

## What are the types of term insurance policies?

Term insurance comes in two basic varieties—level term and decreasing term. These days, almost everyone buys level term insurance. The terms “level” and “decreasing” refer to the death benefit amount during the term of the policy. A level term policy pays the same benefit amount if death occurs at any point during the term.

Common types of level term are:

- yearly- (or annually-) renewable term
- 5-year renewable term
- 10-year term
- 15-year term
- 20-year term
- 25-year term
- 30-year term
- term to a specified age (usually 65)

Yearly renewable term, once popular, is no longer a top seller. The most popular type is now 20-year term. Most companies will not sell term insurance to an applicant for a term that ends past his or her 80th birthday.

If a policy is “renewable,” that means it continues in force for an additional term or terms, up to a specified age, even if the health of the insured (or other factors) would cause him or her to be rejected if he or she applied for a new life insurance policy.

Generally, the premium for the policy is based on the insured person’s age and health at the policy’s start, and the premium remains the same (level) for the length of the term. So, premiums for 5-year renewable term can be level for 5 years, then to a new rate reflecting the new age of the insured, and so on every five years. Some longer term policies will guarantee that the premium will not increase during the term; others don’t make that guarantee, enabling the insurance company to raise the rate during the policy’s term.

Some term policies are convertible. This means that the policy’s owner has the right to change it into a permanent type of life insurance without additional evidence of insurability.

### **“Return of Premium”**

In most types of term insurance, including homeowners and auto insurance, if you haven’t had a claim under the policy by the time it expires, you get no refund of the premium. Your premium bought the protection that you had but didn’t need, and you’ve received fair value. Some term life insurance consumers have been unhappy at this outcome, so some insurers have created term life with a “return of premium” feature. The premiums for the insurance with this feature are often significantly higher than for policies without it, and they generally require that you keep the policy in force to its term or else you forfeit the return of premium benefit. Some policies will return the base premium but not the extra premium (for the return benefit), and others will return both.

Source: *Insurance Information Institute, Inc. (www.iii.org)*