Insurance and Annuities

WHOLE LIFE INSURANCE

WHOLE LIFE INSURANCE

The Concept

- Whole life insurance is cash value insurance that provides protection for an insured's whole life. This differs from term insurance, which only offers protection over a specified period of time.
- With whole life insurance, premiums are paid over the insured's lifetime (up to a maximum age), and protection continues for as long as the premiums are paid.

The Specifics

- With whole life insurance—also called straight life or ordinary life insurance—premiums are payable until the insured dies or reaches a specified age. If the insured is still living at this age, premiums stop and the insurance company may pay the policy's face amount.
- Some newer policies do not pay out at a specified age, but premiums stop and protection continues.
- Premiums are established at the policy's inception and remain level throughout the payment period. They do not increase as the insured ages.
- Part of each premium is set aside in a cash value account that gradually increases over the life of the policy.
- Net cash value accumulations are available as loans to the policyowner at any time during the life of the policy.
- As with all types of cash value life insurance, poor policy performance, distributions (through loans or withdrawals), and underfunding can cause the policy to lapse. The policyowner has the responsibility to manage the policy accordingly.

Variations

- Some insurance companies offer a form of cash value life insurance called limited-pay life insurance. The policyowner pays premiums for a limited period rather than for life. When the premiums stop, the insurance remains in force.
- Common variations of limited-pay life insurance are: (a) 10-pay life with premiums payable for 10 years, (b) 20-pay life with premiums payable for 20 years, (c) 30-pay life with premiums payable for 30 years, and (d) life paid up at a certain age—typically age 65—where premiums are paid until the insured reaches that age.

- Limited-pay premiums are higher than whole life premiums—all else being equal—since premiums are due over a shorter time period.

Participating Policies

- Some cash value policies are called participating policies because policyowners "participate" in the profits of the insurance company.
- Dividends paid to participating policies are technically a return of a portion of the premium.
- Dividends are not guaranteed, but are typically paid when the insurer experiences good results from claims, investment income and expense management.
- Among the dividend options available, a policyowner can take the dividend in cash, use dividends to pay all or part of the policy's premium, or purchase additional life insurance (called paid-up additions) without providing evidence of insurability.
- Other options include using dividends to purchase a combination of paid-up additions and one-year term insurance, or leaving dividends to accumulate with the insurer at a declared interest rate or a guaranteed minimum rate specified in the policy.
- Paid-up additions act as single-premium life policies—they typically have cash value equal to the premium paid and earn dividends.

Nonforfeiture Options

- Unlike term insurance, where protection simply ends when the policyowner stops paying premiums, cash value life insurance policies include nonforfeiture options, which ensure that owners do not lose (or forfeit) all the money paid into the policy if they aren't able to continue paying premiums.
- One nonforfeiture option allows the policyowner to take the accumulated cash value in a lump sum.
- Another option lets the policyowner use the cash value to buy a paid-up policy for a reduced face amount, thereby keeping at least some life insurance in force.
- A third option lets the policyowner use the cash value to purchase level, extended term insurance that requires no additional premiums. The amount of extended term insurance equals the original policy's face amount plus dividend values, less any unpaid loans. The length of time this coverage is in effect depends on the cash value available and the insured's age when the option is exercised. When that term expires, the policy lapses without value.

The Bottom Line

With a whole life insurance contract, the protection will last as long as it is needed (unless excessive loans are taken), the premiums remain level throughout the life of the policy, and the policy's promised benefits will not be affected by future uninsurability.

WHOLE LIFE INSURANCE

SUMMARY

What Is Whole Life Insurance?

Whole life is cash value insurance that stays in effect as long as premiums are paid. This sets it apart from term insurance, which is for a specified term only and must be renewed at the end of each term. Premiums are paid for the whole of the insured person's life or until the insured reaches a specified maximum age.

A variation of whole life offered by some insurance companies is limited-pay life, where premiums aren't paid over the insured's lifetime, but for a limited period of time. When that period is over, the insurance remains in effect with no further premium payments.

Typical limited-pay types are 10-pay, 20-pay, 30-pay and life paid up at 65. A 10-pay policy means premiums are paid for 10 years, 20-pay for 20 years, and so forth. The payment period for a life paid up at 65 policy is the number of years between policy's inception and the insured's age 65.

How Does Cash Value Insurance Work?

Whether whole life or limited-pay life, cash value life insurance has several characteristics that differentiate it from term insurance:

- Protection continues for a lifetime as long as the premiums are paid. Premiums—except for limited-pay policies—are paid for as long as the insured lives.
- Premiums remain level throughout the payment period.
- Part of each premium goes toward a cash value that gradually increases over the life of the policy. The net cash values are available to the policyowner in the form of policy loans and surrender value.
- If a policy is "participating," the insurance company pays dividends whenever possible. Dividends aren't guaranteed, but are paid when the company has good results from claim experience, investment income and/or expense management. When dividends are paid, the policyowner has the option to receive them in one of several ways.
- Cash value insurance policies also have nonforfeiture options that ensure the policyowner won't lose—or forfeit—all of the money paid into the policy if unable to continue paying premiums.

What Are the Benefits?

Whole life insurance never has to be renewed as long as scheduled premiums are paid on time.

The policyowner is assured a predictable, level premium.

A savings element is a feature of the policy in the form of the accumulating cash values.

Some policies include the potential to receive dividends as a return of premium.

WHOLE LIFE INSURANCE

The policyowner can choose from three valuable nonforfeiture options, allowing the retention of some benefits even if the owner isn't able to continue paying premiums.

With a whole life insurance contract, protection lasts as long as it is needed, the premiums will remain level throughout the life of the policy, and the policy's promised benefits will not be affected by any threat of future uninsurability.

WHOLE LIFE INSURANCE