

Top 10 Life Insurance Myths

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Life insurance is not a simple product. Even term life policies have many elements that must be considered carefully in order to arrive at the proper type and amount of coverage. But the technical aspects of life insurance are far less difficult for most people to deal with than trying to get a handle on how much coverage they need and why. This article will briefly examine the top 10 misconceptions surrounding life insurance and the realities that they distort.

Myth #1: I'm Single and Don't Have Dependents, so I Don't Need Coverage

Even single persons need at least enough life insurance to cover the costs of personal debts, medical and funeral bills. If you are uninsured, you may leave a legacy of unpaid expenses for your family or executor to deal with. Plus, this can be a good way for low-income singles to leave a legacy to a favorite charity or other cause.

Myth #2: My Life Insurance Coverage Needs Only Be Twice My Annual Salary

The amount of life insurance each person needs depends on each person's specific situation. There are many factors to consider. In addition to medical and funeral bills, you may need to pay off debts such as your mortgage and provide for your family for several years. A cash flow analysis is usually necessary in order to determine the true amount of insurance that must be purchased - the days of computing life coverage based only on one's income-earning ability are long gone.

Myth #3: My Term Life Insurance Coverage at Work Is Sufficient

Maybe, maybe not. For a single person of modest means, employer-paid or provided term coverage may actually be enough. But if you have a spouse or other dependents, or know that you will need coverage upon your death to pay estate taxes, then additional coverage may be necessary if the term policy does not meet the needs of the policyholder.

Myth #4: The Cost of My Premiums Will Be Deductible

Afraid not, at least in most cases. The cost of personal life insurance is never deductible unless the policyholder is self-employed and the coverage is used as asset protection for the business owner. Then the premiums are deductible on the Schedule C of the Form 1040.

Myth #5: I Absolutely MUST Have Life Insurance at Any Cost

In many cases, this is probably true. However, people with sizable assets and no debt or dependents may be better off self-insuring. If you have medical

and funeral costs covered, then life insurance coverage may be optional.

Myth #6: I Should ALWAYS Buy Term and Invest the Difference

Not necessarily. There are distinct differences between term and permanent life insurance, and the cost of term life coverage can become prohibitively high in later years. Therefore, those who know for certain that they must be covered at death should consider permanent coverage. The total premium outlay for a more expensive permanent policy may be less than the ongoing premiums that could last for years longer with a less expensive term policy.

There is also the risk of non-insurability to consider, which could be disastrous for those who may have estate tax issues and need life insurance to pay them. But this risk can be avoided with permanent coverage, which becomes paid up after a certain amount of premium has been paid and then remains in force until death.

Myth #7: Variable Universal Life Policies Are Always Superior to Straight Universal Life Policies Over the Long Run

Many universal policies pay competitive interest rates, and variable universal life (VUL) policies contain several layers of fees relating to both the insurance and securities elements present in the policy. Therefore, if the variable subaccounts within the policy do not perform well, then the variable policyholder may well see a lower cash value than someone with a straight universal life policy.

Poor market performance can even generate substantial cash calls inside variable policies that require additional premiums to be paid in order to keep the policy in force.

Myth #8: Only Breadwinners Need Life Insurance Coverage

Nonsense. The cost of replacing the services formerly provided by a deceased homemaker can be higher than you think, and insuring against the loss of a homemaker may make more sense than one might think, especially when it comes to cleaning and daycare costs.

Myth #9: I Should Always Purchase the Return-of-Premium (ROP) Rider on Any Term Policy

There are usually different levels of ROP riders available for policies that offer this feature. Many financial planners will tell you that this rider is not cost-effective and should be avoided. Whether you include this rider will depend on your risk tolerance and other possible investment objectives.

A cash flow analysis will reveal whether you could come out ahead by investing the additional amount of the rider elsewhere versus including it in the policy.

Myth #10: I'm Better off Investing My Money Than Buying Life Insurance of Any Kind

Hogwash. Until you reach the breakeven point of asset accumulation, you need life coverage of some sort (barring the exception discussed in Myth No.5.) Once you amass \$1 million of liquid assets, you can consider whether to discontinue (or at least reduce) your million-dollar policy. But you take a big chance when you depend solely on your investments in the early years of your life, especially if you have dependents. If you die without coverage for them, there may be no other means of provision after the depletion of your current assets.

The Bottom Line

These are just some of the more prevalent misunderstandings concerning life insurance that the public faces today. Therefore, there are many life insurance questions you should ask yourself. The key concept to understand is that you shouldn't leave life insurance out of your budget unless you have enough assets to cover expenses after you're gone. For more information, consult your life insurance agent or financial advisor.