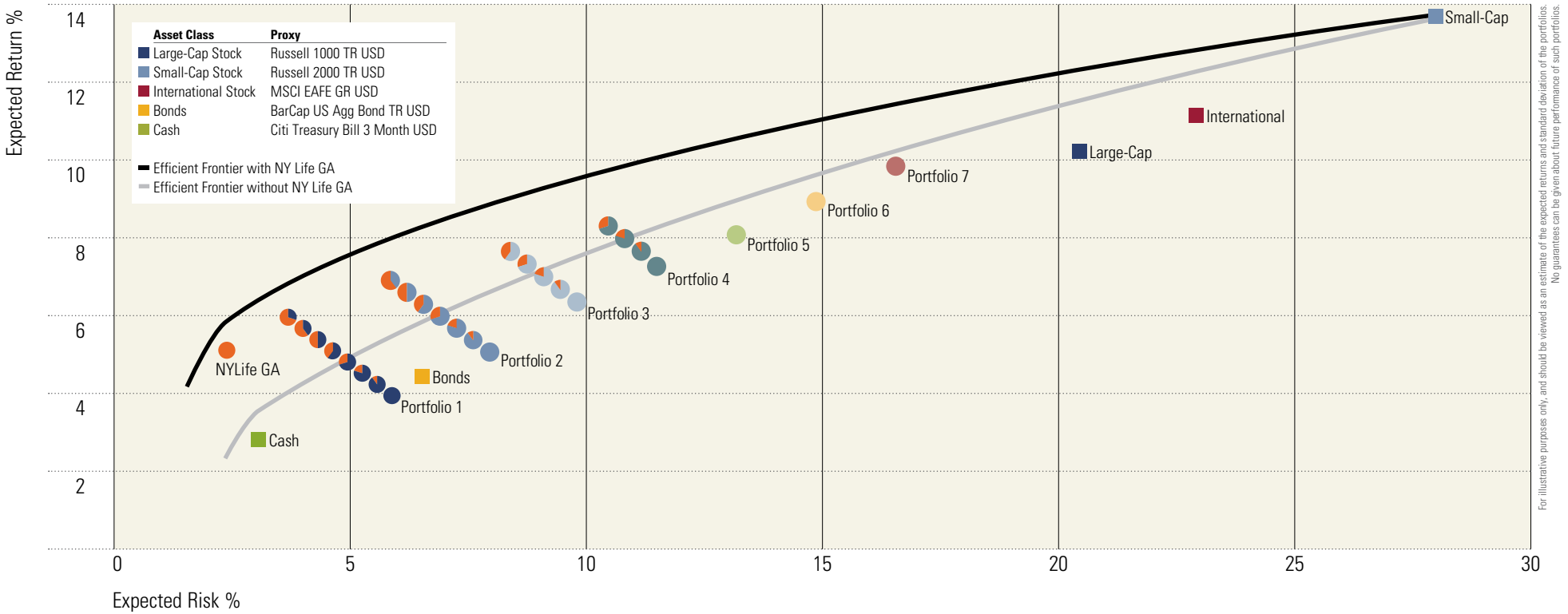
The Cash Value of Life Insurance: Impact on a Portfolio



What is the efficient frontier? [1]

The efficient frontier, represented by the lines in the graphic above, represents the best trade-off between risk (standard deviation) and expected return. Investors strive for a portfolio that is as close to the efficient frontier as possible. We know that in order to achieve higher expected return an investor must take on more risk—a concept illustrated by the upward-sloping line in the graph above.

Where do the Lifetime Wealth Portfolios fit in?

The asset allocation of the Lifetime Wealth Portfolios was developed by Ibbotson Associates and is used as the basis for each portfolio that Ibbotson and Morningstar Investment Services offer. These allocations are plotted in the graph above, along with their relevant benchmarks. Also included is the New York Life Insurance General Account, represented in the graph as "NY Life GA". The dark line represents the efficient frontier with the General Account; the gray line, without. Ibbotson has reviewed the New York Life Insurance Company General Account and estimated the expected return and standard deviation for this account using resampling and sensitivity analysis. This helps to build more robust portfolios and to ensure stability in a variety of market scenarios, resulting in portfolios that are slightly below the efficient frontier line.[2]

What is the impact of the cash value of life insurance on my portfolio?

You'll notice that for Portfolios 1, 2 and 3, there is a track leading closer to the efficient frontier, representing the changes in a portfolio as the cash value of life insurance is incorporated. This is shown in 10% increments, moving the portfolio progressively closer to the efficient frontier.

What are the benefits of life insurance?

The primary benefit of Whole Life insurance is a guaranteed death benefit, as long as premiums are paid. Whole Life also offers several other benefits:

- Premium guaranteed never to increase
- Guaranteed cash value
- Additional growth through dividends, if declared
- Tax-deferred cash value growth
- Tax-free access to cash values via policy loans, provided that the policy is not a MEC[3]
- Disability Waiver benefits: if disabled, you may stop paying premiums after six months if certain options selected and conditions met[4]
- Federal income tax-free death benefit in most cases

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Important Information

Footnotes

1. The efficient frontier on the preceding page was generated by an unconstrained mean-variance optimization. The main criticism of mean-variance optimization is that it is highly sensitive to the inputs which are not known with certainty. Thus, the portfolios that result from running an unconstrained optimization are often highly concentrated in a small subset of the available asset classes and not deemed practical for investing purposes. Due to this limitation, and to increase the diversification of the portfolios, Ibbotson focuses on two major qualities when creating the asset allocation for portfolios: efficiency from a mean-variance perspective and investor preferences. Ibbotson uses a set of additional constraints when constructing portfolios within a mean-variance setting, which explains why these portfolios do not fall exactly on the efficient frontier. For illustrative purposes, five of the 16 asset classes have been plotted. Please see chart at right for a full list of the asset classes.

2. Among the tax-deferred portfolios shown on the preceding page, only Portfolios 1-3 include sub-portfolios. In the remaining portfolios shown in the graphic, the allocation to fixed income is too small to justify an allocation to insurance.

3. Loans against your policy accrue interest at the current variable loan interest rate and decrease the death benefit and cash value by the amount of the outstanding loan and loan interest. Loans, withdrawals, or additions to policy values may modify the expected return and risk.

4. Should you become disabled, if you chose the Disability Waiver Premium Benefit at the time of application and you meet certain age qualifications, after six months of disability the benefit allows you to stop paying premiums for the duration of the disability.

A policyholder cannot invest directly in the New York Life General Account. The New York Life General Account return is for illustrative purposes only and does not relate to the payout of any specific investment, the terms of which will relate to personal insurance and financial factors related to the client. The rate of return does not reflect the fees and expenses which would be involved with an actual whole life policy which are based on a client's age, underwriting risk classification, and the number of years the policy is held. In the early years, when significant cash value has not accumulated, internal rates of return on cash value will be lower. The reader should consult his or her agent for a complete illustration of a whole life policy before making a decision about an insurance policy.

Whole life insurance is a long term insurance vehicle and is not a short-term liquid investment such as stocks and bonds. Access to life insurance cash values can be limited by fees and charges. The various guarantees of whole life are based on the claims-paying ability of New York Life Insurance Company.

The methodology used by Ibbotson to determine investment portfolios is mean-variance analysis. Mean-variance analysis requires three statistical estimates for each asset class:

1. Expected return (Mean)
2. Expected risk (Standard Deviation)
3. Expected relationship between the asset classes (Correlation Coefficients)

Ibbotson develops forecasts for each of these statistics using a combination of historical data, current market information, and additional analysis. Ibbotson maintains that all data from 1926 is relevant for developing equity asset classes Expected Returns and Standard Deviation. The fixed income market, however, underwent a structural change during the 1970's that makes data prior to 1970 irrelevant. Ibbotson typically uses correlation coefficients derived from the historical returns of the asset class benchmarks. Unlike expected return and standard deviation calculations, Ibbotson calculates correlation coefficients from 1973 forward for all asset classes. Ibbotson believes this period to be most relevant for measuring the interaction between asset classes. Each forecast becomes an input in mean-variance analysis. The General Account study is based on data provided by NYL starting in 1981.

The relevant asset classes and benchmarks are displayed in the following table:

Asset Class	Benchmark
Large Cap Growth Stocks	Russell 1000 Growth TR USD
Large Cap Value Stocks	Russell 1000 Value TR USD
Mid Cap Growth Stocks	Russell Mid Cap Growth TR USD
Mid Cap Value Stocks	Russell Mid Cap Value TR USD
Small Cap Growth Stocks	Russell 2000 Growth TR USD
Small Cap Value Stocks	Russell 2000 Value TR USD
International Stocks	MSCI EAFE GR USD
Emerging Market Stocks	MSCI EM GR USD
Domestic REITs	FTSE NAREIT Equity REITs TR
Commodities	DJ UBS Commodity TR USD
Hedge Funds	Credit Suisse Tremont Hedge Fund USD
High Yield Bonds	BarCap US Corporate High Yield TR USD
TIPS	BarCap Gbl Infl Linked US TIPS TR USD
Bonds	BarCap US Agg Bond TR USD
Short-Term Bonds	BarCap Govt/Credit 1-3 Yr TR USD
Cash Equivalents	Citi Treasury Bill 3 Mon USD

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