Guardian

The whole perspective

Coming to terms with BTID

"Buy Term and Invest the Difference" (BTID) makes sense, doesn't it?

Life insurance companies invest conservatively to reserve for their promise to pay a death benefit — perhaps 40 or 50 years into the future.[1] But if your risk tolerance is higher than that suggested by conservatively invested reserves, then this strategy suggests you should acquire lower cost term insurance and "invest the difference" (between the cost of term coverage and a whole life policy) on your own.

At the end of the policy's term, the BTID concept assumes you will have no further use for life insurance and will have accumulated more investment value through the BTID strategy than you would have through the surrender (cash) value of a whole life insurance policy.[2]

Consider this: People are not only living beyond life expectancy in ever-greater numbers, but they are working beyond traditional retirement age.[3] Having children later. They're changing careers, starting up businesses later in life, starting second families. Their parents, too, are living longer and may be dependent upon them for care and support. At the same time, they may be responsible for providing financial support to dependent children, whether young or adult.

BTID can be an option to consider — depending on the following conditions:

- There is a limited period of time for which you need or desire life insurance, with a near certainty that you will not require life insurance beyond that period, even if it's for just a few extra years;
- The period of time that you need or desire life insurance does not exceed 30 years;
- If you are age 45 or younger, with enough years to achieve an aggressive investment portfolio before adopting a more conservative asset allocation, and you are in an age range for which term insurance is relatively inexpensive;

- If you are willing and able to exercise the necessary discipline and experience both to invest the "difference" and to manage the allocation or to seek a financial professional to help manage the allocation — through the early "risk-taking" years as well as the later "risk-averse" years;
- If there is a "budgetable" difference between the cost of the term life insurance and the cost of the permanent life insurance.

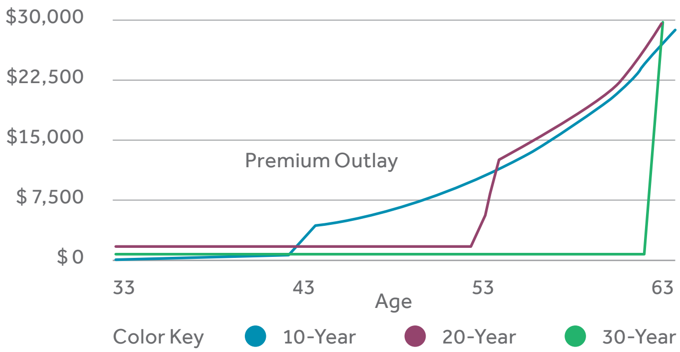
Term insurance can fulfill an important role in providing needed or desired death benefit at a lower initial cost. If you lack the financial resources to procure lifetime insurance coverage with a lifetime (i.e., whole life insurance) insurance product, then maintaining a level of term insurance to suit your needs may be the appropriate strategy (presumably without a "difference" to invest).

Long-term costs

Here's another consideration: It's not the initial cost of insurance that you should look at — it's the *ultimate* cost of insurance needed for lifetime purposes. Consider the following chart and the 11th, 21st, or 31st year's premium to continue a term policy past its initial guarantee:

33-year-old male guaranteed term rates — and their premiums

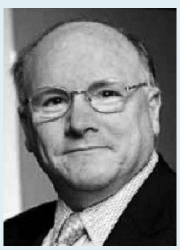
(for a $1,000,000 policy, showing 10-/20-/30-year initial durations)



Can BTID work?

The typical BTID strategy generally requires the skill, discipline, and luck to achieve a consistent and favorable enough year-over-year return to equal the results achieved by buying whole life with the difference.[4]

When the resources exist to acquire life insurance for lifetime needs, life insurance designed for that purpose — typically, participating whole life insurance — should be considered and reviewed with your Guardian Financial Professional. He or she will work with you to determine the life insurance strategy for your individual needs. That way, you and your beneficiaries can be protected, both now and in the future.



This piece was created with the help of Richard M. Weber, MBA, CLU®, AEP (Distinguished). Mr. Weber is Managing Member of Ethical Edge Insurance Solutions, LLC, and was the 2012–2013 President of the 14,000-member Society of Financial Service Professionals. With Mr. Weber's 50+ years of experience in sales, training, product design, senior management and compliance, his firm provides training and consulting services that help empower life insurance agents, financial planners, advisors and their clients to explore and view life insurance in the broader context of financial planning.

The Guardian Life Insurance Company of America

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[1] Policy guarantees are subject to the timely payment of all required premiums and the claims-paying ability of the issuing insurance company.
[2] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty.
[3] Harvard Health Publishing (Harvard Medical School), June 2018
[4] Life Insurance as an Asset Class, Richard M. Weber and Christopher Hause, available at www.EthicalEdgeConsulting.com.

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