

# 8 Common Life Insurance Myths, Debunked



At Policygenius, we hear a lot of misconceptions about life insurance and how it works. We're here to **debunk some common myths** so you can feel confident you're getting the best financial protection for your loved ones.



## Myth 1:

# You don't need life insurance if you're young and don't have kids

Just because you're in your 20s, single, and don't support anyone financially doesn't mean you don't need a policy.

If you split bills with a partner or have student loan debt, it's worth considering some coverage.

When you die, your loved ones become responsible for those debts and expenses. Even if no one co-signed your loans, debtors might come after savings and property you hoped to leave behind for your family.

Buying when you're younger and healthier will also save you money long-term, and you may be able to get a cheaper policy faster if you qualify for a no-medical exam policy.



## Myth 2:

# Life insurance is unaffordable

A 2021 LIMRA and Life Happens study found that the majority of people overestimate the cost of life insurance by up to 3x.<sup>1</sup>

Term life insurance is very affordable, especially for younger and healthier people, and offers the simplest coverage, which is all most people need.

A \$500,000, 20-year term life insurance policy costs \$25-30 per month for a 35-year-old without serious health concerns. Compare that to a more complex whole life insurance policy at up to \$517 per month. Working with an independent agent to shop around will help you find your lowest rates.



### Myth 3:

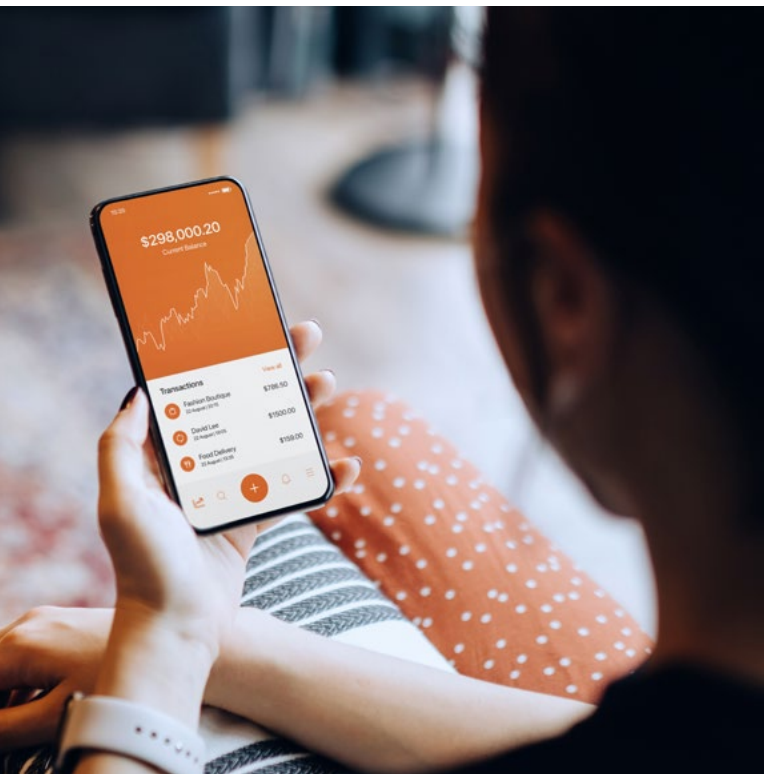
## You should use life insurance to invest

**Some types of life insurance come with an investment-like cash value feature that earns interest over time.**

They're often advertised as a smart way to get life insurance protection and save for retirement at the same time.

But for most people, life insurance is not a smart investment. Policies that come with a cash value are significantly more expensive and harder to keep in force. Plus, you'll get a higher return on your investment using a traditional account, like a 401(k).

High-income earners who often max out all of their other investment accounts are the exception. Everyone else is better off buying a cheaper term policy and keeping their investments separate.



## Myth 4:

# The life insurance from your job is all you need

**Many employers offer group life insurance at little or no cost as part of their benefits package.**

The catch is that group life insurance doesn't offer all of the coverage you need, and you lose it when you leave your job.

The median coverage amount offered by employers in the U.S. is \$250,000.<sup>2</sup> But experts recommend having life insurance coverage equal to at least 10-15x your annual salary. For example, if you make \$75,000 per year, you want at least a \$750,000 policy; a group policy would leave you severely underinsured.



## Myth 5:

# You don't need life insurance if you already have savings

Unless you've saved enough money to support your dependents for the rest of their lives and pay off all of your debt, you need a life insurance policy.

The policy provides security in case you die before you accomplish your long-term savings goals.

Ideally, you'll outlive your policy and by the time your coverage expires, you'll have no dependents and enough money in savings and investments to cover your retirement and end-of-life expenses. Until then, you need a policy to protect against a worst-case scenario.



## Myth 6:

# Stay-at-home parents don't need life insurance

**Stay-at-home caregivers who don't earn a salary often think they don't need coverage.**

However, studies estimate the economic value of running a household at \$178,201.<sup>3</sup>

If you take care of your children, aging parents, or perform household tasks like cleaning and grocery shopping, your partner would need to replace that work by taking time away from their job or hiring help. Life insurance can support those expenses if you pass away.





## Myth 7:

# Life insurance companies automatically pay out when you die

**If you're the beneficiary of a life insurance policy and the policyholder dies, you don't automatically receive the insurance payout. To get the funds, you have to file a claim with the life insurance company.**

The claims process usually starts with a claims form and a phone call to the life insurance company. After that, insurance providers take anywhere from two weeks to 60 days to process and pay out your claim.

If you're having trouble locating the original policy or insurer, free lookup tools from the National Association of Insurance Commissioners and other trusted organizations can help.



## Myth 8:

# Your beneficiary owns the policy

It's easy to think of the beneficiary as the owner of a policy, because they're the person who benefits from it – i.e., they're getting the payout (or death benefit).

But it's important to understand the distinction between the beneficiary and the policyholder.

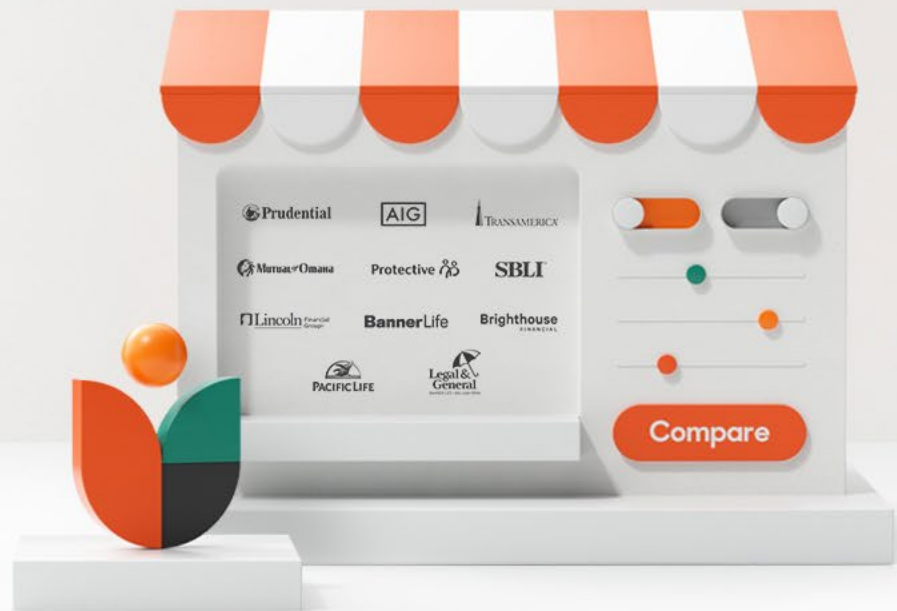
The policyholder is the person who owns the insurance policy and pays the premiums, and the only person who can make adjustments to their insurance coverage. The rare exception to this is key person insurance for businesses. The business organization owns a key person policy, pays the premiums, and is the beneficiary of the death benefit.

However, businesses cannot take out a key person policy on an employee without their knowledge (a practice nicknamed “dead peasant insurance”).



Understanding what type of coverage you need to protect your loved ones is essential.

**Reach out to your advisor** to find out how Policygenius Pro can help you ensure that you're getting the policy – and the accurate information – you need.



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<sup>1</sup> LIMRA. "2021 Insurance Barometer Study Reveals Common Misconceptions That Prevent Americans from Getting Life Insurance They Know They Need." Accessed February 10, 2022.

<sup>2</sup> U.S. Bureau of Labor Statistics (BLS). "National Compensation Survey: Employee Benefits in the United States, March 2021." Accessed February 10, 2022.

<sup>3</sup> Salary.com. "How Much Is a Mother Really Worth?" Accessed February 10, 2022.