

The Importance of Reviewing and Updating Your Life Insurance Coverage as Your Family Grows

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Buying a life insurance policy goes a long way toward protecting the people you care about. But the world doesn't stand still. The amount that seemed sufficient five years ago may not be enough now, especially as your family grows and your situation changes. Reviewing and modifying your coverage regularly ensures your family's financial safety net evolves alongside your life's biggest changes.



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Key Takeaways

- Review your life insurance annually and after major life events to ensure it meets your current needs.
- Life changes like marriage, buying a home, or having a child may require increasing the coverage.
- Update beneficiary designations after key life events, such as a divorce, so the insurance payout goes to the right person.



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- Monitor your policy's cash value and fees and adjust premiums or policy type if necessary to maximize growth.
- Consult a financial advisor to keep your policy aligned with evolving goals.

When May You Need To Update Your Life Insurance?

Life events often mean major changes in your finances. You may need to adjust your life insurance policy to reflect these shifts and ensure you still have adequate coverage. Here's how specific major events may affect your life insurance needs and what changes you should consider:

Marriage

In many cases, marriage comes with new financial responsibilities. If your partner relies on your income, you may need to increase coverage to account for shared expenses like a mortgage, loans, or everyday living costs. For example, if you buy a home together, you'll want enough coverage to help your spouse manage the payments in your absence.¹

Life insurance can also replace lost income that would otherwise cover shared debts, such as credit cards, student loans, or other outstanding bills. As Melissa Murphy Pavone, CFP and founder of Mindful Financial Partners, put it, "Life insurance ensures financial stability for your spouse in the event of an untimely death."

Divorce

Divorce or death of a spouse can also impact your insurance needs. Divorce means separating finances and updating your coverage to reflect that. Meanwhile, losing a partner involves accessing their life insurance benefit and reassessing your own policy.²

As Pavone noted, "Post-divorce, it's critical to update ownership and beneficiaries on existing policies to avoid unintended payouts." If you keep your ex-spouse as the policy beneficiary, they inherit the insurance payout even if you write something different in your will.

"Life insurance is often used to secure alimony or child support obligations. A review can ensure these commitments are protected," Pavone added.

Birth of a Child

Having a child alters nearly everything in your world—except your life insurance policy. Premiums and pay-out amounts remain the same. However, you should consider increasing your coverage to account for the added cost of raising a child.

If you name a spouse or partner as the primary beneficiary for your life insurance death benefit, consider what would happen if you both passed away. Minor children cannot collect from a life insurance policy. You could name a custodian who would manage money on behalf of your children until they reach adulthood. If you don't name a custodian in your policy, the courts pick one for you.³

Once your children reach the age of majority in your state, usually 18 or 21, depending on where you live, you can name them as beneficiaries on your life insurance policy.³ Consider including all your adult children as beneficiaries to avoid fights over the inheritance. Life insurance attorney Jason Turchin advised, "You should review the beneficiary designation on your policy to ensure that all intended children are listed...Do not rely on the goodwill of the listed beneficiary to share the proceeds."

Tip

Consider including all your adult children as beneficiaries to avoid fights over the inheritance.

Buying a Home

You should update your life insurance to cover the new mortgage debt when purchasing a home. This way, if something happens to you, your family can stay in the home without financial strain. Beyond the mortgage, consider enough coverage for other homeownership costs like property taxes, maintenance, and potential renovations when determining your coverage amount.

You may also need to decide between term life insurance, which covers you for a set period, and permanent life insurance, which lasts a lifetime. A mix of both can offer flexibility and long-term security. Adding policy riders, such as critical illness or disability coverage, can further protect your finances in case of unexpected events. These riders pay out your death benefit when you are alive to help cover costs from a covered illness or disability.

Changes in Financial Situation

Certain changes in your financial situation may warrant an update to your life insurance. For example, if you start a new job with a higher salary (or you get a promotion), increase your coverage to match your new income level and lifestyle. Conversely, if you're taking a pay cut, you

might need to decrease your coverage accordingly so you save on the insurance premium.

If you have life insurance through your employer, be aware that this coverage may not be portable if you change jobs. You would lose your workplace life insurance if you quit or are fired.

When taking out a major loan, such as a business, auto, or home equity loan, consider increasing your coverage to be sure the debt can be paid off if you pass away unexpectedly.

Health and Lifestyle Changes

A healthier lifestyle means you pose less risk to insurers, which can translate into lower premiums.

Note

Non-smokers typically pay much less for coverage than smokers, and even quitting after your policy is in place could help reduce your costs.⁴

You can't change a family history of diabetes or high blood pressure, but you can focus on lifestyle choices like regular exercise, mindful eating, and maintaining a healthy weight. Insurers factor these improvements into your premiums, so it pays—literally—to prioritize your health.

If you've made significant health improvements since taking out your policy, it's smart to review your coverage and see whether you could requalify at a reduced rate. It's free to apply and check. You might be able to save money while keeping your coverage strong.⁵

The Importance of Reviewing Beneficiary Designations

When you buy life insurance, you'll name a beneficiary to receive the payout when you die. This person (or entity) can be:⁶

- Your spouse
- Your child
- Another family member
- A trust
- A charity
- A business

Choose your beneficiary carefully. You should review and update this choice regularly (once a year and after major life events) for these key reasons:⁷

1. Life changes like marriage, divorce, having children, or a spouse's death can shift who you want to receive your insurance money.
2. It guarantees your death benefit goes exactly where you want, preventing family arguments or unintended payouts (such as to an ex-spouse).
3. It allows you to update the beneficiary's contact information, which makes it easier for them to claim benefits when the time comes.
4. Reviewing beneficiaries helps you understand the potential tax impacts on your loved ones.

Be sure to inform your beneficiaries that they are named in your life insurance policy, as well as the name of the carrier. Every year, families miss out on tens of millions of dollars in death benefits simply because they don't have essential policy details.⁸

The Importance of Reviewing Policy Performance

The goal is clear: ensure your life insurance continues supporting your family as it grows. Regular reviews keep your safety net intact, even as your life and goals evolve. Here's why policy performance tracking is crucial and how to make adjustments.

The cash value of your life insurance acts as a savings component you can use for major expenses, like paying off debt or funding education. Early on, more of your premium contributes to cash value growth, but this may slow over time as insurance costs rise.⁹

Fees can also impact your policy's value by reducing cash growth and the death benefit. Keeping an eye on fee changes helps you decide if you should stick with your policy or explore other options.

If your policy is underperforming, consult a financial advisor to assess your options. You may need to adjust premium payments or consider switching policies or investment strategies. That way, you get the most out of future cash value growth.

How To Review and Update Your Life Insurance Policy

When it's time to review or update your policy, here's a simple process to follow:

1. Schedule a Policy Review

Contact your insurance agent or financial advisor to set up a meeting. Gather your current policy, past reviews, and financial statements, so you have everything you need for the discussion.

2. Assess Your Coverage Needs

Consider your financial obligations, including debts, income replacement needs, future expenses like college tuition, and upcoming goals. Life events such as marriage, divorce, having children, or career changes may also impact your coverage requirements.

3. Analyze Your Policy

Review key details like the death benefit, cash value, premiums, and any outstanding loans. Check that your listed beneficiaries are up to date and accurately reflect your current wishes.

4. Explore Additional Coverage

If your needs have changed, consider adding policy riders for critical illness or disability coverage. Also, assess whether your current life insurance policy type—term, whole life, or universal life—still aligns with your long-term financial goals.

5. Make Adjustments

Based on your review, decide if you need to increase or decrease coverage. Work with your agent to understand how changes might affect your premiums or benefits, especially if your health or financial situation has shifted.

6. Keep Records and Plan Future Reviews

Document any updates and notify relevant parties, including beneficiaries. Schedule an annual review or revisit your policy after major life events to ensure it continues to provide the right level of protection.

How Often Should I Review My Life Insurance Policy?

Most insurance providers and financial advisors recommend reviewing your life insurance policy once a year and after major life changes, including:¹⁰

- Marriage
- Divorce
- Birth or adoption of a child or grandchild
- Significant health changes for you or your partner
- Taking financial responsibility for an aging parent
- Purchasing a home
- Refinancing your home
- Receiving an inheritance
- Changes in income (promotion, new job, pay cut, starting a business, retiring)

What Are Some Reasons To Change My Beneficiaries?

There are several common scenarios where you might want to consider changing your life insurance beneficiaries:

- Marriage or divorce
- Birth or adoption of children
- Death of a designated beneficiary
- Significant changes in relationships
- Reaching the age of majority (for minor beneficiaries under age 18)
- Relocation to another state or country
- Changes in financial circumstances or estate planning strategies

Does Life Insurance Automatically Renew?

Most term life insurance policies have an automatic renewal feature. This allows you to extend your coverage without needing to undergo medical requalification when the initial term expires. However, the cost will increase as you renew at an older age. Unlike term life insurance, permanent life insurance doesn't require renewal because it's designed to last for the insured's lifetime as long as premiums are paid.¹¹

The Bottom Line

Regularly reviewing your life insurance policy ensures it continues to provide the coverage and growth you expect as your situation and family change. As a general rule, conduct a comprehensive review once a year or after major life events. A financial advisor or insurance

agent can help you update as needed and give personalized recommendations based on your unique circumstances and goals.

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