The 2 Most Important Factors in Life Insurance Planning

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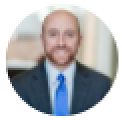

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Far too often, life insurance discussions are focused on shiny, gimmicky products and the secondary benefits they provide, rather than the single most important factor: the need for insurance and the benefits of the protection. What should be a conversation focused on providing protection for one's family or business too often goes down the path of complex and confusing products. While it's important for any client to understand their policies, life insurance really comes down to two simple factors:

1. "How much do I need?"

LIMRA statistics regularly demonstrate that clients see significant value in a needs assessment and want to understand how the amount of coverage fits their needs. Providing a client with a pile of quotes for $500,000, $1,000,000 and $2,000,000 is showing them what the coverage costs, not what the benefit does for them. Contrast this with an advisor who conducts a needs assessment that demonstrates to a client how a term insurance policy with a $1,473,137 death benefit would replicate the client's $100,000 income for twenty years (when reinvested conservatively), and thus, allows their family to maintain their lifestyle if he/she were to pass. The conversation should be about how the death benefit will enable the family to continue to meet monthly obligations, help the kids through school and college, plan for retirement, enjoy annual vacations, etc. (all of the things the income does NOW). Without a trusted advisor sharing this perspective, its difficult for clients to quantify and understand the benefits, which inevitably leads to being underinsured.

A couple of years ago, I researched many of the life insurance death claims that were paid through our office. I can share first-hand that (1) no one ever believed their term insurance would pay a claim, (2) the life insurance made a HUGE difference in their lives and yet (3) it wasn't enough. In nearly every circumstance, the surviving family was immensely grateful, but wished they had purchased more. Many had to make lifestyle changes, including returning to work, delaying retirement or moving out of their homes. The goal isn't to turn beneficiaries into lottery winners; the goal is to allow them the comfort of maintaining their lifestyle during one of the most difficult times of their lives.

When advisors share a broad range of quotes with a client, they are intending to provide options and are attempting to be considerate to client budgetary constraints, which is commendable. Clients deserve to have options and to select the options that are the best fit for their families, but they are not insurance professionals and need guidance. There are ways to be cost-efficient that do not necessitate sacrificing coverage (laddering policies to reduce premium, as an example). Imagine purchasing a home or an automobile and having an agent provide you with three different insurance amounts (in multiples), and asking you to choose how much of your home or your automobile you want to protect? That would be inappropriate and addressing life insurance in the same way is too.

Many financial planners have access to sophisticated financial planning technology that will conduct a "deep dive" analysis to pinpoint coverage needs based upon a client's unique circumstances, goals and objectives. Those who may not have access to that kind of technology can still conduct a meaningful analysis through no-cost tools provided by The Life Foundation and nearly every insurance carrier in the market.

2. "How long do I need it?"

Many life insurance needs are not permanent and low-cost term insurance may be the best solution. For someone looking to protect their income (and therefore, their family's standard of living), a term insurance policy that encompasses the duration of their income-producing years generally makes sense. Some needs are clearly permanent and, therefore, should have permanent coverage. A clear example in today's market being the need for affluent clients to provide liquidity for an estate subject to the federal estate tax.

It's also important to realize that a single policy doesn't have to address all needs. Using a combination of term policies and permanent policies can sometimes be the most appropriate solution (and the most cost-efficient solution).

After addressing the need for insurance and the length of that need, the product recommendations should then follow. If the product recommendation seems to be a deviation from the established need, one might be well served to consider an alternative perspective.