



Planning for “*What If...?*”

Tools for Protecting Your Family and Managing Your Assets

Life Insurance

What Is It? An agreement with an insurance company that, in exchange for payment of premiums, the company will pay a certain dollar amount in the event of the insured's death. Life insurance is used to care for those who are financially dependent on you and your earnings.

Who Should Have It and Why?

If a child or other individual is financially dependent on you and your income will cease when you die, you probably need life insurance—unless you have other assets that can fill the gap. Term insurance gives the most insurance for your money, which is especially important for young parents with large insurance needs but limited or moderate incomes. An excellent worksheet for calculating how much life insurance you need is in Jane Bryant Quinn's book, *Making the Most of Your Money*, Appendix 1.

There are some other situations in which life insurance may be a useful tool. For example, if a person's estate is large enough to incur estate tax but the estate consists mainly of a business or other illiquid asset that would have to be sold to pay the taxes, life insurance may be indicated.

Terms to Know

Term life insurance: pure insurance. You are buying just insurance with no savings or investment component. The premiums will be set for a certain number of years (the term) such as 10 years or 20 years. You can renew most policies at the end of the term, but the premium will be higher for the new term.

Whole life insurance: insurance that adds a savings component and builds up a cash value over time. Sometimes called permanent insurance. Variable life insurance and universal life insurance are variations of whole life.

Owner: the person to whom the policy was issued. Typically, the person who pays the premiums.

Insured: the person whose death will result in payment of the death benefit.

Beneficiary: the person who will receive the death benefit from the policy.

Issues and Limitations

- Some insurance agents push whole life policies rather than term policies, because whole life pays higher commissions. But many parents do not need "permanent" life insurance and cannot afford as much insurance as they need if they buy whole life rather than cheaper term insurance.
- If the ownership issues are not thoroughly thought through, the full amount of the death benefit may be included in the insured's estate or, if ownership of the policy is transferred during life, the owner may have made a taxable gift to the new owner.

Ask Yourself

Do I need life insurance? If so, how much?

How much life insurance do I currently have? Is it term or whole?



<http://www.ace.uiuc.edu/cfe/whatif/index.html>

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