BY S. KAY BELL

why risk it all?

IF SOMEONE DEPENDS ON YOU FINANCIALLY, YOU PROBABLY NEED LIFE INSURANCE.

Too many of us, however, put off buying this critical policy. Not only are the choices often confusing, but we tend to avoid dealing with such a tough subject. That's a bad move, for you and your family.

INSURANCE IS, BY ITS NATURE, A RISK. A gamble, if you will. You buy a policy, betting on how much you might need and for what eventualities. We tend, however, to avoid as long as possible the one sure coverage bet: life insurance. All of us are mortal, but we don't like to think about it. So we postpone obtaining coverage. And that can be costly.

The most obvious cost is for your family members who depend upon you. Life insurance not only pays for your funeral expenses, but it provides cash to your policy beneficiaries. That money can help replace your income and assure your family meets financial needs such as daily living expenses, mortgage payments and college savings.

Although it is a difficult step to take, financial planners and insurance experts agree that it's one best taken when you're young and healthy. "Individual policies typically require a health questionnaire. You can get insurance with health issues but premiums are higher," said Beverly Rupe, an Austin insurance agent with the World Financial Group, headquartered in Duluth, GA. "Young people tend to put it off because they don't have the money. But when they do need it, it's more expensive."

Calculating Your Coverage

What prompts people to take their first life insurance steps? "When they start preparing for the future," said Rupe. Once you do have a policy, it's a good idea to evaluate your coverage every five years or so, said Rupe. Those major life changes that sparked the initial policy also could affect modifications. In addition to a home purchase and growing family, consider your coverage when your kids graduate from college, you divorce or you have a substantial income increase. Also, added Rupe, single people who provide financial support to others or who have a large debt, such as student loans, might want insurance so the debt isn't passed on to family members.

Say you got a $500,000 policy because you had a new home and young children and wanted to make sure they had money for college. Now that your mortgage is paid off and your kids are wrapping up their education, it's time to reassess your coverage. You still need some life insurance, said Rupe, but your main concern now is the transfer of money to your heirs.

In helping clients determine the appropriate level of coverage, Rupe and her company follow the DIME acronym:

D
Death – Amount = $10,000 - $15,000)
Debt – Amount to pay off existing debt, uncovered medical expenses, etc.

I
Income – Amount to pay surviving spouse an income. Calculate income amount and length of time

M
Mortgage – Amount to pay off mortgage

E
Education – Amount available to provide funds for college

And with insurance, as with most things in life, the key is moderation. You don't want to be under-insured, but neither do you want to be over-insured. »

Term Coverage

A term policy is usually a starter policy, said Rupe. It offers the greatest coverage for the lowest cost, and buyers tend to be those with limited income to put toward a life insurance policy. Term insurance is pure death protection because there is no cash value associated with the policy. Term policies provide the greatest amount of coverage for the lowest premium. However, term policies are usually considered temporary because the maximum age of coverage is 65 or 75.

But not all term policies are created equal. "Some are convertible to a permanent policy and some aren't," said Rupe. "So when looking ahead, a young family buying term coverage might find it worth paying a little more to get a policy that is convertible." The major benefit here is that you don't have to meet the policy's medical requirements. "You never know what's going to happen down the road," said Rupe. "You could have an issue that could cause you to have higher premiums. It might be worth it to pay a little more so you can convert when you get a better-paying job."

That conversion would take you up the next step on the insurance ladder, a whole life policy.

Whole Life Policy

Whole life insurance is considered permanent protection, said Rupe, because as long as the premium is paid, coverage will continue for the life of the insured. Both premiums and death benefit are guaranteed and will remain level for life. Whole life policies also build cash values, which the policy owner can borrow against or is entitled to if the policy is surrendered

Although whole life coverage was the first type of insurance policy, Rupe said, the popularity of the product has been decreasing. The cost of whole life policies prompted the insurance industry to develop term coverage, designed to provide protection at a cost which would let the policy holder have some money left over to invest. However, people weren't investing the difference, so universal life insurance was created.

Universal Life

Universal life is a flexible premium, adjustable life option, said Rupe, which means the death benefit, as well as the premium, can be increased or decreased. The policy owner can even skip paying premiums and the policy will not lapse as long as there is sufficient cash value at the time to cover the monthly deductions for cost of insurance.

A universal life policy is also an interest-sensitive policy, which means the insurer credits the cash value in the policy with a current (non-guaranteed) interest rate and a contract (lower guaranteed) interest rate.

There are two components to universal life policies, said Rupe, an insurance component and a cash account. The insurance component is actually an annual renewable term policy. The cash account portion accumulates tax-deferred each year, earning either the guaranteed contract rate or the current rate, whichever is higher.

Checking Out Your Insurer

With the current financial crisis, some folks are concerned about the stability of the insurance industry. When the Troubled Asset Relief Program, aka TARP, was created by the U.S. Treasury in the fall of 2008, $22 billion was designated for insurance companies. Not many accepted the funds, but like every industry in this recession, some insurers are feeling pain, having lost money in investments that back the policies they offer.

But don't overreact. Risks might not be as great as you fear. If you're concerned about your insurer, or want to check out a company before buying a product, check ratings from A.M. Best, Moody's, Standard & Poor's and Fitch Ratings. You also can check with the Texas Department of Insurance, which monitors the financial condition of insurers and deals with companies that fail. More information can be found in the "consumers" section of the Department's website (www.tdi.state.tx.us).

And, of course, find an agent you trust and with whom you are comfortable sharing your personal and financial needs. "Insurance coverage can get very complicated," said Rupe. "You need to consider your financial circumstances and get the right advice for your situation." ★