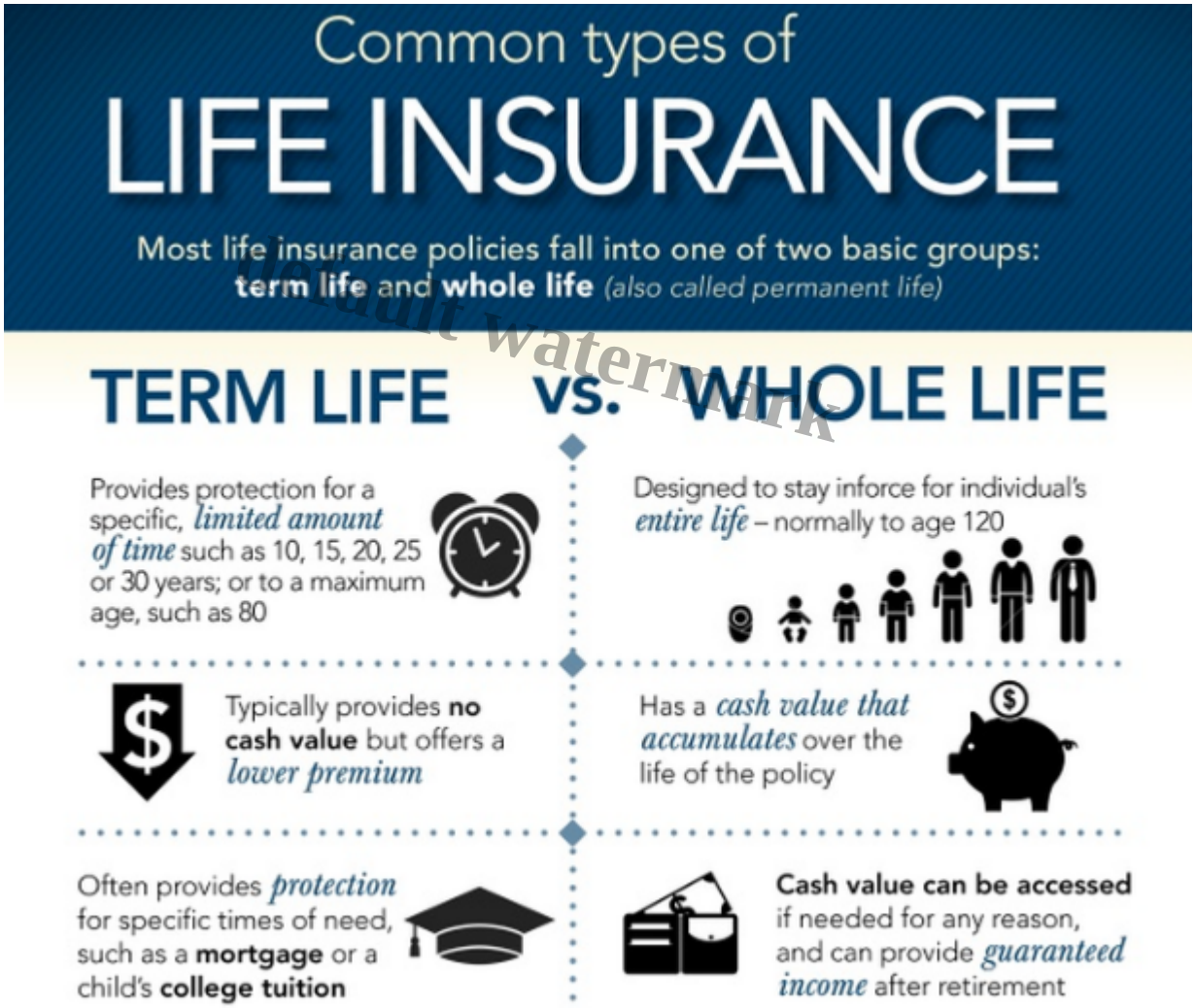
Should I buy Term or Whole Life Insurance?

Description

Should I buy term or whole life insurance? Which is better? Which is cheaper?



The debate about term insurance vs. whole life insurance policies wages on. On one side of the fence, you have financial bloggers like yours truly and folks at DIYInsurance championing term insurance; on the other end stands the industry, insurance agents, and many more numbers.

Insurance isnâ??t the easiest topic to comprehend. When I first entered the working world, I didnâ??t know a thing about insurance â?? all I knew was that it was something I needed to buy. All the terms and calculations were too complex for me, so I decided to take the easy way out and simply go with what my financial adviser recommended.

That product was a investment-linked plan (ILP), and Iâ??ve paid over $3000 in premiums for my folly. After becoming a finance writer and understanding the inner workings of the insurance industry, I realized it was a poor product for my needs and cancelled my ILP, effectively waving goodbye to all that money.

It was an expensive lesson to learn.

But you donâ??t have to go through the same. Thanks to more people writing about the pros and cons of different insurance products together, including the folks at Providend, we now have access to more resources that can help us make informed decisions about our insurance. No longer do we need to take our insurance agents at their word.



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How do insurance companies recruit fresh graduates? Iâ??ve been to their recruitment drive when I was a final-year student in the past, and the push was always about how much money you can make in the job. At top insurance companies, many agents are primarily trained on how to sell whole-life plans, endowments and investment-linked policies â?? the plans that generally pay better and allow agents to achieve the coveted Million Dollar Round Table (MDRT), exotic travel holidays and other monetary incentives. While I donâ??t doubt that there are good and honest agents out there who sell for their clientsâ?? benefit instead of their own, Iâ??m still skeptical because of how the structural foundations are laid out in the industry.

I met Christopher, the CEO of Providend, last year and we had a good chat about how weâ??re generally the minority when it comes to our preference for term insurance over whole-life plans. Recently, he published a comprehensive e-book which I think will be useful to anyone looking at purchasing insurance â?? whether or not youâ??re a first-time buyer.

Here are some key pointers you probably want to note:



Understanding the REAL function of insurance

The main purpose of insurance is to PROTECT us, and NOT to help us save or invest.

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While some consumers might prefer bundled products for convenience, Iâ??m not a huge fan of those because they donâ??t always give you the best value for your buck. With plenty of options available to boost your savings and investments, I donâ??t see a need to use insurance, especially since the low returns, coupled with the lack of liquidity and flexibility, makes it a poor financial tool.

The results havenâ??t been fantastic either. Check out the 7-year historical fund performance by ourinsurers here and find out why policy-holders are getting angry that theirpayouts are much lesser than what they thought they would be getting.

Since insurance is primarily for protection, it makes sense that we should buy as much as we need while spending as little as can we. In that way, we can then free up precious financial resources for other priorities â?? paying off our debts, saving for retirement, saving for your childâ??s college fees, or even just going on our next dream vacation.

If youâ??re purchasing insurance for the first time, youâ??re forgiven if youâ??re confused as to whether **Death / Terminal Permanent Disability (TPD)**coverage is sufficient, or if you need to add on **Critical Illness** coverage as well. There are no right or wrong answers â?? these ultimately depend on your lifestyle and what your need for the product is. DIYInsurance provides a good breakdown of the different types of scenarios commonly encountered by Singaporeans here:

TYPES OF INSURANCE NEEDS

Type of Need	How Long Do You Need	Remarks
Replacement of income due to death and TPD of income earner	Temporary - We need it only for a period of time	Higher priority planning need by most people
Replacement of income due to diagnosis of dread disease of income earner	Temporary - We need it only for a period of time	Higher priority planning need by most people
Paying for alternative medicine and care for one who suffers from dread disease	Permanent - We need it for as long as you live	Only if we want this as an option and have a conviction in alternative medicine
Paying off liabilities such as mortgage	Temporary - We need it only for a period of time	Higher priority planning need by most people
Funding children's tertiary education even after demise	Temporary - We need it only for a period of time	Higher priority planning need by most people
Legacy planning and gifting	Permanent - We need it for as long as you live	Usually done by the more affluent and not a first priority planning need by most of us
Taking care of children with special needs	Can be temporary or permanent	Most of us do not have children with special needs
Providing for alternative medicine and care for children, in the event if they are diagnose with a dread disease	Permanent - We need it for as long as you live	Only want this as an option and has conviction in alternative medicine
Replacement of a keyman in the organization	Temporary - We need it only for a period of time	Most of us are not keyman in an organization
Funding a buy-sell agreement contract between business partners	Can be temporary or permanent	Can be temporary or permanent

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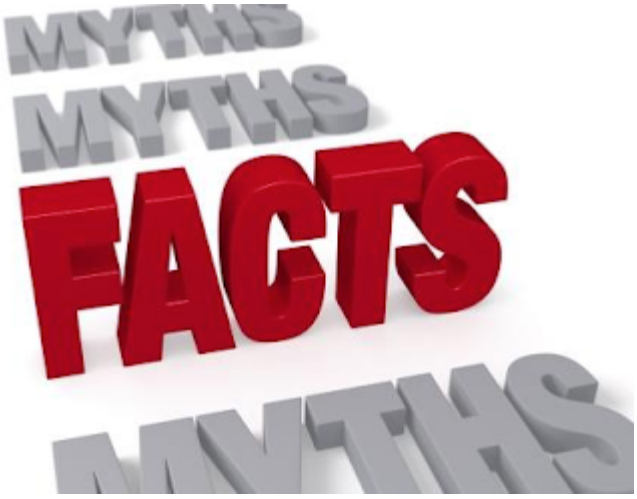
Table 2.1: Types of insurance needs and whether temporary or permanent?

COMMON MISCONCEPTIONS ABOUT TERM INSURANCE VS. WHOLE LIFE INSURANCE PLANS



#1. Term insurance only covers me up till age 65, whereas the latter covers me for life.

While this may have been true in the past, times have changed. More insurers now provide term policies to cover you up till youâ??re 99 or 100 years old.

#2. Whole life insurance is convenient â?? I get 3-in-1 benefits of protection, saving and investment at the same time!

As much as I love the convenience of 3-in-1 shampoo which includes hair conditioner and body wash all within a single product, it isnâ??t something I use on a long-term basis because the results arenâ??t fantastic. My hair usually ends up dry and tangled, and my skin never quite feels truly clean.

Using separate products, each specialized in their individual function, has yielded me better hair and skin.

This analogy applies to insurance as well. Just because a bundled product is convenient does not necessarily mean it is the best product in the market. More often than not, I think of these products as Jack-of-all-trades, Master of none.

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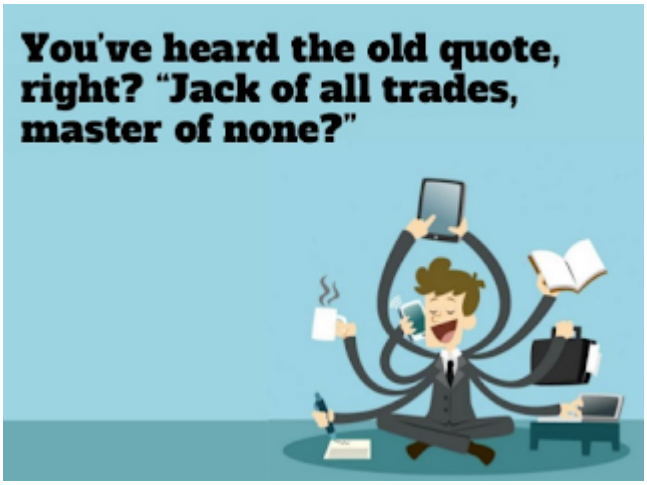
Youâ??ll be better off buying them individually from the best masters in each field. Instead, consider insurance, automating your bank savings, and equities respectively.



#3. Whole life insurance policies give me access to better investment opportunities.

â??Betterâ?• is subjective when it comes to investing. A â??goodâ?• stock to you may not necessarily appeal to me. Take DuTech Holdings for instance; it was the very first stock I studied in detail when I first started investing, and it appealed to me while it was scorned and ignored by the rest of the market, without a single brokerage covering it. Today, after brokers describing DuTech as a â??buyâ?•, interest in the stock has shot up, but it is no longer attractive to me.

Investment opportunities offered by insurance companies are limited to the types of funds they have access to. If you think they are indeed â??betterâ?• than the other options available in the market, thatâ??s your own personal view as well.

#4. I donâ??t know how to invest, so Iâ??m better off buying an investment-linked policy from my insurer.

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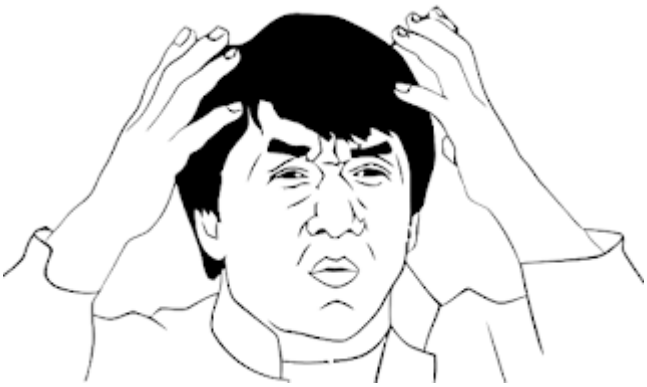
Iâ??m sorry, but if youâ??re too lazy to pick up just a little bit about investing, then I frankly think you deserve to pay more for your investments anyway. With so many courses and (free) tools on financial literacy available today, â??I donâ??t knowâ?• is a poor excuse when the truth is in fact â??Iâ??m too lazy to find outâ?•.

I went from not knowing a single thing about investing to being able to conduct my own analysis like Iâ??ve documented here, here and here.

Thereâ??s also a wide variety of investment options available in the market today â?? you can choose from fixed deposits, bonds, forex, equities, gold, property and more. I mentioned these options briefly here.

DIYInsurance has also provided a good comparison table examining the pros and cons of each tool in their latest e-book, which you can check out to learn more.



#5. Since more people buy whole-life insurance, then that must mean it is a better product.

This is a common argument put out by most advisers, and it is weak because it is a logical fallacy to assume that just because a product is popular means it is good. (Google â??bandwagon fallacyâ?• or â??herd mentalityâ?• if you donâ??t know why).

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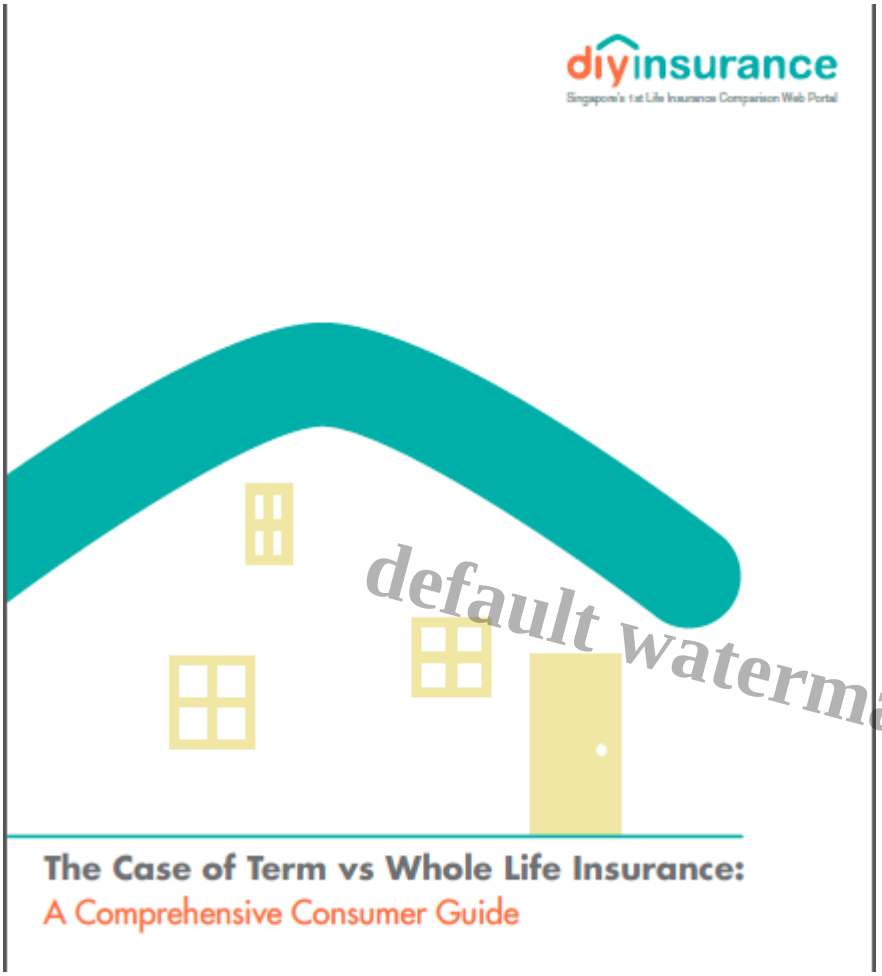
The benefits of term insurance is seldom promoted in contrast to its whole-life counterpart. The most compelling argument for whole life insurance is that youâ??re covered for life, whereas term only covers you for a limited period. However, this is no longer valid today. In the past, most term insurance policies only offered coverage up till age 65, but today, we have access to much longer term policies. (See misconception #1 again).



If youâ??re keen to understand more, so that you can make an informed decision by yourself without being swayed by your insurance agent, you can download the e-book for free here.

The e-book also examines a few core questions consumers generally have about insurance, including:

How long do I need insurance coverage for? In choosing insurance products, you should first consider whether your need for that type of insurance is temporary or permanent. If it is a temporary need, it makes sense to look at cost-effective options, whereas you might want to find better and more reliable products for your permanent insurance needs, regardless of how expensive they are.

How much insurance do I really need? Some people advocate spending no more than 10% of your annual income on insurance, but I personally think there are no right or wrong answers here. It all depends on your individual lifestyle, financial situation and needs.

Which type of insurance is best suited to cover my needs? Should you buy an endowment plan, a term plan, a whole life plan or an ILP? As insurers continue to introduce newer hybrid-type products, the core purpose remains the same. Donâ??t get confused and end up using a protection plan for

savings, or vice versa.

Why are more whole life plans sold instead of term plans? Iâ??ve consulted a number of financial advisers, all from different companies, and each time I tell them about wanting to buy a term plan, *every single one of them pushed me towards a whole life plan instead*. Of course, this isnâ??t necessarily wrong, since a whole life plan can similarly provide the amount of coverage I need, but the crux is that they tend to be *more expensive*. Not everyone can afford to pay for whole life insurance and still have money left over for their other financial priorities.

These are my favourite parts of the e-book:

â??In the past, passive investment products that charge low commissions and management fees were not readily available, so there was value in buying whole-life policies that included both term and investment components.

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But with the wide variety of cheap and passive investment products today, if people are more educated, it makes more sense to buy term and invest the rest in a low-cost, passive investment instrument. You donâ??t have to be locked into a portfolio that has limited fund choices and high total expense ratios, which eat into your returns.â?•

â??In more developed financial markets such as Australia, US and UK, the use of whole-life plans are almost non-existent.â?•

Go read the rest now!



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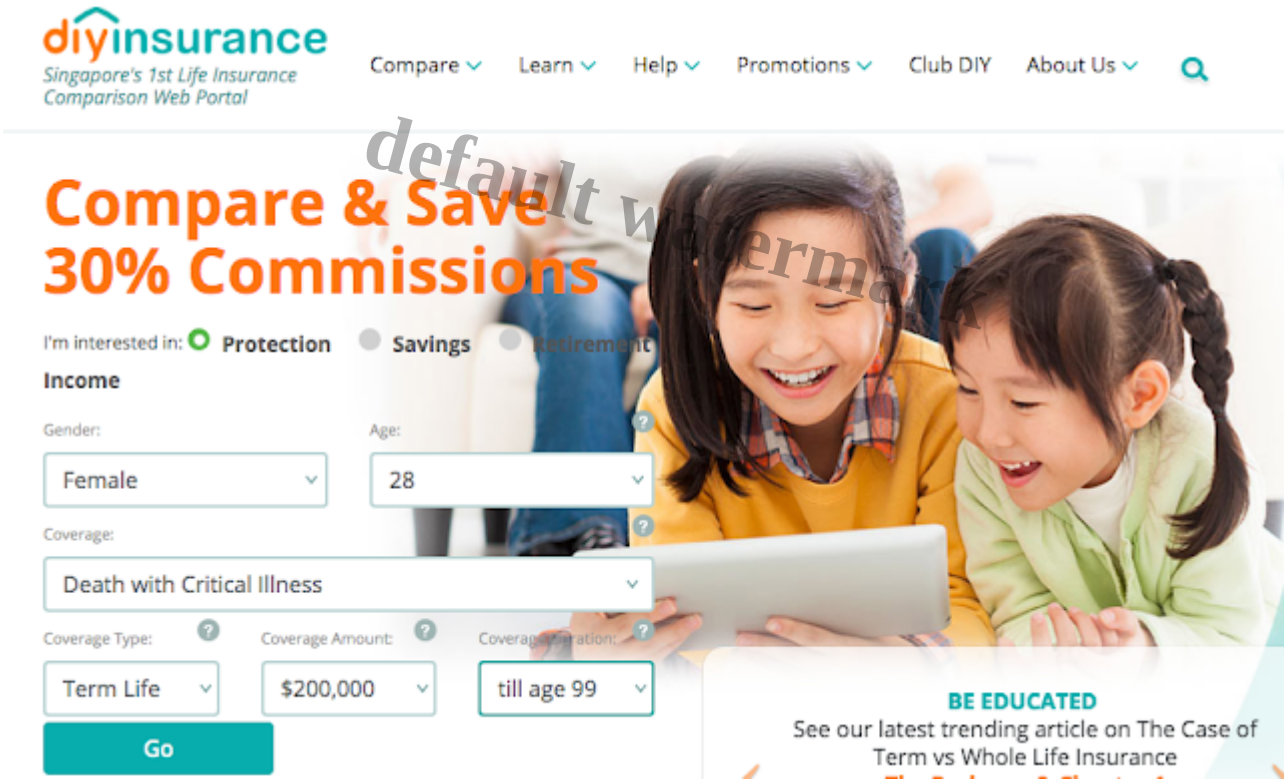
About DIYInsurance

In case you havenâ??t yet heard about these folks, they are Singaporeâ??s first life insurance comparison web portal, launched in 2014 to empower consumers to make informed decisions about their insurance based on their own agenda.

Iâ??ve used the portal myself last year, and found it generally helpful for those seeking to compare insurance products across insurers. If, like me, youâ??re looking for quotes but do not wish to go through the hard-selling process that most FAs conduct, youâ??ll probably find DIYInsurance useful.

Led by key personnel with 2 decades of experience, DIYInsurance has benefited more than 110,000 users with their honest, independent and competent advice. All staff are salaried-based (not commissions-based); to provide greater cost savings, clients get a 30% of the salespersonâ??s commissions if you buy through them.



Iâ??ve had the privilege to meet the man behind DIYInsurance â?? Christopher Tan â?? last year. Despite being the top insurance salesperson in his initial years, he chose to walk away from 6-figure paychecks to launch a fee-based financial advisory firm, and later, DIYInsurance. Theyâ??re also the first insurance firm I would recommend to anyone looking to purchase insurance without wanting to be swayed by salespeople with their eye on commissions.

Disclaimer: This is an advertorial from my friends at DIYInsurance. All opinions and content are that of my own (except screenshots).

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Here are some other articles Iâ??ve written on insurance that I would recommend for further reading:

- Healthcare insurance is probably the #1 insurance policy you should buy for yourself in Singapore. Learn more about MediShield Life andIntegrated Shield Plans with recommendations on what might or might not work for you.
- Should you buy your insurance directly (and skip the agent),or work through an agent who can provide policy aftercare service? Here are some of the considerations you should probably think about.
- If youâ??ve decided to buy directly, hereâ??s one way on how you can do it (directly through MASâ?? initiative).
- Otherwise, if you think an agent is more beneficial, you probably want your insurance agent to ideally be serving you for life. Here are some questions you might want to ask you agent to test them out.
- Another reason why I dislike ILPs is because of the â??churningâ?• involved, which benefits the insurance company but leaves the consumer slightly worse off.

Stay smart and well-informed.

With love,
Budget Babe
Category

1. Insurance

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