LIFE INSURANCE AWARENESS MONTH

What Is Life Insurance? A Guide to Protecting Life's Meaningful Moments

Reviewed by Brad Creger AAMS®, AIFA®, CAS®, CFS®, CLTC®, CPFA®, over 25 years advising Glendale, CA families (and beyond) | BFF Financial

If you've searched "what is life insurance" and landed here, here's the direct answer: life insurance is a contract. You pay premiums to an insurance company, and in exchange, they pay a lump sum to the people you choose (your beneficiaries) when you die. It exists for one reason: so the people and the moments that matter most, your family, your home, the life you've built together, are protected even if you're suddenly not there to provide for them.

That's the definition. The question that actually matters is whether you have enough of it, the right kind of it, and whether it fits into a complete financial picture, not just a policy sitting on its own. That's where a holistic financial partner comes in, someone who looks at the whole picture and puts your family first.

Why Does This Question Matter More Than It Sounds?

Most people don't buy life insurance because they enjoy thinking about it. They buy it because someone depends on them: a spouse, kids, aging parents, a business partner. If your income disappeared tomorrow, life insurance is what keeps the mortgage paid, the kids in school, and life's meaningful moments, birthdays, milestones, the plans you've made together, within reach.

Brad has walked families in Glendale, CA through exactly this question, not just "do I need life insurance," but "how much, what kind, and how does it fit with everything else." That's not theory. It's what comes up in real conversations, every week.

How Does Life Insurance Actually Work?

The mechanics are simple, even if the options aren't:

- You apply for a policy and, depending on the type, may go through underwriting (health questions, sometimes a medical exam).
- You pay premiums, monthly or annually, to keep the policy active.
- You name one or more beneficiaries.
- When you pass away, the insurer pays your beneficiaries a death benefit, generally income tax-free.

The differences between policies come down to how long the coverage lasts and whether it builds cash value along the way.

What Types of Life Insurance Are There?

Type	What It Is	Best For
Term	Coverage for a set period (10, 20, 30 years). No cash value.	Families who want maximum protection at the lowest cost, tied to a specific need like a mortgage or the years until the kids are grown.

Whole Life	Covers your entire life as long as premiums are paid. Builds guaranteed cash value.	Families who want permanent, predictable coverage and don't mind a higher premium.
Universal Life	Permanent coverage with flexible premiums and cash value growth potential.	Families who want permanent coverage but more flexibility in what they pay and when.
Variable Life	Permanent coverage where you direct how the cash value is invested.	Families comfortable with market risk in exchange for higher growth potential.

There's no universally “right” type. The right one depends on your budget, your timeline, and how it fits within your complete financial plan.

How Much Coverage Do You Actually Need?

A common starting point is 10 to 15 times your annual income. But that's a starting point, not a formula. The better questions to ask yourself:

- How would my family manage financially if I weren't here?
- What debts would need to be paid off (mortgage, loans)?
- What future costs am I responsible for (college, childcare)?
- What would day-to-day expenses look like without my income?

Running those numbers with an advisor, and weighing them against your full financial picture rather than insurance in isolation, tends to produce a very different answer than a generic multiplier. It's one of the most common gaps Brad sees: people are either underinsured because they never ran the math, or overpaying for coverage that doesn't match their actual situation.

How Do You Know If Your Coverage Still Fits?

Before you talk to anyone, ask yourself:

- Do you know how much life insurance your employer provides, if any?
- Is that amount enough to cover your family's needs?
- Do you have any private coverage outside of work?
- Do you know which policies would stay with you if you left your job?
- Have you had a major life change recently (new job, new child, marriage, home purchase) that hasn't been reflected in your coverage?
- Are your beneficiaries current?

If you answered “no” or “not sure” to more than one of these, that's worth a conversation.

Frequently Asked Questions

Is life insurance only for people with kids?

No. Anyone whose income supports someone else, a spouse, aging parents, a business partner, can benefit. It also matters for covering debts (like a mortgage) that would otherwise fall to someone else.

Do I need life insurance if I have coverage through work?

Employer coverage is often limited (commonly 1 to 2 times salary) and typically ends when you leave the job. It's worth checking whether it's enough on its own.

Is the payout taxable?

Life insurance death benefits are generally paid to beneficiaries income tax-free, though there are exceptions depending on how a policy is structured or owned. This isn't tax advice. An advisor or tax professional can walk through your specific situation.

What's the difference between term and permanent life insurance?

Term covers you for a set number of years and has no cash value. Permanent policies (whole, universal, variable) last your entire life and build cash value over time, at a higher premium.

How do I know which type is right for me?

It depends on your budget, how long you need coverage, and whether building cash value matters to you. This is exactly the kind of decision worth reviewing with an advisor rather than guessing.

What's the Next Step?

Life insurance isn't a set-it-and-forget-it decision. It's one piece of a larger plan, and it's worth revisiting any time life changes: a new job, a new child, a marriage, a home purchase, or simply a few years passing without a review.

Brad at BFF Financial takes a holistic, client-first approach to exactly this kind of decision, looking at how your coverage fits with your wealth, tax, and estate strategy, not as a standalone policy, but as one part of a plan built to last.

Ready for clarity and confidence in your plan?
Start the Conversation.

Brad Creger | (626) 795-9600 | info@bfffinancial.com