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Policy Strategy Comparison: Whole Life vs UL

Both Participating Whole Life (WL) and Universal Life (UL) are permanent life insurance products that provide a guaranteed death benefit and tax-sheltered investment growth. The difference lies in how the investment component is managed, the level of flexibility, and the potential for long-term performance.

Participating Whole Life

Participating Whole Life (WL) is an insurer-managed policy where premiums are deposited, insurance costs are deducted, and the balance is invested by the insurer. The insurer makes all investment decisions, and policyholders receive non-guaranteed dividends—typically reinvested within the policy—to build up cash value and purchase additional death benefit.

The cash value is invested in the insurer's **Participating Account**, a single pooled fund composed mainly of government and corporate bonds, private debt, and commercial mortgages, with less than 20 % in equities.[(1)] **The client has no control or discretion over this account**—allocations cannot be changed, and the investment remains in this single account for the duration of the policy, regardless of performance.[(2)]

The illustrated dividend interest scale rate (currently often shown near 6 %) represents only one component of the annual dividend. The actual dividend is **not guaranteed** and is determined by the insurer through a non-disclosed blend of (1) investment yield, (2) mortality experience, and (3) company expenses. Because these factors are entirely at the insurer's discretion, actual returns may differ materially from illustrations.[(3)]

Whole Life dividend rates have declined steadily for decades.[(4)] As interest rates fell to historic lows over the past decade, insurers were forced to invest in lower-yield fixed income, pulling down overall portfolio returns—a trend likely to persist, as most of these low-yield bonds will remain held to maturity. Whole Life carriers also apply "smoothing," averaging gains and losses over long periods to stabilize returns.[(5)] As a result, the low-yield performance of the past decade has yet to be fully reflected and will likely be absorbed from future gains—making a 5.25 % assumption more realistic over time, with 4.25 % essential for prudent review.[(6)]

If such assumptions are labelled "overly conservative," it's worth noting that Whole Life policies were once marketed with expected lifetime returns above 10 %—levels that proved **completely unsustainable**. Today's environment underscores the importance of looking beyond the sales pitch to understand both the mechanics and long-term limitations of this single-fund structure.

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Universal Life

Universal Life (UL) is also a permanent life insurance policy where premiums are deposited into a policy fund, and the balance—after insurance charges—is invested for the policyholder's benefit. Unlike Whole Life, UL separates the insurance and investment components, allowing the client to direct how funds are invested—providing flexibility, transparency, and control.

Policyholders can choose to invest across a broad range of indexed and managed accounts that track major market benchmarks—such as the **S&P 500**—or are managed in partnership with firms like **BlackRock** and **Fidelity**. All returns remain within the insurance account, compounding tax-free. **Rebalancing can be done at any time** to capture opportunities or adapt to market conditions—without triggering tax consequences.[7]

Sun Life also offers an investment option available exclusively to UL policies that closely replicates the Whole Life fund—the **Sun Life Diversified Account (SLDA)**. The SLDA mirrors the investment philosophy and structure of Sun Life's Participating Account and is managed by the same investment team. It uses the same smoothing approach to set interest rates, resulting in similar behaviour and response to market conditions. The SLDA offers low volatility, fixed-income holdings, and a guarantee that the **credited interest rate will never be negative**—while remaining part of a more flexible, client-directed structure.[8]

A common UL strategy blends 50–70 % in the **SLDA for stability** with the balance in **equities for growth**, combining Whole Life's defensive foundation with UL's market-based upside potential. For this comparison, UL is illustrated at both 5.25 % and 4.25 % to match the expected Whole Life return, though historically, many UL portfolios have achieved long-term returns exceeding 10%.[9]

Notably, UL offers the unique option to maintain a **Level Death Benefit,** where the death benefit remains level for life and the investment gains are used to reduce policy costs instead of increasing the death benefit. This design is particularly effective when the goal is to fund a fixed future tax liability at the **lowest cost possible**—for example, to provide liquidity for estate settlement or generational wealth transfer. In **corporate-owned cases**, a version of this Level Death Benefit structure adds the equivalent value of the policy's adjusted cost basis (**ACB**) to the tax-free corporate payout. This maximizes the capital dividend account (**CDA**) credit, ensuring the **target death benefit is transferable to the estate on a tax-free basis**—where it would otherwise be partially taxable to the extent that the CDA is reduced by the ACB. [10]

Lastly, For joint last-to-die Universal Life policies, Sun Life offers an optional **Early Death Benefit (EDB)** that allows a portion of the policy's fund value—up to 100 %—to be paid tax-free upon the first death to the surviving spouse, while the policy itself remains in force until the second death. This feature can provide immediate liquidity without triggering tax or surrender charges.[11]

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Conclusion

At the same illustrated rates, Universal Life consistently outperforms Whole Life due to its **flexibility, transparency,** and **efficient compounding** of investment returns. UL can replicate much of WL's stability through the SLDA, while maintaining the opportunity to capture upside potential and long-term growth.

UL offers a more profitable, dynamic, and forward-looking structure—designed to evolve with markets and preserve long-term purchasing power across changing rate environments.

Source References:

(1) "As of December 31, 2024, the Sun Life Participating Account was allocated 27.0 % to government bonds, 11.9 % to corporate bonds, 15.6 % to private fixed income, 8.7 % to commercial mortgages, 15.3 % to real estate, and 19.2 % to equities." (Sun Life Participating Whole Life Insurance Facts & Figures, 2025 / https://cdn.armfs.com/memos/sources/810-3827.pdf)

(2) "You don't choose the investments that make up the participating account. We invest the account to meet the long-term objectives and guarantees of participating policies." (Sun Life Participating Whole Life Insurance Facts & Figures, 2025 / https://cdn.armfs.com/memos/sources/810-3827.pdf)

(3) "The dividend scale interest rate is not guaranteed and is based on factors that are certain to change. The dividend scale interest rate is neither an estimate nor a guarantee of how the products will perform in future. Dividends take into account factors such as investment yield, mortality, expenses, taxes, and lapses." (Sun Life Participating Whole Life Insurance Facts & Figures, 2025 / https://cdn.armfs.com/memos/sources/810-3827.pdf)

(4) The Sun Life dividend scale interest rate has declined or remained unchanged in 29 of the past 34 years, representing a more than 40 % decrease from its 1991 peak. (Sun Life Participating Account Historical Returns, 2025 / https://cdn.armfs.com/memos/sources/810-3599.pdf)

(5) "We also employ smoothing techniques to help keep the dividend scale interest rate more stable over time. Smoothing refers to the process of amortizing various investment gains and losses over a number of years." (Sun Life Participating Whole Life Insurance Facts & Figures, 2025 / https://cdn.armfs.com/memos/sources/810-3827.pdf)

(6) "To make the comparison as fair as possible, a dividend interest rate of 4.75 % is used. The 4.75 % represents what a dividend scale interest rate could ultimately be if the interest rate environment was the same as that described for the fixed income portfolio, and if real estate performs at historical levels while equities return an average of 8 %." (Sun Life Financial - Life Insurance as an Asset Class, https://cdn.armfs.com/memos/sources/810-4764.pdf)

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(7) "SunUniversalLife II provides you with some control over how the assets within your life insurance policy are invested. You can choose to invest in guaranteed accounts, managed accounts—including portfolio and index-based—or the Sun Life Diversified Account (SLDA)." (Sun Life UniversalLife II Client Guide, 2025 / https://cdn.armfs.com/memos/sources/810-4554.pdf)

(8) "The diversified account is managed by the same group of professionals that are responsible for the Sun Life participating account." "The diversified account is unique in that it offers Clients the investment philosophy and design of a participating account, but with the flexibility and transparency only offered by universal life insurance." "To help minimize the volatility of returns, we use a smoothed portfolio asset yield to set the interest rate. The process of smoothing involves amortizing gains and losses on assets within the portfolio over time." "Sun Life guarantees that the interest rate credited to your policy for the SLDA will never be negative." (Sun Life Diversified Account, 2025 / https://cdn.armfs.com/memos/sources/810-4936.pdf)

(9) As an example of performance potential within the UL structure, an actual client policy report using a managed blend of equity and bond accounts shows a net annualized return of 12.7% after policy fees for the period of August 2018 to August 2025. (https://cdn.armfs.com/memos/sources/UL-2018-2025.pdf)

(10) "Level Death Benefit: Your death benefit remains level for life. This may be one of the most cost-effective death benefit options. If your estate protection need is fixed, this death benefit option may work for you." "Level insurance amount plus adjusted cost basis (ACB): The death benefit will always be equal to the basic insurance amount plus the policy's adjusted cost basis. This option is designed for business owners who want to optimize credits to the corporation's capital dividend account." (Sun Life UniversalLife II Client Guide, 2025 / https://cdn.armfs.com/memos/sources/810-4554.pdf)

(11) "The Early death benefit option can be used to provide a valuable tax-free benefit through payment of the policy fund for the survivor of a Joint last-to-die plan. On the first death of the insured persons, the survivor can access the policy fund to assist with financial needs at that time. The reduced death benefit will still be paid to beneficiaries at the second death." (Sun Life UniversalLife II Client Guide, 2025 / https://cdn.armfs.com/memos/sources/810-4554.pdf)