How to Make Term Life Insurance Do More

by Kenneth A. Shapiro, as seen in ThinkAdvisor

Most consumers think of term life when buying life insurance.

"Why not?" they say. "It's a commodity like auto insurance or socks." Find the lowest price, push the "Buy Now" button, and you're done. Easy. Consumers are not alone, life insurance agents often think the same way. That's not good. Both lose when that happens. By using more creative approaches that capture a client's interest and imagination, advisors can deliver what clients want at a lower cost. Here are five sales concepts that work:

1. Take away the tables on term life.

Let's say you have gathered the facts and determined that your client would be best served by purchasing a universal life policy. At the same time, the client made it clear that price is important. In such a situation, it's tempting to suggest a term life program instead. But wait. What if you could obtain underwriting concessions on a UL program that mimic term life? Why wouldn't that be attractive to a client?

You can meet or get near the term price with a permanent program. Insurance companies can be competitive if they want a certain type of business by offering credits (discounts) and table shaving (unhealthy applicants given healthy applicant rates). With this strategy, you can improve a UL offer, that's attractive to a client.

2. Go from a 20-year term policy to a UL policy and save money.

That may come as a surprise, but it's true. You can reduce the payment period and, at the same time, give a client UL protection.

Here's an example of how it works. The annual premium for a 20-year term policy is $10,000, for a total of $200,000. At the same time, the annual premium for a UL policy for the same face amount is *$13,000 for 13 years*, a total of $169,000. This approach shortens the payment duration — *with a total savings of $31,000*. But that's not all. In this situation, clients have the flexibility of knowing that should they have health issues in the future, they are "pre-qualified" for continued coverage.

Even though this approach increases the annual outlay, it shortens the number of payments, has built-in flexibility, and best of all, a lower net cost.

3. Initiate a five-year review plan for a 20-year term life sale.

Some clients know what they want and will walk if you don't give it to them. For others, a 20-year term policy is a right fit. But unlike so many other agents, you don't stop when the policy is delivered. You're thinking ahead and see the sale as a future opportunity.

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It's your "five-year plan." And it goes like this: First, you plan to stay in contact with the client at least once a year. Then, after the fifth year, you present the client with a proposal for a new 20-year term policy that costs a little more, but you chose 20 years rather than 15 years since you know the person is comfortable with it.

4. Use term life for buy-sell agreements.

When going into business with one or more partners, drawing up a buy-sell agreement is routine. But more often than not, that's where it stops. Most such agreements go unfunded. Those involved know what they should do, but they're busy, and never get around to it.

Unfortunately, their inaction puts their hard work and success at risk. For example, two partners own a business that is currently valued at $15 million. They have a buy-sell agreement, but it's unfunded. Unexpectedly, one dies, and the other is faced with a $7.5 million obligation to the deceased partner's family, but no way to pay it, other than selling the company.

To avoid this, one workable solution is a term life policy. Because it's low-cost, a business can afford to purchase it when the buy-sell agreement is signed. If there's a question as to what happens in 10, 20 or 30 years when a policy expires, it can be overcome by purchasing a policy with an option for converting it into a permanent life policy with no proof of insurability needed.

5. Use a ladder approach and pay only for what's needed.

This is a term life strategy with a twist that appeals especially to Millennials who are moving up in their careers, establishing a family — and thinking about buying life insurance. They know what they want: term life insurance.

Your client needs life insurance to replace income, pay-off the mortgage, and fund college costs, about $3 million. In such a situation, some advisors would recommend a 20-year term life policy, at an annual cost of $3,800 or a total of $76,000.

But you suggest a ladder strategy that your client, a 45-year old male non-smoker, purchase three $1 million term policies, a 10-year for the mortgage, 15-year for education expenses, and a 20-year to replace income. The total cost: $67,000, a $13,000 savings.

It's easy to think of term life as a commodity, the go-to product for a default sale. That's unfortunate since term life can be a creative tool, one that, when used properly, can help solve significant problems at an affordable price.

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