Strategic Financial Associates, LLC

Term and Permanent Life Insurance

Which Best Meets Your Needs?

The permanent versus term life insurance debate has gone on for years, as if it were possible to say that one type of coverage is better than the other. But when it comes to insurance, one size doesn't fit all.

Benefits of Term Life Insurance

Certainly term life insurance has its place. If you're young or on a budget, term can be an ideal stopgap solution. It can provide you and your family with more coverage for less immediate premium outlay.

It is often the product of choice for those who expect their protection needs to be substantial for a period of time, but then decrease, such as when their families are growing. Term insurance also can be an effective way to supplement permanent insurance during high-need years, such as when family and other financial responsibilities are outpacing income.

In these situations, term coverage allows you to obtain crucial death benefit protection without breaking your budget. Also, if the coverage is convertible, i.e., can be "converted" to a comparable permanent policy without the need to provide evidence of insurability, you can get the coverage you need today—with the ability to obtain permanent coverage in the future. In this respect, term insurance meets a valuable need.

The True Cost of Term

Term insurance has its limitations. It isn't appropriate for all people or under all circumstances. Factors to be aware of:

Purchasing term insurance is often compared to renting a house. When you rent, you get the full and immediate use of the house and all that goes with it, but only for as long as you continue paying rent. As soon as your lease expires, you must leave.

Likewise, term life insurance provides a death benefit only for a specific length of time. When the term coverage expires, so does your protection. Also, if you stop paying premiums, the coverage ends.

There is the very real danger of becoming uninsurable when the term coverage expires. While many term policies are convertible to permanent coverage, others may not be. Most of all, even if the coverage is convertible, there are time limits. If the policy is allowed to expire, you may be required to reapply. If you are found to be uninsurable at that time, you will be without coverage.

Term insurance does not offer the many "living benefits" afforded by permanent life insurance. For example, permanent life insurance policies provide tax-deferred cash value accumulation that can be borrowed against or withdrawn to help fund almost any need.[1] Term insurance does not build cash value.

The Value of Converting a Term Policy to a Permanent Policy

Since premiums can increase at each renewal, the long-term cost of term can become increasingly burdensome. Many people buy term coverage when they're in their 20s because it seems more affordable when compared to a permanent life insurance policy with the same death benefit amount. By the time they're in their 40s, the coverage seems a bit pricey, as the rate goes up. In their 50s, the cost has generally outstripped the cost of permanent coverage. Finally, in their 60s, if not sooner, they drop the policy—not because they no longer need the protection, but because they usually can't afford it.

Meanwhile, the person who may have paid more for that permanent policy in his or her 20s may still be paying the same premium.

That's why the term policy's conversion privilege is so important. This valuable feature is usually available in the first few years of the policy, and allows you to convert to permanent insurance without submitting evidence of insurability.

Converting to a permanent policy lets you "lock in" a fixed and level premium, and your coverage can never be canceled, provided premiums are paid when due.

The Value of Permanent Life Insurance

Permanent life insurance is often the best long-term solution for many people. The reasons:

Permanent life insurance provides life-long insurance protection, provided premiums are paid, or in the case of some policies, provided the policy remains in force. With few exceptions, once you have been approved for the coverage, your policy cannot be canceled by the carrier. Regardless of your health, the insurance will remain in force.

Despite higher initial premiums, permanent life insurance can actually be less expensive than term in the long run. Some permanent policies are eligible for dividends,[2] if and when they are declared by the insurance company. Many companies offer the option to apply current and accumulated dividend values towards payment of all or part of the premiums. So while premiums must be paid under both permanent and term insurance policies, the long-term out-of-pocket cost of permanent life insurance may be lower compared to the total cost for a term policy.

Permanent life insurance can eliminate the problem of future insurability. It does not expire after a certain period of time. It does not need to be renewed. Also, some policies contain guaranteed purchase options, which allow you to buy additional coverage at specified times, regardless of your health.

Permanent life insurance builds cash value. This amount—part of which is guaranteed under many policies—can be used in the future for any purpose you wish. If you like, you can borrow cash value for a down payment on a home, to help pay for your children's education or to provide supplemental income for your retirement.[1] Plus, if you stop paying premiums and surrender your policy, the guaranteed policy values are yours.[3]

A Life Insurance Policy Should Fit Your Needs

When purchasing coverage—or renewing or converting a term policy—look at more than just the premium. To help you select the best coverage for you, contact your New York Life agent for a no-cost, no-obligation meeting. Your agent is a licensed professional who can ask you about your goals, help you assess your needs, and discuss the pros and cons of the various options available to you.

1 A policy's cash value may be accessed via policy loans and/ or partial surrenders. Policy loans accrue interest at the current rate. Loans and partial surrenders reduce the death benefit and cash value by the amount of the outstanding loan plus interest or the amount of the partial surrender. If a decision is made to purchase, please see the contract for complete terms and conditions.
2 Dividends are based on the policy's applicable dividend scale, which is neither guaranteed nor an estimate of future performance. Although dividends cannot be guaranteed, New York Life has paid annual dividends to policy owners for more than 150 consecutive years.
3 All guarantees are based upon the claims-paying ability of the issuer.

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