Avoid Costly Mistakes When Purchasing Life Insurance

When considering life insurance, many consumers believe term insurance is the best option. However, this is not always the case. In fact, that choice depends on your life circumstances.

It is true that term life insurance, which covers you for a specified amount of time, such as 10, 20 or 30 years, is almost always less expensive than other forms of permanent insurance.

The reason is that term insurance only pays out when you die (that is, if you die while the policy is in force). Permanent insurance, however, provides coverage for your entire life, assuming premiums are paid when due, and may also include a cash-value component.

To make the best decision, it is crucial that you understand just what you're buying when you shop for term life insurance. Even an inexpensive policy, if not designed to meet your particular financial needs, can result in money down the drain.

Below are five of the most common, and costly, mistakes consumers make when buying life insurance.

1. Selecting term insurance based solely on price

Shopping for life insurance only by comparing premiums is asking for trouble. You should compare company ratings to determine financial strength and policy features, such as convertibility options.

While the policy's premium should be considered, ensuring that your policy matches your financial needs is more important.

2. Believing that term insurance is permanent

That's why it's called "term" insurance вЂ" because you buy it for a specified period of time, most commonly 20 years.

This is fine for satisfying temporary needs such as insuring yourself until your mortgage is paid off, or funding your children's college expenses in the event of your premature death.

But a 20-year level-term insurance policy you bought when you were 30 would expire when you're only 50. At that point, you may still need to carry insurance, but you'll pay more than you did 20 years ago, while your age and any health conditions could further add to the premium.

If your policy has a convertibility option you may be able to get coverage, but it may be cost-prohibitive.

3. Buying from an unstable insurance company

Don't be afraid to ask about an insurance company's ratings. You can also look for an insurer's Standard & Poor's, Moody's or A.M. Best ratings on the internet.

There are many insurance carriers with high financial ratings (A+ or better), so you shouldn't have to purchase insurance from a lower-rated company. However, keep in mind that ratings can and will change, so they should not be the only consideration.

4. Basing your coverage needs on a pre-determined formula

You may have heard that a good rule of thumb is to buy life insurance coverage equal to 10 times your annual salary or 10 times your beneficiary's annual financial need.

The idea is that if your surviving beneficiary invests the life insurance proceeds in the stock market (getting an average 10% annual return), they'll have a steady income stream and never need to tap the investment principal.

While this formula isn't a bad place to start, everyone has different needs, so don't assume that 10 times your salary is what you need to carry in life insurance.

The best advice here is to sit down with a knowledgeable agent вЂ” like us. We can take the time to learn about your needs to help guide your decision.

5. Failing to revisit your policy on a regular basis

Is your former spouse still the beneficiary of your life insurance policy? Did you buy term insurance to cover you while you pay off your mortgage? If you refinanced before rates started rising and restarted the clock on your loan, you might also need to update your insurance term.

Life has a way of throwing changes your way. Just make certain your life insurance changes along with you.

The bottom line is that it all comes down to doing your homework. Whatever your life insurance needs may be, we can help you evaluate the best options for you to protect your family's financial future.

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