How to Choose the Right Type of Life Insurance

Choosing the right type of life insurance can be confusing, but it's also an important decision. Here are some guidelines that can help you narrow down your best life insurance options.

You should consider **term** life insurance if:

- You need life insurance for a specific period of time. Term life insurance enables you to match the length of the term policy to the length of the need. For example, if you have young children and want to ensure that there will be funds to pay for their college education, you might buy 20-year term life insurance. Or if you want the insurance to repay a debt that will be paid off in a specified time period, buy a term policy for that period.
- You need a large amount of life insurance, but have a limited budget. In general, this type of insurance pays only if you die during the term of the policy, so the rate per thousand of death benefit is lower than for permanent forms of life insurance. If you are still alive at the end of the term, coverage stops unless the policy is renewed or a new one bought. Unlike permanent insurance, you will not typically build equity in the form of cash savings.

If you think your financial needs may change, you may also want to look into "convertible" term policies. These allow you to convert to permanent insurance without a medical examination in exchange for higher premiums.

Keep in mind that premiums are lowest when you are young and increase upon renewal as you age. Some term insurance policies can be renewed when the policy ends, but the premium will generally increase. Some policies require a medical examination at renewal to qualify for the lowest rates.

You should consider **permanent** life insurance if:

- You need life insurance for as long as you live. A permanent policy pays a death benefit whether you die tomorrow or live to be over 100.
- You want to accumulate a savings element that will grow on a tax-deferred basis and could be a source of borrowed funds for a variety of purposes. The savings element can be used to pay premiums to keep the life insurance in force if you can't pay them otherwise, or it can be used for any other purpose you choose. You can borrow these funds even if your credit is shaky. The death benefit is collateral for the loan, and if you die before it's repaid, the insurance company collects what is due the company before determining what's goes to your beneficiary.

Keep in mind that premiums for permanent policies are generally higher than for term insurance. However, the premium in a permanent policy remains the same no matter how old you are, while term can go up substantially every time you renew it.

There are a number of different types of permanent insurance policies, such as whole (ordinary) life, universal life, variable life, and variable/universal life. For more details, see our articles on the specific types of policies.