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Life Insurance at Various Life Stages

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Your need for life insurance changes as your life changes. When you're young, you typically have less need for life insurance, but that changes as you take on more responsibility and your family grows. Then, as your responsibilities once again begin to diminish, your need for life insurance may decrease. Let's look at how your life insurance needs change throughout your lifetime.

Footloose and fancy-free

As a young adult, you become more independent and self-sufficient. You no longer depend on others for your financial well-being. But in most cases, your death would still not create a financial hardship for others. For most young singles, life insurance is not a priority.

Some would argue that you should buy life insurance now, while you're healthy and the rates are low. This may be a valid argument if you are at a high risk for developing a medical condition (such as diabetes) later in life. But you should also consider the earnings you could realize by investing the money now instead of spending it on insurance premiums.

If you have a mortgage or other loans that are jointly held with a cosigner, your death would leave the cosigner responsible for the entire debt. You might consider purchasing enough life insurance to cover these debts in the event of your death. Funeral expenses are also a concern for young singles, but it is typically not advisable to purchase a life insurance policy just for this purpose, unless paying for your funeral would burden your parents or whomever would be responsible for funeral expenses. Instead, consider investing the money you would have spent on life insurance premiums.

Your life insurance needs increase significantly if you are supporting a parent or grandparent, or if you have a child before marriage. In these situations, life insurance could provide continued support for your dependent(s) if you were to die.

Going to the chapel

Married couples without children typically still have little need for life insurance. If both spouses contribute equally to household finances and do not yet own a home, the death of one spouse will usually not be financially catastrophic for the other.

Once you buy a house, the situation begins to change. Even if both spouses have well-paying jobs, the burden of a mortgage may be more than the surviving spouse can afford on a single income. Credit card debt and other debts can contribute to the financial strain.

To make sure either spouse could carry on financially after the death of the other, both of you should probably purchase a modest amount of life insurance. At a minimum, it will provide peace of mind knowing that both you and your spouse are protected.

Again, your life insurance needs increase significantly if you are caring for an aging parent, or if you have children before marriage. Life insurance becomes extremely important in these situations, because these dependents must be provided for in the event of your death.

Your growing family

When you have young children, your life insurance needs reach a climax. In most situations, life insurance for both parents is appropriate.

Single-income families are completely dependent on the income of the breadwinner. If he or she dies without life insurance, the consequences could be disastrous. The death of the stay-at-home spouse would necessitate costly day-care and housekeeping expenses. Both spouses should carry enough life insurance to cover the lost income or the economic value of lost services that would result from their deaths.

Dual-income families need life insurance, too. If one spouse dies, it is unlikely that the surviving spouse will be able to keep up with the household expenses and pay for child care with the remaining income.

Moving up the ladder

For many people, career advancement means starting a new job with a new company. At some point, you might even decide to be your own boss and start your own business. It's important to review your life insurance coverage any time you leave an employer.

Keep in mind that when you leave your job, your employer-sponsored group life insurance coverage will usually end, so find out if you will be eligible for group coverage through your new employer, or look into purchasing life insurance coverage on your own. You may also have the option of converting your group coverage to an individual policy. This may cost significantly more, but may be wise if you have a pre-existing medical condition that may prevent you from buying life insurance coverage elsewhere.

Make sure that the amount of your coverage is up-to-date, as well. The policy you purchased right after you got married might not be adequate anymore, especially if you have kids, a mortgage, and college expenses to consider. Business owners may also have business debt to consider. If your business is not incorporated, your family could be responsible for those bills if you die.

Single again

If you and your spouse divorce, you'll have to decide what to do about your life insurance. Divorce raises both beneficiary issues and coverage issues. And if you have children, these issues become even more complex.

If you and your spouse have no children, it may be as simple as changing the beneficiary on your policy and adjusting your coverage to reflect your newly single status. However, if you have kids, you'll want to make sure that they, and not your former spouse, are provided for in the event of your death. This may involve purchasing a new policy if your spouse owns the existing policy, or simply changing the beneficiary from your spouse to your children. The custodial and noncustodial parent will need to work out the details of this complicated situation. If you can't come to terms, the court will make the decisions for you.

Your retirement years

Once you retire, and your priorities shift, your life insurance needs may change. If fewer people are depending on you financially, your mortgage and other debts have been repaid, and you have substantial financial assets, you may need less life insurance protection than before. But it's also possible that your need for life insurance will remain strong even after you retire. For example, the proceeds of a life insurance policy can be used to pay your final expenses or to replace any income lost to your spouse as a result of your death (e.g., from a pension or Social Security). Life insurance can be used to pay estate taxes or leave money to charity.

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