



Term Life Insurance Buyer's Guide

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What is Term Life Insurance?

Term life insurance is an insurance policy that offers a benefit amount for a certain period. For example, a customer might purchase a \$1,000,000 policy for a term period of 20 years. If the customer dies within the 20-year period, the insurance company will pay out the death benefit amount to the beneficiary designated by the deceased customer. If the customer lives longer than the 20-year period, the policy cancels, and he is no longer covered. Suppose the beneficiary is the customer's wife. His wife will receive a check for \$1,000,000. The money has no strings attached, and it is tax free. It can be used for whatever the wife chooses. Term policies typically range from 10 years to 40 years in length and can range in amount from \$100,000 at the bottom to many tens of millions or more at the top.

What is Term Life Used For?

Term Life Insurance has many uses.

- 1. People purchase it to replace their income in case they were to die; this provides support for the family of the deceased for potentially decades.**
- 2. Term Life is also used to ensure that if the insured dies, their family will receive enough money to pay off their home mortgage so that the family will not lose the home and can continue living in it; also, their overall monthly bills are reduced by no longer having to pay the mortgage.**
- 3. In addition to mortgage protection, Term Life is purchased to ensure that if the insured dies, his debts will be paid off and will not become a financial problem for the family.**
- 4. Some people purchase it to ensure that if they die their spouse or children will have money for education. The spouse may need to retrain and upskill to shoulder the new burden created by the death of the insured. And given the high costs of higher education, Term Life is a great way to fund college for the children of the deceased.**
- 5. Term Life is also purchased by business owners to insure the life of key people in their business. This would be a person who, if they died, the business would face difficulty in continuing operations. If the person dies, the insurance company will pay the business a lump sum which can be used to replace the key**

person or otherwise manage the new situation created by the death of the insured.

Do I Need Term Life Insurance?

If you are between the ages of 20 and 60, the answer is probably Yes. Most people between these ages have financial obligations which would be severely impacted by their premature death. Does anyone rely on your income? Do you have debts that would remain for your family if you died? Do you still owe on your mortgage? Do you have children who plan to go to college? Do you have a business that would likely close if you died? Do you have a key employee whose death would seriously impact your business operations? If you answered Yes to any of these questions, you need a Term Life policy.

What kind of policy should I get, and what should I avoid?

There are a handful of different types of Term Life Insurance, but all of them fall within one of two categories: Simplified Issue and Fully Underwritten.

Simplified Issue Term Insurance is a kind of Term which is easier to get. It does not require the typical medical exam, blood draw, or medical records, to qualify. Typically, Simplified Issue Term only requires that you answer a health questionnaire and allow the company to do a quick check of your medical and prescription history. So long as you don't have serious health issues, it is common for the customer to get coverage the same day they apply, or perhaps within just a few days.

Fully Underwritten Term insurance is not as easy to get. It requires the customer to do a health questionnaire, and they may need to do an additional medical interview with the insurance company. Then the insurance company will require a full medical exam of the applicant, which includes a physical and blood draw. It is also not uncommon for the company to make other requests later, such as for medical records from the applicant's health provider for past treatments and illnesses. Whereas Simplified Issue policies can be completed within minutes or days, Fully Underwritten policies often take weeks or months to get issued.

Now which one of those Term plans sounds better to you? Probably Simplified Issue, right? Here's the catch: Simplified Issue plans cost between 3 and 6 times

more than Fully Underwritten plans! Consider that you will likely have your Term Life plan for decades and it becomes obvious that this increased cost of 3-6 times will add up to quite a large number!

With this in mind, do you suppose Life Insurance Agents would steer everyone towards Fully Underwritten Term, to serve the best interests of the client? While some might, many do not. This is because Life Insurance Agents are incentivized to sell you Simplified Issue plans. The incentive is higher commission for the agent, more commission up front, and the benefit of getting paid in minutes or days versus getting paid in weeks or months. And of course, since Simplified Issue plans cost 3-6 times more, and since the agent's commission is based on the premium you pay, this also increases the agent's commission. On top of this, Simplified Issue plans do not offer coverage amounts over \$300,000 to \$500,000. This is because the insurance company is not requiring you to have a full medical exam and records check, and so they cannot risk giving you higher amounts in case they miss something and then must pay out too many policies over \$500,000. Most people that I sell Term plans to require higher amounts to protect all their different concerns, amounts such as \$500,000 at the bottom to \$2,000,000 at the top. All of this means that Life Insurance Agents have every reason to sell you the plan that will cost you 3-6 times more, and which will almost certainly be less coverage than you need.

What should you do? Almost without exception, everyone should avoid Simplified Issue Term Life Insurance. It is not a good product. It is not good for the client, though it is very lucrative for the agent. Do things the right way and submit to the Full Underwriting process in order to get the highest possible coverage for the lowest possible monthly payment.

In addition to avoiding Simplified Issue Term Life, you should also avoid certain other types of Term Life that are generally bad deals.

Some Term Life policies come with a Decreasing Face Amount. This means that throughout the period of your term, your death benefit amount decreases until eventually there is practically nothing left. A quality Term Life plan has a death benefit amount that never changes through the course of the Term.

Other Term Life policies have an Increasing Premium. This means that every year, or often every 5 years, your monthly payment increases. This continues to the point where the monthly payment eventually becomes too expensive for most people to afford, despite the fact the Term period is not yet completed.

How much insurance should I get, and for how long?

This depends on your coverage needs. Following is an example of how you might do the calculation.

A helpful acronym used by Life Insurance Brokers is DIME:

Debt

Income

Mortgage

Education

For debt, add up all your non-mortgage debt, whether car payments, student loans, credit cards, or any other debt amount you owe.

Now take your yearly income and multiply it by the number of years you want your family to have income replacement. Some people will take the age of their youngest child and subtract it from 25, since 25 is the age when most kids will have finished college and started a career and thus be able to provide for themselves. So, if your youngest child is 3, multiply your yearly income by 22. Suppose you make \$100,000 yearly. That would mean \$2,200,000 is needed to replace your income for a 22-year period.

Now add the amount you still owe for your mortgage.

Now add the amount you want for your children to go to college.

And lastly, add any other amount for any other unique concern you may have.

Once you have that number, you have your ideal coverage amount; you can use the 22-year period as your term length, based on the age of your youngest child. Or you can extend the term period in order to provide longer coverage for your spouse who would suffer financially if you died even after your kids were all grown.

Something very important to consider as you think about how much coverage you want and for how long: Now is the best time to buy life insurance for the rest of your life. This is because it will never be this cheap again. Life insurance prices are based on your age, health, and legal history. Every year your price goes up. Every day that goes by is one more day your health may change for the worse; if

it does, your price will either increase substantially or else you will be permanently declined, depending on the issue. It is always a mistake to put off getting life insurance to a later time, because you are guaranteeing a higher price and risking the possibility of becoming permanently disqualified altogether.

Of course, it is sometimes the case that your ideal coverage amount and term length are too expensive for you to afford. At the end of the day, the best thing is to invest as much as you comfortably can into a monthly payment to get the most coverage for the longest term-length possible. Even if you get half of what you want, your family will still be greatly helped if the day comes when they need to file the claim. Some life insurance always beats no life insurance.

What is the process for getting Term Life?

The first step is to determine your ideal coverage amount and term length. Then you need to contact a broker to help you shop for a good plan and apply. Your broker will ask you several health questions for the application, and it's possible the company will call you for another health interview. Then you will schedule your medical examination; this will often be conducted by a health professional who contracts with the insurance company, and who will travel to your home. Once the insurance company receives the results of this exam, they will contact you if they have any other requests for medical information, and you may need to contact your doctor to alert them that records will be requested for them. Once all of this has been completed, the company will contact you and your broker to give their final decision. They may approve you as applied, meaning they offer you what you asked for at the price initially quoted. They may approve you better than applied, meaning you get the coverage you want cheaper than you were quoted. They may approve you worse than applied, meaning the actual price is more than the initial quote. Or they may refuse you coverage.

Do You Need Help with Term Life Insurance?

My name is David Wagner. I have been serving customers for 20 years, and in 2021 I started helping people find life insurance. I am a California state-licensed life insurance broker with access to dozens of companies and plans. I serve the counties of Stanislaus, San Joaquin, Merced, Tuolumne and Calaveras, and I am willing to go further to help clients upon request. I will come to your home and meet with you personally to understand your life insurance needs and recommend the best plan for your situation. I can answer your questions, get you a quote and help you apply for a plan. Call today to make an appointment and let's get your family and finances protected!



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