Whole Life: A Comeback Story

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Tony Bennett, Michael Jordan. . . Everyone loves a good comeback story. Maybe that's why dividend paying, participating whole life insurance is enjoying a new look from insurance producers that have neglected it for so long. Overshadowed for years by its glitzier cousin, universal life, whole life is starting to find its way back into the minds of producers who know that, in many cases, whole life may be the better deal. For this reason, it's worth taking another look at the features that whole life offers.

To really understand why whole life products are seeing a rebirth, it helps to remember why they fell out of favor. In the late 1980s, Universal Life products overwhelmed the whole life business. For the first time, consumers saw mortality costs, administration fees, and account earnings as separate components of a life product. The unbundling ushered in an era of premium payment and amount flexibility. Universal Life (and later Variable Universal Life) gradually supplanted whole life as the workhorse products of the life insurance industry.

Over the last five years, many of the traditional mutual insurers have become public companies. Stock insurance companies are challenged to support dividend producing participating policies, while also trying to satisfy the interests of shareholders. With fewer companies offering whole life, the universe of producers who understood it and were trained to sell it shrank. At the same time, the number of career agencies and their recruiting of new producers began to decline, resulting in fewer life agents with whole life experience. Today, there are fewer producers who appreciate the potential advantages of whole life and its key differences from and, in the right cases, advantages over universal and variable life products.

Ready for a rebirth

But once again, changes in the business environment and the life insurance industry itself have set the stage for a whole life comeback.

Conventional wisdom says that whole life can be more expensive than other types of life insurance. However, producers can show the value of whole life if low premium isn't the only consideration. When the guaranteed build-up of cash value is factored in with the potential accumulation of non-guaranteed dividends, the total cost/value ratio can be very attractive. These non-guaranteed values can be accessed to reduce or eliminate out-of-pocket premiums and provide flexibility for a variety of lifestyle needs and personal situations. In addition, businesses that want to reward key executives with non-qualified benefits or executive bonus programs appreciate the guaranteed growth in cash values they get with traditional, participating whole life insurance.

Historically, whole life insurance has been considered a less flexible alternative to universal life. More recently, traditional carriers have gotten creative in addressing this perception and now offer riders that address premium constraints and allow additional insureds to receive coverage, and offer illustrations for a variety of sales concepts. In an insurance environment where premium financing is regularly discussed in conjunction with large cases for the affluent market, high early cash value policies that guarantee significant, initial values have found a niche. And then again, consumers still appreciate the certainty of limited pay whole life products such as 10-pay and 20-pay and "…age 65" policies.

Finally, you can't deny the power and potential of dividends. While not guaranteed, many traditional life insurance carriers have a solid history of delivering dividends in a variety of expense and interest rate environments. Whether used as additions of insurance to increase coverage, left to accumulate, or taken as cash, the added flexibility dividends provide can address a number of client needs.

In today's transactional, low-premium life insurance environment, whole life has the added benefit of paying the producer strong compensation. Whole life products were designed in an era when there was recognition of the demands and difficulties associated with completing the life insurance sale. Clients were life-long responsibilities, and strong renewals reinforced the service ethic. Today's version of whole life continues that tradition with producer compensation that reflects the value of a long-term commitment.

Add it up: for consumers, whole life offers the certainty of guarantees, the potential for dividends, flexibility and optional multiuse riders. For financial professionals, it's a life insurance solution with options and compensation that reflects a lifetime of planning and service. Whole life's comeback story is just beginning.

J. Spencer Williams leads MassMutual's Life Sales & Marketing Division, which markets and facilitates the sale of MassMutual's individual life insurance products through all distribution channels. These distribution channels include our Career Agency System, Independent Life Brokerage Companies, Banks, Third Party Marketers, Advisory firms, and Broker-Dealer firms.