



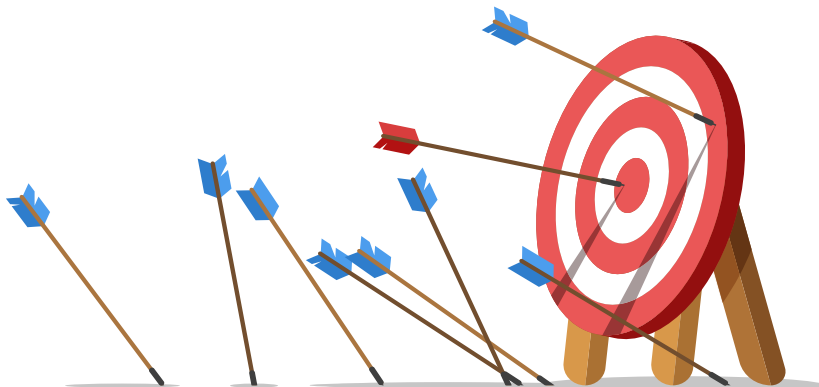
## Six Common Life Insurance Mistakes

Let's face it. Life insurance is a difficult topic to talk about. Most people do not want to buy life insurance or even think about it because it means contemplating their own demise. Yet, most people understand the importance of having it to financially protect their families or their businesses. This conflict often causes individuals to procrastinate and make mistakes when it comes to purchasing, owning, and using life insurance.

Here are several of the most common mistakes made.

**1. Waiting Too Long to Buy It:** Unfortunately, for many, the time they think about life insurance is typically when they're older and some life event has occurred, or perhaps they have encountered medical issues. These scenarios make them contemplate their mortality and the need to financially protect their family or business. That timing, however, could be an issue because the individual may now be older causing premiums to be higher, or they may now have medical issues that adversely impact underwriting, or even worse, they may now be uninsurable.

Life insurance should be purchased as soon as possible to preserve insurability and to lock in lower premiums when you're younger and/or in good health. If you're at a point in your life where a permanent policy is too costly or doesn't fit your current situation, consider a term insurance policy that allows you to convert to permanent insurance at a later date without additional underwriting. Also, consider policy riders that allow you to automatically increase the face amount over time without additional underwriting.



**2. Buying the Wrong Type of Policy:** Failing to educate themselves on the many types of life insurance products and available riders is one of the biggest mistakes people make. The concept of life insurance seems simple – you die and then your beneficiaries receive a death benefit. While that's true, there's much more to life insurance than that. Many policies offer various lifetime benefits as well.

There are different types of life insurance products and many different riders that can be attached to the policy. Some policies are effective only while you are employed with your company; some only last for a set period of time; some include a savings component known as cash value; some guarantee cash value growth and others depend upon the performance of the stock market; some insure two or more lives and only pay out after all insureds have died; some policy riders can provide assistance for medical or long term care issues; and much, much more.

Life insurance is not a one-size-fits-all product. Advice provided through the mass media may or may not fit your specific needs and objectives because every person's situation is unique. For example, having group term life insurance through work is only good if you remain employed with that company and not all employers provide it. You may think term life insurance is enough, but you may need insurance for a longer period of time than the term of your policy. There are probably many conditions you haven't thought through. An experienced, knowledgeable and skilled life insurance advisor can work with you to first understand your situation and concerns and then help you explore suitable life insurance options and strategies.

**3. Improper Beneficiary Designations:** Purchasing life insurance requires naming a beneficiary to receive the proceeds in the event of death. Seems simple enough, but even this decision needs careful consideration and thought. For example, failing to name any beneficiary or to name your estate as a beneficiary can cause the proceeds to be unduly delayed because a court proceeding is required to determine when proceeds are released and how they are distributed and used. Similarly, naming a minor child or grandchild as a beneficiary may cause undue delays because a minor is incapable of receiving and handling the money and a court proceeding may be required to name a guardian and/or custodian of the money. Even young beneficiaries who have reached the age of majority should be carefully considered. How many young adults do you know who can competently and safely handle potentially, a large sum of money from the insurance proceeds?

Other beneficiary mistakes include failure to name a contingent beneficiary in the event your primary designated beneficiary predeceases you. That failure could cause the proceeds to be paid to the estate leading to court proceedings and undue delays to access the money.

**4. Failing to Realize the Lifetime Benefits Provided by Your Life Insurance:** Permanent life insurance policies, such as whole life insurance and the variations of universal life insurance, can provide a savings element in the form of policy cash values. Some insurance carriers may also pay dividends that may increase your cash values and death benefit. Dividends are not guaranteed. Cash values can be accessed on an income tax-free basis through policy loans<sup>1</sup>. This provides you access to needed cash without the need to liquidate other assets or borrow money from a bank to fulfill a variety of needs, including short-term economic hardships such as periods of high inflation, excessive medical expenses or loss of employment. Cash values can also be used to help pay for lifetime expenses such as college tuition bills, purchasing a car or other major purchase. Policy riders may provide benefits while you are chronically or critically ill. Others can help with long term care needs. Some will waive your premiums if you are disabled, and more. Life insurance is not just about the death benefit. It can provide assistance during life.

**5. Failing to Regularly Review Your Insurance:** Another typical mistake is failing to regularly review your life insurance policies including the product types, amount of coverage and beneficiary designations. Too often, life insurance is purchased and then the policies are put away and never looked at again, even though there may have been significant life events such as marriage; divorce; becoming part of a blended family; the birth or adoption of a child; significant increases in income and net worth; the development and growth of a business; estate tax issues; caring for a family member with special needs; and more. There may also have been health changes since the issuance of the last insurance policy, or attractive product innovations from the insurance carriers. Any one of these events may be cause to review your existing life insurance coverage and potentially a change in the amount of coverage, type of policy, or ownership of the policy.

Another grave mistake is failing to regularly review your beneficiary designations after certain life events. For example, it is very common for divorced couples to forget to change their beneficiary designations after the divorce. That can potentially cause the insurance proceeds to go to someone whom it was not intended.

**6. Believing You No Longer Need Life Insurance as You Get Older:** The kids are out of the house, college is paid for. Perhaps your mortgage is paid, and you are getting ready to, or already retired. You can't possibly still need life insurance, right? Well, the answer is not so black-or-white but rather "it depends."

- a. Do you want to ensure you leave an inheritance to your children or other family members or friends? Will leaving an inheritance cause you to adjust your lifestyle to ensure you have assets left over for that inheritance? Life insurance will allow you to enjoy the rest of your life without worrying about leaving an inheritance because the insurance proceeds are the inheritance.
- b. Do you know how long you will live and that you won't outlive your assets and resources? Cash values in permanent policies can help to supplement your savings or income.
- c. Do you have significant net worth that may result in estate and/or inheritance taxes? Life insurance is one of the most common estate tax planning strategies used by the wealthy to create liquidity to help pay taxes or to replace wealth lost to taxes.
- d. Do you need assistance to meet income needs, medical expenses and long-term care expenses during retirement? Take advantage of the lifetime benefits many permanent policies can provide, as mentioned previously.

e. Will you need to continue caring for a family member with special needs? Life insurance is one of the most common strategies used to fund a special needs trust.

f. Do you need to create a succession plan for your business? Life insurance is often used to fund a business succession or buy-sell plan. Life insurance can be helpful in family-owned businesses being passed to the next generation.

These are just a few examples of why you may need life insurance even though you are older, have fewer debts, and perhaps already retired.

## Conclusion

Life throws many obstacles in our way and, if you have the right type of life insurance, it often can help you to avoid or jump over those obstacles and minimize your concerns so you can continue enjoying your life. Therefore, you should consult with a knowledgeable life insurance professional, such as your Security Mutual Life insurance advisor, who can educate you and guide you through the maze of life insurance products and riders.

**For More Information Contact:**

**Your SML advisor can help to review your current life insurance plan, assess your needs, determine if your existing coverage is adequate, and help you to create and implement a plan to meet your goals and objectives. Contact your SML advisor today.**



<sup>1</sup>Policy loans reduce the cash value and death benefit of the life insurance policy. Policy loans are not subject to income tax as long as the policy remains in force until the death of the insured, does not lapse and is not a Modified Endowment Contract (MEC). Outstanding policy loans accrue interest.

We encourage individuals to seek personalized advice from a qualified Security Mutual life insurance advisor regarding their personal needs, objectives and financial circumstances.

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