

Life **INSURANCE**



What You Need To Know Before Purchasing!



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10 MYTHS ABOUT LIFE INSURANCE INTRODUCTION

Life insurance is such a common commodity that people tend to undervalue it, failing to realize how important it is. Making matters worse, life insurance, with all its technicalities and rules, can be difficult to figure out – a **situation** aggravated by the many myths and misconceptions that surround this unique investment.

Since almost everyone can benefit from having some type of life insurance, let's take a look at 10 of the most common myths about this one-of-a-kind financial planning tool. If you need additional information about these or other issues, a helpful source would be a professional insurance agent or other financial advisor who has experience working with life insurance.



MYTH #1: LIFE INSURANCE IS NOT IMPORTANT BECAUSE IT'S MAINLY JUST TO BURY THOSE THAT HAVE PASSED.

While paying funeral expenses is one of the most common uses of life insurance, it is far more versatile than that – so much so that it's often called the foundation of a good financial plan. Why? Because it's a multi-faceted financial tool. It's a unique asset that – because of its potential accumulating cash values and tax-favored benefits – may be used to solve some of life's most perplexing financial problems. Here are some examples:

Create an Estate. Where time or other circumstances have kept the estate owner from accumulating sufficient assets to care for his or her loved ones, life insurance can create an instant estate.

Pay Death Taxes and Other Estate Settlement Costs. Estate taxes and probate costs can consume a significant portion of an estate. Life insurance can supply the funds to offset these expenses.

Fund a Business Transfer. Business owners often agree to buy a deceased owner's share after death from his or her estate. Life insurance provides the ready cash to finance the transaction.

College Fund for Children or Grandchildren. Cash-value increases in a policy on a minor's life (or the parent's life) can be used to accumulate funds for college.

Help Pay Off a Home Mortgage. Many people would like to pass the family residence to the spouse or children free from any mortgage. Often a decreasing term policy is used, which decreases in face amount as the mortgage balance is paid down.

Protect a Business from the Loss of a Key Employee. Key employees can be difficult to replace. Their untimely death or departure may cause a severe financial strain on a business.

Supplement a Retirement Fund. Current insurance products provide competitive returns and are a prudent way of accumulating funds for retirement years. For instance, insurance policies are available that increase in value tax-free every year at a guaranteed rate and pay tax-free dividends during retirement.

Replace a Charitable Gift. Gifts of appreciated assets to Charitable Remainder Trusts can provide income and estate tax benefits. Life insurance can be used to replace the value of the donated assets. Proceeds from life insurance policies can also be paid directly to a charity.

Help Pay Off Loans. Under the right conditions, personal or business loans can be paid off with insurance.

Equalize Inheritances. When a family business passes to children who are active in the business, life insurance can give an equal amount to the other children.





MYTH #2: TO SAVE TIME AND TROUBLE, I CAN BUY LIFE INSURANCE ONLINE.

Buying a life insurance policy over the Internet can be quick and easy, but unless you're thoroughly knowledgeable in life insurance and financial planning, you may not be purchasing something that meets your needs. If you want to build wealth, plan for your retirement, or protect a family-owned business, online quotes aren't likely going to address those concerns.

Generally, you'll be far better off consulting an experienced professional who will discuss your financial situation and needs, explain your options, compare the coverage and cost of various plans, and tailor coverage for your goals and budget.

A professional can also provide you with ideas on beneficiary designations, usage of trusts, proper tax planning with life insurance, and other strategies.

In addition, you'll have someone you can turn to for ongoing assistance, for instance should you encounter any service or claim problems down the road. Also, there's a good chance your life insurance needs will change as you age, and you'll need to consider children, marriage, divorce, retirement, and caring for aging parents. In the long run, most people are far better off working with a professional rather than the Internet.



MYTH #3: ONLY BREADWINNERS NEED LIFE INSURANCE COVERAGE.

Not only is this assertion false, but it's demeaning to homemakers. It fails to recognize that homemakers' contributions are equal to those of breadwinners, and often just as mentally, emotionally and physically taxing.

Yes, in families where only one spouse works and the other takes care of the home front, it is usually thought that insuring both of them is an extravagance, that the money is best used elsewhere. But what would happen if the one who stays home dies?

Even though homemakers may not bring in an actual paycheck for the household, they likely

provide services that could cost tens of thousands of dollars to replace each year. These may include child care, daily transportation, home maintenance, shopping, cooking, bill paying, and care for an aging parent, to name a few.

The cost of hiring a full-time surrogate care giver to handle these and other critical chores would be a tremendous financial burden, even an unaffordable one for many people. So, especially in young families, it is best to insure both parties. That way, life insurance benefits will be available to help cover some of the costs of a homemaker dying.



MYTH #4:

YOU DON'T NEED TO BUY LIFE INSURANCE IF YOU'RE YOUNG AND HEALTHY.

This is a myth. When you're young and healthy is actually one of the best times to buy life insurance – for three reasons:

The Unexpected.

At age 20, you're expected to live about 60 more years; at 30, about 50 more¹ – so when you're young, death seems a far distant event. But incidents like the coronavirus pandemic illustrate how unpredictable life can be. You never know what's going to happen, so it's best to be prepared, especially if you have loved ones who depend on your financial support. Life insurance can supply it if that distant event draws nearer than expected.

Lower Cost.

The cost of life insurance policies can go up as you age. Buying when you're young can help you lock in low rates.

The “cost of insurance on younger, healthy individuals is super inexpensive,” says Ebony Ruffin of Ruffin Consulting Services, a firm specializing in life insurance. That's one of the main reasons that a 2020 Insurance Barometer Study found that 40% of people surveyed wished they'd purchased life insurance when they were younger.²

Insurability.

Insurability is another factor to consider. If you develop a health condition before you buy life insurance, your access to affordable coverage may be restricted. Features like guaranteed insurability riders will allow you to purchase more coverage in the future without a medical exam.²

1. Social Security Life Expectancy Calculator, accessed Dec. 2021: <https://www.ssa.gov/oact/population/longevity.html>

2. “The 6 Biggest Life Insurance Myths About COVID, Cost and Coverage” – by Georgia Rose, March 22, 2021: <https://www.nerdwallet.com/article/insurance/the-6-biggest-myths-about-life-insurance>



MYTH #5: LIFE INSURANCE IS TOO EXPENSIVE.

One of the most common myths is that life insurance comes with a large price tag. In fact, about 50% of people overestimate the cost of term life insurance. Millennials, in particular, overestimate the cost by 213%.¹

“One of the biggest life insurance myths or misunderstandings is that it’s too expensive or unaffordable for the average individual or family. If you’re relatively young and healthy, a \$500,000 term life policy may cost less than \$300 per year,” says insurance expert Laura Adams.²

For younger generations especially, the cost of life insurance can be relatively low. “Their costs are going to be minimal, something very similar to maybe their Net\$ix subscription,” says Faisa Stafford, president and CEO of Life Happens, a non-profit educational organization.³

When they check into it, many people find that life insurance can be affordable, depending on the type and amount of coverage you’re looking for. One tactic is to start with a policy that fits your budget, and purchase additional coverage later on.

To obtain a general idea about costs, you can use an online life insurance calculator. Better, though, is to speak to a licensed agent, who can give you an accurate quote as well as suggest various ways for affording insurance.

1. “Life insurance facts and statistics 2021” – by Ashley Hubbard, April 28, 2021: <https://www.bankrate.com/insurance/life-insurance/life-insurance-statistics/>

2. “6 myths about buying life insurance” – by Elizabeth Rivelli, Sept. 28, 2021: <https://www.bankrate.com/insurance/life-insurance/myths-about-buying-life-insurance/>

3. “The 6 Biggest Life Insurance Myths About COVID, Cost and Coverage” – by Georgia Rose, March 22, 2021: <https://www.nerdwallet.com/article/insurance/the-6-biggest-myths-about-life-insurance>



MYTH #6: THE INSURANCE I HAVE THROUGH WORK IS ENOUGH.

The rates through group plans through work are often excellent. However, if you buy coverage at work through a group plan, you're taking a risk.

If you leave the company for whatever reason — resign, retire, or are terminated — you may be stuck. They may not let you take the plan with you, and if your health changes, you may not be able to pick up more coverage later on down the road.

Also, group plans may have restrictions on coverage amounts that prevent you from obtaining the amount of coverage you really need. Group life insurance coverage is typically one or two times your salary, which may not be enough to support your loved ones. “You probably need at least 10

times your salary,” says Faisa Stafford, president and CEO of Life Happens.¹ Consequently, through a group plan, an employee's family may not be able to meet their financial needs when an employee or spouse dies.

That's why it is recommended that you have a personal individual life insurance policy outside of your work group life insurance. By supplementing your group plan, you can obtain a personal policy that has higher coverage limits and various riders for customized protection.

1. “The 6 Biggest Life Insurance Myths About COVID, Cost and Coverage” – by Georgia Rose, March 22, 2021: <https://www.nerdwallet.com/article/insurance/the-6-biggest-myths-about-life-insurance>



MYTH #7:

PEOPLE DON'T NEED LIFE INSURANCE IF THEY'RE SINGLE WITH NO DEPENDENTS.

This statement classifies as a myth because there are too many exceptions to it. For instance, you should consider life insurance if you'd like to build wealth, leave a legacy, support yourself during retirement, or protect yourself if you're disabled or injured. This is especially true for women, who make up the majority of those living in extreme poverty¹ and can benefit from life insurance proceeds.

"The only person to take care of the older woman you will become is the young woman you are today," said Barbara Pietrangelo, a financial planner at Prudential. "You can be young without money, but not old without money."²

Or maybe you're a single person whose parent or guardian co-signed on your student loan, a new car or your first mortgage. If so, life insurance can help protect the co-signer from taking on the

debt if you die. Or maybe you have a niece or nephew or favorite charity to whom you'd like to leave a legacy. Death benefits from a life policy can do it.

Life insurance can also offer a financial safety net to small-business owners. If you have a partner or employees that depend on you, you can buy life insurance to protect that business.

As mentioned earlier, life insurance is a versatile financial tool that can help achieve many of your life's goals.

1: "Women, Poverty And Opportunity" – by Mona Andrews, April 12, 2021: <https://www.forbes.com/sites/forbesbusinesscouncil/2021/04/12/women-poverty-and-opportunity/?sh=34c967cd4e16>

2. "My work plan is enough' and 5 other myths about life insurance that could cost you later" – by Ronda Lee, Sep. 9, 2021: <https://www.businessinsider.com/personal-finance/common-myths-about-life-insurance>



MYTH #8: I HAVE A COMFORTABLE AMOUNT OF SAVINGS, SO I DON'T NEED LIFE INSURANCE.


If you have \$1 million of liquid assets, maybe you can consider reducing or eliminating your life insurance coverage. But you'd be taking a big chance trying to rely primarily or exclusively on your savings.

Why? Because even the biggest savings accounts can get drained in a variety of ways. For example, what if you suffered a major medical emergency? If so, a chunk of the money in your savings account may go toward hospital bills, leaving your account much smaller than it was before.

That means, in the event of your death, there might not be enough leftover in savings for your

family members to maintain their current lifestyle. Or there might not be enough to pay your estate taxes. Also, consider your mortgage. If it hasn't been paid off, your loved ones may not be able to hold onto your home if they can't afford the payments. A life insurance policy's death benefit can help alleviate some of these burdens after you pass away.

If you have saved a lot of money, you are to be congratulated. But even if you have a sizable emergency fund, do not think you can get away without life insurance. It's too valuable for covering all those unexpected events.



MYTH #9: PERMANENT LIFE INSURANCE IS ONLY FOR THE WEALTHY.

With the right strategies, many people can afford permanent life insurance. Why would you want to consider it? Because permanent life insurance has a cash value that grows on a tax-deferred basis. In other words, it's a good way to build wealth.

“Permanent life insurance is the only product that combines every tax favored benefit in the tax code,” said Mike James, president of NFP Life Solutions. “You can put your money in and take your basis out without paying taxes. No other financial instrument does that. You can actually borrow against it without having to take out any principal. Plus, if you die, it will pay a death benefit to your heirs.”¹

Want to get started with it? Consult an experienced financial advisor who can help you with strategies for affording permanent life insurance that will fit your budget. One strategy is to begin small – perhaps starting with a smaller death benefit, if you can't afford higher monthly premiums, and increase it over time.

Or you could combine different types of life insurance, blending inexpensive term life with permanent life insurance, allowing for maximum coverage that will fit your budget. The benefit of blending insurance is that even if you can't afford \$500,000 in permanent life insurance, having half in term life insurance and the remaining half in permanent life insurance at least gives you the ability to have some coverage that never expires, plus a cash value component. ¹

Or you could purchase a term life policy that can be converted to a permanent policy. For this and other strategies, you definitely want to seek the advice of a knowledgeable financial consultant who can guide you through the maze of options and help you arrange coverage that meets your need.

1. “My work plan is enough and 5 other myths about life insurance that could cost you later” – by Ronda Lee, Sep. 9, 2021: <https://www.businessinsider.com/personal-finance/common-myths-about-life-insurance>



MYTH #10:

YOU CAN'T GET LIFE INSURANCE IF YOU HAVE HEALTH ISSUES.

Yes, it is true that insurers typically use your health to calculate rates and coverage amounts. But that doesn't mean you cannot get life insurance with a pre-existing condition.

Whether you have diabetes, heart disease, mental health issues, kidney or liver problems, or almost any other health condition, you can probably qualify for life insurance. In fact – according to Faisa Stafford, head of the nonprofit Life Happens organization – some policies are built specifically for certain health conditions, including diabetes or cancer.¹

The place to start is with a form of simplified issue life insurance that doesn't require a medical exam, only a short health questionnaire. For instance, you could look at guaranteed issue life insurance,

where your medical history isn't a factor. It only requires that you are within the insurer's eligible age range, generally 40 to 85. If so, acceptance is guaranteed regardless of your health.

This is another area where you should consult a financial advisor to ensure you apply for the right type of policy. Why? Because, according to Ebony Ruffin of Ruffin Consulting Services, if you apply for coverage with a known illness and are declined, it can act as a red mark on your file. This can put you in a different risk class, which may lead to higher premiums in the future.¹

1. "The 6 Biggest Life Insurance Myths About COVID, Cost and Coverage" – by Georgia Rose, March 22, 2021: <https://www.nerdwallet.com/article/insurance/the-6-biggest-myths-about-life-insurance>

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