Millions in U.S. have no life insurance

by AP-News

Millions of Americans have no life insurance or are seriously underinsured and that could translate to big financial problems for their loved ones if they die unexpectedly.

"Nobody wants to think about dying," said David F. Woods, president of the LIFE Foundation in Arlington, Va. "People know they need life insurance, but they figure they'll get to getting it someday ï¿½ï¿½" just not today. It's something they put off."

But putting off investing in life insurance can trigger a financial catastrophe for the survivors of a family's breadwinner or its primary caregiver. The odds are they'll be hard-pressed trying to continue rent or mortgage payments, cover child-care and eldercare costs, or fund college savings plans.

"The test is, will somebody suffer financially at your death? If answer is yes, you need life insurance," Woods said.

The insurance industry estimates that more than 60 million adult Americans go without life insurance or have too little coverage, and it has designated September as "life insurance awareness month" to try to draw attention to the problem.

The first step people need to take is to calculate the financial needs of their families should something happen to them.

The LIFE Foundation, formally known as the Life and Health Insurance Foundation for Education, a nonprofit organization funded by the insurance industry, has a calculator on its site at http://www.lifehappens.org that consumers can use to determine their insurance needs.

It looks not only at what a family might require in the short term, including medical costs, funeral expenses and estate settlement fees, but also what it might need in the long term, including repayment of outstanding credit card debt as well as mortgages and college tuition.

That means a single person might need very little insurance, perhaps enough to cover burial costs and leave a small legacy to friends, siblings or charity. But a working mother might need a lot more, and couples who have financial responsibilities for both children and their aging parents might need more yet.

The major types of insurance are "term" and "permanent."

Term insurance provides protection for a specific period of time, often 10 years or 20 years, and pays a benefit only if the insured person dies during that time frame. It's generally the cheapest alternative.

Permanent insurance pays a death benefit whenever the policyholder dies; it's sold under a variety of names, including whole life and universal life and variable life. Many of the permanent life policies have a cash value as an alternative to the death benefit.

Chris Blunt, senior vice president and chief operating officer for life and annuity operations at New York Life Insurance Co., said he believes many people underestimate how much it costs to sustain a family.

"Say you have a $100,000 term policy," he said. "That sounds like a lot of money, but it won't provide the income to support a family for very long."

In fact, he said, the average coverage people have "would replace just four years of salary." That probably would give survivors time to adjust, but it also would force them to significantly change their lifestyles to cover expenses after that.

Blunt also believes too many people have bought term insurance when permanent life would have been a better way to accumulate wealth.

"A lot of financial advisers told people, 'buy term and invest the difference,'" he said. "There are two fallacies there: Most people don't hang on to their coverage. And instead of investing, they spend the difference."

He also argues that people often need insurance beyond the traditional 10 years or 20 years of term coverage.

"The theory is that 20 years from now, my house is paid off. But in reality, most people don't pay off their mortgages ï¿½ï¿½" and even take out bigger mortgages when they retire," Blunt said. "After 20 years, the kids are supposed to be gone. But a lot more back home. Then there's that other, forgotten piece, which is care for elderly parents."

Certainly, term insurance holders can try to replace their term policies later, but health issues could make that difficult and rates could be much higher for older consumers than younger ones.

Both Blunt and Woods urged consumers to sit down with insurance professionals and look at options.

"Some of our agents are passionate about this because they've seen first-hand what happens when a breadwinner dies and there was no coverage ï¿½ï¿½" or there was coverage," he said.
Added Woods: "We want people to take action, and I worry that many won't until a qualified professional sits down with them."
--By EILEEN ALT POWELL, AP Business Writer

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