How to Shop for Life Insurance

You may be able to estimate how much you need online, but that's just the start of your search.

No one needs to tell you why you should have life insurance: If you pass away and your family or anyone who depends on you for support could no longer count on your income, life insurance would replace that income—assuming you choose a policy with the amount of coverage that is right for you.

In addition to deciding on the coverage amount, you have a few more hoops to jump through—namely, whether to buy a whole life or term life policy.

Whole life (often called cash-value or permanent life insurance) provides coverage for life and has an investing component that allows you to take a loan against the policy. The downside: Compared with term coverage, it's expensive, especially in the early years of the policy. Term life provides coverage for a defined period of time—typically five, 10 or 20 years—without the investment and loan bells and whistles. What you see is what you get. Another advantage: Term life policies typically cost far less than whole life.

To learn more about the NYSUT Member Benefits Trust-endorsed life insurance programs, click here.

For most people, term insurance makes the most sense and, dollar for dollar, gives you the most protection for your money. An insurance agent you trust may be able to make a compelling case for buying some version of cash-value insurance. To counteract the argument that with cash-value insurance you reap generous rewards after you've held a policy for a number of years, term proponents urge consumers to buy term and invest the difference in premiums.

How much do you need? Rules of thumb—such as buying coverage equal to seven to 10 times your annual pre-tax income—and calculators provided by the insurance industry are a handy starting point. But these shortcuts gloss over specifics that shape how much coverage you'll need. A recent analysis by online insurance broker Policygenius found that 77% of term life insurance shoppers were lowballing the amount of coverage they applied for. "Half a million dollars seems like a large lump sum, but over 20 to 30 years, it could leave you at the poverty line if there aren't other sources of income," says Nicholas Mancuso, a senior operations manager at Policygenius.

A more reliable approach to determining the right coverage is to add up the income your family would need to cover ongoing expenses as long as they need it (say, the number of years until your youngest child graduates college); the estimated cost of sending your kids to college; your debts; and final expenses at death. Then subtract savings, college funds and other life insurance policies. Finally, adjust the amount to reflect your situation. For example, you may want to increase coverage if a stay-at-home parent provides child care.

According to the Insurance Information Institute, similar policies often have annual premiums that differ by hundreds of dollars a year. How much you'll actually pay for a policy depends on your age, gender, health and family history. Insurers generally ask about your height, weight, blood pressure, cholesterol levels and any medical issues, and they will often require a medical exam. Some will also factor in your driving record, credit history and any risky hobbies, such as scuba diving.

If an insurance company quotes a steep rate because of your risk profile, shopping around can help. Some insurers charge much more than others for similar health conditions.

NYSUT NOTE: The NYSUT Member Benefits Trust endorses a number of quality, competitive insurance programs that are available to NYSUT members. Learn more.