



## Busting Whole Life Policy Myths

The conventional wisdom of what 'whole life' is and how it works is often far from the truth.

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When initially speaking with clients, I often hear reference to a “whole life policy.” I’ve long since learned that this is a generic reference to permanent insurance, as opposed to term insurance. Few policy owners understand that whole life (WL) insurance is simply one form of permanent insurance, and the menu of options out there is wide and varied.

Often, this generic terminology is harmless, but at times it’s not. This is because there’s a traditional association of what WL is and how it works, and this conventional wisdom is too often far from the truth. In fact, “WL” isn’t always even whole life!

## **A Multitude of Products**

As far as permanent insurance goes, I'll include the following in the modern lineup: WL, universal life (UL), guaranteed UL, indexed UL and variable UL and WL. Additionally, within these categories, there are subcategories. For instance, traditional WL may be term blended, and this can make a WL policy act like anything but. WL from mutual and stock carriers works differently, to an extent. With dividend-paying WL, there may be a handful of different dividend options that can dramatically affect the policy today and down the road. When it comes to the dividend, you can even find a version in which the dividend for paid-up additions is put into an indexed option instead of the general account. In recent years, there's also been a proliferation in long-term care riders. You can build these policies just about any way you want to, including from fully guaranteed to taking on meaningful risk.

That's all with just WL. The multitude of products built on a UL chassis can be dizzying. Within the traditional, guaranteed, indexed and variable models, a tremendous amount of flexibility and rider options abound. Just when you think you have your arms around it, you discover that there are indexed and variable UL options with lifetime guarantees, for example. A securities-based variable UL with a guaranteed premium and death benefit for life? Yep.

Try explaining to a traditionalist that there are UL and securities-based products out there with more guarantees than "WL" policies from top-name mutual carriers. It's not pretty. Why do I put "WL" in quotes? I see many policies with ABC Mutual on the title page of its flagship WL policy that have about as much to do with WL as my son does with a clean bedroom. Many times I've reviewed a WL policy that turned out to be 1% WL and

99% term insurance. If you expect that policy to work fine in a multidecade declining interest rate and dividend market, well, you might want to sit down before hearing the truth. I've seen "WL" disasters that make UL disasters look like playtime.

## **Infinite Variations**

It's important to understand that there's no such thing as sitting down at a computer and putting in the details of a given proposed insured individual, hitting a button and getting a cost for insurance. It doesn't work that way. There are multiple different input screens and multiple fields per screen. There ends up being a figuratively infinite number of ways to build a product, and I can assure you of one thing, it's close to a guarantee that your client doesn't understand what went into it. Most of those decisions were made without their input and with no understanding of the alternatives and potential consequences.

I can build a given life insurance policy with a \$10,000 annual premium or a \$100,000 annual premium that supposedly does the same thing. My most uneducated client can tell me they're probably not the same thing, but my sharpest client couldn't tell me how.

## **Buyer Beware**

Who knows why a given proposal was initially presented? Is it the product du jour? Is it something the insurance carrier is pushing for reasons that may not line up with the best interests of the policy owner? Is it for commission purposes? Is it simply because it's the product the agent's primary carrier specializes in? Was it the product the most recent wholesaler who popped into the agent's office was talking about? Maybe

one more policy with that insurance carrier was what it took to get over the hump to the next council level for that cruise to the islands? Was variable kept off the table because the agent doesn't have the proper licensing? Is indexed UL not in the mix because the broker/dealer won't allow it?

Most policy owners accept things they don't suitably understand out of fear of looking foolish, and they take at face value that everything suggested is what's right for them. Things need to change. I have to deal with the results of this traditional process daily. The typical policy placement is akin to shoving pages across the desk for signatures like you see in a mortgage closing. You know what I mean. Most people have no idea what they're signing. It's inevitable, but what are the consequences?

When it hits the fan, you know what the insurance carrier does every time? They pull out all those signatures that show the policy owner understood everything. If they didn't understand, why did they sign off on it? There's no recourse. No one cares what was said because the words mean nothing if they're not immortalized. The insurance ledgers that are dozens of pages long are theoretically in the name of consumer protection. In reality, they're the opposite and too often used against consumers when things go wrong or a product was misrepresented.

We all have to admit that it's necessary that clients ultimately have to have faith. George Michael knew what he was talking about. You just gotta have faith. But is that a good idea? What about the "trust but verify" line of reasoning? I think there's something to that.

Almost every day I see the results of life insurance transactions that involve as much money as private equity deals, real estate transactions, business acquisitions and so forth. Almost every one of these deals would've involved

tax and legal counsel, consultants, appraisers, inspectors ... the list goes on. Tens or hundreds of thousands, or even millions, of dollars, of advice in one way or another may be brought to bear to vet the deals. But in life insurance transactions of the same magnitude? You know the answer. Maybe it's time to rethink this. I've seen people lose millions. I've also seen people pay modest fees that result in saving millions.

### **Educate the Client**

Back to the various products and how to build them. When I can show that a guaranteed policy might not be the best option for the client, or the best way to get the biggest death benefit may be to buy the least, what can anyone take at face value? It's time to admit what we all know; your clients have a snowball's chance in Hades of figuring this out on their own. It just can't happen. I've testified to that in court. They have to have an advocate. It's just the way it is whether you or they want to believe it or not. They have to be educated enough to become partners in the decision-making process. This will take some time and commitment and a little bit of money, but what that's worthwhile doesn't?

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