

Is Term Insurance a Commodity?

Question:

When it comes to term insurance, can't I treat that as a commodity, at least when I'm dealing with quality insurance companies? Why should I pay any more than I need to?



Answer:

Many people have the same mentality when it comes to term insurance but I will caution you about that mindset. There's a chance that things will turn out fine but it's the future unknowns that you want to be ready for and can be better handled by a product that has flexibility.

It's more important today than ever before to understand the contractual features of your life insurance policy. In the past, many insurance companies had practices regarding policy language that they do not follow today. For example, they may have allowed a policy split or a reduction in face value by practice but not by contract. It was taken for granted that these practices before would be honored but many companies are going back to contractual language and dismissing former and traditional flexibility.

A huge issue today is what a term policy is convertible to. Over the years, most current policies were convertible to any permanent product the carrier was issuing at that time. Nowadays many insurance companies are only allowing conversion to certain products, sometimes terribly uncompetitive products that only exist for the purpose of converting to when someone has no other choice.

I've seen conversion options from a preferred best rated term policy to a permanent policy where the pricing was equivalent to a couple of tables down the substandard risk scale for their more popular products available today. Some contracts are convertible to certain policies in the first number of years then only to other policies after that.

Another big issue is conversion features relative to age of the insured and of the duration of the level term policy. One term policy might be convertible to age 65 while a policy with another company to age 70 or age 75. One policy may be convertible for the full duration of the level term product while the next is only convertible for the first five years.

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This may not seem like big issues and they aren't until they are... When you are 48 years old and discover you have a disease, that if it doesn't kill you it will certainly leave you uninsurable for the foreseeable future, and still have a family that is depending on your income and you are getting close to the end of your 20 year level term policy that was only convertible for the first 10, don't tell me you don't really care that it's not convertible when you realize that you'll shortly be leaving yourself uninsured and your family at risk. I've seen it happen. I am all too familiar with the regrets.

As an aside, if you have group or association term, don't think these issues don't affect you. You are at the most risk as those term products are some of the worst that exists in the market. Please do yourself a favor and learn what they really are and what they aren't.

The bottom line is that term can be viewed as a commodity no more than any other life insurance product.

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