

What are the Pros and Cons of Whole Life Insurance?

Most people are familiar with whole life insurance. For many years whole life policies were the predominant type of life insurance sold in America.

When you purchase a whole life policy, you traditionally pay a fixed premium for as long as you live, or for as long as you keep the policy in force. In exchange for this premium, the insurance company promises to pay a set benefit upon your death.

In addition to providing a death benefit, whole life policies build cash value.

Part of your premium goes to the insurance company to pay for the pure protection element of your policy. The remainder is invested in the company's general investment portfolio. The insurance company will pay a guaranteed rate of return on the balance of your policy that is in the investment portfolio.

This cash value buildup is part of the reason the premiums on a whole life policy generally remain fixed for the duration of the policy instead of increasing to match the increased risk of death. As the cash value within your policy grows, the risk to the insurance company declines. Your stake represents an increasing share of the face value of the policy.

Although the cash value in your policy is "your" money, you can't simply withdraw it as needed as you would with a savings account. You do have access to your funds, though.

In order to withdraw funds, you can either surrender the policy for its cash value or take the needed funds as a policy loan.

However, outstanding loans will reduce the policy's death benefit.

Be aware, though, that in addition to charging you a modest interest rate for borrowing the funds, the insurance company may pay a lower rate of return for that portion of your cash value that represents the amount you borrowed. But policy loans are generally not taxable and can provide the cash to help with unexpected expenses.

The cash value on a life insurance policy accumulates tax deferred. If you surrender the policy, you'll incur an income tax liability at that time, but only for those funds that exceed the premiums you have paid.

One of the attributes that makes whole life policies so attractive to some individuals troubles others. That's the fixed premium and fixed death benefit.

To some, this means one less thing to worry about. You know in advance what you'll have to pay in premiums and exactly what your death benefit will be.

To others, this doesn't provide enough flexibility. If your situation changes, you will likely be unable to increase or decrease either your premiums or death benefit on your whole life policy without surrendering it and purchasing a new policy.

The level premium and fixed death benefit make whole life insurance very attractive to some.

The cost and availability of the type of life insurance that is appropriate for you depends on factors such as age, health, and the type and amount of insurance you need. If you are considering purchasing life insurance, consult a professional to explore your options.