

## What is Term Plan?

Term life insurance or term assurance is insurance which provides coverage at a fixed rate of payments for a limited period of time during the relevant term. After that period expires, the coverage at the previous rate of premiums is no longer guaranteed and the client may either forgo coverage or potentially obtain further coverage with different payments and/or conditions. If the insured dies during the term, the death benefit will be paid to the beneficiary. Term insurance is the least expensive way to purchase a substantial death benefit on a coverage amount per premium dollar basis.

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Term life insurance is the original form of life insurance and can be contrasted to permanent life insurance such as whole life, universal life, and variable universal life, which guarantee coverage at fixed premiums for the lifetime of the covered individual. Term insurance is not generally used for estate planning needs or charitable giving strategies but for pure income replacement needs for an individual. Many permanent life insurance products also build a predetermined cash value over the life of the contract, available for later withdrawal by the client under specific conditions. However, on most cash value policies like Whole Life insurance, the only way to receive the cash value is to cash out the policy. The beneficiaries receive the face value of the insurance but NEVER the cash value with Whole Life policies. Financial advisers generally advise buying term life insurance and investing the difference elsewhere to those who still qualify to contribute to other tax-deferred investment growth such as IRA's or 401k's.

Term insurance functions in a manner similar to most other types of insurance in that it satisfies claims against what is insured if the premiums are up to date and the contract has not expired, and does not expect a return of Premium dollars if no claims are filed. As an example, auto insurance will satisfy claims against the insured in the event of an accident and a home owner policy will satisfy claims against the home if it is damaged or destroyed by, for example, a fire. Whether or not these events will occur is uncertain, and if the policy holder discontinues coverage because he has sold the insured car or home the insurance company will not refund the premium. This is purely risk protection.