

The Emotional Appeal of Cash-Value Life Insurance

While auto, health, disability, and most other forms of insurance are structured so their premiums are due on a pay-as-you-go basis, the life insurance industry has evolved somewhat differently. To be sure, so-called term-life insurance policies do allow one to pay as one goes, but term-life is certainly not what the life industry wants to sell you. Like a discounted gallon of milk at the corner gas station, term-life insurance is a loss leader of sorts. What the life insurance industry would really prefer to sell you is a cash-value life insurance policy. Why?

For starters, the premiums associated with cash-value insurance policies tend to be substantially higher than they are for their “term” brethren. This usually translates into higher profits for the insurers who underwrite these policies and larger commission checks for the salespeople who sell them. So why do people often opt to pay higher premiums?

While we all know we could die at any time, we are generally wired to operate as though we are going to live for the foreseeable future. Consequently, the possibility of paying term-life insurance premiums for two or three decades and not getting any money back at the end of the policy period does not appeal to the typical person – even if it might make perfect financial sense.

Instead, most people feel the need to recover some of their premiums – even if they have to endure higher premiums to do it. Of course, insurance companies know this so they have obliged with a bevy of complicated policies backed by some dubious marketing claims. I’ll examine some of these more dubious claims in future columns. Stay tuned.

Glenn Wessel is a CPA, a Chartered Financial Analyst charterholder, and a Certified Financial Planner™ practitioner. He operates a fee-only investment counsel practice in Asheville, North Carolina.