

7 life insurance mistakes to avoid

Is your insurance adequate? How do you know? Even in today's hard times, you may need more, not less.

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By [U.S. News & World Report](#)

For most people, talking about life insurance sounds almost as fun as eating rotten fish. And while ignoring it can compound a family tragedy by turning it into a financial nightmare, more and more people are doing just that. A recent survey by the nonprofit Life Foundation indicated that one-fourth of Americans would consider canceling their life insurance policies in order to save money during the recession.

Before making that kind of drastic decision, consider these seven common insurance mistakes -- and you might decide to buy more coverage, not less.

1. Thinking you have enough. In a recent survey of middle-income Americans, Allstate found that while respondents generally agreed that everyone should have some level of life insurance, most believed that it should primarily cover bills and funeral expenses. Only 20% said life insurance should replace the income of the person who died, in order to continue to support any children and other dependent family members. The idea of having a policy that paid out seven to 10 times one's salary -- an amount that could easily make sense for someone with young children -- sounded like an attempt to sell a needlessly large policy to the respondents.

- [MSN Money insurance planner](#)

In fact, a third of adults have no life insurance at all, says Steven Weisbart, the chief economist for the Insurance Information Institute. Of the remaining people, many of them have only the insurance that comes from their workplace policies, which is usually not enough for people who want to support dependents after their death.

2. Not talking about it at all. "It's a topic that nobody really wants to think about," says Matt Easley, a vice president for Allstate Financial, partly because thinking about death is so uncomfortable.

Though life insurance isn't required the way auto insurance is, Weisbart says it is "morally required," because "if you have dependents, you owe it to them to protect them from the loss of your capacity to earn an income." (See "[What if you got hit by a bus?](#)")

3. Relying on old rules of thumb. Traditionally, people relied on a standard "seven times income" rule to calculate how much insurance they needed. But that's not a useful measure, Easley says, because people's situations are so different. A single person with no dependents will probably need much less insurance than someone with five young children, for example. Instead, Easley recommends sitting down and thinking about "the things you want to protect." How much would it cost to support your children in the way you want? To pay for their college or pay off the mortgage? Millions of unemployed Americans can't afford health insurance for their families. Meet one of them and the solution she found.

Calculate economic loss

Michael Bonevento, a senior financial adviser at Ameriprise Financial, also recommends making a "human life value" calculation, which looks at the economic loss that would come from a breadwinner passing away. For example, if he earns \$100,000 per year and has 20 years left until retirement, then the value is \$2 million. (Taxes then get subtracted out along with the amount the breadwinner consumes himself, and other benefits such as health insurance are added. Finally, the present value of that number is calculated.)

- **Calculator:** [How much life insurance do you need?](#)

The human life value is usually a higher number than what people come up with after considering what they'd like to be able to pay for if they were to die. Bonevento recommends purchasing insurance for somewhere between those two amounts.

4. Ignoring your non-monetary income. Many people, when adding up how much of their income they would need to replace, forget about the benefits that come with their jobs, such as health insurance and retirement account payments. "I have a job, and my employer pays my health insurance costs, but if I died, and that subsidy disappears, my wife would have to get health insurance without it, so it would cost more," Weisbart says. Life insurance, then, should pay enough money to cover the new health insurance bill.

5. Forgetting the long term. People often lose track of how long the life insurance payout should support their children and other dependents after they die, Easley says.

6. Thinking that it's too expensive. Many people mistakenly think life insurance is prohibitively expensive, Bonevento says, but it's possible to find a policy that fits both your needs and your budget. Term insurance, which provides temporary insurance over a specific time period, [is more affordable](#) than permanent insurance, which lasts a lifetime.

In addition to managing financial risk, people sometimes use permanent insurance as an investment tool, as well.

But those on a tight budget tend to choose term insurance. One of Bonevento's clients, a married man with one child and another on the way, decided he needed to take out \$1.5 million worth of term life insurance. His monthly payment, pending an assessment of his health, will cost between \$102 and \$219 per month.

7. Forgetting to update a policy. Though major life events, such as the birth of a child, marriage or divorce, usually mean it's time to update your insurance policy, many people forget to do so. Even Sept. 11, which affected many of Bonevento's clients, did not serve as the motivator he thought it would. Then, he says, "when tragedy strikes, they face financial problems on top of everything else."

This article was reported by Kimberly Palmer for U.S. News & World Report.