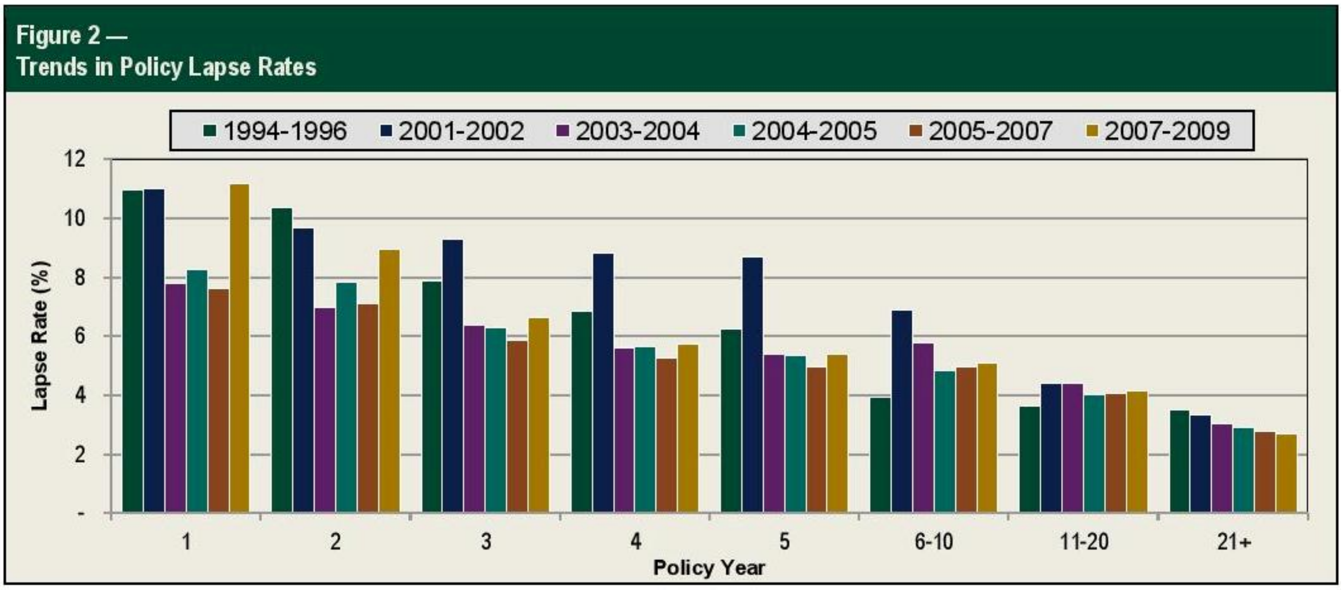
The Statistic Whole Life Salesmen Don't Want You To Know

It takes 5-15 years for a typical whole life policy just to break even to where your surrender value equals your premiums paid (not counting the time value of money or inflation.) If you count inflation, some policies never break even while most take decades to do so. This brings to mind an important question:

> *How many people are still holding their policies after 5, 10, 15, or 20 years?*

Luckily, this data is tracked by the Society of Actuaries and is demonstrated in the chart below.



If we use an 11% lapse rate in year 1, 9% in year two, 7% in year three, 6% in year four, and 6% in year 5, that means that 1/3 of folks have surrendered their policies within just 5 years, long before breaking even. If we continue on to 10 years (using a 5% lapse rate for years 6-10) then we're down to an overall lapse rate of 50%. Using an annual 4% lapse rate for years 11-20, the overall lapse rate is 60% at year 15 and 70% at year 20. By year 30 (using a 3% lapse rate for years 21+), about the time of retirement for someone buying one of these upon residency graduation in their early 30s, 77% of those who purchased their policies no longer own them.

Combine these lapse rates with the likely returns on a whole life policy, and you see the devastating effect that whole life insurance, overall, has on the financial situation of those who purchase it. You can get returns of 2-5% per year on whole life (before inflation) if you hold it for your whole life. If you hold it for less (especially less than 20 years) those returns are likely to be terrible. Witness this illustration run for me on a Guardian Whole Life 99 policy for a healthy 34 year old male in New York. It has a $500K face value and an annual premium of $10,180. Perhaps not the greatest WL policy in the world, but certainly one that is sold to physicians frequently. Here's what it shows:

Year	Guaranteed Cash Value	Annualized Return	Projected Cash Value	Annualized Return
5	35,977	-11.4%	39,245	-8.5%
10	92;531	-1.7%	108,349	1.1%
20	235,498	1.4%	330,396	4.4%

If you assume your return will be somewhere between the

Guaranteed scale and the Projected scale, it's easy to see that 50% of whole life purchasers are, at best, just loaning money to the insurance company for free (and more likely throwing away thousands of dollars) and 70% are, at best, still losing money to inflation. Conclusion? Overall, whole life insurance salesmen are doing a terrible service for their clients.

Does that mean there is nobody who is benefiting from buying a whole life policy? Of course not. But it seems to me that 4 out of 5 of these policies are being sold inappropriately. Buying a permanent life insurance policy is a life-long commitment. The vast majority of purchasers don't seem to be interested in that type of financial commitment, despite the consequences.

If you're an insurance agent and want to be able to sleep at night, you need to be making sure that your clients who buy these things are really those who will hold it their whole life. If you're an investor considering purchasing one, you might want to ask yourself what makes you think you're in the 20% who will be happy enough to hold on to the thing for 30 years, much less the 50 or 60 years remaining to you? There's really no excuse for a 30 year lapse rate of 25%, much less 80%. Insurance agents should be ashamed of their industry for this damning statistic.

What do you think? Is a 33% lapse rate in the first 5 years and an 80% lapse rate in the first 30 years acceptable? Why or why not? Comment below!