

Life Insurance 101

No one likes to dwell on life insurance, but if someone relies on you financially, it's a conversation you can't ignore. The good news? Getting life insurance doesn't have to be complicated—or dull. We're here to answer common questions, so you can make informed choices and ensure your loved ones are financially protected.



Why Life Insurance?

There are many reasons why life insurance is important, but the most crucial one is protecting your family's financial future and providing peace of mind.

If your income supports others, their financial stability could be at risk if something were to happen to you. That's where life insurance comes in. While policies vary, they all serve the same fundamental purpose: providing a cash benefit to your loved ones after you pass away. This money can help cover everyday expenses, mortgage or rent payments, outstanding debts, college tuition, and other essential costs.

Simply put, life insurance is one of the best ways to ensure your family remains financially secure, even in your absence.

What does Life Insurance cover?

Life insurance can help cover a wide range of daily expenses. Common costs include:



Urgent Costs

- Funeral and memorial
- Outstanding medical bills
- Mortgage or rental payments
- Auto loan balances
- Credit card obligations
- Tax liabilities
- Estate administration fees



Ongoing Costs

- Groceries and daily meals
- Rent or mortgage payments
- Electricity, water, and other utilities
- Vehicle expenses and transportation costs
- Medical care and insurance premiums



Future Costs

- Higher education expenses
- Future retirement savings

Is Life Insurance right for me?

If someone depends on you financially, you are most likely someone who needs life insurance. Life insurance provides cash to your family or loved ones after your death. This cash, known as the death benefit, replaces your income and the many non-paid ways you support your household. Your family can use this cash to pay for expenses like **funeral costs, a mortgage, college tuition and more.**

Just a few examples of people who often answer “yes” to the question of “Should I get life insurance?” include:

- **Married couples**
- **Married couples with kids**
- **Single parents**
- **Stay-at-home parents**
- **Empty nesters**
- **Retirees**
- **Business Owners**



What are the various types of Life Insurance?

Types of life insurance generally fall into two categories: term life insurance and permanent life insurance.

- **Term Life Insurance** provides coverage for a set period (10, 20, or 30 years) and is ideal for temporary needs, like covering a mortgage or until kids graduate. It offers high coverage at a lower initial cost, making it budget-friendly.
- **Permanent Life Insurance** lasts a lifetime as long as premiums are paid. It also builds cash value, which can be used for expenses like home purchases or retirement. Due to these added benefits, premiums are higher than term policies.

Term Life Insurance

Term life insurance is the most common type, providing a cash payout to beneficiaries if you pass away during the policy term (typically 10, 20, or 30 years).

Key Benefits:

- **Affordable** – Since it only provides a death benefit (no savings component), term life is the most cost-effective option.
- **Flexible** – You choose the coverage length based on your needs, such as until your mortgage is paid or your kids graduate. Terms range from 1 to 30+ years.
- **Simple** – You only decide how much coverage you need and for how long. A financial professional or an online calculator can help.
- **No Medical Exam Options** – Some policies offer instant coverage without a medical exam, though they may have lower coverage limits and higher costs.

Permanent Life Insurance

Permanent life insurance offers more than just a death benefit, with additional features that set it apart from term life insurance.

Key Benefits:

- **Lifelong Coverage** – As long as premiums are paid, your policy remains active for life, providing lasting peace of mind.
- **Living Benefits** – Builds cash value over time, growing tax-deferred like retirement savings. This money can be used for major expenses like a home down payment, college tuition, or retirement. (Keep in mind, withdrawals reduce the death benefit unless repaid.)
- **Flexible Options** – Different types offer varying features, including fixed or adjustable premiums, guaranteed or investment-based returns, and the ability to adjust coverage or even skip premium payments when needed.

How much does Life Insurance typically cost?

Life insurance rates are based on four key factors: **age, health, policy type, and coverage amount**. Generally, the younger and healthier you are, the lower your premiums. Term life insurance is typically more affordable than permanent life insurance.

However, don't let age or health concerns stop you from considering coverage—there are options for all ages and even those with conditions like high blood pressure, diabetes, or smoking habits (though premiums may be higher).

For instance, a healthy 40-year-old can secure a \$500,000, 20-year term life policy for around \$25 per month. As long as they maintain their payments, their beneficiaries would receive \$500,000 if they pass away during that 20-year period.

How much Life Insurance should I get?

The amount of life insurance you need depends on who you want to provide for financially and for how long. To get a general estimate, **consider the following factors:**

1

Calculate the immediate, ongoing, and future expenses your loved ones would face if you were no longer around.

This includes everything from funeral costs to mortgage or rent payments to college tuition.

2

Consider the financial resources your loved ones already have, such as a spouse's income or existing life insurance coverage.

3

Subtract your existing financial resources from the expected expenses.

The difference is the estimated amount of life insurance coverage you may need.

Who can be named as a Life Insurance beneficiary?

A life insurance beneficiary is the person, people, trust, charity, or estate that receives the payout from your policy after you pass away.

You'll typically choose two types of beneficiaries:

- **Primary beneficiary** – The first in line to receive the payout.
- **Secondary (contingent) beneficiary** – Receives the payout if the primary beneficiary is deceased.

You can name multiple beneficiaries and assign specific percentages—for example, 50% to a spouse and 50% to an adult child. Special considerations apply when naming minors, charities, or your estate as beneficiaries, so it's important to plan accordingly.

What is the process for getting Life Insurance?

When you apply for life insurance, your life insurance application goes through a process called underwriting. **Underwriting is when your insurance risk is evaluated.** Approval and costs are based on your risk class.

There are two types of underwriting: traditional underwriting and simplified underwriting. In traditional underwriting, you fill out a formal application and typically undergo a short medical exam. It can take several weeks to be approved when the life insurance application undergoes traditional underwriting.

In contrast, simplified underwriting is usually a quick online life insurance application that does not require a medical exam. You can often receive instantaneous life insurance coverage. Just be aware that the coverage amount may be limited as well as more expensive with simplified underwriting.

How are Life Insurance benefits paid?

In most cases, the life insurance pay out is a lump sum paid to beneficiaries when the policyholder dies. To receive the life insurance pay out, you will have to file a claim with the insurer. They will need a certified copy of the death certificate in order to process the claim.

It can vary on how long it takes to get a life insurance check. **Most insurers take between 30 and 60 days after receiving the claim.** However, there can be delays. This is especially true if the policyholder dies within two years of taking out the policy or if there are unusual circumstances. Other insurers deny coverage if the policyholder died doing something illegal or lied on the life insurance application.

A life insurance pay out works differently if there's an installment-payout option or an annuity option.

Work with a Financial Professional

Taking the time to understand your options and choosing the right coverage is one of the most important financial decisions you can make. If you're ready to explore your life insurance needs, now is the perfect time to take the next step toward securing your future.



Have any questions or want to
schedule a consultation?

(800) 998-7715

www.psmbrokerage.com

