Insurance and Annuities

TERM LIFE INSURANCE

Presented for

Valued Client

Presented by

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TERM LIFE INSURANCE

The Concept…

- Term insurance is life insurance that remains in effect for a specified period (10, 15, 20 years, or more). When the term ends, the coverage ends.
- Term insurance is sometimes called “pure” insurance since it provides insurance protection only—a death benefit when the owner dies, but with no cash value accumulation (as there is with whole life, universal life, indexed universal life or variable universal life).

Characteristics…

- Term insurance is less costly than permanent insurance in the early years, but may become quite costly at later renewals.
- Many term insurance policies can be renewed up to a specified age without requiring the policyowner to provide proof of continued insurability. This protects insureds who develop a medical condition that would make them otherwise uninsurable.
- When a term policy is renewed, the premium increases based on the insured’s attained age at renewal.
- At younger ages, premium increases may be small. As the insured grows older, though, premiums begin to increase sharply.

A Variation…

- To counteract the effect of ever-increasing premiums, insurance companies offer term policies featuring a level premium for a period of years. With level term, the insured pays the same premium for the term period—avoiding sharp increases for as long as the policy is in force.
- With a level premium term policy, the insured pays more during the early years than would be required if the policy were annually renewable.
- Premiums for a level term policy will not increase during the specified term of years.

The Protection…

- **Level term insurance** keeps the amount of insurance (protection) the same throughout the period that the policy is in effect.

- **Decreasing term insurance** gradually reduces the amount of insurance over the policy period. This is often used when there is a decreasing financial need, such as protection for a home mortgage that shrinks over time.
- **Increasing term insurance** gradually raises the amount of insurance during the policy period by a stipulated percentage or amount. This is sometimes used to ensure that protection keeps pace with inflation.

Combination Policies…

- Some people prefer a combination of permanent and term insurance. Because term is less costly in the early years, a combination policy lets the insured buy a smaller amount of permanent insurance and supplement it with term insurance.
- The result is more insurance protection at a lower cost than the price for the same amount of permanent insurance.
- In a combination policy, the term insurance portion is written as a rider—an additional coverage attached to the permanent insurance policy.

The Conversion Feature…

- Term policies often include a conversion provision that allows an insured to convert the policy to permanent insurance without proof of insurability.
- Conversion to a permanent policy extends protection for life, stops increasing premiums, and establishes a level premium for the converted policy.
- A permanent policy provides the insured with lifetime protection along with a “savings” element through the build-up of cash values.
- The premium required for permanent insurance is usually based on the insured’s age when the conversion occurs.

The Bottom Line…

Term insurance can be an attractive choice for people whose need for life insurance protection may be greater than their ability to pay the required premium or will only last for a specific period of time. Cost is an especially sensitive issue for young people just beginning their careers and families with growing children. Term insurance provides a way to obtain needed coverage sooner than might otherwise be possible while protecting against the risk of future uninsurability.

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SUMMARY

What Is Term Life Insurance?

Term insurance is life insurance coverage that is in effect for a specified period (or term), after which the insured typically has the option to renew the policy (up to a maximum age). Term policies are said to provide “pure” insurance protection since they provide a death benefit only—no cash values accumulate in the policy, as they do with permanent insurance.

How Does It Work?

The insured chooses the term of the policy—typically ten years, fifteen years, twenty years or longer.

When the specified term ends, the insured can usually choose to renew the coverage up to some maximum age without proof of insurability. The premium for the new term is adjusted upward, reflecting the insured’s age at renewal. For younger insureds, the premium cost of term insurance is less than the premium cost for the same amount of permanent insurance, since permanent policies build cash values with the additional premium paid.

Term life insurance premiums rise at each renewal, and the increase can be quite dramatic as the years go by. To alleviate the effect of rising premiums, insurers offer level premium term policies. The premium for level term remains constant for the term the policy is in effect. And while the premium at the beginning is higher than the insured would pay for a term policy that doesn’t have this feature, the insured isn’t subject to increases in the later years of the policy term.

What Are the Different Types of Term Insurance?

- **Level term insurance** maintains the same amount of insurance coverage for a level annual premium over a period of years.
- **Decreasing term insurance** gradually reduces the amount of insurance over the policy period.
- **Increasing term insurance** gradually raises the amount of insurance over the policy period.

What Are the Disadvantages of Term Coverage?

Unlike permanent life insurance, term insurance doesn’t build cash values. There is no “savings” element that can be available for future needs, emergencies or retirement.

Term insurance premiums increase each time the policy is renewed. They can climb sharply as an insuredages.

What Are the Benefits?

Term life insurance coverage provides needed protection at a lower initial cost, and may be renewed without proof of insurability.

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The use of a combination policy allows an insured to buy a smaller amount of permanent insurance supplemented with term insurance. This results in greater insurance protection at a lower cost than the premium for the same amount of permanent insurance. In addition, term policies often include a conversion feature that permits an insured to convert the policy to permanent coverage without proof of insurability.

Finally, term insurance can be an attractive choice for people whose need for life insurance protection may be greater than their ability to pay the required premium. This is especially true for young people just beginning their careers or families with growing children. Term insurance provides a way to obtain valuable coverage sooner than might otherwise be possible while protecting against the possibility of future uninsurability.

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