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Courtesy Kevin Berenzweig

The Retirement Strategist

Retirement Strategies Group

Retirement Made Simple

Do you feel lucky today? The concept of risk.

We all face risk--the possibility of injury, illness, death, or property destruction--each day. Although you can never eliminate risk, you can guard against financial loss by shifting part of your financial risk to a larger entity (your insurance company) that's in the business of dealing with that risk. In return for your payment of premiums, your insurance company agrees to pay you (and/or others) a certain amount of money for a specified loss. This loss may or may not occur, so both sides gamble. Still, the potential benefits of insurance may be well worth the cost.

You can limit or eliminate some of your risks with the right type of insurance.

Consider the possible losses associated with each risk you've identified. For example, assume you have a spouse, two minor children, a mortgage, and various debts and expenses. If you die within the next few years, how much money will your spouse need to pay off the debts, meet expenses, and perhaps even send the children to college? Or what if your 68-year-old spouse (or parent) suddenly suffers a stroke and requires around-the-clock care in a nursing home? How will you pay for it?

Insurance coverage can protect you, your business, and/or your loved ones from the financial loss associated with your risks.

Should you buy life insurance?

You should probably consider buying life insurance if any one of the following is true:

- You are married and your spouse depends on your income
- You have children
- You have an aging parent or disabled relative who depends on you for support
- Your retirement savings and pension won't be enough for your spouse to live on
- You have a large estate and expect to owe estate taxes
- You own a business, especially if you have a partner
- You have a substantial joint financial obligation such as a personal loan for which another person would be legally responsible after your death

In all of these cases, the proceeds from an insurance policy can help your loved ones continue to manage financially during the difficult weeks, months, and years after your death. The proceeds can also be used to meet funeral and other final expenses, which can run into thousands of dollars.

If you're still unsure about whether you should buy life insurance, a good question to ask yourself is: If I died today with no life insurance, would my family need to make substantial financial sacrifices and give up the lifestyle to which they've become accustomed in order to meet their financial obligations (e.g., car payments, mortgage, college tuition)?

If you need life insurance, don't delay.

Once you decide you need life insurance, don't put off buying it. Although no one wants to think about and plan for his or her own death, you don't want to make the mistake of waiting until it's too late.

Periodically review your coverage.

Once you purchase a life insurance policy, make sure to periodically review your coverage--especially when you have a significant life event (e.g., birth of a child, death of a family member)--and make sure that it adequately meets your insurance needs. The most common mistake that people make is to be underinsured. For example, if a portion of your life insurance proceeds are to be earmarked for your child's college education, the more children you have, the more life insurance you'll need. But it's also possible to be over-insured, and that's a mistake, too--the extra money you spend on premiums could be used for other things. If you need help reviewing your coverage, contact your insurance agent or broker.

Footloose and fancy-free.

As a young adult, you become more independent and self-sufficient. You no longer depend on others for your financial well-being. But in most cases, your death could still create a financial hardship for others.

If you have a mortgage or other loans that are jointly held with a cosigner, your death would leave the cosigner responsible for the entire debt. You might consider purchasing enough life insurance to cover these debts in the event of your death. Funeral expenses are also a concern for young singles, but it is typically not advisable to purchase a life insurance policy just for this purpose, unless paying for your funeral would burden your parents or whomever would be responsible for funeral expenses. Instead, consider investing the money you would have spent on life insurance premiums.

Your life insurance needs increase significantly if you are supporting a parent or grandparent, or if you have a child before marriage. In these situations, life insurance could provide continued support for your dependent(s) if you were to die.

Going to the chapel.

Married couples without children typically still have little need for life insurance. If both spouses contribute equally to household finances and do not yet own a home, the death of one spouse will usually not be financially catastrophic for the other.

Once you buy a house, the situation begins to change. Even if both spouses have well-paying jobs, the burden of a mortgage may be more than the surviving spouse can afford on a single income. Credit card debt and other debts can contribute to the financial strain.

To make sure either spouse could carry on financially after the death of the other, both of you should probably purchase a modest amount of life insurance. At a minimum, it will provide peace of mind knowing that both you and your spouse are protected.

Again, your life insurance needs increase significantly if you are caring for an aging parent, or if you have children before marriage. Life insurance becomes extremely important in these situations, because these dependents must be provided for in the event of your death.=

Your growing family.

When you have young children, your life insurance needs reach a climax. In most situations, life insurance for both parents is appropriate.

Single-income families are completely dependent on the income of the breadwinner. If he or she dies without life insurance, the consequences could be disastrous. The death of the stay-at-home spouse would necessitate costly day-care and housekeeping expenses. Both spouses should carry enough life insurance to cover the lost income or the economic value of lost services that would result from their deaths.

Dual-income families need life insurance, too. If one spouse dies, it is unlikely that the surviving spouse will be able to keep up with the household expenses and pay for child care with the remaining income.

Moving up the ladder.

For many people, career advancement means starting a new job with a new company. At some point, you might even decide to be your own boss and start your own business. It's important to review your life insurance coverage any time you leave an employer.

Keep in mind that when you leave your job, your employer-sponsored group life insurance coverage will usually end, so find out if you will be eligible for group coverage through your new employer, or look into purchasing life insurance coverage on your own. You may also have the option of converting your group coverage to an individual policy. This may cost significantly more, but may be wise if you have a pre-existing medical condition that may prevent you from buying life insurance coverage elsewhere.

Make sure that the amount of your coverage is up-to-date, as well. The policy you purchased right after you got married might not be adequate anymore, especially if you have kids, a mortgage, and college expenses to consider. Business owners may also have business debt to consider. If your business is not incorporated, your family could be responsible for those bills if you die.

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Single again.

If you and your spouse divorce, you'll have to decide what to do about your life insurance. Divorce raises both beneficiary issues and coverage issues. And if you have children, these issues become even more complex.

If you and your spouse have no children, it may be as simple as changing the beneficiary on your policy and adjusting your coverage to reflect your newly single status. However, if you have kids, you'll want to make sure that they, and not your former spouse, are provided for in the event of your death. This may involve purchasing a new policy if your spouse owns the existing policy, or simply changing the beneficiary from your spouse to your children. The custodial and noncustodial parent will need to work out the details of this complicated situation. If you can't come to terms, the court will make the decisions for you.

Your retirement years.

Once you retire, and your priorities shift, your life insurance needs may change. If fewer people are depending on you financially, your mortgage and other debts have been repaid, and you have substantial financial assets, you may need less life insurance protection than before. But it's also possible that your need for life insurance will remain strong even after you retire. For example, the proceeds of a life insurance policy can be used to pay your final expenses or to replace any income lost to your spouse as a result of your death (e.g., from a pension or Social Security). Life insurance can be used to pay estate taxes or leave money to charity.

Retirement Strategies Group
4225 Executive Square
Suite 1060
La Jolla, CA 92037

contact

toll-free (800) 423-4891

on the web

MyRetirementStrategy.com