

# Term Life Insurance:

EVERYTHING YOU NEED TO KNOW



# Protection for Your Family

Term life insurance is designed to provide financial support to your family after your passing. There are many different types of life insurance coverage with multiple add-on options, so it's important to understand the various choices available so you can choose the best life insurance policy for you.

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# What Is Term Life Insurance?

Term life insurance provides a sum (also called death benefit) if you, the insured, die during a predetermined period of time (the “term”). The term length of the policy varies depending on the policy you choose. Because term life insurance is designed to be kept for a shorter amount of time compared to permanent life insurance plans, term life insurance is one of the most affordable options.

## **HOW DOES TERM LIFE INSURANCE WORK?**

With term life insurance, you pay fixed premiums for the length of your term. At the end of your term, your coverage ends unless you choose to convert the policy to a more permanent form of life insurance, like whole life insurance. During your term, a lump sum is paid to the beneficiaries of your policy upon your death.



“Term life insurance offers a generally low premium compared to permanent life insurance options, which makes it a good idea for those who may be looking for life insurance coverage at an affordable rate.”

### TERM LIFE INSURANCE VS. WHOLE LIFE

The **biggest difference between term life insurance** and whole life insurance is that term life insurance only offers coverage for a predetermined period. At the end of the period, your coverage ends unless you convert your policy to a whole life policy. Alternatively, whole life insurance provides permanent coverage throughout your life as long as the premiums are kept current.

While the premium is typically higher for whole life insurance versus term life insurance, your policy will accumulate cash value over time. This cash value can provide an additional safety net while you're living by enabling you to borrow against your accumulated cash value to create a supplemental income for things like long-term care, retirement or keeping a business in your family. You also have the option to **cash out your whole life insurance policy** for its cash value.

Term life insurance doesn't accumulate cash value, but some policies may allow you to use a portion of the death benefit while you're living.

### BENEFITS OF TERM LIFE INSURANCE

Like any insurance policy, term life insurance has pros and cons. Reviewing the benefits of term life insurance can help you determine whether this type of coverage is right for you.

Term life insurance offers a generally low premium compared to permanent life insurance options, which makes it a good idea for those who may be looking for life insurance coverage at an affordable rate, such as **young adults**.

Because the death benefit of term life insurance can be used to help replace your income, pay off your mortgage and pay for your children's college tuition, it can also be a suitable option for young families.

Term life insurance also offers flexibility to grow your coverage with the Farm Bureau **Increasing Term** product, which means this type of coverage can work nicely for **newly married couples** and others who may need greater coverage as their family, income and home grows. Plus, you can generally opt to convert your term policy to whole life insurance, giving you the flexibility to turn your temporary coverage into permanent coverage.

### LIFE INSURANCE RIDERS

Like most types of insurance, you have the option to customize your term life insurance with **life insurance riders**. Riders are optional, additional features that can enhance your coverage. Examples of term life insurance riders include:

- **Waiver of Premium:** An option that waives your premium for a disability lasting longer than 90 days.
- **Living Benefit (available in certain states):** An option that enables you to receive money by using a portion of the policy's death benefit if you're diagnosed with a qualifying terminal illness.
- **Convertibility:** An option that allows you to exchange your term coverage to a permanent life insurance policy without a medical review.
- **Guaranteed Re-entry:** An option that allows you to purchase a new term life insurance policy without a medical review after your coverage term ends.
- **Children's Term Life Insurance:** An option that provides term life insurance for each of your qualifying children from age 7 days to 23 years.

When choosing your term life insurance policy, be sure to check for **exclusions**, which eliminate coverage for certain types of risk. Catastrophes that would likely affect a large number of people, for example, are commonly excluded from coverage.



## Type of Term Life Insurance

There are different **types of term life insurance**. The most common type of term life insurance policy is level term life insurance or, simply, term life insurance. Other types of term life insurance include:

- **Supplemental Term Life Insurance**  
**Supplemental term life insurance** is designed to supplement existing life insurance coverage. Supplemental life insurance is not meant to take the place of a good term life insurance policy or a whole policy, but provides additional coverage should something happen to you. Supplemental life term life insurance can be obtained through an employer or privately.  
Keep in mind supplemental policies often have more limitations than a level term policy. A key advantage of private supplemental life insurance is that it's portable, and you can keep the coverage for as long as you are paying premiums, meaning it does not have term limits.
- **Group Term Life Insurance**  
Group term life insurance is a benefit often offered by employers for their employees. Often, a group term life insurance policy will offer greater coverage and more options than a supplemental plan through your employer, but it's unlikely that a group term life insurance policy would meet all of your needs. Some plans offer the option to purchase additional or permanent coverage with simplified underwriting.
- **Convertible Term Life Insurance**  
A convertible term life insurance policy can be converted by the owner into a permanent, or whole, life insurance policy during a specific period of time without requiring an exam. A convertible term life insurance policy allows you to take advantage of the lower premiums of a term policy now, while having the option to easily convert the policy to a permanent policy at a later date.

# How Much Term Life Insurance Do I Need?

## Determining your policy's coverage

One of the **biggest questions** you may have is, how much life insurance do I need? Since everyone's financial situation is a little different, there's no rule of thumb to tell you how much term life insurance to buy. Instead, one way to figure out how much coverage you need is to think through what you would want the death benefit of your policy to be used for if you were to die.



Consider these factors when determining **how much term life insurance coverage to get**:

- 1. Income:** If you intend for your policy to support your loved ones when you're gone, your policy will need to cover the income you would receive over a number of years.
- 2. Debts:** To reduce the burden you leave behind for your loved ones, your policy should cover your debts.
- 3. Savings:** If you have savings to cover debts, the financial needs of your loved ones and your burial/estate expenses, you may need less coverage.
- 4. Existing coverage:** If you have an employer-sponsored life insurance policy, you may need less coverage.

- 5. Family size:** Your life insurance policy can pay for your children's college tuition, so consider how much it'll cost to send your children to college and whether you'd like your policy to cover that expense.

All things considered, choosing life insurance coverage is difficult — what if your **coverage needs change down the road**? Depending on your policy, term life insurance can offer the flexibility to grow with you as your needs grow with **increasing term life insurance**.

To help you determine how much life insurance coverage you need, try our **life insurance calculator**.



“The No. 1 factor affecting your life insurance cost? Your age.”



### HOW MUCH DOES TERM LIFE INSURANCE COST?

Because term life insurance offers coverage for a specified period of time compared to permanent life insurance options, it's generally the most affordable option for life insurance. However, **various factors** can affect your life insurance premium, including:

1. Age
2. Gender
3. Personal health history, including smoking history
4. Family health history
5. Hobbies & Foreign Travel
6. Occupation

The No. 1 factor affecting your life insurance cost? **Your age.** The older you get, the higher the chances an insurer is going to have to pay out on your policy, causing your premiums to increase. Don't fall victim to the **common misconception** that young, healthy individuals don't need life insurance — not only will you miss out on the benefits of life insurance, you'll also miss out on the opportunity to lock in a lower premium with term life insurance.

Health is another factor that can affect your life insurance premium costs. For term life insurance, you'll likely need to complete a medical exam. Be prepared to answer questions about your health history, as well as provide a blood and urine sample to verify your health status. If you have a pre-existing condition like diabetes, don't let fear of being disqualified prevent you from applying for term life insurance. Often, well-controlled health conditions won't **disqualify you for coverage.**

### HOW DOES TERM LIFE INSURANCE PAYOUT WORK?

Term life insurance benefits are paid to the policy's beneficiaries after the death of the insured. Most **term life insurance payouts** are distributed within 30 to 60 days after the beneficiary files a claim, but a payout can be delayed for various reasons.

When you purchase a term life insurance policy, you decide how your death benefit will be paid. Payout options include:

- Lump sum
- Installments and annuities
- Retained asset account

A lump sum, which is one large payment, is the default payout of most policies, while installments and annuities distribute the proceeds and accumulated interest paid regularly over the life of the beneficiary. Installments and annuities can be a good choice if your goal is to protect your income, but the **interest income is subject to taxes.**

### WHAT HAPPENS TO TERM LIFE INSURANCE AT THE END OF THE TERM?

When you reach the **end of your term**, your term policy will either expire or your premium could increase significantly. If you want to continue coverage after your term ends, one option is to convert your current policy to a permanent life insurance policy.

When you convert your term policy, generally you won't have to go through the underwriting process again, which means you won't need to take a medical exam. While it won't cost you to convert your term policy to a permanent coverage option, you can expect your premium to increase, as permanent life insurance costs are more than term.

If you're not ready to convert your entire term policy, some companies allow partial conversions. This means you take part of your term policy and convert it to a permanent policy, which leaves you with two separate policies: one term and one permanent.

### GET THE RIGHT COVERAGE FOR YOU

Make sure the life insurance policy you choose is the best option for your needs. Your **Farm Bureau agent** can help. Talk to your agent today.



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