



# How to save money on life insurance

## Buying the wrong benefits for a low premium does not add up to savings

### Life Insurance

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#### IN THIS ARTICLE

- Before you buy
  - When you're ready to buy
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There are ways to save money when buying life insurance, but they don't always entail paying a lower

premium immediately. As your top priority, look for a policy that meets your needs. Buying the wrong benefits for a low premium is a waste, not a saving. Beyond that, here are some ways to maximize your life insurance dollars.Â

## Before you buy

Once youâ€™ve determined what type of life insurance product to buy:

1. **Focus on financially sound companies.** Dozens of companies sell life insurance. Limit yourself to companies with high ratings from two or more independent rating agencies. A low premium from a shaky company isnâ€™t a good buy. See [How do I choose a life insurance company?](#) for more details.
2. **Shop around to get a sense of the premium youâ€™re likely to pay.** Quote services on the Internet may serve this purpose, or you can ask an agent or broker to get you a premium estimate. As part of this research, determine which rate class youâ€™ll fit into. Most companies that sell individual life insurance have several different price classesâ€”usually called â€œpreferred (non-tobacco),â€• â€œstandard (non-tobacco),â€• â€œpreferred (tobacco),â€• and â€œstandard (tobacco).â€• A small percentage of people have health conditions or histories that disqualify them for even â€œstandardâ€• rates. Many in this group will be offered insurance at â€œimpaired riskâ€• or â€œnonstandardâ€• rates.
3. **Look into group insurance.** Consider participating in your employer-sponsored life insurance program, even if you have to contribute to it financially. Employers often subsidize their group insurance costs, so it can be less expensive than individual life insurance. You might obtain coverage up to a certain level without providing evidence of good health, an advantage for some people. Youâ€™ll probably pay premiums through payroll deduction, which can be a nice convenience. However, make sure to compare group and individual rates, as depending on your age and health status, group insurance may or may not provide a savings. In comparing group to individual life insurance, remember that if you have over \$50,000 of group life insurance, IRS tables determine how much it costs to provide the amount over \$50,000 and charges you taxable income for that cost.
4. **Take care of yourself.** Find out into which rate class youâ€™ll be grouped and, if necessary, consider making some lifestyle changesâ€”donâ€™t smoke, maintain a healthy weight and exercise regularlyâ€”to qualify for a more favorable rate class.

## When you're ready to buy

1. **Shop around to get a good rate.** Life insurance is a very competitive business, and youâ€™ll find differences of hundreds of dollars (for annual premiums) even among financially strong companies for essentially the same policy.
2. **Consider the net cost index.** How can you compare two policies, one with premiums that start lower than the other but later are higher than the other? Or one with low premiums and a low cash value, the other with higher premiums and a higher cash value? Use a net cost indexâ€”a standard method for collapsing these variables into one number. The lower the number, the better, but ignore small differences (since the indexes are approximations based on assumptions, small differences might not signal true differences in values). The agent or broker with whom youâ€™re dealing, or the company from which youâ€™re considering buying a policy, will provide these index numbers.
3. **Be aware of premium discounts for particular amounts of insurance.** Most companies offer rate discounts for specified insurance amounts. For example, you might actually pay a smaller premium for \$250,000 of life insurance than for \$200,000, or for \$500,000 of life insurance than for \$450,000, because a discount â€œkicks inâ€• at the higher insurance amount.
4. **Beware of â€œfractional premiumsâ€•** Typically, you can pay your life insurance premium once a year, once every half-year, once a quarter, or once a month. Although paying quarterly or monthly might seem to be easier to fit into your budget, some companies levy high charges for paying premiums frequently. Others levy quite small charges to do this. If a company levies high charges for paying more frequently, try budgeting so that you can pay your premium only once or twice a year.

5. **If you're buying a term policy, look for renewal guarantees.** A renewal guarantee gives you the right to start a new term after the current one ends, paying a higher premium based on your current age, but without requiring you to undergo a new health exam or submit any other evidence of insurability. Without the guarantee, you'd have to shop for life insurance all over again, and if your health has deteriorated, you might have to pay much more or not get it at all.

[Back to top](#)