

EPISODE 1329

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1329, Ask Farnoosh, the costly truth about women and life insurance.

[INTRO]

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FT: Welcome to Ask Farnoosh Friday, everybody. I'm your host, Farnoosh Torabi. It is March 11th, 2022. We are continuing our Women's History Month series on our Fridays in March in partnership with Prudential. Today's topic is women and life insurance, and we have a number of questions that you have sent in on this topic that we will address. But first, did you know that there is a considerable gap when it comes to how much life insurance women have versus men? I think we can all agree that a woman's life is no less valuable. So what are the reasons for the shortage? Why is there a gap?

Today, we'll answer your questions about how much insurance is adequate. What does it cost? What if you don't have kids, if you don't work? Should you still get life insurance? These are all your questions, and they've come through the show recently. To help us navigate this topic and offer some professional advice is Blanche Cheeley, a financial planner at Prudential Financial, where one of her topic focus areas is protecting her clients' families. So let's get right to it.

[DISCUSSION]

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FT: Blanche Cheeley, Welcome to So Money.

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BC: Thank you so much, and thank you for your invitation. I'm so excited to be a part of this today.

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FT: Well, we're very grateful to have you. We're talking about women and money all month, at least on these Friday episodes. Thanks to our partnership with Prudential. We just finished last week's episode, talking about all things financial planning and our best advice for women as they venture to map out their financial lives, even if they find themselves unemployed right now. As you know, many women are struggling to balance work and home life. The job recovery has been largely led by men. We are hoping that that will change over the next year or several months.

But today, we're focusing, Blanche, on life insurance. We've talked about the investing gap on the show. We talked about the wage gap. But there's also a life insurance gap, and I'm hoping maybe you could sort of set the stage for us and give our listeners some insights into the state of life insurance as it pertains to women.

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BC: Absolutely. Again, thank you. As a financial planner, looking at a single product sometimes can be very difficult. But life insurance is so important because it's not only an instrument that we leave in the event of death, but it's an instrument that we leave for life. It's a legacy. Today, as women, we are earning more money, and we are leaving a larger loss of income when we pass away. So as a caregiver, as a career woman, as a wife, as many things to our families, our income matters. When we leave our legacy, we need to leave it to life insurance. It's something that a family can look at life insurance from a security. But not only security, just to make sure that our children can continue their college education. They do the things that that excites them so that lifestyle is not changed.

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FT: It really does speak to the values I hear in so many of the females in our audience, where we want to build financial independence not just for ourselves but because as we are women and we are caregivers and we are very much head of household. Leaving a legacy, making sure we're taking care of our families not just today but in the future. Just to put it in perspective though, there was a study recently that found that only 47% of women have life insurance. That compares to 58% of men. When women are covered by life insurance, the average benefit is much lower. What do you think it is about this gap that keeps women from getting the insurance? Is there a misinformation out there? Are there misnomers that we should just dispel right here, and we're here now?

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BC: Great question. The number one thing is education. When you don't know your options, you tend not to do anything, and women plates are very full. Again, as a wife, as a career woman, as a mother, as an aunt, as a caregiver, when do you have time to think about how much life insurance you need? It's just not something that we talk about at the dinner table. We don't want to talk about life insurance because we look at life insurance has been a death benefit. Life insurance is a legacy, and I'm so big on legacy and changing the perception of what we think about life insurance and how we can use life insurance.

The reason why I think that women have less coverage than men is men tend to say, "I need to take care of the household." So the first thing they think about is, "Let me leave some life insurance, so my family can be taken care of." For a woman, she's thinking that the household is taken care of by that man, and she gets enough insurance on her job to complete whatever she thinks she may need on top of what he can do. So I don't think is that they are thinking not to get it. As much as they're so busy, they don't know what to get. It just doesn't come up in that daily conversation. That's the difference between working alone and working with a financial planner because those things are topics that we have to talk about.

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FT: That's very true. We do have some questions from our audience that we want to get to. But just to piggyback on what you said, Blanche, unfortunately, my mother's friend's husband

passed away unexpectedly last year. They have two or three children. He was the breadwinner. This is not the only situation that I have discovered this to be true. But wives sometimes in the aftermath of an unexpected death of a spouse, they don't even know what the life insurance benefit is, and do they even have life insurance. So my advice to couples is that even if it is something that just one person in the household gets, whether it's through work or through the private market, this is an important topic to review and just to understand what are the premiums, when is it. Is it term? Is it whole? Like just to know. I mean, even if you're not as the woman in the household or as the man of the household, the one who's taking out this policy, to know the existing policy in the family and what it entails is so important. Too often we discover this when – It's the last thing we want to be worried about.

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BC: When you think about – You stated about all these different things and all these different avenues that we have to think about, losing our loved ones. What does that look like? I just think that once you sit down with a professional, then that person is the expert to be able to guide you through that journey. You're not supposed to have to think about all that. But what we have to change the perception on is really talking to someone in that field that can help you navigate through those uncertainties or those questions that you may not know how to ask.

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FT: You're absolutely right. You don't have to go it alone. Alright, Blanche, are we ready to hit the mailbag and answer some listener questions?

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BC: I am. I am ready.

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FT: Okay. Well, Vicky wants to know, and I asked on Instagram last week for everybody's questions, and there were many. They were so happy we were doing this episode. Vicky wrote

in. She said, "Can you please explain the difference between term and whole life insurance? I understand that whole can be quite expensive. When is whole necessary?" So let's first just differentiate between term and whole, Blanche, if you wouldn't mind making that clear.

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BC: The simple definition is term is for a specific timeframe. You're getting it for 10 years or 15 years or 20 years to cover that time period that's most important for you. Whole life is one of the forms of a permanent life insurance, and that is for the rest of your life. As long as you're paying your premium, that insurance is going to follow you through the rest of your life. In simple terms, that's the difference. One is for specific term, and one is for the entire time of your life.

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FT: Just to go a little bit deeper with whole life insurance, this has not just a death benefit but also a cash value, right?

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BC: Absolutely. So when we get into what each one will do, being expensive is relative because what is your situation? I think what happens is information is put out there that something is expensive, and it's only as expensive as the person that's getting the quote. So you can't really look at someone else's premiums to determine if it's expensive for you because it's going to be different. So whole life or universal life, which is another form of permanent life insurance, it builds cash value. For the whole life, that cash value is built through dividends. For the variable life, it's built through just like securities when you're planning for retirement.

Whole life is great or a permanent life insurance, I like to say, because it's more than just term and whole today. What type of permanent life insurance we're talking about is whole life. But normally, you can use that for college education. You can use that to build cash for retirement, tax-free savings. I mean, it's so many different ways that we can use that instrument. Term is used – If I have a child that's two years old, and I want to make sure that that child goes to college, and my income doesn't interrupt that, then what I'm going to do is look at the age of my

child and say, “Well, they should be out of school by age 25.” Then I'm probably going to get a 20 or 30-year term. So I know in the event of my passing that I have planned out for my child to continue their education, and my spouse would not have to worry about that.

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FT: We should just remind everybody that life insurance is a financial commitment that you make monthly, month after month. While, yes, how expensive it is is relative to everybody, based on what you can afford. It's really important to map it out and make sure that if you get the whole life insurance, you can commit to that price, that cost, every single month because that is the risk. You don't want to – I get so many questions, Blanche, and the reason I bring this up is because I do get questions often from people who have whole policies. Then they lose their job, and it becomes too expensive. They realize, “You know what? I don't know if I really need this. It was something that I inherited. I don't know if I need it.”

It's important to kind of look at long-term scenarios. At the end of the day, just starting with the minimum, I think, is important. At the very minimum getting a term policy and then maybe building on to that. People are wondering how much this cost. I mean, a recent survey found that the average term life policy for a 35-year-old woman, 20-year policy, half a million dollar benefit, about \$25 a month.

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BC: Very affordable. Working with my clients because I've worked with a segment of clients that are in that retirement red zone, like I share with them and their family members, the first thing you need to sit down is to really address your goals. Again, life insurance is very important, and it's always going to probably be a part of your planning. But when you sit down and you find out what your needs are, you will find out it's so affordable that you really actually increase the benefit because you did not realize that it was not that much. The cost was very low.

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FT: Well, this transitions us well to the next question from listeners, and this was a popular question, which is just how do I calculate how much life insurance I need. I've heard a lot of different rules of thumb from the financial industry, things like 8 times or 10 times your annual salary. Is that a good place to start from?

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BC: It was a good place when you're planning on your own to look at 6 to 10 times to make sure you're on the safe side. You don't have a professional there to guide you through the process. But the best way to look at how much life insurance you need is really to sit down and really know what your income is, know what the debts are, as of today, and know about any goals that you're trying to achieve that you want your family to continue to be able to do individually. When I sit down with my clients, it's always go base-driven.

So I have my child, and I want to go to college, and it's going to cost probably about \$150,000. I have an income that's \$100,000, and I want eight times that. So you have to put all those numbers together. It's not just your income because your income is going to help continue the lifestyle for the ones you leave behind. But the additional is really gotten of those specific goals and making sure – It's going to be different for each person and legacy. Sometimes, we just want to leave legacy because it's the gift that keeps on giving.

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FT: In listening to you, Blanche, I mean, it's reminding me that it's so important to also project your income growth as you plan for life insurance. If you're headed for a raise or promotions over the years, and I hope you are, it's important to revisit the policy, right? As you acclimate through your career and you start to make more. Would you agree that your policy should be something that you're revisiting almost annually?

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BC: Annually is something that you need to look at all your finances, not just life insurance. I would like to just kind of share this one story about life insurance, and you can't look at your

age. You can't say that, "Oh, I'm 60 years old, and I have about 25 more years to live." I had a situation where I had a family member, and this family member was my executor. The reason why I chose this family member years ago was because she was very young, and I thought she could live through this process. I was in the middle of getting life insurance for her and life insurance for my son. Well, naturally, I took care of getting life insurance for my son first. During the midst of them, she was killed in a car accident. So she passed away with no life insurance. At that time, I was not doing life insurance. I was not doing financial planning.

Two things happened that woke me up. One that it doesn't matter what that age is because I thought she would be here a long time to take care of my financial needs for my son. Two, I can't wait to get life insurance because if she had gotten that policy, she would have been covered. I had to watch a family member go through grieving, and how will I bury my child because they didn't think that this 24-year-old was leaving so soon. So I'm very passionate about life insurance. It's something that you have to say, "What if I left yesterday," because yesterday has gone. Today, we're still here. We get the opportunity to make a decision that will change our family's life.

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FT: I'm so sorry that happened.

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BC: Thank you.

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FT: A sobering reminder for sure. One of our listeners, Meg, writes in, and she talks about how she doesn't have any dependents yet, although she is expecting. She's expecting a child in the next six months. Before we help her out, Blanche, what's your advice for those who don't have financial dependents? Why would you perhaps encourage somebody who doesn't have dependents to think about getting insurance?

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BC: Retirement planning is one reason, and also we don't know what our life is going to be in the next 5 to 10 years. We may meet someone, and what we thought was going to be today may not be in five years. So I do encourage even my younger clients to think about getting a term policy that will be very – It's not expensive at all, and that you have the opportunity to lock in your insurability. Late in life, if things changed, you can change that term policy to a permanent policy without going through the medical underwriting. One reason is really because you don't know what the future holds. So you need some type of life insurance in place, but nothing that's really going to be so detrimental to your income or your expenses. It is a small fee, something that's costing you 18 to 20 dollars a month.

Also, you're talking about Meg is expecting. Well, that's legacy. We don't have to think about legacy when the child is here. We think about legacy now, right? We don't want to – Meg is probably not thinking about life insurance because, again, we think about life insurance in a negative fashion, when life insurance is it's about life. So this is a great gift that she can provide her child because we don't know what the future holds. We don't know not that Meg may not be here, but what if Meg became ill, and that changes her insurability, and she can't get life insurance? Now, she's brought this new baby into the world. She doesn't want to deal with that and anything else that may be not going so well at that time. **[inaudible 00:18:22]** things we don't want to talk about, but Meg can give something to her child, which is, again, that gift that keeps on giving. That is locking her insurability in to provide a legacy for her child that she can build on later.

The second thing is really looking at life insurance from a retirement standpoint because you have a lot of people that are business owners. You have a lot of people that want to retire before 59 and a half. So working with someone that can build a life insurance that you can use while you're living, as well as use for chronic illness and different things of that nature.

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FT: I have to say it's so refreshing to be thinking about life insurance in this context, in this reframe, that it is not a death benefit as so much as it is a plan to allow life to go on.

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BC: Yeah, it's powerful. Because when you change the perspective, people look at it different. I'm just so passionate about legacy. So I know life insurance is so instrumental when it comes to legacy. I can start saving in an investment \$100 a month. But if I passed away in two months, I can leave \$200. But that \$100 could have left someone \$200,000.

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FT: This next question, I think it's such an important question because it touches upon a person's economic value, even though they're not working, and how that translates into a life insurance policy. So here's the question. Our listener says, "I'm a stay-at-home parent. Do I need life insurance?" I would say yes. Because although stay-at-home parents aren't earning a paycheck, my goodness, the economic value that they're bringing to a household from childcare to so much is so invaluable. I would say there is absolutely a price tag that we must attach to that and then translate that into a life insurance policy. Would you agree?

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BC: Absolutely. It's always a price tag when it comes to a woman staying at home taking care of children. Again, we just don't take care of children. We take care of everyone; the neighbor, our mother's friends, grandparents. We take care of everyone. So that value is higher than even if that person went out and had an income. What is that mother doing when she stays at home? She is actually creating a different environment for her child, and she wants that environment to stay. She doesn't know if she's going to be able to continue that to the end. So she needs to put in place a plan that if I leave here, then my child will continue to be able to stay home, my spouse will continue to work, and no one has to continue about worrying about changing that lifestyle that we are providing for our child. Because when you stay home with your child, that's a different type of parents. That wasn't me, but that is a special type of parent. That resource needs to be there. So when you're looking at life insurance, you need to factor in as though you did have a salary because your salary was much higher than you going out to work.

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FT: It's a six-figure income, at least. Your time is worth a precious dollar, and a shout out to all the stay-at-home parents out there. Lastly, Blanche, I want to touch on the fact that many of us do receive a bit of life insurance from our employers. So many are wondering, and they've written in, "How do we know if that's enough? How do we do the math to figure out how much more we may need?"

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BC: Your group coverage at your job is very important. They're giving us normally one times or two times your salary at no cost. So we have to take that because we don't leave anything on the table, right? That's free money. Then the second thing is they're providing us additional life insurance at a very small fee. So what you need to do when you're speaking with your financial professional, you really need to look and address the goals, the need first. We just don't buy insurance just to buy insurance. We buy insurance to replace something. So once we find out what that need is, we can get additional insurance on the job. Yes, it may cost less. But insurance outside your employer is something that you can take with you for the rest of your life, and that is important, the reason why the average person doesn't stay on a job no longer than 4.2 years today. So every time they leave, they have the opportunity or may have the opportunity to take that insurance with them.

When you get insurance on the outside, and you measure that with insurance you have on the inside to balance what you're trying to leave, the legacy for your family, when you leave that job, you don't have to worry about not being covered because that's the sense of security that you and your family have, knowing that you're always covered. I don't have to worry about if I'm eligible when I leave that job because we don't know what's going to happen, right? I always say we just don't know what that situation is going to be in two, three, four, five years. So we have to plan for it today and protect our insurability.

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FT: That's what I'll leave us. Blanche Cheeley, thank you so much for this breakdown. Clearly, there needs to be, to your point, a lot of education, a lot more education on this, and we're so thrilled that you were able to spend some time with us. We look forward to the next two Fridays when we'll be joining forces once again with Prudential, a Prudential expert, to help us navigate investing and retirement planning. So be sure to send us all your questions through all of the usual channels; Instagram, email, and the So Money podcast website. All those resources provided for you in our episode summary. Blanche, thank you so much. Appreciate you.

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BC: Thank you.

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