Top 10 Life Insurance Myths
Life insurance is a complicated and sensitive subject. It is not surprising, therefore, that despite the fact that Americans are generally becoming more aware of the importance of owning life insurance as a way to protect loved ones, business associates, and charities, the number of households with individual life insurance has hit a 50-year low of 44% (according to LIMRA).

An abundance of information is available to help you understand the facts before making any decisions regarding life insurance. However, there are also some common misunderstandings that in the marketplace, including:

**Myth No. 1: I don’t need additional life insurance because I am covered through work.**

**Truth:** Having a life insurance policy through work can be a decent luxury, but it’s also temporary coverage. If and when you leave that company, the coverage will end. Further, an employer-paid policy typically offers a coverage amount only equal to one’s annual salary or a modest flat amount.

**Myth No. 2: Life insurance is too expensive.**

**Truth:** Based on what? The cost of level-term insurance has come down by more than 60% in the past 16 years. Even most forms of permanent insurance have come down in recent years since people are living longer. For example, a healthy 40-year-old nonsmoker can buy $1,000,000 of life insurance coverage, with a premium guaranteed not to change for 20 years, for about $60 a month. So, take a little out of the enjoyment budget today in favor of the knowledge that the economic future is more adequately assured.

**Myth No. 3: The best deals are obtained over the Internet, bypassing commissions.**

**Truth:** The Internet can be a great place to get information and shop for estimated costs. However, commissions are regulated by the states and are built into the policy regardless of who you buy the policy from. While the Internet may seem like a good avenue through which to purchase life insurance to avoid aggressive salespeople, it’s typically best to work through an independent advisor/broker who can offer insurance from all carriers and get you the best rate, not to mention advice. Applying to one company over the Internet may not yield the best rate.

**Myth No. 4: The amount of life insurance you should buy is 10 times your annual income.**

**Truth:** This dated rule-of-thumb that may or may not be appropriate and depends heavily on age, number of kids, liabilities, etc. It is interesting to note that under the 9/11 Commission, when the government had to decide what amount to pay the families of those who lost their lives, there were multiples of between 20 and 30 times annual income paid out to some families.
Myth No. 5: People with below average health can't get life insurance.

**Truth:** Different companies have different ways of assessing risk. What may be of concern to one company may not to another. In fact, some carriers even specialize in “high-risk” classes. Yes, the coverage for someone with higher than average health risks will probably be more costly than it would be for someone in perfect health, but many companies will work with you in order to accommodate your needs.

Myth No. 6: Term life insurance is always the right fit.

**Truth:** Term policies, which last for a finite period of time, cannot effectively or affordably provide insurance for the entirety of one’s life, unless you are unlucky enough to die substantially before life expectancy. Industry statistics say that term insurance only results in a claim less than 2% of the time either because it is outlived or becomes too expensive to maintain later in life. Term can be a solution if one needs coverage for a short time period only, or when one has limited cash to dedicate to insurance.

Myth No. 7: My lifestyle doesn't affect my insurance premiums.

**Truth:** Lifestyle has a direct impact on life insurance premiums. Typically the healthiest individuals see the lowest premiums, but other factors that affect cost include lifestyle choices like smoking, as well as your occupation, hobbies, and even driving record. Additionally, family history can also impact the price/rate.

Myth No. 8: Only the family breadwinner needs life insurance.

**Truth:** There’s more to consider than a salary when it comes to determining how much insurance each spouse needs. Everything from housekeeping to extra-curricular activities would cost a family extra money if a non-employed parent could not contribute.

Just as important is the fact that, often, an employed surviving spouse has a loss of income after the death of his/her partner. For instance, parents often take time off work to be with their young children, which could negatively affect their careers. There is a financial cost, even if the deceased did not have any income.

Myth No. 9: I should always buy term and invest the difference.

**Truth:** This will only work if you plan on living well-short of life expectancy. In other words, as mentioned in Myth #6, term insurance will continue to get more and more expensive the longer one lives. Eventually, it will be more than what a permanent policy would have cost earlier in life. There is always a crossover point at which this philosophy may make sense but typically that point is way after life expectancy. If insurance is needed for long term purposes, it never makes sense to buy term and invest.

Myth No. 10: Once you buy a life insurance policy, you can stop thinking about it.

**Truth:** Family situations change and insurance products change. Insurance policies need to be reviewed every 3 years or so to make sure they are still adequate for the insured’s needs and are competitively priced.