Whole Life is a Lousy Place to Put Your Money

Myths are an interesting mix of a little fact and a lot of fiction — they're often a way to validate long-held beliefs, regardless of their accuracy.

At the Ethical Edge, an Insurance Fiduciary[SM], we work with consumers to optimize their insurance assets in the same way they manage their other assets. We also explore the degree to which mythology can impair our clients' ability to make solid long-term financial decisions.

Whole life insurance: valuable protection and *more*

Our view is that the foundation of life insurance is the *protection* it provides — its primary purpose is to protect families and businesses from the financial crisis that typically follows the insured's death. The protection need may be temporary or last a lifetime. But the need for and uses of life insurance ordinarily last longer than most people expect. Consequently, we view *whole life insurance* as a valuable source of protection for many. Here are some of the reasons why:

- The policy's cash value[1] — and the policy owner's ability to easily access that cash value — provides a great deal of financial flexibility.
- The cash value is uncorrelated to the stock market and, except for dividends,[2] is guaranteed by the insurer.
- While a whole life policy is not an investment, it can serve as the stable component of an overall financial plan. *(See the chart at right for more information.)*
- The policy's cash value grows income tax-free.[3] Accumulated values may be withdrawn tax-free up to the cost basis,[4] and policy loans in excess of basis are not taxed under current tax law.
- When the policy pays a death benefit, it is received entirely without income tax. This makes life insurance more tax favored than almost any other asset class.
- A whole life insurance policy has a real return that performs competitively compared to other high-quality, fixed-return assets.

It's like two assets in one

Depending on how the policy owner uses it, a whole life policy can almost seem like two distinct assets:

- An asset that provides living benefits with tax-advantaged distributions; and
- An income tax-free — and potentially estate tax-free — death benefit.

"Real REAL Return" of Major Asset Classes[5]: 1/1/1985 – 12/31/2014

Fixed-Return Asset Class	Nominal Return	Real REAL Return
Municipal Bonds	7.07%	3.68%
20-year U.S. Bonds	9.69%	3.56%
Par Whole Life – Actual Dividends	5.14%	2.43%
Corporate Bonds (Barclays U.S. Corporate Index)	8.17%	1.93%
5-year U.S. Bonds	7.01%	1.54%

As you can see, the numbers in the Nominal Return column show the assets' investment results *before* expenses are taken into account. The Real REAL Return column — which is a better measure of what the investor keeps —

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shows each investment's return *after* taking expenses into account, including fees, dividend taxes, capital gains taxes, and the average 2.71% U.S. inflation rate.

How do these assets stack up against whole life?

For comparison of the "return" in cash value over the same period, we considered a whole life policy issued by The Guardian Life Insurance Company of America for a policy issued on a 37-year-old healthy male, issued and maintained over the same time period as the Thornburg analysis (based on an actual Guardian Life policy).

The nominal return shown in the chart on the reverse is based on *actual* paid dividends (acquiring paid-up additions of death benefit and cash value compared to 30 payments of the $16,925 premium) and the total cash value of the policy after 30 years. Since expenses and taxes are netted out of policy dividends, the only adjustment needed to match the Thornburg analysis is to adjust the nominal return of 5.14% for the 2.71% average annual inflation of the 30-year period.

Our view is that when it comes to protection, whole life insurance provides valuable coverage — and financial advantages that can provide a great deal of flexibility during the insured's lifetime.

To discover the kind of life insurance protection that may be best for you, talk to a financial representative from a highly rated mutual carrier.

This article was written by Richard M. Weber, MBA, CLU®, AEP (Distinguished), of The Ethical Edge, Inc., a California-based, fee-only insurance fiduciary. Mr. Weber, 2012-2013 President of the 14,000-member Society of Financial Service Professionals, has more than 50 years of experience in sales, training, product design, senior management and compliance. His firm provides training and consulting services that help empower life insurance agents, financial planners, advisors and their clients to explore and view life insurance in the broader context of financial planning.

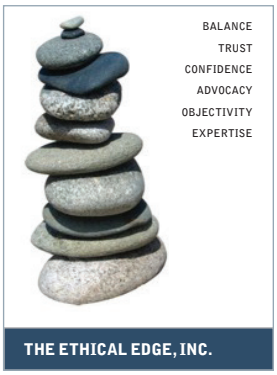
[1] All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims-paying ability of the issuing insurance company. Policy loans and withdrawals affect the guarantees by reducing the policy's death benefit and cash values.

[2] Dividends are not guaranteed. They are declared annually by an insurance company's Board of Directors.

[3] Ethical Edge, its agents and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

[4] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal is also subject to a 10% tax penalty.

[5] Thornburg Investment Services, Inc. publishes an annual "Real REAL Return" assessment of major asset classes — including whole life insurance — measured over 30 years. The chart displays these assets' returns from Thornburg's most recent study, for the period between Jan. 2, 1985 and Dec. 31, 2014.



Pub 7711 (08/16)
2016—26935 (Exp. 08/18)