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LIFE (INSURANCE) BEGINS AT 50

IF YOUR TERM LIFE POLICY IS ENDING BUT YOUR NEEDS CONTINUE, CONSIDER THE CASH-VALUE ALTERNATIVE. **BY KIMBERLY LANKFORD**

FOR ANYONE WEARY OF WRITING CHECKS TO PAY FOR life insurance, retirement used to spell relief. With the mortgage paid, the kids on their own, and Medicare and Social Security on the way, common sense suggested you could safely let your insurance expire. But now

many fifty- and sixtysomethings don't have the flexibility to shorten the life of their life insurance. Life expectancies are longer, and the expenses that the death benefits were earmarked to take care of are hanging around longer, too. You may be retired, but you haven't retired your mortgage. Without a pension, your spouse may need an extra financial safety net after you die. And what if your children aren't self-sufficient?

You could buy another term insurance policy if you're healthy, but that coverage could still end before your needs disappear. If you want your insurance to last for the rest of your life—no matter how long you live—then signing up for a “permanent,” cash-

value insurance policy may make sense. In return, you get tax advantages and savings guarantees—plus a death benefit that never expires.

Some people will do best with traditional whole life, with its fixed premiums and savings that are backed by—and earn interest and dividends from—the insurance company's high-grade bonds and mortgages. Because insurance companies are continuously collecting new money and investing it, whole life is among the few financial vehicles that keep up with and even benefit from rising interest rates.

The disadvantage is the out-of-pocket outlays. A healthy 50-year-old man would pay \$13,940 per year for

a \$500,000 whole life policy from Northwestern Mutual. A 60-year-old buyer would pay \$23,305 per year. (If he bought a 20-year term policy at age 60, he'd pay \$2,839 per year until the coverage expired at age 80.)

Because the premium remains level as you age, it must be set to exceed the company's cost of insuring your life during the early years of your policy. The extra amount and the interest it earns go into a reserve fund. Part of the fund is used to pay the agent's commission and the company's administrative costs. The rest gets credited to your account. After a couple of years, your reserve begins to build, tax-deferred, creating a “cash value” that you can draw on in a number of ways. For example, you can withdraw up to the amount you paid in premiums tax-free or you can take a policy loan.

The premiums sound expensive, but if you want insurance for the rest of your life and you have one or more of the following needs, you may want to

explore a life insurance policy that begins—not ends—at 50.

●● A STEADY INVESTMENT

Whole life as an investment is controversial, but that's because it takes a policy many years to show value. The first-year premium largely goes for commissions and other expenses, so your cash value will lag the amount you pay in premiums in the early years. It typically takes eight to ten years for your cash value to exceed the premiums you paid. But if you carry on, the results get better—sometimes dramatically. This is a long-term proposition. Don't buy it if you can't keep it.

From 1991 through the start of 2011, according to Blease Research, a life-insurance data provider in Easton, Pa., the annualized cash value returns for representative policies from major companies, such as Northwestern Mutual, New York Life and Thrivent, ranged from 2.62% to 4.41%. This amount is tax-deferred and includes the part of your premiums that go to pay for death protection and company expenses. Mutual companies usually offer the best returns. But it's also a good idea to see whether you can convert your term policy to permanent insurance without changing insurers and without a new physical exam—especially if you've developed a medical condition since you purchased the insurance.

Clearly, earnings on life insurance policies won't keep up with stocks over a lifetime and certainly not during an extended bull market. This is why just about every financial adviser, including well-trained life insurance agents, emphasize that insurance isn't meant to be your primary investment. Tim Maurer, a financial planner in Hunt Valley, Md., advises everyone to have a comfortable emergency reserve and to fund 401(k) and Roth IRA accounts to the max before paying into an investment-oriented life policy.

But permanent life insurance has

a couple of strong suits. The first is safety: With the exception of AIG, life insurers survived the credit crisis and the recession in excellent financial condition. The second is falling costs: Competition and longer life expectancies are driving the cost of all life insurance policies down, including for people age 50 and older.

Northwestern Mutual Life projects that a 50-year-old man who buys now and keeps the policy until age 85 will earn 4% tax-deferred, and a 60-year-old who holds on until 85 will earn 3.25%. That may seem low, but these are conservative assumptions (not guarantees) based on today's paltry bond yields. Should inflation or investor demand push up bond and mortgage yields and keep them high, your policy's cash value will exceed those projections. It was falling interest rates that depressed policy earnings during the 2000s and as recently as last year.

●● A SAFE PLACE FOR SAVINGS

Permanent life insurance also appeals to risk-averse people who don't have time to recover investment losses in the event of another financial crash.

Before his term policy expired, Philadelphia engineering executive Jim Ardito, now 58, chose a whole life policy. He planned to work at least another ten years and liked the idea of building up guaranteed cash value. Ardito paid a lump sum of \$40,000 for a paid-up \$100,000 policy from New York Life when he was 55. He bought another \$200,000 policy in October 2009 and is paying \$10,800 per year in annual premiums. He's paying extra each year for the larger policy so it will be paid off when he retires—which he hopes will be in ten years—and it's guaranteed to stay in force the rest of his life.

Ardito has other retirement savings and doesn't expect to tap the insurance cash values soon. He's content to bide his time because while he watched his friends' investments (and some of his own) tumble in 2008 and 2009, his life

insurance stayed out of trouble. "At first, people told me I was investing like an old man," he says. "But now they think I'm a genius."

A limited-payment policy—you pay higher premiums for fewer years—is an option that is becoming popular among preretirees who want to time the end of their premium obligations with a retirement date. A ten-year payment plan between age 50 and 60 costs perhaps twice as much per year as regular premiums you would pay over your lifetime. But by putting more into the pot early, your cash value also compounds quicker.

●● DIVERSIFICATION

Cash-value life insurance can also be a good diversifier. That's because a whole life policy is not directly connected to the securities markets. You can think of it as an asset that complements your overall investment mix that allows you to be more aggressive with stocks, commodities or real estate in your IRA, 401(k), or taxable brokerage accounts.

Stan Beal, now 63, first bought a small Northwestern Mutual whole life policy when he was 39. He's added more coverage so many times that his original \$50,000 death benefit is now \$10 million, and he has built up more than \$1.5 million in cash value. Beal would have made much more money, at least for a time, in various stock market and real estate booms. But he's content because the stable growth of the insurance cash value helped him feel comfortable taking risks in other parts of his life. As a software entrepreneur in Dallas, he's been part of several start-up companies that produced irregular income but ended up being successful. The insurance was his bedrock. "When you have that foundation, you can make a lot of choices. Being an entrepreneurial spirit, I could continue to roll the dice," he says.

Beal has a younger wife and a 13-year-old daughter, so his priority has evolved from supporting business

risk-taking to guaranteeing his wife's and his daughter's financial future after he dies.

●● AN INSTANT LINE OF CREDIT

Cash-value insurance is also an alternative to a home-equity line of credit or other sources of borrowed money. Beal borrowed twice against his life insurance cash values when it took him longer than he expected to sell a house—and both times he repaid the loan to his policy after he closed the sale. A policy loan is instant credit. (Remember that

expression?) You can borrow up to your total premiums paid, with no questions asked, by sending a fax or calling the insurance company and requesting a check or wire transfer.

Besides speed, there are two huge advantages to these loans: Nobody runs a credit check or ties the interest rate to your credit score. And you don't have to repay the money on any schedule. There's also no penalty if you aren't 59½. Plus, it's not a taxable event, like a withdrawal from an IRA or 401(k).

Policy loans aren't a totally free ride. They tend to accumulate interest at 5% to 8%, and your unpaid principal and accrued interest are deducted from the death benefits paid to your survivors or from the cash value you take away if you discontinue the policy. So it's best not to overdo the borrowing. But every insurance agent has a story of someone who saw himself through a family emergency without raiding a retirement fund. You also won't have to beg a banker to approve a loan after you are retired and your income is lower.

✦ KipTip

Buy Coverage From the Best

YOU'LL PROBABLY BUY PERMANENT LIFE INSURANCE ONCE, SO YOU'RE ENTERING A LONG-term relationship. For whole life, a mutual company is usually your best bet. As a policyholder, or member, of a mutual, your cash value earns dividends because you "participate" in the company's investment gains and skill (or luck) in selecting risks. The big mutual companies, such as Guardian, MassMutual, New York Life and Northwestern Mutual, specialize in whole life insurance and have top credit ratings. Some former mutuals, such as MetLife and Prudential, still sell dividend-paying policies by setting aside a special reserve to pay dividends.

As with an investment, past performance is no guarantee of future results. But the way that many people compare insurance offerings—by looking at hypothetical projections of cash values ten, 20 and 30 years ahead—doesn't make sense because these projections (known as illustrations) are not guaranteed. Insurers have been known to issue inflated illustrations based on impossibly optimistic projections—and fail to deliver.

Roger Blease, a pioneering insurance analyst who runs Blease Research, in Easton, Pa., says a better idea is to go back and look at similar whole life policies from different insurers to see how the total premiums paid have translated into today's accumulated cash values. (He assumes the dividends are reinvested.) Here are Blease's rankings of national companies over the past 20 years, with the annual rates of return for a policy sold in 1991 to a man who was 55 years old that year: Northwestern Mutual, 4.41%; New York Life, 3.37%; Thrivent, 3.20%; MassMutual, 3.01%; The Guardian, 2.62%.

●● GUARANTEED PROTECTION

Credit and investment issues don't take away from the number-one and number-two reasons to have life insurance at an advanced age: protecting your family, or your business, in the event of your death, and supplying tax-free money to pay estate taxes if your survivors will inherit enough to owe them. You can also guarantee a gift to a school or charity in your name by making the organization the beneficiary.

Whole life policies have a lot of confusing moving parts. But, in general, as your cash value grows, your death benefit can grow, too. The death-benefit projections you see in a policy's original illustration are not binding or guaranteed, but you can be sure that what starts out as a \$100,000 policy will pay your family more than that if you buy it when you're 60 and say goodbye at 90. ■

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