

Whole life and term life insurance: What's the difference?



If you're not 100% sure what the difference is between whole life and term life insurance, you're not alone. For many, it's enough to know that term life insurance is generally cheaper. But cost isn't the whole story.

To help you decide which is best for you and your family, read on to learn the major differences between whole life and term life insurance.

Term life insurance – Term life insurance is bought for a finite term. Common terms are 10, 20 or 30 years. During the term, your premium and the amount your beneficiary would receive (called the death benefit) stays the same. If you outlive the term, you'll have to renew for another term (and pay higher premiums because you are older).

If you want to increase the amount you leave your beneficiaries, you'll have to start a new term policy. For instance, say that when you are 25 and have no children you take out a 20-year term policy for you and your spouse. You have a child at age 32 and want to increase your death benefit; you'll have to start a new term policy, and your premiums will increase because a) the death benefit is greater, and b) you are now 7 years older.

Term life has no value as a savings vehicle; its primary purpose is to provide your beneficiaries with money when you are gone.

Whole life insurance – An investment in whole life insurance lasts your whole life. The premiums are guaranteed to stay the same for your whole life as well, but are higher than term life premiums. The death benefit is also guaranteed.

Because you are covered for your whole life, you will always have coverage, even if you develop a chronic or terminal medical condition. Whole life also includes a savings element, which is called the policy's cash value. You can borrow against it, or cash in the policy and get the cash value. (Of course, if you cash in the policy, you will no longer have life insurance.)

The difference

The difference between whole life and term life insurance is a bit like the difference between renting and buying. With term life, you will always have to pay premiums, and your life insurance will never have any value (like an apartment you rent). With whole life, you can choose a policy with a shorter payment period, such as 10 or 20 years, and then "own" it, like a home you are buying, which has financial value. (With Patriot Whole Life, you can also buy it in one lump sum (consult your financial advisor about the possible tax implications for this plan).

Which policy is right for you? This depends on many factors. Whole life provides a sense of security which is appealing, but term life is more affordable. It doesn't have to be an either-or decision because most insurers offer the option to convert your term life insurance to whole life if you choose. So you could start with term, and then move to whole life as your finances allow. Alternately, you could purchase enough term life insurance now to cover large expenses plus a whole life policy that could be paid up when the need for term insurance is lessened (for instance, when your home is paid off, and/or your children are grown).

The best way to decide? Speak to your local independent agent. They can help you find the policy that best meets your family's needs over time.