

When permanent life insurance makes sense as an investment

By [Barbara Marquand](#) Posted : 03/26/2014

1
Tweet

0

1

inShare

+

More Sharing



Unless you really need permanent life insurance coverage, the conventional wisdom is to "buy term and invest the rest."

[Let Insurance.com help you find affordable life insurance now.](#)

But does that always hold true?

It all depends on whom you ask.

"You can put 100 of us in a room, and we can't agree on ice cream, much less on finance," says certified financial planner Chad Nehring of Conceptual Financial Planning in Appleton, Wis.

As for Nehring, he says the advice often applies, but "making a blanket statement can be kind of dangerous."

What if you don't invest the rest?

Personal-finance gurus like Suze Orman and Dave Ramsey say term life is sufficient for most of us. The policies are inexpensive, a fraction of the cost of permanent life, also known as cash-value insurance. They're relatively easy to understand. You can buy them for periods of five to 30 years to cover the time when you need protection, such as when your kids are growing up and you've got a mortgage and other debts.

Rather than buying an expensive cash-value policy, Orman and Ramsey advise most people to buy term life and invest the extra money they would have spent on permanent life premiums. On his website, Ramsey calls cash value life insurance "one of the worst financial products available."

Once term life expires, the coverage ends and the policy is worthless. But ideally by that time, you no longer need life insurance. You will have built up a nest egg through saving and investing, your kids will be on their own, and your mortgage and other debts will be paid off.

The trouble is most people don't follow the second part of the advice.

"I generally agree with the buy term (advice), but very few people invest the difference," acknowledges certified financial planner Amy Jo Lauber of Lauber Financial Planning in West Seneca, N.Y. "Most people are spending everything they have and then some."

Another risk is that the term will expire before your needs do. Most term life policies can be converted to permanent policies, but there is often a deadline for doing so.

"Some people may see their term coverage expire without converting it to permanent coverage in time for perhaps a new financial need," Lauber says. "People are having children later in life, some go back to school and take on student loan debt and even obtain mortgages later in life that insurance can help cover in the event of their death."

When permanent life insurance makes sense

Permanent life policies, including [whole life insurance](#), variable and universal life, pay a death benefit to your beneficiary no matter when you die -- next week or in 50 years. They also feature a cash account that grows in value over time. You can surrender the policy for the cash or you can borrow from the policy, using the cash value as collateral. Unlike loans from banks, you don't have to go through a credit check or explain how you'll use the money. However, you have to repay the loan with interest, or your beneficiary will receive a smaller death benefit. Generally the loans are tax-free, and withdrawals are tax-free up to the amount you paid in premiums minus dividends or previous withdrawals (known as the "basis").

Lauber says a permanent life policy may be worth considering for people with pensions, such as teachers, some health care workers and union members, who want to provide financial protection to a spouse. A permanent life policy would enable a pensioner to elect a life-only option, which would stop paying out upon his or her death, versus a joint-and-survivor benefit, which would continue paying until the spouse died. The life-only option pays out more money per month than the joint-and-survivor option. Once the pension stopped paying, the surviving spouse could use the death benefit from the permanent life insurance policy to meet financial needs.

But you still have to assess the numbers closely to make sure that strategy works out.

No investment plan? Permanent life insurance may be a good bet

Peter Blatt, president of Blatt Financial Group in Palm Beach Gardens, Fla., says he's a contrarian when it comes to the "buy term, invest the rest" philosophy.

"It was probably true in the late '70s, but in 2014, there are better products and better tools out there to achieve a better result," says Blatt, an estate and taxation attorney and financial adviser.

Today the buy term advice makes sense if someone has the discipline to invest and follows a good investment strategy, he says.

"Unfortunately (most people) don't have a systemized way of investing," he says. "I think someone should have some type of whole life or universal life policy."

He recommends permanent life policies once you've maxed out 401(k) contributions up to the matching level by your employer and have enough liquid savings to sustain you for at least six months. It's not too late to buy when you're in your 50s, he says.

One reason why you'd want to have savings accumulated before buying a permanent policy is to have a safety net. If you buy a permanent policy with no savings banked and have an emergency, you can't take money out of the policy; there wouldn't be enough cash value yet.

Some critics charge that hefty fees counter the upsides of permanent life policies. But Blatt says mutual funds have hidden fees. You have to look at the average fees over the life of the contract, he says.

Put protection first when making life insurance decisions

Still, Nehring says, remember the primary purpose of life insurance -- to protect your loved ones in case you die.

"I tend to be old-fashioned when it comes to insurance," he says. "It's said that term policies are recommended and permanent policies are sold."

When buying life insurance, first focus on getting enough protection during the critical years that your family will need it, he says. Do a financial assessment to understand what your family's needs would be if you died prematurely. It's better to buy enough term life, he says, than to skimp on coverage to buy permanent life for the cash value.

Says Lauber: "I think most people can more easily get the coverage they need within their budget using term insurance."

She opts for keeping things as simple as possible. "The more complicated you make things, the more potential there is for problems."