5 Life Insurance Policies You Really Need to Cancel

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Life insurance is sold based on one thing: fear. Fear of dying, of being injured. Fear of a catastrophe befalling you or your family. If worrying about death isn't enough of an inducement, there's the financial fear of not being able to replace a breadwinner's salary once they're gone.

Insurance companies know this, and they use those levers. And they should: Financial peace of mind in the face of loss is exactly what they're selling.

But some types of life insurance just aren't worth buying, because the policies aren't used often and don't provide much of a return on the premium. You're better off putting that money aside in an emergency fund for that rainy day, if it ever happens. Here are five life insurance policies you probably want to think about canceling if you have them:

1. Life Insurance for a Child

Term life policies are meant to replace an income if someone dies. Unless your child is a model or actor and is bringing in a major share of the family's cash, your offspring doesn't need life insurance.

Gerber Life Insurance Co. advertises a $10,000 policy for "pennies a day" that could be used to cover funeral expenses. The chances that a baby born in the United States will die in childhood, however, are extremely low.

"Child life insurance policies are sold to parents and grandparents by preying on their emotions," says Eric Stauffer, president of ExpertInsuranceReviews.com.

If you really want to have coverage in case you need to pay funeral expenses for a child, add a cheap rider to your term policy that would cover them for $10,000 or $15,000, but don't have them on a separate policy, says Liran Hirschkorn, an independent life insurance agent.

"Most Americans don't have enough life insurance themselves and should not be buying life insurance on their children," Hirschkorn says. "This is especially true if you have some savings and have the funds to pay for funeral costs should the worst happen."

2. Whole Life Insurance

Unlike a term life insurance policy, which only runs for a specified number of years, whole life insurance covers the policyholder's entire life. The policies are more expensive than term life insurance because the risk is for a person's whole lifetime. But they also have a cash value, which grows over time, and which the policyholder can use or borrow against. This makes them an investment, though not a generally high performing one. It's especially not a good deal for young people, says Matt Becker, a financial planner who has written about the subject.

"Life insurance is great when used properly. Whole life insurance is usually just expensive and burdensome," Becker says.

Stauffer says he had a 28-year-old client ask him if he should keep the $10,000 whole life insurance policy his parents have been paying on for his entire life, or take the cash out. They did the math, Stauffer says, and found that his parents had paid close to the entire death benefit in premiums, but the cash value was only worth $2,000. He cashed it out and invested the money.

3. Industrial Life Insurance

Also called accidental-death insurance, these policies often have low values and cover you in the event of mishaps such as losing an eye or limb at work, or dying in a car wreck or fire at work.

"It all sounds good, but [this type of policy] is riddled with exclusions,' says lawyer Mark Hankins. "The policy was once sold door-to-door to laborers with weekly payments and known as the 'Little Giant.' Its creator boasted on his deathbed he had never paid a claim."

4. Guaranteed Issue Policies

These are life insurance policies that don't have any exam requirements -- they don't even make you answer any questions about your health -- so they can be quick and easy to get, says Hirschkorn, the insurance agent.

"The issue is that these policies are expensive, and also don't pay out the full death benefit in the first two years," he says. "This type of policy should only be considered as a last possible resort for someone with major health issues that can't get approved for a regular policy, not for anyone else where it would be a waste of money."

5. Final Expense Insurance

With a typical death benefit of $10,000 to $25,000 for people 65 and older, the policies are meant to cover a funeral and other expenses after someone dies. TV ads promise coverage for a "few dollars a day," but even at that low price, it isn't worthwhile, says Justin M. Follmer, a wealth adviser and insurance professional in Charleston, South Carolina, Someone 65 or older can often buy a much larger policy for the same costs, Follmer says.