A **Financial Insight**
for Individuals

Whole Life vs. Term Life Insurance

The historical perspective

Financial pundits on the radio and television are often asked: “Should I buy whole life or term life insurance?” Many of them advise that you should buy term and invest the difference between the premiums. They assert that many years from now you will no longer need life insurance. In addition, they claim the money you had invested will be greater than the cash value in the whole life policy you would have otherwise purchased.

We decided to test this theory on a historical basis by comparing the results for someone who bought whole life insurance 35 years ago in 1980 to those of someone who bought term life insurance at the same time and invested the difference in the premiums each year. The following comparison is based on actual historical results for a hypothetical Massachusetts Mutual Life Insurance Company (MassMutual) whole life policy issued in 1980,[1] and it makes the following assumptions:

In 1980, there were two similar women who made different life insurance buying decisions. They were both 35-year-old non-smokers who needed $250,000 of life insurance protection.

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Individual A • Whole Life Insurance • Annual Premium: $4,078

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

Individual B • Term Life Insurance • Annual Premium $325

Individual B purchased a $250,000 30-year term life insurance policy. Because 30-year term life insurance was not widely sold in 1980, we used a current rate typical of policies available today for this example. Thirty years is generally the longest level premium term period available. Premiums for this type of policy vary greatly, so we assumed she qualified for an annual premium of $325, which is a very competitive rate for 35-year-old, female, non-smoker. MassMutual does not offer a 30-year term policy.

Individual B also decided to invest the difference between her term premium and Individual A's whole life premium ($4,078-$325 = **$3,753**) each year in a hypothetical no-load bond mutual fund. The annual investment expenses for this fund were .2% of the fund balance. We also assumed that she paid income taxes on her earnings each year at a tax rate of 28%. The taxes were paid out of the fund.

The Results

The following table is a comparison of the results for each individual from 1980 through 2014 in 5-year increments:

Hypothetical Comparison of Values 1981-2014

Individual A					Individual B				
Whole Life Insurance					Buy Term and Invest the Difference in Premium				
Year	Age	Whole Life Premium	Whole Life Total Cash Value[2]	Whole Life Total Death Benefit[2]	Term Premium	Premium Difference	Bond[3] Fund Value	Term Face Amount	Bond Fund Plus Term Death Benefit
1981	36	$4,078	$ 270	$250,965	$325	$3,753	$ 3,917	$250,000	$253,917
1986	41	$4,078	$ 24,944	$266,847	$325	$3,753	$ 34,200	$250,000	$284,200
1991	46	$4,078	$ 64,334	$306,487	$325	$3,753	$ 71,973	$250,000	$321,973
1996	51	$4,078	$115,196	$353,706	$325	$3,753	$113,476	$250,000	$363,476
2001	56	$4,078	$183,929	$416,103	$325	$3,753	$168,285	$250,000	$418,285
2006	61	$4,078	$267,978	$486,528	$325	$3,753	$220,350	$250,000	$470,350
2011	66		$370,091	$571,061		$ 0	$292,685	$ 0	$292,685
2014	69		**$433,187**	**$631,878**		$ 0	**$308,633**	$ 0	**$308,633**

1 MM Block refers to policies issued by Massachusetts Mutual Life Insurance Company prior to the merger with the former Connecticut Mutual Life Insurance Company in 1996. Policies in this block of business are no longer sold. Values shown assume an Adjustable Loan Rate starting in 1984.

2 Termination dividend included in Total Cash Value and Total Death Benefit.

3 A 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 .2%. The Index does not represent the performance of a specific fund. An investment cannot be made directly in an index.

Long-Term Value

Individual B's life insurance coverage ended in 2010, leaving her with just her mutual fund, which was **$308,633** at the end of 2014. The fund had an average annual net return of **8.33%** over this 35-year period. She could use the funds she has accumulated at any time and for any purpose during retirement. While the mutual fund is invested conservatively, the earnings and value still have the potential to fluctuate up or down depending on financial market conditions.

Individual A ended 2014 with **$631,878** of guaranteed, paid-up whole life insurance. She also had **$433,187** of cash value in her policy. If she surrendered her policy, the after-tax value of the proceeds would be **$346,150**, assuming the same 28% tax rate that we used in the comparison.

Flexibility for the Future

Individual A's policy offers a number of planning options going forward:

1 | Life insurance protection

Her life insurance protection is **more than double** the amount that Individual B has in her mutual fund at age 69. This provides greater financial security for herself and her family during her retirement.

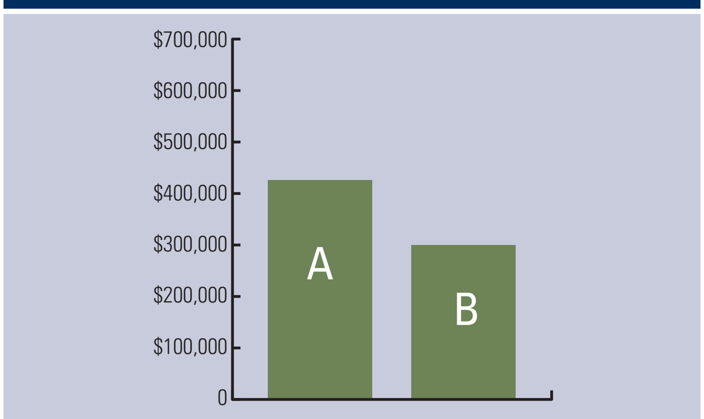
- The death benefit may be paid income tax free to her spouse, children or even a charity as the policy beneficiary. The proceeds are not subject to the expenses and delays of the probate process, and are not part of any public record.
- Having the paid-up life insurance protection may give Individual A the freedom to spend her other retirement assets as they were intended, and live a more comfortable retirement.
- Any future dividends she receives will increase her coverage and cash value, if she continues to use them to buy paid-up life insurance.

2 | Cash for retirement

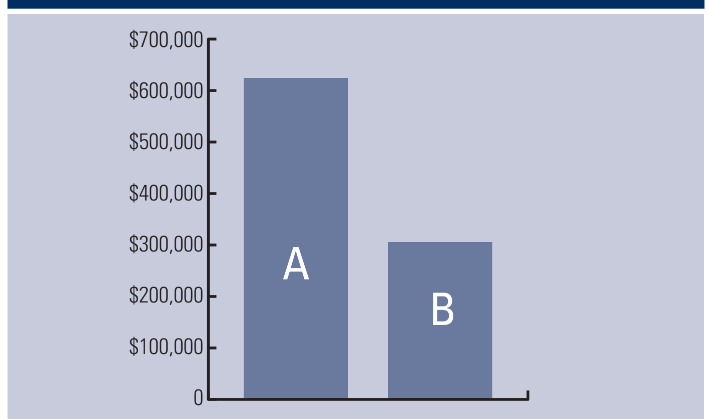
Individual A may decide to keep her policy inforce and allow her cash value to grow. It will continue to accumulate tax deferred, and will never decline in value. She could surrender some of her paid-up additional life insurance or borrow from her policy if she needs cash in retirement.[3] Alternatively, she could elect one of the guaranteed income options available in the policy which would terminate her life insurance coverage.

No matter what Individual A decides to do with her whole life policy, it provided a better long-term value and offers greater planning flexibility today than if she had followed the same path as Individual B, who bought term life insurance and invested the premium difference. The whole life death benefit may allow her to spend her savings more freely in retirement and the cash value will be there in case she needs it.

Whole Life Total Cash Value and Bond Fund Value – End of 2014



Legacy at Death – End of 2014



[3] 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.

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.

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There are many reasons to choose a life insurance company to help meet your financial needs: protection for your family or business, products to provide supplemental income and the confidence of knowing you will be prepared for the future.

At Massachusetts Mutual Life Insurance Company (MassMutual), we operate for the benefit of our participating policyowners. We stand strong in the fundamental belief that every secure future begins with a good decision. And when choosing a life insurance company – ownership, strength and stability matter.

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