



WHY YOU STILL NEED LIFE INSURANCE

Most adults need life insurance. If you have dependent children, a spouse or anyone else who would suffer financially if you die—or if estate taxes could erode the size of the estate you want to pass on to your family or charity—then almost certainly you should own life insurance. Yet many people don't own any, or they don't own enough.

Sitting down at the kitchen table with an insurance agent once was a financial rite of passage. Today, people prefer to sit down with their stockbroker. Fewer than half of all American households have any life insurance beyond the usually inadequate amount provided by employers, according to A.M. Best & Co., an insurance rating company. Americans bought one-third fewer life insurance policies last year than they did 15 years ago.

There are numerous reasons life insurance is being ignored. People have grown more concerned about funding their retirement, so they're putting money into tax-favored retirement accounts instead of into life insurance premiums. Life insurance companies emphasize the investment qualities of their policies instead of the death benefits at a time when more and more people consider it a poor investment alternative. Class-action lawsuits against insurance carriers claiming product misrepresentation have also contributed to the backlash. Two-income families feel they can better weather the death of a spouse than a single-wage-earner family. Nonetheless, owning adequate life insurance should remain an important part of your financial picture.

The principal reason to own life insurance is the protection provided by the death benefits. Life insurance can replace the lost income of the deceased and pay for future financial needs such as college education for the children. Investments in the stock market are not a substitute for life insurance. Many Certified Financial Planner professionals recommend making sure adequate life insurance is in place *before* starting an investment program—even if it means paying the premiums with money that otherwise would have been invested.

Why *spend* money on premiums when you could use it to *earn* money in the stock market? For one thing, investments don't guarantee a return. Yes, a well-conceived investment plan will probably earn at least a reasonable rate of return—perhaps an excellent one—over the long term. The problem is that death doesn't always wait long term. As a group, people live well into their seventies, but individuals die at all ages.

Let's say you ignore buying additional life insurance and divert the premium money into the stock market because you feel the market is a better investment than life insurance. If you live to a ripe old age and your investments do well, that may prove to be a smart choice. The problem is, what if you die prematurely, before you've had time to invest enough in the market? Your family can't live off the investments you never made. But they could live off life insurance proceeds. And those guaranteed death benefits become available the day you buy the policy. You don't have to wait for the market to rise or for the long-term benefits to occur.

The other risk you run with investments as a substitute for life insurance is that even if you've built up a sizable portfolio, its value might be down at the time your survivors need the money. Worse, your survivors will almost certainly pay income taxes on the profits from the sale of investments. Death benefits would have passed to them income-tax free, and with proper planning, estate-tax free.

This issue of investments versus life insurance remains true regardless of whether you buy a term policy (fixed death benefits for a fixed period of time) or a cash value policy (death benefits plus an investment component). Term insurance may be the best buy for the majority of families. However, even if some form of investment-type life insurance is right for you, such as for estate planning purposes, the first priority of the policy should still be the death benefits. Insurance should never be bought solely as an investment asset.

How much and what type of insurance you need are details to be discussed with your financial planner or life insurance advisor. The important thing is not to overlook the death benefit value of life insurance.

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