

Understanding Term Life Insurance

In days gone by, life insurance used to be simple. You figured out how much death benefit you needed, and then you chose between term and whole life.

The life insurance industry has gotten a whole lot more complicated in recent years. Besides term and whole life (now often called "permanent life"), there are universal policies ... variable universal policies ... variable life ... even a new type of term life called "return of premium." How can you weigh your options and decide which type is right for you?

This article introduces you to the concept of term life insurance.

Term Insurance: An Overview

Term life insurance is often referred to as "pure insurance" because its premise is very simple: You pay a premium to an insurance company in exchange for their promise to pay a death benefit to your survivors if you die while the contract is still in force.

Term life insurance provides protection for a specified period and is usually renewable at the end of each period at progressively higher premiums. As you get older, your risk of dying increases, so the cost of term insurance goes up. Term insurance carries no cash value element, making it less expensive than permanent alternatives.

Annual Renewable Term -- Annually renewable term, or "ART" (sometimes called yearly renewable term, or "YRT"), is an example of a term insurance policy that has a constant face value and premiums that are adjusted upwards each year to reflect the increasing probability of your death in any given year.

Decreasing Term -- Decreasing term insurance refers to a type of annual renewable term life insurance policy with a decreasing death benefit (face amount) and level premiums. Decreasing term is ideal for insuring a liability that is gradually being paid off, like a home mortgage.

Level Term -- If you prefer, you may select a "level term" policy which guarantees that you will pay the same annual premium for a set number of years (usually 5, 10, 15, or 20) for the same amount of death benefit. The longer the guaranteed term, the greater the initial premium, but the longer the premium stays fixed. In most cases, if you know you will need your term insurance for an extended period of time, a level term policy will prove less costly than an annual renewable term policy.

Return of Premium - A relatively new type of policy, "return of premium" life insurance provides the benefits of traditional term life while the policy is in force, and then at the end of the policy period, pays back all the premiums you have paid. The catch, of course, is that you must still be alive to collect your premiums.

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