



The Case for Reviewing Whole Life Insurance

Background

Whole Life insurance is the oldest permanent form of life insurance. This type of life insurance builds cash value through both the client paying premium as well as the insurance carrier crediting a dividend. The goal of Whole Life is to build the cash value to a point where the dividend is large enough to pay for the premium. If a premium payment is missed or if the dividend is insufficient to pay the premium then the policy becomes in jeopardy of lapsing which is a taxable event at the owner's ordinary income tax rate.

Dividend Crediting Rate

Historically, Whole Life insurance carriers such as Northwestern Mutual, Mass Mutual and New York Life paid generous dividends where a policy could be "paid up", meaning no more additional premium, after 7 to 10 years. A Whole Life insurance carrier's dividend payment is a function of the insurance carrier's general account. As most insurance carrier's general accounts are invested in US Treasuries, the dividends of Whole Life policies have decreased causing policyowners to have to pay more premium than previously projected. Both the past US Fed policy of Quantitative Easing and the future projection of continued reduced interest rates causes concern for the future dividend crediting rates of Whole Life insurance. Whole Life insurance carriers will likely continue to reduce their dividend crediting rates as well as raise internal charges.

Solution

As the life insurance industry has grown and become more sophisticated there are now many more permanent products available other than Whole Life. Universal Life insurance is unique in that the premium payments are flexible allowing the policyowner to use the policy's existing cash value to cover any fees and charges should the policyowner not pay the premium. Available Universal Life investment options include the stock market, bonds, principal guaranteed index options and fixed crediting rates. For policies with more than \$1mm of cash value there is customized life insurance called Private Placement. Private Placement Life Insurance not only includes no upfront commission but also a customized investment portfolio based on the policyowner's investment objectives.

Borrowing & Loan Interest Rates

One of the benefits of owning permanent life insurance is accessing the policy's cash value tax-free. Most Whole Life insurance policies carry loan interest rates between 6% and 8%. The majority of policies issued by Traditional and Private Placement Life insurance carriers offer loan interest rates between 0% and 1%.

Conclusion

It is easy and free to audit a Whole Life policy. An experienced broker simply needs a recent statement.

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