LIFE 101

Whole Life Insurance

Whole life (WL) insurance provides permanent life insurance protection for the insured's entire life. Its primary foundation is comprised of two guaranteed elements: guaranteed rates and guaranteed values.

Whole life is designed to endow at maturity, which means that when the policy matures, at age 100 or 121 or some other age, the guaranteed cash values will equal the guaranteed death benefit.

Guarantees for the life of the contract are what characterize whole life insurance.

There are many different whole life product designs, which are usually distinguished by the amount of years it will take to pay-up the policy.

The most common designs are:

- Level pay whole life (paid-up at maturity)
- 10 pay whole life
- 20 pay whole life
- Paid-up at age 65 whole life
- Single pay whole life

Whole life is generally well-suited for those who want reliable, predictable performance in their life insurance policy due to its guaranteed nature and are comfortable with it having the highest initial cost among life insurance products. Be aware that it is generally less flexible to premium payment changes than a typical universal life (UL) policy, particularly in early years.

What is a dividend?

Participating whole life policies offer additional value in excess of their guarantees through dividends. Premiums are paid based on conservative interest, mortality, and expense assumptions, and if the company's experience is more favorable than the policy's assumptions, a portion of the premium can be returned in the form of a non-guaranteed dividend. It's important to note that dividends are not guaranteed to be paid every year, but once they are credited to the policy they cannot be taken away.

TERMS & DEFINITIONS

Guaranteed rates:
Mortality rates, interest rates, company expenses

Guaranteed values:
Premium, death benefit, cash values

Participating whole life:
Policyowners may be eligible to receive dividends if the insurance company's actual mortality, interest, and expense experience is more favorable than the guaranteed rates and charges in the policy.

Non-participating whole life:
Does not provide dividends, but may offer non-guaranteed interest credits if the company's actual experience is more favorable than the guaranteed rates and charges.

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If the whole life policy is a participating policy, there are usually a few options of what to do with those dividends, such as:

- Purchase paid-up additions to increase the death benefit and cash value
- Reduce premiums
- Blend in term insurance
- Accumulate cash values
- Pay cash to the policyowner
- Repay loan principal or interest

Direct recognition and non-direct recognition loans

Direct recognition means that the dividend credited to loaned values may be higher or lower than the dividend credited to non-loaned policy values.

Non-direct recognition means that the policyowners receive the same dividend, whether or not they have a policy loan.

Contact Frontier Today to Learn More!

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