Term Life Insurance vs. Whole Life Insurance

The two most common types of life insurance are term and whole life. Term insurance is the simplest and cheapest form of coverage. At the same time, whole life is more expensive and complex because it offers additional features that term does not have.

When you purchase a term life insurance policy, coverage is adequate for a fixed period. This fixed period can range, depending on your insurance needs. If you die during the policy term, the insurer will pay your beneficiaries the policy’s face value. If the policy expires before your death, then your beneficiaries have no payout. Additionally, term life insurance premiums are level for the policy's length and are cheaper than whole life insurance.

The length of your term life insurance should coordinate with the financial responsibilities you’re covering. For example, if you have young children, you might buy a 15-year or 20-year term policy until your children are no longer financially dependent.

Whole life insurance is also a form of permanent life insurance. There are two main differences between term and whole life insurance:

- Whole-life policies never expire if you continue paying your premiums.
- Whole life policies have a cash value feature in addition to the death benefit.

Typically, whole-life policies have a level premium. Part of your premium will go to the insurance component; the other portion will build your cash value. Once you have accrued cash value, you may borrow or withdraw funds from the cash value amount. However, if you take a loan from your whole life policy, your death benefit will decrease by the loan amount taken until you repay it.

Even though whole-life policies offer more flexibility compared to term life, there are more drawbacks to a whole-life policy. For example, you can stop making payments if you have a term policy but no longer need life insurance. You will incur surrender charges if you walk away from a whole life policy.

When you reach retirement age, you normally have fewer people who are financially dependent on you. At this stage of life, life insurance may not be a necessity. In most cases, the only person who may be dependent on you for income during retirement is your spouse. If you were a diligent saver during your working years, the idea is that your portfolio income would provide for your spouse upon your passing. For this reason, there is no reason to keep paying life insurance premiums if the need is not there.

Term and whole life have different characteristics that are advantageous to the policyholder. If you are purely interested in satisfying your insurance needs, term life is the best route because it is the simplest form of pure insurance. A whole life policy may be the best option if you need something more permanent with an investment component.