

# Why crowdfunding is not an alternative to life insurance



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## This article will ...



Describe the popularity of crowdfunding sites like GoFundMe for people hit with [unexpected expenses](#).

Note that crowdfunding doesn't have the [guarantees and stability](#) that life insurance carries.

Point out that life insurance is [more affordable](#) than most people think.

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Crowdfunding has become a popular means of obtaining financial assistance in times of crisis, raising money for everything from natural disaster relief efforts to rebuilding burned down neighborhoods. But the digital fundraising avenue is also being turned to when a

loved one has passed without a life insurance policy to finance burial costs or household expenses for surviving relatives. And that should raise concern.

Sure, when someone is struggling it can be heartening to see family, friends, and even strangers pitch in via crowdfunding platforms — essentially websites like GoFundMe, Patreon, and Kickstarter that let people raise money online through Facebook, Twitter, and email. A third party helps set up the campaign and manages the donations.

But there's a downside to consider: such financial contributions may not be enough and are not guaranteed.

Nevertheless, many people seem to be turning to that mechanism. For example, one of the most popular categories on GoFundMe, one of the more well-known crowdfunding websites, is [memorials](#). There, you'll find thousands of requests for financial assistance with funeral expenses, memorial funds and burial costs. You'll also find requests for help with household expenses due to the loss of the deceased's income. Anyone can use the site to ask friends, family, and strangers to donate to their cause.

Of course, we're going to tell you that there's a better option: [Life insurance](#). But beyond our obvious self-interest, the crowdfunding phenomenon points out some serious considerations for everyone about life and financial planning.

Experiencing the tragic loss of a loved one is bad enough. Not having the money to give them a proper send-off — let alone to care for the survivors who depended on that person's income or other contributions to the household — only adds to the grief. Having to publicly beg for that money compounds the emotional stress of the situation, along with the additional worries that what money does come in might not be enough.

### **Reasons people go without life insurance**

Why didn't the people asking for money via crowdfunding sites like GoFundMe have life insurance in the first place?

In some cases, it's because the deceased was a child. Some tragic examples from GoFundMe's memorial section:

- A high-school-aged brother and sister died in a car accident.
- A second-grade girl got struck by a car while out riding her bike.
- A 13-year-old suddenly collapsed during recess and died.

Some financial pundits say that you don't need to buy life insurance for your children because they're not likely to die and because, in most cases, no one depends on their

income. And it's understandable that families don't always have the money to cover the unexpected expense of losing someone who dies so early in life. (That's why some financial professionals do advise [buying life insurance for your kids](#).)

In other cases, crowdfunding campaigns are for young parents who probably expected to live a long time and didn't think they needed life insurance yet. Or perhaps they knew they needed it to protect their families, but hadn't gotten around to purchasing it.

Other reasons why people don't buy life insurance are that they assume they won't qualify for coverage or they think they won't be able to afford the premiums, so they never look into it.

Lack of life insurance knowledge causes many respondents to overestimate the cost of term coverage. When asked to estimate the cost of \$250,000 term life policy for a healthy 30-year-old, over half of the respondents said \$500 per year or more, according to a 2024 report from LIMRA, a worldwide association of insurance and financial services companies, and Life Happens, the insurance advocate and nonprofit organization.<sup>1</sup>

The average cost of such a policy is closer to \$200 per year, suggesting more than half the population thinks term-life insurance is over two and a half times as expensive as it is.

A GoFundMe campaign might help you raise several thousand dollars, even tens of thousands. But you could get several hundred thousand dollars, or even \$1 million or more, from a life insurance policy.

And your beneficiaries [won't pay taxes](#) on the proceeds, whereas GoFundMe collects a [percentage](#) of all donations received.

People also avoid shopping for life insurance because they don't want to think about death, don't trust insurance companies or agents, or get confused when they try to research life insurance.

### **Why you need life insurance**

If you have a child, spouse, or dependent parent who would have trouble meeting financial obligations without your income — or without your ability to care for them — you need life insurance. Even if no one depends on you, if your family wouldn't have the financial resources to handle your final expenses, a small life insurance policy that you take out now could alleviate a lot of their stress if you die prematurely.

Insurance is supposed to protect against foreseeable risks so you don't have to turn to crowdfunding. While none of us knows how or when we will die, we know that it will happen. Death is a foreseeable risk.

You need to insure against its financial impact on your loved ones, just like when you buy insurance to deal with other foreseeable risks: getting seriously ill, getting in a car accident, or experiencing a house fire.

There are two types of life insurance: term and permanent.

- If cost is a concern, look at [term insurance](#), which provides a death benefit for a certain number of years: 5-, 10-, 20-, and 30-year terms are common.
- [Permanent life](#) insurance stays with you for life as long as you pay the premiums, but it costs more since there's a higher likelihood that your beneficiaries will one day file a claim. Permanent policies also offer [additional benefits](#).

In addition, there's some [options for insurance in later years](#). Some don't require a medical exam. Depending on the insurer, benefits are limited to a small sum, typically \$2,000 to \$25,000, and are intended to help cover final expenses. These kinds of insurance may be more expensive and there may be a waiting period during which benefits aren't payable if you die. Such provisions help protect insurance companies from the risk that only the people most likely to file claims will purchase insurance.

Even if you do have a life insurance policy, you might be underinsured. In fact, one in five people who do have life insurance think they don't have enough, according to the 2024 LIMRA/Life Happens study. (**Related:** [6 signs you're underinsured](#))

Consult a [financial professional](#) to get help evaluating your life insurance needs and purchasing a policy you can afford.

That will help you avoid putting your family in the position of having to beg for money online if you die unexpectedly.

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*This article was originally published in September 2016. It has been updated.*

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<sup>1</sup> Life Happens and LIMRA, "2024 Insurance Barometer Study," April 2024.