Whole Life vs. Term Life Insurance

A historical perspective

Participating whole life insurance offered by
Massachusetts Mutual Life Insurance Company (MassMutual®)

In 1980, there were two women, Ana and Brenda. They were both 35-year-old non-smokers who needed $250,000 of life insurance. However, they each made different buying decisions to get the coverage they needed.

Ana purchased a $250,000 MassMutual whole life insurance policy.[1] She paid her premium of $4,078 each year until she turned age 65, at which time her policy was guaranteed to be paid up (no additional premiums due). She used the policy dividends she received to purchase additional paid-up whole life insurance each year, increasing both her life insurance protection and cash value. Dividends are declared annually and are not guaranteed.

Brenda purchased a $250,000 30-year term life insurance policy at the same time. Since there were very few 30-year term policies offered in 1980, we'll assume she paid an annual premium of $250. This would be a very competitive premium in today's market.

Brenda also decided to invest the difference between her annual term premium and Ana's whole life premium ($4,078-$250 = $3,828) in a hypothetical no-load bond mutual fund[2] for 30 years. The annual investment expenses for this fund were .25% of the fund balance. She paid income taxes on her fund earnings each year at a tax rate of 28%, which was paid out of the fund value each year.

[1] Policy offered by MassMutual in 1980 prior to the merger with the former Connecticut Mutual Life Insurance Company in 1996, and is no longer available for sale. Policy values shown are based on a hypothetical insured assuming the policy was originally issued with the fixed loan rate updated to the adjustable loan rate in 1984. This example assumes the policy was issued on January 1, 1980.

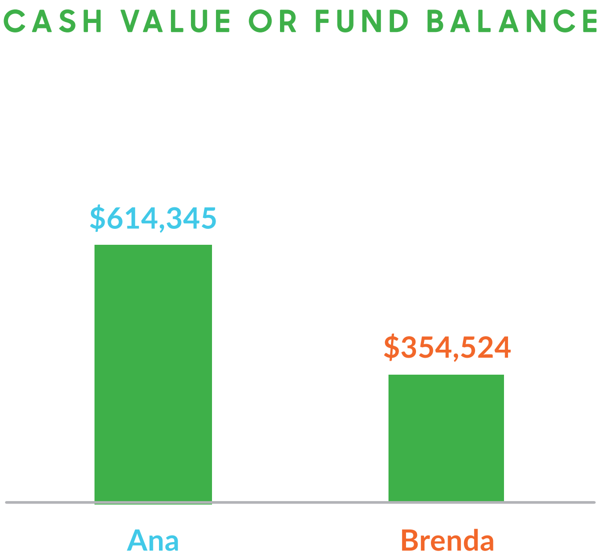
[2] Hypothetical no-load bond fund based on the historical annual returns of the Barclays Capital U.S. Aggregate Bond Index (formerly Lehman Aggregate Bond Index prior to 11/1/2008); less an assumed annual expense fee of .25%. The Index does not represent the performance of a specific fund. You cannot invest directly in an index.

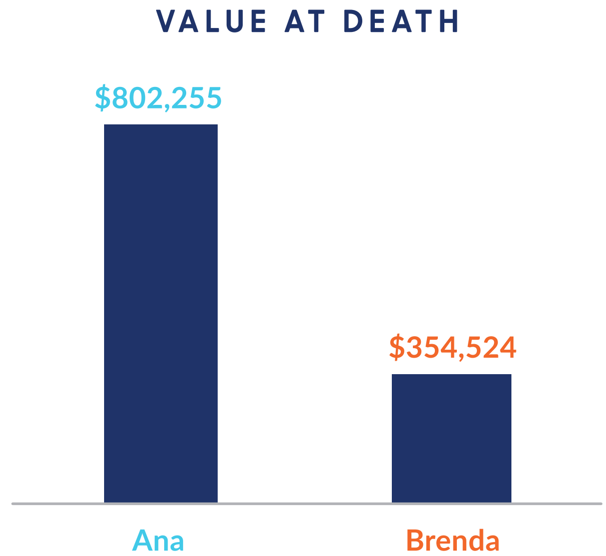
The decision to purchase life insurance should be based on long-term financial goals and the need for a death benefit. Life insurance is not an appropriate vehicle for short-term savings or short-term investment strategies. While the policy allows for loans, you should know that there may be little to no cash value available for loans in the policy's early years.

The information provided is not written or intended as specific tax or legal advice. MassMutual, its subsidiaries, employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

The Results

The following illustrates the results for Ana and Brenda 41 years later.





Brenda's $250,000 of term life insurance coverage ended in 2010. Her bond fund returns varied each year over a period of 41 years, including 4 years of negative returns. The average annual return for the fund over the entire period was **7.45%**. The fund value was greater than Ana's whole life policy cash value over the first 14 years. After fees and income taxes, her total fund value in 2021 was **$354,524**.

Ana's whole life policy had **$802,255**[3] of guaranteed, paid-up life insurance and a cash value of **$614,345**[3] in 2021. If she surrendered[4] her policy for the cash value, the after-tax value would be **$476,579**, assuming the same 28% income tax rate. She also has the option to keep her policy in place and allow cash value to continue to accumulate tax-deferred for the latter part of her retirement.

While Brenda's strategy of buying life insurance and investing the difference looked better over the short term, Ana's whole life insurance delivered better long-term value.

[3] Termination dividends are included in the cash value and death benefit, and are only available upon full policy surrender or death.

[4] Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty if the policyowner is under age 59½.

Access to cash values through borrowing or partial surrenders will reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

MassMutual...

Helping you secure what matters most.

Since 1851, our business decisions have been guided by our customers' needs. Today, we offer a wide range of financial products and services to help people secure their future and protect the ones they love.

Participating whole life insurance products issued by Massachusetts Mutual Life Insurance Company (MassMutual), Springfield, MA 01111-0001.

LI1003 1022 MM202303-303019