2 Common Life Insurance Mistakes (and how to avoid them)
By Gary Case

This column is devoted to your personal and business life insurance. Each mistake has two things in common: first, potentially serious consequences in terms of both expense and aggravation; and second, each can be avoided or corrected quickly and inexpensively if found in time. The IRS does not care if you make these mistakes, but those who must make do with less or with nothing care deeply about them. My previous column outlined three common life insurance mistakes. Here is another:

You haven't matched the product with the problem. (You've got the wrong type of life insurance.) If you have a short-term product that will or may run out when you need it the most, you forfeit one of the most important benefits of buying life insurance — peace of mind. How can life insurance provide the mental comfort it is intended to provide if it may not work when it is needed the most?

Check with a knowledgeable professional to see if you have the right type of life insurance for your present needs and circumstances. There are many new types of policies that have become available in the last few years that were not possible or even considered in the past. These policies may be more appropriate to your present needs and circumstances than your current coverage.

Never drop a policy before demanding a written list of the disadvantages and downsides. For instance, typically, if you replace an old policy with a new one, your new contract will be contestable by the insurer for the next two years. Don't drop a policy because you are wealthy with other assets unless you are sure that property can be converted into immediate cash without a big loss. Don't switch to a new policy because the one you have is "old fashioned." Some older policies allow borrowing at five or six percent and are paying dividends that equal or exceed premiums. (If you really need more coverage, the smartest course of action may be to keep the policy you have and obtain a new, separate policy.) Ask questions. Demand answers. If an interest rate is shown in one company's illustration, make sure it's reasonable for the long term and then make sure the same rate is used in all comparisons. Before switching, ask to see if a tax deferred Section 1035 policy exchange is possible.

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