Should I Buy Whole Life Insurance? (Answer: No)

Description



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If you can jump over this gap, then congratulations!
Perhaps youâ??ll receive a huge payout sum from your life insurance policy.
However, in real life, this hardly ever happens.

Any agent who tries to sell me whole life insurance will, very quickly, find that I donâ??t give them my sale.

Yes, you read that right. Budget Babe is strongly against buying whole life insurance. I expect to get a lot of hate mail from insurance agents after this post, but if no one speaks up for the consumers, then who will?

So here goes!

1. I donâ??t need it.

Whole life insurance is not necessarily a bad product, but it just isnâ??t suitable for me, nor for most of my peers who are still fairly young working adults.

Despite its name, if you asked me, life insurance should really be called *death insurance* instead, because it is mainly designed to pay out upon the insuredâ??s death.

This means that the money doesnâ??t come back to you until you die. And if I die, then why on earth do I need the money? (Spot the pun? Oh, never mind -.-)

The money will mainly go to my loved ones when I die. Which means that if youâ??re a selfish idiot, or are poor and lonely, then you might as well skip the life insurance.



Credits: MetLife, an insurance company.

Having said that, who needs whole life insurance? I can generally think of a few scenarios. The first is if you think your family wonâ??t have enough to cover your death expenses (like the hospital fees, if you were brought there before you died, or your funeral costs). Or if you have a spouse or children who might not have enough income to live on should you pass away prematurely.

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But none of these sound like me! Right now, Iâ??m single, and my parents / sister arenâ??t *that* poor that they canâ??t even afford my funeral expenses if I die tomorrow. (Touch wood! Thank goodness Iâ??m typing on a wooden table.) Iâ??m not married yet, nor do I have any children, so thereâ??s really no need for me to get life insurance at all.

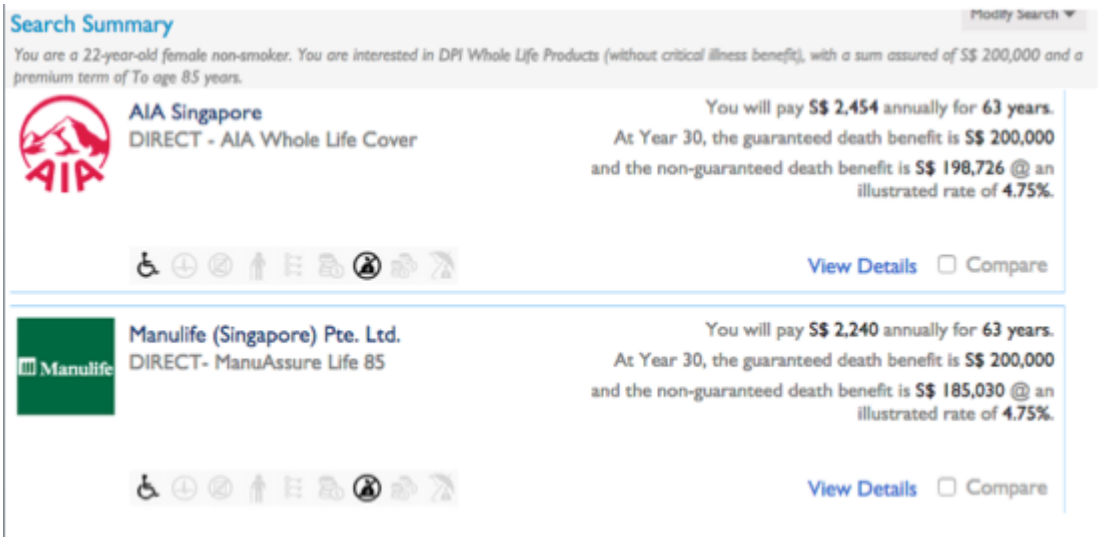
Agents who have been trying to sell me whole life insurance try to convince me that it is cheaper to buy now than later. Yes, that may be true, but why should I buy something I donâ??t need?

2. There are cheaper alternatives.

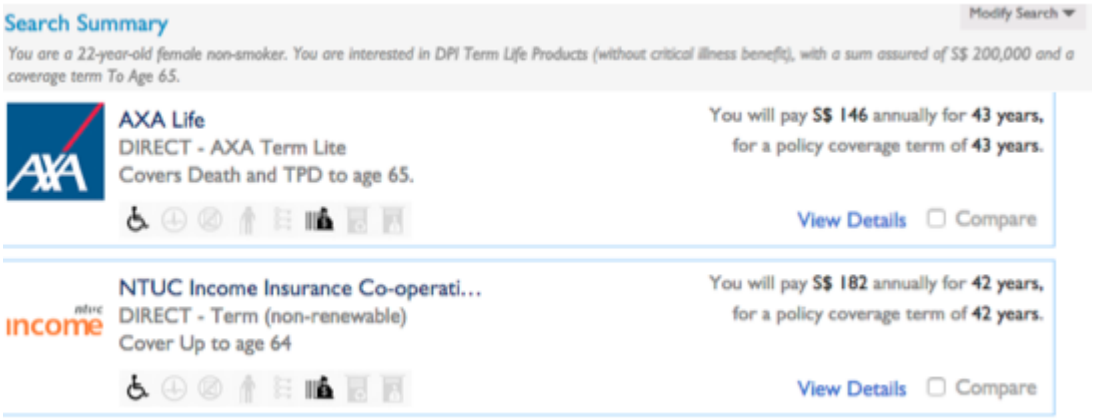
The main reason why I donâ??t buy whole life insurance is because I donâ??t see the point of paying over 10 times more the price of something I can get at a much cheaper rate.

Iâ??m an advocate on term insurance (more on that in another post), which is also what Iâ??ve bought for myself. Take a quick look on CompareFirst to see the huge differences you have to pay for yourself.

Whole -life insurance for $200,000 assured:

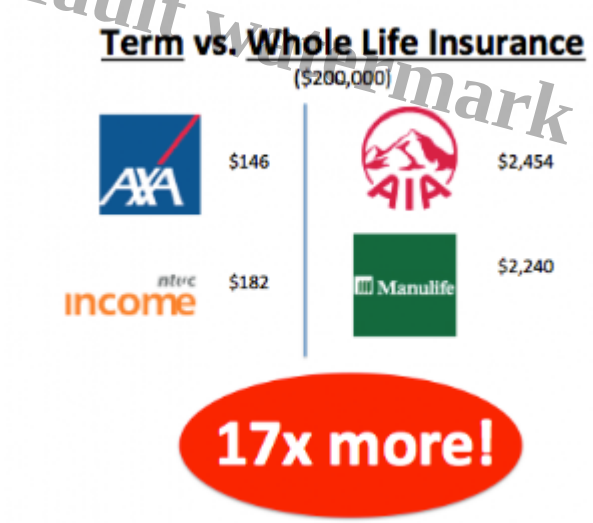


Term insurance for the same coverage:



In other words,

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If you can get the same gold bar for $1,000, why do you want to pay $17,000 for it?

But your insurance agent will conveniently leave out the fact that there is a lower-cost option available, or theyâ??ll try to dissuade you by â??sharingâ?• about its negative sides.

3. Whole life insurance gives higher agent commissions to agents than term insurance.

No one ever got rich from selling only term insurance, and thereâ??s a good reason why. It is a well-known fact that whole life insurance policies pay out higher commissions than the paltry sums term insurance gives.

If my agent is being paid higher to sell me Product A over Product B, thatâ??s a conflict of interest to me. I spoke to 3 separate â??financial advisorsâ?• telling them I wanted to buy term insurance, and

every single one of them tried to convince me to take up whole life insurance instead. (I teach my GP kids that anything which is put in quotation marks by the author basically means the authorâ??s disagreement with the quote, so no prizes for guessing what I think about that!)

The next time your agent tries to sell you life insurance, look them in the eye and ask, â??How much do you get for the next 3 years if I buy this from you today?â?•

I bet you theyâ??ll flinch, or try to smoke you with some lousy answer. But rubbish has a smell, and Iâ??m sure youâ??ll be able to sniff it out by yourself.

4. Lack of transparency.

Hereâ??s the biggest reason why I terminated my ILP â?? I got irritated when I found out how much truth had been conveniently â??hiddenâ?• from me in the process of selling me the policy. (Well, not really â??hiddenâ?•, because it was clearly stated in one of the clauses under the extremely lengthy terms & conditions. Does anyone even read that?)

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When I first bought it, no. But 2 years later, while reviewing my policy, I decided to take a look, and I realized that there were many factors that had not been laid out clearly for me before I bought.

In other words, I had made an uninformed decision when I bought my insurance policy back then.

Ah, the foolishness of youth!

Any insurance policy that promises to give you a payout when youâ??re still alive should be a sure red flag for you to check their terms and conditions, because there is truly such a good thing, then all insurance companies would be broke. When I read my terms and conditions, the biggest thing that struck me was the lack of transparency in fees. For instance, there is first the commission to the insurance agent who sold me the product. Then there are also â??distribution costsâ?•, administrative costs, the actual cost of the insurance, etc. The worse part? I also read something about the insurer having the right to modify the allocation of fees without notification to the consumer at any time, and that was the last straw for me.

5. Whole life policies are one of the most popular insurance plans sold â?? does that have

anything to do with the massive wealth of insurance companies?

Insurance companies are *rich*. Anybody knows that.

But what bothers me is the fact that among the most popular / best-selling policies of many insurance companies, are whole-life policies, ILPs and endowment plans. (Iâ??ll write on the other two types next time)

Coincidence? Or are our consumer dollars paying towards that wealth?



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You also probably know about the MDRT â?? Million Dollar RoundTable within insurance companies. The name speaks for itself, but hereâ??s a post I quote from the blog belonging to the ex-CEO of NTUC Income:



Million Dollar Round Table (MDRT)

Dear Mr. Tan,

I was previously an insurance agent and a salaried agency supervisor with two different insurance companies. From my experience, I have learned to be less than enthusiastic about the so-called prestige of the MDRT (Million Dollar Round Table). In fact, I might even have been sceptical.

The MDRT measures an insurance agent by the first year commission earned on new policies sold. It equates equates more commission earned to being more successful and prestigious. As a sales motivation, , it drives the agents to earn higher incomes. However, it may also tempt many agents into dubious practices in pursuit of qualification for membership.

I feel that to the ultimate consumer, the insurance client, buying a policy from an agent who makes $30,000 p.a. is no different from buying from an agent who makes $300,000 p.a., as long as it's a suitable policy. Just a suggestion. I hope that you may like comment on the MDRT in your blog.

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REPLY
You have already made the point well. I have no further comments.

Posted by Kin Lian Tan at 3:22 PM

Credits: Tan Kin Lian (ex-CEO of NTUC Income) blog

Conclusion:

Before buying a life insurance policy, ask yourself these questions first:

â?? Have I looked at the other options available?
â?? Can I get the same insurance coverage at a cheaper price?
â?? How much is my agent and his insurance company earning from this sale?

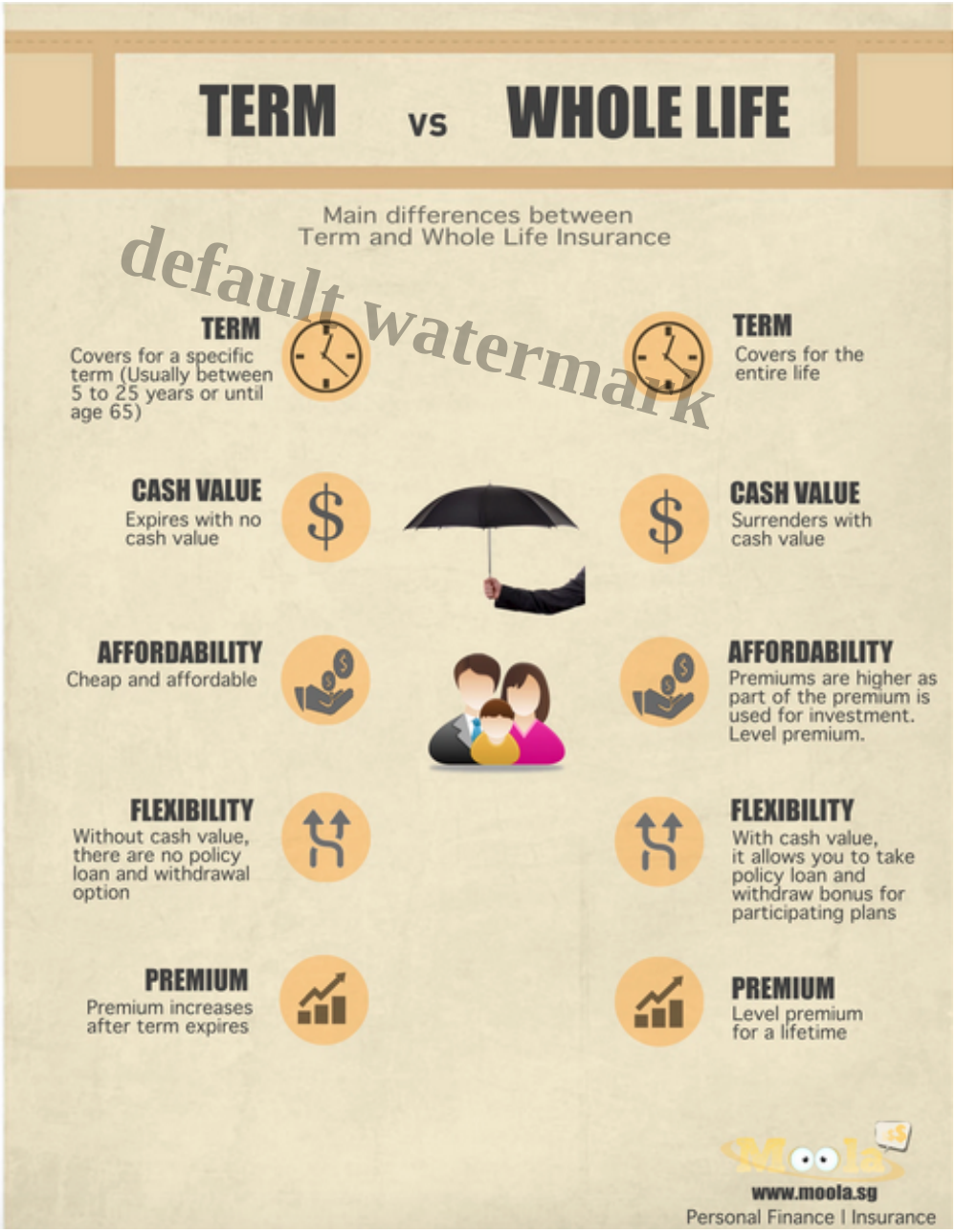
Our needs change at different periods of our life. For instance, right now I donâ??t need life insurance, but when I get married and have kids (and hopefully more wealthy by then), I might just purchase whole life insurance, especially if I think my husband may not be able to cope by himself if I leave this Earth earlier than planned.

The biggest question you should ask yourself is â?? **Do I need life insurance now?**

If you donâ??t, then thereâ??s no harm waiting. And donâ??t be swayed by what your financial advisors tell you â?? thereâ??s really no point in paying extra years for a policy that you do not need now.

From a pure insurance perspective, whole life insurance is generally not needed for the majority of young people. It is also much more expensive than term insurance (17 times more!).

So if you ask me, Iâ??ll say: **Forget whole life insurance. Buy term insurance, and invest the rest.**



Credits: Moola

Iâ??ll be writing about my own experience and decision in buying term insurance soon, so stay tuned.

In the meantime, if you liked this, you might also want to read my post on Say No to the Financial Advisor â?? The Best FA Is Myself which I wrote for DrWealth.

Disclaimer: Budget Babe is not a qualified financial advisor, and all statements on this post are purely of her own opinion and should be misconstrued as fact. In any case, consumers should always speak to a qualified insurance agent before making decisions on any purchase of insurance policies.

Category

1. Insurance

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