Life Insurance – Teacher's Guide

Of the three types of insurance in the "Lessons on Insurance and Credit" teaching kit, life insurance is the most difficult for students to comprehend. With auto and home insurance, you are dealing with tangible things – your car, your home, your personal possessions. Life insurance deals with a subject not close to many high school students: death.

The purpose of this section is to:

- Define life insurance;
- Develop a basic understanding of what a life insurance policy provides; and
- Provide students with general knowledge of the importance of having life insurance.

Watch the video segment, assign the students to review the student guide, and then discuss the material by asking them the following questions.

What is life insurance?

Life insurance is no less important than auto or home insurance; it's just that most teens don't think about death and its financial consequences. But if you think about life insurance in terms of one thing – money – it becomes much more tangible.

The purpose of having life insurance is to protect a family against the loss of income when a wage earner dies. If a person brought home a paycheck every week and suddenly died, the insurance policy would provide a death benefit that would help provide income for the surviving family.

Life insurance can also be used to pay off financial obligations when a person dies, as well as funeral expenses and burial costs.

How much life insurance is enough?

First, talk to an insurance agent. He or she can help you think about the situation logically and help you determine how much money your survivors would owe on your home, cars, credit cards, etc. You should also factor in the cost of funeral expenses and, if needed, money to provide an income for your family and your children's education.

Your agent will propose a life insurance policy and amount of coverage for you based on these needs. Then, you pay a certain amount of money for the policy (a premium) monthly, quarterly or annually, and the policy pays a specific amount (the death benefit) when you die.

How much does life insurance cost?

How much one person pays for life insurance compared to someone else depends on several factors, but as a general rule, age is one of the most important factors determining life insurance rates, if only because the probability of dying generally increases every year.

Insurance companies also use mortality tables to help determine rates. Mortality tables list the probability of a person's death based on years of statistics collected for a large number of people sharing certain characteristics, including age, sex and tobacco use.

Other factors, called risk factors, aren't in the mortality table but can be used to determine how risky it will be to insure your life since they probably will affect how long you live. Examples of risk factors include current health, job, hazardous activities or hobbies, alcohol and drug usage, medical history and weight.

What types of life insurance are there?

Life insurance policies typically fall into two general types of coverage: term life insurance and permanent life insurance.

Permanent life insurance provides coverage throughout the insured's lifetime as long as premiums are paid as required. A permanent life insurance policy also builds cash value over time, which the insured receives if the policy is cancelled. The premiums can be fixed or flexible, and the cash value can vary. Types of permanent life insurance policies include whole life (the most common), universal life, variable life and variable universal life.

Term life insurance provides coverage only for a specified period of time. It provides a death benefit if the insured dies during the specified period. If the term expires before the insured dies, the beneficiary gets nothing. A term life insurance policy generally has no cash value, and therefore you receive no money back if you outlive the term or cancel the policy. Many people purchase term insurance to cover a specific period when their income is particularly critical to the survivors they'd leave behind.

Insurance policies may also include supplemental coverages, or riders, that tailor a policy to an individual. These may include disability coverage which helps protect against loss of income due to sickness or injury, or accidental death benefits which pay an additional benefit to the beneficiary if the insured dies as the result of an accident.

Lesson plan:

Term vs. "Perm"

To help your students better understand the difference between term and permanent life insurance, go over the following examples which are included in the student guide and discuss which type of life insurance each example describes.

1. Dan Cooper's life insurance coverage expires on Dec. 31, 2020. *(Term)*
2. Doris Mann's policy from Acme Insurance Co. currently has a cash value of $4,782.68. *(Perm)*
3. Grady Fillmore wants to make sure his life insurance proceeds cover his funeral expenses and all outstanding debts when he dies, so his family won't have to incur the expenses. *(Perm)*
4. Alice Yates' life insurance policy doesn't have any value unless she dies during the policy term. *(Term)*
5. The XYZ Life Insurance policy Ruby Wannamaker's parents purchased for her when she was born will cover her for her entire life as long as the required premiums are paid. *(Perm)*
6. Leo P. Conrad purchases a second life insurance policy to make sure his children's educational expenses are covered in the event he dies before they graduate. *(Term)*
7. June Beaver timed her supplemental life insurance coverage to expire right after she and her husband pay off the mortgage on their home. *(Term)*
8. Crazy Charlie Seaver took a $5,000 policy loan on his life insurance coverage, so he'd have plenty of spending money in Las Vegas. *(Perm)*

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