By Robert M. Barnes

Commoditization makes quality term life insurance harder to identify

Term insurance is the most popular form of life insurance in the marketplace. Term life, like many items, has been commoditized. To compete on price, some insurers now offer formerly standard benefits à la carte, or they've dropped them entirely. This helps insurers' bottom lines, as fewer benefits usually means lower reserves, lower claims, and higher profits.

When a product is commoditized, everyone thinks the lowest price is the only thing that matters. This is not true. Understanding the details of a term policy's features and benefits can make a big difference to your clients. As an advisor, you can help your clients by pointing out these details.

If you understand that a client's needs change over time, then it makes sense to ensure your client purchases quality term coverage that allows for flexibility in the future.

Today, a life insurance death benefit can also be your clients' long-term care insurance pool, with the right kind of accelerated benefit rider. This new benefit dramatically changes previous thinking and increases the value of having some life insurance as the holder ages.

What makes a quality term product?

A quality term product is flexible and allows future adjustments and options to the policy. This could include the ability to reduce the death benefit, carry coverage longer than initially expected, or have the right to convert to permanent insurance.

A quality term policy will generally allow convertibility for the full length of the term, with a cap—most often at age 70. Today, some companies require clients to add a conversion extension rider to be able to convert for the full duration.

The options for conversion vary. The most client-friendly conversion option allows individuals to convert to any permanent product the company sells at the time of conversion (Company 1 in Exhibit 1). Some policies limit the options available for conversion (Company 2), or they provide a special "conversion-only" policy (Company 3), which is usually more costly than other options they sell because of higher mortality costs built into it.

Begin with the end in mind

When thinking about a client's long-term insurance needs, plan flexibility and conversion options are important to consider in case things don't go as planned. Here are some important questions:

- What happens at the end of the lock-in period? Does the coverage end or reduce, or will the price increase?
- What are your clients' options if they want coverage for a longer duration than initially intended?
- Does the plan allow clients to extend coverage by converting it? If so, for how long?
- If it allows conversion, what are the options, and how good are they?
- Does the plan allow clients to reduce the death benefit at some point? If not, perhaps the clients should do what's known as "layering." Clients can buy two separate policies with different death benefits, and then drop one of them later.

Exhibit 1. Pricing for $1 million death benefit

	Company 1	Company 2*	Company 3
20-year term price at age 40	$795	$675	$680
Convert to permanent at age 60	$13,684	$14,014	$19,287

*Permanent premium is not guaranteed.

- Can additional riders and features be added to make the term policy a better protection vehicle?

Term insurance is not as simple as some think, and it is certainly not all the same. Solutions exist to meet changing needs. For example, some term policies offer living benefits, and one new entrant to the field guarantees future insurability for a defined-benefit chronic illness rider. A rider like this can be of tremendous value when "what if" turns into "what now."

As with all comprehensive financial plans, you build a client's plan and adjust as circumstances dictate. You try to build in "what if" thinking because things don't always work as planned. If you believe this applies to insurance protection, then you may want your clients to have some quality term insurance in their portfolio. Yes, it may cost a little more up front, but many of us have learned that "cheap" can cost us more in the long run.

Process matters

As in other parts of financial planning, acquiring life insurance protection begins with a good process. It should start with a thorough prescreen of the client's health. It should also address "what if" situations, such as:

- What if you could add benefits that could protect you if certain events, such as critical or chronic illness, happen?
- Might you decide you want to carry your coverage longer than originally intended?
- What if you leave your employer, and the bulk of your coverage is not portable?
- What if your health deteriorates?
- Will you want to reduce the death benefit later?

Do your homework and secure a quality insurance partner that can works for your clients. Consider that at least some of your clients may benefit from diversifying their term portfolio by adding some quality "what if" options for their future.

What else should you know?

Advisors need to consider the quality of the insurance company. What is its background and reputation? Is life insurance a focus or a sideline for the company?

Term insurance needs to be reviewed regularly as part of an overall life insurance protection plan. Older policies might be upgraded to more current policies with additional benefits, better flexibility, or a longer duration. Tracking term for conversion expiration or price change dates is important.

There are a lot of places to shop for term insurance, including some recent "no agent" or "no commission" options. Don't be misled that "no agent" means no commission, or that "no commission" means better value or rates for your client. Help them make an informed choice.

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The need for life insurance later in life: theory versus reality

Theory: Clients will have a pile of money at retirement and won't need life insurance.
Reality: Older clients purchase life insurance for many reasons, including protecting their retirement or family business, or simply passing on an estate.

Theory: Clients don't need life insurance after the kids grow up.
Reality: People get divorced, and life insurance can be an efficient way to help divide the assets for mixed families.

Theory: If clients need coverage longer than originally anticipated, they can just buy more.
Reality: Good health is needed to qualify for life insurance. Health inevitably declines, making insurance harder to buy at older ages.

Theory: Permanent insurance is a bad investment, and clients should save their money instead.
Reality: Clients will rarely know if they have out-invested life insurance until it's too late.