Life Insurance for Young Families

Young families are especially venerable, financially, in the event of a death of either adult family member. Even when one adult is a stay-at-home parent their death can throw a financial turmoil at the family plans. The stay-at-home parent would have to have their home maker services replaced often by hired help, which is a new unexpected cost. Of course a death of the income earning family member is a bit more obvious as a potentially financially devastating event.

Various life events should cause everyone to pause and look at their life insurance coverage and make sure that adequate coverage is in place. Marriage, divorce, birth of a child, adoption, kids moving off to start their own adult lives, and many more family events really should cause everyone to check and ensure that they still have adequate coverage.

I write as a husband and father, so understand first-hand the life insurance needs of a family. It is important that if something happened to me, there are sufficient funds to see my daughter thru college and my wife has a place to live. Regardless of how many working adults are in the household, it's important to ensure that the loss of income due to the death of one does not leave the remaining family members in a critical financial position. First usually the death of a parent in a young family is unexpected, so the funeral typically an unexpected large expense that must be paid. Then the loss of income, or in the case of a stay at home parent, the cost of replacing all the efforts contributed by the stay at home spouse must be covered.

Recognizing the need is the critical first step. Once you understand that it's important to protect your family the next step is to determine just how much insurance is needed to provide the protection the family needs. If you just got married and plan to have kids, ask yourself how many kids you plan to have? The number of kids and the planned birth time frames are some of the key factors in calculating the need. Of course if the family is a bit more mature and already have kids in the house, you know their ages and when you expect them to attend college. You may also know just how much each year you are putting away towards college expenses. Another key factor is the balance of the mortgage and average costs each month/year to provide utilities and upkeep on the house. Replacing income also helps put the meals on the table and allows the kids to go to Summer Camp and so many other things that typically a parent wants for the family while they are alive and would want to continue if they were no longer here.

In many cases a young family with one breadwinner who leaves behind a stay at home spouse could easily need hundreds of thousands if not more money to ensure living expenses for several years are covered and college funds can be set up. Let's look at an example, a family of four, two kids 2 and 4 with a dad who works and a mom who stays home and takes care of the kids. Dad makes $50,000 per year and the family lives in a house with a value of $150,000 with a mortgage balance of $110,000. They have stocked away $20,000 for retirement and $1,000 towards the kid's college expenses. Mom did not finish college, instead she paused her college career to get married. Dad dies, and the family is left without any earned income, and no income from other assets. Additionally, the immediate cost of a funeral would consume a large portion of the assets set aside for retirement and Social Security death benefits are but a very small drop in the bucket.

In the above example, just to fund college and pay off the house, you need to be looking at $200,000, add in a funeral and at least a decade of living expenses and you need to be looking at a minimum of $500,000 in coverage. That of course does not take into account inflation over the ten years. What it does though is sets the family up to cover living expenses and ensure the kids have financial means to help pay for college. More liberally $1,000,000 may be useful to cover the costs of living while the kids finish school and go to college. Additionally, it would allow mom to finish her college education while securing child care to help around the house while she finishes college and works part time until the kids finish school. It would also help fund a retirement fund.

Life insurance planning is important and should be started at the time of your wedding (if not before), to ensure your spouse is not left in debt paying for an unexpected funeral. That means both of you need to be insured, if there are no kids, at least enough insurance should be in place to ease the transition from married life to that of a widow(er).

Imagine your new spouse in a new house with a new car payment and other bills associated with becoming a married couple and all of the sudden they are forced back to living life as a single person yet having to face the bills of a married couple. That new house could end up in foreclosure with your spouse out on the street without proper planning.

There are a couple kinds of life insurance to consider, a permanent life policy that will be around to cover the cost of final expenses and helping shore up the finances for the surviving spouse, and a temporary (or term) policy to cover big expenses related to buying a house and raising a family. The need for the majority of the families increases from single life as you get married, and even more when kids are planned or in the household. Once the kids are out of the house the need declines some until the home is paid off and declined further once into retirement where there are other financial assets to help cover the cost of living the later years. Thus , often a mix of the two kinds of insurance is best overall for protecting the lives of each family member.

There is typically always a need if for nothing else, some cash to cover final expenses. Thus, even kids should be covered. Buying coverage on kids early helps keep the annual policy cost down, allows the cash value of the plan to grow, and makes a great gift from grandparents. As the kids get older and hit the curve of higher needs they can add to the permanent coverage or just get temporary coverage to help provide for that need.

We help our clients provide protection for their families in the event of an untimely loss of life, to help with estate planning, and to cover many other risks that families both young and old should protect against.