

A comparison: Term and Permanent Life Insurance



The following points can help you determine whether to buy term insurance, permanent insurance, or a combination of the two.

Term Life Insurance

Advantages

- Initial premiums are considerably lower than those for permanent insurance, allowing you to buy high levels of coverage.
- Good solution for young families that often have limited budgets but a significant need for protection.
- Ideal for covering needs that will disappear in time, such as a mortgage, car loans, or college tuition.

Disadvantages

- If you want to continue coverage after the term of your policy premium guarantee expires, your age, health status or other factors may make coverage too expensive, or you may not even requalify.
- Policies generally do not accumulate cash values.

Permanent Life Insurance

Advantages

- Offers lifelong protection as long as the premiums are paid.
- Depending on the policy, premium costs can be fixed or flexible to meet different financial needs.
- The policy accumulates a cash value you can borrow against, although loans must be paid back with interest or your beneficiaries will receive a reduced death benefit. You can also borrow against the policy's cash value to pay premiums.
- The policy's cash value can be surrendered, in total or in part, for cash or converted into an annuity (an insurance product that provides an income for a person's lifetime or a specific period).
- A provision or rider can sometimes be added to a policy, giving you the option to purchase additional insurance without taking a medical exam or furnishing evidence of insurability.
- Other options, such as reduced paid-up insurance or extended term insurance, are also available.

Disadvantages

- Initially larger required premiums may make it difficult to buy the amount of protection needed.
- Some plans contain few or no guarantees and, while this may result in increased benefits, poor investment performance can cause reductions in your cash value account, the death benefit or both. You should monitor the performance of these policies carefully.

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