

# DO'S & DON'TS OF BUYING TERM LIFE INSURANCE

FINANCIAL E-BOOK



# What Kind Of Term Insurance Is Best For You?



Generation X is classically defined as people born between the years 1965 and 1979. Pretty much those of you in your early 30's to the mid 40's. However, if you were born between 1960 and 1964 you too fit within the Generation X type of financial and personal attitude. This week we wanted to discuss what kind of term insurance to buy.

One of the questions we're getting a lot from Gen X'ers as of late (especially those recently married in their late 30's/early 40's) is around buying term life insurance. Many people seem to be confused around their options and how they can buy the protection. Before you purchase life insurance, make sure to always have a discussion of your goals followed by an analysis so you can figure out the right amount of insurance you need. Then, you can focus on the right type of insurance. We've always viewed term life insurance like renting in an apartment. You are trying to provide your family with some level of protection/shelter for a period of time and then move out/eliminate the

## I. GROUP TERM INSURANCE

Many Gen X'ers look to get their term life insurance coverage through work. For people in their 30's and early 40's, this can often be the most cost effective option in terms of price. Many employers will allow you to buy some multiple of your salary from 2x to 8x your income depending on the plan you have at work. These are great because they are very low cost. However, Gen X'ers change jobs often and your new company may not have the same type of coverage. What could be worse, however, is if your health changes over a period of a few years and you are unable to get outside coverage because you put all of your 'life insurance' eggs with your group term insurance. This is a big mistake Gen X'ers don't consider because they still feel young and healthy.

## 2. LOW COST NON-COVERTIBLE TERM INSURANCE

Insurance companies generally play on a bingo board. What this means is that depending on your age, health, etc. there are particular companies that price their term insurance product to win that space. If you buy term insurance, your insurance agent should be able to show you 5 to 10 different carriers. If you are buying the term insurance product from a proprietary agent, odds are you

aren't getting the best deal and that is where they make their best commission. The best way to look at buying term insurance is to determine how long you will need the insurance and purchase a level premium/amount of a level period of time. For example, if you have 20 years left on your mortgage and your kids are under the age of 10, a 20 year level term policy might make the most sense. It's best to run 10, 20, and 30 year term insurance numbers before you purchase policies so you can see the pricing across the board. One of the down side risks with most of these term insurance policies is that they are not convertible. You could keep the insurance forever at a higher premium in most cases, but cannot convert it to a permanent insurance policy should you have a need for more permanent protection.

## 3. CONVERTIBLE TERM INSURANCE

One of the challenges in comparing term insurance premiums boils down to whether or not the policies are convertible. You could have two different 30 year level premium term insurance policies side by side with one being priced at \$200 more per year than the other. The difference in price is that if your term insurance policy is \$500,000 (for example), you can convert this policy to a permanent life insurance policy without evidence of insurability. This can be a big deal especially over the course of 5 or 10 years your health changes for any reason.

Most people don't go home at night or wake up in the morning thinking about how much life insurance they need. Especially for people marrying later in their 30's/early 40's and still having kids, it's best to look into this before you are 45 when rates can really jump up on you and so can your health. Make sure to always consult an independent insurance agent who can represent many carriers or pay a fee-based insurance advisor to help guide you through this difficult maze of insurance decisions.