

THE TRUTH ABOUT WHOLE LIFE

The "Whole" is better than the sum of its parts.

The best part about whole life insurance is that it is the most complete financial tool in the marketplace today. It is one of the few products that does it all. With basically no limitations, whole life is the product of choice for most serious financial advisors.

The word "Whole" in whole life is the best word to describe how comprehensive this product really is. Although whole life is the most fail-safe product, that does not mean that universal life or variable life do not have a place in life insurance portfolios. Each product has its own unique features and can be tailored to meet a consumer's financial situation. That is what makes life insurance selling today so exciting. Consumers are offered choices to fit their financial needs, wants, and desires. Generally speaking, whole life is still the workhorse for most consumers because of its guaranteed premium, cash value, and death benefit. When the need for life insurance is permanent, whole life is the best choice because it is sure to be there when the need arises. One of the most dangerous marketing positions any agent, agency, or insurance company can take is to eliminate whole life insurance from its portfolio of products.

Like most great products, whole life has changed over the years. The premium cost for whole life has been reduced because people are now living longer. Cash values have been adjusted in the long run to provide a higher rate-of-return. Other features such as the disability provision, loan features and additional benefit riders have been added to strengthen whole life. Life insurance companies should continue to competitively position whole life in their portfolio since it still commands so much popularity.

I have spent 30 years in the life insurance business and have witnessed so many "hot new insurance products" come and go. All were thought to be the "next best thing since sliced bread", But it is hard to improve on perfection and whole life is as perfect a product as it gets. Sure, there is always room for improvement and modification to whole life, but at least the potential for disaster won't strike the consumer as with many of today's newest "designer" products.

There is an old economic principle called Gresham's law, which states that in a capitalist society "good money will be driven out by bad money". The pressure for good money or products to be eliminated is very real. Inflation is one example of a cause and effect of Gresham's law. Any pressure to rid whole life from the insurance scene would be another example of Gresham's law in action.

Properly determining the death benefit on peoples' lives is more a function of design rather than of product. Every agent should first properly determine the amount of death benefit before considering the type of insurance product. Once this has been done, then the agent can tailor a

life insurance product around the client's income and asset structure. Whole life can be a product of choice for the full amount of death benefit as well as any other form of life insurance, but still provide the consumer with many financial benefits for living value.

A high quality product generally has a higher price or cost. A bag of sand costs less than a bag of gold. The lower price for sand doesn't mean it is a better value if you want to create financial security and wealth. Most products in this world are priced for their inherent and future value. A Mercedes costs more than a Volkswagen. An airplane ticket costs more than a bus ticket. Any agent who assumes that the only criteria for buying life insurance is its premium cost is making a big mistake. Term life insurance, which has a low cost, can do tremendous damage to the American consumer. With term insurance, consumers lose their premium dollars, the earnings opportunity on those premium dollars, and eventually the death benefit if they outlive the term period. .

Agents who attempt to provide more insurance coverage, with underlying guarantees and flexibility, all for less premiums than whole life are playing "Russian Roulette" with the consumer. No life insurance company is in the business of giving money away. Every time you lower premium for more coverage, something must give. Usually what gives is the loss of the death benefit at some point before the person dies. Temporary insurance should not be the goal of most people. Whole life insurance is the answer because it has permanent benefit and value.

An ethical position for every agent to take is to guarantee a death benefit sufficient to meet the consumer needs at the time of death. If that benefit is at risk due to stock market fluctuations, interest rate changes, expense costs or mortality differences, the agent has failed to do his or her job. Since death is a certainty and will occur, so should the death benefit be a certainty. Playing a guessing game with markets is not a fundamental principle of the word insurance.

One of the most serious misrepresentations made by some individuals in the insurance industry is that a dividend is merely a "return of premium overpayments." Agents have shared this untruth with many unwary consumers. Actually the dividends are a "reward" to policyholders for future improvements in mortality, investment return, and efficiency. Since life insurance companies cannot change the guaranteed premium on whole life insurance, the only way to reward past policyholders for improved life expectancies is through a dividend. For instance, if the medical profession discovered a cure for cancer, new policyholders would benefit by being able to purchase lower premium insurance policies. But how could past policyholders benefit from this wonderful event? The insurance company must increase the dividends for these existing policyholders to bring their policies in line with the new policy offerings. Anyone who suggests that a dividend is an intentional overcharge is unfairly damaging the professional reputation of the industry and agents everywhere.

In the late 1970's and early 1980's, I witnessed a vast replacement and cannibalization of whole life policies with the latest craze of universal life policies. The universal life policy illustrations were showing rates of return of 10%, 12%, and even 14% compounded *for* every year of the illustration. These illustrations with their speculative rates were used to replace old solid whole life policies. What actually occurred is well known. Interest rates dropped to their lowest levels in decades. Universal life policies failed to perform as illustrated. Consumers paid a big price.

They didn't educate their children, retire with enough money, and some even lost their life insurance coverage completely. Today, we see the same compounded projections being made with the latest new types of life insurance policies. What will happen when the markets don't react as projected? It has happened before in our economic history, and is likely to happen again. Consumers will lose their values and death benefits because agents depended on such speculative rates-of-return to design their policies.

Whole life can be tailored to fit any individual situation. It has tremendous flexibility. Whole life is a product that can be customized for a variety of consumer needs. The premium flexibility is there with dump-in-riders, premium options, dividend options, dividend averaging and premium offset. Loan features are attractive for liquidity and investment needs as well. The dividend is the only moving part in a whole life policy. Consumers don't have to worry about fluctuating premiums, expense charges, mortality charges, death benefits and policy values. The current tax laws favor whole life perhaps more than any other type of life insurance product because dividends are not taxable, policy values are tax-deferred, death benefits are tax-free, and investment loan interest is tax-deductible.

Many life insurance companies recognize whole life as an advantageous product. To keep in their insurance portfolio. Rather than risk their entire financial future on stock market prices or interest rate levels, the insurance industry wisely maintains a whole life presence to provide consumers with guarantees, predictability, flexibility, and a sound rate-of-return. After all, the purpose of insurance is to provide consumers with the exact money that is needed at the time of their loss. No other product does this better than whole life insurance. We praise the insurance industry for building such a great product and maintaining it in this next millennium.

Robert Castiglione, CEO

The opinions expressed in this memorandum are those of the author and are intended to provide the industry with information and a balanced view towards the subject of whole life insurance. We hope that agents everywhere benefit from our effort to provide a valuable service to the industry. We appreciate the professional agent who seeks knowledge and adheres to the ethical principles of life insurance selling.

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