

Buying Life Insurance; Where to Start and What to Look For

Your life drastically changes with the grand entrance of a new baby. And amid the diapers, feedings and constant awe, some new concerns may surface – namely that you want to ensure your little one is protected. Part of protecting your child is ensuring you and your spouse have enough life insurance to provide peace of mind in case of an accident.

Eric Chaloux of Kansas City, Mo., stumbled across this dilemma recently. "Life insurance never really crossed our mind until we learned we were having a baby," he says. "Nothing makes you feel officially 'old' like shopping for life insurance. It was on my wife's and my to-do list, but as those nine months slowly inched by it got put down further and further on the list. Our baby girl came in May, and we still didn't have life insurance yet. That kind of stepped up the process ... fast!"

Chaloux and his wife quickly began to do research on their own. They did Google searches and asked their friends and family where to go – but everyone gave them a different answer. "That's when we had to really put our heads together and sort through all of the different offers out there," says Chaloux.

First Things First: Figure out Your Needs

"The first thing to consider is what a parent wants to provide for his or her survivors in case of death," says Professor Edward E. Graves, who holds the Charles J. Zimmerman Chair in Life Insurance Education at The American College in Bryn Mawr, Pa., the nation's leading educator of insurance and financial services industry professionals.

Graves says there are three cases to be evaluated while the children are still dependent:

1. One parent dies.
2. Other parent dies.
3. Both parents die.

"How much will it cost to support the survivors at the desired standard of living until they become self-supporting?" says Graves. "Include future inflation in the estimates.

What assets are already in place to help support the survivors, including savings, investments, employer-provided insurance and so on? Any shortfall between desired support costs and currently available sources of funds can be provided with new life insurance."

Parents also need to take into consideration how long they'd wish to support their children, says Graves. Just until they complete high school? Undergraduate degree? Graduate degree? Until the living spouse remarries or also passes?

"Parents need to assume what type of schools will be attended and find out what the current costs of those schools are," says Graves. "High schools for children with learning disorders can cost as much as \$27,000 per year. Private prep school can cost over \$20,000 annually. Tuition charges at Ivy League schools run over \$40,000 per year; public colleges and universities have tuition charges ranging from less than \$10,000 to more than \$25,000 yearly."

Taking into account all these potential costs will help determine how much life insurance is needed for both parents. Online calculators and insurance agents can help you determine this total, though many industry experts advise you to have 10 to 20 times your annual income in coverage. But also keep in mind whether your budget can support the premium costs of the coverage you think you need.

Finding and Applying for Insurance

Part of this process entails finding a trustworthy agent and company to provide you with the coverage you need. But where to start? Begin by talking to people you trust and ask for referrals from trusted advisors.

The Life and Health Insurance Foundation for Education (LIFE), a nonprofit organization dedicated to informing the public about the role of life and health insurance, advises looking at an agent's industry credentials, education and training. Professional designations, such as Chartered Life Underwriter (CLU), Chartered Financial Consultant (ChFC) and Certified Financial Planner (CFP), indicate that the agent has completed advanced training and is serious about professional development.

Another good step is finding out about professional memberships. Members of the National Association of Insurance and Financial Advisors (NAIFA) must adhere to a stringent code of ethics.

And first-time buyers should be sure they're purchasing from a quality insurance carrier that is rated at an "A" or higher. There are several insurance carrier-rating services, but one of the most reputable is Best's Review at www.bestreview.com.

"The application for coverage will ask about medical history and should be answered carefully and honestly to be sure coverage will be provided," says Graves. "The application will have fine print granting the life insurance company permission to seek additional information from physicians and credit bureaus. This information will be used to cross check and verify the responses in the application. And most likely the applicant will have to provide urine and blood samples to a paramedic as part of the evaluation process."

Be vigilant about your honesty here. Incorrect information supplied on the application can give the insurance company the right to cancel the coverage during the first two years of the policy, Graves says.

"Parents need to name not only primary beneficiaries but also contingent beneficiaries in case the primary beneficiary doesn't survive the insured," says Graves. "Minor children should not be named as beneficiaries. They're best protected by paying the proceeds into a trust or to a guardian for the benefit of the children."

Graves points out that new parents should know that it's very important to insure their own lives before they even consider insuring their children's. "The death of a child is traumatic but it doesn't threaten the finances of the survivors like the loss of income from an employed parent or the loss of services from a stay-at-home parent," he says. "Medical expenses are covered by medical insurance, and burial expenses for a child aren't prohibitive, and sometimes the costs are waived by providers or greatly discounted."

And one final important reminder: Don't rely just on the insurance offered at your place of work. Maintain a separate life insurance policy from those granted as part of your employment package so that if you quit your job, your company goes out of business or you get fired, your family stays protected.

Life Insurance Checklist

There's a lot of terminology involved in life insurance, and it can be confusing determining which type of coverage is right for you. Frank N. Darras is managing partner of Shernoff, Bidart & Darras, LLP, in Ontario, Calif., where he heads the firm's disability, long-term care and life insurance department and is singled out as one of America's leading plaintiffs' lawyers. Darras prepared these tips and suggestions to help sort out this

complicated but integral investment.

Term Life Insurance: Term life insurance is generally sold in 1-, 5-, 10-, 20- and 30-year term periods. Term life insurance coverage is the cheapest, has no cash value buildup, is usually renewable and sometimes convertible to permanent life insurance. Remember, the healthier you are, the better the rate will be, so buy sooner, rather than later.

Here's what you need to know:

- Know the terms of the contract.
- When can your carrier raise premiums? When the guaranteed premium ends, what will your new premium be? Are there options to convert your term coverage to permanent life insurance?
- Do you have any adverse medical conditions or is your family history poor (father or mother dying of cancer or heart disease prior to age 60), which will preclude you from obtaining the lowest rate? Insurance companies rate insureds from the highest risk of dying to the lowest risk of death by categories: uninsurable, substandard, standard and preferred.
- Always shop for the largest death benefit with the greatest features, advantages and benefits at the lowest guaranteed price, for the longest renewable term from a trusted, competent agent.
- Buy a policy that provides for a "money-back, 10-day free look," so if what you're sold is different than what you were promised, you get your money back.