

Choosing the Right Life Insurance Policy

With more than 2,000 companies offering life insurance, there is stiff competition for your business and a wide array of policy choices, too. So how do you navigate all these choices? You'll want to read on to learn how to select the right life insurance policy:

Term vs. Permanent

Knowing which policy to select will depend heavily on your family's needs. And selecting the right life insurance policy also requires you to know the difference between a term and a whole life policy, and the difference between a cash-value policy and an annuity. Once you have a firm grasp on these you'll be in a better position to know which policy you should purchase.

Term insurance

This type of policy comes in two basic varieties: "level term" and "decreasing term." The words "level" and "decreasing" refer to the death benefit amount during the term of the policy. A level-term policy, the most popular type, pays the same benefit amount if death occurs at any point during the term, while "decreasing" means the payout will do just that over the policy's term. Common types of level term policies are:

- Yearly renewable term
- 5-year renewable term
- 10-year term
- 15-year term
- 20-year term
- 25-year term
- 30-year term
- Term to a specified age (usually 65)

The most common type is the 20-year term policy. Be aware that most companies will not sell term insurance for a term that ends past an individual's 80th birthday.

Generally, the premium for a term policy will be based on your age and health at the policy's inception and the premium will remain the same throughout the length of the term. For instance, premiums for a five-year renewable term will be level for five years, then change to a new rate reflecting your new age and health at the time of the policy's renewal. Some longer term policies will guarantee that your premium will not increase during the term; others don't make this guarantee, which means the insurance company could raise your rate during the policy's term.

Some term policies are convertible, meaning that you can change it into a permanent life insurance policy without having to prove your insurability. Be sure to ask your agent about this feature, especially if you anticipate significant life changes in the future, such as getting married and having children.

Permanent Life Insurance

Permanent life, sometimes called whole life insurance, pays a death benefit to your beneficiaries following your death—there is no age limit. There are three major types of permanent life insurance: traditional whole life, universal life and variable universal life, and there are variations within each type. Here's a brief look at each:

- **Whole or ordinary life.** This is the most common type of permanent policy. It offers a death benefit and a savings account. With this type of life insurance policy you will pay a set amount in premiums on a regular basis for a specific death benefit (i.e., \$300,000). The policy's savings vehicle will grow based on dividends the company pays to you.
- **Universal or adjustable life.** This policy provides more flexibility than whole life insurance. You may be able to increase the death benefit if you pass a medical examination. The savings vehicle, called a cash-value account, generally earns a money market rate of interest. After money has accumulated in your account, you will also have the option of altering your premium payments—if there is enough money in your account to cover the costs.
- **Variable life.** This policy combines a death benefit with a savings account that you can invest in stocks, bonds and money market mutual funds. The value of your policy will likely grow more quickly, but you'll also have more risk. Some policies guarantee that your death benefit will not fall below a minimum level.
- **Variable-universal life.** With this type of policy you get the features of variable and universal life policies. You have the investment risks and rewards characteristic of variable life insurance, coupled with the ability to adjust your premiums and death benefit that is characteristic of universal life insurance.

As a basic rule, if you want an investment tool with your life insurance, a permanent policy is the choice for you. If you desire only the death benefit, a term policy is the route to take.

Get These Features

As you conduct your search here are three key features that you should ensure are in your policy:

- **Guaranteed renewable.** Your premium may change but you will not have to provide evidence of insurability to keep the coverage.
- **Periodic updates.** This option allows you to increase benefit levels periodically during the life of the policy.
- **Cash out.** If you need money for an emergency this option enables you to liquidate the policy without losing all you've deposited in premiums.

Keep your coverage current.

Once you've secured a life insurance policy, you should update its benefit levels and beneficiaries as changes occur in your life. Many life-changing events—such as getting married, having a child or buying a big house—will increase the amount of coverage you

need. Conversely, other events—such as children moving out and becoming financially independent—may decrease the coverage you need.

Live right.

Most people understand that their lifestyle may affect their life insurance premium, but many people do not realize just how much. For example, rates for tobacco users are often more than double than those for non-tobacco users. Similarly, genetic illnesses, such as diabetes, may affect your premium.

The first step in increasing your insurability and saving money on your life insurance premium is to improve your health. Be diligent in maintaining your health through routine check-ups with your doctor. Exercise regularly and eat healthy. If you take medication for a condition, such as diabetes or high blood pressure, keep track of your progress and share it with your insurance company, if necessary. These efforts will not only improve your lifestyle, they may also help you save money on your premium.

Now is the Time

Because the life insurance marketplace is so competitive there has been a steady decline in premium rates over the past 10 years. So if you are in good health, it should be relatively easy for you to get life insurance at a reasonable premium.

Get Expert Assistance

If life insurance sounds overwhelming, a Trusted Choice[®] insurance agent can help you review your life insurance needs and find the best policy type for your family. [Click here](#) to find the Trusted Choice[®] agency nearest you.