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Term Life Insurance Policies are Not "All the Same"

Description

Or Four Things to Ask About Before Buying Term Life Insurance

One of the most common myths (lies) told by life insurance agents is that "All term insurance is the same," or "Term insurance is just a commodity and you can just buy the cheapest one."

Let me make this clear: in Canada, **all term life insurance isn't the same**. Anyone who tells you it is isn't familiar with the marketplace or has an ulterior motive.

(Let me clarify that we are discussing individually owned, term life insurance, which is distinct from the life insurance you may be offered through your bank, credit union, or association).

The Two Things You are Purchasing When You Buy Term Life Insurance

1. You are buying low cost, temporary protection to hedge against the financial losses your family, company, or other entity would face in the event of your premature death; and
2. You are buying the right(s) to renew, convert, or restructure this insurance in a variety of ways in the future without the insurance company being allowed to ask you for any medical, lifestyle, or financial evidence

Four Things You Should Ask About When Buying Term Life Insurance

1. [Can I "reset" my term insurance?](#) (An incredibly valuable feature)
2. [Does it provide additional, free insurance?](#) (Another incredibly useful feature)
3. [Does it allow term to term conversions?](#)
4. [Can I convert to any of the permanent policies the company is selling and can I convert up to the full amount for which I am insured?](#) (This should be standard; don't buy if it isn't)

Some Features Which Shouldn't Be Deciding Factors

Can I reset my term insurance?

This is one of the most valuable and frequently overlooked benefits a term life insurance policy can have. And it is hardly ever discussed because it takes a little explaining.

The traditional method

Let's say you bought a \$1,000,000 20-year term life insurance policy. For whatever reason after 10 years, you become uninsurable or the rating/cost of new insurance become unaffordable. After 15 years you decide to convert \$25,000 of your \$1,000,000 20-year term policy to permanent insurance. You would end up with \$25,000 of permanent life insurance and \$975,000 of term life insurance that would renew and become unaffordable after 5 years (the original 20-year term).

With the reset my term option

Once again let's look at the same scenario. You buy a \$1,000,000 20-year term life insurance policy. For whatever reason after 10 years, you become uninsurable or the rating/cost of new insurance becomes unaffordable. At year 15 you decide to purchase a \$25,000 permanent policy.

With this option you now have the ability to either:

• have \$25,000 of permanent insurance and \$975,000 of the previous term 20 that becomes useless in 5 years or

• have \$25,000 of permanent insurance and attach to it \$975,000 of new 20-year **term insurance as a rider based on standard rates at your current age and with no evidence required**

Does it provide additional insurance at no extra cost?

Some companies offer monthly payments to children if they are orphaned and scholarships towards their secondary education. Depending on whether you have children and their ages **this can mean hundreds of thousands of dollars of additional insurance coverage at no additional cost to you.**

Term to term conversions

If you are buying 10-year term insurance, many companies now give you the right to switch it to either a 20 or thirty year within the first 5 years of the policy without requiring additional insurance.

What policies can I convert to and can I convert all of my insurance?

You want a policy that is "fully convertible". This means:

• it can be converted to any permanent life insurance product the company offers at the time and
• it can be converted with no medical evidence and at the same price/rate as would be offered to someone your age who is a standard health risk

You also want to make sure that the company you are buying from allows you to convert up to the total amount of your insurance and that they provide a variety of policies and have a history of doing so.

It's no good having a fully convertible policy if the only thing you can convert to when the time comes isn't a good investment.

Bonus Features Which Shouldn't Be Deciding Factors

Insurance companies are always coming up with a new add on, some of which are genuinely useful and some of which are mostly for show. In no particular order this list mentions some things which may be nice to have (or pretty useless) but shouldn't be the deciding factor or prioritized when buying life insurance:

- Exercise programs, tracking software, discounted or free Fitbits, Apple watches, or toasters
- Online document preparation services, discount legal services, medical 2nd opinion services
- Discounts for bundling unrelated products (i.e., don't buy substandard life insurance to get 5% off your car insurance)
- Free or discounted tickets to cinemas, amusement parks, museums sports, or any other education or entertainment events
- Free charitable contributions on your death

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Author

naoshad