



# Whole Life Insurance

## What is whole life insurance?

Whole life insurance is a type of permanent life insurance that provides coverage for your entire life.

## Is whole life insurance affordable?

Whole life insurance is more affordable at earlier stages in life. As you get older, and your health declines, whole life insurance becomes more expensive.

## Is the death benefit tax free to my beneficiary?

Yes. If you die while the policy is in force, the insurance company pays a tax-free lump sum of money to your beneficiary, to include any cash built in the policy. Any loans taken from the policy, that have not been repaid, will be subtracted from the death benefit before it is paid to the beneficiary. There are certain circumstances that may require them to pay taxes. For example, receiving the benefits as an annuity, instead of a lump-sum.

## Distinctive features of a whole life insurance policy.

- **It doesn't expire** - Permanent life insurance lasts your entire life
- **Builds long-term cash value** - Cash accumulates over time based on a guaranteed minimum interest rate set by the insurance company. The cash can be accessed while you are alive.
- **It may pay dividends** - Some traditional policies pay annual bonuses to policyholders if the insurance company over-performs financially.

## Common types of whole life insurance

- **Indexed** - Whole life options with a cash value account that earns interest based on an investment index chosen by the insurance company.
- **Modified** - Type of policy that offers lower premiums for a short time, usually years two to five, followed by much higher premiums for the remainder of the policy.
- **Simplified Issue** - A small amount of permanent coverage that does not require a medical exam, meaning the underwriting process is not as extensive.
- **Guaranteed Issue** - A whole life policy that is guaranteed to be approved without a medical exam. Lower face amounts are offered with this policy.
- **Variable** - The policy's cash value is invested in various funds offered by the insurer. You earn more interest this way, but you also take more risks.

## Disadvantages of whole life

- **Price** - Whole life is five to 15 times more expensive than term life insurance
- **Lost financial protection possible** - If you purchase a whole life policy, then can't afford it, you could potentially leave your family without any financial protection.
- **Penalties** - Depending on the type of whole life you purchased, you could face penalties if you cancel coverage.
- **Lower rates of return** - Other investment options offer higher rates of return.
- **Higher degree of risk** - You have to continue to pay your premiums for your policy to remain active and to build cash value.

## What factors affect the rates of whole life insurance?

- Age
- Gender
- Health
- Coverage Amount
- Tobacco rates may apply

## How long does it take to build cash value?

It typically takes five to 10 years to build any significant amount of cash value. The type of whole life insurance that you purchase will determine this factor.

## Whole life and taxes

- **Paying taxes** - The cash value in a whole life policy grows tax-deferred. There are a few situations in which the policy holder may be required to pay taxes. For example, if you withdrawal money from your policy's cash value, you will have to pay taxes on any amount above the total amount of premium's paid into the policy.
- **Tax deductible** - The premiums are not tax deductible, unless you are in an employee benefit plan or if you donate your policy to charity.

**To determine your tax implications, consult with a tax professional.**

## How much life insurance do you need?

How much life insurance you need is determined by your financial needs and goals. Your ideal coverage would be enough to cover any financial obligations for your dependents for a meaningful length of time. A common rule of thumb is to multiply your income by 10, but also factor in any additional expenses like mortgage for child's education costs.

## Is whole life insurance portable?

Yes. If the whole life policy is purchased through a business, the policy may be ported to a personal bank draft upon termination of the job.