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Voices Is your association term insurance really a good deal?

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As a young accountant or professional who is a member of an association, you may well have been offered the opportunity to purchase inexpensive term insurance through that association. You get all the benefits of easy enrollment, with no lengthy forms or medical questions to complete, nor do you even have to pay a bill, as everything is done electronically through your payroll department. Then, to top it all off, you receive a dividend or refund check, making the price even lower. You're convinced association term life insurance is the best and only way you should ever buy term insurance for your family. The only problem is those automatic five-year increases become very expensive once you hit age 40.

Let's take a closer look and see what actually happened. In the early years, you didn't feel each of the five-year incremental increases because they were very small. The dividend refunds during the first 20 years (ages 25 to 45) are in the 40 to 45 percent range, and the member is made to feel association term life insurance is inexpensive and the best deal possible because, for the first 20 years, several life insurance agents had unsuccessfully tried to compete for your business with a lower price, but couldn't because the association rates were extremely inexpensive.

However, once you hit age 45, your cost for the same $1 million of coverage over the last five years triples. Once that same individual hits age 50, the cost almost doubles, and increases 90 percent at age 55. The costs then continue to increase by approximately 90 percent every five years up until age 75, at which point the coverage gets cut by 50 percent.

Those dividends that reduced the premium by 46 percent at ages 20 to 40, and were thought to continue throughout the life of the policy, have now been reduced to 36 percent from ages 40 to 50, 20 percent from ages 50 to 60, and down to 10 percent from ages 60 to 80.

A significantly better strategy, if you intend to keep the coverage beyond a 10-year period, would be to lock in the premium for a 20-, 25- or 30-year period, which would result in a significantly less expensive cumulative premium. Not only would the cost be less, but the death benefit would not be cut in half at age 75.

Another significant drawback with association insurance is that, if the member needs to convert to a permanent policy due to ill health, there is often only one single option that can be extremely overpriced, because they know you're trapped. In contrast, a private term product would provide an array of more competitive products to choose from. For example, let's say a 64-year-old policyholder became ill and couldn't get coverage elsewhere, and would like to continue their coverage beyond age 75. The cost to convert their $1 million policy to the association's conversion product is $44,000. Had they initially purchased a non–association private term product, the cost to convert $1 million of coverage would have been $16,000.

Keep in mind that although the association makes it easy, with convenient automatic payroll deductions and no medical exams, it is simply not worth the additional cost if you plan to keep your coverage beyond age 50. If you are relatively healthy and choose an association term product, you are unintentionally subsidizing those individuals who have a health issue and are unable to qualify for a standard rating on their own.

Association term insurance is a wonderful product if you're under age 40 and especially if you're unable to qualify for life insurance coverage on your own. However, if you're over age 40, in good health and would like to continue your life insurance coverage into your 60s, 70s and beyond, then it would be less expensive to lock in a non-association 20- or 30-year premium, as it will have a cumulative lower net cost and, if desired, better conversion options . Every type of life insurance policy, even term insurance, should be periodically re-evaluated to determine if what you have can be improved upon with whatever else may be available in the marketplace today. Sometimes the answer to requiring additional coverage may simply be to rearrange what you already have.

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