



What is term life insurance?

Term life insurance is “pure” insurance. It offers protection only for a specific period of time. If you die within the time period defined in the policy, the insurance company will pay your beneficiaries the face value of your policy.

Term insurance differs from the permanent forms of life insurance, such as whole life, universal life, and variable universal life, which generally offer lifetime protection as long as premiums are kept current. And unlike other types of life insurance, term insurance does not accumulate cash value. All the premiums paid are used to cover the cost of insurance protection, and you don’t receive a refund at the end of the policy period. The policy simply expires.

Term life insurance is often less expensive than permanent insurance, especially when you are younger. It may be appropriate if you want insurance only for a certain length of time, such as until your youngest child finishes college or you are able to afford a more permanent type of life insurance.

The main drawback associated with all types of term insurance is that premiums increase every time coverage is renewed. The reason is simple: As you grow older, your chances of dying increase. And as the likelihood of your death increases, the risk that the insurance company will have to pay a death benefit goes up. Unfortunately, term insurance can become too expensive right when you need it most — in your later years.

Several variations of term insurance do allow for level premiums throughout the duration of the contract. You may be able to obtain 5-, 10-, 20-, or even 30-year level term, or level term payable to age 65. An advantage of renewable term life insurance is that it is usually available without proof of insurability.

Life insurance can be used to achieve a variety of objectives. The cost and availability of the type of life insurance that is appropriate for you depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have contract limitations, fees, and charges, which can include mortality and expense charges.

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