

Looking at Life Insurance

By Jennifer G. Williams

Answers to some of the most commonly asked questions—from the insurance officials who know

It's not a pleasant topic. It's not one you typically bring up at the dinner table. But discussing life insurance is one of the most important things you can do with your family—particularly if you are in today's regularly deploying military.

Many service members think that SGLI is enough, or that taking out a policy on their at-home spouse would be a waste of money. But those are two common misconceptions, insurance officials say. AmeriForce spoke with executives from several military-friendly insurance companies, to help determine how much life insurance you should get and what you should look for in a policy.

For starters, they all agree that SGLI, which maxes out at \$400,000, may be enough for a single service member who has no one dependent on his or her income. But that \$400,000, even added to the Service Death Gratuity of \$100,000, does not go very far when you factor in financial obligations to a family. Today's mortgages, for example, could eat up at least half that amount off the bat.

"Life insurance can serve several purposes, but first and foremost, the reason for it is to make sure

that our families can survive financially without us (our income)," says Cheryl Stone, Vice-President of Operations for the Armed Services Mutual Benefit Association (ASMBA). "The average mortgage balance for 2009 was \$210,000. Assuming you would want to make sure the mortgage balance was taken care of, that would only leave \$190,000 for outstanding credit card and other debt, automobile loans, living expenses (groceries, utilities, child care), and educational needs (college). It (\$400,000) sounds like a lot until you start to add things up."

And adding things up may make you realize your benefit may not last as long as you may think, says Tony Glassford, a retired Marine who now serves as the Director of Beneficiary Services & Education for the Navy Mutual Aid Association. "The \$400,000 payout from SGLI will last about 10 years for a family with annual expenses of \$50,000 and less than 5 years for a family with annual expenses of \$100,000," he says. "Is that long enough? The answer depends on the age of your children, the number of children [and] the ability of the surviving spouse to earn extra income."

Glassford also points out figures released in 2010 by the U.S. Department of Agriculture that sets the cost of raising a child through the age of 17 for the average middle-class couple at \$286,050 — NOT including college. The same study shows if a family's income is more than \$99,000 per

Term Versus Whole Life?

Once you start looking into buying supplemental insurance, certain common terms and conditions may have you scratching your head. One of the most basic questions is whether you want term or whole life insurance. This decision is personal, and is based on your individual needs, say officials.

"Many younger families, or those with only short term obligations, may find that term insurance meets all of their needs," says AAFMAA's Milman. "Term insurance will be considerably cheaper than permanent insurance because the risk for the insurance company is less. People with budget issues [can] get a larger amount of coverage, for a smaller amount of money with term insurance."

The concept behind [Whole Life] insurance is that if you buy it young, it is far less expensive than buying it when you are older, says Ginger Hayes, director of marketing for Navy Mutual. "And you can be completely paid up within a time frame of your choosing."

Navy Mutual's Glassford explains that term life insurance provides coverage for a limited period of time, the relevant term (say, 20 years). After that period, you may drop the policy or continue at your new premiums rate based on your age to continue the coverage. If the insured dies during the term, the death benefit will be paid to the beneficiary. Term insurance is often the most inexpensive way to purchase a substantial death benefit. If the insured does not die during the term, there is usually no refund of premiums paid. Like car insurance, if you are in an accident, they pay, if you are not in an accident this year—you had the coverage but just did not use it.

year, the cost of raising that child jumps to \$475,680—STILL not including college.

And if the surviving spouse was a stay-at-home parent, re-entering the workforce will likely add child-care expenses to the amount needed to make ends meet.

"He or she may end up not being able to stay in the home if the insurance coverage was not adequate," says Lisa G. Milman, Vice President for Marketing and Sales for the Army and Air Force Mutual Aid Association (AAFMAA). "Or [the family] may have to use all of the benefit for household expenses and then have nothing left over for children's college expenses, etc.

In its annual Mom Salary Survey in 2010, Salary.com reported an equivalent annual cash compensation of \$117,856 for a stay-at-home parent. The survey looked at the 10 most popular "mom job functions" in determining the job's monetary value, including the cost of paying for childcare, laundry and cooking. And while SGLI automatically insures spouses for \$100,000, says Retired Air Force Colonel Jerry V. Patton, President and CEO for the Uniformed Services Benefit Association (USBA), "I believe that is very minimal protection."

And Navy Mutual's Glassford notes that military families often face a greater challenge. "If you deploy (and especially with short notice), who will care for your children 24/7?" he asks. "Is your family available to help and if so, how long can they offer assistance before they have to return to their own lives?"

Is Supplemental Insurance for You?

One thing many military families choose to do is to buy supplemental life insurance from an outside company. This can help in several

ways, say officials, from dealing with a company that understands the military lifestyle to easing the transition when a member retires or separates from the service.

"There are a number of military-centric associations that offer insurance tailored to the military," says Roy L. Gibson, President of the Military Benefit Association (MBA). "Some of them offer child coverage at no additional cost, and other benefits such as discounted auto and home insurance. Of course, the cost of life insurance, known as the premium, should also be considered when comparison shopping."

"Service members should beware of low premium quotes, accompanied by extensive medical underwriting," says Gibson. "Some insurers advertise preferred rates

that will only apply to a small percentage of applicants." Dealing with an association that caters to the military can help minimize such concerns—and can save the service member money.

"If a service member opts to have only SGLI, there's a very good chance of sticker shock in the future when it's time to go shopping for coverage to replace it," says USBA's Patton.

"SGLI ends 120 days after leaving the service and there's no government option for replacing the Service Death Gratuity," he says. "You can convert to VGLI (Veterans Group Life Insurance) if you are healthy, but you may find the premiums very expensive AND the rates go up every five years until

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Whole life insurance combines the protection of lifetime insurance with tax-deferred cash value growth, explains Glassford. "Look for a policy that maintains a guaranteed level premium, a death benefit which can increase over time and tax-deferred cash value growth. This is life insurance for your entire life. Again, look for added features such as early payout of the death benefit for purposes of long-term care or terminal illness," he says.

While the decision to buy term or whole-life insurance depends on various factors, says MBA's Gibson, he notes, "conventional wisdom is that term life insurance is more suitable for younger people and families."

And while whole life has a savings component in that some of your premium is used to pay for life insurance and the remainder is kept in a savings account, Gibson says, "for a disciplined saver, it's probably better (as the saying goes) to buy term and invest the difference."

But Hayes says that term may not always be the better choice, since most people are not disciplined savers, and less than one percent of term policies pay out on their death benefits. In fact, she says, the U.S. has seen a huge increase in sales of whole life insurance policies in the last two years. "Americans have followed a flight to safety path and [have] been more interested in the security of their principle and a slow steady gain than [in] the potential of high returns not realized."



U.S. Air Force Staff Sgt. Francisco Velasquez, an aircraft structural maintenance craftsman with the 19th Equipment Maintenance Squadron, shares a moment with his son on the flight line at Little Rock Air Force Base, Ark. Velasquez is returning from a four-month deployment at Joint Base Balad, Iraq.
U.S. Air Force photo by Staff Sgt. Chris Willis

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age 75 (Your readers can see for themselves how much \$400,000 of VGLI life insurance will cost by visiting this website: www.insurance.va.gov/sglisite/VGLI/VGLI%20rates.htm.)"

"Most VGLI policyholders are relatively high-risk compared to the rest of the population because of health conditions due to a service-related event," says Patton. "This brings up another point: if a service member decides against getting supplemental coverage right now, that person may have difficulty finding affordable insurance coverage outside VGLI in the civilian world after separation due to pre-existing conditions."

Buyer Beware

There are several common exclusions that military families in particular should look for when shopping for life insurance, say officials.

"A 'war clause' refers to a provision in the policy that the benefit will not be paid in the event the insured dies in combat," says MBA's Gibson. "Variations include a policy that pays less than the full benefit, or [that] increases [the] premium when the service member is assigned to a war zone. Aviation clauses that exempt the insurance company from paying the benefit if death occurs due to a military aircraft accident, or increase the premium for career flyers, are common in the insurance industry."

Navy Mutual's Glassford adds to the list of things to watch for: In addition to not having any war or aviation clauses, there should be "no restrictions based on where you travel (these are veiled methods for restricting those who deploy—do you really think they are really worried about you going to the Bahamas?)" Some good things to have include a waiver of

premiums of POWs and MIAs and expedited processing for those who are deploying, he says.

Your Decision

No matter what your decision, say officials, do remember to check the fine print of your contract and ask as many questions as you like to feel comfortable with your decision.

To get a better idea of how much coverage you and your family may need, check out the insurance needs calculator on the SGLI website at

www.insurance.va.gov/sglisite/calculator/needsCalc.htm.

Representatives with an insurance company should be able to help you determine the total amount that best suits your situation, but in the end, says ASMB's Stone, "How much coverage you need can only be determined by you." ●

For more information life insurance provided by the companies that participated in this article, please visit their websites:

AAFMAA
www.aafmaa.com

ASMBA
www.asmba.com

MBA
www.militarybenefit.org

Navy Mutual
www.navymutual.org

USBA
www.usba.com