Bill Boersma - Blog

Wall Street Journal article website question!

After the WSJ article in which I was quoted came out, a gentleman in the industry sent me a question via www.opportunityconcepts.com. His question was:

"Re: Wall Street Journal article on 5/26/09. Are you being misquoted by the statement "Whole life policies are starting to fail at an alarming rate"? I've not seen WL policies fail like UL's."

This is a fair question because we all realize that the press gets it wrong or misquotes people on a regular basis. But this is not a misquote. In fact, the writer gave me the courtesy of reviewing my attributed comments before publication so I could ensure accuracy.

I had a phone conversation with the gentleman who asked me this question and it turns out he is a financial planner with at least a CFP and CLU designation. He had no idea, as do many consumers, professionals and even agents that whole life policies, while not generally collapsing at the rate of universal life and variable life policies, are across the board, underperforming the assumptions on which they were bought and sold since the eighties. I am not even going to begin to insinuate that they are all trash. On the contrary, many of them are doing fine relatively speaking. Remember, they may be underperforming but still be solid and serving their purpose. However, many of them are not fine.

Once again, it is about managing the policies over time like an astute person or professional would manage any financial transaction.

There is nothing magic about life insurance. Dividend rates have come down hundreds of basis points since the highs of the eighties. That's right, hundreds of basis points. It is mathematically impossible for a policy to perform as projected when you slash the crediting rates by roughly 50%. I am continually amazed to see that this is a surprise to people. I guess it is a testament to the power of marketing, salesmanship and conventional wisdom.

The solid policies simply do not have the growing death benefits and cash values as projected and the policies out there, even from the highest rated and most solid insurance carriers, which were sold with high term blends and on short pay scenarios, or those policies encumbered with out of proportion loans, are often at risk. I see case after case of "traditional old fashioned whole life" policies with decreasing death benefits due to increasing loan balances and "paid up" policies where the premiums are reappearing, often requiring an annual cash flow at a level higher than what was ever paid before. When this goes on too long without proper management, these policies can ultimately fail and when this happens, phantom gain tax consequences come crashing down on the policy owner. Sometimes this is a massive tax consequence and I've seen cases where the gain is actually larger than the death benefit. I've even seen scenarios where the calculated tax on the gain is larger than the entire death benefit plus all the premiums ever paid into the policy put together.

If you don't understand how this could happen, we need to talk.
So no, I wasn't misquoted.

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