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Mistakes with Life Insurance You Must Avoid

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Like other many other professionals, my clients who work in the real estate industry move at the speed of sound. While this is a necessity to becoming a successful business owner or executive, it can come at a price if important pieces of your financial protection are not closely monitored. Mistakes and false assumptions involving life insurance, for example, can lead to harmful results.

Prior to entering the wealth planning business, my attitude toward life insurance was quite simple. It was an obligation to protect my family in the event of my early demise. The company would bill me annually, and upon receipt of the bill I would sigh and cut what seemed like an excessive check. Since then, I've learned some things which I'm now going to share with you that may save you some significant time, stress, heart ache and money: life insurance policies are not "hide in the drawer and never look at them again" documents.

Rather, you should treat life insurance as the cornerstone of your financial portfolio and monitor your policy at least once every two years. If not, your piece of mind (the very reason you likely purchased the coverage) could be at risk. Two things are important note right away:

- * **Policy Performance:** Your policy's performance may quite possibly vary from the original illustration presented to you when the policy was delivered. So in plain English, the amount illustrated on your permanent policy may not be the same amount you may need to pay in order to keep coverage for the long haul.
- * **Change in Needs:** I purchased my original policy (a twenty year term) shortly out of law school when my first child was born. To be sure, my needs have changed since then. Between a larger death benefit to protect my family, to the opportunity for tax favored cash accumulation (just to name a few) an insurance professional could have certainly helped in determining my true needs.
- * **Life insurance companies continue to manufacture innovative designs for your ever-changing needs.** Having run a marketing division for a major carrier, I saw firsthand how creative actuaries and marketing teams can be. Great companies identify the needs of target groups and create products well suited for them. Be sure your insurance professional is aware of these products and helps you to determine which ones work best for you.

If you have not done so in the past few years, make sure you receive confirmation in writing from your insurance carrier that your policy or policies are in force. Also ask them to supply you with what is known as an "in-force illustration".

Next, verify who is listed as your beneficiaries. Be sure you name two contingent beneficiaries for

each primary beneficiary you name. You never want to be in a situation where the primary beneficiary dies prior to you and there are no named persons to take their place. Failing to name backup beneficiaries leads to a range of potential problems that are beyond the scope of this article.

Work with an insurance professional who has specialized training and approved designations. Your coverage is far too important to your family to work with folks who only “dabble” in life insurance. The ability of your insurance professional to handle complexities involving underwriting, case design and planning are necessary, even for what may be to you a simple term insurance sale.

Finally, make absolutely sure that your coverage includes what is called a “waiver of premium” provision. This assures that your policy is kept in force and continues coverage, even if at some point in the future you can’t pay the premiums due to disability.

My advice is to consult with an insurance professional familiar with the latest products, planning techniques, and tax laws to be certain you own the correct type of life insurance for your present needs and circumstances. In the course of that review, it may be appropriate to consider modifying existing coverage by lowering or adding the benefit. It may also be appropriate to transfer existing coverage to another carrier.

Two important notes to consider: never discontinue coverage until your life insurance professional reviews all of the advantages and disadvantages of doing so. While in some situations, a new policy is appropriate and fits your needs well, there are a range of implications in doing so, and these should be fully explored between you and your insurance professional. Ask questions and listen to the answers.

Since taking out that initial term policy what now seems an eternity ago, my life and financial circumstances have certainly changed. I imagine yours may have as well. So I urge you to take the time to meet with an insurance professional who can review your current policy with you. You and your loved ones will be glad you did.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540