

LIFE INSURANCE

Difference Between Term And Permanent Life Insurance

There are a few key differences between [term life insurance](#) and permanent life insurance policies that will help you decide which type of policy will best meet your individual needs.

Simply put, term life insurance is good for a predetermined amount of time. When the term is up the policy is typically renewable. The rate may be higher and the coverage amount may be reduced during the renewal period. Term life policies are usually less expensive compared to permanent policies. For this reason, term life insurance is typically the preferred option for policyholders with budget considerations.

Permanent life insurance includes variations like universal life insurance and whole life insurance. When premiums are paid, permanent insurance is good for the entire life of the insured person, and can include cash value in addition to the death benefit. This type of policy can cost more, but is also more versatile. Check out this article on understanding [whole life insurance](#) for more information on these policies.

Cost Permanent life insurance policies will almost always have a higher premium cost than term life insurance policies, primarily due to the duration of the policy. The cash value component (which we cover in-depth below), also adds to the cost of permanent life insurance. There is typically a guaranteed rate of return on the cash value portion of the policy.

Pricing for both term and permanent life insurance primarily depends on the insured persons age and health status. However, some permanent policies, like Ethos' guaranteed issue whole life, skips the traditional underwriting process and evaluates factors like age and sex instead of health.

In most instances, term life insurance is the least expensive option. If you're still unsure about the cost breakdown of term life insurance vs. whole life, check out this article on [life insurance costs](#).

Term Length A term life insurance policy may last as long as 30 or 40 years, but when the time is up, if not renewed, the policy terminates and coverage ends. The insured person must die during the term of insurance for a death benefit to be paid to the beneficiary of the policy.

You'll choose a term length of anywhere between 2 and 40 years upon initiation of the life insurance policy, depending on the insurance company who is issuing your policy. You will also select the amount of coverage you need, which can range from a few thousand dollars to over a million in life insurance protection. At that time, the cost of coverage will be determined by the insurance company. If you agree, you'll pay the premiums until the term is up or until the insured person dies. Prior to renewal, the face value of the policy will not change, nor will the amount of money you pay for the policy.

A permanent or whole life insurance policy lasts for the lifetime of the insured person as long as premiums are paid, no matter how long they live. When they die, their heirs are guaranteed a death benefit.

Death Benefits Both term life and permanent life policies require that premiums be paid to provide a death benefit to designated beneficiaries. For term insurance, if the policy term or renewal expires before the death of the insured person, there is no death benefit and the insurance company will not pay a claim. If the insured dies while the term policy is active, the death benefit will be paid.

Permanent life insurance provides a death benefit to beneficiaries no matter when the insured person dies. Some permanent policies offer a graded death benefit, where the payout is a percentage of the full face amount if the insured passes away in the first couple years of the policy. After coverage has been in effect for several years, the death benefit increases to the full amount. At Ethos, our guaranteed issue whole life policy offers the full death benefit after two years of coverage. This does not apply to deaths that are ruled as an accident, in which case the full death benefit is paid regardless of when the death occurred.

Convertible Policies

Term policies with a conversion option are typically more expensive than term policies without the option. If your term life insurance policy is convertible, you can request that a portion of it be changed to a permanent policy by making a request before the conversion deadline set by the insurance company.

This is a good option for people who want the affordability of a term policy initially and the coverage in later years provided by a permanent policy.

The permanent life insurance policy, after conversion, will have a higher premium than the term policy, but it will also have the benefits associated with permanent life insurance.

Cash Value

Term life insurance policies do not have a cash value. Their benefit is only payable to the beneficiaries during the term and upon the death of the insured person.

Most types of permanent life insurance offer a cash value component that accumulates as policy premiums are paid. This cash value typically grows with a guaranteed minimum rate of return.

In most cases, the insured person can borrow against the cash value that's accumulated in the policy, withdraw the cash value, or leave it in the policy to increase the death benefit.

How To Choose Between Permanent And Term Life Insurance

Because these two life insurance options have so many differences, choosing between them is really a simple matter of evaluating your individual circumstances. Here are some easy guidelines:

Term life insurance is great for:

- People who want the least expensive life insurance option
- People who want to protect their family from a loss of income and help them pay off debts, fund college tuition and retire early if the insured were to pass away during these income earning years
- Young people who need to replace income in the event of their untimely death, but don't have extra money to spend on insurance
- People who only need life insurance for a certain amount of time, such as during the time when kids are living at home or until their house is paid off

Permanent life insurance is great for:

- People who want coverage for life, no matter how long they live
- People who are looking for a policy to cover their final expenses
- People who want to leave money to heirs, using life insurance as a form of estate planning
- People nearing or at retirement age, who like the security of the future cash value of the policy to access later if needed
- Managing estate taxes so that heirs don't have to cut into their inheritance to pay them
- Funding for a special needs trust to provide lifelong care for a dependent after the insured person dies
- Equalizing inheritance when only one child can be the recipient of property or the family business

Before purchasing any type of life insurance, make sure you understand the policy you are considering. While term life insurance is more affordable and fairly straightforward, it provides coverage for a limited time. Permanent life insurance, although more expensive, can include additional benefits, which may be beneficial to your unique circumstances. Some financial topics related to life insurance, like setting up a trust or managing estate taxes, require the advice of tax and estate planning professionals.