Types of life insurance

Term and whole are the two main types of life insurance, but there are a few other options to consider before buying a policy.

When you start shopping for life insurance, you usually have to decide between two main types of policies: term life insurance and permanent life insurance. Term — the most popular type of life insurance — lasts for a specific amount of time, while permanent lasts your entire life.

The right policy for you will depend on your personal circumstances, unique needs, how much coverage you need, and how much you want to pay for your policy. This guide covers all types of life insurance policies on the market — both term and permanent — including information on how they work, their pros and cons, how long they last, and who they're best for.

The best way to find the right type of life insurance for you, however, is to work with an independent broker.

Common types of life insurance policies

Type of life insurance	Term	Permanent
Term	Yes	No
Whole	No	Yes
Universal	No	Yes
Variable	No	Yes
Indexed universal	No	Yes
No-medical-exam	Yes	Yes
Instant-approval	Yes	No
Accelerated underwriting	Yes	No
Simplified issue	Yes	Yes
Guaranteed issue	No	Yes
Burial	No	Yes
Group	Yes	No

Term life insurance

Term is the most popular type of life insurance for most people because it’s straightforward, affordable, and only lasts for as long as you need it. Term life insurance is one of the easiest and cheapest ways to provide a financial safety net for your loved ones.

- **How it works:** Term life insurance lasts for a set number of years before it expires. You pay premiums toward the policy, and if you die during the term, the insurance company pays a set amount of money, known as the death benefit, to your designated beneficiaries. The death benefit can be paid out as a lump sum or an annuity. Most people choose to receive the death benefit as a lump sum to avoid taxes
- **Pro:** Affordability — term policies are less expensive than other types of life insurance and generally have lower premium costs
- **Con:** Length — term has an expiration date, which can align with a mortgage or when your children graduate college. If you’re looking for lifelong coverage, you should opt for permanent life insurance instead
- **Duration:** 10 to 40 years, but the most common and popular policies last 20 to 30 years
- **Death benefit:** Fixed — common coverage amounts include $25,000, $50,000, $100,000, $250,000, $500,000, $750,000, $1 million, and $2 million
- **Cash value:** Unlike permanent life insurance, term policies don’t have a cash value
- **Best for:** Most life insurance shoppers. Those looking for cheaper life insurance for up to 30 years or longer should buy term life insurance

There are different types of term life insurance policies to choose from. These are the most common.

Level term life insurance

Level term life insurance is a type of term policy that has the same death benefit and premiums for the entire life of the policy. Coverage typically lasts for 10 to 30 years.
When insurance agents mention term life insurance, they usually mean level term insurance.

- **Pro:** Affordability — it's one of the cheapest coverage options available
- **Con:** Duration — term policies have an expiration date
- **Duration:** Most commonly 10 to 30 years
- **Death benefit:** Fixed
- **Premiums:** Level
- **Cash value:** No

Decreasing term life insurance

Decreasing term life insurance is a policy with a set premium and a death benefit that gets smaller over the coverage period. This type of term policy is often used to protect a specific debt. For example, death benefit decreases might correspond with a loan payment schedule, or your insurance company could set the death benefit to decrease by $100,000 every five years.
You might buy a decreasing term policy because you've saved enough to support your family after you pass away and only need your benefit to pay the balance of a loan in the event of your death.

- **Pro:** Convenience — a decreasing term policy can offer coverage for a specific debt
- **Con:** Duration — term policies have an expiration date

- **Duration:** Most commonly 10 to 30 years
- **Death benefit:** Decreasing
- **Premiums:** Level
- **Cash value:** No

Mortgage protection insurance

Mortgage protection insurance, or MPI, is a type of life insurance designed to pay off your remaining mortgage when you die. Unlike other policy types, MPI only pays the death benefit to your mortgage lender, making it a much more limited option than a traditional life insurance policy.

In an MPI, the beneficiary is the mortgage company or lender, instead of your family, and the death benefit decreases over time as you make mortgage payments, similar to a decreasing term life insurance policy. In most cases, purchasing a standard term policy instead is a better choice.

- **Pro:** Access — an MPI policy can be a coverage option for people who can't qualify for standard term life insurance due to age or health issues
- **Con:** Limited coverage — it only protects mortgage payments
- **Duration:** 10 to 30 years
- **Death benefit:** Decreasing
- **Premiums:** Level
- **Cash value:** No

Return of premium life insurance

Return of premium life insurance (ROP) is a type of term insurance that refunds your payments if you outlive your coverage. It's usually added to a standard term life insurance policy as a rider and lasts for the term of your policy.

If you outlive the term, 100% of the premiums paid over the course of the policy are refunded tax-free to you at the end of the term. Though the prospect of getting a refund on your premiums sounds appealing, ROP policies can be two to three times more expensive than standard term life insurance.

- **Pro:** Savings potential — a ROP policy can refund your premium payments if you outlive your policy
- **Con:** Cost — ROP is more expensive than standard term
- **Duration:** Most commonly 10 to 30 years
- **Death benefit:** Fixed
- **Premiums:** Level
- **Cash value:** No
- **Pro:** Convenience — short term can provide temporary coverage
- **Con:** Duration & cost — can last only a few months and/or have increasing premiums
- **Duration:** 1 month to 1 year
- **Death benefit:** Fixed
- **Premiums:** Variable
- **Cash value:** No

Annual renewable term life insurance

Annual renewable life insurance has a term length of one year and renews on an annual basis. It works similarly to term life insurance, but the premiums often start even lower than in traditional term and increase each year you renew the policy. You may want to consider an annual renewable life insurance policy if you anticipate changes to your life or health that will earn you lower premiums in the future. For example, if you're trying to lose weight, you quit smoking recently, or have recently had a child.

- **Pro:** Flexibility — policies can be adjusted based on life events
- **Con:** Cost — premiums increase every year
- **Duration:** Most commonly 10 to 30 years
- **Death benefit:** Fixed
- **Premiums:** Increasing / **Cash value:** No

Permanent life insurance

Permanent life insurance is a type of policy that never expires and comes with a savings-like component called cash value that's usually aimed at investing or building wealth. Both the lifetime coverage and the cash value make permanent policies significantly more expensive than term policies. In many cases, permanent policies are best suited for high-net-worth individuals or people with long-term financial obligations.

There are many different types of permanent life insurance policies, each one offering a unique way to provide coverage, investment opportunities, or both. Because of this, they're usually more complex and difficult to maintain over time than term.

- **How it works:** Each type of policy works differently, but in general, permanent policies don't expire and come with a cash value component that can be used for savings, investment or estate planning purposes. Some permanent policies allow you to use funds from the cash value to cover your premiums
- **Pro:** Duration — it doesn't expire as long as you pay the premiums
- **Con:** Cost — many times more expensive than term policies
- **Duration:** Life
- **Death benefit:** Flexible
- **Premiums:** Adjustable
- **Cash value:** Yes
- **Best for:** High-net worth individuals looking to diversify their tax-free investment portfolio or people with long-term financial obligations

Term vs. permanent

The main difference between term and permanent is that term life only lasts for a set period of time, while permanent life never expires. Permanent policies usually come with a cash value in addition to the death policy, which term policies lack. These two distinctive features — lack of expiration date and a savings/investment component — make permanent life insurance more expensive than term. At the same time, term policies are easier to purchase and maintain, which makes them the most popular and convenient coverage option for most people.

On the other hand, permanent policies can be a good option for high-net-worth individuals looking to diversify their tax-deferred investment portfolio, or for people with long-term financial or coverage obligations.

Whole life insurance

Whole life insurance is the most popular type of permanent life insurance because of its simplicity and lifelong duration. Its cash value — an investment-like, tax-deferred savings account — earns interest at a fixed rate.

- **Pro:** Cash value & lifelong coverage — the cash value component can cover endowments or estate plans. And since this coverage lasts for your entire life, it can help support long-term dependents such as children with disabilities
- **Con:** Cost & complexity —a whole life insurance policy can cost five to 15 times more than a term life policy for the same death benefit amount. The cash value component makes whole life more complex than term life because of fees, taxes, interest, and other stipulations
- **Duration:** Life
- **Death benefit:** Fixed
- **Premiums:** Level

- **Cash value:** Yes; guaranteed

Term vs. whole

The main differences between term life and whole life insurance lie in the length of coverage and premium costs. Term life insurance usually lasts 10 to 30 years, then expires, whereas whole life lasts for as long as you keep paying premiums.

Whole life insurance is much more expensive than term life insurance because of the longer coverage period and because it comes with extra features, like a cash value account that earns tax-deferred interest. Term insurance doesn't have a cash value, which makes it less complicated.

For most people, the convenience and lower cost of term life insurance make it the best choice. But a whole life policy may be a better fit if you need lifetime coverage or another way to invest outside traditional accounts.

Single premium life insurance

Single premium life insurance (SPL), also known as prepaid or single pay life insurance, allows you to pay for your entire policy upfront instead of paying a premium in monthly or annual installments.

That single premium funds the death benefit and a cash value for your lifetime. SPL policies can be expensive — single premium payments start at $5,000 for a low coverage amount — and usually come with complex tax restrictions

- **Pro:** Convenience — SPL allows you to pay the full policy upfront in one single payment
- **Con:** Cost — more expensive than standard whole policies
- **Duration:** Life
- **Death benefit:** Fixed
- **Premiums:** Single payment
- **Cash value:** Yes

Indexed whole life insurance

Indexed whole life insurance is a type of whole life policy that gains cash value based on an investment index chosen by your insurance company.
Indexed whole life is best for those who want a policy with tax-deferred investment growth and investments with a lower potential for volatility. It lacks the higher investment risk of other permanent life insurance plans but could still have greater returns than traditional whole life.

- **Pro:** Convenience & gains potential — premiums and death benefit stay level; potential for higher returns than a traditional whole life insurance policy
- **Con:** Gains potential — lower investment returns than a traditional investment account
- **Duration:** Life
- **Death benefit:** Fixed
- **Premiums:** Level
- **Cash value:** Yes; guaranteed

Modified whole life insurance

Modified whole life insurance is a type of whole life insurance that offers lower premiums for a short time (usually two to three years, but occasionally up to five or 10), followed by a higher rate for the remainder of the policy. The low initial premiums allow you to get a death benefit sooner, but premiums become more expensive rather quickly.
The prospect of saving on premiums at the beginning of the policy may be tempting, but modified whole — also known as modified premium whole life — is not the best option for most people because of the high premiums and complicated policy options.

- **Pro:** Initial convenience — low initial premiums let you get a cash value sooner than standard whole life policies

- **Con:** Cost — increasing premiums, making the policy harder to maintain over time
- **Duration:** Life
- **Death benefit:** Fixed
- **Premiums:** Adjustable
- **Cash value:** Yes; guaranteed

Dividend-paying whole life insurance

Dividend-paying whole life insurance is a type of whole life insurance policy that pays an annual bonus to policyholders if the company overperforms financially. Policy dividends can be paid by check, be applied to your future premiums, or be used to buy additional coverage.

The dividend amount you're paid is a percentage of your policy's value. That percentage changes every year based on your insurer's financial performance. For example, if your policy has a cash value worth $100,000 and is granted a 6% dividend this year, you'll receive a payment of $6,000. Next year, if your policy is worth $105,000 but your insurer doesn't perform as well, you might only get a 2% dividend of $2,100.

- **Pro:** Gains potential — it pays dividends based on the insurance company's performance
- **Con:** Access — limited coverage options as not all insurance companies offer this type of policy
- **Duration:** Life
- **Death benefit:** Fixed
- **Premiums:** Level
- **Cash value:** Yes; guaranteed

Universal life insurance

Universal life insurance is a flexible permanent life insurance policy that lets you decrease — or increase — how much you pay toward premiums. If you decrease how much you spend on premiums, the difference is withdrawn from your policy's cash value.

A universal life insurance policy can be a good fit if you're looking for some flexibility in your life insurance — and you can afford that flexibility as a universal policy can be more expensive and complicated to manage than standard whole. It's best for high earners who are trying to build a nest egg without entering a higher income bracket.

- **Pro:** Flexibility — you can adjust your premiums based on your financial needs
- **Con:** Investment risk — interest earned from the cash value is based on market performance, so it's not the best option to save money for the future
- **Duration:** Life
- **Death benefit:** Adjustable
- **Premiums:** Flexible
- **Cash value:** Yes; guaranteed

Guaranteed universal life insurance

Guaranteed universal life insurance is a type of permanent life insurance that comes with fixed premiums, minimal cash value, and a guaranteed death benefit. It's one of the most affordable and convenient policy types you can purchase to get lifelong coverage.

Sometimes called GUL, it's cheaper than other types of permanent life insurance, like whole, and more convenient. GUL premiums remain the same throughout the life of the policy, and the policy won't lapse if the cash value isn't enough to cover the policy expenses. This avoids the risk of poor market performance that other universal life policies face.

- **Pro:** Stability — GUL provides lifelong coverage without the market fluctuations of indexed or variable policies
- **Con:** Cost — unlike other permanent policies, the cash value can't be used to cover premiums, which are generally expensive
- **Duration:** Life
- **Death benefit:** Adjustable
- **Premiums:** Flexible
- **Cash value:** Yes; guaranteed

Variable universal life insurance

Variable universal life insurance (VUL) is a type of permanent coverage that combines features from universal life and variable life insurance into one policy: flexible premiums, an adjustable death benefit, and multiple ways to invest your cash value.

VUL can help you expand your investment portfolio while financially protecting your beneficiaries. However, it's a risky type of policy because the investing component impacts your premiums and death benefit, and is more expensive than a term life policy.

- **Pro:** Cash value gains —potential to see bigger gains in the cash value account compared to other permanent policies, depending on your investment choices
- **Con:** Too hands-on —you, the policyholder, not the insurance company, manage the investment portfolio. Unlike other types of permanent policies, you'll need to manage your own cash value investments or work with your own financial advisor
- **Duration:** Life
- **Death benefit:** Adjustable
- **Premiums:** Flexible

- **Cash value:** Yes; not always guaranteed

Indexed universal life insurance

Indexed universal life insurance (IUL) comes with a cash value that earns interest and provides you with options to adjust your death benefit or pay your premium out of your cash value amount — similar to other universal life insurance options. What makes IUL unique is the "indexed" part. These policies have a floor of 0% — so you won't lose money — but the interest rates aren't fixed; instead, they're based on an index chosen by you, the policyholder. The insurer chooses which index funds are available in the IUL product, but ultimately you choose how the money is allocated with the help of a financial advisor.
IUL is more expensive than term and one of the most complicated permanent policies to manage.

- **Pro:** Cash value gains —potential to see bigger gains in the cash value account compared to other permanent policies, depending on stock market performance
- **Con:** Investment caps — most insurers set limits on cash value gains. You won't lose your base cash value, but dedicated investment accounts offer higher returns
- **Duration:** Life
- **Death benefit:** Adjustable
- **Premiums:** Adjustable
- **Cash value:** Yes; not always guaranteed

Types of life insurance by underwriting

Fully underwritten life insurance

This is a kind of life insurance policy that goes through the full underwriting process, which is when insurance companies evaluate your risk profile based on several factors, including your health history, age, and gender.

A full underwriting process can take an average of five to six weeks. As part of the process, you can expect to complete a phone interview, take a medical exam, and have your motor vehicle and medical history reviewed. Most standard life insurance applications go through a full underwriting process.

- **Pro:** Access to coverage — people who'd otherwise not get approved through faster application options can get approved for life insurance through a full underwriting process
- **Con:** Time-consuming — a full underwriting process can take five to six weeks
- **Best for:** Anyone looking for life insurance coverage who's ineligible for faster options, like no-medical-exam or accelerated underwriting (which we'll review below)

No-medical-exam life insurance

No-medical exam is a type of life insurance that doesn't require a medical exam to be approved. Instead, no-med policies use past health records and other information about you to determine your premiums.

These types of policies also come with shorter waiting periods, which is the gap between the moment you start the application process and the moment your policy becomes effective. If you're in good health, especially if you're young, you'll most likely be eligible for no-med.

- **Pro:** Time-saving — no-med provides faster access to life insurance without having to take the medical exam

- **Con:** People who are of old age or in poor health might not be eligible
- **Best for:** Anyone who's in good health

Accelerated underwriting life insurance

Accelerated underwriting is a type of no-medical-exam life insurance that speeds up the typical underwriting process. It allows 18-to-60-year-olds to forgo the medical exam and instead uses readily available data and previous medical records to set your premiums for term life insurance coverage.

You'll still have an initial medical interview over the phone and the insurance company will still check various reports, including medical records, Medical Information Bureau information, your motor vehicle report, and your prescription history. But if there are no concerns about the riskiness of your health or finances, you can get approved in under two weeks.

- **Pro:** Convenience — faster access to life insurance without having to go through the standard application process
- **Con:** Stricter approval guidelines — if you're older than 60 years old or have health issues, you may not qualify
- **Best for:** People ages 18 to 60 in good health, good financial shape, clear of serious criminal charges, and who haven't been declined life insurance coverage in the past

Instant-approval life insurance

Instant issue life insurance policies — also known as instant-approval — differ from the traditional application process and offer expedited approval. They usually refer to a type of term life insurance.

Instant term life insurance policies allow you to get an application decision after an initial phone call. The decision can be shared during your call or may come within a few days, as opposed to several weeks. An instant issue life insurance policy can offer the same protection as a policy with a medical exam, but is quicker to get, offering you near immediate coverage.

- **Pro:** Expedited approval — you can get an application decision in a few days
- **Con:** Stricter approval guidelines — even if you're in good health, you may not be eligible for instant-issue life insurance. If you're older than 60 years old, you may not qualify, either
- **Best for:** People in excellent health looking for near-instant access to life insurance

Simplified issue whole life insurance

Simplified whole life insurance, also called simplified issue life insurance, offers a small amount of permanent life insurance coverage to those who don't qualify for other policies and doesn't require a medical exam. Instead, you answer a few questions about your health.

The shorter application process gets you almost immediate coverage, but because the health evaluation isn't as thorough, insurers set a higher premium for a lower coverage amount. However, simplified issue policies can help seniors or people with certain pre-existing conditions get coverage to pay for final expenses.

- **Pro:** Convenience — simplified issue provides small coverage for final expenses without having to take the medical exam
- **Con:** Cost — higher premiums for a low coverage amount. People over a certain age or with severe underlying medical conditions may not qualify
- **Best for:** Seniors without major medical issues

Guaranteed issue life insurance

Guaranteed issue life insurance belongs to a category of policies called burial insurance. It's permanent coverage that's best for people between age 45 and 80 and those who can't qualify for a standard life insurance policy due to a serious medical condition or terminal illness. Application acceptance is near-guaranteed. Unlike term or whole life insurance, the application for guaranteed issue life insurance doesn't involve health questions or a medical exam. It has a small death benefit, which is meant to help your family cover your funeral costs or medical bills.

- **Pro:** Near-certain approval — guaranteed issue provides access to a small death benefit to cover final expenses
- **Con:** Cost — high premiums for relatively low coverage amounts
- **Best for:** Seniors or people with terminal illnesses

Burial insurance / Final Expense

Burial insurance, also known as final expense insurance, is a type of life insurance designed to pay a small death benefit to your family to help cover end-of-life expenses. Unlike traditional life insurance, which is meant to replace decades' worth of income, burial insurance is usually suited to older adults who want a smaller policy to cover their funeral costs.

Because of its high rates and lower coverage amounts, burial insurance is usually not as good a value as term life insurance. It's best for people who have trouble qualifying for traditional coverage, like seniors and people with serious health conditions.

- **Pro:** Guaranteed coverage — easy access to a small benefit to cover final expenses, including medical bills, burial or cremation services, and caskets or urns
- **Con:** Cost — expensive premiums for lower coverage amounts
- **Best for:** Anyone who doesn't qualify for traditional life insurance looking for funds to pay for funeral costs

Survivorship life insurance (2nd To Die)

Survivorship life insurance is a type of joint life insurance also known as second-to-die. It's a type of permanent policy that covers two people — usually a married couple — and pays out the death benefit once both policyholders die.

A survivorship life insurance policy isn't right for most couples because it delays the payout of the death benefit. But it can be a useful estate planning tool, a coverage option for a spouse in poor health, or financial support for lifelong dependent children. In most cases, two separate term life insurance policies are a better fit for most married couples looking to provide a financial safety net for each other and/or their children.

- **Pro:** Convenience — survivorship policies can be a good choice for estate planning purposes. They can also be used for business planning in case both business partners covered by the policy die
- **Con:** Cost & delayed access to death benefit — the payout is delayed until both people covered die; plus, survivorship policies are more expensive than buying two individual policies for each spouse
- **Best for:** Couples who don't qualify for two individual life insurance policies or who have special long-term financial obligations