Life Insurance

Life insurance should be a familiar topic to those with a spouse, mortgage or kids. But life insurance is not exactly a top concern for most students. And that's rightly so – most students probably have no need for life insurance.

Case closed? Not so fast. There is a situation in which the death of a student could cause financial harm to loved ones – cosigned student loans. While federal student loans such as Direct Subsidized, Unsubsidized or PLUS loans are discharged upon the death of the borrower, private and many university loans are not. For students amassing a large amount of undergraduate or graduate school debt, life insurance may be a topic to consider.

Life insurance is a contract between the policy owner (the person insured) and an insurance company. In the event of the policy owner's death, the insurance company agrees to pay a certain amount of money to the policy's beneficiary. In exchange for this contract, the policy owner must pay a periodic fee, known as the premium, to maintain coverage.

What Does it Cost?

There are a number of factors influencing cost, including:

- The total amount of coverage. The higher the amount, the more the policy will cost.
- Age and Health. Bad health and chronic conditions will likely increase rates. Policy costs also increase based on age.
- Lifestyle. Habits such as smoking and hobbies such as aviation and motorcycle riding will increase rates.

There may also be other factors considered by life insurance companies that are not mentioned here. Rates will also vary depending on the life insurance company you choose.

Types of Life Insurance

There are two main types of life insurance that are considered by most people – term and whole life.

A term policy is a temporary policy that guarantees coverage at a fixed cost for a specific period of time – typically between 5 and 30 years. At the end of the policy term, the insured stops paying premiums and no longer has the right to any policy benefit. The main advantage of term policies is low cost, at least for younger people – usually just a few hundred dollars per year for $250,000 or more in coverage. As you get older, especially as you near retirement age, premiums increase dramatically.

A whole life policy is a type of investment policy that offers a death benefit similar to term policies, but also builds cash value over time. A similar type of policy called a variable life policy is invested in stocks and bonds, and the value goes up or down depending on the performance of the investments bought by the insurance company with the premium payments. Whole life policies cost much more than term insurance policies. With high broker commissions, fees, and restrictions on withdrawing accumulated value, most experts consider whole life insurance to be a poor investment compared with simply purchasing term insurance and using the extra money to invest separately in tax advantaged IRA or 401K accounts.

How Much Coverage?

Determining how much coverage is appropriate is a decision only you and your family can make. If you have no dependents or spouse to support, your life insurance amount could be enough to repay any cosigned educational loans and funeral expenses.

If you do have kids, a spouse, or a mortgage, the picture gets much more complex. Many people feel that a policy equal to ten times their annual salary is sufficient, while others will project specific education costs, home payoff, and a retirement nest egg for their spouse.

Thinking about death and disability may not be pleasant, but planning for the comfort of your loved ones is the responsible thing to do.

College Foundation of North Carolina

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