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# Term vs. Cash Value Life Insurance

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Which type of life insurance is better--term or cash value? Insurance buyers have been asking this question for generations. When choosing between these two fundamentally different alternatives, you'll need to think about the amount of coverage you need, the amount of money you can afford to spend, and the length of time you need the coverage to continue.

## Term insurance

Term insurance is often referred to as pure insurance. Term policies provide life insurance coverage for a specified period of time. You can typically buy term insurance for periods ranging from 1 to 30 years. If you die during the policy period, your beneficiary receives the policy death benefit. If you don't die during the term, your beneficiary receives nothing. At the end of the specified policy term, your coverage simply ends. You may be able to renew your policy without a physical exam, but at a much higher premium. Once you reach a certain age (usually 70 and older), you may find it difficult to get term insurance coverage--and if you can, the premiums will be very expensive. There are several variations of term life. You can buy a level death benefit or a decreasing death benefit with premiums that increase annually, or that are level for a period of years (5,10,15, 20, 25, or 30).

## Cash value insurance

Cash value insurance, often called permanent insurance, is life insurance that is designed to have you pay a "levelized" premium throughout your life. In some cases, you may fund a cash value policy in a way that the cash values can be used in later years to pay future premiums. As long as you continue paying your premiums by whatever means, cash value life insurance continues throughout your life, regardless of your age or your health. As you pay your premiums, a portion of each payment is placed in the cash value account. During the early years of the policy, the cash value contribution is a large portion of each premium payment. As you get older, and the true cost of your insurance increases, the portion of your premium payment devoted to the cash value decreases. The cash value continues to grow--tax deferred--as long as the policy is in force. You can borrow against the cash value, but unpaid policy loans will reduce the death benefit that your beneficiary will receive. If you surrender the policy before you die (i.e., cancel your coverage), you'll be entitled to receive the cash value, minus any loans and surrender charges. Many different types of cash value life insurance are available, including whole life, variable life, universal life, and variable universal life.

**Note:** *Variable life insurance and variable universal life insurance policies are offered by prospectus, which you can obtain from your financial professional or the insurance company issuing the policy. The prospectus contains detailed information about investment objectives, risks, charges, and expenses. You should read the prospectus and consider this information carefully before purchasing a variable life insurance policy.*

## Making a choice

Term insurance coverage typically costs less than cash value insurance coverage when you're younger, but because the cost of a term policy is based on your age, the cost may eventually exceed that of cash value if you continue to renew your term policy. In contrast, these factors are taken into consideration when cash value insurance premiums are set. As a result, certain cash value policy premiums typically remain the same throughout the life of the policy.

In some cases, the choice may be clear. For instance, your insurance need may be so large that the only way you can afford to meet it is by purchasing lower-premium term insurance. Or, you may need the coverage only for a few years, again making term insurance the logical choice. But if you can afford to pay higher premiums, and you need long-term protection, you may want to consider cash value insurance.

In some cases, you may want to have both types of life insurance coverage. For instance, if you want to have some life insurance at the time of your death, you might consider buying the bulk of your life insurance as term and a smaller portion as cash value. When your need for life insurance decreases, the term policy could be discontinued and the cash value policy kept. It's also possible to buy a term policy that is convertible to a whole life policy later.

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