LIFE INSURANCE IS ONLY A SURVIVAL TOOL

Recall from a previous essay that one component of safety is survival. Survival, by definition, is something that takes place after an unintended consequence has occurred. When driving, for example, obeying traffic rules are a form of accident prevention. However, once you get into an accident, the process of the airbags deploying is now survival mode. That is exactly how life insurance works, it is for survival mode after the insured dies. This is a fundamental concept you need to consider when examining your life insurance needs. As we shall see, the decision to purchase life insurance has a very specific purpose and criteria associated with it. Get it wrong, and you could either spend money you don't need to or end up underinsured.

Life insurance has one purpose – to replace the earning power of the insured person should that person die. So now the question is, who has earning power that needs to be protected and who needs to benefit from it? Many people take out life insurance when they really have no business doing so, often because they did not think about this question. If you don't ask this question and answer it correctly it will cost you a ton of money throughout your lifetime without benefiting anything important. You could end up buying insurance you don't need or not buying insurance that you should have! There is much potential to make an unsafe financial decision when contemplating buying life insurance.

So let's explore the "who needs life insurance?" question. There are three criteria for any individual person to need life insurance:

1. Must be a primary provider, via their working income, for other people to live on. The working income and its future potential is the asset that needs to be protected from the threat of death. In this way, life insurance is a survival tool should the worst situation unfold. The "other people" are those that depend on the provider's income earning. For example, the provider of a single income household would typically be a good candidate for needing life insurance. The reason is that the household, which would include anyone except the provider, would not be able to survive or maintain their lifestyle without the provider's income. That leads to the next criteria…

2. There must not be other assets available to generate the same level of income. This simply means that the income generating potential of any assets must be able to duplicate the income level that the provider is able to generate. The caveat here is that the assets, once liquid, can no longer function as an asset. For example, a house that is paid for and is the dwelling of the household's members is clearly an asset, but selling it would require an outlay of cash to pay for similar accommodations. Note that other assets could also include other sources of income, perhaps by extended family members. This leads to the last criteria…

3. The cost of the insurance must be significantly less than the value of all anticipated income that the provider can generate. This simply means that the cost of the insurance must represent a good value. There is little point in paying for a life insurance policy that approaches the cost of the income that it is intended to replicate. You'd be better of simply saving the money.

DON'T BUY LIFE INSURANCE UNLESS SOMEONE ACTUALLY NEEDS THE BENEFIT!

There must be clear beneficiaries of any life insurance policy. Buying a life insurance policy on a distant friend is meaningless if that friend is not providing income (or some other benefit or service) that you or members of your household depend on. Children are typically beneficiaries of life insurance policies on their parents because they depend on the incomes that their parents produce. This income pays for food, clothing, shelter, and education. There is no other reason to buy life insurance. If you die and you have life insurance, you have essentially exchanged your life for the policy's payout to a beneficiary.

While there are many variations of life insurance, it falls into two broad categories – term and whole. Most financial experts frown on the latter for a variety of reasons, and in general, you'd be wise to steer clear of whole life policies. On the other hand, term life insurance is typically affordable and provides a great way to protect the earning power of your life for a set period of time that beneficiaries would benefit from your replaced income should you die. If you are 30 years old and have a child, a typical configuration of term life insurance might be a policy that is worth 15 times your salary that expires when you are 60 years old. That would provide sufficient resources to pay for your child's upbringing and education should you die. Interestingly, and obvious, people that take care of themselves (i.e., non-smokers, not obese, low blood pressure) tend to have much lower premiums than those that let themselves go. It really does pay to life a safe lifestyle and make healthy choices, not to mention that if you do live a safe lifestyle it is even more unlikely that your loved ones will actually need your life insurance policy!

Check out my safety books and other safety resources and information at http://www.markkowaleski.com for more insights to guide you on your journey to living a healthier, wealthier, longer, and happier life.

Remember: keep TABs on your safety: Think safe, Act Safe, Be safe!

- Mark M. Kowaleski