

5 Reasons You Don't Have The Right Life Insurance

Owning life insurance is essential if you have loved ones who count on you for financial support. But it's not just a matter of having coverage. You need to have the right type and amount for life insurance to truly be effective. Unfortunately, not everyone does.

And as life changes, what was once excellent [life insurance](#) could suddenly be inadequate, or way too much. Here are signs that you don't have the right life insurance.

1. You Only Have Life Insurance Through Your Employer

If you have [group life insurance](#) through your workplace, you might think you have all of the coverage you need. But it's a mistake to rely solely on the coverage you get through a job.

"It's really important for people to make sure they have enough life insurance outside of work," says Jessica Landis, vice president and head of investment solutions at wealth management firm Janney Montgomery Scott.

Employers typically offer employees coverage that is equal to one or two times their annual salary. Sure, this can be a nice workplace benefit you get for free or at a low cost, but that amount of coverage likely isn't enough to support your family for very long if something happens to you.

Even if you have the option to buy additional group life insurance through work, you typically can't keep coverage through a group plan if you leave your job.

That doesn't mean you should ditch your group life insurance plan—especially if you're getting free coverage. Think of it as a supplement to an individual policy that is ample enough to cover the financial needs of your family.

2. You Didn't Buy Enough Coverage

A life insurance policy worth, say, \$500,000 might seem ample. After all, that seems like a pretty big sum of money. But if you simply picked that amount—or any amount—without calculating [how much life insurance you need](#), chances are that you don't have enough coverage.

You'll likely need more if your goal is to provide a payout that is large enough to cover funeral costs, replace your income for several years, pay off large debts, and help put your kids through college.

Add up the financial obligations you want to cover and then subtract existing assets you have, such as savings, to pay those bills. The difference is the gap you need to fill with life insurance.

If you just bought a life insurance policy and don't have enough coverage, you might be able to increase your death benefit without going through additional underwriting, says Dennis LaVoy, a financial advisor and founder of Telos Financial in Michigan. Otherwise, you'll need to buy an additional policy or replace your existing policy altogether with a larger one.

3. You Bought a Term Life Insurance Policy That Isn't Long Enough

If you bought a [term life insurance](#) policy, you had to choose a term length. Perhaps you chose a term that was long enough to cover the term of your mortgage or long enough to provide protection until your kids get through college.

But your insurance needs might have changed since you bought your term life policy.

For example, you might have had another child and now need a longer term. Or you might want a [permanent life](#) insurance policy that provides lifelong coverage to leave a legacy or fund a trust..

“A lot of people get their insurance when they’re young and have young kids,” Landis says. “They don’t necessarily think about what they might want insurance to be later in life.”

You have a few options if the term of your [term life insurance](#) policy isn't long enough. You can buy an additional term life policy to extend your coverage. Or you likely have the option to convert your term life policy to a permanent policy.

The benefit of [term life conversion](#) is that you won't have to take a medical exam or go through the underwriting process. So even if your health has changed for the worse since initially buying life insurance, it won't affect your ability to convert to a permanent policy.

4. You Bought a Permanent Policy That's Too Expensive

Permanent life insurance policies are more expensive than term life policies because they provide lifelong coverage and a cash value component. These policies can make sense for some people, but they're not ideal for many because of the higher cost.

For example, a life insurance agent might have touted [cash value life insurance](#) as a safe way to “invest” or as a potential source of retirement income. However, a life insurance policy shouldn't be a substitute for saving in a retirement account. Plus, LaVoy says you can get better returns on your money by investing directly in the stock market rather than through an insurance product.

More importantly, a permanent life insurance policy won't do you any good if you can't afford to pay the premiums and have to let the policy lapse, losing what you paid in.

If you [can't pay your life insurance premiums](#), you might be able to use the cash value you've built up to convert the policy to paid-up status to keep some coverage in place. Or you could surrender the policy to get the cash value that has accrued and use that money to help cover the cost of a new, lower-cost term life policy.

5. You Have Too Much Coverage

It's more common to be underinsured than overinsured. But it is possible to have too much insurance, LaVoy says. Perhaps you bought a large policy because you had a big mortgage but have since paid off your loan or downsized to a smaller home. Or maybe you found out the grandparents will pay for your kids' college education, so that's one less expense to account for. Or you could have been sold more coverage than you needed.

Whatever the reason, having too much life insurance is a relatively simple problem to fix. LaVoy says that most insurance companies will allow you to reduce the coverage amount of a term life policy once during the term of the policy.

The rules for reducing a coverage amount on a permanent policy can vary depending on the type of policy, he says. So check with your insurer to see what your options are.

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