“How does life insurance work?”

Life insurance, like all insurance, is a form of gambling[1]. In this instance, what you’re gambling on is how long you will live. You are betting that you will die before you have paid more money in premiums than you receive in pay out on your death. The Insurance company is betting that you will live long enough to pay more in premiums than they will pay out on your death.

The insurance company usually wins. This is because they use very detailed actuarial tables to get a very good idea of how long you are likely to live, and charge you premiums accordingly.

That said, it is sometimes a good idea to get life insurance if you are in a higher risk situation, as winning that gamble could mean a lot to those who survive you.

[1] It is a gamble compared to taking your premium amounts and just sticking them in a savings account that you won’t withdraw from until you’re dead. Generally, this strategy would end up paying out more than the life insurance does, hence the life insurance company generally ends up “winning”

wrong!

Fact Check Below

Whoever wrote this post above utilized zero math or fact-checking. It's clear they simply assumed that saving money, in a savings account for that matter, would naturally outperform the death benefit of a life insurance policy. Here is a mathematical breakdown proving this entirely wrong:

A healthy 25 year-old man can purchase $500,000 of permanent level premium life insurance for $1619 per year, which equates to $89,045 in aggregate cost if the insured dies at 80, which is several years older than the average man lives. To out-perform this with a savings account, the person in this example would have to earn a consistent 5.2% interest rate in their savings account. Currently, BankRate.com shows 1.01% interest to be the best saving account rate in America.

If the said 25 year-old died at 70 years old, to beat this, he would have to earn 7.03% interest in his"savings account"

If the said 25 year-old died at 60 years-old, the "savings account" would have to had earned a consistent tax-free 10.14% annual interest to out-perform the benefits of life insurance

If this 25 year-old died at age 40, the "savings account" method would have to had generated 33.82% interest per year to out-perform the life insurance