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Life Brings Change- Has your Coverage Kept Up?

I am constantly challenging my readers to continually plan and review for their financial future. While a lot of attention has been paid to our investment portfolios lately, I encourage you to also review your life insurance policies and coverage. One question to ask yourself is “Has my life insurance coverage kept up with the changes in my life?”

Life insurance serves an essential purpose within a financial plan. It can be the cornerstone of a family’s financial security. Here’s how it works...you pay the premiums and when you die your insurance company pays a death benefit to the person, persons or entity you name as a beneficiary. That beneficiary can then put the money toward whatever is needed to continue his or her life without you, including medical bills, funeral expenses, housing and living expenses, retirement savings or college tuition. One of the best things about leaving your loved ones with the proceeds from a life insurance policy is the way the death benefit is passed on. Generally, it is excluded from income and from the delays of probate. This means that your beneficiaries could receive the funds directly from the insurance company income tax-free and with a properly structured policy, it can also be received free of estate taxes.

A lot of individuals have life insurance at work and feel that they don’t need another policy. It is important to review your work policy and understand exactly what it offers. Is it enough? Can you take the policy with you if you change jobs? If not you may find it difficult to qualify for life insurance due to your age or health. If you are healthy, you can take advantage of a lower premium now. Waiting until your health changes can lead to higher premiums and possibly not qualify you for coverage at all. Many people choose to purchase additional protection so that it is portable and can move with them to different jobs and into retirement.

Life insurance can serve more than one purpose. It can be a means of providing your family the ability to keep the house and pay the bills in case you die. It can fund a business transfer upon the death of one of the company partners. Estate Taxes can also be paid with the proceeds from an insurance policy. Some types of life policies provide “living benefits” by accumulating cash value that you can access to cover emergency expenses, college tuition, a business expansion or for retirement income.

As we age, our financial situation changes over time and the focus of our life insurance can change. If you were to die today, your spouse could live another 10, 15 or 20 years. The death benefit could help provide necessary income. It can also be valuable if you want to transfer your wealth to your beneficiaries through a death benefit, usually without income taxes or probate delays.

Although, there are “rules of thumb” regarding coverage amounts, these should only be used as an estimate. How much insurance you need depends on your individual circumstances. An insurance-needs analysis can be pretty complicated, so it is best to sit down with an insurance or financial professional to figure out what types of insurance policies you should buy and how much coverage you actually need. Through prudent informed decision making and careful planning, you can be assured that your financial plan reflects your priorities and adequately protects yourself and your loved ones.

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