

Insuring Against Recession

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Check your life insurance policy to ensure it's right for today's troubled economy.

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 up to 750,000 Americans could potentially lose their jobs in 2008. Are you prepared — financially, if not emotionally — if you lose your job? If not, you might, with a financial advisor, consider buying more insurance.

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

While term life insurance is overall a more popular product, whole life insurance is enjoying a resurgence of demand. To understand if 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 feature unique to whole life. 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.

"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, maybe you don't anticipate needing the corkscrew, but then you find your-

self in a situation where you do need a corkscrew after all."

Or, if you prefer an analogy with another financial product, consider the adjustable-rate mortgage (ARM).

"People buy ARMs because they seem cheap in the beginning, which is the same reason people buy term insurance," says Chris Blunt, chief operating officer of life and annuity products at New York Life Insurance. "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 advisors tell people to keep in a money market fund."

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Blunt also notes that the whole life policy's cash value could be used as an extension to 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 that come in life," he says.

Cash value accumulated via a permanent whole life policy can be used for a number of 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 the "sandwich generation," who find themselves simultaneously saving for retirement, supporting children, and taking in aging parents.

"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."

It is for all of these reasons whole life insurance is enjoying a resurgence of popularity. Previously thought of as insurance for people over the age of 50, whole life is increasingly popular among younger Americans.

"The average age of someone buying their first permanent life policy is 32," says Meridee Maynard, senior vice president of Northwestern Mutual, who even knows of one thirty-something 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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