Advantages and Disadvantages of Term and Permanent Life Insurance

Have Insurance Challenges? We've got answers!

While life insurance may seem confusing and is not a topic people want to address, it is important to have life insurance and to pick the right type of policy. There are different options, and the right option for one person may not necessarily be the right option for another person. Each one has advantages and disadvantages.

Term Life Insurance
As its name implies, term life insurance provides coverage for a specific term or amount of time. If the person outlives that term, it is necessary to obtain a new policy or renew the existing one. This type of policy is optimal for people who do not expect to outlive the term. Some people buy life insurance based on a period of potential need. For example, a person who wants to make sure her new baby is able to go to college someday may choose a term of 20 years. In the event the woman dies after 17 years, there will be money for the child's college fund by the time that child is old enough to attend college. Term life insurance typically has lower premiums and is a good solution for people who are budgeting. There are also convertible term life insurance policies. These make it possible to upgrade a term policy to a permanent one for a higher premium. This is a good option for people who are on a tight budget but expect their finances to be looser in the future.

Term Life Insurance
People who want to avoid having to possibly renew a policy or find a new one later on often choose a form of permanent life insurance. These policies pay a death benefit whether the policyholder dies in 100 years or in 10 days. There are several different types such as universal life, variable life and a combination of the two. Many people also choose permanent life insurance to enjoy a tax-deferred savings element. If there is a major emergency several years in the future, the policyholder may borrow a certain amount of the accumulated funds. Some people may also borrow funds to simply pay the life insurance premium to keep the policy active when money is tight. There are no credit requirements for borrowing money from the policy. When policyholders take out a loan against the total death benefit and die before the amount is repaid, the amount owed is subtracted from the total death benefit. The beneficiary receives the remaining amount.

The premiums for permanent life insurance are higher than they are for term life insurance. However, policyholders pay the same premium for the entire length of the policy with a permanent option. Policyholders who choose term life will pay more later on because of their age if they renew the policy. To learn more about term life insurance options or the different types of permanent life insurance, discuss concerns with an agent.

At Hartfield Financial & Insurance Services, Inc, we're focused on giving you access to the information you need to make the right decisions.