

What is the Best Investment?

How about a return of premium term?

When most people are confronted with the opportunity to answer the question about what the best investment is, the best answer may be – it depends! Some people want the highest rate of return, some want safety of principal, some may want tax-free benefits and others may want all of the above. So what does this have to do with return of premium term?

Most clients understand the protection aspect of term life insurance. Whether the need is to cover a mortgage, fund a buy/sell, provide for income replacement or create an immediate estate insurance can provide the best solution to these problems. Most people use term insurance to fund these needs for a limited time, 15, 20 or 30 years. The problem is most people will outlive their policy. Now you have paid premiums all these years and have nothing to show for it, except cancelled checks.

Five years ago, return of premium term was introduced to the life brokerage marketplace. The product allows you to have protection for a specific time but also receive all your premiums back if you survive the term period. The slightly extra premiums allows for the client to earn a reasonably high rate of return. Remember all premiums returned are tax-free.

Here is how it works: A 35 year old male, preferred, non-smoker applies for a \$500,000 30 year level term plan. The premium is \$57.92 per month, but the client could add a return of premium rider making the premiums \$74.13 per month. The client would be refunded all premiums, \$26,688 at the end of 30 years. If the client were to invest the extra premium of \$16.21 per month, he would need to earn 8.49% on the extra premium. Again, the return of premium is not taxable since it is a refund of premiums. Had the client invested his money in a taxable vehicle he would need to earn 12.13% before taxes to net our after tax return of 8.49%.

The return of premium illustration has everything guaranteed—premiums, death benefits and return of premium. When you look at return of premium term products you will find that they are a better investment than comparable cash value products, CD's, municipal bonds and other investments with strong guarantees.

Make sure you are discussing the rate of return with your clients. If the company software does not calculate the rate of return, most do not, then invest in a financial calculator or use the internet. A good website is www.mortgagecalc.com. You will find an easy calculator under the heading, "Annual Yield Calculator." The input is easy and you may help yourself make larger sales.

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