

Intro To Insurance: Life Insurance

By [Cathy Pareto](#)

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By [Cathy Pareto](#)

Life insurance was initially designed to protect the income of families, particularly young families in the [wealth accumulation](#) phase, in the event of the head of household's death. Today, life insurance is used for many reasons, including [wealth preservation](#) and [estate tax](#) planning. (For background reading, see [The History Of Insurance In America](#).)

Life insurance provides you with the opportunity to protect yourself and your family from personal risk exposures like repayment of debts after death, providing for a surviving spouse and children, fulfilling other economic goals (such as putting your kids through college), leaving a charitable legacy, paying for funeral expenses, etc. Life insurance protection is also important if you are a business owner or a key person in someone else's business, where your death (or your partner's death) might wreak financial havoc.

Life insurance is a great financial planning tool, but should never be thought of as a savings vehicle. In general, there are often far better places to hold and grow your money as you get older.

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Not everybody needs life insurance. If you are single and have no dependents, it may not be worth the expense. If, however, you have anyone who financially depends on you (even partially), life insurance may be appropriate for you. When considering life insurance, the questions to ask yourself are this:

- Do I need life insurance?
- How much do I need?
- How long will I need it?
- What type of policy makes sense for me? (this will be answered in our next section)

Your need for life insurance will depend on your personal circumstances, including your current income, your current expenses, your current savings and your family's goals. Rules of thumb might indicate that purchasing life insurance that covers six to 10 times your gross annual income is the right amount of coverage. But, that's merely a guide. Your family may need more or less than that. When deciding how much coverage is necessary, you really have to lay out the details of what you have versus what goals you'd like for your family once you are gone, keeping in mind that their

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security can often carry a higher price tag than you originally thought. (For more insight, see [How Much Life Insurance Should You Carry?](#) and [Five Life Insurance Questions You Should Ask.](#))

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