

# Term vs Whole Life Insurance

The purpose of life insurance is to provide financial protection against potential worst-case scenarios. Even the best laid financial plans can fail should something happen to you. Life insurance provides a contingency to ensure that anyone who relies upon you financially will be taken care of. Life insurance is meant to see you through retirement to a point where you have accrued enough savings and investments that you no longer require insurance. Term and Whole Life insurance are the two primary forms of life insurance. Determining your needs and goals will determine which is best for you.

## UNDERSTANDING WHOLE LIFE INSURANCE

Whole life insurance includes two key components. This includes a death benefit (like term insurance) as well as an investment option.

### Advantages of Whole Life

- A guarantee that you will always receive some form of benefit no matter when you pass.
- You will accrue a cash value over time which you can take a loan against if necessary.
- It can reduce your estate tax, protect your assets, and provide your family liquidity at the time of death.

### Disadvantages of Whole Life

- It is more expensive for far less coverage. A few hundred thousand dollars of coverage will cost you several hundred dollars per month.
- The investment option is unlikely to perform well over a time compared to investing it yourself in a diversified, low-cost stock market investment.
- You will be required to continue premiums until death.

## UNDERSTANDING TERM INSURANCE

### Advantages of Term

- If you die during the term period, your beneficiaries will receive the full policy amount.
- You can acquire several millions of dollars of coverage for a fraction of the cost.
- At the end of the term period, you do not have to continue paying premiums.
- The amount of savings can be personally invested in better ways.

### Disadvantages of Term

- If you outlive the term policy, you will not receive any benefits.

Consider the following example of a \$500,000, 20-year term and \$500,000 whole life policy for a 35-year-old male and female. With a term policy, you would end up paying \$541 per month less, which could be reinvested or saved. If you paid the same amount in premiums for a term policy as you did a whole life policy, you would have \$9,500,000 in coverage.

Policy Features	Term Life Insurance	Whole Life Insurance
Duration	10 to 30 years	Life
Cost	\$25 to \$30/month	\$481 to \$571/month
Guaranteed Death Benefit	Yes	Yes
Guaranteed Cash Value	No	Yes
How Cash Value Grows	N/A	Earns interest at a fixed rate
Premiums	Level	Level
Risks	No cash value savings option	Low interest rates and high premiums

## WHAT TO CONSIDER BEFORE BUYING TERM OR WHOLE LIFE POLICY

The purpose of obtaining insurance is to ensure your family is taken care of both now and in the future. To fully understand the amount of coverage you require, there are several factors that need to be considered. The following factors should be understood to determine what kind and how much insurance you need:

- **Outstanding Liabilities:** The average American has a considerable amount of debt for several reasons. What is this amount and how much is necessary to pay that off? Factor this into your insurance needs.
- **Investments and Savings:** Chances are you are not starting with a zero balance. You may already have savings, investments, retirement accounts, or even insurance through work. It is important to factor this amount into your insurance needs.
- **Alternative Income:** It is important not to over-insure by only focusing on your income. Does your spouse work, have savings, retirement accounts? If so, you may not require as much coverage.
- **Monthly Expenses:** You and your family have developed a standard of living and most likely have established a budget. To maintain this lifestyle in the event of death, it is vital you understand these expenses to ensure your insurance can cover it.
- **Future Expenses:** Do you have mortgage payments, children you want to support through college, property upkeep or expenses? It is necessary to consider the cost of these in determining your insurance needs.

## WHICH IS BEST FOR ME?

The purpose of life insurance is to ensure those you care about are provided for. Whole life will provide you with a benefit no matter when you pass away. However, it will be considerably more expensive for a lower amount of coverage. Term insurance will cost you far less for far more coverage, but it is necessary you are able to reach retirement with enough savings and investments before your policy ends. Another consideration is whether you want your family to rely upon the principal amount received or the interest. The general rule is for every \$1,000,000 of insurance, it could generate \$50,000 of interest with an average 5% return. Depending on your income, debts, cost of living, future expenses, and goals for your family, term insurance may better meet your needs due to the larger coverage and lower cost.