

# Life insurance: How to make sure you're not underinsured

By Satta Sarmah-Hightower | Updated on September 1, 2020

Only 59% of Americans have life insurance, and about half of those with insurance are underinsured, according to [LIMRA](#).

One problem is that nine million households just have group life insurance. That's usually not enough. LIMRA estimates that people with only group life insurance have average coverage gaps of [\\$225,000](#).

## Best Life Insurance Offers For You

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A life insurance policy is often an affordable way to protect your family. However, many people think they can't afford it.

"Many folks say they can't afford the amount of insurance that is actually needed. But if you take time to think about it, insurance should be the foundation of your financial plan," says Matthew Barr, a licensed life insurance agent and an agency supervisor at the Loyal Christian Benefit Association, a life insurance provider.

Dr. Cameron Ellis, assistant professor of Risk, Insurance and Healthcare Management in the [Fox School of Business at Temple University](#), said life insurance insures against death and "reclassification risk." Reclassification risk factors in when you want more insurance later, but your health status makes it much more expensive.

That's why you should consider both your current situation and future, including dependents, when considering a term life insurance policy, Ellisa says.

## How to figure out if you're underinsured

Barr says determining your need is the most important factor when it comes to having adequate life insurance coverage. That starts with understanding the amount of money your family would need to meet financial obligations, like the mortgage, college tuition, utilities, food, clothing, and debt payments, if they no longer could rely on your salary.

"Look at your current situation and say: 'If I was to die today, what amount of money would my family need so they could continue to live the lifestyle they do now?'" Barr says.

How do you make sure you have enough life insurance? An excellent place to start is to use our [Life Insurance Advisor](#) to figure out what you need.

Decipher what your family needs. How much are you contributing to the family's income and expenses?



That goes beyond what you're bringing to the family financially. You also have to factor in child care. Use our [Life Insurance Calculator](#) to see how much coverage you need.

Once you figure out what kind of future money your loved ones will need if you were to die, you can then compare policies from multiple life insurance companies.

If you're underinsured, Barr says it's important to sign up for life insurance as soon as possible.

"In some rare cases, if folks wish to try to lose weight first or quit smoking, it may be in their best interest to get their health situated first, but this still doesn't fix the fact that they continue to age, which means their rate continues to increase each year they put off applying for more coverage," he adds.

Ellis offered this advice.

"Figure out how much insurance you need (or will need in a few years) and buy it early in life. Barring unexpected changes, you should slowly decrease your coverage (relative to your income) as your dependents become less reliant on your income. After retirement, you should keep only as much as needed to cover a funeral," Ellis says.

## Choosing the type of life insurance

There are two overarching types of life insurance: term and permanent. Which one is right for depends on what you can afford, what you want from your life insurance and your life situation.

Term life is for limited years like say 20 or 30 years. Term life is good for people who want a cheaper policy, only need a policy during your high earning years and won't have a large estate to leave behind.

Permanent life insurance, such as [whole life](#), is for life as long as you pay your premiums. There are also hybrid plans like universal life and variable universal life. Permanent life could be the right choice if you want to make sure your family has a life benefit when you die, you want a policy with cash value that you can tap into if needed, and if you have a large estate that you'll leave to your loved ones.

Here's more information about [choosing between term and perm.](#)

Janine Golding, executive vice president of The Archer Financial Group, says figuring how much insurance you need is a tough question.

"Personally, I feel one should have enough death benefit to provide for the people and causes that you want to protect even when you're gone. This, of course, varies by individual, according to their values and their personal situation," Golding says.

Chris Orestis, president of LifeCare Xchange, says how much coverage you need evolves over time. You may not need much coverage before you're married and have children. However, getting married, having children and buying a home are all times when you'll need more life insurance.

Orestis suggests you ask the following questions:

- What are the major costs of a lifetime for a family that need to be protected as best as possible?
- What would it cost to carry the mortgage payments of a home, car payments, healthcare and college?

"For every family, the numbers and priorities will be different and new questions need to be asked. In the case of death, what assets can be combined with a death benefit? Is there other family money? Can the surviving spouse earn an income now or in the future? The answers to these questions can't be answered on day one and will need to be revisited over time with re-calibrations of financial needs based on evolving living circumstances," Orestis says.

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 National Family Assurance <small>Trustpilot</small>	Top California Life Plans: Term, Whole Life, Burial/Cremation, and more	<a href="#">GET QUOTES</a>
 BurialInsurance.com	Compare Burial Insurance Plans & Rates from Top Companies.	<a href="#">GET QUOTES</a>
 life insurance.net	Free Instant Quotes Online	<a href="#">GET QUOTES</a>

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# Increase your life insurance when needed

Having a life insurance policy doesn't mean you never have to think about it again. In fact, you should perform a financial checkup annually or close to it.

"Sometimes it's very brief if not much has changed," says Golding.

Your life insurance needs will change as your life changes. It's a good time to reassess your life insurance needs when:

- Your income changes
- You get married
- You have children
- You buy a new home

"All these personal considerations figure into the amount of insurance coverage you might desire. There is nearly always a way to adjust your insurance accordingly," Golding says.

Not re-considering your policy at those times can be a mistake, especially single-earner households.

# Don't rely on group life insurance

As we mentioned, [group life insurance](#) is usually not enough. Employers often offer group life insurance to employees. These are generally no-cost or low-cost.

An employer's group life insurance is nice to have, but you shouldn't think of that policy as your sole life insurance. Here's why:

- It's often [connected to an employer or association](#). So, you'll likely lose it if you leave your job and have group coverage.
- Fewer riders, so you can't add on other protections like long-term care.
- Low death benefits.
- An employer can take away coverage later, so there's no guarantee it will be there when you need it.

For all of these reasons, you should view them as complementary to your own life insurance policy. However, if you can't get any other type of life insurance policy, group life coverage is better than nothing. Just make sure you're saving in another way, too.

"The biggest reason you might not want to buy life insurance through your employer is the risk that you might leave your job. While you can convert your group policy into an individual one, it will be expensive to do so," Ellis says.

## Don't go without coverage

[Term life](#) policies are one way to get life insurance, but you may outlive the policy. These policies, especially ones with short periods, are usually cheaper than permanent life insurance.

Term life is a great way to get protection, but at some point, that policy will likely end. If you outlive your term life policy, you'll need to decide on what to do next.

Some options you have:

- Renew your policy. This will cost you more since you're older than when you got your first policy.
- Buy a new policy. This can be pricey depending on your age. However, if your term life policy ends in your 20s or 30s, you should be able to find an affordable term life policy depending on your health.
- [Convert to a permanent policy](#). Many term life policies let you convert to a permanent policy.
- Buy another type of coverage, such as [final expenses coverage](#).

Here's more about what to do when your [term life policy is ending](#).

# How to save on life insurance

You can't control Father Time, but there are ways to get the best life insurance rates possible.

Your first step is to improve your health and stop smoking. Life insurers base rates on risk. If you're in poor health, you can expect to pay higher premiums -- if the insurer even covers you.

"Life insurance is based on two simple factors. One, how much insurance you are applying for, and two, your age and health," Barr says. "There are no sales when it comes to life insurance. You may qualify for a better rate based upon being healthier than normal; however, this is the same price offered to other healthy individuals your age."

Another key way to save is to make sure you perform your due diligence to find the best coverage that you can afford.

"Shopping around is the number one way to save on insurance," Penny Gusner, senior consumer analyst with Insure.com, says. "Insurance companies have different ways to calculate premiums, so you have to find the insurer best suited for your needs and that offers the best rates for your situation."

*Les Masterson contributed to this article.*