

Six Biggest Mistakes When Buying Term Life Insurance

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1. Focusing only on cost

Cost is important but it is only one component when making a decision to buy term life insurance. Term life insurance is by definition "for a period of time." When you buy term insurance you are leasing. It's just like leasing an apartment or home. The landlord usually requires a signed agreement. The agreement is for a very specific period of time and a specific dollar amount. Once the lease matures by the Landlord has several options. The Landlord can insist you move out because he or she wants to take possession of the property. The Landlord can also renegotiate with a new term and most likely an increase in the monthly lease payment. If the lease payment is not affordable then you simply start looking for a new apartment or decide to purchase a home if you can afford it.

Most people understand it is better to own a home than lease one. However, most people don't understand that it is better to own life insurance than lease it. Term insurance becomes less affordable as you grow older. At that time you might decide you really do want it and won't be able to afford it or purchase it. Term life insurance may not be the right option.

2. Not Adding Disability Protection to the Policy Disability Protection or Waiver of Premium, as it often referred, is available with most term life insurance policies for people who are younger than 55 years old. This protection is a valuable benefit but it is additional cost. Waiver of premium in an insurance policy waives the policyholder's obligation to pay any further premiums should the insured become seriously ill or disabled. A waiver of premium allows people to keep their policies in force even when they cannot work. In many cases waiver of premium allows the policyholder to convert their term life policy to a permanent life policy after a period of time. The new premiums on the permanent policy are also waived. There is usually a waiting period during the disability before the premiums is waived.

3. Not Choosing the Right Settlement Options There are many choices to the policy owner of a term life insurance policy regarding how the beneficiary will receive the policy proceeds. The most popular option is a lump sum payment. In many situations this may not be the most appropriate option. Some of the other options available are fixed amount, fixed period, interest only, joint and survivorship, life income, life income with period certain, and life income with refund. You should carefully review these settlement options with your agent.

4. Not Having the Right Beneficiary Arrangements You have the right to pick both a primary beneficiary and a contingent beneficiary. The primary beneficiary is usually simple to designate. It is a spouse or a significant person in someone's life. The primary beneficiary should not be minor children. The insurance company cannot send the money to minor children. The proceeds at this point are controlled by courts. The courts will decide who will handle the money and how it will be handled. If the primary beneficiary is also deceased then the proceeds

becomes the property of the named contingent beneficiary. The same rule applies for contingent beneficiary as well. Minor children should not be contingent beneficiaries.

5. Lack of Conversion Options An important option to have in your term life policy is the right to convert to a permanent life policy with the same company without submitting any additional evidence of insurability. This is important because need and wants change. The flexibility should be there to handle these changes. Often these options are only available for a specified period of time. The option for conversion might also only be for a specified product. It is important to check the contract to make sure options are available.

6. Not Choosing the Right Agent It is important to pick a licensed agent that understands life insurance contracts and all of the options available within the contract. Make sure you get the right answers to your questions on disability protection, settlement options and beneficiary arrangements.

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