

# Tips for Teens

## Life Insurance 101

By Stephen W. Bowman



As a teenager, you probably haven't thought much about life insurance other than seeing the odd commercials here and there. Some of you may be funding your post high school education with the cash value of a life insurance product and therefore you may already appreciate some of the advantages of life insurance. Understanding the basic concepts of life insurance can save you time and money as you get older and are in greater need of the benefits of life insurance.

The most basic kind of life insurance is known as term insurance. This type of coverage has a level premium for a fixed number of years. Usually we utilize a 10 year level term policy that can be converted to permanent insurance should a person's health issues change. Why ten years? Lots of things can change during a ten-year period – income levels, family, health situations, etc. If a person purchased a 20 year term insurance policy and changed their insurance program in the ninth year, they could have been overpaying for nine years. It is not a fixed-in-stone concept, but when looking at term insurance the ten-year time frame is a great place to start.

Another basic type of coverage is group insurance, which is offered through an employer. Group insurance can come at what may seem like a good rate but be careful when ordering extra coverage. A healthy young person can obtain a lot of coverage for a very reasonable rate. Group coverage has to cover everyone. If you are in reasonably good health and see others at work who may not be as healthy as you are paying the same rate as you for life insurance, you may be paying too much if you purchase extra coverage. Let the open market decide the price for you, not a blanket policy. On the flip side, if you have health issues, buy as much group insurance as you can. If you change jobs,

inquire if it is possible to maintain your coverage after you leave. It may be the only way to maintain this coverage.

How much coverage do you need? That depends a lot on your situation. If people depend on your income, you should have enough coverage that a lump sum benefit could generate your income should something happen to you. If you have no dependents, perhaps the coverage would be there to eliminate any burdens to those left behind.

So let's say you have determined the want and need for basic coverage, how should you go about doing this? These days you can go online and buy pretty much anything, life insurance included. Our firm prides itself in shopping the market for our clients. First, we filter out the companies that do not meet our financial standards. If a situation occurs where we needed to convert a term policy into permanent coverage, you want to have that coverage with a company that is financially sound. Then we create a survey of the companies that passed the filter. This survey will have wide ranges in possible premiums for the same amount of coverage. If we have only one company to pick from, you may pay more than you need to. If you picked the first site you found online, you could be paying too much as well. So shop around or use an advisor who can shop for you.

All in all, life insurance can be a product that can trip you up. This is just the tip of the iceberg on the information you need to know about life insurance. We don't have the space here to even dig into the types and benefits of permanent insurance. Knowledge can save you time and money when it comes to life insurance.

## QUIZ

1. Purchasing a 10 year term life insurance policy is generally a good place to start with term insurance.

TRUE  FALSE

2. Purchasing extra coverage from my employer group insurance is always a smart move.

TRUE  FALSE

3. Understanding the basic concepts of life insurance can save you money.

TRUE  FALSE

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