

Pearls of Wisdom[®] ... The Basics on Your Life Insurance Needs

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There are many reasons people buy life insurance to protect their families in the event of death; to pay off the mortgage, to pay down debt, or to pay for the future cost of college for young children. However, as young mothers, the most important reason for life insurance is to serve as income replacement for you and/or your spouse. Many women make the decision to take time off from work to help raise their children. What would happen if your spouse was suddenly not there to support the household bills and expenses? What most people don't realize is that paying off debt and future college cost will take a back seat to the real issue of maintaining household income. When planning for the amount of life insurance your family needs, women need to think about the following issues:

1. Funeral Expense.
2. Grieving Time.
3. Marketability back into the work force and how long it will take to fill the income gap between what you are making and what you need to live on.

Many people come up with numbers that they seem to pull out of the air like \$100,000 or \$250,000. How much income do you need a year to pay your bills and how many years do you want to be covered for?

Option 1: Use the death benefit proceeds to pay off mortgage and debt. Start working to support the household needs.

Option 2: Live off the interest of the death benefit proceeds for enough years to get through the three major issues addressed above.

Let's just say your household needs are \$100,000 income a year and you had a 100,000 life insurance policy on your spouse. In the simplest form, you would have enough insurance for less than a year. This can be very dangerous for a stay at home Mom who's wishes were to stay at home to raise her children. Trying option #2, living off the interest earnings from the policy's death benefits proceeds helps you to really understand the level of insurance you really need. Most families are grossly under insured.

For a conservative investment, let's use a hypothetical 5% gross annual return. Now your 100,000 insurance policy proceeds can produce \$5000 a year which is probably not enough to pay the bills. Obviously \$5,000 will not be enough money to live on.

- \$500,000 life insurance policy can replace \$25,000
- \$1,000,000 life insurance policies can replace \$50,000

The actual amount would be up to the families need because unfortunately there are no cookie cutter approaches but most people's needs are a lot higher then they are willing to admit when purchasing life insurance. People's needs suddenly drop by the thousands. This is a problem for women because under insuring your spouse is dangers for you and your family. Talking to a financial professional and working through personal financial needs analysis is all it takes to determine these needs. Be smart and look into your insurance policies yearly because your needs will change.

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