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The Right Insurance for a Rocky Economy

Standard & Poor's says buying a whole life policy could be one way to get your financial house in order

by Beth Piskora

Unemployment currently stands at 5%, but David Wyss, the chief economist for Standard & Poor's, sees it creeping up to 5.5% by the end of this year. That means as many as 750,000 Americans could lose their jobs in 2008. Are you prepared—financially, if not emotionally—if you lose your job? If not, you might, with a financial adviser, consider buying more insurance.

Even if you are retired or feel strongly that your income stream is safe, you might want to consider in these times of volatile stock and bond markets some stable long-term savings options found in many insurance plans.

While term life insurance is overall a more popular product, whole life insurance is enjoying a resurgence in demand. To figure out whether whole life is right for you, it's best to know a lot about the product. A whole life policy can act as a buffer against estate taxes and probate costs and provides a death benefit along with a living cash benefit—a unique feature. In addition, a whole life policy allows someone at the time of retirement to remain insured while spending the other assets they've accumulated or pursuing a more aggressive investment strategy for those assets.

SWISS ARMY KNIFE POLICY

"A whole life insurance policy is the Swiss Army knife of the insurance world," says Anthony Domino, a field representative for Guardian Life Insurance and president of Associated Benefit Consultants. "And maybe you don't think you need the corkscrew and the scissors, and you just need a penknife. But then again…you find yourself in a situation where you do need a corkscrew after all."

To illustrate the difference between the two kinds of policies, Chris Blunt, chief operating officer of life and annuity products at New York Life Insurance, likens term life to an adjustable-rate mortgage (ARM). "People buy ARMs because they seem cheap in the beginning, which is the same reason people buy term insurance," he says. "But whole life can actually end up being the better value in the long run, because whole life gives a cash value, which could be tapped as an alternative to the three- to six-month living expenses most financial advisers tell people to keep in a money market fund."

Blunt also notes that the whole life policy's cash value could be used as an extension of another source of "emergency" funds, including that money market account. "If you get laid off, you need to have created a financial plan that helps you withstand those unanticipated blows," he says.

Cash value accumulated via a permanent whole life policy can be used for several scenarios including supplementing retirement, starting or investing in a business, purchasing or improving a home, or paying for a child's or grandchild's college education. The presence of whole life in an investment portfolio offers a stable return, though generally less than 5% per year. Whole life insurance is also well-suited for cases involving parents or caregivers of those with special needs or disabilities—an important feature for those in the "sandwich generation," who find themselves simultaneously saving for retirement, supporting children, and taking in aging parents.

PENALTY-FREE FUNDS

"People think about the death benefit from permanent whole life insurance, but the living benefit is also important," says Richard Nolan, an insurance representative for MassMutual. "How much money can you raise in a week without incurring a tax or another financial penalty? If you borrow money from a 401(k), you pay a penalty. But with the living benefit of a whole life policy, you can be your own bank. Know that you can find a way to pay for that emergency surgery the HMO won't cover."

For all these reasons, whole life insurance is enjoying a resurgence. Previously thought of as insurance for people over the age of 50, whole life is increasingly in demand among younger Americans. "The average age of someone buying their first permanent life policy is 32," says Meridee Maynard, a senior vice-president at Northwestern Mutual. Maynard who even knows of one thirtysomething couple who used the cash balance from their policy to cover fertility treatments to conceive their first child.

"Whole life is not for everybody," concedes Guardian's Domino, "but it's for many more people than most realize." As you get your financial house in order for the potential recession of 2008, talk to your financial planner about insurance.

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