

The Insurance Counselor
Term or Whole Life?
Whole Life—Utility Value
Part 1 of a 3 Part Series
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“He has made everything appropriate to its time...” Ecclesiastes 3:11

Many people ask, "Should I buy term or whole life insurance?" The answer to that question involves a detailed discussion of what your goals and objectives are.

Beware of those that say only buy term insurance or only buy whole life insurance. Generally these people do not have your best interest in mind. Such *blanket* statements (i.e. “Never do this” or “Always do that...”) about *personal* financial planning are misguided at best and dangerous at worst. Truly professional planners analyze each situation as unique. True professionals know that each product has its place.

For instance, term insurance is an excellent way to cover short term debt such as auto or business loans. It can also be used to cover short term risk like when one spouse chooses to stay home with young children for a few years before returning to the work force. Whole life insurance, on the other hand, is designed to cover more long term or "permanent" needs.

Whole life insurance is also called permanent insurance because it offers guaranteed premiums, guaranteed cash values (often referred to as “living benefits”) and guaranteed death benefits until at least age 100. This type of policy often allows for cash loans against the inside cash value. “Participating” whole life policies also pay dividends, which can be used to increase the cash values and death benefits, among other options. Some people use permanent insurance to supplement their retirement. Others still, use it to maximize their estate plan to transfer wealth on a tax free basis, or to make charitable gifts. Whole life insurance is, to use a sports analogy, a true utility player.

Term life, on the other hand, is less expensive up front because the insured generally outlives the protection offered by the policy. It is designed to terminate before the insured dies. In the long run, buying term insurance is generally more expensive than permanent insurance (it’s also more profitable for insurance companies.) Most term policies do not build an inside cash value or participate in dividends. Term insurance is relatively simple to understand. You pay a premium, and you have a specified benefit if you die during the term period. It is strictly protection and offers little in the way of utility value.

I will focus in this series, on the more complicated of the two--good old fashioned whole life. In Part 2 I will dispel the three most common whole life myths I encounter on a regular basis. Have you been misled to believe these untruths? Find out next week. In Part 3 I will share with you secrets the affluent in our country have learned about whole life insurance and explain why most of them own it in their portfolios.

In answering the question “Should I buy term or whole life?” I would strongly recommend only doing business with a competent professional who respects your goals and your tolerance for personal assumption of risk. Make sure the agent you deal with can offer you both kinds of life insurance. Whether you are conservative or aggressive in your financial planning, life insurance should be tailored to your needs, and your agent should be able and willing to accommodate those needs. You might just find that you need both kinds of insurance. I did.

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