

Term life insurance

Life insurance provides a financial safety net for your beneficiaries in the event that you die and aren't able to provide for them. But with so many options, do you know which type you need?

Most people shopping for life insurance should choose **term life insurance**. It's affordable, simple to understand, and provides the financial protection your family needs. Read on to learn more about why you need term life insurance.

What is term life insurance?

Term life insurance is a form of life insurance that lasts for a set number of years — known as the **term** — before expiring. If you die before the term is up, your **beneficiary** — usually your family — receives a **death benefit**, usually as a tax-free lump sum of money that can be used for funeral expenses, to pay bills, or for any other use.

Term life insurance is one of the most popular ways to create a financial safety net. Money experts like Dave Ramsey prefer term life insurance to other types of insurance because it's

- Straightforward, so it's easy to understand
- Affordable, costing as little as \$15 a month
- Comprehensive, providing enough money to cover your family's needs

For these reasons, term life insurance is the right financial product for a vast majority of life insurance shoppers.

How does term life insurance work?

FEATURE	TERM LIFE INSURANCE
Duration	1-30 Years
Guaranteed Death Benefit	Yes
Guaranteed Cash Value	No
How Cash Grows (or Shrinks)	N/A
Premiums	Can increase periodically OR be guaranteed to remain level
Notes	No risk of losing coverage, but no cash value when term ends

The primary element of term life insurance that sets it apart from other types of life insurance is the **term**. Term periods usually last anywhere from 10 to 30 years, and you pay a monthly or annual **premium** during this time to keep the policy active. Once the term is up, you no longer pay the premiums and the policy expires.

Depending on the type of term life insurance you have, the premiums can be level for the entire length of the policy or increase over time (in some rare cases the term policy can have *decreasing* premiums). We'll discuss these different types of policies later.

Some people are uneasy with the fact that the policy can expire, but because it's only in force for a limited amount of time, that's how the life insurance company keeps term life costs low. Plus, many policyholders only need life insurance for as long as there are people counting on them financially. Once your children have left the house, your mortgage and other debts are paid off, and you've saved for retirement, there's no use paying for a life insurance policy any longer.

If you die while the policy is still in force, your beneficiaries receive the **death benefit**. They can use this money for whatever they wish; the flexibility of the death benefit is one of the benefits of life insurance.

The term length, premium amount, and death benefit are all outlined in the policy when you sign it. In general, the premiums are made more expensive by longer term lengths and larger death benefits; when the policy is active, the carrier may let you lower or raise the premiums by lowering or raising the term period or death benefit.

Some types of **permanent** life insurance, like **whole life insurance**, have an investment-like **cash-value** component. However, term life insurance does not, which also helps to keep the cost low. We'll talk more about the differences between term and whole life insurance below.

How does term life insurance pay out?

Term life insurance pays out a death benefit if you die while the policy is in force. This is typically one tax-free lump sum payment or [an annuity](#); however, it can also be paid out in installments, the balance of which can gain interest (although any gains are taxable).

There are some instances, such as those of fraud or [suicide](#), during which your term life policy won't pay out.

What happens if you outlive your term life insurance policy?

If you outlive your term life policy, the policy expires, and you are no longer covered. You do have several options after that:

- If you still need life insurance coverage, you can purchase a new term life policy (at a higher cost than the original policy).
- If you still need life insurance coverage, you can convert your policy into a whole life policy.
- If you had a return-of-premium policy, the premiums you paid over the policy term will be refunded to you. See below for more on return-of-premium life insurance.

Term life insurance cost

Since term life insurance protects your family for a set period of while they're still depending on your income and not for your entire life, term life insurance rates are much cheaper and offer more affordable financial protection than permanent policies like whole life.

COVERAGE AMOUNT	20 YEAR TERM	30 YEAR TERM
\$100,000	\$9/ mo \$105/ year	\$13/ mo \$155/ year
\$250,000	\$13/ mo \$150/ year	\$20/ mo \$240/ year
\$500,000	\$21/ mo \$240/ year	\$34/ mo \$387/ year
\$1,000,000	\$37/ mo \$425/ year	\$60/ mo \$695/ year

Methodology: Sample based on lowest cost average from top carriers for a 30 year-old male in highest health classification in the New Jersey area.

In general, life insurance costs are determined by:

- **Your health.** The more likely you are to die while the policy is in force, the more expensive the policy will be. For this reason, older applicants, unhealthy people, people with a family history of conditions like diabetes or cancer, and those who engage in risky work or hobbies are charged more.
- **The death benefit.** The larger the death benefit amount, the more you'd pay for the policy.
- **Term length.** The longer the policy is to be in force, the more expensive it'll be. This is part of the reason permanent life insurance is more expensive than a comparable term policy: the "term" lasts your whole life.
- **Riders.** Adding certain riders to change the stipulations or parameters of a policy may make it more expensive.

Learn more about how [life insurance costs are determined.](#)

Term life insurance rates in particular are lower than other types of life insurance. As mentioned, this is partly because the policy can expire without paying anything out; it's also helped out by the fact that there is no cash value or associated fees.

What's a good price for term life? The answer varies and depends on what you can pay to keep it in force; on average, though, term life insurance premiums for a \$500,000 policy for someone in their mid- to late 30s is just over \$26 a month. It can be as low as \$20 for someone in their mid-20s to as much as \$99 for someone in their 50s.

Because age is one of the major deciding factors in a life insurance policy's cost, it's important to know how [term life insurance rates increase by age](#) when you're deciding when to buy and what type of coverage you should get.

How much term life insurance do I need?

Besides health and age, you need to take into account the amount of coverage a term policy provides to determine the final cost. You want to keep the policy affordable (there's no point in having a policy that you won't be able to pay for) while still making sure your family will be able to cover their financial needs.

When deciding how much term life insurance you need, you should take into account:

- **Outstanding debt**, like a mortgage
- **Future college costs**
- **Dependents**, including children and aging parents
- **End-of-life expenses** for yourself
- **Any financial cushion** your family might need

In general, your term life policy should last as long as your longest debt (usually a mortgage) and should cover any remaining costs when you subtract your debts from your existing assets.

Term life insurance vs whole life insurance

Most insurance shoppers will need to decide between buying term life insurance or whole life insurance.

The main differences in term life insurance vs whole life insurance are:

- A term policy expires when the term is up, while a permanent life insurance policy like whole life stays active for as long as you pay the premiums.
- Whole life insurance has a cash value that works like a savings account and can grow or lose value over time.

Because of the cash value and associated fees, **whole life insurance is four to eight times the cost of comparable coverage with term life.** For this reason, it's not the right choice for most people. It can be useful for people with complex financial plans, but a majority of people will benefit more from a simple term life policy that they can afford.

Pros & cons of term life insurance

Wondering if term life insurance is right for you? Consider the potential pros and cons:

Benefits of term life insurance

- Cheapest life insurance you can get
- Lasts for a set period of time so you aren't paying for coverage you don't need
- Provides enough financial assistance to pay off debts, cover future costs, and provide a financial safety net

Drawbacks of term life insurance

- Coverage doesn't last your entire life
- Doesn't provide a cash-value component