Term Life Insurance vs Permanent Insurance

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Few people will argue that life insurance is necessary to insure that the standard of living your family now enjoys will be maintained after your death. The **kind** of life insurance to buy, however, has been the subject of debate for decades. Term life insurance requires a low monthly payment at the outset which increases with age. Whole life insurance requires a higher initial payment, but does not increase as you get older. In addition, permanent insurance builds "cash-in" values while term insurance pays only if death occurs before the end of the term period.

Advocates of term insurance maintain that by investing the premium savings, you can accumulate values which will exceed that of a permanent policy. These accumulated values can serve as a death benefit when the term policy expires or becomes too expensive to maintain.

Permanent insurance providers point out that few people have the discipline to actually set the savings aside. In addition, they point out that permanent policies sold today may provide a higher rate of return than policies of the past.

With the numerous conflicting articles which have been written on this subject, it is difficult for the consumer to obtain objective information, especially since purveyors of both products are prone to make emotionally-charged presentations of their respective positions.

►Coverage Cost is More Important than the Kind of Coverage - The truth is that the most cost effective coverage depends more upon the company offering the product than whether it is term or permanent. An expensive term policy will rarely beat a good permanent policy. Conversely, a non-competitive permanent policy is less desirable than a competitively priced term policy.

►Whole Life Vs Term – How does a ***good*** term policy compare with a ***good*** permanent policy? If the coverage will be needed for less than ten years, term insurance will usually be the least expensive. If the coverage is to be maintained any longer than that, whole life coverage may be the best choice. If the permanent policy is competitive, buying a good term policy and investing the difference in a stable account may **not** match the values or the death benefit provided by the whole life policy over a longer period of time.

The first priority, however, should be to purchase enough death benefit to adequately replace the financial loss which will occur at death. In calculating this loss, consider not only current income which will be lost, but also future salary increases and lost retirement benefits. The financial loss caused by the death or disability is typically much greater than home or auto losses for which most people are fully insured.

If you cannot afford to cover the entire amount needed with permanent life insurance, it makes sense to buy term insurance for at least some portion of your coverage. A 10 or 20 year level term policy may be quite inexpensive for the initial term. If maintained beyond that, however, term insurance premiums normally increase substantially every year until they become so expensive you may be forced to drop the policy. That is why it is important to select term policies which are convertible to permanent insurance without evidence of insurability.

►Convert Term to Universal – The choices are even more complex today, because many companies now offer universal life coverage in addition to traditional whole life policies. Universal life contracts combine a term insurance policy with a competitive "side account" which contains numerous tax advantages. Many people with term insurance could benefit by converting to universal life coverage because of these advantages. As you approach your 40s and 50s, however, traditional permanent coverage may be the best choice as the cost per 1,000 for term coverage becomes increasingly expensive. Because the need for life insurance coverage past retirement is often underestimated, it is essential to acquire coverage which can be maintained on a cost effective basis until death.