The Ladder Strategy for Life Insurance: Is It Right for You?

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Choosing the right life insurance can put you in a bit of a pickle. You want to protect your income and assets in case you die, but not at the expense of living life the way you want to *right now*. If your life insurance need is high, you're older than 30, or you have health issues, getting enough protection could overthrow that balance.

Luckily, there's a way to get maximum coverage when you need it most and less when you don't—all while keeping your wallet from feeling empty today. We're talking about using the ladder strategy for life insurance. If you're willing to get a little more hands-on with your life insurance plan, this strategy could save you thousands on premiums without skimping on coverage.

What is the ladder strategy?

The ladder strategy is a way of stacking several carefully timed life insurance policies to boost coverage when you need more. Most folks buy several policies at once and time them to end when they need less coverage, like when they pay off their home. Others stagger their start dates, too, getting extra coverage when adding a child to their family.

Using the ladder strategy could help you avoid the high premiums that come with large, long-term, and permanent life insurance coverage.

Pros

- ✔ Lower premiums
- ✔ Maximum coverage when needed

Cons

- ✖ Can be complicated
- ✖ Requires more planning

Laddering involves having several term policies (say, 10, 20, and 30 years) at various coverage amounts, each wrapping up when one of your needs ends.

The ladder strategy for life insurance relies on the fact that most people's coverage needs vary throughout life. You can use our life insurance calculator to estimate your own needs, but in general, the more financial responsibilities a person has, the more life insurance they need.

Who is the ladder strategy for life insurance for?

Laddering saves a lot of people thousands of dollars. It's best for people in the following situations:

- You expect your life insurance needs will decrease over time.
- You're organized and don't mind keeping track of multiple policies.
- You'd struggle to afford enough life insurance coverage otherwise.

Who the ladder strategy is NOT for

Does laddering your life insurance sound good but a bit complicated? Then you've hit the nail on the head. Laddering isn't for folks in the following situations:

- You're looking for a simple, straightforward life insurance plan.
- You plan to buy a second home later or have other fluctuating coverage needs.
- You really don't know what the future holds (whether you'll have kids, buy a home, etc.).

If you're a little more strategic and overlap several inexpensive term policies instead, you could get the life insurance coverage you need for half the cost.

All it takes is planning well and staying organized.

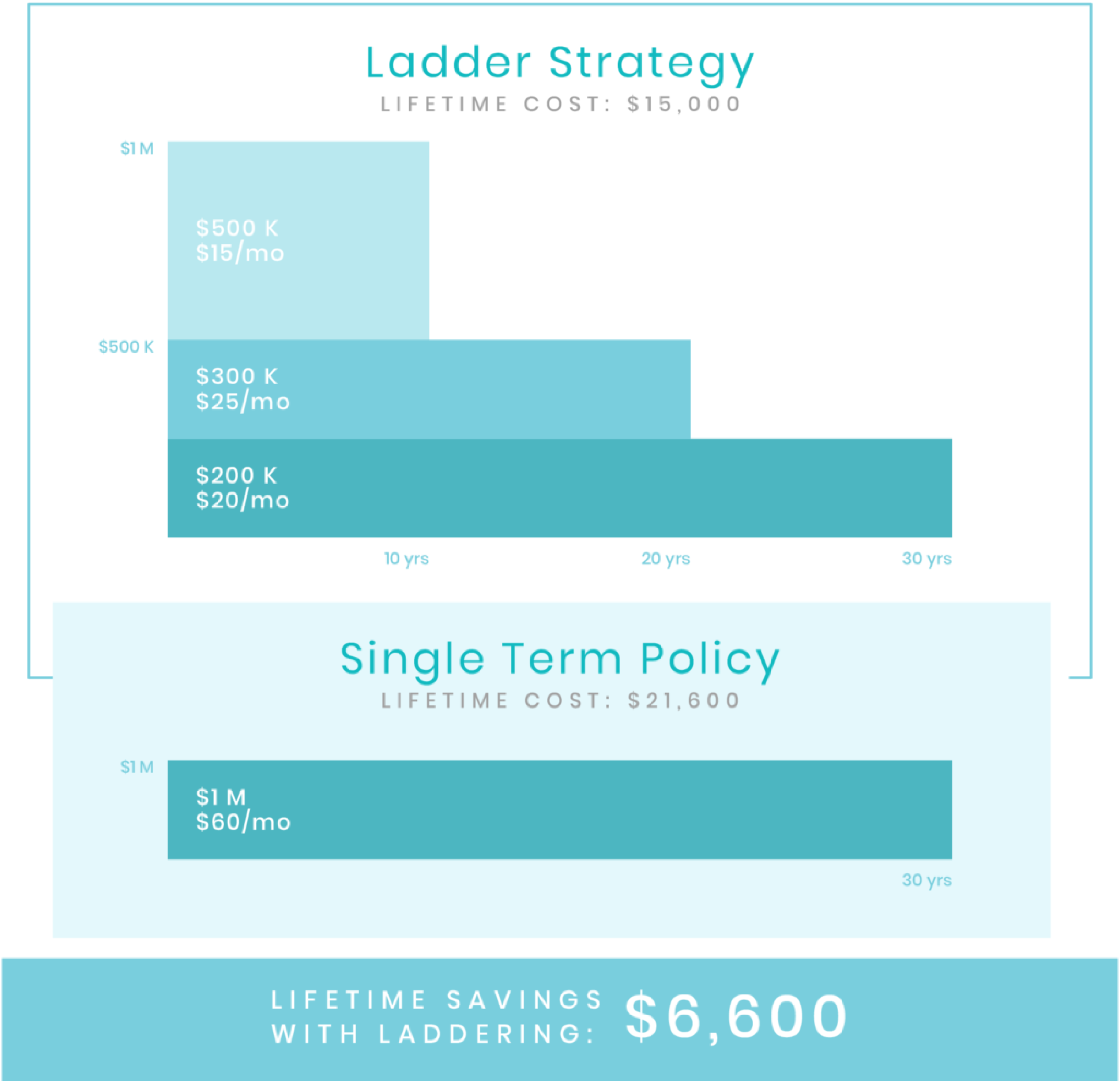
How much can you save using the ladder strategy?

If you use the ladder strategy, you could save enough to fund a perfectly respectable death benefit all on your own. The actual amount you keep, of course, depends on your unique situation, but many folks save tens of thousands of dollars. And if you're considering a whole life insurance policy with a high death benefit, your savings could rise to six figures if you use the ladder strategy instead.

That might sound too good to be true, but it's not.

Laddering life insurance is usually cheaper for several reasons:

- It relies on low-cost term life insurance.
- You buy only as much coverage as you need.
- You maximize coverage while you're young and minimize or eliminate it later in life.



All rates provided by Clearlink partner as of 10/30/2018. Rates are for a 30-year-old male who smokes and has high blood pressure.

This laddering example begins with $1 million in coverage at a monthly cost of $60, which will decrease as term policies end. The entire sum this person would pay is $15,000.

If this person chose a single $1 million 30-year term policy instead, monthly premiums would also be $60, but they'd stay that high for the full 30 years and cost $21,600.

In this case, laddering saved this person $6,600.

Without knowing more about your situation, we can't tell how much you could save using the ladder strategy. To get an idea, however, use the sample quotes from our Best Rates for Term Life Insurance to build an approximate ladder strategy for your needs.

How to save money using the ladder strategy*

Case study:

Let's look at what a 45-year-old family man could save with laddering. We'll call him Jim.

Jim is in excellent health and qualifies for a Preferred Nonsmoker rate. He has two daughters, ages 11 and 15. Jim and his wife both work, and they just moved into a new home with a 30-year mortgage.

Here's a breakdown of Jim's life insurance needs:

- $500,000 for 30 years to ensure the mortgage gets paid off
- $1,000,000 income replacement for his wife for 20 years (until retirement)
- $300,000 he's planning to save up to send his girls to college over 10 years

Policy	Annual cost	Lifetime cost
30-yr $500K	$1,161	$34,830
20-yr $1M	$1,258	$25,160
10-yr $300K	$283	$2,830
Total:	$2,702	$62,820

*Sample rates provided by Chris Abrams of Abrams Insurance Solutions as of 1/6/19. Rates have been rounded to the nearest dollar.

That comes to a cool $1.8 million of coverage.

Jim found a 30-year term policy for $1.8 million for $3,850 per year. Over the life of the policy, he'd shell out a total of $115,500.

But Jim doesn't need all $1.8 million of coverage for the full 30 years. After 10 years, he'll have saved up for his girls' college. After 20, his retirement savings will take over income for the household. And after 30 years, he'll pay off the house.

With the ladder strategy, Jim can cut his costs without compromising on coverage. Instead of a single, $1.8 million whole life policy, Jim could get the following term policies:

- A 30-year, $500,000 policy to cover the mortgage
- A 20-year, $1,000,000 policy to replace his income
- A 10-year, $300,000 policy to cover college expenses for his girls

By laddering his policies, Jim can save more than $60,000.

Alternatives to the ladder strategy

Some folks end up using this strategy by accident. They buy a big life insurance policy (like Jim's 30-year, $1.8 million dollar policy), only to realize a few years down the road that the premiums are too expensive. Or they realize they don't need as much coverage after all.

The good news is many insurers will work with you to cut back on coverage because they want to keep your business.

Buy more now and cut it later

While being able to lower your coverage later in life can take some of the pressure off now, it's not quite so easy if you want to head in the opposite direction—that is, adding coverage later in life.

Many insurers put an age cap on their high-coverage policies, so you may not have the opportunity to increase your death benefit after celebrating a specific birthday.

If you can increase coverage later, you'll likely pay a higher rate due to age. Prices tend to jump once an applicant reaches their 40s and could skyrocket at 50. And since people are more likely to develop health issues as they age, many folks end up with a much more substantial premium than if they'd taken out extra coverage a decade or two earlier.

"If you have lots of unanswered questions about the future," says Stewart, "get the longest term you can afford now. Then, reassess down the line when things are clearer."

How to get started with the Ladder Strategy

Does laddering sound like a good deal? Then let us help you get started.

To get the right coverage while saving on premiums, you must choose the right policies for your needs. Some folks get multiple policies from the same insurer, while others pick and choose the right policies from several companies. Either way, you'll need to look for multiple policies instead of just one. It might take some time to add the right rungs to your ladder.

Written by
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Kathryn Casna is a licensed insurance agent and life insurance specialist who has appeared on The Simple Dollar and Best Company. On a weekly basis, she dives into complex life insurance topics to wring out genuinely useful information. When she's not wrangling big ideas into easy-to-understand articles, Kathryn nerds out on budget-tracking spreadsheets and tries to coax her leash-trained cat to take outdoor adventures.

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