

Life Insurance Basics and Options

Today we focus on life insurance, and how you might be able to gauge your need for it. At the very basic level, life insurance is designed to replace lost income or pay for unexpected needs that might come up for your family should something happen to you. When it comes to your overall financial plan, factoring in life insurance can be a way of potentially providing peace of mind that your loved ones will be provided for in the future.

There are different types of situations that may benefit from having life insurance. Let's look at a few of them. If you are single and providing financial support for an aging parent, or perhaps a sibling with special needs, a life insurance policy may be worth exploring.

Since most married couples depend on dual incomes to accommodate their household financial needs, losing one of those incomes could pose a problem, and life insurance can serve as a safety net in that case.

Also, if you are at or nearing retirement, how would your spouse's income change if you should pass away? How would your income change if he or she were to pass away?

Once you assess your personal need for insurance, the next logical question might be "What kind of coverage is right for me?" If you need something with lower premiums and a higher death benefit, term insurance might be a good option.

Another option is an indexed universal life insurance policy. Premiums you pay for an indexed universal life insurance policy may be higher than a term policy. However, with a universal life insurance policy there is a death benefit feature plus cash value growth which for some might fit better. It is always a good idea to discuss the options and your personal situation with a financial services professional like me.

Deciding when you might need life insurance and if you have enough insurance for your personal situation are also key topics to assess. According to the [2017 Insurance Barometer Study from Life Happens and LIMRA](#), 85% of consumers feel that most people need life insurance. However, only 62% say they have life insurance. For the 62% with coverage, 40% don't feel they have enough. Finally, 35% of people wish their spouse or partner would purchase coverage.

When assessing the "when" of life insurance, for many people it can look like an uphill climb. In your early years you are working or going to school and just starting a family. As you grow older the need for insurance can continue to rise. In your later years, while you might be focused on debt reduction and leaving a legacy to your loved ones, considering life insurance as a wealth transfer vehicle might be a good option.

Additionally, life insurance can provide tax-smart retirement income. When purchased with after-tax dollars, income received from life insurance can be tax-free, which might help in stretching your retirement dollar. According to a news release entitled, "[As Social Security Marks 80th Anniversary, One Third of Americans Believe There is Greater Than a 50% Chance They Will Outlive Their Savings.](#)" available on News.NorthwesternMutual.com, 24% of Americans feel unsure about outliving their savings and 12% believe their savings will definitely run out. Using life insurance to create additional retirement income may deserve consideration.

Before you reach age 59 ½, you can have income-tax-free distributions, without penalties, should you own a cash-value life insurance policy. After age 59 ½, you could potentially access tax-advantaged funds, depending on the details within your policy. At age 62, there is no effect on your Social Security benefits, and at age 65 there is no effect on Medicare Part B.

It is important to note that making withdrawals from a cash-value life insurance policy could affect your modified gross income. This is another reason to consult a financial professional when it comes to a closer examination of your situation.

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