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Term life vs permanent life insurance: What you need to know

By Dave Dineen

They're two basic types of life insurance. Term can last for a set amount of time. Permanent can last for your entire life. But which one is right for you? Knowing their differences and benefits can help you find out.



The gist of life insurance is financial protection.

You may have something you want to protect, like a family. Perhaps you want to use life insurance to leave money for your children. Or, maybe you're a business owner and you want to protect yourself, your business partners and key employees from an unexpected death.

In such cases, you may be looking into insurance. But how do you choose a life insurance plan that's right for you?

There are two basic types of life insurance:

- term life insurance and
- permanent life insurance.

Understanding the difference between the two can help you choose the protection you need.

"When you're buying life insurance, you've got to think long term," says Mark Coutts.

Coutts is a CFP, CHS, CFDS, RPA, FCSI and president of Coutts Financial Services Inc. in Toronto.

"Mentally, you've got to 'put on your high beams,'" he says. "So you're looking farther down the road when deciding whether term insurance is always going to be right for you, whether permanent insurance is the right choice, or whether it's a combination of the two."

- [When should you buy life insurance?](#)
- [How much life insurance do you need?](#)

What is the difference between term and permanent life insurance?

The table below compares the features of each type of life insurance. So, put on your 'high beams' and consider what you expect from life insurance today and decades from now.

Term life insurance

Permanent life insurance

What is it for?

- Temporary coverage from the financial impact of death
- Lifelong coverage from the financial impact of death
- Combining coverage with tax-preferred cash value growth
- Estate planning

Who is it for, mainly?

- Young families and homeowners with a mortgage
- Business owners
- Adults with a long-term perspective
- People who already make full use of registered investment accounts such as [RRSPs](#) and [TFSA](#)s

What are the advantages?

- It's initially inexpensive, if you're young
- You can buy lots of coverage
- It's easy to understand
- Lifetime coverage continues even if your health fails
- The cost is guaranteed to never go up (with most types of permanent insurance)
- Later in life, it's less costly than term insurance
- It provides tax-preferred cash value growth opportunities for people whose RRSPs and TFSAs are topped up
- You can cash in or borrow against its accumulated value

What are the disadvantages?

- Coverage is temporary; the protection ends when the term ends (if you don't renew)
- It's more expensive than term insurance

	<ul style="list-style-type: none"> The cost goes up if you renew when the term ends (usually after 10, 15, 20 or 30 years) 	
<p>When is it most cost-effective?</p>	<ul style="list-style-type: none"> When you're young When you need only temporary coverage (e.g., until your mortgage is paid off or children are no longer financially dependent) 	<ul style="list-style-type: none"> Later in life When you have built up cash value in the policy When you have a sizable estate to pass along to heirs or charities If you're in a higher tax bracket
<p>Can you convert it to the other type of insurance?</p>	Yes	No
<p>Can it supplement the insurance you have at work?</p>	Yes	Yes
<p>Trends to consider</p>	<ul style="list-style-type: none"> Rising mortgage and consumer debt. You could still be in debt after temporary term life insurance stops being the 	<ul style="list-style-type: none"> The trend toward increased longevity makes this an increasingly attractive option because coverage is lifelong, not temporary

cheaper option (or even becomes unavailable)

- Adult children are financially dependent on parents longer than ever, perhaps even after your term policy expires

Talk to an advisor about your life insurance options

So, what's the best way to help protect your family and achieve your other financial goals? Depending on your circumstances, your choice could be either – or both. Maybe your needs are simple and you need just one type of insurance to cover your spouse or kids. Or your situation could be more complex, with a blended family or a business to protect, in which case you might need more than one type of life insurance.

- [Is term life insurance right for you?](#)
- [Is permanent life insurance right for you?](#)

Not sure what's right for you? You may want to talk to an advisor.

An [advisor](#) can help you:

- fully understand your available options,
- see which coverage and payment features make the most sense for you, and
- make the best decision for your situation.

They can also answer any questions you may have and help you build life insurance into your overall financial plan.

- Most advisors now offer to meet with Clients virtually. [Connect with an advisor today.](#)

Source:

<https://www.sunlife.ca/en/tools-and-resources/money-and-finances/understanding-life-insurance/term-life-vs-permanent-life-insurance/>