

RETURN OF PREMIUM TERM

Case Study Series



Client profile:

Mary is 41. She and her husband, Steve, have two children, 5 and 8.

The situation:

An agent working with Mary and Steve on their home and auto policy renewals asked about their life insurance needs. The couple explained that Steve had purchased coverage on his own life a few years prior, but they needed a policy for Mary. They estimated she would need coverage for 20 years, until their mortgage and other debt would likely be paid off and their children would be through college and on their own. After a brief conversation with the agent, they agreed on a coverage amount of \$500,000.

The problem:

While discussing options, the agent asked Mary and Steve what they would need in year 21, after the initial term ended. They said they hoped their investments would have grown to the point of not needing coverage, but they could not be sure.

The solutions presented:

Based on a brief health assessment, the agent presented Mary and Steve with two options using the preferred underwriting class:

- A \$500,000 20-year term policy for \$41.36 per month
- A \$500,000 20-year return of premium term policy for \$137.72 per month

The decision:

Mary and Steve ultimately chose the 20-year return of premium term due to the options it offered them at the end of the 20-year period:

- If they no longer needed coverage, they could accept a refund of all base premiums paid, totaling \$33,052.
- If they still needed coverage but did not want to pay any further premiums, they could accept a reduced paid-up policy worth \$100,500 that would last until age 99.
- If they needed more than \$100,500 worth of coverage, they could convert to a permanent policy without proving insurability and put the \$33,052 toward the new policy.

The takeaways:

Mary and Steve knew they wanted a 20-year term length and \$500,000 worth of coverage. The agent asked the questions necessary to explore the couple's needs after 20 years. In doing so, he allowed his clients to realize the possibility they would need coverage for longer than currently anticipated, thus crafting the perfect coverage for Mary.



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