What is Blended / Short Pay Whole Life?

Blended or short pay whole life is a type of permanent insurance which will last your entire life if it is funded and managed properly. Whole life can be issued by a mutual (policyholder owned) or a stock company (stockholder owned) and it may be participating or nonparticipating. Participating policies are generally issued by mutual carriers and are credited dividends which are commonly defined as refunds or profit sharing of the insurance carrier. Nonparticipating policies are generally used by stock companies and are credited with stated interest rates.

The difference between blended / short pay WL is in the pricing and the guarantees. Often term insurance is blended into a contract to reduce the premium. The idea is that the dividends of the base contract will slowly replace the term portion of the contract so the policy is eventually all whole life. If assumptions don't pan out, this may not happen and the term insurance may not be replaced and the premiums can increase dramatically. Only the base whole life portion of the contract is guaranteed if the premiums are paid every year.

With a short pay contract, the assumption is that the dividends will grow such that they will eventually pay the premium for the policyowner. This is also not guaranteed.

Dividends may be used in a number of ways, including paying the premiums, buying additional insurance, be returned in cash and other options depending not the insurance carrier. Dividends are subject to change.

Whole life also accumulates cash value that has meaningful guarantees. The premiums are fixed and are usually, but not always, level every year. Definitionally, the cash value of a whole life policy must equal the death benefit of the whole life portion of the policy at policy maturity.

Most whole life policies are guaranteed only if premiums are made every year but short pay guaranteed whole life is also available. Many short pay projections are not actually guaranteed, which is a surprise to many policy owners.

Cash value of whole life policies can be borrowed for other uses. However, this must be thoroughly understood as the consequences of not managing this appropriately can be disastrous, including losing the entire policy, all of the money put into it, the death benefit and be saddled with a tax bill for phantom gain. Loans at death are subtracted from the death benefit. Any accumulated cash value at death does not get added to the death benefit but goes back to the insurance company.

WL policies may be single life or second-to-die contracts.

All permanent life insurance must be managed.

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