

LIFE INSURANCE

Six Reasons to Have Life Insurance

The peace of mind from knowing your family is financially protected if something happens to you is invaluable, but there are other compelling reasons, too.



Life insurance can be a tricky topic to navigate for anyone. For some, it's an important financial tool that can help them protect themselves and their loved ones in the event of an untimely death, while for others, it's simply throwing away money for something that most likely won't happen anytime soon. There are different reasons why you may want to consider getting life insurance or increasing the coverage you already have.

This article will discuss why life insurance is essential and what benefits it brings to you and your family's future.

Why is life insurance so important?

About 50% of Americans say they don't have life insurance because it's too expensive, according to research by Forbes Advisor. And, according to LIMRA, 42%, or more than 100 million Americans, say that their life insurance coverage is insufficient. Most reservations against life insurance usually stem from the stark difference between present cash outlay and future benefits. This could be because of:

- A lack of understanding about how life insurance works
- Not knowing the types of life insurance and what works best for your needs
- Hesitancy in paying cash today for a far future event
- Paying for something that you, yourself, will not receive in the future

True enough, most life insurance payouts will not benefit the policyholders because, as the name suggests, life insurance is based on the policyholder's life and can be claimed only upon their death.

Albert Kim, vice president of Talent at Checkr, says, "A compensation package with life insurance policy in place is now one of the most non-negotiable terms jobseekers are looking for from their potential employers. This emphasizes how important the role life insurance plays, especially at an age where funeral costs are only getting more expensive."

Kinds of life insurance

Depending on your need, policy length, premiums and benefits, many types of life insurance are available. Some of the most common:

- Term life insurance. This type of life insurance covers the policyholder for a fixed policy term, typically 10, 20 or 30 years. The premium and coverage usually do not change for the term, and the policy is renewable after the term has expired (usually with an increase in premium).
NYSUT NOTE: Interested in term life insurance? [The NYSUT Member Benefits Trust-endorsed Level Term Life Insurance Plan](#) offers level term life insurance coverage for you or your spouse/certified domestic partner.
- Whole life insurance. This is usually more expensive than term life insurance. It has a cash value (saving) component and keeps the policyholder insured for as long as the policy is active and premiums are paid.
- Universal life insurance. Like whole life insurance, this also has a cash value component, which can earn interest. Compared to the first two, UL insurance features flexible premiums and benefits that can be adjusted over time.
- Final expense life insurance. If your goal is to help your loved ones cover your end-of-life medical bills and funeral and burial expenses, this life insurance offers more affordable premiums, even for older and less healthy individuals.
- Variable life insurance. This is a permanent policy whose cash value is invested in assets such as mutual funds. Because of this, the cash value may rise or fall, depending on the market.

The right type of life insurance, based on your needs and goals, gives you the peace of mind of leaving your loved ones financially free and secure. Here are some reasons why you need it, courtesy of small-business owners who know the score:

1. To protect your income

If you are the sole income earner in your family, life insurance is crucial for you, more than anyone else, to secure your loved ones' financial stability in case of your untimely demise.

According to Roman Zrazhevskiy, founder and CEO of MIRA Safety, “Adequate life insurance coverage helps ensure that breadwinners' children, parents or families receive monetary compensation upon their death that would last them just enough until they can earn income on their own to pay for household and other necessary expenses otherwise paid by the deceased policyholder and breadwinner.”

2. To protect your family and beneficiaries

Everyone works hard to give their families the life they dream of. However, accidents and unfortunate events are unavoidable, and nobody can predict when something might happen to you.

Nora Sudduth, founder and owner of Nora Sudduth Coaching, says, “Aside from business coaching, I find it important to emphasize to my clients the importance of leaving a legacy not only to their business, but to their families — and that is by making it a point that no amount of sales or marketing ROI (return on investment) can ever replace time spent with family and making sure they are comfortably living despite any unforeseen emergency.”

3. To cover final expenses

One of the benefits of life insurance is to help your loved ones cover the costs of your burial arrangements after your death. According to the National Funeral Directors Association, a funeral with viewing and burial costs an average of \$8,300, and a funeral with cremation costs an average of \$6,280.

Kyran Schmidt, co-founder of Outverse, says, “Most people don't realize it, but AI has significantly lifted a huge burden among employees burdened by repetitive work that adds to the physical and mental stress causing sickness and death among many workers.” He adds, “A work life insurance policy only covers final expenses, but not the grief and loss your family lives with for the rest of their lives.”

Final expense life insurance covers not only burial, funeral or cremation expenses, but also final medical, nursing and legal expenses.

4. To help pay off debt

Your debt doesn't go away when you die. When a lending institution has unpaid debt, it may go after your remaining assets or estate to settle that debt, potentially leaving your family less to rely on. Even if debt collectors are prohibited from transferring any liability for your debt to your surviving loved ones, hearing from debt collectors can still stress your family.

"With the help of life insurance, your family may use your insurance proceeds to help reduce the burden and stress of settling your unpaid debts or (keeping) debt collectors from touching your remaining estate," says Chris Aubeeluck, head of sales and marketing at Osbornes Law.

5. To donate to charitable institutions

Aside from your loved ones, you can also use your life insurance payouts to provide more for a charitable institution or nonprofit organization. There are many ways you can do this, including:

- Charitable giving riders. A rider on your life insurance policy provides that a qualified institution will receive a percentage of your policy's face value after your passing, subject to maximum limits.
- Gifting your policy. Gifting life insurance policies will allow your donee to receive the full policy amount. As a donor, you will also receive tax advantages by reducing your total taxable estate and your estate tax.
- Naming a charitable institution as beneficiary. One of the most common ways to provide life insurance proceeds to a charitable institution. This reduces a donor's taxable estate and gives you all the cash value benefits while you are still alive for permanent life insurance policies with added cash value that functions similar to investments, while giving the lump sum amount of the payout to your charity or charities of choice.
- Gifting policy dividends. If you don't want to give the full amount of your policy but still want to gift a portion of your benefits to a charity, you may donate the dividends from the cash value of a permanent life insurance policy. Doing this allows you to retain ownership of the policy but also benefit from tax advantages of the donation.

Erin Acheson, vice president of Business Intelligence at ZeroEyes, says, "It is important to remember that in assigning, gifting or naming charitable institutions as beneficiaries, they must meet the IRS' qualifications on charitable contributions as outlined in 501(c)(3) as a qualified organization, especially when you mean to take advantage of the tax benefits of contributors to charitable institutions."

6. To provide access to cash

Some types of life insurance, like whole life and universal life insurance, offer a cash value together with your normal life insurance death benefits. Simply put, your premiums for life insurance with cash value are generally more expensive than ones with no cash value, because your premiums are divided between your cash value and life insurance benefits.

Policyholders who purchase policies with cash value components can benefit from this arrangement by having immediate access to cash in case of an emergency, through partial surrenders or withdrawals of the cash value (which may decrease the death benefit).

The insurance company may also allow the policyholder to take out loans against the policy or use the cash value to pay policy premiums.

According to Tom Golubovich, head of Marketing and Media Relations at Ninja Transfers, “Cash value components aren’t new in life insurance policies, as many policyholders get them to get two-in-one benefits in one premium payment.” He adds, “Although, it is important to read the fine print before agreeing to any cash value-inclusive policies to better understand the tradeoffs it entails with your actual life insurance benefits.”

Life insurance policy premiums are highly dependent on your age, gender and overall health, so the younger and healthier you are when you buy life insurance, the lower the premiums you’ll have to pay to get the maximum death benefits.

NYSUT NOTE: Are you interested in insurance? Check out all of the programs available for NYSUT members. The NYSUT Member Benefits Trust endorses a number of quality, competitive insurance programs that are available to NYSUT members. Some of these programs are also available to or cover spouses/domestic partners of members, dependent children, dependent parents, and grandparents. For more information, [visit the website](#).

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