

## **How to Navigate Complicated Choice – The Top 5 Life Insurance Lessons**

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Irwin Cohen, an independent insurance consultant and president of Affiliated Financial Specialists in South Elgin, said the Internet had enabled people to research companies and find lower-priced policies but had not provided an accompanying education.

Local experts weighed in on five life insurance lessons.

### **Rule No. 1: Be sure it's necessary.**

Life insurance makes sense if the policyholder's death would cause financial trouble for dependents. "Survivorship income" is the primary reason the average consumer buys a life-insurance policy, Dorion-Gray said. Wealthier consumers might buy permanent insurance to cover the estate tax, Dorion-Gray said. Some people simply don't need it. Dorion-Gray asks her clients to think through the necessity of a life-insurance policy when they have built up assets sufficient for retirement. "Ninety percent of the time, the answer is, 'No, if one of us was gone, our expenses would be less,' " she said. Cohen, who consults with and sells policies to consumers and businesses, said that older clients often were more concerned with obtaining long term-care insurance.

### **Rule No. 2: Know the terms.**

Term life insurance is a limited-term plan providing death benefits protection for as little as one year and as much as 30 years. Term insurance policies provide only protection and afford no other benefits when they expire, but cost less - often dramatically less - than permanent insurance.

Liane Warcup, a Geneva-based fee-only financial planner and owner of Clarus Financial Planning, said the biggest mistake consumers made was buying permanent insurance unnecessarily. "They've often been sold a very expensive whole-life policy, when term would be much better suited to their needs and their financial situation," Warcup said. The downside of term insurance might come if the policyholder has reached the term's end and would like to renew, but developed a health problem. The condition could make the holder uninsurable, Cohen said.

### **Rule No. 3: Permanent policies pay.**

Permanent insurance does not expire, and it builds cash value over time. A father who wants to be sure that his daughter's college tuition is covered might be best served by term insurance. But a father who simply wants to leave money for his daughter should probably buy a whole-life policy, Cohen said. Individuals with a high net worth can use a whole-life policy to cover the estate tax, Dorion-Gray said. Policyholders essentially are leveraging their money - using cheaper dollars to pay the tax, she said. Universal life

policies were designed to provide greater flexibility to consumers through variable premiums and also allows for the buildup of savings.

**No. 4: Get enough of it.**

Dorion-Gray said she sees many dual-income households living in extra-large homes with life insurance policies that, in the event of a death, won't cover the financial needs of the surviving partner. The vast majority of individuals are underinsured, Cohen said. If a couple is collectively making \$120,000 - \$60,000 each - and a husband or wife dies, some expenses decrease but many of the household's fixed costs, such as the mortgage, remain the same, Cohen said.

**No. 5: Get help with it.**

The bottom line is: buying insurance is complicated. Warcup has had customers who bought variable universal life insurance policies with the promise of a return on investment but without a good grasp on the fees, which can often end up outweighing the benefits. Warcup also finds there are "always miscellaneous expenses with different products," she said. And there are "incredible differences between product offerings," Cohen said. Plus, there is always the threat of insolvency on the part of the insurance company.

Fortunately there are plenty of places to find help. The Illinois Division of Insurance provides information on insurance companies, including customer complaints and financial ratings. Cohen recommends that individuals find a trustworthy adviser who has their best interests at heart. For more information: Call the Illinois Division of Insurance at (312) 814-2427, the consumer assistance hotline at (866) 445-5364, or visit the division's Web site at [www.ins.state.il.us](http://www.ins.state.il.us).