- June 20, 2012, 9:23 AM

Voices: Paul Essner, On Life Insurance as an Asset Class

Paul Essner is a financial planner with Garden City, N.Y.-based TSG Financial.

Permanent life insurance can be a valuable asset class, especially in a volatile market. When used as part of a long-term investment strategy, it provides steady and sustained growth, as well as a tax advantage. This is an old technique, built on a platform of sustained and steady conservative returns, tax advantages and a death benefit. But between the late 1990's and 2008 advisers pushed this idea aside in favor of equity-based investment tools–without concern for the impact of volatility and downturn.

During the period when stocks and bonds were popular, many advisers overlooked permanent life insurance because it wasn't as exciting or flexible as other asset classes. It wasn't possible to speculate inside a Whole Life policy and rates of return were seen as unexciting. But as the market turned south, investors who bought Whole Life policies came out ahead. Just as the tortoise beat the hare, the slow and steady returns of life insurance won the race.

Returns that are perceived as safe and tax-preferred have become much more attractive to investors in recent years, after two major corrections and a recession. The insurance companies continued to pay their dividends throughout this time, albeit at a reduced level, and they still provided positive returns. There's something to be said about always returning on the positive and never on the negative.

I've had clients who've had terrible experiences with their investments in the market, but were able to revel in bringing in a 4% or 5% rate of return over a 20- or 30-year period. In those cases, they often say, "I wish I would have bought more."

I recommend this approach for clients with a need for life insurance who are generally no older than their mid-50s. If they're older, they might not have the ability to fully benefit from the strategy. Clients using this strategy also need to have sufficient annual income in order to make contributions.

My advice to financial advisers who may not have experience with life insurance is to connect with an expert who can explain the complexity of the products. You'll get into a lot of trouble if you can't properly explain them to your clients and set appropriate expectations for them. For example, it's difficult to explain to clients the rate of return on a Whole Life policy. The dividend is paid for by an insurer on an annual basis, but there is no ascertainable way to say where the dividend is coming from.

Advisers also need to be aware of the quality of insurers by looking at the company's credit rating and its standing in the marketplace. Insurance companies design complex products and you want to make sure you understand that complexity.