

# Is Life Insurance Worth It?

## The pros and cons of investing in permanent life insurance

[Life insurance](#) is something you may consider adding to your [financial plan](#) if you're interested in providing a measure of security for your loved ones. Proceeds from a life insurance policy can be used to pay final expenses, eliminate outstanding debts or cover day to day expenses. Whether life insurance is a smart investment may depend on what you need and want a policy to do for you.

### KEY TAKEAWAYS

- Whether or not life insurance is a good investment for you depends on your individual finances as well as the length you'll need coverage.
- Term life insurance can make sense if you want to be covered for a set time period, while permanent life insurance can cover you for life.
- The investment portion of permanent life insurance grows tax-free. You can also borrow against the cash value to buy a house or pay for your children's college costs, tax-free.
- Alternatively, with term life insurance, all of your payments are put toward the death benefit for your beneficiaries, with no cash value and, therefore, no investment component; this means small premiums in exchange for a large death benefit.

## Types of Life Insurance

When deciding whether life insurance is a good investment, it's important to understand the types of policies you can purchase. There are several variations of life insurance plans, but they generally fall into two categories: permanent and term.

[Term life insurance](#) is designed to cover you for a set term, hence its name. For example, you may purchase a 20-year or 30-year term life policy. These policies function similarly to other types of insurance policies you may carry, like car insurance; you pay a premium each month and if something bad happens—in this case, your early death—there's a benefit paid out.

[Permanent life insurance](#), on the other hand, covers you for life as long as your premiums are paid. Certain types of permanent life insurance can also have an investment component that allows policyholders to accumulate a cash value. When you hear financial advisers and, more often, life insurance agents

advocating for life insurance as an investment, they are referring to the [cash-value component](#) of permanent life insurance and the ways you can invest and borrow this money.

Term life insurance premiums are typically less expensive than permanent life insurance premiums.

## Pros and Cons of Permanent Life Insurance

There are many arguments in favor of using permanent life insurance as an investment. However, many of these benefits aren't unique to permanent life insurance. You can often get them in other ways without paying the high management expenses and agent commissions that come with permanent life insurance. Here are a few of the most widely advocated benefits of permanent life insurance.

### Pro: Tax-deferred growth

Permanent life insurance policies that have an investment component allow you to grow wealth on a tax-deferred basis. This means you don't pay taxes on any interest, dividends, or [capital gains](#) on the cash-value component of your life insurance policy until you withdraw the proceeds.<sup>1</sup> This is similar to the tax benefits you get with certain retirement accounts, including IRAs, 401(k)s, and 403(b)s. If you're maxing out your contributions to these accounts year after year, investing in [permanent life insurance for tax reasons](#) may make sense.

### Pro: Lifetime coverage

Another touted benefit of permanent life insurance is that you don't lose your coverage after a set number of years. A term policy ends when you reach the end of your term, which for many policyholders is in their 60s, while permanent policies can cover you for life. If you anticipate people being financially dependent on you beyond the length of a typical term policy (for example, a disabled child), this benefit may be attractive to you.

### Pro: Borrow against the cash value

If you need money to buy a home or pay for college, you can borrow against the cash value of a permanent life insurance policy. Conversely, if you put money in a [tax-advantaged](#) retirement plan like a 401(k) and want to take it out for a purpose other than retirement, you might have to pay penalties.<sup>2</sup> Further, some retirement plans, like the [457\(b\)](#), make it difficult or even impossible to take out money for such purposes.<sup>3</sup>

### Pro: Accelerated benefits

You may be able to receive anywhere from 25% to 100% of your permanent life insurance policy's death benefit before you die if you develop a specified condition such as heart attack, stroke, invasive cancer or end-stage renal failure. The upside of [accelerated benefits](#), as they're called, is you can use them to pay your medical bills and possibly enjoy a better quality of life in your final months.<sup>4</sup>

Accelerated benefits aren't unique to permanent life insurance; some term policies offer them too.

### Cons of Permanent Life Insurance

While permanent life insurance can yield several benefits, there are some potential downsides to keep in mind. Cost is one of the most important. Compared to term life insurance policies, permanent life insurance can require you to pay higher [premiums](#). If it turns out that you don't need insurance coverage for life, you may be paying premiums unnecessarily.

Permanent life insurance could also have tax implications for yourself if your beneficiaries if you decide to surrender a policy or you pass away with a loan outstanding. And taking loans or accelerated benefits could reduce the death benefit that's paid out to your beneficiaries when you pass away.

## Pros and Cons of Term Life Insurance

Term life insurance could be a good investment if you don't want to leave your loved ones with the burden of paying off debt or other expenses. Here are some of the most important benefits of purchasing a term life policy.

### Pro: Lower premiums

Term life is generally less expensive to purchase compared to permanent life insurance. That's because the insurance company assumes less risk since you're only insured for a set time period. The younger and healthier you are when you buy a term life policy, the lower your premiums are likely to be.

[No-exam term life insurance policies](#) may allow you to skip the medical exam but they can carry higher premiums.

### Pro: Flexibility

One advantage of term life insurance is that you can choose how long you want to be covered. So if you think you'll only need life insurance for 10 years or 20 years, you can choose a term that matches up with your needs. That means you have predictability in estimating how much you'll pay in premiums over the entire

term. A permanent life policy, on the other hand, would be more of a guessing game since there's no fixed end date.

#### Pros: Convert to permanent insurance

If you decide you want to extend your term life policy indefinitely, you could convert it to permanent life insurance coverage. Doing so may increase your premiums but it may be a worthwhile investment if you want to have coverage for life. Converting could also give you the opportunity to accumulate cash value.

#### Cons of Term Life Insurance

When you buy a term policy, all of your [premiums](#) go toward securing a death benefit for your beneficiaries. Term life insurance, unlike permanent life insurance, does not have any cash value and therefore does not have any investment component.<sup>5</sup> If you're still alive when the term ends, the policy simply lapses and you and your beneficiaries don't see any money.

However, you can think of term life insurance as an investment in the sense that you are paying relatively little in premiums in exchange for the peace of mind knowing that in the event of your death, your beneficiaries will receive a relatively large death benefit.

### Term Life Insurance Example

A non-smoking 30-year-old woman in excellent health might be able to get a 20-year term policy with a death benefit of \$1 million for \$480 per year. If this woman dies at age 49 after paying premiums for 19 years, her beneficiaries will receive \$1 million tax-free when she paid in just \$9,120.

Term life insurance provides an incomparable [return on investment](#) should your beneficiaries ever have to use it. That being said, it provides a negative return on investment if you are among the majority of policyholders whose beneficiaries never file a claim. In that case, you will have paid a relatively low price for peace of mind, and you can celebrate the fact you're still alive.

### Permanent Life Insurance Example

What if the same woman described above had bought permanent life insurance instead? For a [whole life](#) insurance policy from the same insurance company, she could expect to pay \$9,370 annually. So how much cash value would she build up for that extra cost?

- After five years, the policy's guaranteed cash value is \$19,880, and she will have paid \$46,850 in premiums.

- After 10 years, the policy's guaranteed cash value is \$65,630, and she will have paid \$93,700 in premiums.
- After 20 years, the policy's guaranteed cash value is \$181,630, and she will have paid \$187,400 in premiums.

But after 20 years, if she had bought term for \$480 a year and invested the \$8,890 difference, at an average annual return of 8%, she would have \$421,064 before taxes.

"Sure," you say, "but the permanent life insurance policy guarantees its return. I'm not guaranteed an 8% return in the market." That's true. But even if the woman described above had put the extra \$8,890 a year in a savings account with 1% interest, she would have \$196,425 after 20 years, which is still more than the permanent policy's guaranteed cash value of \$181,630.

## Is Life Insurance a Smart Investment?

Using permanent life insurance as an investment might make sense for certain high net-worth individuals looking to minimize [estate taxes](#). But for the average person, buying term and investing the difference is usually the better option.

Even if you're purchasing life insurance primarily for investing purposes, it's still important to research the [best life insurance companies](#) to ensure you're getting the most beneficial policy possible.

Protecting those you love doesn't have to be difficult.

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