

# Term vs. whole life insurance: What's the difference?

Buying life insurance? Here are the facts about term vs whole life insurance, plus common features, definitions and shopping advice you need to compare.

Buying life insurance seems daunting. But most people can start shopping by making one key decision:

Do you need **term life insurance** or **whole life insurance**?

Both types have their benefits and drawbacks:

- Term life insurance is affordable and straightforward
- Whole life doesn't expire but is more expensive

Term life insurance is right for most people, and some of the biggest names in personal finance, like **Dave Ramsey**, **Suze Orman**, and **Clark Howard** agree and recommend term life insurance. But that doesn't mean it's right for *everyone*, and some people may benefit from whole life insurance.

To decide between term or whole, it's important to know how they're different and what makes them right for your financial scenario.

## Essential answers

- Term life insurance is the **right choice** for most shoppers
- Whole life insurance is **six to ten times more expensive** than term life
- Whole life has a **cash value component** that acts like a low-interest investment

What else do you need to know? Let's dive in!

**Read on:**

# Term vs whole life insurance: Quick comparison guide

FEATURES	TERM LIFE INSURANCE	WHOLE LIFE INSURANCE
Duration	1 - 30 years	Life
Cost	\$25-35/month	6-10x more than term
Guaranteed Death Benefit?	Yes	Yes
Guaranteed Cash Value?	No	Yes
How Cash Value Grows	N/A	Earns interest at a predetermined fixed rate
Premiums	Can increase periodically or stay level for the policy duration	Level
Notes	No risk of losing coverage, but no cash value when term ends	No risk compared to other permanent types, but you may find better investment options elsewhere

## Should I get term or whole life insurance? Questions to ask

A licensed life insurance expert or financial planner can help you figure out which type of life insurance is best for you, but you can also ask yourself a few quick questions about the needs of yourself and your family:

- **How much can I afford to pay each month for life insurance?** If budget is a concern, go with **term** life insurance, as it's much cheaper.
- **What are my assets, debts and estate value?** If your estate will be subject to the estate tax, a **whole life policy** can help cover that.
- **Do I expect to self-insure in the future?** If you go with **term life**, you need to be OK with your coverage running out and you'll need to self-insure.
- **What are my goals for my life insurance?** If you just want to cover expenses for your family, go with **term**. If you want to build cash value, choose **whole**.
- **What do I want to leave behind for my loved ones?** The death benefit of a term life policy can go directly to your family, while a **whole life policy** is usually used to pay for the estate tax.

By asking these questions and knowing how term and whole life address each of them, you can make the right choice for yourself and your family.

## What is term life insurance?

Term life insurance is “pure” life insurance. The policyholder pays premiums regularly. If they die while the policy is in effect, their beneficiary (or beneficiaries) receives a death benefit.

It's very **straightforward**, which is the selling point for people who want a simple life insurance option.

The key definition when it comes to term life is the **term** - how long the policy is active. Term life policies expire after a set number of years, making it a good policy for anyone who expects to build wealth over time and won't need the financial safety net life insurance provides later in life.

But the term limit also **limits coverage**. If you still need that financial safety net when you're in your 60s or 70s, you'll need to shop for a new policy (which may be prohibitively expensive).

Term life insurance is also relatively **inexpensive**. Because there aren't any additional fees or maintenance, it's much more affordable than whole life.

### Term life insurance pros & cons

#### Pros

- Term life is **straightforward**, and policies are **easy to understand**, so you don't have to worry about hidden fees, exclusions or risks.
- Term is the **most affordable** type of life insurance.
- You can **cancel a term policy before it expires** without losing any value.

#### Cons

- When the policy expires, so will your coverage. If you still want insurance, you'll need to shop for a new policy or convert your policy into a form of permanent life insurance.

## What is whole life insurance?

Whole life insurance is a type of **permanent life insurance**, which stays in effect for as long as you pay the premiums. This means you never have to worry about uninsurability or losing your safety net as you get older.

Whole life is more complicated than term overall, but one definition you need to know is the **cash value**, which is an investment-like product coupled with the insurance policy.

Your premium payments are split between the death benefit and cash value. Over time, the death benefit shrinks, and the cash value component grows until the policy consists entirely of the cash value.

You can do many things with the cash value, including taking out a loan, drawing from it for retirement or funding the policy.

## Whole life combines insurance and investing

Most people have separate insurance and investment products.

But if you have your insurance and investment bundled together, it works as a **forced savings vehicle** to help you save. Your whole life policy may also pay out **dividends** like a traditional investing vehicle.

The cash value also works well for people who have **complicated financial situations**. It's often used to cover the estate tax, so your full inheritance goes to your beneficiaries.

But all of this comes at a price. As mentioned, whole life insurance is much more expensive than term, sometimes as much as **six to 10 times the cost**. Many people don't buy enough coverage or end up dropping the policy a few years in because they can't afford it.

## Whole life insurance pros & cons

### Pros

- Whole life doesn't expire, so you can keep it for as long as necessary.
- Useful as part of a customized personal finance or estate planning strategy, thanks to the cash value component.
- It works as a forced savings vehicle.

### Cons

- Whole life is far more expensive than term — sometimes up to six to 10 times the cost.
- Because of the cost, people often buy less coverage than they need or surrender the policy early.
- The interest rate you'll receive on the cash value is likely less than you'd get if you invested it in other ways.
- Whole life is more complicated than term life. The surrender value of the policy changes with time, which is something to pay attention to when accessing the cash value.

## Takeaway

Whole life insurance is best for people with complex financial needs who can afford the higher premium cost.

## Term and whole life insurance cost comparison

As mentioned, whole life insurance is typically around six to ten times more expensive than a comparable term life policy. The charts below compare the monthly cost of a 20-year term policy (\$250,000 death benefit) and a whole life policy (\$100,000 death benefit) for a Preferred-rated male at different ages.

AGE	TERM (\$250,000)	WHOLE (\$100,000)
20	\$15.90	\$85.45
30	\$16.14	\$122.20
40	\$21.75	\$196.25
50	\$47.86	\$233.94

Note that the term policy provides *more than twice the coverage amount* compared to the whole life policy but is still significantly cheaper.

## What are the differences between term & whole life insurance policies?

Because you can get a higher death benefit for a lower price, term life insurance is best for most people. Here are the other differences between term and whole life.

### Duration

- **Term:** 1-30 years
- **Whole:** Life

Term life insurance lasts for a set number of years decided on when you purchase the policy. Terms are between 1-30 years and usually come in increments of 5 years.

This is ideal for most people: After 30 years, many people have fewer financial obligations. Their mortgage is paid off. Their kids don't live at home anymore, and they can self-insure with savings. They won't keep paying for a policy they don't need.

Whole life insurance (and all types of permanent life insurance) lasts for as long it's paid. The benefit is indefinite coverage: If you find yourself 30 years into the policy and realize you still need coverage, you don't have to worry about the policy expiring.

**If you have a term life insurance policy you aren't ready to give up, most policies come with a default term conversion rider that turns the term policy into a whole policy without you needing to go through the underwriting process again.**

### **Guaranteed death benefit**

- **Term:** Yes
- **Whole:** Yes

No matter what type of life insurance you choose, the life insurance company cannot alter the death benefit. The **death benefit is usually untaxed**, so your beneficiaries don't have to worry about receiving less due to taxes. It's important to note if you take out a loan on your whole life insurance policy and die while the loan is out, the death benefit may be used to pay back the outstanding amount, meaning your beneficiaries won't get the full amount.

### **Cash value**

- **Term:** No
- **Whole:** Yes

Term life insurance doesn't have a cash value. This makes it easy to understand but means you don't get any additional perks.

**Whole life insurance has a cash value**, and it's relatively safe compared to other types of permanent life insurance. Whole life insurance offers a **guaranteed cash value**, meaning it has a minimum growth rate.

Other types of permanent life insurance can lose value over time depending on the wider market. However, whole life insurance is a **conservative** investment option and means you can likely find better returns with different investment vehicles.

All permanent policies can be surrendered for their current cash value after a certain number of years, at which point the insurer pays the accumulated cash value minus any loans and fees.

## Premiums

- **Term:** Can increase periodically or stay at a guaranteed level for the policy duration
- **Whole:** Level

Term life insurance can come in two forms that affect cost — **guaranteed level** and **annual renewable**.

- Guaranteed level term life insurance keeps premiums the same for the entire policy term, but renewable annual term life insurance must be renewed periodically, each time raising the premiums.
- Renewable annual policies are best for short coverage periods because premiums typically start low compared to guaranteed level premium's but get higher later.

Whole life insurance premiums are level — they stay the same no matter how long you have the policy.

## Common term & whole life insurance definitions

There are differences between term and whole life insurance, but some concepts are the same across types. No matter what type of insurance you choose, here are some basic definitions you need to know.

- **Policyholder** — The owner of the life insurance policy.
- **Premium** — The money a policyholder pays, monthly or annually, to keep a life insurance policy active. If it's not paid, the policy lapses.
- **Death Benefit** — A (usually tax-free) lump sum of money paid out upon the death of the policyholder.
- **Beneficiary** — The person(s) or institution that receives the death benefit.
- **Rider** — A contractual modification to a policy to customize certain provisions.
- **Underwriting** — The process by which an insurance company looks at an applicant's financial and health history to set the final premium rate.

**Learn the definitions to more common life insurance phrases.**

No matter what kind of life insurance you buy, make sure to shop around and compare quotes for the best rate. Everyone is different and each life insurers

have its own methods for assessing applicants, so you may get a much cheaper rate with one insurer than another.

*This article is intended for informational purposes and should not be considered legal or financial advice. Consult a professional to learn what financial products are right for you.*

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