

## **CC&BC Education Series: Life Insurance**

Life insurance protects those who depend on your paycheck, such as your wife, husband, children and quite possibly, your parents. If you die prematurely, life insurance can provide ongoing income to your dependents, until they are able to live comfortably without it. It can also provide emergency support for legal, medical and funeral costs, should family savings not be sufficient to cover them. Its purpose is to cover any unexpected costs that a family unit cannot afford or that would put the family's financial situation in peril.

Of course not everyone may need a lot of life insurance. For instance, a single individual or a person with no kids with a partner that earns their own income won't likely need a great deal of life insurance, if any. On the other hand, the sole breadwinner for a large family, with little savings, may find that life insurance is essential. For this person, life insurance should be a higher priority in their budget.

### **What are the different types of life insurance?**

In general, there are two basic classes of insurance to choose from: term life insurance, and universal or cash value insurance.

Term life insurance is just that -- life insurance, and nothing more. The premium payments are applied 100% to the cost of the insurance.

The second class of life insurance -- universal insurance -- includes a wide variety of financial products. These products combine term life insurance with a long-term, tax-sheltered savings plan. The important thing to understand about universal policies is that they're designed for life.

Here's how a universal plan works. A portion of your premium payment is used to pay for the life insurance alone. The balance, less management charges and commissions, is applied to your savings or investment account. The cash value savings goal provides additional income during your golden years to cover insurance premiums.

### **How much life insurance do I need?**

The amount of life insurance you need depends on your situation. But as a general rule of thumb, you should try to figure out what will it cost to replace your salary, and for how long?

The most basic way to calculate your insurance needs is to replace your annual income until you retire. Start with your current annual before-tax salary, and estimate how many years left until retirement. Once you have these two numbers, you can figure out how much insurance your family will need in order to replace the lost income should something unfortunate happen to you.

For example, to replace a salary of \$35,000 for 25 years, you're going to need at least \$875,000 of life insurance coverage.

***Before you talk with a salesman who has a financial stake in the sale of the policy and may prey on your emotions in order to sell you some of most expensive options, do a little research and try to determine what you really need and what you can truly afford.***

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