

When Whole Life Can Beat Term Life

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For many clients, the decision to buy life insurance usually comes down to a comparison of term and whole life insurance, with cost very often being the make-or-break consideration. But comparing term life insurance (which is similar to renting a house) and whole life insurance (which is similar to owning a house) based on the initial premium is a mistake when you don't take into consideration a critical element — time.

For how long will your client need coverage? If less than 10 years, then it's cost-effective for them to purchase term insurance. But if the client has a permanent need or a need for coverage that lasts longer than 10 years, whole life becomes a better value because the cost curve decreases over time. However, comparing term and whole life insurance on price alone is not only unsound, it's also unfair and a potential mistake in some situations. In fact, a mix of term and whole life insurance can often be a good solution.

In order to serve clients' interests, it's important to educate them about the advantages of both term and whole life insurance so they can make the best decision about which solution or combination of solutions is right for them. This is especially true in light of the following four important points.

1. Investing the rest doesn't always work

Although consumers are often advised to "buy term and invest the rest," this advice rings false on two fronts. First, as noted in our housing analogy, clients basically rent their coverage when they purchase term. Second, most consumers are terrible at saving. More frequently, in fact, the well-worn adage morphs into "buy term and spend the rest." In fact, Americans spent more than they earned in 2006 even as the economy grew, pushing the personal savings rate to negative 1 percent, the deepest hole since the Great Depression of the 1930s.

2. Whole Life is one product, many functions

Term life insurance does only one job: provide a death benefit that expires. However, whole life insurance can do many jobs over time, including:

- Providing a guaranteed death benefit that never expires as long as premiums are paid
- Generating guaranteed cash value that clients can tap for other financial needs, such as college tuition, care for an aging parent, and a down payment on a retirement home
- Helping supplement retirement income
- Providing funding for estate taxes and charitable gifts

3. Permanent insurance can work better sometimes

Some situations present permanent needs that require permanent solutions. In these situations, term life insurance does not apply well, while permanent insurance, such as whole life insurance, does. For example, among many scenarios for which permanent insurance makes sense are:

- Providing for the needs of a disabled family member, particularly upon the death of the primary caregiver
- Ensuring that clients have the ability to leave a legacy for someone they love or a cause that is dear to them, no matter how long they live
- Providing resources for heirs to pay estate taxes, again no matter how long the client lives
- Providing for the permanent financial security of a spouse in retirement when the primary wage earner dies, particularly when clients are at an age when term life insurance can be cost-prohibitive
- Easily transferring wealth between generations
- Creating succession plans for family and small-business owners
- Meeting an array of small-business needs

4. Term isn't always the cheapest option

While in most instances, term life insurance is a less expensive alternative, in some cases it can be costly — without the added benefit of generating tax-deferred build-up of cash values. Additionally, while not guaranteed, dividends from a solid mutual company can provide a resource that the policyholder can use to offset some or all of the premiums due. Dividends also can be received in cash or used to purchase additional insurance to increase the policy's death benefit and cash value.

More benefits of whole life

As many benefits as there are for clients in whole life insurance, there are several for the financial professional, as well. Predictability of premiums and whole life insurance's flexibility provide a great deal of future insurance planning options, which enable the financial professional to introduce more ideas and more solutions through the life of the client relationship.

Additionally, whole life insurance helps reset the context of the client relationship from transactional to lifelong. Consider that whole life insurance has the most favorable persistency experience with overall lapse rate of 3.9 percent on a policy basis, according to LIMRA.

Permanent life insurance is clearly not the right solution for everyone, but assessing its use and effectiveness goes beyond just comparing its cost with term life insurance. For certain clients and in certain situations, whole life insurance makes sense. And for the financial services professionals who seek to better serve their clients, taking the time to educate them is well worth the effort.

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