

# Life Letter

## Is whole life insurance a rip-off?

Every so often, a self-proclaimed "expert" gets some media attention by claiming that whole life insurance is a rip-off. But are they right?

The critics of whole life say term insurance is better because it has no cash values and cash values are the only advantage whole life has over term. This shows a lack of knowledge of the reasons for, and history of whole life insurance. One expects critics to do their home-work before they spout off.

The truth is that term insurance is neither better nor worse than whole life. Nor is whole life better than term. Like a bicycle and a car, they both perform the same function, but in different ways to satisfy different needs.

Whole life evolved from term insurance like the automobile evolved from the bicycle. Originally there was only term insurance, but the media of over two centuries ago felt it was a rip-off because the older you got the more you had to pay.

Eventually it became too expensive to continue, so you dropped it. This left the insurance company with all the premiums you paid over the years and no obligation to pay you anything. Insurance companies liked this, but the newspapers of the day thought it was inequitable.

They thought that it would be more equitable to have life insurance that didn't run out before you died. It should also have a level premium so it doesn't become more expensive as you got older. Naturally,

you'd pay more in the early years so you could pay less in the later years. The answer they developed to overcome the disadvantages of term insurance we now call whole life insurance because it insures you for the whole of your life.

In its first century it lacked cash values, so people bought it for its level premium and lifelong coverage. The insurance company had to maintain the coverage for the lifetime of the insured no matter what. He might double his weight, change to a high-risk occupation or be struck with an incurable disease. The insurance company could not increase his premiums or cancel the policy.

Term insurance is for a fixed term - it is temporary. If you still need the insurance when the term expires, you'll have to start all over. You'll have to apply for a new policy, satisfy new medical requirements and, if you can get it, pay a higher premium. It's best for situations that you know will be temporary, like certain debts.

Whole life is for permanent needs, or those that may be permanent. If you start with whole life to cover something that appears to be permanent, to find years later that it isn't, it may cost you a little.

But if you start with term for a temporary need, only to discover when it expires that you still need the protection, it can cost you much more. Compare it to starting a trip on a bike, to find out too late that a car was needed to protect you from the storms you faced along the way.

**Want help with your life insurance planning? Call today!**

***Shelley L. Bertram***

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