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Using Whole Life to Save for Retirement

By
KELLY KEARSLEY
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The client, a doctor who owned his own practice, was looking for ways to put more money aside so he could retire by age 60. What he wasn't looking for was more risk.

"This is a common request for clients who want to save at a high rate to retire sooner," said his adviser, Michele Lee Fine. "They need a balance of safety and growth."

Fine, with New York, N.Y.-based Strategies For Wealth, manages roughly $500 million in assets for 300 clients. For this particular client, who came to her about five years ago, the options were limited.

As a business owner, he couldn't pump more into his business' 401(k) plan without increasing the overall cost of the plan. While bonds would meet his need for something safe, Ms. Fine wasn't keen on them, given the historically low interest rates they paid.

So Ms. Fine turned to a whole life insurance policy. She acknowledges such policies have a reputation for being expensive and complicated, but believes if they're used carefully, the policies can provide an effective, tax-advantaged way to save for retirement.

"There is such a stigma around whole life," she said. "But that's because it's often purchased and sold as a product without a lot of planning done around it."

Ms. Fine said the policy fits nicely into the client's overall financial plan. He already had nearly $10 million in term life insurance, and had retirement savings of $5 million, which was split between taxable brokerage accounts and his 401(k).

Because the client was already well-insured, the whole life policy's death benefit was secondary to the other perks it offered: Guaranteed, tax-free growth and the ability to withdraw income from the account as he needed.

Here is how Ms. Fine's plan worked: First, she and her client determined he could reasonably contribute roughly $100,000 a year toward premiums. At that amount, the policy would provide the doctor with an initial $5 million death benefit that would grow with the account's cash value. Once established, the account would work like a super-charged Roth IRA with no contribution limits and tax-free growth.

The policy also came with a guaranteed return of 4% a year. (To that end, Ms. Fine made sure to shop for policies only through long-standing mutual companies, which she said can be relied upon to make regular payouts to policyholders.) The account's cash value, which Ms. Fine expects to at least double after 20 years, will then become a source of income in retirement. The doctor can make tax-free withdrawals from the account, though the withdrawals do lessen the ultimate death benefit.

The policy doesn't have set fees, Ms. Fine said. One drawback, however, is the account has almost no cash value in the first three years. Still, the doctor has now been pumping money into his whole life policy for five years, and is happy with the solution to his retirement saving conundrum. In fact, he's even boosted his contributions to the policy.

"There's still so much misinformation about using cash value whole life insurance as an asset class," Ms. Fine said. "The key is that clients need to work with someone who is really going to help guide and advise them on how best position this asset in their financial foundation."