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Whole Life Insurance Policies

Whole life provides a death benefit and an accumulating cash value. By definition, it has a **fixed premium** and a **level death benefit** to age 100. The **premiums do not increase** with age, which averages the client's cost of the policy over the life of the policy (although there is a high internal upfront load with whole life). The cash value increases with time until it equals the death benefit at age 100.

Most clients when they look at a whole life illustration wonder why there is very little cash surrender value the first several years of the policy. The main reason is that, as compared to the other types of cash building policies, the costs for the first few years in a whole life policy are astronomically high. The premium costs for the client are the same over the life of the policy, but the internal costs decrease as compared to universal life and variable life which have high internal expense in the later years of the life policy (especially after age 70).

Where do whole life premiums go?

The insurance company essentially makes **all** of the decisions regarding how and where money in a whole life policy is invested. Regular premiums both pay insurance costs and cause equity to accrue in a savings account. That cash value is invested in fairly conservative investments (depending on the company) and usually is heavily invested in the bond market. The cash surrender value is an amount of money that you are guaranteed to receive in the event of policy cancellation. You also have the right to borrow against the cash value on a loan basis (tax free income).

Also, be aware that premiums are due in your whole life policy every single year. If you cannot come up with the premium one year or several, the policy will pay the insurance expenses internally from built up cash value (if any). However, eventually the policy will surrender itself if you do not request a lowering of the death benefit (which not every company is willing to do) or if the policy runs out of cash to pay premiums internally.

If you think you will need flexibility in your life policy both with premium and death benefit, a whole life policy is not for you.

Why would you want to use whole life?

Whole life (otherwise known as permanent life insurance) works well for estate planning purposes. As soon as you purchase the policy, you know what your premiums are going to be for life; and unless the company goes bankrupt, as long as you pay your premiums, you will have that death benefit no matter what happens in the equity markets.

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If you are **not** looking for a long-term estate planning life insurance policy, then we do **not** typically suggest using a whole life policy mainly because the investment returns on the cash in whole life policies are typically low in comparison to the stock market averages over a period of time. Our point being that, if you ever got to a point where you were strapped for cash because of the early expenses in the policy and the low investment returns, your whole life policy is not much of a resource to use if you get in a financial pinch. You will have a guaranteed death benefit as long as you pay the premium, but do not look to the policy as a major liquid asset of your estate unless you are pumping in significant premiums (well above what is required) for a number of years.

Additionally, with the advent of what we call “no cash value” universal life policies that have a much lower premium to receive a “guaranteed” death benefit, we see little reason to use whole life (except for those who want a very conservative wealth building tool).

Miscellaneous

As with term policies, there are a number of variations with a whole life policy. For those who cannot afford a normal whole life today but think they will have the money later, they can purchase a policy that starts with lower premiums that go up dramatically (supposedly when you have more money) after the third-fifth year.

Limited pay policies (guaranteed life) are a nice option to use in an estate plan for someone who does not want to pay premiums until death. The life insurance company figures a one or multiple pay policy (typically 1-10 pay) where the client will pay the calculated premium and then will never have to pay another premium to guarantee the death benefit in the policy. This is the type of policy we typically recommend for high-end clients who have a need for a guaranteed death benefit (usually for estate taxes and to pass wealth to the heirs) but do not want to pay premiums for more than five years.

Even though whole life policies have a guaranteed death benefit, with the advent of universal life (UL) and the rider which can give the client a guaranteed death benefit, it is more likely than not that a client will almost always be able to accomplish their goals in a less expensive manner by using a UL policy.