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# Looking into Life Insurance

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**Confusion creates bad decisions**

Most people view a heavy sweater with short sleeves as a contradiction. After all, if you need the warmth of a heavy sweater, won't you also need long sleeves? Many people buy life insurance that makes as much sense for them as a heavy sweater with short sleeves. They end up paying too much money for too little protection and find themselves underinsured and overspent.

Life insurance is one of the most confusing products any consumer is likely to buy, but there is no reason it should be. The statistical risks and expenses associated with mortality insurance are well established. Thus, one would expect a host of predominantly straightforward, competitively priced policies. Yet, the options most frequently presented to consumers are seldom clear or easy to compare. Here is a look at life insurance from the consumer perspective.

**Understanding life insurance**

Life insurance offers no protection against death. It neither prevents death nor prolongs life. Properly understood, it should not be viewed as a lottery ticket for quick riches or an investment fund for early retirement. The purpose of any insurance is to indemnify the insured against a specified loss in exchange for premiums. The loss must be uncertain as to time, type, or cause if it is to be insurable. Without some uncertainty, there is no probability factor that would allow an insurer to charge less in premiums than it is sure to pay in benefits. It would be unrealistic to insure a sure thing. How can death be insured?

Although death is certain, it is still insurable because we know "not the day nor the hour." Thus, the amount and timing of the premiums paid is a critical element in making death insurable. In the pool of insured people, many will pay premiums this year and comparatively few will die. This gives the insurer more than enough money to pay the death benefits of those that die. If those in the pool represent people of different ages, the older ones should have to pay higher premiums because they are more likely to die and collect.

**There is no free lunch**

Policyholders can either pay higher annual premiums as they get older or they can pay higher premiums in advance. If they pay more in prior years than others their age, then their premiums need not go up year after year. The premiums needed for death protection may even be lower than they would be for the current year, because the insurer has been able to earn money on their money. And when the insured dies, the reserve of prepaid premiums and earnings is available to provide part of the death benefit. Because many people can't stand the thought that they must die to collect or live and get nothing, some policies allow the insured to recoup the sum of their premium overpayments and the earnings on them if they terminate the policy before they die.

Life insurance is actually a bet. The insurer is betting that you live and don't collect, while you are betting that you die and do collect. This is a pretty gruesome reality, which is not conducive to selling or buying life insurance. So insurers developed new products that enabled them to present life insurance as a benefit for the insured without the necessity of dying. The initial price was higher and the term longer, but customers were persuaded that they were getting two things for the price of one when, in fact, they were getting one of two things for one price.

**Keeping your eye on the prize**

Different people have different views on the purposes of life insurance. The consumer view is that insurance dollars are best spent on insurance needs and that the best insurance for any given situation is the one that provides the financial protection needed at the lowest cost. Lowest cost is only applicable among insurers that have the strength, stability, and integrity to deliver on the insurance they sell. Notably, the statement above does not exclude any type of life insurance. It does imply, however, that all life insurance products be assessed in terms of their ability to meet the purpose for which they were purchased at the most competitive price for that purpose.

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