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Investing in Whole Life Insurance

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Howard supports the Advisor Team at Foster & Associates to help customize insurance solutions for their clients.

According to Robert Kiyosaki, author of Rich Dad, Poor Dad, an asset is defined as something that puts money into your pocket, and a liability as something that takes money out of your pocket. This seems clear enough. But by this definition, is insurance an asset or a liability?

That depends. There are two types of Life insurance: Term and Permanent.

- Term insurance is definitely a liability. As long as you hold a term insurance policy, you pay premiums in exchange for a payout that you personally will not see.
- On the other hand, Whole Life insurance (one particular type of Permanent insurance) is definitely an asset. This is because such policies generate cash value, and over time the combination of the cash value and the death benefit grows. Key for investors, the growth in this value provides diversification and can powerfully complement traditional investment strategies.

Let me explain further:

Predictable rates of returns
A Whole Life insurance policy is a contract you have with an insurance underwriter, such as Manulife or Canada Life, where the expected returns of the policy are explained. Most important, is that parts of this policy will have guaranteed returns, helping investors plan for their retirement or for their estate.

Stable
Behind each Whole Life insurance policy is an investment portfolio managed by the underwriter. But unlike a regular investment portfolio where returns can fluctuate dramatically, these portfolios have built-in stabilizers that ensure the risks are minimized. Additionally, by law, insurance underwriters must return a portion of their business profits to the policy holders.

Tax Free Growth
Canadians have very few tax-free or tax-deferred investment options available to them. Most investors know about RSPs, TFSAs and RESPs. Fewer investors are aware that money inside Whole Life policies also grows tax-free. Used properly, these policies can be structured as an additional source of tax-free retirement funds.

Simplified Wealth Transfer
In addition to tax-free growth, when the insured dies the entire value of the Whole Life contract is passed onto a named beneficiary totally tax-free. Even better, in very specific circumstances, the policy premiums can be paid by a corporation and the death benefits are paid to family members tax-free.

Whole Life insurance is not for everyone. Talk with your financial advisor to evaluate if this investment option is appropriate for you

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