How To Buy Life Insurance

I received a question today about the best way to buy life insurance. This is surprisingly simple for 98% of us. All you need to know about life insurance can be summed up in this sentence: Buy the cheapest, long-term, level-premium term life insurance policy from a reasonably-reputable company that you can find on term4sale.com.

1) Buy term life insurance.

Don’t let anyone talk you into buying any type of permanent life insurance such as whole life, variable life, universal life, variable universal life etc. Term life insurance is a commodity, so the pricing is very competitive and shopping/comparison is simple. Fees and commissions are necessarily kept low because people shop for it primarily on price. Don’t mix insurance and investing.

2) Buy long-term level-premium term life insurance.

You may become uninsurable (or your health or habits may worsen and you become insurable only at a higher price) in a
few years. So buy insurance now for the longest term you need, meaning until you become financially independent. The default option should be 30 years. Level premium means the premiums never go up. So you may pay $100 a month for $1 Million in insurance. 25 years from now you’ll still be paying that $100 a month. As you get older and inflation kicks in that $100 a month will cost you less and less as time goes on. Likewise, the face value of your insurance will be worth less and less. But that’s okay, because your portfolio will be growing to replace it so as time goes on you have less need for insurance.

[Update 4/5/2015: Another reasonable option, especially for someone who plans to become financially independent relative early in life (and thus cancel his life insurance,) is to buy annually renewable term insurance. It starts out dirt cheap and gets more expensive each year. But if you don’t need it after 50 or so, you will have spent much less money than buying a 30 year level premium policy that goes to age 60 or 65.]

3) Buy a lot of long-term level-premium term life insurance.

Your decision shouldn’t be “Should I get $300,000 or
$350,000.” This stuff is pretty cheap. The default option should probably be about $2 million, but it varies according to your circumstances. A dual-physician couple that has no kids and could easily live off one income probably doesn’t need life insurance at all. You need to decide what you want the insurance to cover. I basically want my family to have the exact same lifestyle whether I’m here or not. So if I die, my insurance will need to pay off the house, send the kids to college, allow my wife to stay at home until the kids are out of the house, and provide most of her retirement portfolio.

4) Buy a lot of long-term level-premium term life insurance from a reasonably-reputable company.

Although the company can go out of business at any time, this isn’t nearly the risk it may seem to be. You probably don’t need to buy from the “very best” company, despite what many insurance salesmen will tell you. If the insurance goes out of business, the policy will likely be acquired by another company and its terms won’t change. If not, your state will guarantee at least the first $300,000 of your insurance policy. If worse comes to worse, and your company goes out of business, no one will buy it from them, and the policy was much bigger than $300,000, most of the time you’re healthy enough to buy a new one to replace it for a similar price. For example, if you buy a 30 year policy at age 30, and you need a new one at age 50, you’ll likely only need a 10 year policy, which really won’t be much more expensive than the original 30 year policy.

You can minimize this risk by buying more than one policy. Most of us end up doing this anyway as our insurance needs change. For example, you might buy a $500,000 policy as a
resident, then buy another $1,000,000 policy upon graduation, keeping the original policy. You can also buy multiple policies so they expire at different times. For example, I have one policy that will expire at age 53, when I anticipate being financially independent. My other policy expires when I am 60, which will be helpful if I don’t meet my goal of financial independence in my early 50s. It is a Plan B of sorts. I’ll likely end up canceling it early, at the same time I cancel my disability insurance in my early 50s. It will have cost me a bit more per month than if I had gotten a shorter policy, but that’s a small cost for the extra benefit it provides.

5) Buy the cheapest, long-term, level-premium term life insurance policy from a reasonably-reputable company that you can find.

Term life insurance is a commodity. This isn’t disability insurance where the definition of “dead” is all-important. With life insurance, you’re either dead, or you’re not. By law, you have to buy life insurance from an agent. But you don’t have to buy it from a “captive” agent, that is, one that is employed by a single insurance company. Buy it from an agent that can sell you a policy from any insurance company. Two of the best places on the internet to compare life insurance policies are insuringincome.com (run by one of this blog’s advertisers) and Term4sale.com, put together by a guy who charges insurance agents to be listed on the website. Both are totally free resources to you. You put in your information and it spits out a comparison of the same policy from several dozen insurance companies. Term4sale.com gives you the names of 3 local agents you can buy your policy from. Print out the list, walk into one of the agent’s offices, and ask him to sell you the cheapest policy on your list. Done. You’ll get the price quoted on the site. Easy, quick
commission for him and you have what you need without any hassle. Well, you might have to tell him once or twice that you definitely don’t want to buy a whole life insurance policy, but that’s it. (Joe Capone at insuringincome.com promises to help you get your desired policy without having to decline whole life insurance multiple times.) If your circumstances are unique, such as risky hobbies or health problems, he may be able to point you to the cheapest policy that is least likely to move you from the most preferred classification due to your particular risk. Lastly, remember that policies are usually cheaper if you pay annually rather than monthly, even counting in the time value of money. If you can handle the slightly more complex budgeting, you might as well save a few bucks.

Disclosure: Term4sale.com does not sponsor this site. There are lots of good life insurance companies out there and some of their ads may show up on this site from time to time. My life insurance policies are with USAA and MetLife. [Update: Term4sale.com was not a sponsor when this page was written, but they are now.]

What do you think? How did you buy your life insurance? Are you glad you used that method? Why or why not? Comment below!