Make an Informed Choice

I do a fair amount of life insurance in my practice. Some of it's designed for estate protection, some for business entities, some for dealing with blended marriages and the like. However, the majority is to provide income support to a spouse and children in the event of premature death.

Some of the clients are in their 30's and 40's and have often just bought their first home or recently had children. Those in their 50's and 60's often have multiple policies in effect. Each policy made sense when purchased but over time things kind of morphed into something unmanageable and increasingly expensive. With a little digging and fact finding these clients almost always leave with something better and more economical.

There are 3 broad types of life insurance coverage available to individuals. Some have group life available through work. The primary benefit is that the employer is picking up the cost although the employee pays a taxable benefit. The drawback of course is that most people change employers several times in their careers and your employer may discontinue this benefit in the future.

Then there is creditor life and mortgage cancellation insurance offered by a lender when you buy a home or purchase a car. Each circumstance is different but in general, I highly recommend most people seek an alternative.

Why? Put yourself into the position of just having lost a spouse. Their income is gone and you are taking a leave of absence from your own work. Funerals need planning, loved ones need help flying home and your bills begin to mount.   The healing process has yet to begin and you are ill prepared to go back to work but the credit card bill just arrived. Yikes! You can't make a decision on what to do.

Your first and primary need during this tragedy is and always will be immediate access to CASH and the flexibility to take TIME to plan your life in the months ahead. Creditor and mortgage cancellation insurance do lessen your obligations going forward but are as much designed to ensure the lenders receive amounts owed without having to take legal action given a loss in household income.

In addition;

Post-claims underwriting means they underwrite any claim after the fact and the only thing you've applied for is the ability to pay the premiums. Think that unlikely? Check into it. There have been many instances of people being denied coverage based upon a technicality.

You've essentially made your lender both the owner and beneficiary with complete control. As it is a form of group insurance they reserve the right to cancel, amend or increase the premiums at their convenience.

This type of coverage is also known as decreasing term life insurance. What this means is that your premium remains the same while the actual benefit decreases as you repay your principal. At some point, you will end up in NO MAN's LAND. This is the time when you reach the uncomfortable realization that you still desire some coverage but the premium is out of line with the benefit.

As most term renewals for mortgages are done every 5 years what happens if you have a change to your health? Depending on the issue you may be rejected for any coverage on your mortgage and now have few, if any, options available. Expect to pay more from traditional life insurers if you do seek coverage and they deem you insurable.

For the vast majority of people TERM INSURANCE is your best option.   This is straight life coverage and "term" refers to the length of time that one pays a guaranteed premium. Common terms are 10 and 20 years but other options can be considered as your situation requires.

The primary benefits of TERM LIFE are;

1) Ownership-you own your own policy and determine your beneficiaries;

2) Portability-it's independent and moves with you

3) Renewable and Convertible-without evidence of insurability

4) Underwriting-takes place during the time of application

5) Cost- usually the most affordable option

6) Cancellable-at any time but only by you

The drawback? You have to make application and often complete a medical. This keeps rates affordable and your beneficiaries can't be denied a payout based upon a technicality with the exclusion of suicide (2 years), incontestability (2 years) or fraud. You have to pay your premiums either on a monthly or annual basis. Also, if you are looking for coverage into your 70's and beyond it may be more cost effective to seek Whole Life or Universal Life if initial cost is not an issue.

However, for the majority of situations TERM LIFE is your best option.

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