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How to combat foreclosure with life insurance

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The housing market has taken us on quite a ride over the last year and a half, hasn't it? While it was heartening to read foreclosures dropped by 10% nationally in January and we're all hopeful the recent stimulus package will help bolster the market, there's one thing we know about this recession: we never know. That's why, now more than ever, protecting your family and your home with a dependable investment like life insurance is critical.

Your home is probably your biggest investment and if something were to happen to you, could your family continue to make the mortgage payments and maintain the lifestyle you've always envisioned for them? I know, just the thought of not being there is unsettling but you have to be prepared.

How much do you need? Generally speaking, a person should have a policy amount equal to approximately 5 to 10 times his or her annual salary, depending on current and anticipated financial obligations and other family income. An easy-to-use life insurance calculator is available at Savings Bank Life Insrance's (SBLI) website, SBLI.com.

Also, pay close attention to the outstanding balance on your mortgage. If you recently secured a 30-year mortgage or are considering one, select a life insurance policy accordingly. For those who have refinanced their mortgages lately, perhaps increasing the loan amount to take cash out of equity, now is a good time to reevaluate your life insurance needs.

Here are two products to consider: 1) Guaranteed level premium term life insuranceâ€”term life policies provide a set death benefit for a specified length of time, usually 10, 15, 20, 25 or 30 years, with premiums guaranteed to never increase over the term selected. 2) Whole life insuranceâ€”unlike term insurance, whole life continues indefinitely as long as the premiums are paid, and, in addition to the death benefit, the policy builds up a cash value which is generally tax deferred. Whole life policies are typically more expensive than term policies.

For example, a very healthy 35-year-old can get a 20-year, $300,000 term policy from SBLI for $168 per year, and that premium is guaranteed not to increase for the entire term. An SBLI whole life policy for the same amount would cost the same individual $3,011 annually, but after one year it would have a cash value of $3,123, and the policyholder could borrow from it at any time. With either product, your premium will ultimately be determined by your health and other underwriting factors.

Don't forget to consider the financial strength and stability of an insurance company before making your purchase. Independent rating agencies such as A.M. Best evaluate a company's finances and claims-paying ability. SBLI has an A.M. Best rating of A+ Superior.

Once you select a policy, decide if you want its proceeds to pay off outstanding mortgage debt or be used as a source of income generation through investments, with a portion of the proceeds going towards monthly mortgage payments. This option may allow you to realize tax benefits associated with having a mortgage. Speak to an accountant or financial planner to determine which scenario works best for you.

These are challenging times for all of us. But with adequate life insurance, a dream home doesn't have to become a nightmare for those left behind.

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