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Dispelling the Top 12 Myths About Life Insurance

By Sheryl Nance-Nash Posted 8:00AM 09/01/11 Insurance


Alamy

There's something about life insurance that just freaks some people out. For one thing, it forces them to confront the notion of dying. For another, it demands they think about tomorrow when they don't know what to do about today. So instead, they stick their heads in the sand.

It's not surprising then, that according to the Life and Health Insurance Foundation for Education (LIFE), 40% of adults in the U.S. have no life insurance.

"People procrastinate," says Georgette Geller, divisional executive vice president at Axa Advisers. "They are in denial about thinking about their future. Death is not on their minds, buying life insurance doesn't give them an immediate tangible return and most people are undereducated about the topic."

Lack of knowledge fuels myths that take on a life of their own. September is life insurance awareness month, so let's sort the fact from the fiction. Here are an even dozen myths and truths about life insurance.

Myth No. 1: I don't need a separate life insurance policy. It's taken care of through my job.

Truth: Having a life insurance policy through work is a great benefit, but it's also temporary coverage. If and when you leave that company, the coverage will end. So it makes sense to explore a life insurance policy that will stay with you no matter where you work, says Greg Blake, executive director of life insurance product management at USAA.

An employer-paid policy typically offers a coverage amount equal to one's annual salary or a modest flat amount, says Butch Britton, CEO of ING U.S. Insurance (ING). That may prove insufficient: In addition to medical and funeral bills, your loved ones may need to pay off debts such as a mortgage and provide for other basic financial needs for years to come.

A good rule of thumb is that you might need 10 to 20 times your annual salary, and group benefits just won't get you there, says Brian Ashe, past chairman of LIFE.

To figure out how much you need check out online calculators like this one.

Myth No. 2: Life insurance is too expensive.

Truth: In a study by LIFE and research and consulting firm LIMRA, 85% of participants said they thought coverage was too expensive. Not so, says Byron Udell, CEO of Accuquote.com, which helps people find affordable term insurance.

"The cost of simple level term insurance has come down by more than 60% in the past 16 years, so the prices today are so low, you can afford all you may ever need," says Udell.

In fact, a healthy 40-year-old nonsmoker can buy $500,000 dollars of life insurance coverage, with a premium guaranteed not to change for 20 years, for less than $31 a month (about a dollar a day). "So, forego the $5 coffee and other daily luxury purchases to have the funds to budget for the protection of your family's financial well being," suggests Udell.

Myth No. 3: People in less than adequate health can't get life insurance.

Truth: Many life insurance companies are willing to sell policies to people with a range of common medical problems, says Udell.

In fact, some carriers even specialize in high-risk classes. Yes, the coverage will probably be more costly than it would be for someone in perfect health, but companies will work with you in order to accommodate your needs. "The key is to be truthful about your health upfront, says Udell.

Myth No. 4: Term life insurance is always the right fit.

Truth: Term policies, by definition, last for a certain period of time, so if you die after that period and don't renew your policy, it is not there anymore. The option that give the biggest bang for the buck is a combination of term and universal life, says Pete D'Arruda, founder of Capital Financial Advisory Group.

Term life insurance often gets more expensive as time goes on. Insurance companies make more money with term policies because most people don't die during the terms they are paying for, says D'Arruda. By contrast, he explains: "Universal life insurance is one investment in life that is guaranteed to pay off, and you always pay the same premium."

Term is perfect if one needs coverage for ten years or less, or when one has limited cash to dedicate to insurance. For estate planning, business planning or for longer term needs, one should consider cash value life insurance, says Bill Perryman, founder of Perryman Financial Advisory.

Know too, that the accumulated value in permanent life insurance grows tax-deferred. In other words, permanent life insurance protects your family in the event of your death, but it's much more than that: It's actually one of the most valuable assets in your financial portfolio, says Michael Ferik, senior vice president of individual life at Guardian Life Insurance, which offers its own take on insurance misconceptions at www.lifeinsurancemyths.com.

Glenn Stevick, assistant professor of insurance at The American College agrees, "Permanent insurance is not a ripoff."

Term insurance is less expensive than permanent insurance only when considering the out-of-pocket premium payments, says Mike Roscoe, senior vice president of innovation and actuary at The Hartford. For a long-term perspective, certain permanent insurance products can be much less expensive than term.

Myth No. 5: Life insurance is only necessary for those with dependents.

Truth: Even if you're not married and don't have children, you should still consider whether you need life insurance.

Others may still depend on you, such as parents, and life insurance can cover expenses such as funeral arrangements and potential debts, explains Blake.

Myth No. 6: My lifestyle doesn't affect my insurance premiums.

Truth: Lifestyle has a direct impact on life insurance premiums. Typically the healthiest individuals see the lowest premiums, but other factors that affect cost include lifestyle choices like smoking, as well as your occupation and hobbies, says Blake.

Myth No. 7: I absolutely *must* have life insurance.

Truth: While insurance is a good idea for many people, those who have sizable assets and no debt or dependents may be better off self-insuring, says Frank Darras, a lawyer specializing in insurance.

Myth No. 8: At least the cost of my premium will be deductible.

Truth: The cost of personal life insurance is never deductible if you have an employer, says Darras. If the policyholder is self-employed and the coverage is used to insure the business, then the premiums are deductible on Schedule C of the Form 1040.

Myth No. 9: Only the family breadwinner needs life insurance.

Truth: There's more to consider than a salary when it comes to determining how much insurance each spouse needs. Everything from housekeeping to extra-curricular activities would cost a family extra money if a non-employed parent was longer around to contribute.

"People don't realize is even if you're a stay-at-home mom or dad, you contribute to your family with the valuable services that you provide like cooking, cleaning and driving the kids around town. It all adds up! With more than one life insurance policy in place, your family would be protected if something devastating were to happen."

Just as important is the fact that often, the surviving spouse has a loss of income due after their partner's death. Parents often take time off work to be with their young children, which could negatively affect their careers. There is a financial cost, even if the deceased did not have any income.

Myth No. 10: I'm young, and not planning on dying any time soon. I can wait to get insurance.

Truth: You never know when your number will come up. When it does, you probably won't get a telegram warning you in advance, says Udell.

Life insurance, like all insurance, is the type of product you have to buy before you need it. That means the time to purchase life insurance is when you're young and healthy.

"If you wait, and you develop a serious medical problem, you may not be able to get the coverage you want. Further, even if you stay healthy, the rate for new life insurance is always based on your age ... even just one year older means higher rates," says Udell.

Myth No. 11: Your family can only benefit from your life insurance policy after you die.

Truth: Permanent life insurance policies offer a number of "living benefits," including the ability to access the policy's cash value through withdrawals or tax-free loans for other needs, such as funding a child's education, a hard earned retirement or other lifelong savings need, says Ferik.

Myth No. 12: Once you buy a life insurance policy, you can stop thinking about it.

Truth: "You can't buy a policy and then just forget about it," says Dayle Axman, Supervisor of Life and Health, Consumer Affairs, for the Colorado Division of Insurance. "Things change. When you got the policy, maybe you had a young family. Twenty years later, your situation is likely very different. Review your policy periodically."

Know too, that positive changes in your health can sometimes lower your premiums, and policies with loans and withdrawals should be monitored, points out Ferik.

"Life happens -- a new family member, an inheritance, a promotion," says Ferik, "and you need to make sure your policy still fits."