

Whole life insurance: Criticisms and rebuttals



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This article will ...

List some the [common complaints](#) that critics tend to toss at whole life insurance.



Note some of the features that make whole life insurance a [versatile tool](#), but also add to its cost.

Point out that critics often [overlook the risk](#) involved in market investments when compared to whole life insurance.

Whole life insurance often gets a bad rap. Financial pundits and money mavens point to it from time to time and tick off a list of criticisms about its suitability and relative worth for consumers.

Typically, these complaints include:

- [Relative cost](#)
- [Market return comparisons](#)
- [How it's sold](#)
- [Actual consumer need](#)

Sure, whole life insurance isn't the right choice for everyone. Individual circumstances are unique from person to person, so what's financially appropriate for one person isn't necessarily right for another. That's why the choices have to be carefully considered and financial professionals consulted. ([Life insurance calculator](#))

But that doesn't mean whole life insurance isn't appropriate for anyone. It can be the ideal thing for those folks worried about family protection and also looking for some financial flexibility down the road.

Just as one product doesn't fit all circumstances, blanket criticisms don't necessarily apply to all cases.

So what are some of the more common criticisms leveled at [whole life insurance](#)... and what makes them fair or unfair?

Whole life insurance is expensive

This gripe is usually made in comparison with [term life insurance](#). And, well, yes, in comparison with term insurance policies, whole life insurance *is* more expensive.

But they are different products, like a car versus an RV. Sure, both will get you to the store and back. But if that's all you are going to do, an RV is kind of an expensive, cumbersome way to do it. If you plan to take a trip into the backwoods and explore the hinterland, however, just having a car may not cut it.

Term life insurance provides protection for your family or other beneficiaries in the event of your death for a specified period of time. (**Related:** [4 times when term might be the solution](#))

A whole life insurance policy also provides that kind of protection, but for an open-ended period of time. Indeed, it's permanent, so long as the premiums are paid. It also builds cash value, has the opportunity to earn dividends, and can offer some [tax advantages](#). So, in addition to protection, a whole life insurance policy also offers via its cash value a possible source of funds for future needs, such as college education or retirement income.

These additional features, of course, come with caveats. Dividends are not guaranteed (although some companies, ahem, have paid dividends consistently since the Civil War). And taking a loan against a policy reduces its cash value and death benefit, increases the chance the policy will lapse, and may mean a tax bill if the policy ends before the insured person dies. Whether these negative consequences happen depends on individual circumstances and actions; but at least whole life insurance policies, unlike term policies, offer the cash-value option. (**Related:** [Life Insurance: Treat the cash value with care](#))

In short, whole life insurance policies can offer more and, as a result, they tend to cost more than term insurance.

Whole life insurance returns lag the market

This is a favorite criticism from those who also dole out investment advice: Various market-based investments perform better over time than the cash value growth of a whole life insurance policy or the possible dividends that policy may provide.

But what about market risk? That is often left out of the discussion.

Sure, a stock portfolio can have rip-roaring gains, but it can also fall flat on its face. It depends on the stocks in the portfolio and the overall market. Other types of market-based investments — fixed income, real estate, commodities — are subject to similar risks. Performance isn't guaranteed and can sometimes even be negative. (**Related:** [Know your risk profile](#))

With whole life insurance, however, the insurance company is taking the risk. You are getting protection and a guaranteed level of cash-value growth ... without having to worry about the ups and downs of the market. So the comparison between insurance and other investments should take into account the value of removing volatility from the equation.

Life insurance is sold on commission

Yes: So are cars, clothes, and real estate. In fact, it's a business model that works for a number of industries. There are two basic criticisms leveled here about cost and incentive.

Some folks argue that the commission system adds to the expense of a product. Of course, there's a cost for marketing and selling a product, no matter what method you choose. And

the commission system is a pretty efficient way of allocating those costs to the right products.

As for sales incentives, did you ever need help in a store that didn't offer sales associates a commission? The commission model makes for some very good sales people who can efficiently analyze needs and offer the right solution, saving their time and yours. And as a result, they get the positive reputational return and subsequently more clients.

By the way, not only do customers seek out such sales folk by social media and word of mouth, so do quality companies.

Some people don't need whole life insurance

That may be true. Personal and family situations are different for everyone and, in some instances, there may be someone whose need for whole life insurance is minimal at best. That shouldn't be taken to mean they don't need any insurance, especially given the range of insurance choices available.

A lot depends on finances, and individual financial circumstances can vary widely. They should obviously play a large part in deciding what's appropriate and what isn't in terms of protection and long-term growth.

For instance, in some situations where family protection is desired but income is limited, term life insurance may be a better option. Or, in other more affluent cases, a permanent policy purchase may be more about tax considerations or [estate planning](#). Still, in other situations, the decision about purchasing a policy now may be ensuring some financial flexibility later.

Insurance is not one-size-fits-all. That's why most folks like to work with a [financial professional](#) to understand what's best for their circumstances. But, to go back to our starting analogy, you still need a car to get to the store. And you may want an RV to check out the countryside later in life.

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