Term vs. Whole Life Insurance: Which Will Better Protect Your Loved Ones?

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Think about this: If you died tomorrow, would the loss of your income have a negative impact on someone else?

If you said yes, it’s a good idea to have some kind of life insurance. There are two main kinds, term and whole life, and deciding which is right for you depends on your needs.

The Basic Types of Life Insurance

Both term and whole life coverage provide a guaranteed payout when the insured dies, called a death benefit. The main difference is term life insurance is in effect for a set period of time while whole life covers a person until death, no matter when that happens. Premiums for term life are significantly cheaper than for whole life.

Features of the Policy	Whole Life	Term Life
Death benefit upon policy holder’s death	Yes	Yes
Guaranteed payout	Yes	Yes (if within term)
Premiums depend on age and health	Yes	Yes
Length of Term	Lifetime	Set term, usually 10, 20 or 30 years
Cash value	Yes	No
Can borrow against	Yes	No
Premiums	Higher price	Lower price

Those are the basics. Let’s dive a little deeper into the similarities and differences.

How Term Life Insurance Works

The goal of a term life policy is to replace the income you would have provided to your family had you lived. If you outlive the term of the policy, it pays nothing.

When buying a term life policy, you need to know two main things: how much coverage you want and for how many years. Common terms are 10, 20 and 30 years.

Premiums for a term life policy stay the same throughout the term and are based on your age and certain health conditions, like whether you smoke. Premiums are not very expensive because the insurance company is betting you will live longer than the term of the policy, so they will not have to pay anything.

How Whole Life Insurance Works

Whole life policies are a bit more complicated than term life ones, mostly because there is a cash value and a guaranteed payout, leading to more expensive premiums.

Insurance companies know they will have to pay a death benefit eventually. They need to make sure they will be able to pay for it, resulting in pricy premiums. Insurance companies often require health exams before issuing whole life policies.

Unlike term life policies, whole life policies put part of the money you pay as premiums toward the policy's cash value. That value grows over time, and you don't pay taxes on the earnings.

It's your money, so if you cancel the policy, there is some value to it, although much less than the death benefit. Also, in an emergency, you can borrow against the cash value of the policy, but that will reduce the death benefit until you pay the policy back.

There's no credit check when you borrow against the policy. That makes it appealing if you don't have good credit and wouldn't be able to get a bank loan or would pay a high interest rate. You can borrow up to the full cash value of the policy.

The reasons people buy whole life policies aren't as simple as why they buy term ones. It might just be peace of mind.

"You don't know when you're going to die, and it might be a long, long time from now, and you don't want to take a chance by buying term insurance," said Steven Weisbart, senior vice president and chief economist of the Insurance Information Institute. "Suppose you die 20 minutes or two years after the term is over and you paid all those premiums and did not get the death benefit out of it. Some people feel that is not satisfying and a whole life policy will make them feel better, because it will deliver a death benefit, no matter how far in the future your death occurs."

Often, the death benefit of a whole life policy is part of an estate plan. The money from a whole life policy can:

- Pay for final expenses like funeral costs.
- Fund estate taxes.
- Equalize inheritances. For example, if one child will inherit your business and you want to provide something equal for another child.
- Leave a legacy to a charity or an organization you care about.
- Pay for the care of a lifelong dependent.
- Allow you to spend your retirement savings and still leave something to your heirs.

Term vs. Whole Life Insurance: Which Is Better?

So, the question is, which is better: term vs. whole life insurance? The short answer is, it depends on your needs. And if you are single and have no debts or dependents, you might not need coverage at all.

If you ask Google for advice about which type is better, you will see some strong opinions. Some people say whole life insurance is always ripoff, while others say it is a valuable investment and estate-planning tool.

The choice depends on the problem you're trying to solve.

"Let's say you want to make sure your house mortgage is paid off, and you have a 20-year mortgage left to go," Weisbart said. "So you might buy a 20-year term policy so you'll never worry about whether a premature death will affect the mortgage."

"But if you have a concern such as a lifelong dependent who will require money to pay for care, that need is not ending with a set term, so whole life might be better," Weisbart said.

The decision about which to buy does not need to be all or nothing. You can have both term and whole policies since they fulfill different needs.

"It's perfectly normal, quite common to buy some of each," Weisbart said. "The reason you would do that is because initially, if you want a certain amount of death benefit and you're young and starting out, you might not be able to afford the premium for the entire whole life policy."

Buying some of each lowers the overall premiums while guaranteeing the benefits you want.

The basic question you need to ask yourself is how much can you afford to pay for life insurance? That can help you decide which is best for you.

According to Quotacy, whole life policies cost about 10 to 12 times more than term life policies. The company will not provide whole life quotes unless you complete a questionnaire, so we used the company's online quote tool as an estimate for a $250,000 term life policy and then multiplied the results by 11 for the estimated whole life premiums.

All quotes were for a nonsmoker living in Florida. The rates for smokers are significantly higher for all age groups.

	20-Year Term	**30-Year Term**	**Whole Life (estimate)**
25-Year-Old Female	$11.22	$15.27	$123.42
35-Year-Old Female	$17.88	$18.72	$196.68
45-Year-Old Female	$37.86	$34.70	$416.46
55-Year-Old Female	$84.91	$90.52	$934.01
25-Year-Old Male	$19.31	$18.27	$212.41
35-Year-Old Male	$21.04	$21.69	$231.44
45-Year-Old Male	$48.02	$44.23	$528.22
55-Year-Old Male	$116.36	$123.63	$1,279.96

When you buy a term policy, you may have the option to buy a feature that enables you to convert to a whole life policy without undergoing another medical exam or submitting new information, according to Weisbart. Premiums are based on your age when you convert.

You might want to convert your policy from term to whole life if:

- During the term of the policy, you developed a medical condition that would prevent you from getting a new term policy.
- You are nearing retirement age and your term life policy is about to expire.
- You can now afford the more expensive lifelong coverage.
- You are doing your estate planning and you are concerned about estate taxes.
- You are looking for non-taxable investment options.

All of this is a lot of information and it involves thinking about your own mortality. Don't let it intimidate you. Life insurance cannot bring a loved one back, but it can help ease some of the financial burden that comes when someone dies.

Tiffani Sherman is a freelance writer who likes saving money so she can use it to travel more.