

# What Clients Don't Know About Whole Life Dividends

▶ The dividends paid out by some whole life policies can be the incentive that drives a client to choose whole life over term.

By Brad Cummins

The decision to purchase life insurance is a big one for clients to make. One of the first choices clients must make in buying life insurance is whether to go with term or permanent life — and if they decide to go with permanent coverage, then whole life insurance frequently wins out.

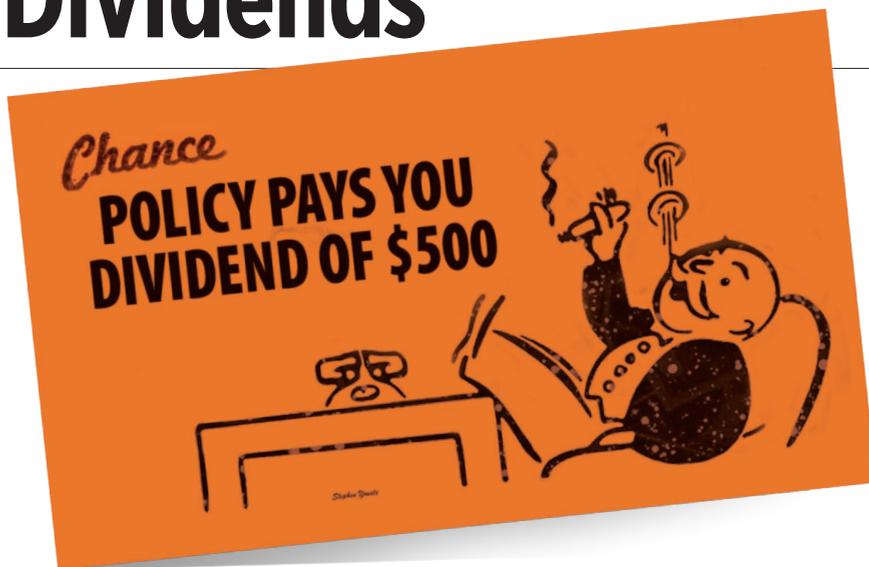
One reason for whole life's popularity is that this type of coverage will remain in force throughout the “whole” of the client's lifetime — provided that they continue to make the policy's premium payments. In addition, whole life can provide clients with a number of advantages in areas other than just death benefit protection — especially with whole life insurance plans that include dividend payments.

Unfortunately, these types of life insurance policies tend to often be overlooked for one reason or another. The reasons for this often are based on misinformation. But the truth is that dividend-paying whole life insurance can provide your clients with some substantial benefits, especially if they plan to keep the policy for the long term. Here are some facts about dividends that might help seal the deal for clients to choose whole life.

## Not Just a Return of the Premium

Many whole life insurance policyholders — and even some insurance agents — are under the misconception that the dividends paid out on whole life insurance policies are simply a return of the policyholder's premium.

But this is not necessarily the case. Rather, a dividend is paid out when the insurance carrier's income minus its expenses is more than its projected worst-case scenario.



The good news for policyholders is that a dividend is actually considered a return of excess premium — and because of that, the dividend won't be taxable to them as income, according to the IRS.

So, clients may choose to receive their dividends in cash (i.e., having the insurance company send them a check for the amount of the dividend). But the benefits don't stop there.

In many cases, the dividends on a whole life insurance policy can exceed by quite a bit the amount of premium that is paid. So this is one way that dividend-paying whole life insurance can be a winning situation for clients.

## Additional Benefits of Dividends

Clients may not realize there are numerous other benefits to owning a “participating” (i.e., dividend-paying) whole life insurance policy. Here are some examples.

» Dividends can be used to **reduce your clients' annual premium payments**. As a result, in some cases, policyholders may never need to pay another out-of-pocket premium on their policy again.

» Dividends also can be used for **purchasing additional amounts of death benefit**. What's more, clients can do so

without the need to provide evidence of insurability or having to go through a medical examination in order to qualify for the added insurance coverage.

» Dividends can be used for **increasing the policy's cash value** so that clients can use it later for paying off debt or supplementing retirement income.

As with other types of permanent life insurance policies, the funds that make up the cash value component of a dividend-paying whole life insurance policy are allowed to grow on a tax-deferred basis. This means that there will be no tax due on the gain until the time of withdrawal. This allows those funds to compound at a much faster rate than they would if they were in a taxable account.

Clients may object to the fact that a whole life insurance policy's premium can typically be higher than that of a comparable term insurance plan. But they may not realize that the whole life policy will provide them with a great deal more in benefit. This is especially the case if clients want to use the policy not only to provide for their loved ones through the death benefit but also to save money for the future.

## Reap the Benefits of Dividends

While many people may think of whole life insurance as providing only death benefit protection, the truth is that there are numerous other advantages to obtaining this type of coverage.

## Many whole life insurance policyholders are under the **misconception** that the dividends paid out on whole life insurance policies are **simply a return of the policyholder's premium.**

Clients need to consider that whole life allows them to do more than put a financial provision in place in case of the unexpected. Whole life also helps them create a financial asset that will grow in

value over time. And it is also the type of coverage that will give clients the built-in ability to increase their insurance protection over time, should they choose to go that route. With dividend-paying whole life insurance, clients have many options they may not have considered.

Clients may believe all whole life insurance policies are created equal, even though many whole life insurance policies may seem to operate in a similar fashion. So make sure you give clients all the facts they need to select

the right whole life plan for their needs.

Help your clients make sure that their life insurance policy provides coverage for the other goals they have set for it. For example, be sure that the type and

the amount of coverage will be sufficient to pay off a client's final expenses, debts and any other financial hurdles that their loved ones may be hit with if or when a claim should be made.

It is also important to tell clients that dividends on whole life insurance policies are never guaranteed. Just as they say about even the best-performing investments, "past performance is not indicative of future results." You can, however, help clients increase their likelihood of receiving whole life insurance dividends by purchasing a policy through an insurance company that has a long-standing reputation for paying them out. 

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