

Smart Money: What are you going to do about these low interest rates?

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2 days ago



Brad Brain: "Really, participating whole life insurance is the only strategy around that lets you compound your money with a predictable and healthy dividend, in a tax-sheltered environment, and allows you to pass your wealth on to the next generation tax free. It is a compelling financial planning tool." | Getty Images



Are you an investor looking for something more from the safe part of your portfolio? Do you seem to perpetually roll over your Guaranteed Investment Certificates for another term because you don't really need the money, but you don't know what else to do?

Here's an idea: Ditch those Guaranteed Investment Certificates and buy participating whole life insurance.

Now, this is not a strategy for everyone. But when it fits it can work great.

There are two reasons why this is idea that can make real sense. The first reason is that the alternatives have limited appeal. Interest rates are really low, so GICs are paying next to nothing. And bond investments are going to be facing a headwind in a rising interest rate environment.

But the second reason is that participating whole life insurance offers some very interesting features. Your investment will grow in a tax-sheltered environment. You have tax-free access to the cash value. The death benefit is tax free, and free of probate. And participating whole life insurance has a remarkable history of very steady returns, with less volatility than even GICs.

Ok, sounds good so far, but what are these policies paying? Folks, many participating whole life policies currently have a dividend of about 6% a year. And, while the dividend can change over time, there are some guarantees in these contracts that things will work out as intended.

Let's compare that to alternatives. Sure, other options can have guarantees, but they sure are not paying 6%. And there are other options can pay 6%, but they don't come with guarantees. Participating whole life insurance is unique.

Really, participating whole life insurance is the only strategy around that lets you compound your money with a predictable and healthy dividend, in a tax-sheltered environment, and allows you to pass your wealth on to the next generation tax free. It is a compelling financial planning tool.

But, as good as all this is, this still needs to fit your situation for it to make sense for you.

You probably aren't going to be looking at this until your financial situation is solid and well-established. If you are planning on spending the money in the short term, this is not the right tool. This is not a get rich quick scheme. And, if you have some health concerns you may not qualify for it medically.

But let's say that this is money you are not really going to spend in the short term. Let's say that this is money that is eventually going to go to your beneficiaries. That's a natural fit. Whole life insurance is built for estate planning.

But you don't have to pass away to see the rewards. Over time you can build up substantial cash value in this type of policy, and you can withdraw the cash value as needed. So, think about this. Participating whole life insurance as a substitute for fixed income in your investment portfolio.

Here is what I mean. A typical investment allocation will be 60% in equities for growth, and 40% in fixed income for stability. But right now, that 40% allocation to fixed income is acting as a boat

anchor, dragging down your portfolio. After all, how much growth should you expect if 40% of your portfolio is earning next to nothing?

You probably aren't going to put the entire allocation into a whole life policy. If nothing else, you would sacrifice liquidity. But what about 60% equities, 20% whole life, and 20% cash and fixed income? Participating whole life insurance as an asset class to smooth out the roller coaster ride of the equity markets and bump up the meagre returns of fixed income.

When these ideas fit, they can work great. Your professional life insurance advisor can discuss this in more detail to see if they are a fit for you.

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