Participating Whole Life Insurance ("WL")

with term insurance combined

WL policies with a mixture of term insurance are complex products that provide a guaranteed whole life death benefit and a non-guaranteed term death benefit. The product also provides some level of guaranteed cash value as long as the policy premium is paid every year. Participating policies are eligible for dividends. The dividend formula mechanics (which include interest, expenses, and mortality experience) are not disclosed.

Certainty	There is high certainty around the whole life portion of the death benefit while the term mixture has significant uncertainty due to the reliance upon dividends to support the policy mechanics. Dividends may be insufficient to support the term mixture in the future. In such an event, required premiums may increase or coverage may decrease. Although not guaranteed, it is reasonable to expect some level of dividends to be paid over time albeit not necessarily at the levels shown in sales illustrations.
Flexibility	The introduction of term mixtures reduces the already limited flexibility in a WL policy. Premiums are due in full each year. Due to the reliance upon future dividends in the term mixture mechanics, dividends must be allocated exclusively to supporting that portion of the death benefit. Dividends or a policy loan may be sufficient to pay all or a portion of premiums in the future. However, failure to monitor the impact of taking such actions can lead to out of pocket premiums or even policy termination down the road.
Equity	Policies have a guaranteed cash value. At the discretion of the carrier, dividends may be credited to the policy. The interest component of the dividend formula should not be mistaken for a straight earnings rate on policy cash value as each year adjustments are made for expenses and mortality experience in the formula. If policy cash values are accessed by the owner via dividends or via a policy loan, it will negatively impact the term mixture. Many carriers alter dividend formulas if loans are taken. Earnings are generally determined by a carrier portfolio of high quality fixed income investments.
Premium	Premiums are a function of the coverage amount and are guaranteed for the base policy only. Premiums on the term mixture may change over time resulting in higher out of pocket expenses.
Safety	All guarantees are backed by carrier financial strength which will change over time. Policy cash values are part of the carrier's General Account asset portfolio and subject to claims of carrier creditors in the unlikely event of carrier failure.

Design and Maintenance Suggestions

1. Use a conservative earnings assumption to build in a cushion for inevitable changes in dividends credited to the policy over time and to account for the additional term mixture risk.
2. Avoid accessing policy values due to the risk to the term component of the death benefit.
3. Periodically request revised policy illustrations from the carrier to monitor for cash value and premium adequacy.
4. Ensure you are comfortable with the rigid premium requirements of the contract over a policy holding period expected to span multiple decades.

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