

Term Life Insurance: What You Need to Know Before You Buy

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Over their careers, physicians generally purchase large amounts of term life insurance. Term life insurance, for the most part, is a commodity, so the pricing is very competitive and comparison shopping is easy.

So, why is it that so many physicians have the wrong type of term life insurance and/or are paying significantly higher premiums than they should be for their policies? This article will serve as a guide to help you purchase the right type of term life insurance at the lowest cost to meet your individual needs and goals.

What Is Term Life Insurance?

Term life insurance provides pure insurance protection and does not build cash value. It allows you to purchase the largest death benefit while minimizing your (initial) premium outlay. When you purchase a term life insurance policy, you are buying coverage for a specified period of time. If you die within the term of the policy, the insurance company will pay the death benefit to your beneficiary or beneficiaries.

Annual Renewable Term Life Insurance

Annual renewable term life insurance, also known as yearly renewable term life insurance, provides coverage for a period of 1 year and then automatically renews at an increased premium. This type of policy provides you with 2 sets of premium rates: a current or scheduled premium and a guaranteed maximum premium.

In general, after the first policy year, the annual premium payable may be equal to or higher than the scheduled renewal premium, but it

will never be more than the guaranteed maximum renewal premium.

Because of its low initial cost, this type of term life insurance is really only ideal for those individuals looking for short-term life insurance protection, or for those who desire to convert their coverage to a permanent or “cash value” life insurance policy shortly after the initial purchase.

Level Premium Term Life Insurance

In general, level premium term life insurance policies provide cost-effective financial protection for periods of 5, 10, 15, 20, 25, or 30 years. This is the time in which premium rates are guaranteed to remain the same. However, after the level premium period expires, most policies become annually renewable. Therefore, in the same way as described above, premium rates will ultimately become cost-prohibitive and will limit the options available in the future. Therefore, it makes more sense to purchase a policy with a longer guarantee period compared with one with a shorter guaranteed period to lower your overall costs. That being said, if budget is an issue, you might want to opt for a policy with a larger death benefit and a shorter guarantee period (eg, 20 years) instead of one with a smaller death benefit and a longer guarantee period (eg, 30 years) if the premium amount is similar. After all, if things go well, you will most likely outlive both anyhow.

Return of Premium Term Life Insurance

Return of premium is term life insurance that guarantees that all of

the premiums paid during the level premium period will be returned, on an income tax-free basis, if the insured does not surrender the policy and lives to the end of the guarantee period selected.

Although this may sound very appealing, few companies offer this type of policy, the premiums are much more expensive compared with a basic level premium term life insurance policy, and this type of policy does not provide the insured with the ability to “refinance” the policy should premium rates decrease.

For example, assuming a 35-year-old male physician in New York qualified for Prudential’s best underwriting classification, the annual premium for a 30-year level premium term life insurance policy would be \$885.00.

The same policy, but including the return of premium feature, would cost \$1747.90 annually (a difference of \$862.90). If the doctor kept the policy for the full 30 years, then \$52,437.00 would be returned, providing him with a return of 4.23% by electing the return of premium option—a return which, in my opinion, is less than adequate over that time horizon compared with other investments.

Because websites such as www.term4sale.com compare the premium rates of several insurance companies, as well as the pricing for various types of term life insurance, death benefit amounts, and guarantee periods, it is easy to determine if the



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agent or financial planner that you are working with is providing you with the lowest cost options for the coverage that you want to purchase.

Term Life Insurance Underwriting

It is important to note that various insurance companies may use a different set of guidelines to qualify for the best underwriting classification. For example, if you are being treated for hypertension, certain companies will allow you to qualify for their best underwriting classification whereas others will not. The same may be true if you have an immediate family history of a cardiac disorder or cancer, even if you are currently healthy. Finally, height and weight are also taken into consideration, and some carriers are more liberal than others.

For these reasons, you should employ the services of an experienced insurance agent who represents several companies to help you get the best rates, especially if your health is less than perfect. The agent will know which carriers are likely to provide you with a better underwriting classification, based on the specifics of your situation, to allow you to secure a lower premium rate. After all, using an agent or applying for the product online will not cost you any additional money.

Conversion Option

Most term life insurance policies contain a conversion option. This option allows you to convert your term insurance policy into a permanent or “cash value” policy, regardless of your future health. The major advantage of this feature is that you maintain the underwriting classification in which your policy was originally issued.

Therefore, assuming that you qualified for the best underwriting classification when your policy was pur-

chased, but would not qualify for it today based on your health, the new policy would also be issued in the best underwriting classification.

Although most life insurance companies will allow you to convert for the entire guaranteed period in the policy, others may limit the conversion option to a specified period of time, such as the first 5 or 10 policy years.

Most term life insurance policies contain a conversion option. This option allows you to convert your term insurance policy into a permanent or “cash value” policy, regardless of your future health.

If your goal is to ultimately convert some or all of your term insurance to permanent insurance, you should only purchase your policy from a company that has a reputation for offering a broad array of those types of policies. Otherwise, you will most likely be better off with a company that specializes in low-cost term life insurance. Either way, it is important that you understand the conversion options available for the policies that you are considering before making your final decision.

Waiver of Premium Rider

Another important aspect of a life insurance policy is the waiver of a premium rider. This rider enables

you to have the premiums of the policy paid for by the insurance company in the event of your disability. Again, if your goal is to ultimately convert some or all of your term life insurance to permanent life insurance, it is important that this rider be included in your term life insurance policy. This way, when you convert to a permanent insurance policy, it will allow the premiums—which are substantially higher compared with term life insurance—to be waived. Otherwise, if you plan on sticking with term insurance, you will want to forego this rider, because it is relatively expensive and will only waive the premiums associated with your (inexpensive) term life insurance policy.

Conclusion

For the most part, term life insurance is a commodity, so the pricing is very competitive and comparison shopping is easy. The type of term life insurance that should be purchased depends on factors such as your age, health, budget, and your long-term financial plans. If you are considering the purchase of a new life insurance policy, or if you are replacing an existing policy, it is best to consult with a knowledgeable insurance agent who represents several companies. He or she can review your situation and can then help you make intelligent and informed choices regarding your life insurance protection. ●

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