

Heading: What If You Made the Wrong Life Insurance Purchase?

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Subheading: Correcting Life Insurance Shopping Mistakes

Meta title: What If You Made the Wrong Life Insurance Purchase?

Meta description: It's common to make mistakes when purchasing life insurance, but you have options. Learn the steps to take when correcting life insurance shopping mistakes.

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Introduction

Life insurance can provide necessary funds for loved ones upon your passing. In some cases, it can even be an investment tool. But what if you realize you've purchased a policy that doesn't meet your needs? Fortunately, there are ways to correct an improper purchase.

Below, we provide the steps you can take if you've chosen the wrong policy, as well as details on how to find a better one.

Common Life Insurance Shopping Mistakes

Maybe you feel like you have the wrong policy but aren't sure. To help you decide, we've covered five of the more common mistakes made when choosing life insurance.

Choosing the Wrong Type of Policy

There are various types of life insurance policies, which can make [choosing](#) more difficult. For starters, you will have to decide between a term policy and a permanent one.

Term policies last for a specified period of time, often between 10 and 30 years. They are usually a good choice if you need a life insurance policy now to protect loved ones, but expect to not need it later on.

Permanent policies are meant to last your entire life. They are best for those who want to provide a lump sum to their loved ones, regardless of when they pass away.

You may have already purchased one type of policy only to discover that a different type of policy would suit your needs better. In this case, [replacing the policy](#) could be warranted.

Choosing the Wrong Amount for the Death Benefit

It can be hard to decide how much death benefit to provide to your beneficiaries. You don't want to leave your loved ones unprotected with too little funds. On the other hand, a larger death benefit means higher premiums. Finding the right balance between the benefit and premium can be tricky.

Many factors have to be considered before settling on the policy's death benefit. These include your age, life expectancy, income, and overall health. You will also want to consider your other assets, as well as any debt.

Finally, you will have to calculate your loved ones' current and future financial needs, such as paying for a child's education or funding a spouse's retirement.

Not Shopping Around

Before purchasing life insurance, it's important to get quotes from more than one company. A policy may be more or less expensive, depending on the issuing company.

You may also consider looking into reviews regarding an insurance company's customer service. While life insurance is a regulated industry, customer experiences with these companies can still vary.

Tip: Consider using a licensed insurance broker to help you find the right policy. Unlike an insurance agent, who works directly for one insurance company, a broker has access to numerous carriers and policies. This increases your chances of obtaining a more suitable policy.

Only Considering Price

Some types of life insurance premiums will be higher than others. However, this shouldn't be the determining factor. You will want to assess if the death benefit of the policy will be enough for your loved ones when you pass.

Also, premiums for term policies can be more affordable in the beginning but can increase greatly as you age. A permanent policy, on the other hand, may have a fixed premium for the duration of the policy.

You may also want to look into [other features](#) of life insurance, such as using it as an estate planning or investment tool. These benefits may offset a higher premium.

Delaying a Purchase

It's easy to put off buying a policy, especially if you're younger. But if you have loved ones who rely on you financially, delaying a life insurance purchase could be costly. If you die unexpectedly, your loved ones could be left with financial hardship.

Another risk is not being able to buy a policy at all. Should you develop a serious disease or illness, you may not be able to find an insurance company willing to provide coverage.

What To Do When You've Bought the Wrong Life Insurance

If you're in the position of owning a life insurance policy that doesn't suit your needs, there are options of how to correct it.

Check Your Free Look Period

If you just recently purchased the policy, then check your policy's free look period. A free look period is a short period of time following your life insurance purchase that allows you to cancel the policy without incurring any penalties or fees.

Each state requires free look periods of at least 10 days. Some policies have longer free look periods of up to 30 days. You can cancel your policy during this time period for any reason.

Should you want to cancel your policy during your free look period, contact your insurer. Your insurance company will then be required to give you a refund.

Amend Your Current Policy

If you're beyond your free look period, the next option would be to contact your insurance company. They may be able to amend or add to your current policy to better suit your needs. For example, they may be able to decrease your premiums in exchange for less coverage.

Some term policies have a conversion period, which allows you to convert your policy into a permanent one. You may be able to convert at any time during the term, or only for a defined period. Check your policy or contact the insurer to know if this is an option for you.

Cancel the Policy

If you feel like you no longer need a life insurance policy, you could consider a [cancellation](#). The process involved to end the policy depends on the type of coverage. Term policies are easier and more straightforward to cancel than permanent. There are also differences between cancelling whole life and universal life policies as well.

You can cancel your policy by calling your insurance company or by halting your premium payments. Be sure to understand the type of policy you own and the fees associated with a cancellation before choosing this step.

Warning: Failing to pay premiums on a permanent policy can forfeit your cash surrender value, incur fees and taxes, or reduce the death benefit.

Life or Viatical Settlement

A final option is to sell your policy to a third party. This is called a life settlement or, if you have less than two years to live, a viatical settlement.

A life (or viatical) settlement usually pays you more than the policy's cash surrender value but less than your policy's death benefit. When you pass away, the purchaser of the policy receives the death benefit.

Should you opt for a life settlement, you may owe taxes on the proceeds. Money from a viatical settlement, on the other hand, is usually received tax-free.

How to Improve Life Insurance Shopping Results

Knowing why you need life insurance can help you figure out how much you need, as well as select the right type of policy.

Having children and a spouse who depend on you financially, being part owner of a business, or wanting to reduce taxes for your heirs are a few reasons to consider life insurance. Other reasons, such as covering burial expenses, can come into play, too.

Calculate Needed Coverage

Once you've figured out why you need it, you can then calculate how much you should purchase. Some factors to consider in your calculation are financial obligations that your loved ones will inherit, such as a mortgage, car loans, and other debt. You may also want to include future needs, such as college tuition for a child or retirement costs for your spouse.

Understand Your Policy Options

It's important to understand the different [types of policies](#) before selecting. A term policy, for example, only provides coverage for a limited amount of time, usually between 10 and 30 years.

Permanent policies last your entire life, as long as you continue to pay the premiums. Should you opt for a permanent policy, you will then need to decide which type of permanent policy will best suit your needs. Types of permanent policies are whole (or ordinary) life, universal (or adjustable) life, variable life, and variable-universal life.

Use a Broker

A life insurance broker can help you choose the right policy. Brokers understand the different types of policies, and have access to life insurance products from numerous companies. A broker can compare the policies and rates of these different companies to give you the best option for your needs. Just be aware that a broker does earn a commission on any policy sold.

Tip: A reputable broker will put your needs above the commission. Before buying a policy through a broker, ensure that the policy is providing the right amount of coverage for your needs, and that you can afford the premiums.

The Bottom Line

It can be easy to choose the wrong life insurance policy, but there are steps you can take to replace it with a better option. By understanding why you need life insurance, you can find a policy that provides the coverage you want, at a rate you can afford.