



Buy Term and Invest the Difference?

by

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There is no valid economic theory that explains why a bad idea is acceptable simply because one hears it frequently.

InsMark's skill at comparing cash value life insurance to term life insurance has never been more important to you than now. Let's see how well \$500,000 of universal life insurance compares to \$500,000 of term life insurance.

George Baker, MD, is age 45 and in a 40% marginal tax bracket (destined to increase during the current circumstances in Washington). He intends to purchase a universal life policy to provide 1) protection for his family and 2) after tax retirement cash flow of \$25,000 a year from age 65 to 95.

One of his advisers tells him he is foolish to buy a cash value policy, and he should purchase term insurance instead – and invest the difference. We told George that even if he could purchase \$500,000 of term life insurance for \$1.00 a year and invest the difference, the cash value policy would be a better choice.

We compared \$500,000 of universal life (with scheduled premiums of \$20,000 a year for 20 years and a credited interest rate of 5.00%) to \$500,000 of 20-year term insurance at \$1.00 a year of premium (not \$1.00 per thousand). The term insurance alternative assumes a side fund yielding 5.00% on \$19,999 a year, the difference between the \$20,000 premium for the universal life and the \$1.00 premium for the term. We included a management fee of 0.50 for the side fund.

In order to match the term policy with the \$25,000 cash flow from the universal life policy in years 21 - 50, the side fund has deliver \$25,000 in years 21 - 50. See the differences in values below.

Year	Term Life Side Fund	Term Life Death Benefit (incl. Side Fund)	Universal Life Cash Value	Universal Life Death Benefit (incl. Cash Value)
10	229,339	729,339	237,439	747,124
20	522,196	1,022,196*	634,667	1,134,667
30	380,139	380,139	635,849	884,417
40	198,737	198,737	657,387	696,053
50	- 33,113	- 33,113	680,108	692,478

*Year 20 is the last year of the term life coverage.

[Click here](#) to review the comparison illustration in detail.

Alternatives

George's adviser might say that the 5% side fund yield is less than George can earn in another investment. If George believes this to be true, the comparison should involve a higher yielding policy such as indexed universal life, variable universal life, or whole life (perhaps paid up at age 65 in this case). So long as you match the interest rates of the policy and the side fund, term insurance does not measure up. (Imagine how the comparison would look if you used actual term insurance rates.)

Conclusion

If cash is in short supply or if the need for coverage is for a very brief period, term insurance can make a lot of sense; however, for longer intervals, *if the cash flow exists to buy what you want, a cash value policy is the only logical choice -- even if a term policy were available for \$1.00 a year.*

Resources

Licensees for the InsMark Illustration System who would like to review the menu prompts we used for this analysis, should go to the following website and click on the InsMark Illustration System Workbook listed under "Buy Term and Invest the Difference?":

<http://insmark.com/WorkbookDownload/ConceptLibrary.html>

If you would like to review other illustrations from the InsMark Illustration System, click the link below:

<http://insmark.com/ProductCenter/InsMarkIllustrationSystem/output.html>

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Note: Values for the universal life and side fund in this Marketing Alert are illustrative only and are not guaranteed.

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