

The Insurance Counselor
Term or Whole Life?
Whole Life—Why The Wealthy Buy It
Part 3 of a 3 Part Series
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“The good man leaves an inheritance to his children’s children...” Proverbs 13:22

I heard the host on a radio talk show tell a caller they could “do better” by buying term life insurance at a lower up front premium than whole life and investing the difference in (unnamed) mutual funds that average a 12% rate of return over time. He also said that when the caller’s assets grew large enough to self-insure, he would not “need” life insurance anymore—he could drop it. He recommended the caller carry coverage equal to 10 times his annual income for 15 or 20 years.

By “doing better” the advisor focused on wealth creation instead of total needs planning. Advisors should not confuse your *insurance* needs with your *investment* goals. Life Insurance is about protecting your loved ones, not about wealth creation. Wealthy people know this. Yet studies have shown that most affluent people own whole life insurance in their portfolios. Want to know why the “other half” buys whole life? Here’s a hint: It’s not always because of need!

Affluent clients often buy whole life because it is simply the most efficient estate planning tool available. Whole life can guarantee money will be there when needed most, TAX FREE if structured properly, with discounted dollars, at a fixed price and on a permanent basis! It’s a great way to transfer wealth or to pay the inevitable taxes. In short, it’s a good deal. Term insurance on the other hand, cannot guarantee these goals on a permanent basis. Only 1 to 3% of term plans *ever* pay out in death claims!

Public probate records show that when Elvis Presley died his estate shrunk by 73% after paying estate settlement costs! Financier and banker J.P. Morgan’s estate shrunk by 69%! Remember the old adage about death and taxes? But estate planning is not just for “the rich.” Today more than ever, middle class working Americans need estate planning. Family farms, small business owners and anyone who has done well saving for retirement often take the biggest hits without proper estate planning. The good news is whole life insurance can be affordable for all income brackets.

So is the guy on the radio wrong? Not necessarily. Is he right? You decide. Let’s say you earn \$50,000 annually. You purchase \$500,000 of term insurance and invest the difference in (unnamed) mutual funds as directed by the talk show host. You’ll have to invest over \$500 a month in a tax deferred account to accumulate \$500,000 in 20 years at the assumed 12% rate of return. After 20 years, he says you can drop your term policy. But before you do, consider this: You’ll be decreasing your total net worth by \$500,000! And the particular asset you are divesting yourself of is the TAX FREE portion of your estate! You wouldn’t do that on purpose, would you? And because of inflation (assuming an historic average of 4%) your buying power is cut in half by the end of those 20 years! You might just need to hold on to your assets! My wealthy clients know as long as they have sufficient life insurance in force, they can liquidate other assets as needed because their insurance benefits will replenish, TAX FREE, any assets they consume!

Whether you are wealthy or not, consult a qualified insurance professional who can analyze your true need. Maybe you need more than 10 times your income. Maybe you need less. Maybe it’s not just about need! Whatever the case, chances are you could benefit from at least *some* whole life insurance, just like you could probably benefit from some good investments. I own both, but I buy them for different reasons. You should too.

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