

Whole Life: A Balance Between Legacy and Lifestyle

By Vincent M. D'Addona, CLU, ChFC, AEP, The Guardian Life Insurance Company of America, New York, N.Y.



In short, whole life insurance best achieves the delicate balance between legacy and lifestyle. Whole life is one of the most common types of permanent life insurance on the market today. It provides a holistic layer of financial security because of its unique combination of asset accumulation and wealth preservation. It is the only product of its type to offer both living and death benefits – a valuable feature in today's volatile economic climate and one exclusive to whole life.

One of the most prominent examples of how this unsung product helped create a lasting legacy occurred more than half a century ago when Walt Disney, unable to land a substantial bank loan, used the cash value from his whole life policy to build a sprawling theme park that is now known to the public as "the happiest place on earth."

While whole life comes with a higher dollar commitment than term or other permanent products such as variable or universal life insurance, it offers unparalleled stability and a much greater value over the long-term when taking into account the internal rate of return of total premiums to death benefit at life expectancy. In addition, any favorable developments that occur during the policyholder's life, such as lower-than-expected expenses, higher-than-guaranteed returns, or better-than-anticipated mortality, can be applied toward improving benefits and/or paying down premiums while still increasing the policy's cash value accumulation.

A Matter of Life and Death Benefits

Whole life insurance is the only product of its kind. With whole life, policyholders have greater assurance of the deliverability of the death benefit and, therefore, can leverage its presence by using other assets during their lives.

These so-called "living benefits" allow policyholders the ability to meet a variety of different financial commitments – paying for college or expanding on a business – while still providing the all-important protection for beneficiaries in the event of death. Because increasing life expectancies have created the need for long-term care insurance, an enhanced accelerated benefit rider on a whole life policy enables access to more than the policy's cash value for those in need of long-term care benefits. In times of economic uncertainty and sharp market fluctuations, this unique feature makes whole life a valuable product to consider – and one to discuss with clients who lack the economic memory to remember this country's last recession.

Unlike borrowing against a 401(k) plan or bank financing, whole life policy loans aren't subject to a credit check or penalty fees, though any amount that isn't repaid will be deducted from the death benefit and cash-surrender value for the policy's beneficiaries.

As clients enter their retirement years, concerns shift from lifestyle to legacy and from accumulation to preservation. Our industry should begin to communicate the role whole life insurance plays during the distribution and preservation years. Although life insurance should never be viewed as a retirement tool, with its guaranteed death benefit, the presence of whole life enables clients to freely consume the assets they've accumulated for retirement, and possibly pursue a more aggressive asset allocation mix. This makes it an important component of a client's overall financial strategy. Whole life's cash value boasts a return that's similar to a fixed-income product. Incorporating whole life as part of a client's asset allocation provides a level of confidence to investors and beneficiaries because of its ability to help distribute wealth over generations.

From an estate planning perspective, owning a whole life policy could give a retired couple at age 65 living in a home worth \$1 million the freedom to take out a reverse mortgage, using the death benefit to replace the accumulated debt on the home. This same theory would help a 70-year-old male retiree pay a \$24,000 annual property-tax bill on a property he owns outright so he wouldn't have to fear foreclosure for his spouse and heirs after his death.

The annual premium of a whole life policy is locked in for life at the same rate. The dividends earned then can be used for several purposes that include anything from increasing the death benefit or cash value, which accumulates on a tax-deferred basis, to lowering the premiums or refunding cash. The policy will remain in force throughout the insured's life as long as premiums are paid. Some policies allow individuals the option – and freedom – of compressing premiums to as little as 20 years or until age 65.

Perception versus Reality

The biggest misconceptions about whole life are that it is a poor investment, an expensive way to buy insurance, and a product bought solely for its death benefit features. The die was cast nearly 30 years ago when the Federal Trade Commission released a deeply flawed study that grouped dividend-paying whole life with other products, including non-participating whole life and the now-defunct deposit term insurance, which drove the yield down to 2% and failed to examine the track record of high-quality insurance companies. Unfortunately, the federal government has never repudiated the study, and this false premise has since been embedded into the financial mindset.

With a national retirement crisis looming, however, a declining savings rate, and a worsening culture of conspicuous consumption, the time clearly has come for financial professionals and astute investors alike to take a closer, and more rational, look at the merits of whole life as an integral part of a client's financial plan. Whole life's presence in a financial plan helps people maximize their wealth and retirement income and provides a level of confidence to investors and beneficiaries.

For those in need of lifetime protection, whole life insurance is a valuable tool to consider.

Rethinking whole life insurance within the context of asset protection and wealth accumulation represents a small but significant step toward providing a unique distinction in a crowded marketplace.