



Term or Whole Life Insurance—Which is better for you?

Before you shop for financial protection for your family, know the difference between these two common types of life insurance.

If others depend on you for any sort of financial support, a life insurance policy can help ensure that support can continue after your death. The two common types of life insurance policies are term and whole life. Which type of policy you choose will depend on your personal financial situation and the level of protection you want to provide to your family.

Term life pros and cons.

Term life is popular because it's simple and inexpensive. A term policy is in effect for a specific number of years (usually 10, 20 or 30 years) and you can choose the term that's right for your family and your budget. If you die during the term, the insurer pays benefits to the beneficiary on the insurance policy (often your family.) Premiums for term life are lower than for whole life policies, which makes it an affordable option for many people.

However, there's no cash value for term life insurance policies; if you outlive the term of the policy, the insurance coverage expires and no death benefit is paid. The risk with term life is that you pay many years of premiums but never receive any cash payout in return. Term life policies also come with age limits and may require a medical exam for the policy holder prior to extending coverage.

Whole life pros and cons.

Whole life is traditional life insurance—it covers you for as long as you live and pays a death benefit to your beneficiary when you pass away. You can usually get whole life coverage at any age and insurers typically don't require a medical exam to qualify.

Whole life is more complicated than term life because these policies are structured to provide a cash value that grows over time. Part of your monthly whole life premiums are placed in a tax-deferred savings account with a guaranteed interest rate. When the cash value matures, you can borrow against it or use it for retirement spending needs.

The big disadvantage of whole life is the cost—you pay more for the lifetime benefits and cash value of whole life policies. Some insurers offer different premium payment terms, which may give you some flexibility in choosing the whole life policy that works for you.

Choosing between the two.

Term life policies are ideal for married couples and parents of minor children where your family depends on your income. These simple policies provide a basic death benefit in the event of a pre-mature death. Low-cost premiums also make term life a good option if you want financial protection for your family at an affordable cost.

While whole life is not explicitly for older and wealthier people, these policies are useful for covering the costs of estate and inheritance taxes as well as funeral costs. Another common use for whole life is to provide financial support to a dependent with special needs, such as a disabled child. Funding a trust with the death benefit from a whole life policy is one way to ensure these dependents have resources to cover their financial needs after you're gone.

Reach out to a Financial Professional to discuss pros and cons of term and whole life insurance, as well as learn more about the risks and fees associated with each option.

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