



## Term Life Insurance Guide

Insurance, by definition, indemnifies the beneficiary of the policy when an event occurs such as a fire, robbery, injury, illness, etc. Life insurance is the only type of insurance that insures against an event that is certain to happen: death. If a life insurance policy is kept in effect long enough, it is guaranteed to pay a claim. Term life insurance, like the name implies, will pay a stipulated amount (called the face amount) if death occurs within a certain period of time, or term. The term can be 1, 5, 10, 15, 20, 25, 30 years or even longer if structured properly. Plans are typically labeled as 10-year term, 20-year term, etc. Premiums remain level for the stipulated term and typically increase dramatically thereafter.

What do these labels mean? Aren't all 10-year, 20-year, 30-year term plans the same? The internet is loaded with websites, including our own [online quote engine](#) that provide instant rates.

It is important to know how the rates are determined so you are not misled. Some factors are obvious: age, gender, health (both personal and family), tobacco/nicotine use, and avocations. These will determine your risk class.

Other factors are not as obvious:

- Are the rates guaranteed (and for how long?)
- Is the policy convertible (and if so for how long?)
- Are premiums refunded after the initial premium guarantee period?
- Tobacco/nicotine use is difficult and depends on when you stopped, if you use a patch, nicotine gum, cigars, e-cigs, etc.

All life insurance companies have classifications to determine your risk class, which is actually your rate class and will determine how much you will pay.

Gender is not a factor in determining rate class, but the other factors below are.

The risk classes are generally divided into smoker and non-smoker and are as follows:

**Preferred Plus** (Super, Elite, Etc.). This risk is obtained by approximately 10% of applicants. Sometimes not available after a certain age

- Strict limits on height/weight
- No medications, no serious health history or chronic illness
- No family history of cancer or heart disease before age 60
- Low ratio of LDL to HDL cholesterol and low total cholesterol

- Healthy average blood pressure
- No high risk avocations, and no foreign travel to high risk countries planned
- No recent bankruptcies
- Clean driving record (limited recent number of moving violations and no recent DUIs or similar violations)

Each subsequent risk class, as follows, expands on the above criteria so that more individuals qualify for each category. They are:

- Preferred
- Standard Plus
- Standard
- Table Rated. A – Z or numbered, based on the company. The higher the letter/number, the higher the rate.

Risk class has a major impact on the actual cost of the policy. The difference between a Preferred Plus and Standard risk may be as much as 50%. That rate you calculate on the internet is often not accurate. This is when an experienced and knowledgeable agent will help. Yes, it does make a difference. They will be able to secure you the best rate and/or risk class possible. Working with the right person as your advocate, will help you by presenting your personal situation more favorably to the insurance company. This will result in a lower rate or premium for you.

The subtle factors mentioned earlier are critical but unfortunately will go unnoticed until too late. At that time, it will become another reason why individuals may feel that insurance companies are out to get them, when in fact the provisions were in the policy from the beginning.

The first of these is the rate guarantee.

*“Are the rates guaranteed for the entire term, or are they only guaranteed for first 10 of the 20 years, and so on?”*

This could present a problem if the rates increase in the future, since at that time you will be older and possibly not as healthy and therefore may be forced to cancel or reduce the policy amount when it's needed most.

*“Can the policy be continued beyond the initial premium guarantee period?”*

Again possibly a major issue if you have a 20-year policy and suffer a health change in the last few years before the policy terminates. Good for the insurance company but not for your family. Convertibility is another provision that will enable you to reasonably “convert” (change to another policy with the same company) to a level premium plan based on your current age without new medical requirements. This can usually be done at any time during the premium guarantee period. This is useful since often times an individual's health will change, sometimes

significantly, during the term of the policy. Again, a knowledgeable agent will be able to alert you if the term plan you are looking at contains these provisions. Generally, the longer the premium guarantee period the higher the premium. If you want a refund of all the premiums at the end of the period, this will increase premiums as well.

Now that you know about the policies, it's time to determine how much coverage you need and what type. Determining how much you need is based on your personal or business situation.

Business reasons are generally easier to calculate:

- if you have just taken out a business or practice loan
- entered into a partnership, corporation
- indemnify against the financial loss of a key employee, etc.

The face amount can be calculated based on the type of loan, anticipated loss/replacement, or business/practice value.

Personal needs include but are not limited to:

- indemnify your family and replace income
- pay off financial obligations such as a mortgage and other loans
- pay last expenses
- fund education

Situations vary when calculating the face amount but a good rule of thumb is 7-8 times annual income. The length of time or term needed generally depends on the ages of your children. We generally recommend a term length to get the youngest child to age 25.

The final question is where to obtain coverage. This is not as easy as first appears. Choose an experienced and knowledgeable agent who has access to all the most cost-effective policies available. Getting referred to someone is desirable. Not only can the agent advise you on how much coverage, and which type, but also educate you on the importance of beneficiary designations and secure for you the best risk class possible based on your personal situation. Having a knowledgeable agent as an advocate is valuable and included in the premium. Getting referred to someone is preferable, but if you choose someone from the internet it is advisable to ask a few of the questions previously indicated to determine if the individual you contact is qualified.

We are willing to help if needed. Our contact information is below.

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