you pass away.

Term life insurance begins and ends with the death benefit. If you die during the policy's term — typically five to 20 years, the death benefit will pay your beneficiaries. Once the term expires, you can begin a new term policy. Your premiums may increase; after all, life insurance is essentially the insurance company betting you will still be alive after the term concludes. The older you get, the less likely that becomes, meaning premiums increase to offset the risk.

The next option is whole life. Insurance agents often like selling these policies. Especially for younger people, whole life policies are considerably more expensive than term life insurance. Whole life has a number of extras that can be nice to have but may not be worth it, depending on what stage of life you're in. These extras include a cash-value component, which is essentially an investment account funded by part of your premiums. You can withdraw money from this account while you're still alive, which allows the life insurance policy to benefit you as well as your beneficiaries.

The other main advantage to a whole life policy is that, provided you pay your premiums in full and on time, your premiums never change. You'll pay the same when you're 25 as you will when you're 65. This is why whole life policies are more expensive — the insurance company knows that if you maintain the policy in good standing, you are guaranteed to die while it is still in effect. As such, the company needs to charge more in order to reduce the risk they will lose too much money on the policy.

Different types of life insurance

There are differing schools of thought as to which type of life insurance you can get, but that answer can be distilled to something simpler when you're in your 20s: What do you need or want the policy to accomplish?

Needs-based. How much money would be gone if you were to suddenly pass away? Are you paying half the mortgage? Do you pay the grocery bills? Add up all of the financial contributions you make; that's the amount your dependents need just to continue living as they have been.

Goals-based. Depending on your unique situation, merely ensuring your dependents' current financial needs may not be enough for you. For example, you might have a child and recognize that if you pass away unexpectedly, your child could miss out on nearly two decades of savings to help pay for their college education. A higher insurance payout could cover today's expenses while leaving enough to put away for tuition: Increasing the death benefit on your life insurance can help ensure your family will be able to meet future financial goals.

Everyone's situation is unique, but in general, money often tends to be short at the beginning of your career, and term life insurance is a much less expensive way to ensure your loved ones will be taken care of. It can be an important part of your financial plan early in life.

Not every life insurance policy is created equal: A Certified Financial Planner (CFP) is well-versed in the intricacies of life insurance and is well-equipped to help you decide which option is best for you to work in harmony with your overall financial plan.

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As Director of Operations, Investment Adviser Representative Brianna Gutierrez applies her considerable management talents to growing the company while ensuring clients get the responsive, outstanding service they've come to expect. Brianna has a deep understanding of the financial planning process needed to effectively manage the day-to-day operations while working to maximize client returns.

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