Extension
UNIVERSITY OF WISCONSIN–MADISON

How Can Life Insurance Help Me & My Loved Ones?

Having insurance can be an important part of your financial life. Some insurance policies are required by law, like auto insurance on your vehicle. Other insurance policies may be available through your employer, like health and dental insurance. Life insurance is another type of insurance you may want to have. You may also be able to buy life insurance through your employer.

Life insurance is an insurance policy that pays money to others after you die. Often, a person will buy a life insurance policy to make sure their spouse or children have money to meet their needs if the person dies at a young age. For example, Tina, who works as a nurse, is married to Keith, and has 3 children. She may want to buy a life insurance policy that would give Keith and her children money if she were to die unexpectedly.



When considering life insurance, it can help to ask yourself these important questions first:

- Does anyone depend on me financially? If so, how would they support themselves financially without my income?
- When I die, do I want to leave money to any person or charity?
- Would a life insurance policy be the best way to pay for my funeral? Note: The average cost of a funeral in Wisconsin ranges from $6,000 to $9,000 (National Funeral Directors Association).

If the answer to these questions is 'no', then you may not need to buy life insurance. However, if the answer to any of these questions is 'yes', then buying a life insurance policy may be a good choice for you.

If you decide to buy life insurance, it is important to talk with a financial advisor or insurance agent about the amount of life insurance to buy, which is called the *death benefit*. The death benefit amount & the type of policy will affect how much your life insurance costs. Payment options for life insurance include monthly payments, paying every 3 months, or paying once a year.

While there are many kinds of life insurance policies, there are two main types: **term life insurance** and **permanent life insurance,** which is also called cash value or whole life insurance.

Term life insurance is a policy that is valid for a period of time (ex: 10 years, 15 years, 20 years, etc.). If the insured person dies within the 'term,' then the policy pays the death benefit to the people named as 'beneficiaries' on the policy. If the insured person lives through the end of the policy's 'term,' then the policy expires and the death benefit is not paid to the policy's beneficiaries.

Permanent life insurance is kept for the entire life of the insured person, so the policy does not expire. Like with term insurance, when the insured person dies, the policy pays a death benefit to the beneficiaries. Also, these policies include savings or an investment account. While permanent life insurance has some advantages that term life insurance doesn't, it can be much more expensive.

To cover the cost of your funeral, your options include saving money to pay for your funeral, pre-paying for your burial with a funeral home, or buying an insurance policy, called a burial or final expense policy. Talk with a financial advisor or insurance agent for more details.

You can talk with your county's financial educator about money topics. Visit https://counties.extension.wisc.edu/ for more information.

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