One Resource Group
13548 Zubrick Road
Roanoke, IN 46783
888-467-6755
Life_Sales@ORGCorp.com

Term Life

Term Life

What is it?

Temporary, pure insurance

Term life insurance provides life insurance coverage for a specific time period (term). It is often referred to as temporary insurance or pure insurance, in that there is no cash value in the policy. The face amount of the policy is paid if you die during the term of the policy. When you live longer than the term of the insurance coverage, nothing is paid.

Caution: *Any guarantees associated with payment of death benefits, income options, or rates of return are based on the claims-paying ability of the insurer. Policy loans and withdrawals will reduce the policy's cash value and death benefit.*

When can it be used?

High insurance need, low cash flow

Term insurance is appropriate for situations when there is a high need for insurance but not much cash flow to pay for it. For example, a young family with limited cash resources may have a great need for survivor income to provide for living expenses and education needs. Term insurance is especially helpful here, allowing the family to buy insurance protection with minimal cash outlay.

Short-term coverage

Term insurance is well suited to cover short-term needs, such as coverage during your working years, the college years, or for the duration of a loan or mortgage. Generally, a short-term need is considered to last 10 years or less and may include coverage for nonrecurring business-debt security, key person coverage in a start-up business, or the young family just starting out.

Strengths

Low cost for large death benefit (at least in younger years of life)

Term insurance is generally the most efficient way to achieve maximum life insurance protection for a minimum current cash outlay. When you are young and just beginning your career or family, you may have a need for insurance but not much cash to pay for it. You can usually buy a larger death benefit for less cash with a term policy than you could get with any other type of life insurance policy.

Caution: *Term insurance starts out inexpensive when you are young, but the premiums generally increase at each renewal.*

Flexible--you can buy policy based on various time frames and features

You can buy term insurance coverage for the time period that best suits your needs. Generally, you can increase your coverage if your needs change and renew your policy for an additional period. Increases in coverage may require new proof of insurability.

Policy Type	Feature	Drawback
Annual Renewable Term Coverage for one-year time frame	Policy automatically renewable each year up to specified age	May have limit on number of renewals Premiums may increase with each renewal
Renewable Term Coverage is for a specific period, usually 5 to 20 years	Policy automatically renewable through end of term with no new application or medical exam, even if health has deteriorated	Renewable for same amount of coverage or same term may not be available. Premiums increase with each renewal

Level Premium Term Coverage is for a specific period, usually 5 to 20 years or until a predetermined age	Premium guaranteed to remain same for policy term	Premiums may increase sharply at end of term when new policy must be applied for
Decreasing Term Used to cover mortgage or other debt where balance decreases over time	Premiums remain level, but death benefit decreases each year over term	General insurance needs tend to increase over time due to inflation
Convertible Term	Allows you to convert term policy to another type of policy offered by issuing company	Premiums usually cost more than annual renewable term

Tradeoffs

Premiums increase at each renewal and get more expensive with age

A term policy has an endpoint, like an expiration date. When the coverage period ends, you may have the option to renew the policy, depending on the specific policy and limitations. Each time you renew the policy for an additional term of coverage, the rate generally increases because your age (and consequently the insurance company's risk of paying the death benefit) has increased. Eventually, you could be paying more in premiums for term coverage than if you had bought a whole life policy from the beginning. The increasing premium costs can make term insurance expensive for long-term needs.

You can start with convertible term insurance in the early years of your career, marriage, or family. When cash is a little less scarce, convert to permanent life insurance such as whole life , universal , variable , or variable universal .

Most policies automatically terminate at certain age

Most term policies automatically terminate at a certain age, often 65 or 70, and most people will outlive the term of the insurance. Term policies pay a benefit only when you die during the coverage period. When you live longer than the term of the insurance, your beneficiary receives nothing.

There are policies available that are renewable until age 90 or 95. Also, some policies offer a return of premium feature whereby the premiums you paid are returned at the end of the policy term, presuming the death benefit hasn't been paid. If you want a policy where you can be covered for your entire life or get cash out of the policy at some point, consider one of the permanent, cash value policies such as whole life, variable life, universal life, or variable universal life.

How to do it

Determine your life insurance need and overall financial goals

Before you buy life insurance, you need to know how much insurance you need. Insurance need is based on numerous factors, including your current age and income, marital status, number of incomes in the household, number of dependents, long-term financial goals, level of outstanding debt, and existing insurance and other assets. Your overall financial, estate, and tax-planning goals and your planning horizon should be considered as part of your insurance need evaluation.

Tip: *Consult with your financial advisor concerning your need for insurance. Some of the calculations can be complicated.*

Complete the insurance application and name your beneficiary

Before the insurance company can issue your policy, it must receive a completed application form. The application includes general health questions, and the process may include a physical examination, which is usually paid for by the insurance company. A critical part of the application is the beneficiary designation--the naming of the person or persons to receive the policy proceeds when you die. Unless you make an irrevocable beneficiary designation, you can change the beneficiary designation by adding or removing a beneficiary or by changing the percentages of the proceeds distribution.

Buy the policy and pay your premium

It is all well and good to know how much insurance and what type of policy is appropriate for your particular situation, but if you don't actually buy the policy, you haven't accomplished your goal! Not only that, but insurance becomes more expensive with age, so you won't be doing your wallet any favors by delaying. An additional risk of delaying is that your health could change adversely. In other words, just because you are healthy and insurable today doesn't mean you will be that way later. Deterioration in your health can mean higher premiums or an insurer considering you to be uninsurable.

Review your insurance need periodically

The amount of life insurance you need may change over time and with the occurrence of lifetime events. As a result, you should periodically review your life insurance coverage. As a rule, you should review your coverage every three years. Major lifetime events (such as the purchase of a home, birth or adoption of a child, marriage, or divorce) are also appropriate times to review your coverage. By routinely checking your insurance need, you can prevent the mistake you can't fix after you die: not having enough life insurance.

Tax considerations

Income Tax

Premium payments not deductible

Life insurance premium payments are generally not tax-deductible expenses.

Death benefits generally not subject to federal income tax

Policy death benefits are generally not subject to federal income tax. One notable exception is when the policy has been sold or otherwise transferred for valuable consideration by one policyowner to another, subjecting it to the transfer-for-value rule .

Gift and Estate Tax

Policy proceeds not considered gift to beneficiary

When the proceeds of your life insurance policy are paid to a beneficiary, they are not treated as a gift for gift tax purposes.

Policy premium payments generally not subject to gift tax

When you are the owner of a policy on your own life, with another party as the beneficiary, premium payments made by you are not considered a gift to the beneficiary for gift tax purposes. If, however, someone else pays the premiums on a policy you own, of if you pay the premiums on a policy owned by another, the premium payments are considered a gift and may be subject to gift tax. Policy premiums generally qualify for the annual gift tax exclusion .

Policy proceeds included in estate value in some cases

The proceeds of a life insurance policy are included in the value of your estate if you held any incidents of ownership at any time during the three years before your death or if the proceeds are payable to you or your estate or executor. Incidents of ownership include (among other things) the right to change the beneficiary, take out policy loans, or surrender the policy for cash.

Policy proceeds often exempt from state inheritance tax

In many states, life insurance proceeds are exempt from state inheritance taxes.

Questions & Answers

If you are covered under a group life insurance policy through your employer, do you still need a personal policy?

Yes, you should have your own policy outside the group coverage provided by your employer. The policy through your current employer is more than likely not portable--meaning that when you leave the company, your life insurance coverage will not go with you. It is very common for people to change jobs numerous times during their career. Even if you plan to stay with your current job until retirement (assuming your job exists that long), what will you have for coverage afterward? The best way to make sure your family is provided for when you die is to have your own insurance coverage in addition to any provided by your employer. While conversion coverage may be available, it may be expensive and it may offer limited coverage. In addition, it may not meet all of your coverage needs.

Can your spouse own a policy on your life and name your child as beneficiary?

This can be done, but it shouldn't be. When the insured, the policyowner, and the beneficiary are three different parties (sometimes referred to as the "unholy trinity" or the "Bermuda triangle"), the death benefit is subject to gift tax.

Can you name your spouse as the beneficiary on your life insurance policy if he or she is not a U.S. citizen?

You can, but there could be estate tax consequences. When your spouse isn't a U.S. citizen and is the beneficiary on your life insurance policy, the death benefit isn't protected by the unlimited marital deduction.

Should you buy life insurance on your children?

In some instances it is advisable to buy life insurance on your children, but it shouldn't be done until the appropriate levels of coverage are in place on the lives of the family breadwinner(s) and a non-wage-earning spouse engaged in the care of the children.

Should you buy term insurance or cash value life insurance?

It depends upon your personal circumstances. The first issue to resolve is not what type, but how much life insurance you should buy, and how long your coverage is needed. Once you can answer the quantifiable insurance question, you can move on to the financial aspect. It is possible that the amount of coverage you need is so large that the only affordable way to get the coverage is with lower-premium term insurance. If you can afford the needed coverage with either type of policy, then you should think about the financial aspect of which type of policy to buy, considering such factors as your tax bracket and the rate of return you could receive on alternative, similar risk investments.

Is mortgage protection term insurance different from term life insurance?

Yes. With mortgage protection term insurance, the policy is designed so that the coverage decreases over time to match the reduction in the amount of the mortgage loan. The premiums, however, remain the same throughout the payment period, which tends to be shorter than the actual coverage period. Level term life insurance policies provide a consistent coverage amount.

Should you buy term insurance and invest the difference?

While it sounds good in theory, most people who opt for a lower-premium term policy with the intention of investing the difference between that and a higher premium cash value policy never actually make the investment! First, you must establish that term or temporary life insurance is the best option for you. If you also need to create or continue a savings program for future use, such as retirement or college education expenses, try committing a certain amount to savings in addition to paying life insurance premiums. An alternative might be to set up an automatic transfer with your bank, where a fixed amount each month is directed into a savings account or plan. Another alternative might be to buy the cash value policy and take advantage of the forced savings built into the premiums for a cash value policy.

Should you "invest" in insurance?

It generally isn't a good idea to buy insurance unless you need it. If you want to invest money, many options are available. When you need insurance, there are policy types available that can serve the dual purpose of insurance protection and cash value investments. The bottom line is, don't buy insurance because you are looking for an investment--buy insurance because you need the protection.

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

One Resource Group
13548 Zubrick Road
Roanoke, IN 46783
888-467-6755
Life_Sales@ORGCorp.com