Francis Financial
Your Path to Prosperous Living™

Term or Whole Life Insurance – Which Is Right for You?

I had breakfast with a new client this morning, at a cozy new bakery around the corner from my office. While the fruit and croissants couldn't have been better, our conversation was anything but. My new client was - like so many people these days – in a bit of a tough spot financially, so last week he attempted to cash out on the whole life insurance policy he purchased three years ago. He had put almost $9,000 into it, surely, he would be able to withdraw something?

Before sharing his account of this transaction, allow me to explain the difference between term and whole life insurance. Put simply, a term insurance policy is acquired for a certain period of time, often with an option to renew. If the insured person dies before the end of the term, the beneficiary is paid the face value of the policy. A whole life insurance policy is usually for life, and it has both insurance and cash value components.

Now, back to my new client's case.

The woman who sold him the policy informed him that if he wished to make a cash withdrawal, he would have to wait several years. Even then, he wouldn't get much.

This type of scenario is far from uncommon. Most whole life insurance policies you need to hold for at least twelve to fifteen years if they are to generate decent returns – some of them never do. Other drawbacks with these types of insurance policies include hidden fees, high commissions (100% of the first year's premium is not unusual), and that overall, they tend to be lousy investments. There are so many better ways to save for retirement!

So unless you have a very high net worth and intend to use the whole life insurance policy for estate planning purposes or a disabled child or parent, opt for term insurance. It is simpler, less expensive, and you are much better off investing your money elsewhere.

Wishing you prosperity and happiness,

Stacy

Stacy Francis, CFP, CDFA

© 2009 Stacy Francis. All Rights Reserved.
stacy@francisfinancial.com | http://www.francisfinancial.com