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Who Needs Life Insurance?

Different types serve you in your life span – and beyond

By Dean Geroulis, Special to the Tribune.

Sometimes the unthinkable happens.

Sarah Lewis of Whitefish Bay, Wis., learned that in September 2001 when her 43-year-old husband died of a heart attack. David Lewis was a pediatric cardiologist on a mission in Ecuador to provide free medical care. It was the sixth such trip he'd taken there.

The loss was devastating to Sarah and her three young children, but could also have been an incredible financial hardship had David Lewis not provided his family with enough money through his life insurance policy to pay off the mortgage, provide college tuition for the children and maintain their quality of life.

"When Dave died, money was the least of my concerns," said Sarah Lewis. "The upheaval could have been far more dramatic."

Without the benefits she received, Sarah Lewis is certain she would have been forced to sell the house, and move the children into a new community and new school system.

But is life insurance for everybody? People in the industry won't go quite that far, but their profile of who should carry such coverage leaves few exceptions. Whether it's to provide for a young family in the event of an untimely death, provide for yourself and a spouse in later years, leave something behind to a charity, or to preserve an estate from debt and tax collectors, life insurance is something they say should probably be considered by a lot of people.

"For an individual to not have life insurance, if they have obligations to spouse and children, is just inconceivable because you're just going to leave them in serious jeopardy," said Frank Keating, president and CEO of the American Council of Life Insurers in Washington, D.C.

Brian Ashe put it simply. "If you love somebody, or you owe somebody, you probably need to have life insurance," said Ashe, president of Brian Ashe and Associates in Lisle. Ashe is also a member of the board of directors of Washington, D.C.-based Life and Health Insurance Foundation for Education, a non-profit industry group that educates the public on life and health insurance.

Jamie Garard, a financial representative for Northwest Mutual Financial Network in Chicago, advises to "start early and buy often."

Garard related the story of a client who bought a life insurance policy on his son at age 12. About 23 years later,

Sarah Lewis checks her son's homework. Sarah's husband, David, whose photo rests in the background, died in 2001, but his life insurance provided for Sarah and the couple's children.

Sarah Lewis (clockwise from far left) plays a board game after school with her children, Meghan, Mikey and Matt. Their father's life insurance policy will pay for their college tuition.

the son died of complications caused by alcoholism, leaving behind a widow and young triplets, Garard said. The original policy included a waiver of premium provision, under which the insurance company would pay lapsed premiums in the event of the insured's disability.

The insured in this case missed some premiums, but because the alcoholism was considered a disability, the insurance company reinstated the policy. As a result, his widow and children received a $250,000 benefit.

"You don't buy the insurance for today, but for tomorrow," Garard said.

Not everyone agrees that life insurance for children or people with no dependents is a wise investment. James Hunt, a Concord, N.H.-based consultant on life insurance for the Consumer Federation of America, said life insurance for children "is generally a mistake." He said single people with no dependents do not need the insurance, but may want it if they plan to start a family.

Another question is how much insurance to buy. Experts put the figure at anywhere between 5 and 15 times your annual income.

"There are all kinds of ratios," said Marlys Harris, finance editor for Consumer Reports magazine, but you should not rely strictly on those ratios.

People need to take into account the specific needs of their survivors, such as paying the mortgage and other outstanding debt, day care and the children's college education. That needs to be measured against the assets that are left behind, whether the surviving spouse works, and how much Social Security or other income from retirement accounts the beneficiaries will receive.

Another issue is whole, or permanent, life insurance versus term life insurance. Term life pays a straight death benefit to survivors, but must be renewed periodically. Whole life is more expensive because it includes an investment component. The policy stays in force as long as premiums are paid. The policy also builds cash value that belongs to the owner of the policy.

"Buy term and invest the rest," said Harris, echoing the advice of other consumer groups that there are better places to invest, such as mutual funds. That strategy also allows you to buy more coverage.

"One mistake that a lot of young families make is to buy whole life insurance and then they really don't have enough insurance to cover their loss of income if somebody dies," Harris said.

Garard said there are analyses that favor either investment strategy. The key is having the discipline to invest the rest.

"I've found that most of my clients who buy term spend the difference," Garard said. "The discipline of putting money aside is the biggest key."

Policies should also be revisited and updated regularly because needs change as situations change.

"There's just a whole horizon of needs that people need to explore," Ashe said. For example, as children grow up and start their own lives and there is no longer a need to provide for their college education, the focus of the policy may turn toward retirement, estate preservation and providing for an elderly surviving spouse.

Credit life insurance, purchased to pay off a mortgage or other specific debt, was generally rated as too expensive and unnecessary. The better alternative is to buy adequate coverage in the life insurance policy.

"Don't buy that," said Harris of credit insurance. "That's the worst. It's very overpriced. You should have enough insurance to cover all your debts if you die."