A quick guide to buying life insurance

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Most people don't think about life insurance until they absolutely have to. That usually happens when their financial well-being becomes increasingly intertwined with someone else's, which can come with getting married, buying a home or, the big one, bringing a child into the world.

"It is one of those things that people put off," said Emilie R. Goldman, a financial planner in San Mateo, Calif. "Most people I talk to are pretty surprised about the amounts they need and often think because they have coverage at work, it's enough."

That's hardly ever the case. So consider this a back-to-basics guide that will help sort out what you need as quickly and efficiently as possible.

What type of life insurance do I need?
Most people are best served by a plain-vanilla term insurance policy. As the name suggests, these pay a set amount if the policy owner dies within the boundaries of the term, typically somewhere between 10 years and 30 years.

Term insurance is simple, the policy features generally don't vary greatly across providers (other than the cost), and it's cheap compared with other types of insurance.

A healthy 30-year-old woman might pay $38 a month for a $1 million policy with a 20-year term (men pay $10 more), according to PolicyGenius, an online insurance brokerage. A 45-year-old woman might pay about $48 a month for a $500,000 policy with a 20-year term ($60 for men). Smokers can expect to pay two to three times as much.

And even if an agent truly believes in the merits of permanent insurance, which can accumulate a cash value, it is far more expensive, often costing several thousand dollars a year.

Permanent life insurance can, however, be the right choice for people who will always have a need for life insurance. They might include the parents of a child with special needs or a wealthy family who will owe estate taxes.

How much to buy?
The rule of thumb tossed around most often is to buy coverage worth 10 times the policyholder's salary. But each family's needs will vary depending on what amount of income the family is seeking to replace and what other items family members may want, or need.

Matt Becker, a financial planner in Florida whose practice focuses on younger families, said working parents should buy enough insurance to replace their income for five to 20 years, depending on how old their children are and whether a spouse or partner could support the children on one income.

One policy or more?
Families' needs will probably change over time, so some individuals may consider buying policies with different expiration dates: maybe a $1 million policy with a 20-year term that gets the children through college and another $500,000 policy with a 30-year term that gets you to retirement.

Who should I name as beneficiary?
If both parents die and a minor child is named as a contingent beneficiary, or if a single parent names a child as a beneficiary, matters can get complicated. Surrogate courts may get involved.

The simplest and most inexpensive way to avoid this situation is to have the policyholder's will create a testamentary trust after the holder's death. The trust is named as the beneficiary, providing instructions for a named trustee, said lawyer Steven A. Loeb.

An individual also can create a revocable living trust, which essentially serves as a will but has the added benefit of avoiding probate, the sometimes-lengthy court-directed process to settle a will.

Then there's the bulletproof option. Parents can name an irrevocable life insurance trust as the owner and beneficiary of the policy. Not only does that protect the money from creditors, it also removes the proceeds from the estate for tax purposes.

Life insurance proceeds aren't subject to income taxes, but the amount is included in the deceased's estate, said Brett J. Barthelmeh, an estate planning attorney.

That isn't a problem for most people, now that the federal estate tax exemption is $5.45 million (double that for married couples).

Where to buy it?
It pays to shop around and to work with an independent agent who has access to the top term insurance providers.

That's important because some insurers may provide better pricing for people who are overweight, while others may be more competitive for policyholders, say, in their 40s and 50s. Financial planners also should have solid recommendations.

Then there's the online route. Both AccuQuote and PolicyGenius provide quotes only from providers with strong financial ratings, generally above an A−. But consumers can check an insurer's rating on their own through services like A.M. Best, which tracks the financial stability of insurers.

What about just buying coverage through an employer? It's usually not a good idea.