

Now is the Time to Pick Up Low-cost Life Insurance

If you need life insurance, now may be the time to buy it. Insurance premiums are expected to drop 4 percent this year, following a 5 percent decline last year, according to the Insurance Information Institute, New York. In fact, premiums are less than half of what they were a decade ago.

There are two basic types of life insurance policies that have lowered their premiums: terms and permanent.

Term insurance is basic coverage. You pay a premium and just get life insurance for a specific period, typically from 1 to 20 years. Upon the renewal of a term insurance policy, though, you'll pay a higher premium because you're older.

Permanent insurance, on the other hand, provides both insurance coverage and a savings account, known as the "cash value." Cash value policies include whole life, universal life, variable whole life, and variable universal life. Cash value insurance is permanent protection. You lock into a premium when you purchase the contract. Universal policies let you make flexible premium payments.

Why are life insurance rates dropping? People are living longer. The longer you live, the lower your insurance premiums. Life insurance rates are dropping because death rates for the 25 to 44 age group—the primary purchasers of life insurance—have decreased significantly over the past 10 years, according to Weisbart. In 1996, the death rate per 100,000 for the 25-to-44 year-old age group was 177.8. By 2004, it had dropped to 161.8, based on National Vital Statistics Reports preliminary data. That represents nearly a 10 percent drop in the death rate in less than a decade for the prime insurance-buying ages.

The drop in insurance rates can represent a substantial savings. The annual premium for a 40-year-old male nonsmoker buying a \$500,000, 20-year level term life insurance policy in 2007 would run \$615 if he qualifies as a "standard" risk and \$340 if he meets the more stringent requirements of a "preferred" risk. Rates for women, younger people and for larger amounts of insurance would be lower.

Premium rates for traditional whole life, universal life, and variable universal life insurance also are lower. Today, someone age 35 would pay about \$8 per \$1,000 of coverage for permanent protection. Ten years ago it was more like \$12 per \$1,000 of coverage.

With rates lower than they ever have been, parents might reassess the amount of life insurance they carry, and consider purchasing more. For example, it takes, calculated in the most simplistic of ways, a \$500,000 death benefit to pay a widow \$2,500 a month for 17 years. Yet, in 2004, according to LIMRA International, Hartford, Conn., the average 25 year-old to 34 year-old adult with life insurance had only \$145,000; the average 35 to 44 year-old adult had only \$323,000 of life insurance.

So what should you do if you're sitting on a higher rate term insurance or cash value policy? Have an experienced life insurance agent conduct an insurance needs analysis to determine how much coverage you need. On average, you need about five to eight times your wages to be adequately protected.

Most life insurance companies charge lower rates for larger amounts of insurance. So buying one larger policy rather than keeping a smaller one and starting a second policy should further lower your premium. Rates often drop at the \$250,000, \$500,000, and \$1 million levels. Do note on the application that you plan to replace an existing policy. And, don't drop the existing policy until the new one is in place.

The drawbacks: If your age, occupation or health has changed, you may not be able to get lower premiums from another insurer. You can check term insurance rates at Web sites such as www.accuquote.com or www.selectquote.com.

There are more factors to consider when switching a whole life, universal or universal variable insurance policy. In addition, consider:

- Although you can do a 1035 tax-free exchange to move the cash value from your old policy to a new policy, you'll pay commissions and other insurance costs on the new policy. This can mean more than 50 percent of your premium in the first year and other commissions on the cash value that is moved to the new company.
- If the total of all prior premiums is less than the cash value in the policy you are replacing, you will owe income taxes on the difference. A 1035 tax-free exchange should be considered in this situation.
- Usually, if a cash value policy has been in force for 7 to 10 years, with a quality carrier and you are not changing the type of underlying investment from a fixed portfolio to a variable portfolio, it is unwise to make a change.
- Life insurance policies are incontestable after they have been in force for two years regardless of any errors or misstatements on the initial application. Replacing an existing policy with a new policy will start the incontestability period over again.
- Any policy loans on your old policy will have to be repaid.

Tip: Always check the financial strength of the insurance company you are considering. The strongest companies are rated A++ and A+ by A.M. Best and AAA by Standard & Poor's.