Term Life Insurance 101: An Inexpensive Way to Protect the Ones You Love

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Dying is one of those topics we don't like to talk about, but if you die tomorrow, what will happen to your family? Will they be able to pay the expenses you usually pay for?

Buying a term life insurance policy is one way to take care of the financial obligations that will impact your family when you die.

What Is Term Life Insurance and How Does It Work?

Simply put, term life insurance pays a lump sum benefit to someone you designate if you die during a specified term. When you buy the policy, you choose the term, usually five, 10, 20 or 30 years. If the insured dies during that time, the policy pays the beneficiary money in a lump sum.

The younger you are, the cheaper a term life insurance policy is. Once you purchase a policy, the premiums stay the same throughout the term of the policy, but premiums for new policies generally increase as the insured person gets older since the likelihood of the person dying increases with age.

Premiums are often paid annually. After the specified time period expires and the insured is still alive, they can either choose to get more coverage or let the policy lapse.

Term life insurance is the least expensive type of life insurance because people usually outlive the term of the policy.

Why Would You Buy a Term Life Insurance Policy?

The benefit that comes from a term life insurance policy can help replace income or satisfy debt if a person dies.

For example, if a couple bought a house and has a mortgage based on two incomes, the loss of one income due to death would cause a financial hardship. A person's term life insurance policy payout could pay for the mortgage. The payout could pay also pay for funeral expenses, credit card debt, child care and a variety of other expenses.

"It can replace the income you would have earned if you had lived," said Steven Weisbart, senior vice president and chief economist of the Insurance Information Institute. "I think it's grossly neglectful if you don't think about what [your survivors'] financial situation is going to be if you happen to die. Why would you subject people you care about to that hardship if it is easily fixable?"

How Are Term Life Insurance Rates Calculated?

Term life insurance companies calculate their policy rates based on how likely it is that the insured person will die during the term of the policy.

Many factors determine the prices including:

- Your age.
- Your gender.
- Where you live.
- Types of activities you like to do.
- Whether you smoke.
- Your familial history of certain conditions.

For most people, the likelihood of dying is low, so term life insurance premiums are low.

“We have great, deep data about anybody at a particular age, male or female, what the odds are that they will die and there are indicators of health that will affect your likelihood to die,” Weisbart said.

If you are reasonably in good health, you will find that the premium for life insurance, no matter what term you buy, is extremely low.

Many companies advertise policies that cost less than $1 a day.

Insurers do not guarantee acceptance and often require physicals or other medical exams or tests to determine eligibility.

If a person has or develops a terminal disease, they would probably not be able to buy a term life insurance policy. It would be a bad business decision for the insurance company because the likelihood of that person dying is greater.

Some term life insurance policies do not include a medical exam, however, these are generally much more expensive than traditional term life insurance policies.

Let’s say you want to buy a 20-year term life insurance policy that would have a $250,000 benefit if you died.

Life insurance website Quotacy gives general price quotes and doesn’t require you to enter any personal information like name, address or email. After putting in general information, you use sliders to select the type of coverage you’re looking for.

For this example, we’ll assume the person lives in Florida, is relatively healthy, is not taking any blood pressure or cholesterol medications, is a nonsmoker, and has no familial history of heart disease, cancer, stroke or diabetes.

Monthly Premium for Female Nonsmoker on $250,000 Policy

Age	Price
30	$12
40	$15

Age	Price
50	$31
60	$77

For smokers, the price jumps dramatically. Instead of $12 monthly for the 30-year-old non-smoker, the price jumps to $32. For the 50-year-old, the monthly price begins at $119 instead of $31.

Men should expect to pay a bit more since their life expectancy is shorter.

Monthly Premium for Male Nonsmoker on $250,000 Policy

Age	Price
30	$13
40	$18
50	$40
60	$109

For a male smoker, the price for a 30-year-old jumps from $13 to $40 per month, and for a 50-year-old, it is $158 instead of $40.

Can You Cash In Term Life Insurance?

You cannot cash in a term life insurance policy, because there is no cash value. Term life insurance policies simply satisfy claims against them.

In this way, term life insurance operates much like car or homeowners insurance. You pay your premium each year to buy insurance, but you do not get the money you paid in premiums back if you do not file a claim. These types of insurance policies protect you and are there if you need them, but have little value if you do not claim against them.

Whole Life Insurance vs. Term Life Insurance

Basically, term life insurance pays a benefit if you die during a specific period of time. Whole life insurance passes on a sum of money when the insured dies, no matter when that happens. Whole life insurance is more expensive than term life insurance.

Whole life insurance is often part of estate planning or charitable gift strategies and guarantees coverage at fixed premium for a lifetime.

Unlike term life insurance policies, whole life insurance policies have a cash value so if you want to, you can cancel the policy and get what you have paid into it back. You can also borrow against its value.

Some term life insurance policies can be converted into whole life policies without additional medical reviews or underwriting.

It isn't an either-or situation. "You don't have to choose one or the other, you can have both," Weisbart said. The main question you need to answer is what you are trying to accomplish.

There are other types of life insurance including universal life insurance, sometimes called adjustable life insurance. Universal life insurance has some flexibility in premiums and death benefits. It also has a cash value and in the event of financial problems, you can change the amount and frequency of premium payments.

Is Term Life Insurance a Good Idea?

If your death and loss of your income would put a strain on your family's financial situation and you want to cover those expenses and need affordable coverage, term life insurance might be a good idea for you.

"You don't have to spend your life talking and thinking about these things, but a couple of hours at the most asking, 'Well, how are we going to handle this and what does it cost to put us in a better financial situation?'" Weisbart said. "It doesn't take that much time, and it's time well spent."

Some employers provide life insurance to employees, but this may not offer sufficient coverage. Employer-provided coverage is often only worth one year of salary, and if a person changes jobs, the life insurance benefit goes away.

If you choose to buy term life insurance:

- **Look at what you make annually and how long you plan to continue working.** If you make $50,000 a year and plan to work for 10 years, that's $500,000.
- **Consider the ages of your children.** If they will be on their own soon, they will no longer need financial support from you.
- **Figure out the terms of your mortgage.** If your home will be paid off in a few years, you might not need as much life insurance coverage.

Wiesbart said most people do not buy enough life insurance, often because they think $100,000 sounds like a lot of money, even though it may only replace a year or two of income.

"What you really want to do is think of how long will you be earning income," Weisbart said. "What will you lose if you die today, and that should be the amount of insurance you buy. It wouldn't be surprising if someone even a modest income would buy a policy for half a million dollars, because that's just 10 years of $50,000 a year."

Tiffani Sherman is a freelance writer who likes saving money so she can use it to travel more.