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GUEST COLUMN

Learn the basics of life insurance

By Paul E. Housey
Guest Columnist

For a vast majority of working Americans, life insurance should be used to replace their future earnings in the event of an untimely death. Those with others (spouse, children, parents, siblings, etc.) depending on their income should be sure they have the right type and amount of life insurance.


Paul E. Housey

Life insurance falls into two broad categories – term and permanent.

• Term provides insurance coverage for a period of time, most commonly 10, 20 or 30 years. Typically, at the end of this time period, the insurance coverage stops and your policy has no value.

• Permanent includes universal, whole and variable and is meant to last for your entire life. The premiums are generally much higher than term insurance, particularly in the early years.

Before you buy life insurance, ask yourself what you are insuring. Most often, the answer is your future income -- from tomorrow until retirement. Most people need a lot of insurance when their kids are young and their investment portfolio is small. As your kids move toward adulthood and your portfolio grows, your need to replace your income with life insurance will likely decrease. For those who plan adequately for their retirement, your life insurance needs should be minimal by the time you retire.

Therefore, in my opinion, term should be the preferred option for most people, especially in a bad economy when money is tight. Because insurance agents receive higher commissions on permanent products, you might have been told permanent is right for you. Again, ask yourself what you are insuring.

Permanent policies do serve an important purpose for a smaller number of people including those caring for someone with special needs or who need insurance to pay estate taxes on a multi-million dollar estate. Permanent can also be useful for those in high-income tax brackets looking for tax-advantaged savings vehicles after they have maximized their 401(k), 403(b), IRAs, Roth's and 529's.

Where should you get your insurance?

Many people have a majority of their life insurance through their employer. According to the Life Insurance and Market Research Association (LIMRA) (2010) only 44 percent of U.S. households have individual life insurance — a 50-year low. Simply being covered by a plan at work does not mean that you have the right amount or the right price.

Group plans are either employer- or employee-paid.

• Employer-paid coverage is a 'free' benefit. If the insurance amount is greater than $50,000 the worker will have to pay some tax for receiving the benefit, but only a small amount compared to the generous benefit.

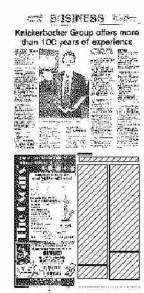
• Employee-paid coverage is more difficult to evaluate because you are paying the costs. Normally, I am more comfortable with life insurance owned outside of the employment relationship. For healthy workers, term insurance outside of the group plan is often much less expensive over time than coverage at work. Further, if your employment or insurance coverage ends without much notice you may lose your coverage completely or be disappointed with the available options if you want to keep that coverage.

Here are four action steps you should take:

• Determine how much coverage you need based on your projected future income.

• Start with term insurance unless you have a specific need for the more expensive permanent options.

• Don't expect that employer paid coverage will always be there. Pur-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chase additional insurance as if the employer paid coverage did not exist.

• Shop the price of insurance by comparing the estimated costs of your employee paid group insurance (over the period of time in which you need insurance) to a term policy purchased independently.

Paul E. Housey, MBA, CPA, CFP, is president of the Financial Planning Group of Snook Housey Advisors, Inc. in Troy and teaches financial planning at Walsh College. Contact him at 248-458-1100 or phousey@snookhousey.com.