



Life Insurance Isn't One Size Fits All

Choosing the Right Life Insurance Policy

How to compare plans based on your specific needs

The basic premise behind life insurance is simple: You pay premiums to an insurance company, which then pays your beneficiaries a certain amount after you die. But not all life insurance policies are alike. In fact, the right policy for one person may be precisely the wrong choice for someone else. Understanding the basics of life insurance and what to look for in a policy can help you find coverage that fits your needs.

What is life insurance?

Life insurance is a powerful tool for many different financial situations. Here are a few reasons why you might buy a life insurance policy:

- *Others depend on your income or care.* If you earn money for your family, you may want to make plans to replace that income should you die. Even if you're a stay-at-home parent performing work that doesn't generate income, your work has value and can be insured.
- *Your estate won't cover final expenses.* Even if you don't have dependents, an insurance policy can be useful if it covers final costs, such as funeral expenses, which protects your next of kin from a financial burden.
- *Employer-provided insurance may not be enough.* Your employer may offer a low-cost or free basic life insurance policy as well as a supplemental policy. These policies can be useful but are often not enough for workers with dependents, as they typically represent only one or two years of income.

- *You're young and healthy.* Youth and a clean bill of health are often justifications for *not* being insured. However buying a plan when you're younger and a lower health risk may help you qualify for lower premiums. Starting out with low premiums can be particularly useful when you buy a policy with a renewable clause, which allows you to re-up your coverage without a new medical exam. That way, new health problems won't increase the amount you pay.
- *You want to leave more to your heirs.* If you're interested in leaving a financial legacy, a life insurance policy may help you maximize the size of your estate and reduce potential tax bills for your heirs.

What should I look for in a policy?

Always compare multiple policies when shopping for life insurance. Here are several things to keep in mind:

- *Consider both term and permanent life insurance.* A term life insurance policy covers you for an agreed-upon period of time, whereas a permanent life insurance policy covers you for the rest of your life. Many permanent policies include a savings component. In some cases, the policy owner can borrow against this cash value or withdraw money to help cover certain expenses, such as a child's education.
- *Compare premiums and size of coverage.* Your needs will determine your size of coverage. For example, perhaps you're looking for a policy that will cover 10 years' worth of income or simply pay off the balance of your mortgage. When you compare premiums, find out whether the premiums are guaranteed to remain the same or will increase over the term of the policy.
- *Compare the length of coverage.* For term life insurance policies, coverage lasts a set amount of time, usually between 10 and 30 years. How long you need your term policy may depend on your financial obligations. You may want to be covered until your children are out of the house or until your mortgage is paid off, for example.
- *Find out what happens if you get sick.* Some policies allow you to receive "accelerated death benefits" if you are diagnosed with a terminal illness. Accelerated death benefits are paid to you directly to spend how you like. Whatever balance you leave in the policy is paid as normal after your death.
- *Have confidence in the insurer.* An insurance policy is only as reliable as the company underwriting it. Ask any prospective insurer to see the ratings they've been given by

independent groups, such as AM Best, to see whether you feel comfortable entering into a contract with them.

Deciding on a life insurance policy isn't just about avoiding a "bad" one and choosing a "good" one. It's about finding the one that suits your situation. Don't be afraid to ask questions and scrutinize plans until you find the right fit.

Disclosure

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