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Confessions of a CFP® Professional: The Insurance Policy I Regret Buying

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When I was 18, a family friend working as a life insurance agent encouraged me to purchase a policy. As he spoke, I felt a sense of pride. As the oldest child in my family, I always wanted to set an example for my siblings by making mature choices. Now, here I was about to make my first real “adult” financial decision. So, on that day, I bought my very first life insurance policy.

The product was called an Indexed Universal Life Insurance (IUL) policy. He called it a “retirement plan in disguise,” and a way to “be my own bank.” All I heard was that my money would grow tied to the stock market without the risk, I wouldn’t have to pay taxes on the growth, and that I could borrow from it any time, tax-free. All of that and *still* have a death benefit for my family at the end...how could I possibly lose?

For years, I happily paid my premiums, prouder of myself with every transfer. But as I learned more about finance, a nagging feeling started to grow. I began to see the difference between the story I was sold and the actual math of the product. It was only after years of professional experience that I could finally articulate the crucial lesson of that journey:

My decision had been based on a compelling sales pitch, not a holistic financial strategy.

On the surface, the IUL sounds like the perfect, all-in-one solution. But what I didn’t understand at 18 were the hidden mechanics and costs that make this promise possible. Here’s what was really going on under the hood:

1. The Price of Protection: A Capped Upside The main draw is the promise of “market growth with no downside.” This is made possible by a 0% “floor” - a guarantee you won’t lose money in a down market. To be fair, this protection is real (so long as the insurance company remains solvent). However, it isn’t free. The insurer creates this floor using financial instruments (options), and the direct price you pay is a cap on your potential gains. Even when the market roars ahead by 20%, your growth might be limited to 9% or less based on the cap. The real risk is that this cap isn’t fixed; the insurer can lower it at any time, throttling back your growth potential, potentially even just as internal policy costs are rising.

2. The Massive Upfront Commission While the cap is the *mechanism* for the floor, the massive commission is what makes the product so profitable to sell. A huge chunk of my first year’s payments (often 60% to over 80% of the first-year premiums¹) went directly to the agent. While

¹ <https://www.nerdwallet.com/article/insurance/life-insurance-agent-commissions>

the 0% floor protects you from market loss, this commission creates a huge *internal* loss from day one, creating a deep hole you're left to climb out of.

3. The Hidden, Soaring Cost of Insurance Every month, the policy automatically deducts the actual cost to insure your life from your cash value. This cost starts tiny but is designed to get more expensive each year as you get older. In later years, this rising cost can become a massive drag, eating away at your cash value so aggressively that it can cause the policy to collapse if not managed properly.

4. The Fees That Act Like a Slow Leak On top of insurance costs, these policies are loaded with premium expense charges and administrative fees. These act like a constant, slow leak, draining your returns over time. Additionally, there will likely be surrender charges if you try to get out early, further diminishing your value.

5. The Fine Print on "Tax-Free" Loans While the promise of taking tax-free loans from your policy's cash value is true, the "be your own bank" analogy can be dangerously simplistic. It's not a simple withdrawal; it is a formal loan from the insurance company with critical drawbacks:

- **You pay for it.** The insurer charges compounding interest on the loan, holding your own cash value as collateral.
- **Your heirs get less.** The final death benefit paid to your family is reduced by any outstanding loan balance.
- **It can create a tax bomb.** This is the ultimate trap of the "tax-free" loan promise. A loan is only tax-free as long as the policy stays alive. This spiral often begins when owners stop paying premiums out-of-pocket, instead letting the policy's now-soaring internal costs pay for themselves out of the remaining cash value. Between the compounding loan interest and these mounting internal costs, the cash value can be drained to zero and the policy can lapse. The instant that happens, the IRS retroactively treats every dollar of your loan as a taxable distribution, turning the "tax-free" money you spent years ago into a massive, immediate tax liability.

With the benefit of hindsight, and professional training, I now see my foundational mistake. At 18, with no spouse or children, I didn't need life insurance, because no one would have suffered direct financial harm if I died.

This highlights a core principle of WEIL's financial planning methodology: the primary purpose of insurance is to manage risk, not to serve as a primary investment vehicle. Since I didn't have a risk that needed insuring, using a policy loaded with insurance-related costs as my savings tool was completely inefficient. A far more direct and efficient path, since I had a job at 18 and earned income, might have been a Roth IRA. There, every dollar could have gone to work in a low-cost, transparent account designed for genuine tax-free growth, unburdened by the heavy costs of an unnecessary insurance component.

From Pitfall to Precision Tool

After reading about my experience, you might be tempted to dismiss all forms of permanent life insurance as poor choices. However, that would be a misunderstanding of their purpose. My personal story is not an indictment of a "bad" product; it's a cautionary tale about a sophisticated

product being used in the wrong context. The costly mistake was not the tool itself, but the lack of a blueprint for how, when, and why to use it.

So, let's start with the very product my story focused on. When *could* an IUL be the right tool?

To start, the ideal candidate is the opposite of me at age 18. Given its complexity and costs, the IUL should be thought of as a specialized product, not a mainstream investment solution. The ideal candidate is typically a high-income earner who has already maximized all other tax-advantaged retirement accounts (like 401(k)s and Roth IRAs) and is seeking an additional vehicle for tax-deferred growth. They should have a long time horizon to overcome the high upfront costs and a clear understanding of the risks, including non-guaranteed caps and rising internal fees.

For this niche profile, the appeal is very specific: an IUL is for someone who wants to narrow the band of potential returns for a portion of their portfolio. The 0% floor eliminates downside market risk, while the cap limits the upside. This trade-off (accepting capped gains in exchange for principal protection) must be a primary goal for this product to make sense.

Beyond that narrow use case of an IUL, the broader category of permanent insurance provides powerful solutions for other complex financial challenges where the unique, tax-advantaged nature of a death benefit provides a solution that traditional investments simply cannot. Here are some of those situations:

- **Estate Tax Liquidity** Imagine a family with a \$25 million estate, much of it tied up in a \$15 million business. When the founder passes away, their heirs could face an estate tax bill that could run into the millions. Without liquidity, they may be forced to sell the business quickly (often at a discount) just to pay taxes. A properly structured life insurance policy, held in an Irrevocable Life Insurance Trust (ILIT), can deliver tax-free cash at exactly the right moment, allowing the business to stay in the family.
- **Business Succession Planning** Picture two equal partners in a thriving consulting firm. If one dies unexpectedly, the surviving partner may want to keep the business going, but the heirs of the deceased partner may need liquidity. A buy-sell agreement funded with life insurance ensures the surviving partner can buy out the shares at a fair price, protecting both the surviving family and the company.
- **Inheritance Equalization** A classic challenge is how to be fair when one heir inherits an indivisible asset, like the family business or farm. A life insurance policy can provide the other heirs with a cash equivalent, helping to provide harmony and equitable treatment.
- **Additional Bucket for Legacy Goals** For families who have already maximized retirement accounts and other tax-advantaged vehicles, permanent insurance provides something unique: a non-correlated, tax-free transfer of wealth. In volatile markets, it can potentially serve as a stabilizing anchor.
- **Special Needs** Permanent insurance can provide lifelong financial support for a loved one with special needs, without jeopardizing eligibility for government benefits.

Hidden Value of Existing Policies

The strategic uses of permanent insurance are clear for new planning, but what about the policies you already have? Many clients hold contracts purchased 10, 15, or even 25 years ago. One of the most underutilized tools in this space is the 1035 exchange, which lets you swap one insurance contract or annuity for another, without triggering taxes on the gains.

1. **Turning Old Policies into Long-Term Care (LTC) Coverage** For many clients, a policy originally purchased for its death benefit can now serve a more pressing purpose: funding the potential costs of long-term care. By doing a 1035 exchange, you can move accumulated cash value into a modern hybrid Life/LTC policy. If care is needed, you have dedicated funds to cover it. If not, the money passes to your heirs as a death benefit.
2. **Modernizing Products** The insurance and annuity marketplace has evolved dramatically. Older contracts often carry higher internal fees and less favorable features than what is available today. A 1035 exchange allows families to migrate into newer, more efficient products often with lower internal costs, enhanced guarantees, or more robust income features. A policy purchased years ago does not need to remain static.

Conclusion: Why Strategy Must Always Come Before Product

The policy I bought at 18 ultimately taught me the most valuable lesson of my career, and my experience with it is one of the main reasons I decided to become a financial advisor. I wanted to help people make smart decisions and navigate the complexities of finance, so they wouldn't have to learn from the same kinds of mistakes that I made.

It's important to clarify that the family friend who sold me the policy wasn't a bad guy. He was a classic example of the old saying: "When all you have is a hammer, everything looks like a nail." He was considered an expert in his product, and selling it was how he was compensated. His world revolved around finding applications for the tool he knew best.

The role of your financial planner is to operate from a 30,000-foot view—to analyze your entire balance sheet, cash flow, tax situation, and multi-generational goals *before* zooming in to select any specific tool. **The strategy must always dictate the product, never the other way around.** This strategic, holistic approach is the foundation of our work, ensuring every component of your financial life is optimized and aligned with what you truly want to achieve.

If this has raised questions about your own life insurance policies or annuities, we invite you to reach out to our Advisory Team.