Just a few short years ago, I was staunchly opposed to whole life insurance, because that’s what I was taught by national "gurus" 25 years ago. I wholeheartedly believed (as many people still do) that if you need life insurance, you should buy a term policy, then take the difference in premiums between whole life and term and invest it in mutual funds.

So when a good friend of mine sat me down and tried to show me a whole life insurance plan, I nearly refused to listen. Many of you reading this will feel the same way, and nothing I say will change your minds. That’s fine -- you’re entitled to your opinion just as I was entitled to mine.

Thankfully, my friend showed me how a properly designed whole life insurance policy works. I soon realized that the gurus in my early years and the gurus of today were correct -- based on the information they’d been given. The problem was their information was incomplete.

Whenever I hear a financial consultant (or anyone, for that matter) talk about less expensive premiums for term, I know they really don’t understand how this animal of properly designed whole life insurance really works.

With a properly designed whole life insurance policy, you get:

1. Principal protection guarantees of your money. Your cash value isn’t subject to market losses, as it is with mutual funds and other programs. When the stock market tanks again (and it’s never a question of if but when), you won’t lose a dime.

2. Guaranteed growth of your money every year. This will be interest-rate-driven based on the economy, but your account will move forward every year regardless of what the market does. This is compound tax-free growth and not the "average rate of return" you get with mutual funds. To be fair, in our current low-interest-rate environment, the growth rates are only in the 2 percent to 4 percent range but as you study further you start to realize the real wealth is not in the growth rate even when rates go higher.

Many financial advisers will tell you that your money would do better in a good mutual fund. But remember: When someone shows you an "average rate of return," they can start taking that
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average from any time that benefits their example. This is not compounded growth but rather a factor of timing as to when you enter and exit the market. The stock market has wild swings; if that is acceptable to you, you should have much of your money in stocks. If not, maybe it’s time to consider a different way to think about investing. (Remember the period from March 2000 to October 2002, when the Nasdaq lost 78 percent of its value? It’s been 14 years since the dot-com bubble started to pop, and the tech-heavy index still hasn’t quite recovered to that level. If you like guarantees and stability then you have no business putting most of your money in the stock market.)

3. Dividends paid to policy owners are not taxable. Dividends aren't guaranteed, but many reputable life insurance companies have been in business for more than 100 years and they’ve paid out dividends every year. The amount of that dividend will depend on several factors, but it boils down to how much profit the insurance carrier made. When properly paid to the policy owner, those dividends are not taxable.

4. A high starting cash value amount, based on what you contribute to the policy. Whole life policies that aren’t properly designed will have very little cash value in the early years. But a properly structured life insurance policy will have high cash value percentages, even in its first year, and they increase every year. This becomes an important fact when you realize that access to your cash will help you grow wealth systematically regardless of market conditions

5. Access to your cash value at any age, at any time, for any reason -- without taxes or penalty. This is a huge benefit of whole life policies compared to 401(k)s and IRAs, which impose multiple obstacles if you want to access your cash before retirement, and penalize you if the funds you borrow from them are not paid back by a certain time and at a certain interest rate. No such obstacles exist with a whole-life policy. So leave your cash in the policy if you wish, or borrow it back out and use it, the choice is yours.

6. The ability to use your account’s cash value to recapture lost depreciation on major purchases and interest and fees paid to banks. If you treat this pool of money inside the life policy like your own personal bank, you can loan it out to yourself and others to create wealth. (More on this in future articles, but suffice it to say for now that banking has been around in some fashion for thousands of years. Any business model that lasts that long is worth understanding and using to your advantage.)

7. Guaranteed insurance. Once the policy is in place, your insurance is guaranteed for the rest of your life. Many people assume they’ll be able to buy new insurance at any point in their life. But nothing is further from the truth -- especially for those who’ve been diagnosed with chronic or terminal diseases. If you become seriously ill, don’t expect to be able to buy a new policy.

With many whole-life policies, you can add an "accelerated death benefit rider" for little to no
cost, which will give you access to a large portion of your death benefit during your lifetime if you have a terminal or chronic illness. I just had a colleague with a client who was diagnosed with Lou Gehrig's disease, or ALS, and was sent a check from his insurer for more than 70 percent of the eventual death benefit. He'll be able to enjoy his remaining time without worrying how he will pay his bills.

8. The ability to combine your life policy with the worlds of real estate, private lending and auto financing to accelerate your wealth, both inside and outside of the policy. Just remember that any funds inside the policy are tax-free for life.

9. Death benefits. In addition to all the benefits you can make use of while you're still here, at heart, this investment is still a life insurance policy, so when you eventually die, there will be a sum of money left behind to your beneficiaries -- tax-free.

There's a reason family dynasties have been using life insurance for generations to grow and protect their wealth. Even when subject to estate limits, these death payouts go a long way toward promoting the tax-free, inter-generational transfer of wealth.

Of course, insurance company policies and riders will vary by state due to state regulations and depending on the actual insurance carrier. But you won't find another type of account or investment that has all these benefits in one investment -- not 401(k)s, IRAs, mutual funds, stocks, bonds, precious metals, real estate, nor any other account.

http://www.dailyfinance.com/2014/03/05/whole-life-insurance-why-to-buy-policy/