What You Need to Know About Whole Life Insurance by James Garfinkel

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Whole life insurance is one of the least understood and most unfairly maligned financial products in the investment universe. If you are hearing the oft repeated refrain â€œbuy term and invest the differenceâ€• you are probably speaking to a stockbroker or an â€œexpertâ€• on cable television. Maybe you should change the channel.

The truth is most people suck at investing. Even investment management professionals struggle to match their benchmark indices every year. The point of life insurance is not to simply duplicate what you can do in an investment account, but to do all the things you canâ€™t.

The interest and dividend growth of the cash value inside a whole life insurance policy is tax-deferred. Only withdrawals that are greater than the sum of all premiums paid would be treated as income for tax purposes. One of the most attractive features of a whole life insurance policy is that the owner can borrow money from the policy (usually at a very attractive interest rate) without any tax consequences (thatâ€™s right, tax-free) and without any credit check or loan approval process as long as the policy is in force. The borrowed funds can be paid back at any time, including at maturity.

Remember, the reason to buy whole life insurance is to provide a specific amount of money at a specific time for the people you care about most. You just canâ€™t get those guarantees with a brokerage account. Best of all, the eventual death benefit is received by a beneficiary tax-free. If the policy is owned by a trust, the funds are not included in the estate of the deceased for tax purposes.

The most frequent criticism leveled at whole life insurance is the high commissions. During the first year most of the first year premium is paid as compensation to the producer. But in the out years, the commission is a small fraction of the original premium amount â€“ not the total value of the policy.

Remember, brokerage accounts arenâ€™t free and neither is the products held in these accounts. There are fees to purchase, fees to sell and fees to do nothing. Actively managed investment accounts and mutual funds can (and do) typically charge fees ranging from 1 to 2% of assets under management. So letâ€™s say you have a one million dollar investment portfolio (congratulations, by the way) with a management fee of 1%, you would be paying $10,000 every year!

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James Olion, founder and CEO of New Amsterdam Life Insurance Foundation. Find out more about a Whole Life Insurance and a Juvenile Life Insurance and child life insurance quotes at http://newamsterdamlife.com.

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