

Tips for First-Time Life Insurance Buyers

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Key takeaways

- There are two main types of life insurance policies: term and permanent.
- Knowing how you want to use life insurance can help determine what to get, and when.
- Consider how long you want coverage, the amount you need and your budget when shopping.

At its most basic level, life insurance provides financial peace of mind: If you pass away, you know your loved ones will have money to help cover their living expenses.

But life insurance can do much more. For instance, it can help your children or grandchildren pay for college, allow you to leave a meaningful legacy—to your loved ones or to charitable causes—supplement your retirement savings, and more.



If you're a first-time life buyer—no matter why you're considering a policy—know that it isn't a difficult process. You will, however, need to make some decisions before looking. Consider these tips as you [begin your search](#).

What to know when buying life insurance

Don't get overwhelmed when looking at life insurance. You need to weigh many factors, including how much coverage you need, how much you can afford, and whether it's the right time to buy. To avoid analysis paralysis, take it a step at a time.

- **How much do you need?**

If you're thinking, "How much life insurance do I need?" lay out a list of expenses your family would have to cover if your income weren't there. (If you're a caregiver, there's a financial value in that too.) That may include housing, transportation, food, education, health care, clothing, utilities, child care and other daily expenses. Include your potential funeral costs as well. Also think about *how long* your family would need the money in your absence. If you have younger children, for example, you'll likely need to cover more expenses for more time.

Also, if you can get life insurance through an employer or organization at a lower group rate, you may be able to meet your needs by buying less coverage on your own. (Just note that you might lose employer-sponsored insurance—or have to pay more for it—if you leave your job.)

- **How much can you afford?**

Life insurance costs can vary widely based on the policy type, the size of the death benefit (the "face value" on the policy that's paid to your beneficiaries if you die), length of coverage, and your age and health. Evaluate your budget by looking at your monthly expenses and determining how much you can afford to allocate to insurance.

If money is tight, consider cheaper options, such as term life insurance. The most common—and generally least expensive—type of life insurance, term covers a specific time frame, typically 20 or 30 years. You usually don't keep the coverage beyond the term, though you may be able to extend it at a higher cost.

- **When should you buy**

People often think about life insurance when a life event occurs—maybe you get married, have a child or buy a house. You may also want to consider simply buying life insurance when you're younger, like in your 20s and 30s, when it will cost less.

Pick a policy that makes sense for you

In your search, you'll have to weigh term vs. permanent life insurance. Term insurance is temporary—it protects your loved ones for a certain number of years. Permanent insurance can last as long as you want (and continue to pay for) coverage, and it can include an investment-type feature that builds a "cash value." You can access the cash value via a loan or withdrawal while you're alive, or, in some cases, use it to pay for your premiums.

Permanent insurance usually costs more than term and comes in different flavors that offer different levels of flexibility and benefits. People often use permanent insurance to build funds for retirement, help care for a family member or leave a legacy. Some opt for a combination of both kinds of policies.

What to look for in a policy

When shopping for life insurance, there are several things to keep in mind:

- **Premiums.** This is the amount you pay for the plan, usually in monthly, semiannual or annual payments. Premiums can vary widely depending on the type of policy, what's covered, the length of coverage and, of course, your age and health when you buy.
- **Cash value.** Found within permanent policies, it's the amount you can withdraw or borrow from while you're still alive. When you shop, review how much of your premium would go toward the cash value portion of the policy.
- **Riders.** Usually for an additional cost, these extras provide supplemental coverage, like an “accelerated death benefit” you can tap before you die, or use toward expenses associated with long-term care.
- **Exclusions.** Make sure to read about any policy exclusions—things it *doesn't* cover. In some cases, this could negate your reason for buying a certain policy.
- **Insurance company rating.** You want an insurer to be around long after you are. Check the company's ratings for financial strength, which will give you a sense of how likely it is that your policy will be there if your family needs it.

How to apply

After you've picked a policy, you'll have to complete an application and likely undergo a medical exam. The insurance company wants to know your physical condition to determine your risk and the cost to insure you. They may decide to grant you a “rated” policy (at higher cost) or none at all based on the physical. And if you lie on the application, the company can void the policy *after the fact*. That would mean your beneficiaries would get nothing—so you definitely want to avoid that!

Where to buy

These days, it's easy to learn about, apply for and buy life insurance online. (Chances are you'll still need some sort of medical exam in person.) Online tools can help you evaluate different terms and prices to help you easily compare. You can also buy coverage through an insurance broker or other financial professional.

What you can do next

If you're thinking about life insurance, determine how you'd use it and the coverage you'd need. Understanding these key factors, along with your budget, will narrow your options. Then you can begin looking for a policy.

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