Whole life insurance generally provides an income-tax free death benefit that can protect the financial security of your family in the event of an untimely death. It offers tax-deferred cash values that, as they accumulate, can be used to help purchase a home, help pay for a child's education, or supplement retirement income. Of course, you can also allow cash values to grow to help meet an unexpected emergency or seize an unanticipated opportunity. In addition to the guaranteed cash values, whole life insurance offers an additional potential for growth through dividends, if and when they are declared by the issuing company. Whole life insurance dividends are considered a return of premium and are generally not taxable. All guarantees associated with whole life are based on the claims paying ability of the issuing company and loans from the cash value will reduce the death benefit and cash value.

The views expressed in this article are solely those of the author and do not necessarily represent the views of New York Life Insurance Company.

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Insurance

A Financial Bunker For Scary Times

By John E. Girouard, Electronically reprinted from February 10, 2009

The back-to-basics allure of mutual whole life insurance is helping this once vestigial financial vehicle stage a comeback.

Suppose there was a financial instrument with a track record stretching back 1,400 years; that was so solid it could survive the Great Depression intact; that earned untaxed interest at a competitive rate; that could be borrowed against at will regardless of credit conditions; and that could be used by individuals as well as major corporations and banks as a safe harbor during economic turmoil?

You'd call it a financial bunker for scary times, and you'd be talking about mutual whole life insurance.

This is not the life insurance that only pays when you die. Mutual whole life is the kind of insurance our parents and grandparents owned in the good old days before the stock market began to boom in the 1980s and 1990s. Mutual whole life saw our elders through thick and thin, and after several decades of being muscled aside by the allure of the stock market, it's making a big comeback.

Mutual whole life policies have been an essential part of my financial planning practice for many years. But I'm astonished at how few of the many investment advisers I meet understand how mutual whole life policies work, or don't offer them to clients because they aren't sexy or new.

Mutual whole life fell so far out of favor in the 1990s that insurer Swiss Re issued a report in 1999 headlined, "Are mutual insurers an endangered species?" Not anymore.

Mutual life insurance is making a comeback now that our speculative economy has blown up and financial disaster is driving people away from risk and back to basics. Forbes magazine reported in December ("Mutual Respect") that two of the larger mutual insurance companies, Guardian Life and **New York Life**, reported double-digit growth in sales of individual life policies.

Mutual or "participating" whole life insurance is the closest thing to owning your own bank. As **New York Life** has said in its ads, "We're Main Street. Not Wall Street." The concept of mutual insurance is rather simple, especially compared with the complex annuity products that were so popular until recently. And the benefits include all those listed in my opening paragraph.

Here, for the curious and the uninformed, is *Mutual Whole Life 101*, or *The Life Insurance Policy for the Living*:

–**You Own The Bank**: Mutual insurance companies are owned by the people who buy the policies. These companies are the modern equivalent of mutual "societies" among European trade guilds of the 1600s. Guild members pooled their money to help each other and their families in times of sickness or death.

Because mutual companies have no shareholders, they serve one constituency–the policyholders. Mutuals have no need to report good earnings every three months to justify a stock price, so there is no pressure for them to take on extra risk to make a profit.

–Your Premium Payments Belong To You: Unlike traditional term insurance, the premiums you pay for your mutual whole life policy belong to you in the form of the accumulated "cash value" of your policy. On top of that, the cash value of the accumulated premiums earns interest at a rate set once each year. In 2008, Guardian Life paid a record 7.3% dividend interest, and those earnings are untaxed! That's spectacular compared with last year's over 30% decline in the stock markets; bank CDs paying under 2% taxable, or money market rates under 1% taxable.

–You Can Borrow Back Your Premium Payments: Because your premiums "belong" to you as a policyholder-owner of the company, you can borrow them back any time you want for any reason you need, regardless of your creditworthiness. The death benefit of the life insurance will be reduced by the amount you borrow, and you will lose the interest you would have earned. But you can choose to pay the interest as you would for any loan, except you are paying yourself instead of the stockholders of a bank. If you pay the loan back as well, the death benefit goes back up.

–Mutuals Offer Ironclad Guarantees: Few people realize that the insurance industry, dominated by mutuals, was the one sector that made it through the Great Depression without a disaster and with policyholders financially intact. The cash value and the death benefit are guaranteed and tightly regulated by the states. That means your cash value is there regardless of market conditions, and when you die your heirs will receive the full face value of the policy. While stockholder-owned insurance companies saw their values fall sharply last year (remember when we taxpayers bailed out **AIG** (nyse: AIG)?), the top mutually-owned insurers saw their book values remain stable or rise.

–Even Banks and Corporations Buy Mutual Policies: One of the lesser-known aspects of mutual insurance is that major corporations and banks buy policies on the lives of their employees and use the cash value to fund employee benefits and as a safe harbor for working capital. By some estimates Fortune 500 companies and large banks have policies covering some 5 million employees. Instead of doing what banks say–put your money in our CDs at low rates so we can turn around and lend your money out at a profit to us–do what banks do.

–Mutual Insurance Is One Leg of The Money Stool: Investing should be approached as a three-legged stool. One leg is the money you need to live on in the near future (cash in the bank), one leg is the money you invest for long-term growth (equities) and one leg is the financial bunker you can retreat to when the rest of the world is falling apart and you can't sleep. Mutual whole life got our grandparents through the Great Depression, and it's going to get a lot of the people through our current calamity.

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