https://www.unionleader.com/news/business/money_sense/marc-a-heberts-money-ense-return-of-premium-life-insurance-policies/article_3963b72f-e092-58b1-ad12-7f5f32fb389e.html

Marc A. Hebert's 'Money $ense': Return of premium life insurance policies

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PERHAPS you have evaluated your finances and determined it would be wise to purchase term life insurance. This may be because you need the coverage for only a specified length of time.

If you should die at any time during this period and have faithfully paid the premiums due, your beneficiary will received the face amount of the policy.

This is called the death benefit, and it is guaranteed to be paid if you have met the requirements of the policy.

A term policy does not build any cash value. If the term of coverage ends and you die the very next day, your beneficiary receives nothing. If you failed to pay the premiums, your beneficiary receives nothing.

Obtaining such a policy may seem like such a waste — you pay all of the premiums, and there may never be a payout. This is probably a very good thing since it means that you are still alive!

Still, it seems like an inefficient use of money. You might ask if there is a policy that will pay you at least some of those premiums back.

There is indeed such a policy. It is still term insurance, but it includes a return of premium provision. Under the policy provisions, you will receive some of your premiums back at the end of the term.

Assuming there isn't a death claim, it is a kind of forced savings vehicle.

There are some things to consider before you purchase this type of policy. Here are a few:

Determine if the policy will pay back any of your premium if you cancel the policy before the term ends. Or, does the policy pay back premiums only at the end of the term? What will the policy pay in different situations?

What is the cost of having this provision included? It could be significantly higher than buying a straight term insurance policy. The cost will depend on a number of factors such as age, issuer, death benefit, and term.

Consider whether or not you can afford to pay the higher premium over the entire term of the policy.

It is wise to quote a straight term insurance policy versus term insurance with a return of premium provision to compare the difference in cost. Does it make more sense to invest the difference in premium or pay more for an insurance policy with the return of premium feature? By purchasing this type of insurance, you could be losing out on years of compound earnings you might have received by investing the difference.

Are there any tax effects? What happens when you receive your premiums back at the end of the term? Your tax adviser or a certified financial planner can fill you in on these details.

Usually, a return of premium has no tax effects but it is best to check this information.

Is there a chance you might need the insurance for longer than the term you are considering? In this case, you might want to consider a permanent insurance policy.

As long as you pay the needed premiums for the permanent policy, you will have coverage. If you wait to purchase this coverage until you are older, you might be uninsurable, putting the chance of obtaining further coverage out of the question.

Permanent insurance may be a more expensive option but if you need coverage it might be the better choice.

It pays to discuss your choices with a certified financial planner or an insurance professional familiar with your unique situation. A professional will be able to provide you the cost and benefits of various types of insurance and which one is right for you.

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