

Life Insurance 101: Know Your Options and Risks

By *Reneé Leskiw*

As a young lawyer, the last thing on your mind probably is dealing with death and dying. Drafting a will or a living will to protect those whom you would leave behind is likely on your to-do list but not at the top. It generally is a topic that is uncomfortable. But, to ensure you're on solid financial ground, you should consider what is going to happen to those whom you love after you are gone.

In the event of your death, you probably want to ensure that family members who are dependent on your income are cared for after you are gone. If nothing else, you'll want to have arrangements for your end-of-life expenses, including funeral and burial fees. If you have any debt, including a mortgage, that debt is transferred to your estate. If you have a spouse who was jointly liable on one or more debts, he or she then becomes solely responsible. Can your spouse pay that mortgage alone? Did your parents co-sign for your student loans? Can they pay these loans without dipping into their retirement funds?

An easy and inexpensive way to ensure that these final expenses are accounted for and that your dependents are financially secure is to purchase a life insurance policy. A life insurance policy will secure an amount of money that is to be paid upon your death to those whom you designate to receive the money. This money then can be used to settle debt and to provide financial security for those dependent upon you.

Even if your employer offers some life insurance coverage, you should ensure that your life insurance portfolio protects all of your financial obligations. In most cases, employer coverage is one to two times of your annual gross income. However, the average amount of money needed to pay for after-death expenses and to settle debts can be 5, 10, or 20 times of your annual gross income.

There are many types of insurance products that you can consider purchasing. Choosing which option is right for you depends upon what level of risk you feel you have, whom and what you are trying to protect, and how much you are willing to pay for insurance.

Term life insurance is perhaps the most basic and least expensive form of life insurance. It provides protection for a specific period of time, such as the same period of time as your mortgage term, while children are in the home, or when children will be going off to college. Level term life insurance offers premiums that are locked in during that time period, usually for 10, 15, 20, or 30 years, during which premiums rates will remain level.

Permanent life insurance offers life-long protection but with higher premium rates than term life insurance. Permanent life insurance may have the option of earning dividends, although not guaranteed, that can be applied toward the premium.

Whole life insurance offers protection throughout your entire life if premiums are paid. It also includes living benefits by allowing loans or withdrawals against the value of the policy while you are still living. Any withdrawals or loans are counted against the death benefits. Premiums remain level throughout the life of the policy, with rates usually higher than term insurance.

Universal life insurance provides permanent life insurance protection that pays the benefit amount if death occurs before the policy maturity date or pays the cash value (which accumulates through premiums paid over the life of the policy) if the insured is living at the maturity date. Premiums increase each year based on your age.

Whatever choice you make regarding life insurance, now is the time to consider applying for life insurance. For the initial application process, you will likely be required to provide your health history. If you apply for life insurance now, when you're younger and probably most healthy, you may receive lower premium rates throughout the life of the policy.

American Bar Association Young Lawyers Division
The Young Lawyer

NEXT STEPS

Established by the American Bar Association in 1942, the American Bar Endowment (ABE) is a §501(c)(3) not-for-profit organization that, among other activities, provides all ABA members with the unique opportunity to purchase quality, affordable insurance from trusted insurers while giving back to the good works of the legal profession. The ABE sponsors Group 10- and 20-year Level Term Life Insurance plans at affordable rates exclusively to ABA members. Learn more at <http://www.abendowment.org/yld.asp>.

Reneé Leskiw is executive director of the American Bar Endowment in Chicago. She can be contacted at rleskiw@staff.abanet.org.
