Participating Whole Life Insurance ("WL")

without term insurance combined

WL policies are fairly straightforward products that provide a guaranteed death benefit and 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	If all premiums are paid when due, the owner will have high certainty of protection. Certainty becomes diminished if owner relies on non-guaranteed dividends or uses policy loans to pay premiums. 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	WL policies have limited flexibility. Premiums are due in full each year. Potential flexibility is dependent upon use of future non-guaranteed dividends. 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. Policy cash values may be accessed by the owner via dividends or via a policy loan. 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. However, reliance upon future dividends to pay all or a portion of premiums can lead to fluctuations in the annual out of pocket premium paid.
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.
2. Limit the use policy loans to pay the premium due to the future drag on policy values and the termination risk associated with a heavily loaned policy.
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.