

Know the difference: Whole life insurance vs. term life insurance



There's a simple commonality among all humans — just as we live, we die. And there's no promise that we'll live longer than those before us. Between 2018 and 2020, average life expectancy at birth in the United States decreased by about 1.9 years, with the average Black American's life span decreasing by 3.25 years and the average Hispanic American's decreasing by nearly 3.9 years.¹

This unpredictability may make us want to secure our families' livelihoods. In fact, 54% of Americans were covered by some type of life insurance in 2020,² and others likely looking to purchase life insurance. But having a policy isn't enough — one-third of life insurance policyholders don't fully understand how their policies work,³ potentially leading to misunderstandings that leave people unprotected.

To help you and your employees avoid these information gaps, read on to learn the difference between two common types of life insurance policies: whole life insurance and term life insurance.

Whole life insurance vs. term life insurance

As its name implies, whole life insurance lasts for the duration of the policyholder's life, however long that may be. It guarantees payment of a death benefit to the policyholder's beneficiaries in exchange for regular premium payments.

[Whole life insurance](#) also has a savings feature known as cash value. With cash value, interest accumulates at a guaranteed rate and on a tax-deferred basis. The policyholder has the option to tap this account for funds — although this can be risky, as not paying back policy loans will reduce the death benefit.^{4,5}

The function of [term life insurance](#) is also implied in its name. It's life insurance that lasts for a fixed period, often 10, 20 or 30 years. Also known as pure life insurance, this policy guarantees payment of a death benefit if the policyholder dies during the term. Once the term expires, policyholders can renew the policy, convert the policy to permanent coverage or allow it to end. Unlike whole life insurance, term life policies have no value beyond the guaranteed death benefit — there's no savings component.⁶



There's another notable difference between whole life insurance and term life insurance: price. Term life policies have significantly lower premiums than whole life policies because they are temporary policies with no cash value. (Whole life policies' lifetime coverage, cash value and guaranteed rate of investment aren't exactly freebies.) The difference is gargantuan — while the average 40-year-old man would pay \$341 per year under a 20-year, \$500,000 term life insurance policy, his yearly premium under a whole life policy would be \$6,042.⁵ Yet despite the price disparity, each coverage type has its pros and cons.

The benefits of whole life insurance

- Can [fund a trust to provide care for dependents](#) after the policyholder's death.
- Premium remains the same for the policyholder's entire life.
- Guaranteed payout of the death benefit.
- Can tap into funds from the cash value.
- Cash value grows at a constant rate.

The disadvantages of whole life insurance

- Can't choose the policy length.
- More expensive than term life insurance.

The benefits of term life insurance^{6,7}

- Customizable term length.
- Can obtain large amounts of coverage at a reasonably low cost.
- Guaranteed payout of the death benefit if the policyholder dies during the term.

The disadvantages of term life insurance

- If the policyholder outlives the term length, coverage ends and beneficiaries will not receive the death benefit.
- No cash value.

How to switch between types of life insurance

Regardless of which policy your employees have, they may be able to convert to a different type. Term life insurance policies tend to have an option that allows the policyholder to convert to a whole life insurance policy, although the conversion period is limited.⁷

Similarly, it's possible to switch from a whole life insurance policy to term life. If enough cash value has been accumulated within a whole life policy, the policyholder can broach the insurer about using this cash value to switch to a term life policy that's paid up. The insurance company will determine the length of the new policy based on the money in the cash value account.⁸

Thinking of adding life insurance to your benefits? Don't delay

No matter which type of life insurance your employees buy, it's better to acquire it earlier than later. In fact, 40% of people with life insurance wish they had bought their policies when they were younger.¹⁰ That's not just for protection against accidental death, either. With premiums for whole life policies staying the same throughout the

policyholder's life, buying a policy while young and healthy will result in a premium that's less costly than it would be down the road — the average premium for a man increases 258% between ages 25 and 50.²

But it's also worth letting your employees know that life insurance may cost less than they think. Fifty percent of people overestimate the cost of term life insurance, and millennials in particular overestimate the cost by 213%.

For instance, 42% of millennials estimate that a \$250,000 term life policy for a young, healthy person costs \$1,000 or more per year, when in reality it's closer to just \$160 per year.²

Don't let a misconception stop you or your employees from securing the livelihoods of your families. Get both [whole life and term life insurance quotes from Aflac](#), and allow yourself to make the most informed decision you can.



¹ NBC News. "U.S. life expectancy decreased by an 'alarming' amount during pandemic." Published 6.23.2021. [Accessed 7.12.2021](#).

² Bankrate. "Life insurance facts and statistics 2021." Published 4.28.2021. [Accessed 7.12.2021](#).

³ LendEDU. "54% of Americans Own a Life Insurance Policy, But One-Third Not Exactly Sure How It Works." Published 3.3.2021. [Accessed 7.12.2021](#).

⁴ Investopedia. "Whole Life Insurance." Updated 3.26.2021. [Accessed 7.12.2021](#).

⁵ NerdWallet. "Term vs. Whole Life Insurance: How to Choose." Published 4.29.2021. [Accessed 7.12.2021](#).

⁶ Investopedia. "Term Life Insurance." Updated 3.21.2021. [Accessed 7.12.2021](#).

⁷ Aflac. "Term Life vs. Whole Life Insurance: What are the Differences?" [Accessed 8.13.2021](#).

⁸ Forbes. "Comparing Term Life vs. Whole Life Insurance." Updated 05.05.2022. [Accessed 8.24.2022](#).

⁹ Policygenius. "Life insurance statistics in 2021." Updated 1.13.2021. [Accessed 7.12.2021](#).

Aflac supplemental coverage is underwritten by Aflac. In New York, Aflac supplemental coverage is underwritten by Aflac New York.

Content within this article is for informational purposes and does not constitute legal, tax or accounting advice regarding any specific situation. Aflac cannot anticipate all the facts that a particular employer will have to consider in their benefits decision making process.

A68000 SERIES Whole and Term Life: In Arkansas, Idaho, Oklahoma and Virginia, Policies: ICC1368100, ICC1368200, ICC1368300, ICC1368400 and Riders: ICC1368050, ICC1368051, ICC1368052, ICC1368053, ICC1368054, ICC1368055.

This is a brief product overview only. Coverage may not be available in all states. Benefits/premium rates may vary based on plan selected. Optional riders may be available at an additional cost. Plans and riders may also contain a waiting period. Refer to the exact plans and riders for benefit details, definitions,

Aflac | WWHQ | 1932 Wynnton Road | Columbus, GA 31999
Aflac New York | 22 Corporate Woods Boulevard, Suite 2 | Albany, NY 12211