



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Tori Patrick
President
Progressive Strategies Financial
Group
27201 Puerta Real Suite 300
Mission Viejo, CA 92691
949.204.3800 702.893.1500
Fax: 702.549.1900
Tori@psfgwealth.com
www.psfwealth.com
CA Insurance Lic# OJ13973

Why More Americans Don't Own Life Insurance

It is well documented that Americans in general are underprepared financially for retirement. Yet less attention is given to the fact that life insurance -- a standard supplemental vehicle to retirement accounts and other investments -- is underutilized by all generations of retirement savers.

Recent research conducted by Life Insurance and Market Research Association (LIMRA) and the nonprofit Life Happens found that 43% of U.S. consumers have no life insurance coverage, even though the same percentage said that they would feel a financial impact within six months if a primary wage earner died.¹

The chief obstacle to purchasing a life insurance policy -- or purchasing more coverage -- cited by survey participants of all ages was cost.¹ Yet the vast majority of those polled (80%) overestimated the price of a simple 20-year term life insurance policy by wide margins.¹ For instance, Millennials miscalculated the cost by more than 213%, while Gen Xers missed the mark by 119%.²

Cost Unconscious

One key driver of "cost confusion" among consumers may be a lack of knowledge about how insurance policies are priced and the many factors that influence how much an individual may pay for coverage. While most of those surveyed realized that their age and health status affect the cost of insurance, fewer realized that their credit history, driving record, occupation, and even hobbies are all factored into the mix when arriving at a purchase price.¹

There is also a fair amount of resistance/anxiety around the process itself -- with 40% of consumers stating they didn't know what type of insurance to buy and how much coverage they might need.² Further, the survey revealed that competing financial priorities -- such as paying mortgages and rent, building savings, and paying down debt -- particularly among the Millennial and Gen-X populations add to the hesitation around purchasing life insurance.¹

Developing a better understanding about the various types of life insurance and how they work might help build confidence in consumers who know they need insurance but don't know where to begin.

Life Insurance: The Basics

In general there are two main types of life insurance -- term life insurance, and permanent life insurance. Term life provides coverage for a predetermined period of time, known as the term. Permanent life insurance provides open-ended, or "permanent" coverage.

Term life insurance is the most basic, and generally least expensive, form of life insurance for people under age 50. A term policy is written for a specific period of time, typically one to 10 years, and may be renewable at the end of each term. The premiums increase at the end of each term and can become prohibitively expensive for older individuals. A level term policy locks in the annual premium for periods of up to 30 years.

Unlike many other policies, term insurance has no cash value. Benefits are paid only if you die during the policy's term. After the term ends, your coverage expires unless you choose to renew the policy. When buying term insurance, you might look for a policy that is renewable up to age 70 and convertible to permanent insurance without a medical exam.

Permanent life insurance combines death benefit protection with a tax-deferred savings component. With permanent life insurance, as long as you continue to pay the premiums, you are able to lock in coverage at a level premium rate for the life of the contract.

Part of that premium accrues as a tax-deferred cash value. As the policy's value increases, you may be able to borrow against the balance at attractive interest rates. If you do not repay the borrowed money, however, it

may be taxable as income at then-current rates. And if you're younger than age 59½, you may also be subject to an additional 10% early withdrawal tax.

There are a number of different types of permanent life insurance. The three most common are *whole life*, *variable life*, and *universal life*, the specific details of which can be complicated.

That's why it's important to seek out the help of a financial planner who understands insurance products. Together you can determine how much coverage you need and what kind might make the most sense for you.

Talk the Talk

Some criteria you should keep in mind while evaluating any life insurance policy include the following:

- Face Value -- the death benefit amount
- Convertibility -- the option to convert from one type of policy (term) to another (permanent), usually without a physical examination
- Cash Value -- the tax-deferred savings portion of a permanent policy that can be borrowed against or cashed in
- Premiums -- the monthly, quarterly, or yearly payments required to maintain coverage

¹*Life Happens and LIMRA, "2015 Insurance Barometer Study," April 14, 2015.*

²*LIMRA, "2015 Insurance Barometer Study Finds Americans Continue to Overestimate Cost of Life Insurance." April 14, 2015.*

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