LIFE INSURANCE BEFORE AGE 40

BY DOMINIC LUCENTE

Millennials have good reasons to obtain coverage now.

Do you plan to buy life insurance before you turn 40?

Maybe you should. You may save money in the long run by doing so. At first thought, the idea of purchasing a life insurance policy in your thirties may seem silly. After all, young adults are now marrying and starting families later in life than past generations did, and you and your peers are likely in excellent health with a good chance of living past 80.

In fact, LIMRA – a life insurance research and advocacy group – recently surveyed millennials and found that 30% thought saving for a vacation mattered more than buying life insurance coverage. The perception seems to be that insurance is something to purchase when you start a family or when you hit your forties or fifties.[1]

Getting a policy before you marry or start a family may be a great idea. The reasons for doing so might be compelling.

Your premiums will be lower. The older you become, the more expensive life insurance becomes. Data compiled last summer by Life Happens, a non-profit life insurance education effort, confirms this.

Life Happens asked several prominent U.S. insurers to supply their preferred premium rates for healthy non-smokers aged 25, 35, 45, and 55 buying a $250,000 whole life policy (the kind designed to build cash value with time). The average preferred premium rates for 25-, 35-, and 45-year-olds fitting this description were:

25-year-old male: annual premium of **$1,987**
35-year-old male: annual premium of **$2,964**
45-year-old male: annual premium of **$4,747**

25-year-old female: annual premium of **$1,745**
35-year-old female: annual premium of **$2,531**
45-year-old female: annual premium of **$3,947**

The numbers starkly express the truth – whole life insurance premiums more than double between age 25 and age 45.[2]

Premiums on term life policies are even lower. Term life insurance is essentially coverage that you "rent" for 10, 20, or 30 years – it cannot build any cash value, but in some cases, a term policy can be adapted or exchanged for a whole life policy when the term of coverage ends.

If you are young, term coverage is remarkably cheap. NerdWallet recently researched term life premiums for healthy 30-year-olds. It found the following sample rates for 20- and 30-year term policies valued at $250,000:

30-year-old male: annual premium of **$156** for a 20-year term policy, **$240** for a 30-year term policy
30-year-old female: annual premium of **$141** for a 20-year term policy, **$206** for a 30-year term policy

The downside of term coverage is that you are "renting" the insurance. Just as you cannot build home equity by renting a house, you cannot build cash value by "renting" a policy.[3]

A whole life policy may become quite valuable. As Life Happens notes, the average such policy bought at 25, 35, or 45 may have a guaranteed cash value of anywhere from $100,000-200,000 when the policyholder turns 65, assuming the policy is kept in force and no loans are taken from it. Universal life policies permit tax-deferred growth of the cash value.[1]

Make no mistake, a whole life policy is a lifelong commitment. It must be funded every year or it will lapse. That should not scare you away from the value and utility of these policies – the cash inside the policy can often be borrowed or withdrawn. Sometimes families use cash value to fund college educations or help with medical expenses or retirement. Such withdrawals can lessen the death benefit of the policy, but what is left is often adequate. Cash withdrawals from a whole life policy are usually exempt from taxes, just like the death benefit.[1]

Maybe this is the time to put time on your side. Age-wise, life insurance will never be cheaper than it is for you today. Getting coverage now – even if you are single – may be a money-smart move as well as a great life decision.

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Citations.
1 - cnbc.com/2016/10/17/think-about-life-insurance-sooner-rather-than-later.html [10/17/16]
2 - lifehappens.org/product-selector/comparing-the-cost-permanent-and-term-life-insurance/ [1/26/17]
3 - nerdwallet.com/life-insurance#basic [1/26/17]