Term Life Insurance

What Is Term Life Insurance?

"Term" life insurance, as the name suggests, provides life insurance only for a limited period of time, or term. Other types of policies, such as whole life, universal life, or variable life, are considered to be "permanent" insurance, and are designed to provide protection for the entire life of the insured.

Term life insurance might be compared to an automobile insurance policy. While the auto policy is in force, the insured enjoys protection against loss from an auto accident. If no accident happens, no benefits are paid under the policy. At the end of the period covered by the policy, there is no refund of premiums paid. Term life insurance works in much the same way.

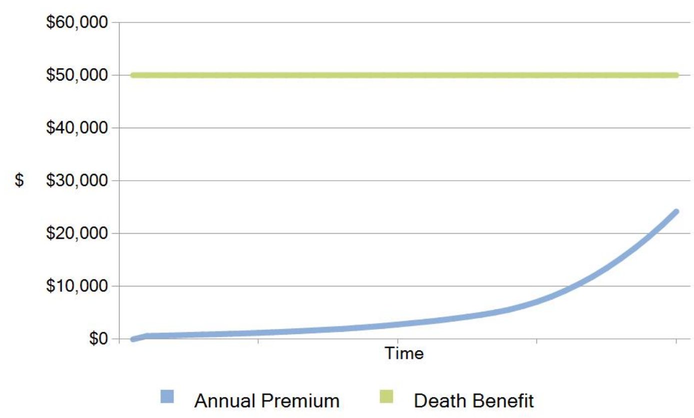
Term life insurance thus provides only pure insurance protection and does not have the cash value feature typically found in most permanent life insurance policies. Unlike most permanent policies, in which premiums usually remain level over the life of the policy, the periodic cost of term life insurance increases as the insured becomes older. The cash-value feature found in permanent policies provides a cash build-up within the policy which allows for the level periodic premium. In later years, the premiums for a typical term life policy will far exceed those of the typical permanent policy.

Policy Variations

There are a number of different types of term life insurance:

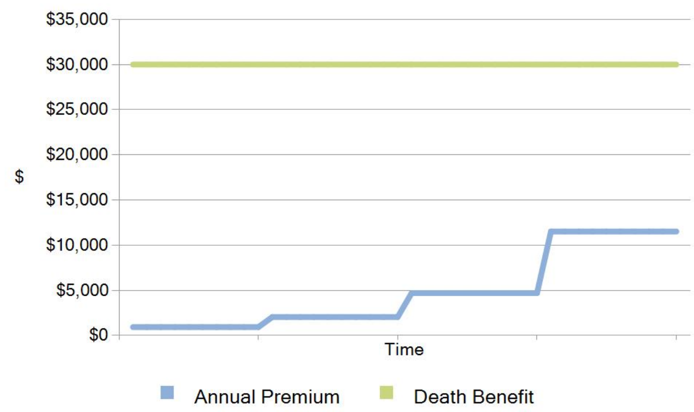
Annual renewable term: Term life insurance characterized by a level death benefit, a premium that increases at each annual policy renewal, and no cash-value accumulation.

Example of Annual Renewable Term



Long-term level premium term: The annual premiums are fixed for a specified period of time, typically 5, 10, 15, or 20 years. The death benefit remains constant, and there are no accumulated cash values.

Example of Long-Term Level Term



- **Decreasing term:** A policy that has a level premium, a decreasing death benefit, and no accumulation of cash values.
- **Combination policies:** In some cases, term life insurance is teamed with a permanent policy to provide the benefits of both types of policies. In both the family income policy, and the family maintenance policy, for example, a term policy with a decreasing death benefit is combined with a permanent, level benefit policy.

Common Uses of Term Life Insurance

Term life insurance is most useful when an insured is relatively young and the need is for temporary or short-term coverage. Some common uses of term life insurance include:

- **Family protection:** To provide the funds to support a surviving spouse and/or minor children or to provide the cash for a child's college education or pay for other capital needs; to pay final bills such as medical or other estate expenses.
- **Declining needs:** In some instances, a debt, such as a mortgage, is matched with a decreasing term life policy. As the debt is paid off, the policy's death benefit is reduced.
- **Business planning:** A business may use term life insurance to insure a key employee, or to recruit or retain key employees through a salary continuation plan. Term life insurance is also useful as a way to fund a cross-purchase buy-sell agreement, particularly where one owner is significantly younger than another.
- **Charitable gifts:** To provide funds for a gift to charity.

Optional Policy Provisions

A number of optional policy provisions, commonly referred to as riders, can be added to a basic term life policy, generally through payment of an additional premium:

- **Renewable:** This provision allows the policy to be renewed at the end of the term without the insured having to show that he or she is still insurable.
- **Convertible:** Provides the insured the option to convert a term policy to a permanent policy, usually without having to prove good health.
- **Accidental death:** Pays the beneficiaries double (in some situations triple) the face amount of the policy if the insured dies in an accident.
- **Waiver of premium:** Waives the payment of policy premiums if the insured becomes disabled and unable to work.
- **Accelerated death benefits:** An accelerated death benefits provision allows for payment of part of a policy's death benefit while an insured is still alive. Such benefits are typically payable when the insured develops a medical condition expected to lead to death within a short period of time.

Return of Premium Life Insurance

Some life insurance companies offer a variation on a base term life insurance policy known as "Return of Premium" or (ROP) life insurance. A ROP policy guarantees[1] to return to the policy owner the premiums[2] paid if the insured survives to the end of the term period. In some cases, this feature is part of the policy and in other cases it is added to a basic term policy through a policy rider.

- **Policy premiums:** Policy premiums are a fixed, level dollar amount, for the life of the contract. Premiums for ROP policies tend to be higher than for a term life policy without this feature.
- **Policy term:** The length of the policy term will vary depending on the insurance company. Typically, ROP policies have a longer term, for example from 15 to 35 years.
- **If the owner cancels the policy:** If the policy owner cancels or surrenders the policy before the policy term ends, there is typically no refund of the premiums paid.
- **If the insured dies:** If the insured dies before the end of the policy term, the policy will pay the face amount, less any policy loans, withdrawals, or interest due.
- **If the insured lives to the end of the policy term:** If the insured lives to the end of the policy term, the policy owner can generally surrender the policy and receive the total amount of premiums paid. In some instances, a term policy will allow the owner to convert the term insurance to a permanent policy.

[1] Guarantees are based on the claims-paying ability of the life insurance company issuing the policy.
[2] The amount of premium paid may vary by policy.

Disclosure Notice

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