Term versus Whole Life Coverage

Which coverage is best? The answer is not simple. Both term and whole life policies can play important roles in your overall financial plan and there are as many opinions as there are experts. It really depends on what you want your life insurance to accomplish.

By Mike McHugh

Term insurance is excellent to replace income for young growing families if a wage earner dies. It is a way for the young family to maximize their coverage when they need it most while keeping the cost as low as possible. Term coverage is also a great way to meet temporary needs such as protecting a mortgage or ensuring sufficient funds are available for your children's college education. However, term insurance is perishable. It is estimated that less than one-percent of term policies sold ever pay a death benefit. Why? The term of coverage expires before you do. Term coverage almost always stops well before normal life expectancy is reached and life expectancy is steadily increasing. If a husband and wife are both age 65 today, there is a 50% chance one of them will live to age 92 and a 25% chance one will reach age 97. So term coverage primarily protects you against a premature death. Term insurance plans are exceptional values for the young growing family. The popular level term plans can provide coverage older ages. However, it becomes very expensive when you reach your 60s and 70s.

If you want to make sure there is a death benefit at the time of your death, then whole life coverage is the answer. There are many reasons to consider whole life coverage. First it is a good way to build an estate for your heirs. For example, if you had three children and you wanted to make sure that you could leave each of them $100,000, then a whole life policy for $300,000 with three primary beneficiaries would accomplish that goal. Second, whole life can be there to provide the liquid funds that your family may need at the time of your death to pay costs associated with your estate. Remember, the Survivor Benefit Plan (SBP) and Social Security Survivor benefits provide monthly income, not a lump sum. A life insurance death benefit can provide funds for your family so that they do not have to liquidate other assets such as equities or real estate at an inopportune time. Since life insurance passes directly to a beneficiary, it also avoids probate and other administrative issues. Finally, whole life may very well be necessary to fund income replacement late in life. For example, if a married couple is living off a Military Pension and Social Security and supplementing their income with private savings, there will be a substantial decrease in both the pension and Social Security when the Sea Service Retiree dies. The Military Pension will terminate if the Retiree is not participating in SBP and at best it will be reduced to 55% of that pension under SBP. Total Social Security income will be reduced as well. This could mean that the surviving spouse will need to start increasing the drain on private savings. Whole life insurance can provide funds to compensate for this loss of retirement income. Additionally, whole life has cash value that can be accessed through a policy loan or can be converted to an annuity to supplement retirement income when insurance is no longer necessary.

The bottom line is that both term and whole life can have a place in your estate and financial planning. Most families would be well served to have an appropriate amount of each type depending on their needs. The sooner you start a whole life plan, the lower the premium and many young people can have the plan totally paid up before they retire.

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