

The Truth About Participating Whole Life

Is whole life an obsolete product? A 46 year actual case history provides the surprising answer.

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Part one: Whole Life vs Other Investments

On June 4th, 1963, Assurity Life Insurance Company (then Woodmen Accident & Life) issued a \$29,000 participating whole life policy to a client we shall call Frank Smith, age 27. This policy was projected to accumulate \$44,651 total cash value by age 73, based on Assurity's 1963 dividend scale. Mr. Smith has faithfully paid his \$527.22 annual premium every year for the past 46 years. His only withdrawal was \$174.73 in dividend values, which occurred in April 1971. On June 4th, 2009, his annual policy statement read as shown in Table One:

Table One

Annual Policy Statement as of 6-04-09

Death Benefit

Base policy death benefit	\$29,000
Paid up additions death benefit	<u>113,560</u>
Total death benefit	\$142,560

Cash Value

Guaranteed cash value	\$20,494
Cash value of paid up adds.	<u>92,552</u>
Total cash value	\$113,046
Net premiums paid from 6-04-63 thru 6-04-09	\$24,077

Actual performance vs hypothetical illustrations.

Was Mr. Smith's decision to purchase a whole life policy over 46 years ago a good choice? Some consumers believe whole life is an obsolete product that pays a poor return. Is this belief supported by the historical performance of actual whole life policies?

To answer this question, this three part article will examine Mr. Smith's

participating whole life policy by addressing three primary questions: (1) **How much would Mr. Smith have accumulated if he had simply invested his annual premium in an investment instead of buying life insurance?** This is an important question because, although the primary purpose of whole life is to provide a death benefit, it can be purchased by someone who may not need life insurance, such as a single person with no dependents.

(2) **Would Mr. Smith have done better if he had bought term life insurance and invested the difference?** Even though the whole life vs term question has been debated endlessly in numerous publications for more than 40 years, there is still much disagreement among financial advisors on this subject.

It is difficult to compare whole life with term and a side fund because whole life dividends are not guaranteed and because the future rate of return on the side fund cannot be known. No matter how good whole life projected values may appear

compared to a term and invest illustration, they are still only hypothetical values. That is why it is helpful to examine the historical performance of an actual whole life policy. The credited cash values are certain and can be compared to the actual performance of other options.

(3) **Would universal life or variable life have been a better choice for Mr. Smith than participating whole life?** Although these alternative forms of permanent life insurance were not available in 1963, they

are now more widely promoted and sold than whole life. Would these products have produced a better result for Mr. Smith?

A typical policy.

Mr. Smith's Assurity Life policy is a good example of a typical participating whole life policy because Assurity's performance has been similar to the performance of many other competitive companies. It is a good policy to evaluate because the policy size, adjusted for inflation, is suitable for many middle income households. According to the Federal Reserve Bank of Minneapolis, a \$527.22 annual premium in 1963 would cost \$3,762.90 per year in 2009. Adjusted for inflation, a \$29,000 death benefit in 1963 would equal \$206,980 in 2009.

From 1963 to 2009, Mr. Smith paid net premiums of \$24,077 and now has \$113,046 of total cash value. He can withdraw this entire amount tax-free by using a policy loan. The non-taxable gain of \$88,969 equals an average 5.67% internal rate of return every year from inception. How does that return compare with the amount Mr. Smith could have earned by investing his annual premium in an alternative investment?

Whole life must be compared to other stable investments.

What type of investment could Mr. Smith have used had he not purchased whole life? Some financial advisors might suggest a growth mutual fund as an alternative, but this would not result in a valid comparison. Whole life cash value is a stable investment which, unlike mutual funds, is not subject to the risk of stock or bond market declines. Whole life cash values, once credited, never go down unless withdrawn.

Part One Continued

To maintain a balanced portfolio consistent with his risk propensity, Mr. Smith needs to allocate approximately **30% to 40%** of his investments to **stable** accounts and **60% to 70%** to **growth** accounts. His whole life cash values have always counted as part of the 30% to 40% allocated to **stable** accounts. Had his \$527 annual premium been invested in a growth mutual fund instead of whole life, he would have had to reallocate \$527 per year from other equity investments to a **stable** account in order to maintain the desired portfolio balance. That is why **only a stable account** with no market risk, such as a bank CD, can be compared as an alternative investment to whole life.

How much would Mr. Smith have accumulated had he invested his entire \$527 annual premium in bank CDs since 1963 and purchased no term life insurance? The historical annual rates on 6 month negotiable CDs sold on the secondary market are published in the **Federal Reserve Statistical Release**. Although somewhat higher than retail CDs offered by banks, these rates fairly represent the return Mr. Smith could have earned each year from 1963 through 2009 by investing in bank CDs as well as other similar stable accounts. These published rates range from a low of **1.17%** in 2003 to a high of **15.79%** in 1981.

Income taxes must be considered.

Had Mr. Smith invested in bank CDs or any other taxable investment, his earnings would have been reduced every year by Federal and State income taxes. The top marginal Federal tax rate was at least **70%** from 1963 through 1981 and then **50%** through 1986. Currently, Mr. Smith's marginal tax rate is **25% Federal** plus approximately **5% State**. Although it is possible he may have paid more than 30% of his investment income in taxes in many of the past 46 years, a level **30%** tax rate for all years has been assumed so that the net returns are equal to those that would have been realized under our current income tax structure.

Whole life vs bank CDs.

Had Mr. Smith invested his entire \$527 annual premium in 6 month negotiable CDs starting on 6-04-63 and paid 30% tax on his earnings each year, his after-tax account balance 46 years later on 6-04-09

Table Two

Actual History from 6-04-63 thru 6-04-09 – without term insurance

	<u>Bank CD</u>	<u>Whole Life</u>
Total account/cash value	\$77,326*	\$113,046
Total net contributions	- 24,077	- 24,077
After-tax gain	\$53,249	\$88,969
Amount payable at death	\$77,326	\$142,560

* Bank CD value assumes historical 6 month CD rates reduced by a 30% combined marginal tax rate. At a 40% tax rate, CD values would be **\$64,058**. At 20%, CD values would be **\$93,827**.

would have been **\$77,326** instead of the **\$113,046** he actually accumulated in his whole life policy. Based on this actual interest rate history, the performance of Mr. Smith's whole life policy can be compared to bank CDs as shown in **Table Two**.

It should be noted that bank CDs are insured by the FDIC while whole life values are backed by the reserves of the issuing company.

It should also be noted that if Mr. Smith takes a policy loan for \$113,046, he must continue to pay his \$527 annual premium plus a portion of the annual policy loan interest in order to keep his policy in force. As long as the policy is maintained until death, the policy loan proceeds become permanently tax-free when the loan is deducted from the tax-free death benefit. The remaining death proceeds of \$29,514 (\$142,560 less \$113,046 policy loan) are more than enough to reimburse the beneficiary for all post-loan payments plus interest. So, even though the whole life policy requires ongoing payments after a loan is taken, this additional outlay is completely offset by additional death proceeds. In this example, no adjustment for future policy loan interest is required in order to accurately compare the whole life cash values with the after-tax bank CD values.

Whole life vs savings bonds.

Was there any other stable account alternative Mr. Smith could have chosen that would have done better than 6 month negotiable CDs? Had he invested the same amount each year in US savings bonds beginning in 1963, he would have accumulated **\$95,086** by 2009 (after 25% Federal tax at maturity) compared to **\$77,326** in bank CDs. Savings bonds beat 6 month bank CDs over this 46 year time period because older bonds had high minimum guaranteed interest rates until final maturity that are no longer offered on EE bonds sold today. Mr. Smith's whole life cash values of **\$113,046** still beat

savings bonds, although by a smaller margin. However, since new EE bonds no longer offer the same terms, they would not have equaled the historical performance of older savings bonds. For this reason, it is more relevant to compare whole life with 6 month negotiable CDs, which still offer similar terms today.

Conclusion – Part One.

One very clear conclusion can be drawn from this actual case history:

Participating whole life has actually provided the equivalent of a very good stable account investment over the past 46 years.

Mr. Smith would have had to earn an average taxable return of **8.10%** per year in a 30% marginal tax bracket to equal his policy's **5.67%** internal rate of return. In addition to his \$88,969 cash value gain, Mr. Smith has had life insurance coverage for 46 years at no additional cost. The after-tax rate of return of his whole life policy exceeded the return of stable investments which provided no insurance coverage. Although some financial advisors tell clients to never buy life insurance as an investment, this case history proves that whole life has performed like a superior long-term stable investment in addition to providing life insurance coverage.

It is important to note that participating whole life must normally be held 10 to 15 years before the total cash value exceeds the total premiums paid. If canceled before then, the net cost of whole life coverage may significantly exceed the cost of term insurance. **For this reason, whole life should never be purchased as a short-term policy.** It is suitable only for those who plan to maintain it long term.

In part two of this article, we will examine how Mr. Smith would have fared had he purchased a term life policy 46 years ago and invested the difference.

The Truth About Participating Whole Life

Part two: Whole Life vs Term Insurance

Part one of this three part article examined an actual **\$29,000** participating whole life policy issued on June 4th, 1963 by Assurity Life. Mr. Frank Smith has paid **\$527.22** per year for **46** years into this policy, less one small withdrawal in 1971. On June 4th, 2009, this policy's death benefit had increased to **\$142,560** with a total cash value of **\$113,046**.

If Mr. Smith had invested the same annual premium in 6 month bank CDs and paid a 30% tax rate on his earnings each year from 1963 through 2009, he would have accumulated only **\$77,326**. The historical rates actually paid on 6 month negotiable CDs are published in the **Federal Reserve Statistical Release**. Since his insurance cash value of **\$113,046** can be withdrawn tax-free by using a policy loan which does not have to be repaid until death, Mr. Smith has **46%** more spendable cash value in his insurance policy than he would have had in the bank.

Buy term and invest the difference?

This analysis thus far has assumed Mr. Smith invested his entire annual premium in bank CDs and purchased no term life insurance. If Mr. Smith had needed life insurance coverage, would he have done better if he had bought term insurance and invested the premium savings in some other investment instead of purchasing whole life? Term insurance premiums are normally much less than whole life premiums for the first 20 to 30 years. Whole life critics contend that the insured can do better by "buying term and investing the difference" in premiums.

As explained in part one, had Mr. Smith actually purchased term insurance, he could not have invested the premium savings in a growth mutual fund and still maintained his desired portfolio balance. His risk propensity dictates that **30% to 40%** of his investment portfolio be kept in **stable** accounts and **60% to 70%** in **growth** accounts. Because his insurance cash value is part of his stable account allocation, the premium savings could only have been invested in a stable account similar to whole life cash value. This limits the available options to accounts like money market funds, short term CDs, and savings bonds. For this

reason, the same 6 month negotiable CD rates used in part one of this article have been used to calculate the returns Mr. Smith would have received if he had purchased term insurance and invested the difference.

The cost for term insurance must be deducted.

If Mr. Smith had invested \$527.22 each year in a bank CD and deducted the cost for \$29,000 of term life insurance each year, the CD would be worth less than **\$77,326** at age 73. How much less? The answer depends on what term rates are used. Term insurance is much less expensive today than it was in 1963.

If the high term rates actually available to Mr. Smith in 1963 are used, the reduction in bank CD values will be greater than if today's low term rates are used. However, since these high term rates are no longer offered by competitive companies, it is more relevant to today's consumer to ask "If Mr. Smith could have purchased term insurance in 1963 at today's low rates, how much would he have accumulated by buying term and investing the difference?"

A MAJOR PROBLEM WITH TERM INSURANCE IS THAT IT BECOMES VERY EXPENSIVE IF HELD BEYOND THE INITIAL TERM PERIOD.

Since the best term insurance rates are offered today on \$100,000 face amounts and higher, it will be less expensive to use the proportional cost of a larger policy to calculate the cost for \$29,000 of term insurance. A 27 year old preferred plus male can currently purchase **\$174,000** of 30 year level term for only **\$213.56** per year from a company that offers low cost term insurance. If Mr. Smith had been able to purchase term insurance at this rate in 1963, only **\$35.59** per year would have been deducted from his bank CD values for the first 30 years in order to maintain a **\$29,000** life insurance death benefit.

Whole life vs Term and Invest

A major problem with term insurance is that it becomes very expensive if held

Table Three
\$29,000 Death Benefit, Male, Age 27

Year	Whole Life Premium	Term Premium
1-30	\$527	\$36
31	527	421
32	527	461
33	527	507
34	527	558
35	527	635
36	527	723
37	527	827
38	527	945
39	527	1,080
40	527	1,229
41	527	1,395
42	527	1,578
43	527	1,828
44	527	2,067
45	527	2,377
46	527	2,661
47	527	3,035
48	527	3,461
49	527	3,930
50	527	4,442

beyond the initial term period. **Table Three** shows that Mr. Smith's annual term cost would have increased from **\$35.59** to **\$421.00** on year 31. By year 46, his annual term cost would have risen to **\$2,661**. Withdrawing the cost for \$29,000 of term insurance over 46 years would have reduced the bank CD value from **\$77,326** to only **\$49,970**. By purchasing a whole life policy instead, Mr. Smith's actual cash value of **\$113,046** is **\$63,076** greater than he would have accumulated with a bank CD. Based on actual interest rate history and these highly favorable term rates, the performance of Mr. Smith's whole life policy can be compared to a term and invest program as shown in **Table Four**.

Even though Table Four shows a huge historical advantage in favor of whole life, it does not illustrate the impact of high term insurance costs beyond age 73. If Mr. Smith lives to age 78, the cost of term insurance is projected to deplete the entire bank CD value. His term coverage would then terminate unless he continues to pay very high term insurance premiums. By contrast, Mr. Smith's whole life values will continue to increase every year with no increase in premiums.

Part Two Continued

It is possible Mr. Smith could do better with a term and invest program by periodically replacing his term policy with a new one. If he had purchased a new 10 year level term policy every 10 years that would approximate his whole life death benefit and invested the difference, his 6-04-09 bank CD value would have been **\$68,224** instead of the **\$49,970** illustrated in Table Four. With this strategy, the term insurance cost may not deplete his bank CD until age 88.

The drawback of this approach is that Mr. Smith would have to prove he is still insurable at preferred rates every time he purchases a new term policy. If he has developed any serious medical problems, he would be forced to pay the extremely high renewal rates of his in-force policy to maintain coverage. Because there is no proof of insurability required to maintain a whole life policy, it is more appropriate to compare whole life with a term policy that can be renewed without evidence of good health.

Whole life sold today vs 1963's whole life.

This case history provides clear evidence that those who purchased a competitive whole life policy many years ago and kept it have been handsomely rewarded. But, does this evidence apply to purchases of whole life today? Are new whole life policies likely to perform as well as those policies issued in 1963?

Assurity Life currently offers a 27 year old preferred plus male **\$206,980** of whole life for only **\$2,209** per year. By adding a **\$1,554** annual paid up additions rider to the base policy, a new **\$206,890** Assurity whole life policy can be issued for **\$3,763** per year. This policy would be the **exact inflation adjusted equivalent** of the policy Mr. Smith purchased in 1963.

If the \$3,763 premium is paid every year, this policy will have **\$616,553** total cash value in 46 years based on Assurity's current dividend scale, which is not guaranteed. To equal **\$616,553** of cash value, the client would have to earn an after-tax return of **4.74%** every year from inception on his **\$3,763** annual premium. In a 30% tax bracket, the client must earn **6.77%** per year to equal **4.74%** after taxes.

Although this **4.74%** projected internal rate

Table Four

Actual History from 6-04-63 thru 6-04-09 with Hypothetical \$29,000 Level Term Policy

	<u>Bank CD + Term</u>	<u>Whole Life</u>
Total account/cash value	\$49,970*	\$113,046
Total net contributions	- 24,077	- 24,077
After-tax gain	\$25,893	\$88,969
Amount payable at death	\$78,970	\$142,560

*Bank CD value assumes historical 6 month CD rates reduced by a 30% combined marginal tax rate. At a 40% tax rate, CD values would be **\$38,138**. At 20%, CD values would be **\$64,799**. Bank CD values have been reduced by term cost shown in Table 3.

of return is less than the **5.67%** actual return achieved by Mr. Smith's whole life policy, this return represents approximately the same margin in addition to current inflation. When Mr. Smith purchased his policy in 1963, inflation had averaged 1.15% per year over the prior five years⁽¹⁾. His original cash value projection of \$44,651 at age 73 represented an average annual return of **2.44%** per year, which was **1.29%** above the inflation rate. However, inflation actually averaged **4.37%**⁽¹⁾ per year from 1963 to 2009. His actual annual return of **5.67%** resulted in a margin of **1.30%** above inflation.

The inflation rate is now lower than the average of the past 46 years. It averaged 2.95%⁽¹⁾ per year from 2004 to 2009. If future inflation averages **2.95%** per year, Assurity's current projected annual return of **4.74%** would equal a margin of **1.79%** above inflation. This margin is slightly higher than the margin above inflation projected in 1963 and the margin actually achieved from 1963 to 2009. Although some companies are now projecting long term returns above 5% on their whole life products, a **4.74%** return may be more realistic given our current economic environment.

If interest rates and inflation remain at current levels, on average, over the next 46 years, it seems reasonable that a new Assurity whole life policy may perform as illustrated since the company has actually paid a 27 year old male an average of **1.30%** plus inflation over the past 46 years. Although past performance does not guarantee future results, their current illustrations are highly credible in light of their historical performance.

From this, we know a participating whole life policy purchased today and held long term has the realistic potential to earn an average internal return of **4.74%** from inception with no stock market risk after

the cost of insurance. This is equal to a **5.93%** taxable return in a **20%** tax bracket, a **6.77%** return in a **30%** tax bracket, or a **7.90%** return in a **40%** tax bracket. Stable investments which provide no insurance coverage currently earn much less than the long rate of return projected by a competitive whole life policy.

Conclusion – Part Two

The true cost of life insurance has been much less with whole life than with term over the past 46 years. Mr. Smith's whole life gain of **\$88,969** by age 73 is much greater than the **\$25,893** he would have earned by buying term and investing the difference in a stable account. Had he purchased enough term insurance to equal his whole life death benefit, his term premium would be **\$8,496** at age 73. This premium would increase each year, reaching an unbelievable **\$34,092** per year by age 80. Buying term life insurance and investing the difference clearly would have been a financial disaster for Mr. Smith.

Term insurance is appropriate for those who need life insurance for less than 20 years or those who cannot afford to purchase an adequate amount of whole life. Contrary to the claims of some whole life critics, life insurance may be needed after retirement to replace retirement income, pay for last expenses, or to cover estate settlement costs. Although term insurance is sometimes referred to as "cheap" coverage, it is actually very expensive if maintained until life expectancy.

Part three of this article will examine how Mr. Smith would have fared if he had purchased universal life or variable life on June 4th, 1963 instead of whole life.

⁽¹⁾ Source: Federal Reserve Bank of Minneapolis as of 6/22/09.

The Truth About Participating Whole Life

Part three: Whole Life vs Universal and Variable Life

The subject of this three part article is a **\$29,000** participating whole life policy issued on June 4th, 1963 by Assurity Life to a client referred to as Frank Smith, age 27. Now that Mr. Smith is 73 years old, the actual performance of this policy can be compared to the actual performance over the past 46 years of other alternatives.

Part one of this series examined how much Mr. Smith would have accumulated if he had bought no life insurance and invested his entire **\$527.22** annual premium in 6 month negotiable CDs. This would have produced **\$77,326** of bank CD value after taxes at age 73. By comparison, his whole life policy contains **\$113,046** of cash value which can be withdrawn tax-free by using a policy loan.

In part two, Mr. Smith's whole life policy was compared with buying term life insurance and investing the difference in a stable account. This approach would have produced only **\$49,970** in bank CD value after taxes at age 73, compared to his **\$113,046** of whole life cash value. Mr. Smith's whole life policy clearly outperformed buying term and investing the difference from 1963 thru 2009.

This final installment compares Mr. Smith's whole life policy with two newer forms of permanent life insurance, guaranteed universal life ("UL") and variable life.

Whole life vs Guaranteed UL

Guaranteed universal life has become a very popular life insurance product in the last few years because it offers permanent coverage at a lower premium than whole life. As long as the required premium is paid, this product guarantees the death benefit will remain in force to a specified age, such as age 100. Paying the minimum premium results in a very small amount of cash value which normally reduces to zero in the later policy years. As a result, guaranteed UL is much like a level term policy with level premiums to age 100.

If guaranteed UL policies had been available in 1963, would Mr. Smith have done better by purchasing this product instead of participating whole life? He could have paid a much lower guaranteed UL premium and invested the difference. However, as explained in part one, the

	Guaranteed UL	+	Bank CD* =	=	Total UL + CD vs	Whole Life
Total account/cash value:	\$2,466		59,962	=	62,428	\$113,046
Total net contributions:	- 5,377		- 18,700	=	- 24,077	- 24,077
After-tax gain:	< \$2,911 >		\$41,262	=	\$38,351	\$88,969
Amount payable at death:	\$29,000		59,962	=	88,962	\$142,560

* Bank CD value assumes historical 6 month CD rates reduced by a 30% combined marginal tax rate. At a 40% tax rate, CD value would be **\$49,684**. At 20%, CD value would be **\$72,745**. Bank CD value assumes \$410.34 annual contributions.

difference could only have been invested in a stable account rather than a growth mutual fund because Mr. Smith already has other growth accounts which equal the 60% to 70% of his portfolio he wishes to allocate to higher risk investments.

The best guaranteed UL rates are offered on \$100,000 face amounts and higher. A 27 year old preferred plus male can currently purchase a **\$174,000** level death benefit guaranteed UL policy for only **\$701.40** per year from a competitive company. At this rate, a **\$29,000** death benefit would cost only **\$116.90** per year. At age 73, this policy is projected to accumulate **\$2,466** of cash value based on current rates. By age 81, the UL cash value is projected to reduce to **zero**.

Buy UL and invest the difference?

If Mr. Smith had purchased this guaranteed UL policy for **\$116.90** per year and invested the **\$410.34** annual premium savings in 6 month negotiable CDs, his bank CD would have grown to **\$59,962** after taxes in a 30% tax bracket. Combined with his UL policy value of **\$2,466**, his total cash value would be **\$62,428**. By contrast, Mr. Smith's participating whole life policy actually accumulated cash value of **\$113,046** for the same **\$527.22** annual outlay. The performance of both programs is summarized in **Table Five**.

Had this guaranteed UL policy been available in 1963, it may have accumulated higher cash values by age 73 than those currently illustrated because of the high interest rates available in the 1970's and 1980's. However, cash value in a minimum funded guaranteed UL product is only temporary because high

mortality costs are deducted in the later years that cause the cash value to eventually reduce to zero.

If guaranteed UL had been available in 1963, it almost certainly would **not** have been a better choice for Mr. Smith than participating whole life. However, it may have been a better choice than term insurance because UL premiums are much less in the later policy years compared to the extremely high cost of term insurance.

Whole Life vs Variable Life

Variable universal life was introduced in the 1980's. It allows the insured to allocate premiums among a variety of investment choices, including stable accounts, bond accounts, and growth accounts. The premium is flexible and the death benefit can be adjusted every year.

If variable life had been available to Mr. Smith in 1963, he could have paid the same **\$527.22** annual premium into his variable life policy and adjusted his death benefit each year to equal his whole life death benefit. However, he could **not** have allocated any of his funds to growth accounts and still maintained the desired percentage of his investment portfolio in stable accounts. He would have had to allocate his funds to the money market option offered in most variable life policies in order to avoid the risk of stock and bond market declines.

The following analysis is appropriate only for those investors with a similar stable account portfolio allocation. Investors with risk profiles appropriate for participation in stock market returns may wish to consider variable life insurance or other investments as an alternative.

Part Three Continued

A common index used to measure the performance of variable life money market funds is the 3 month T-Bill. The historical returns of 3 month T-Bills dating back to 1954 are published in the **Federal Reserve Statistical Release**. These rates range from a low of **1.01%** in 2003 to a high of **14.04%** in 1981. If Mr. Smith had purchased a variable life contract in 1963 and invested in the money market option, these rates fairly represent the return Mr. Smith would have earned.

Table Six compares the historical performance of Mr. Smith's whole life policy with a variable life policy offered by a competitive company. Proportional values of a larger contract have been assumed in order to fairly represent the variable life values.

If Mr. Smith had paid the same **\$527.22** annual premium for 46 years into a variable life policy with same death benefit he would have accumulated only **\$56,298** in cash value by age 73 compared to the **\$113,046** he actually accumulated in his whole life policy. Variable life clearly would **not** have been a better choice for Mr. Smith.

Other products may be appropriate.

Even though participating whole life has outperformed universal life, variable life, and term insurance in this study, these products may still be appropriate in many circumstances. Term insurance may be the best choice for short-term coverage needs. Universal life may be appropriate when the consumer cannot afford to purchase an adequate amount of whole life.

Variable life can be an excellent choice for consumers who have adequate stable investments and are willing to assume the risk of investing in growth sub-accounts in order to receive a potentially higher return. Like whole life, variable life allows clients to withdraw cash values tax-free by using a policy loan.

Many advisors are not familiar with whole life.

Although history has proven the value of participating whole life, sales of whole life have declined over the last 33 years. According to LIMRA, whole life sales accounted for **88%** of new annualized premium in **1976**. In **2008**, whole life sales accounted for only **23%** of new annualized premium while variable life accounted for **13%**, universal life for **41%**, and term insurance for **23%**. In
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Table Six

Variable Life vs Whole Life – 6-04-63 thru 6-04-09

	Variable Life*	Whole Life
Total cash value	\$56,298	\$113,046
Total net contributions	- 24,077	- 24,077
After-tax gain	\$32,221	\$88,969
Amount payable at death	\$142,560	\$142,560

* Variable life cash values are hypothetical and assume the annual 3 month T-Bill rate from 1963 through 2009 and current mortality costs. See footnotes for important disclosures.

1975, Best's Flitcraft Compend listed **330** whole life products for sale. In **2009**, Full Disclosure listed only **27** whole life products. This decline has occurred because many companies now heavily promote universal or variable life rather than whole life. Because of this, many insurance agents and financial advisors who have entered the business in recent years are not as familiar with participating whole life as those who began their careers before 1990.

If this trend continues, it may be difficult for insurance companies to continue to offer competitive whole life products. Whole life is sold today primarily by older, experienced agents, many of whom will likely retire within the next 10 years. If newer agents do not receive proper education and training on the value of participating whole life, demand and thus availability of whole life is likely to continue to decline.

The truth about whole life.

Although whole life is one of the oldest forms of life insurance, it may be the least understood. It has been criticized by some financial advisors who have never studied the actual performance of competitive whole life products. It is not an obsolete, old-fashioned insurance product, as some believe. It certainly is **not** a "rip off product" as suggested by one radio talk show host. Participating whole life is the best type of life insurance for many consumers. If purchased at an early age and held long term, the true cost of coverage provided by whole life has proven to be less expensive than other types of life insurance.

In spite of this actual case history, critics of whole life are not likely to admit they have been wrong. Some have made a lot of money from books, TV, and radio advising against whole life. This advice has caused some consumers to surrender competitive whole life policies that can never be replaced. Many consumers have purchased term insurance that will expire too soon or become way too costly by their

life expectancy. Although these critics suggest that life insurance is not needed after retirement, there is almost always a financial loss caused by death at any age which life insurance can help offset.

Some critics of whole life claim that agents who sell whole life are only trying to earn a big commission. In truth, many successful life agents are highly educated professionals who subscribe to a strict code of ethics that requires them to always place their client's best interest first. Some critics use insulting and derogatory language to describe whole life. These tactics have convinced some consumers to avoid whole life even though no valid comparison or historical evidence is provided that supports this advice.

Consumers should always ask for a comparison of future values before canceling an existing whole life policy or buying term insurance. Even though hypothetical values will need to be used, a fair comparison will often favor a competitive whole life policy.

The truth about participating whole life is clear from this case study: **It has provided highly competitive life insurance coverage for the whole life of millions of policyholders over the last 50 years.** The whole life vs term debate has been decided by history. Participating whole life has proven to be the best choice for many consumers.

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Footnotes:

Variable Life Comparison: Variable life values shown in this article assume current mortality costs and expenses, not guaranteed, while whole life values assume non-guaranteed dividends actually credited. Surrender charges may apply to variable life cash value while whole life may accumulate lower cash value in the early years. Variable life money market sub-account values are not guaranteed and may lose value. Whole life cash values are backed by the issuing company. Variable life offers additional sub-account options which may provide a higher potential return in exchange for increased risk and fluctuation of principal. Whole life offers only guaranteed cash value plus non-guaranteed dividends. Variable Life may allow for adjustable premiums and death benefits while whole life premiums and death benefits may not be adjusted without reissuing the policy. Whole life and variable life may offer different riders, non-forfeiture options, and policy loan provisions.

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