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Return of Premium Term Life

Purchase "Free" Term Life Insurance with a Return of Premium Rider

The vast majority of clients under the age of 60 have purchased term life insurance at one time or another. Usually, clients purchase 10-30 year level term insurance (where the premium is constant for up to 30 years) because it is the most inexpensive way to fund a death benefit without increasing costs for a specific period of time.

While most clients purchase level term life insurance, they also despise the concept of term life because they believe death will not occur during the term of coverage. Therefore, the premium at the end of the period was a total waste (although the policy holder did have peace of mind while insured).

Insurance companies love to sell term life. Depending on the statistics, as a ballpark number, 93% of all clients who buy term insurance do not die during the coverage period. That means, if you purchased term life insurance, you have a 93% chance that the premiums will be a waste of your money (and you are hoping for that because the alternative is that you are dead).

A few select companies have come out with Return of Premium Term Life Insurance (ROPT). ROPT is very simple to understand. You pay a premium that is marginally higher than the normal level term life costs and if you do not die, you get the premium returned to you in full.

The rub is that you do not get investment growth on the difference in premium paid. However, you do get returned to you the term premium you would have paid and never seen again in the event you did not die.

Let's look at an **example**:

Assume Dr. John Smith is age 38, has two children, and a wife. Dr. Smith's total assets are less than $1,000,000; and he wants to make sure that, if he were to die in the next 20-30 years, his spouse and children would be taken care of. By "taken care of" we mean that the house payment and bills would be paid, the children would be able to go to college, have nice clothes, drive nice cars, and the spouse would not have to go to work in order to provide for the children and herself. Dr. Smith would normally buy 20-30 year level term to take care of those needs until he found out about the ROPT.

	Term Life Life Cost	Return of Premium Term Life Cost
30 Year Level Term Life	$2,400 (per year)	$3,940 (per year)
Total cost for 30 years	$72,000	$118,200
Premium Difference	($46,200) over 30 years ($1,540) per year	

Interpreting the numbers:

The amount of premium paid per year was $1,540 more with the ROPT. Automatically, most clients will resort to their default position when it comes to spending money—that position being, always opt for the less expensive product when it comes to insurance and invest the difference in the stock market.

If Dr. Smith invested the difference in premium, $1,540 per year, in the stock market each year for the 30-year period, Dr. Smith would have in a brokerage account approximately $88,255 after tax (capital gains and dividend taxes) assuming a 6% annual investment return.

Dr. Smith via his ROPT will receive a guaranteed return of premium of $118,200 income tax free.

The difference between the amount in Dr. Smith's brokerage account ($88,255) and ROPT ($118,200) = $29,945.

(Remember that while Dr. Smith is investing the difference in premium ($1,540) each year, he still had to pay his traditional level term life premiums of $2,400 each year for 30 years. When you add the $2,400 traditional level term costs with the amount invested in the above example ($1,540) you get the annual ROPT premium of $3,940).

Final numbers: Dr. Smith would have to earn in excess of 6% pre-tax in the stock market with the difference in premium ($1,540) in order to have more money than he would receive with his ROPT. And Dr. Smith has NO guarantee that his money in the stock market will not earn less than 6% or even negative returns (as we have seen in 2000-2003).

Conclusion on ROPT

If you despise paying your term life insurance premiums due to the fact that there is a 93% chance you will not die and therefore the premium was a waste of money, then you should consider ROPT. With ROPT, you are getting **free death benefit** coverage due to the fact that you will receive every dollar paid in premium back via the Return of Premium Rider. This will allow you to avoid the feeling we all get when we cut a check for term life insurance. That feeling being that we could make better use of the money by making a bond fire with it and roasting marshmallows (assuming we ended up being in the 93% category of people who did not die during the term period).

If you would like help determining if using a ROPT policy can save you money over your current term life policy, please feel free to contact our firm.