
What is Life Insurance?

September 2018 Newsletter | By: Ian Sachs

History

Life insurance dates all the way back to the Ancient Romans (100 B.C.) who established “burial clubs” to aid survivors financially and to cover burial costs. Fast forward and the first modern life insurance company was founded in London (1706). Over the past 300 years, life insurance really has not really changed very much.

Overview

A life insurance policy is a unilateral contract between the policy owner – who is usually the payer and typically the insured – and an insurance company. The contract provides various benefits and outlines the terms and exclusions. There are many types of policies but generally, they fall into two categories: protection policies and investment policies. As the names imply, protection policies focus on maximizing the death benefit for survivor needs, and investment policies focus on achieving financial goals by facilitating the growth of capital that provides living benefits to the policy owner.

Mechanics

Policy premiums are calculated by the insurance company to cover claims, administrative costs and to make a profit, which to the surprise of many, is only about 5%. The insured is underwritten based on mortality



tables calculated by actuaries and is then placed in a risk class and charged accordingly. Every year a percentage of people in each risk class will die. Most of the money generated from each policy holder’s premiums will be distributed as death proceeds to all beneficiaries.

Why do people buy life insurance?

Protection Policies (for death benefit)

Life insurance can be used to create an estate, replace income, pay off a home mortgage or other loan/debt, equalize inheritances, and provide a charitable gift. The truth is, we do not know if or when we will get in a car accident, get injured, experience a house fire, or die. Insurance policies spread our financial burden to insurance companies to help cover these unforeseeable tragedies.

Investment Policies (for achieving financial goals)

Life insurance can offer much more than just a death benefit. If structured properly, it can provide a source of tax-free distributions. Life insurance is considered a key component to building a strong financial foundation and

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can be used for long-term wealth accumulation goals (see [“4 Reasons to Start an IUL”](#)). These types of policies can establish a wealth accumulation vehicle, supplement retirement funds, and build a college fund for children and grandchildren, just to name a few.

What if you were to die today?

Many individuals recognize the benefits of planning for the future. Such efforts often uncover problems and frequently provide the motivation to make needed changes. For the most part, the issues involved are positive and enjoyable (e.g., retirement, educating children, etc.). Planning for the unexpected – known as risk management – can be less pleasant. A key part of risk management is answering the question, “What if I were to die today?” Preparing for an untimely death is often referred to as “survivor benefit planning.” As a subset of estate planning, it addresses the need to keep one’s family in their current financial state.

Understandably, no one likes to contemplate their own demise. For some, death seems like a

distant, future event. Others are simply too busy. Whatever the reason, delaying this part of planning can result in expensive, unintended, even tragic consequences. The ultimate purpose of survivor benefit planning is twofold: to ensure that the ongoing income needs of the survivor(s) are met and to provide for immediate lump-sum cash needs.

Conclusion

In my opinion, and in that of most other financial professionals, we all need life insurance. Not just through work, but something owned by each and every one of us. There are few scenarios of individuals who do not need insurance. If you are insurable and do not have insurance, I strongly encourage you to reconsider – whether it be for death benefit or achieving financial goals.

In the blink of an eye, your health can change causing you to lose your insurability. Don’t wait. Your insurance needs will continue to change over time, but your ability to get coverage is not guaranteed. Most policies have provisions that allow them to adapt and change as needed. Even if you don’t quite identify the most pertinent need for insurance yet, you’ll be happy that you purchased a policy later on. I’d be happy to answer any questions. Don’t miss the boat.

About Risk Resource

Risk Resource insures life’s risks by providing a single-source solution for a wide range of financial services that protect our clients and their families. With four decades of experience in insurance planning, we partner with our clients to navigate the full spectrum of financial tools by exploring all options and customizing plans that meets their unique needs.

We specialize in Life Insurance, Disability, Long-Term Care, Annuities, and Tax-Free Wealth Accumulation, and understand that every need is different which is why we represent over 100 insurance carriers. This gives us the flexibility and freedom to find the right solutions for each of our clients.