

## L-H LEADS

## Safety Net

*Exploring the distinctions between term and whole life insurance*

By Paresh Shah

**The difference between** term and whole life insurance often leaves consumers confused and needing guidance. Financial advisers can highlight the core differences between the two policies to help clients determine which policy or policies align with their financial goals, budget and life stage.

Term life insurance provides financial protection for a specific period, typically 10, 20 or 30 years. If the insured person passes away during this period, the insurance policy will pay out a death benefit to the designated beneficiaries. However, if the term expires and the policyholder is still alive, the coverage ends and no benefits are paid unless the policy is renewed, converted or replaced with a new plan. Generally, it's more affordable and premiums remain fixed throughout the duration, making it an attractive option for young families or those on a tight budget.

On the other hand, whole life insurance offers lifelong protection and includes a cash value component that grows over time with tax deferment. This serves as an additional savings option, giving clients a degree of flexibility and liquidity. Additionally, it is an effective tool for estate planning, allowing wealth transfer to beneficiaries without probate complications.

With fixed premiums that remain stable regardless of age or health changes, whole life insurance provides predictable costs over time. While premiums are high, this policy type can be a protection and investment vehicle.

Term life insurance is ideal for those with temporary needs, like covering a mortgage, providing for children until they're financially independent, maximizing coverage on a limited budget, or addressing debts and temporary income replacement for family members. In cases where younger clients are still growing assets, term life insurance can act as a



safety net, giving them time to build a financial foundation.

Whole life, however, shines for those with permanent needs or estate planning goals. Advisers recommend this option for individuals with special needs dependents and those seeking guaranteed cash value growth, long-term stability or to leave a legacy. While a whole life policy might cost \$300 to \$400 per month—significantly more than the \$20 to \$50 per month for term life—it provides lifelong coverage and builds cash value.

Because whole life policies are typically more expensive than term life policies, they tend to better suit clients with a solid financial foundation, including clients seeking wealth preservation and transfer opportunities to heirs or beneficiaries.

Additionally, whole life insurance policies often come with dividends, which clients can use to reduce premiums, purchase additional coverage or take as cash. These dividends are not guaranteed but can add significant value over time.

Explaining these nuances can help clients make a more informed decision. How-

ever, the decision ultimately depends on a client's needs. For many, achieving the right balance between cost and coverage means blending insurance benefits.

Experts recommend a combined approach: Secure an extensive term policy, like a convertible term policy, to cover immediate needs and supplement with a smaller whole life policy for long-term goals. For instance, young professionals might start with a term policy to ensure adequate coverage during their peak earning years while gradually adding or converting to whole life coverage as they grow their wealth.

A financial adviser can help determine the best options, ensuring peace of mind with proper coverage. Weighing the pros and cons of each type and combining both can create a robust financial safety net that offers both immediate and long-term benefits.

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