# Buy Term Life Insurance & Invest the Difference
# Or Buy Permanent Life Insurance?

## A Twist On an Age-Old Argument

It's been debated for generations. **Term life insurance** versus **permanent life insurance?** Which one is "better"? In recent years a new concept has crept into the debate: rather than choosing a permanent life insurance policy, you purchase a lower cost term insurance plan and invest the difference.

This approach may be well suited for some people, but for others it may not make sound financial sense. You'll want to make an informed decision, so it's best to discuss your needs and your options with an insurance professional. Before you make up your mind, you'll want to consider the following questions:

## Which Type of Life Insurance is Best for You?

There is no one "best" type of life insurance. What's best is what is best for you.

Term life insurance may be right for younger people with limited means and few financial responsibilities. It can also serve as a short-term, stopgap means of pure protection. With term policies, your premiums are set for a predetermined period (one year, five years, etc.), then increase in subsequent years. With a premium increase at each renewal, the cumulative cost of term over the course of several decades may well bypass that of a comparable permanent plan. Most term policies are renewable only to a certain age, which is usually about age 75. After that, the term coverage ends. In addition, with some term policies, you may be required to submit evidence of continued good health with each renewal. This may put you in danger of being uninsurable when the term coverage is up for renewal. So when you buy term, you take the chance that the policy may expire before you do, in which case you'll have paid premiums for many years with no death benefit going to your beneficiary. It’s analogous to paying premiums to insure your car and never filing a claim for damage.

With a permanent product such as Indexed Universal Life, premiums are fixed – they can never be increased by the insurer – and your coverage can never be canceled as long as you pay the premiums and keep the policy in force. You pay a premium that is much larger than the premium for term, but a portion of that premium goes into a savings component known as the policy's "cash value." That's why permanent insurance is sometimes referred to as "cash value" insurance. Initially, the cash value is very low because much of the early premiums go to the cost of insurance and sales charges. Over time, however, the cash value grows, based on the interest the insurer pays policyholders. One popular type of permanent insurance, Indexed Universal Life, is like an annuity in that it links the interest credited to one of several equity indexes with a minimum guarantee and no risk of loss in a negative market. After several years of cash value build-up, it may be accessed tax-free.

## How Long Do You Need Life Insurance Coverage?

Most would say they need the security of life insurance for their entire lives. Life insurance can help pay off a mortgage, fund a college education, take care of final expenses, offset the loss of the insured's income, and allow a family to continue its standard of living. Both term and permanent insurance can provide those benefits, but which one can do it most efficiently over the course of a lifetime?

## Do You Prefer Renting or Owning?

The well-known analogy of a term policy as "renting" and a permanent policy as "owning" life insurance is a good way to illustrate their true values. When you rent a house, you receive all the benefits of living in that house. However, when your lease is up, you have built up no equity. Even if you've paid rent for thirty or forty years, when you move out you leave with as much value as you started with — zero. The same is true of a term insurance policy.

Conversely, with a permanent policy, you build guaranteed cash values that you may tap into through policy loans tax free. Some people use them for retirement income, while others use it as a bank, purchasing automobiles and paying the policy back instead of occurring interest by getting a bank loan. They can also be used as a reserve account for emergency funding. This liquidity and flexibility is what makes them so attractive.

## Invest the Difference in What?

Investing wisely is a key factor in determining the success of "buy term and invest the difference." If you choose term insurance, you'll have to decide where to invest your leftover money. Products such as mutual funds and individual stocks and bonds have risk, of course, and the return on these types of assets will vary based on market conditions. When you redeem your shares, they may be worth more or less than you originally paid.

If you are risk averse or very close to retirement, this volatility may not be right for you. Also, capital gains, if any, are taxable when distributed. CDs are a less risky option, but they could have withdrawal restrictions and their return may not be as high as you'd like. With permanent insurance, your policy builds guaranteed cash value that in the long-term could accumulate to a significant sum. These funds accumulate on a tax-deferred basis, and can be conveniently accessed through policy loans that are usually non-taxable. Permanent life insurance has another key tax advantage: the proceeds that flow to beneficiaries are generally free from federal income tax.

## Will You Be Able to Invest Regularly?

There's no question that systematic investment of a fixed sum over the long-term can help build your nest egg. "Pay yourself first" is a great strategy, but will you have the means and the discipline to carry this out? Unfortunately, when it comes to planning for the future, good intentions don't always translate into positive actions. Some people are so overwhelmed by the financial burdens of everyday life that they neglect to put money aside for their future. Without the "invest" component, you're left with a term policy that has no capability of accumulating funds for the future. With a permanent policy, you have both the peace of mind provided by the death benefit and a source of contingency funds in the form of guaranteed cash values.

## The Choice is Up to You

For some, "buy term and invest the difference" may be a legitimate option. While for others, permanent insurance is the way to go. Your decision is a personal one, based on your family's means, needs, and goals. Talk with an Insurance professional who can help you analyze your needs and recommend an appropriate solution – at no charge to you. When you have all the facts and your questions are answered, you’ll be able to make an intelligent decision so that you and your family will have a brighter future.