



# Covered for life?

Most people buy life insurance to provide for dependents, but singles should consider it, too. And everyone needs to do the research.

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The stock market's about-face into bear territory since 2000 has investors looking for safer havens for their money. One alternative they are choosing more often is traditional life insurance.

Sales of fixed policies that pay interest or dividends are up sharply, while investors are avoiding variable policies that fluctuate with the stock market.

But do you need life insurance? And if you do, how much should you buy, what kind should you get and where should you get it?

"Insurance is bought to protect someone," said David Woods, who heads the Life and Health Insurance Foundation for Education in Washington, which offers an insurance buying guide and help over the phone.

Most people buy insurance to cover living expenses for family members who depend on their incomes, or their services in the case of a stay-at-home parent. But if you're single, don't automatically count yourself out. If you don't have much savings, insurance could provide the \$10,000 to \$15,000 to cover your burial expenses or a bequest for charity or a relative. At the other end of the wealth spectrum, insurance often is used by people with estates worth \$2-million or more who are concerned about paying estate taxes.

Here are some questions and answers about life insurance:

## How much do I need?

The American Council of Life Insurers recommends buying a policy with a death benefit equivalent to at least five times your annual salary.

## GLOSSARY



### TERM INSURANCE:

Pure insurance coverage, so you get the highest death benefit for your money. However, premiums increase when the term is up. You can get an annual policy, sometimes with a guaranteed right to renew but with rates that increase, or one with a level premium for a set number of years. Some choose a policy with a term that will end when they expect their children to be educated and on their own.

### PERMANENT INSURANCE:

More expensive than term insurance but protection is guaranteed for life if you keep up the payments. Includes an investment component that builds equity known as "cash value." This value may be tapped to pay future premiums, may be taken out as a lump sum by cashing in the policy or may be used as collateral for a loan from the insurance company. Loans reduce the death benefit until they are repaid. Here are three types of permanent insurance:

**Whole life** (also known as ordinary life): Premiums usually remain constant over the life of policy, paid on a regular schedule indicated in the policy. If premiums are adjustable, the policy should specify the frequency with which they adjust, such as every five years.

**Universal life:** After your initial payment, premiums are very flexible. You can reduce or increase the death benefit more easily than with a whole life policy.

**Variable life:** Both death benefits and cash value vary with performance of investments you select. Comes in both universal and whole life versions.

Source: Life and Health Insurance Foundation for Education

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However, following a standard guideline like that without considering your personal situation may result in buying too much insurance or too little. If you have no dependents, you don't need to spend so much on insurance.

"If you're younger and have a lot of dependents who want to go to college, or you're older and with a sizeable estate, that may not be enough," said Stacy Gill, vice president and chief knowledge officer of MLB Group in Westwood, Mass., which studies insurance applications. "You may need as much as 10 times or more of your annual salary.

Rick Adkins, a Little Rock, Ark., financial planner who chairs the governing body of the Certified Financial Planner Board of Standards, said the real issue is expenses, not salary.

"Find out what you're spending, not what your income is," he said. "There's no correlation between income and family situation or debt."

Many people can do the calculations for themselves, perhaps using one of the insurance calculators available on the Internet. Others may want to seek the help of a financial adviser. Professional estate planning help is especially advisable if your estate is \$1-million or more, which means estate taxes need to be considered.

Most policyholders are underinsured. The average individual policy purchased last year was about \$150,000, up from \$113,800 in 2000. The figure is considerably less for existing individual policies, which average \$56,000. The shortfall is most surprising among those with annual household incomes of \$100,000 or more. In a recent online survey conducted by Hartford Life, 65 percent said they had less than \$500,000 in coverage.

One problem is that too many people rely on the life insurance they get as a fringe benefit at work, which may not be adequate for their needs. Small companies typically insure you at one time your salary, and larger corporations up to two times. Paul Graham, chief actuary at

## CHECKING OUT LIFE INSURANCE

### To get information and quotes:

- [www.life-line.org](http://www.life-line.org) or call (202) 464-5000, ext. 109 for the Life and Health Insurance Foundation for Education
- [www.acli.com](http://www.acli.com) (American Council of Life Insurance)
- [www.quotesmith.com](http://www.quotesmith.com)
- [www.quickquote.com](http://www.quickquote.com)
- [www.insweb.com](http://www.insweb.com)
- [www.accuquote.com](http://www.accuquote.com).

### To check a company's status with regulators:

- Florida Department of Financial Services, toll-free 1-800-342-2762 or [www.fldfs.com](http://www.fldfs.com).
- National Association of Insurance Commissioners, [www.naic.org](http://www.naic.org)

### To check a company's credit rating:

- A.M. Best, [www.ambest.com](http://www.ambest.com)
- Moodys, [www.moodys.com](http://www.moodys.com)
- Standard & Poor's, [info.insure.com/ratings/](http://info.insure.com/ratings/) and ([www.standardandpoors.com](http://www.standardandpoors.com))
- Fitch Ratings, [info.insure.com/ratings](http://info.insure.com/ratings) and [www.fitchratings.com](http://www.fitchratings.com)
- Weiss Ratings, [www.weissratings.com](http://www.weissratings.com)

### To find a financial adviser:

- Financial Planning Association, toll-free 1-800-322-4237 or [www.fpanet.org](http://www.fpanet.org)
- National Association of Personal Financial Advisors, toll-free 1-888-333-6659 or [www.napfa.org](http://www.napfa.org)
- National Association of Insurance and Financial Advisors, toll-free 1-877-866-2432 or [www.naifa.org](http://www.naifa.org)
- Certified Financial Planner Board of Standards, toll-free 1-888-237-6275 or [www.cfp.net](http://www.cfp.net) to check a CFP's disciplinary record.

the American Council, said, "Your policy may be limited, especially if it's older and you work for a small employer." According to the most recent council estimates available, the average group policy provides \$41,500 in coverage.

If you are buying extra coverage at work in addition to any free coverage the company provides, you may be paying more than you would if you bought a separate policy elsewhere. "If you're younger and pay toward a work policy, you may be paying more than you should," Woods said.

If you buy your policy outside work, you can take it with you when you leave. That portability is particularly desirable when the economy seems uncertain.

"Employment is often up in the air," said Elaine Tumicki, who heads product research at LIMRA Interna-

tional, a Windsor, Conn., company that tracks insurance sales. "It may be a good idea to buy when you're younger and healthier."

### What kind of policy do I need?

Insurance comes in two basic types, term and permanent, with variations on those two themes.

A term policy is pure insurance without any investment component. It is least expensive when you are young, rising in cost as you age. It often is the only feasible alternative for young families with large insurance needs.

If term is your choice, look for a policy that offers guaranteed renewability every year. Term insurance rates have dropped 57 percent since 1994, making this a more cost effective choice. If you will need

insurance for many years, look at a policy that guarantees a level premium for 10 or 20 years. It will cost more in the beginning than a regular term policy but could cost less in the long run.

Permanent insurance has an investment component and is best for those who want to keep protection into old age. Buying permanent insurance and dropping it within a few years is an expensive mistake because premiums are higher than those for term insurance, and the cash value builds slowly during the early years.

Permanent coverage includes different types of whole and universal life, which build up cash value. Many policies allow the holder to tap the cash value to pay future premiums, to borrow against it or to cash it out by terminating the policy. Depending on the type of policy, premiums may be fixed or flexible, cash values may be guaranteed or fluctuate with the market, and death benefits may be fixed or may increase as cash value increases. Some policies pay interest or dividends, while other variable policies offer a range of investment options.

Because there are so many possibilities, it is important to understand how any policy you are considering will work and how quickly cash value will build up. If its features are not what you had in mind, ask the agent for other options.

Don't forget to name a beneficiary and review your choice when life changes occur. You also may want to consider naming a contingent beneficiary in case your first beneficiary dies before you do.

### Where should I get insurance?

From a reputable, highly rated company.

Start by researching or asking your insurance agent for information about the company's credit rating.

"I'm not sure how many consumers know to ask for ratings," said Merwin Stewart, Utah's insurance commissioner and chairman of the life insurance and annuities committee of the National Association of Insurance Commissioners.

Company ratings are available

online or at the public library. The primary companies offering ratings are A.M. Best, Moody's, Standard & Poor's, Fitch Ratings and Weiss Ratings. The companies use different rating systems, making it important to read more than one and compare the explanations.

"If ratings are B-plus or better, there's no need to worry," Stewart said. On most sites you must register (at no cost) to access online ratings, news alerts and the general guidelines by which the rating agency rates insurers. For full reports, agencies charge a fee. Your library may have the same information in rating guides, and many agents supply ratings free if requested.

You also should check a company's license with state regulators as one line of defense against scams. The Florida Department of Finance recently charged 15 agents with selling phony policies from unlicensed insurance companies. Although the policies were for health and medical malpractice, regulators are concerned that the greedy will start preying on people in other areas, including life insurance.

And, of course, you should compare prices for the coverage you want. One issue to consider is where you fit in the company's risk classification system, since health screening standards vary from one company to the next.

Researching your life insurance needs may be the extra motivation you need to lose weight or stop smoking. Your premium may be 25 percent higher if you are 30 percent over your recommended weight, actuary Graham said.

Never let your old policy lapse before the new one is in effect. If you have health problems, you may be turned down or be quoted higher rates than you expect.

Even after your new policy takes effect, you might want to hang on to your old one for a while. Most policies have a two-year "contestability" period during which a company may refuse to pay the death benefits if it determines you misrepresented your health on your application.