8 Myths

ABOUT LIFE INSURANCE

ELCO MUTUAL
LIFE & ANNUITY

Do you have life insurance? Is your policy sufficient for your family's needs now, and will it accommodate your future plans? According to a 2018 study conducted by the LIMRA (initially known as the Life Insurance Marketing and Research Association), more than 40% of US residents surveyed have no life insurance coverage at all—and one in five of the nearly 60% who are covered believe they are underinsured. This ebook will help you understand the facts about life insurance and bust some of the myths that stand between you and the affordable, secure coverage you need.

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Myth No. 1: You should buy term coverage over permanent, no matter what.

First, it's important to understand the differences between "term" life insurance and "permanent" or "whole" life insurance. While both types of policies provide benefits to your named survivors upon your death, they are otherwise very different instruments.

TERM INSURANCE provides protection for a specific period of time and generally pays a benefit only if you die during that period. Typical term periods range from one to 30 years, although 20 years is the most common term. When term life policies expire, they have no accrued value.

PERMANENT INSURANCE, on the other hand, provides protection for as long as you continue to pay your premiums. These plans provide long-term coverage and, as a bonus, accrue cash value on a tax-deferred basis.

Term Insurance	Permanent Insurance
PROS	
Simple to understand	Doesn't expire as long as premiums are paid
Generally the most affordable life insurance option	Growth in cash value
Designed to cover an individual for a specific amount of time	With non-forfeiture options, it can continue as term insurance or a paid-up policy with a reduced death benefit.
Ideal for purchasing additional coverage	Consistent rates throughout the policyholder's life
Can often be converted into permanent coverage	
CONS	
No cash value	Typically more expensive than term insurance
Protection disappears as soon as payments or the term end	

For many people, the best strategy is to hold a mix of both types of insurance policies. This provides the most protection and flexibility. For example, if you are a younger wage earner with a family (or anticipating having a family in the near future), you may want to purchase a smaller permanent policy along with a more substantial term policy. The term policy helps protect your family from a potential financial crisis in the event of your sudden death, providing coverage to support minor children and cover educational expenses, while the permanent policy provides long-term protection along with guaranteed cash value growth .

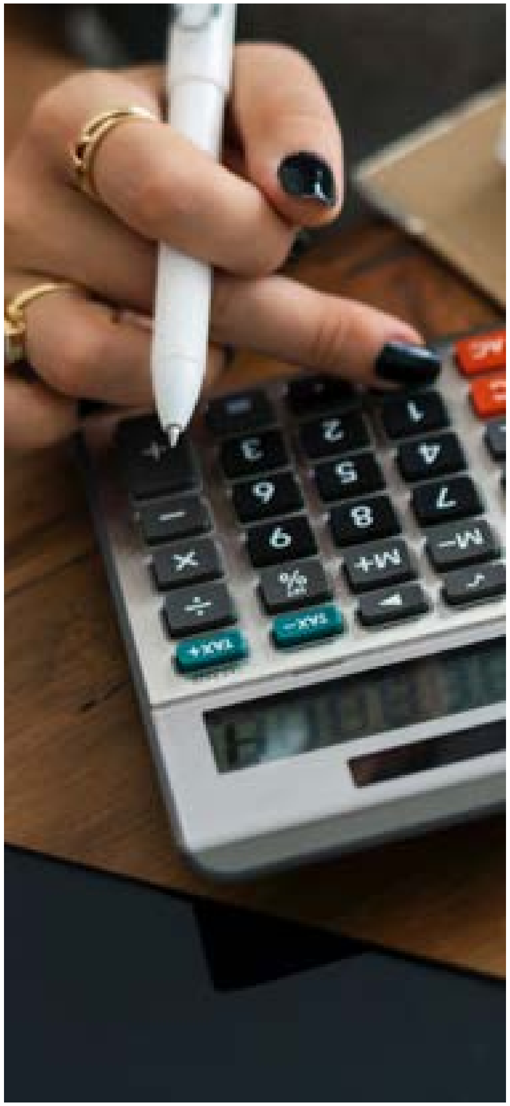
Myth No. 2: You should invest your money instead of buying life insurance.

While investing has the potential to result in larger long-term payouts than purchasing life insurance policies, the key word is “potential.” A well-designed financial plan isn’t an either-or consideration; ideally, your personal plan should include life insurance, savings, and a balanced portfolio of investments.

Permanent life insurance is, at its core, a life insurance policy. If you die while owning this policy, your beneficiaries will receive a payout for death benefits, which is almost always higher than the accrued cash value. Investments in the stock market, mutual funds, bonds, or other investment vehicles, on the other hand, are only investment accounts; when you die, your beneficiaries will receive only the actual value of those accounts. If you bought life insurance and died soon after, the death benefit would provide a significantly larger amount to your family than they would receive if you had merely invested the cost of purchasing the policy.

Permanent life insurance policies allow you to defer taxation on your contributions since they are not subject to the annual capital gains taxes levied on many financial products. Additionally, unlike most types of investments, your named beneficiaries are generally not subject to income taxes on the death benefits paid by a permanent life insurance policy upon your death.

Myth No. 3: It's not affordable.



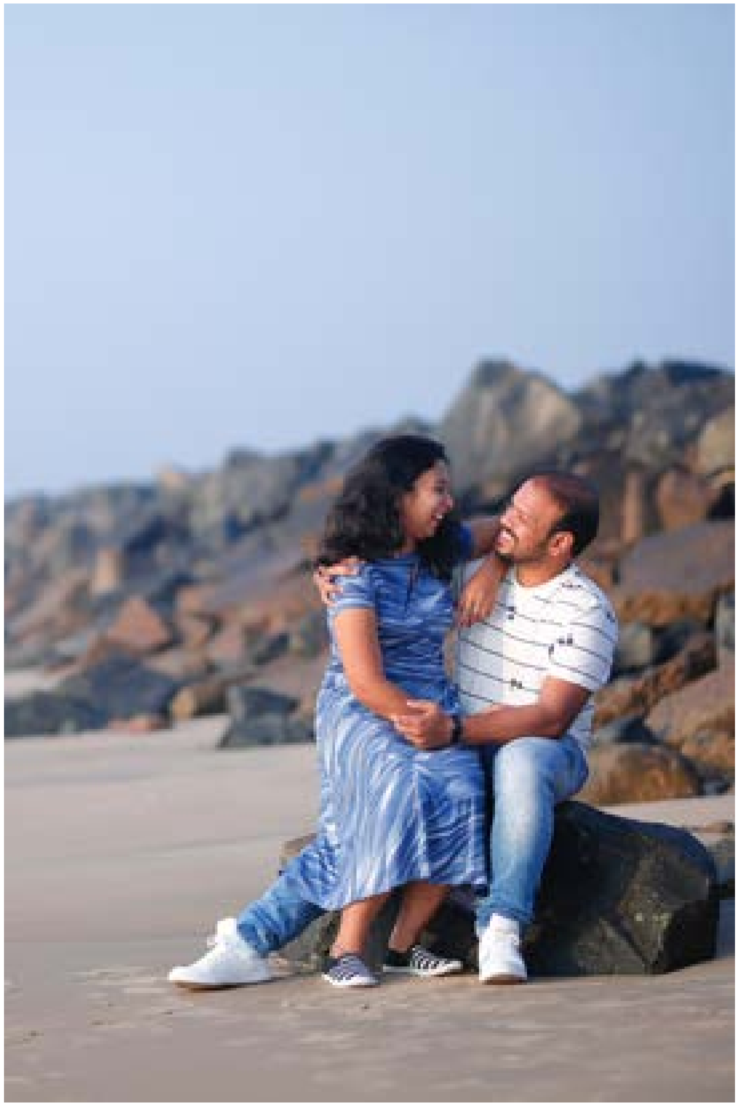
According to the study conducted by LIMRA, 63% of people believe that life insurance is too expensive for them to afford. However, most consumers think the cost of life insurance is more than three times what it actually is. The average millennial overestimates the price of life insurance by about five times its actual cost! 44% of survey respondents believed that the average cost of a $250,000 term life policy for a 30-year-old man (who does not smoke and has no health problems) would be over $1,000 per year. In reality, the average cost of a $250,000 term life policy for that example individual would only be around $160 per year.

The pricing of life insurance essentially comes down to two things: your coverage needs (whether you are looking for permanent coverage spanning the duration of your life or for something temporary that can help replace your income) and your present life situation (including factors like your age, health, family medical history, and gender), which determines your risk class. A healthy person between the ages of 18 and 70 can expect to pay an average of $67.88 a month for a $250,000 life insurance policy.

The price for individual term life insurance will always depend on how much of a risk you present for the company. Someone who is younger with a clean bill of health, no tobacco use, and no family history of early-life cancer or heart disease will receive a significantly better rate than someone older with a more extensive medical history because the younger person is statistically less likely to die within the policy term. However, older individuals and those with pre-existing issues can also find affordable policies; the key is to shop around.

Myth No. 4: Single people without children don't need it.

You may notice a trend in advertisements for life insurance: phrases like "provide for your family, loved ones, children, income replacement, and peace of mind." While people who have young children or intend to start a family soon are the traditional target audience for life insurance ads, life insurance can also be beneficial for single people without children at any stage of life.



If you are single with no children, who will pay for your funeral and burial expenses if anything happens to you? Life insurance can provide the peace of mind to know the executor of your estate will be able to carry out your final wishes without financial problems. Additionally, many younger people have to think about the possibility of caring for aging parents who will no longer have the social security safety net of past generations. If your parents will depend on you as they age, a life insurance policy can provide financial security if something happens and you are not around.

Purchasing a permanent life insurance policy as a younger person also allows you to benefit from the security of long-term, low-risk guaranteed cash value growth. For both term and permanent policies, you can name a charitable institution like a school or foundation as the beneficiary, allowing you to eventually make a donation upon your death that can greatly exceed the contributions you make during your lifetime.

Myth No. 5: If I'm young and healthy, I don't need it.

At Age 30

- Offers immediate protection and guaranteed cash value growth
- You would lock in an annual rate at less than a third of the cost of purchasing the same policy at age 60.
- Can often lock in a less expensive rate than if purchased the same policy later in life.

At Age 60

- Doesn't have the same level of health as a 30-year-old.
- Falls into a higher-risk class due to medical history or health problems and, in turn, their rates could be much higher than their younger counterparts.

Since younger individuals often do not yet have dependents and typically have parents who are still working, buying life insurance isn't always a top priority. However, buying coverage when you are young is a smart move, especially when it comes to permanent policies.

In addition to offering immediate protection and guaranteed cash value growth, purchasing a whole-life policy at age 30 would lock in an annual rate at less than a third of the cost of purchasing the same policy at age 60. Typically, a 30-year-old and 60-year-old will not have the same level of health or be in the same risk class. This generally means the older purchaser falls into a higher-risk class due to medical history or health problems and, in turn, their rates could be much higher than their younger counterparts.

By purchasing a policy when you are young, you can often lock in a less expensive rate than if purchased the same policy later in life. If you think you'll purchase life insurance at some point in the future—to provide for your children, for your parents as they age, or for charitable purposes—why not lock in a more affordable rate early on?

Myth No. 6: It's impossible to qualify.

This pervasive myth is just plain wrong. Qualifying for life insurance is not impossible! There are insurance products designed for every consumer, including "guaranteed issue" policies that you can purchase regardless of your health, medical history, or other variables. Like all life insurance policies, a guaranteed issue policy pays a death benefit to the named beneficiary upon the death of the insured. A company cannot deny an applicant coverage as long as that applicant can afford the premiums, which tend to be higher than conventional policies. These policies also generally guarantee a death benefit only after a certain period of time, such as two years; if the insured dies before that time, the company will refund any premiums paid but will not pay the death benefit amount.

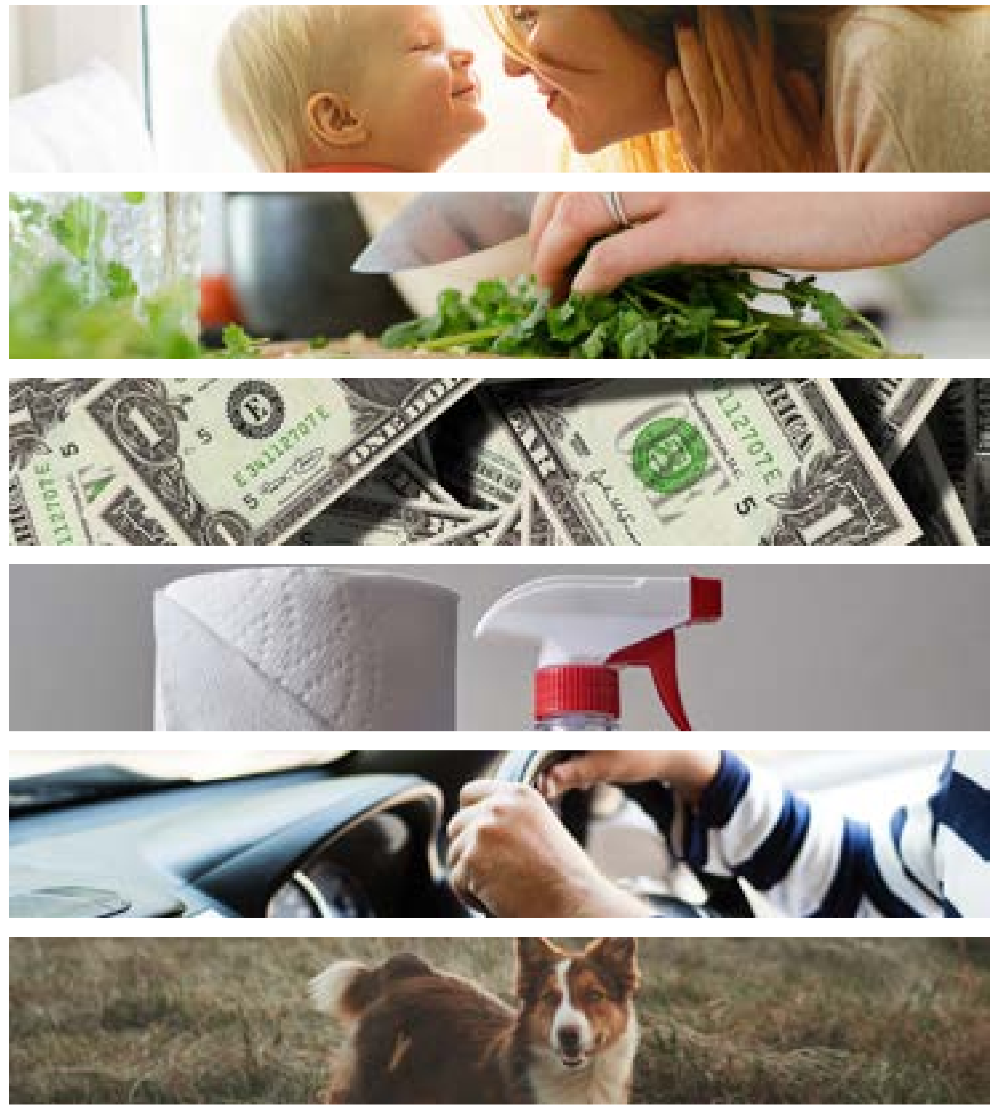
There are other affordable coverage options available for purchase, many of which are easy to qualify for under normal circumstances. To learn more, contact your local representative.

Myth No. 7: Only a breadwinner needs to be covered.

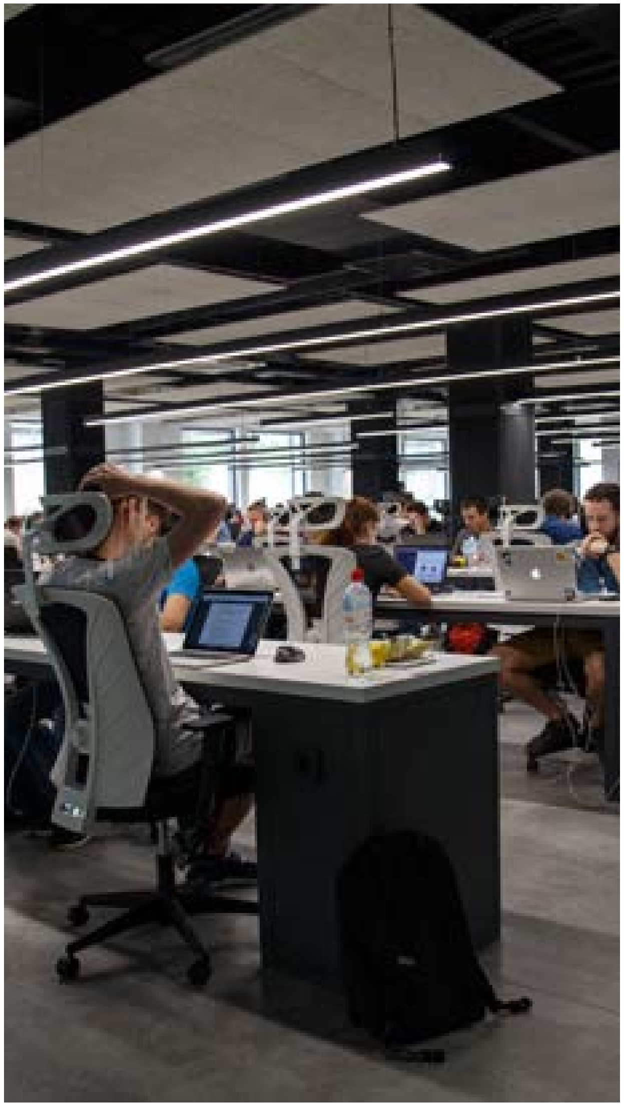
In many households, one adult is the primary breadwinner. A pervasive myth is that only that individual needs to carry life insurance because they are the primary source of income. However, assuming the non-breadwinner performs valuable household and family management tasks, the surviving partner can incur significant expenses by outsourcing those jobs. Some of the many hidden expenses of losing someone who isn't the household's primary earner include:

- Childcare
- Cooking
- Managing financials
- Cleaning/maintaining the home
- Running errands
- Caring for pets

Replacing the contributions of a non-earning partner often adds up to significant amounts of time and money. Particularly if you are grieving the loss of a partner, having the financial security to hire help can be crucial.



Myth No. 8: If your employer provides life insurance, that's all you need.



Most employer-provided life insurance coverage is inadequate for your coverage needs. For example, many employers provide coverage at one to three times your annual salary. For an employee making $50,000, that would be $50,000–$150,000 of life insurance. While this sounds like a substantial amount of money, at most, it would replace your salary for three years.

The cost of raising one child through age 17 is $233,610, according to [2015 data from the U.S. Department of Agriculture]—and that's not including college or other post-secondary educational costs.

Also think about the additional costs your family may incur, such as replacing your employer's health insurance benefits and possibly hiring additional help for childcare and other household tasks. Your spouse or partner may not be able to afford those costs on their own.

Many company policies have even smaller face value amounts, designed to help cover funeral costs. While a $10,000 employer policy can be helpful, it isn't enough to provide security for your family's subsequent needs.

Finally, remember that just because your employer is offering life insurance benefits now doesn't mean it will do so in the future. A lot of companies are in cost-cutting mode, and discretionary benefits like life insurance can disappear without notice.

It's never too early to prepare for your financial future

Use this life insurance calculator to get an idea of how much life insurance you really need, and talk to an agent today to discuss what options are best to protect your family and achieve your financial goals.

CHECK OUT THE LIFE INSURANCE CALCULATOR

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