Term vs. Perm: Which is Right For You?

If you've been thinking about life insurance, especially if you have family, loved ones, or anyone who depends on you financially, you might be curious about the different kinds of policies available. Which type is right for you?

Essentially, you can look at two main categories of life insurance: term and permanent.

Term insurance is a pay-as-you-go option that covers a specific amount of time, usually 20 years or fewer. Term insurance benefits are paid to your beneficiaries free of federal income taxes if you pass away during the coverage period, but there's no opportunity to build cash value.

Permanent insurance, such as whole life or universal life, offers coverage for as long as you pay the premiums, and in addition to providing a tax-free death benefit, also offers a chance to build equity, or cash value, on a tax-deferred basis.

When determining which type of insurance is appropriate for your needs, you'll want to consider these factors:

• *Cost* – Term insurance is generally affordable for most people, which is why it may be particularly suitable for parents and young adults who may be at the beginning of their careers. Permanent insurance is typically more expensive, largely because it is meant to last for one's lifetime and some of the premiums go toward building cash value in the policy and paying for other features. Generally, the younger and healthier you are when you purchase permanent insurance, the lower your rates will be.

• *Length of time insurance is needed* – If you think you will only need life insurance for a certain period — perhaps until your children are grown — you might lean toward term insurance. If you feel the need for life insurance for other goals throughout your lifetime, for whatever reason — you might have a special needs child, or perhaps you want to use your policy to help pay for retirement, or you wish to include the policy as part of your legacy and estate plans — you may want to consider some type of permanent insurance.

• *Investment preferences* – You may have heard the phrase "buy term and invest the difference." Essentially, this just means that an investor could purchase low-cost term insurance, and then invest the money that was saved by not getting permanent insurance. This can be a valuable strategy in some situations, but people often don't actually invest the difference. A permanent insurance policy, through the payment of premiums, may result in a steady buildup of cash value or continued contributions to the policy's investment components. For many people, this discipline is helpful.

• *Future insurability* – If you have health issues, it could become difficult to get permanent insurance after you've reached the end of a term insurance policy. (Some term insurance policies do offer the opportunity to convert to permanent coverage, usually without the need for a medical exam.) You could avoid this potential problem by purchasing permanent insurance when you are still young and healthy.

Ultimately, you will need to weigh the various factors involved in the permanent-versus-term decision. You also might benefit from consulting a financial professional, who can evaluate which type of insurance is most appropriate for your situation. But whether it's term or permanent, make sure you have the coverage you need to protect yourself and your loved ones.

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