The Concept of the Level-Premium Whole Life Insurance Policy—Reexamined

ROBERT I. MEHR

ABSTRACT

The traditional concept of the level-premium whole life insurance policy is misleading. It has led to an explanation of the policy in terms of a divisible product with its components of decreasing protection and increasing savings. It suggests a divisible premium with one part used to pay for decreasing amounts of insurance protection and one part used to build a savings account. A more realistic explanation of the level-premium whole life insurance policy would appear to be one of an installment purchase agreement. Furthermore, level-premium whole life insurance is offered to the public as a means of obtaining tax-sheltered buildups of cash values with the implication that these tax-sheltered buildups are unique to life insurance. Arguments are presented to (1) show the faulty logic in the contention that level-premium whole life insurance offers a unique tax-sheltered buildup of cash values and (2) demonstrate that level-premium whole life in-surance, instead of offering favorable income tax treatment, is treated adversely.

On several occasions, congressional committees have considered the concept of including as taxable income to the policyowner roughly the amount by which the cash value of his policy increases for the year in excess of the premium paid for that year.[1] The motivation to tax cash value buildups in life insurance policies as ordinary income arises from the successful manner in which life insurance salesmen and others have been able to sell the concept of life insurance as a tax-sheltered savings or investment medium. The attention in this paper is restricted to the need to reexamine (1) the traditional explanation of level-premium cash value life insurance, (2) the concept of cash value life insurance as a divided contract, one part decreasing death protection and the other part increasing savings, and (3) the illusion of a tax-free buildup of the cash values of a whole life policy.

Robert I. Mehr is Professor of Finance at the University of Illinois at Urbana-Champaign. He is a past president of ARIA, a past director of the American Finance Association, a founder of the Risk Theory Seminar, the Pacific Insurance Conference, and the Interamerican Risk and Insurance Forum. This paper was presented at the 1974 annual meetings of the Risk Theory Seminar.
This paper was submitted in June, 1974.

[1] See Charles E. McLure, Jr., *The Income Tax Treatment of Interest Earned on Savings in Life Insurance,* published by the Joint Economic Committee, 92nd Con-. gress (1972).

The Traditional Explanation

Actuaries, through their statistical work in developing convenient methods of expressing probabilities of living and dying at various ages, have constructed graduated (graded) mortality tables to show continuous annual increases in the death rates from low ages, except at the very early ones, to high ages.[2] Annual premiums for life insurance based on these rates are called natural premiums. These premiums, assuming that the policy is issued after age ten, start low and end high as the probability of death continues to increase with age. The traditional textbook explanation of level-premium life insurance is couched in terms of leveling these increasing natural premiums. The insured is told that by paying the same amount of premium every year, he is paying more than the true cost of his insurance during the early years of the policy in exchange for the opportunity to pay less than the full cost of his insurance during the later years of the policy.

The Institute of Life Insurance in its 1973 *Fact Book* explains this concept as follows:

> Level Premium insurance, Insurance for which the cost is distributed evenly over the period during which premiums are paid. The premium remains the same from year to year, and, is more than the actual cost of protection in the earlier years of the policy and less than the actual cost in the later years. The excess paid in the early years builds up the reserve.[3]

This explanation is usually accompanied in the typical textbook by a graph with the premium charged shown on the X axis and the age of the insured shown on the Y axis.[4] A representative graph, roughly drawn, is as follows and labeled Graph 1.

The figures used in Graph 1 (shown in Tables 1 and 2) are the net premium (that is, without the expense addition) and are computed using the 1958 CSO mortality table with interest at 4 percent.
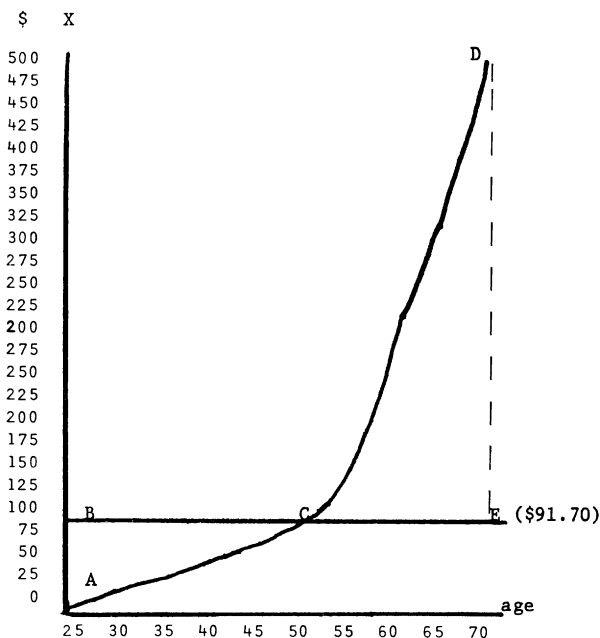
Note that in this illustration the net natural premium starts at $18.56 at age 25 and reaches $478.75 at age 70, whereas the net level premium remains at $91.70 throughout the life of the policy which might well be far beyond age 70. According to Graph 1, a 25 year old insured using the level-premium plan overpays for his life insurance protection until about age 52, and from then on he underpays for his insurance. The extent of each year's overpayment is measured by the amount by which the premium on line AC for that year is less than the premium on line BC for the same year. The amount of the underpayment for each year should he live to age 70, for example, is represented by the extent to which the premium on line CD for that year exceeds the amount on line CE for the same year.

---

[2] The Commissioners 1958 Standard Ordinary Mortality Table (1950-54) shows decreasing death rates from ages zero to nine, and increasing death rates from ages eleven through the limiting age on the table, age 100.

[3] *Life Insurance Fact Book* (New York: Institute of Life Insurance, 1973), p. 121.

[4] See Mark R. Greene, *Risk and Insurance*, Third Edition (Cincinnati: South-Western Publishing Co., 1973), p. 485, for one example.

GRAPH 1
TRADITIONAL ILLUSTRATION OF LEVEL-PREMIUM CONCEPT

```
$    X
500                                              D
475                                              |
450                                              |
425                                              |
400                                              |
375                                              |
350                                              |
325                                              |
300                                              |
275                                              |
250                                              |
225                                              |
200                                              |
275                                              |
250                                              |
225                                              |
200                                              |
175                                              |
150                                              |
125
100    B                    C                    E ($91.70)
 75
 50
 25    A
  0                                            age
      25  30  35  40  45  50  55  60  65  70
```

Some authors in their textbooks shade the areas ABC and CDE. For example, these areas are shaded in Greene's Figure 20-2[5], which is so similar to Graph 1 in this article that it need not be reproduced here. Greene notes that the

> overpayments in the early years of the . . . policy, together with interest, represented by the shaded area to the left of the break-even point . . ., balance the excess underpayments area shown by the shaded area to the right of the break-even point.

He goes on to say that the

> insured would pay smaller amounts . . . if his intention is to let the contract lapse before the size of the shaded area to the left of the break-even point is counterbalanced by an equal area to the right.

He points out "that the shaded area on the right is larger than that on the left," and explains that the "difference is roughly accounted for by interest earnings on the overpayment funds held by the insurer and compounded over the years that the policy is in force." [6] He ignores the concept of the survivorship benefit.

Even if one were inclined to accept the overpayments and underpayments explanation of the level premium concept in the payment for life insurance, graphs of the type presented in Greene's Figure 20-2 may not be used to demonstrate total overpayments and total underpayments

---

[5] *Ibid.*

[6] *Ibid.*

TABLE 1
Net Premiums for $10,000 of one-year Term Insurance Issued at Ages Indicated, 1958 CSO at 4 percent *

Age	Net Premium
25	$ 18.56
30	20.48
35	24.13
40	33.94
45	51.44
50	80.00
55	125.00
60	195.57
65	305.29
70	478.75

* Computation Formula $\dfrac{M_x - M_{x+1}}{D_x}$

TABLE 2
Net Level Annual Premium for $10,000 continuous Premium Whole Life Insurance, Issued at Age 25, 1958 CSO at 4 percent*

Age	Net Level Annual Premium
25	$ 91.70

* Computation Formula $\dfrac{M_x}{N_x}$

because premiums are not paid continuously, but instead are paid periodically, annually, for example. Greene's Figure 20-2 may be used to demonstrate the overpayments or underpayments in a particular year when the overpayment-underpayment approach is used to explain the level-premium concept, but it cannot be used to explain total overpayments and total underpayments by shading the areas to the left (overpayments) and to the right (underpayments) of the break-even point.

The overpayment-underpayment explanation of the level premium can elicit at least two logical questions from the thinking buyer of life insurance. (1) If I should die before the overpayments during the early years of the policy are exhausted to offset those later underpayments, will these unused overpayments be returned to my beneficiary in addition to the face amount of the policy? (2) It seems that if I live beyond age 52 and the overpayment fund has to be drawn upon to offset what are now underpayments of premiums should not the cash value of my policy begin to decrease? If sufficient and easily understood reasons are not readily available to convince the buyer that the answers to both of these questions should be and are no, then perhaps there is something lacking in the traditional explanation of the level-premium concept.

A More Realistic Explanation

It appears more logical to explain level premiums as installment payments for the full price of the insurance. The insured who wants protection for the whole of life has two choices: (1) He may buy a one-year renewable term insurance policy and renew it each year, paying the full cost of the insurance for that year. The renewal premium, of course, is a single premium but increases each year to reflect the projected annual increase in the death rate as age advances. This choice for the most part is theoretical because insurance companies usually place a limit on the number of times, or the age at which, the policyholder may renew his contract. (2) The other choice is to buy coverage for the whole of life rather than a series of one-year term policies. The full cost minus the expense additions of a $10,000 one-year term policy issued at age 25, for example, may be $18.56. It can reach as much as $478.75, at age 70. The full cost of a $10,000 whole life policy issued at age 25, minus the expense additions, is shown in Table 3 to be $1,925.28.

Neither of these choices enjoys much popularity. A series of one-year

TABLE 3
Net Single Premium for $10,000 Whole Life Insurance issued at age 25 (1958 CSO at 4 percent)
$A_{25} = \dfrac{M_{25}}{D_{25}} = \dfrac{691555.398}{3591981.580} \times \$10,000 = \$1925.28$

policies is unpopular because people dislike an increasing premium burden, and because they fear losing their insurance because of the inability to pay the high premium at a later date when the premium climbs out of reach. The single premium whole life policy is unpopular because few people believe they can afford the large advance premiums it requires, and those that can afford it usually have other places to invest these large sums. What people want is the opportunity to buy their whole life insurance on the installment plan, just as they purchase their homes, automobiles, heavy appliances, and other large capital items. For example, instead of paying a net single premium of $1925.28 plus expense additions for a $10,000 whole life policy, the 25-year old buyer normally would prefer to pay a series of equal annual payments either for life or for a limited number of years.

A life insurance installment purchase does not create a debt in the technical sense of giving rise to a legal duty to pay, but nevertheless the installment payments do include an amount for interest, and that interest is no different from the interest included in installment payments made under transactions involving the purchase and sale of a house under contract.[7]

Life insurance was one of the first products marketed on the installment plan. The installment arrangement as applied to life insurance is known as the level premium plan. Under this plan, a man aged 25 can purchase a $10,000 whole life policy for an annual premium of $91.70 plus expense additions payable for life; or as shown in Tables 4 and 5,

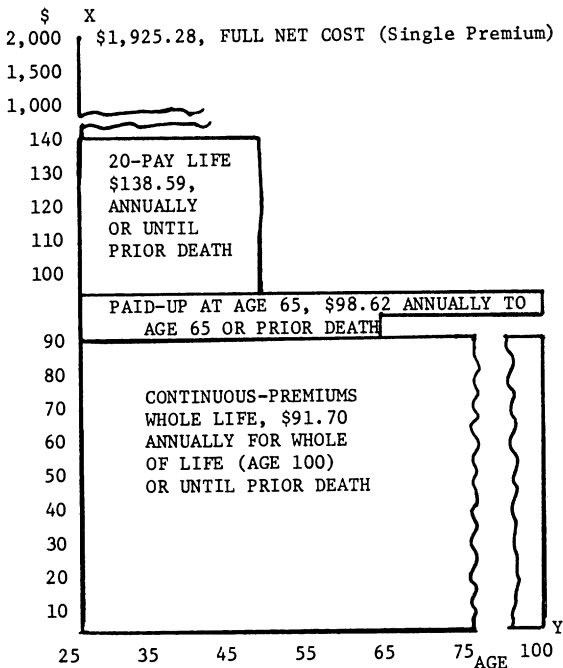| TABLE 4 |
|---|
| Net Level Premium for $10,000 Whole Life Insurance, Payable to age 65, Issued at age 25 (1958 CSO at 4 percent) |
| $$\frac{M_x}{N_x - N_{x+n}} = \frac{691555.398}{75411080.749 - 5289150.482} \times \$10,000 = \$98.62$$ |

TABLE 5
Net Level Premium for $10,000 Whole Life Insurance Payable for 20 years, Issued at age 25 (1958 CSO at 4 percent)
$$\frac{M_x}{N_x - N_{x+n}} = \frac{691555.398}{75411080.749 - 25578274.628} \times \$10,000 = \$138.59$$

---

[7] *The Random House Dictionary of the English Language* (unabridged edition, 1966) defines an installment as "any of several parts which a debt or other sum payable is divided for successive fixed times," p. 736. Debt is defined on p. 373 as "something that is owed; something that one person is bound to pay to or perform for another."

$98.62 (excluding expense additions) payable annually to age 65, or $138.59, plus expense additions payable annually for 20 years, or until death, whichever occurs first. Note a significant difference between the handling of life insurance installment premiums and the handling of installment payments under debts secured by mortgages in connection with the purchase of property such as homes and automobiles. Death does not discharge the obligation for the continuance of mortgage payments for the ear or house, but it does discharge the remaining premium installments which otherwise would have been due for the life insurance. The point is that in the usual installment purchase plan, a legal debt is created that would continue, even if the home or car had to be repossessed for nonpayment of the debt installments and the asset could not be disposed of for an amount sufficient to discharge the debt. Since, as has been pointed out, a life insurance installment purchase plan creates no legal debt, no one is liable for the unpaid installments upon the death of the insured.

The installment-premium explanation of the level premium concept may be illustrated in Graph 2. Note that there are no increasing premiums each year as is shown in Graph 1, nor is there any suggestion of any overpayments in early years and underpayments in later years. Instead, the full price of the insurance is shown as a single premium ($1,925.28) along with their installment equivalents, $138.59 for a 20-payment plan,

GRAPH 2

Installment Net Premium Explanation of Level-Premium Concept, $10,000 of Insurance (Age 25, 1958 CSO at 4%)

```
  $    X
2,000 ┌ $1,925.28, FULL NET COST (Single Premium)
1,500 │
1,000 │
  140 │
  130 │  20-PAY LIFE
  120 │  $138.59,
  110 │  ANNUALLY
  100 │  OR UNTIL
      │  PRIOR DEATH
   90 │  PAID-UP AT AGE 65, $98.62 ANNUALLY TO
   80 │  AGE 65 OR PRIOR DEATH
   70 │  CONTINUOUS-PREMIUMS
   60 │  WHOLE LIFE, $91.70
   50 │  ANNUALLY FOR WHOLE
   40 │  OF LIFE (AGE 100)
   30 │  OR UNTIL PRIOR DEATH
   20 │
   10 │
      └─────────────────────────── Y
       25   35   45   55   65   75  100
                                  AGE
```

$98.26 for a paid-up at 65 plan, and $91.70 for a continuous premium (straight life) plan.

With the installment premium explanation, the question of a refund of the overpayments of premiums in the event of the insured's early death would not be a logical one for the prospect to raise. Furthermore, the explanation that the face amount of the policy at the time of the insured's death will not be reduced by the amount of the unpaid installments is a pleasant one to give to the client. And most important of all, the installment premium explanation of the level premium is the correct one because it is consistent with the method used to compute level premiums.

The earlier question about declining cash values after age 52 that could be logically raised under the traditional level-premium concept explanation would not be appropriate under the installment payment explanation. The buyer's equity in anything he purchases on the installment plan obviously increases with each installment payment.

Whole Life Insurance as a Divided Contract

A number of people insist on viewing cash value life insurance as a divided contract—one part decreasing protection and the other part increasing savings. It is as though the actuary in developing the premium had decided to build into it $X of varying amounts from year to year for life insurance, and to put the residual $Y in a savings account. The notion that a buyer of life insurance may be seeking to pay a level premium for a level amount of protection has no place in the thinking of the divided contract adherents. These adherents would admit only that the buyer would get his level premium but would not get a level amount of protection. Instead, he would get decreasing insurance protection and an increasing savings account.

The faulty actuarial and legal logic inherent in the divided contract, divisible premium concept should be readily apparent. The policyowner cannot withdraw his savings account without giving up his insurance protection, nor, in the usual case, can he give up his insurance protection and continue his savings account.

The Problem of Invidious Comparisons

The divided contract approach has led to invidious comparisons between the products of life insurance companies and the products of savings and investment institutions. For example, some interesting results are found when efforts are made to determine the imputed rates of return on the so-called savings portions of various life insurance policies. To illustrate, the imputed rate of return on the savings portion of a continuous-premium whole life policy issued to a male aged 35 and terminated for its cash value at age 55 would be higher than that for a 20-payment whole life policy issued and terminated at comparable ages. The imputed rate of return on continuous premium whole life policies issued at age 45 and

terminated at age 65 would be higher than the imputed rate of return on the same policy issued at age 25 and terminated at age 45.

Does it seem logical that the imputed rate of return on a continuous-premium whole life policy issued at age 35 and terminated at age 55 would be higher than that for a 20-payment whole life policy issued at age 35 and surrendered for its cash value at age 55? Why should the insurer's investment department be expected to earn a higher rate of return on the savings element of the premiums derived from continuous-premium whole life policies than on the savings element of the premiums derived from 20-payment life insurance policies? Does it seem strange that the imputed rate of return on a policy issued to an older man is higher than that issued to a younger man? The divisible premium, divided contract approach would lead to the absurd idea that life insurance companies have the unique ability to earn higher investment returns on premiums paid in by older people than on premiums paid in by younger people.

Some powerful forces in American life insurance circles now oppose vigorously the concept of the divided contract, a concept which the industry itself had developed as a marketing tool. The result is that its chickens have come home to roost. The performance of the so-called built in savings account in cash value life insurance is being compared with the performance of true savings accounts to the distinct detriment of the conceptual savings account in life insurance. Cash values in life insurance are a by-product of the method of paying premiums, and to view the whole life contract as a two-part contract, one part decreasing protection and the other part increasing savings, does not recognize the pristine function of the level premium which is to finance whole life insurance protection on an installment basis.

The purpose of life insurance is to provide a mechanism for making an efficient predeath arrangement for an effective postdeath balance between resources needed and resources available. It is not its purpose to provide a mechanism for accumulating savings. The cash value accumulation in a life insurance policy is a by-product of the method of funding the cost of death protection, and is not primarily an insurance product. The emphasis placed on cash values in the sales presentations by those who sell life insurance is an example of the tail wagging the dog. Only that portion of the increase in cash values arising from survivorship benefits (loosely defined as the release of the cash values of policies of those that die and their distribution among those that survive) are insurance benefits. For those who are specifically seeking survivorship benefits, such benefits are best purchased through a pure deferred annuity or a pure endowment written for the period desired. These contracts provide no death benefits and no cash value but simply benefits for surviving a given period.

Life insurance should be accepted primarily as the most effective

financial instrument for providing death benefits, and the premium plan selected should be viewed as the one most efficient for the client to handle. The growing futility of selling cash value life insurance as a savings product was realized by those who prepared *The Future Outlook Study* for the Institute of Life Insurance in New York City a few years ago. In this study, much to the despair of and protest by the thousands of life insurance agents in the United States who still forcefully sell life insurance primarily as a savings plan, the *Outlook Study* observed,

> There will develop among consumers a heightened perception of death protection as a unique service and a weakened buyer perception of the savings element in life insurance as a flexible and effective tool for either specific funding needs or for generalized non-specific savings purposes.

The growing number of life insurance companies that took these conclusions seriously began to offer the public a variety of savings and investment programs disassociated from life insurance products by forming subsidiaries to enter a variety of financial businesses. They became involved in open-end investment trusts (mutual funds), real estate investment trusts, and closed-end investment trusts that lend money to business firms with clearly defined growth prospects and receive in return not only favorable interest rates but also options to purchase common stocks in these companies later at fixed prices. These life insurance companies have been attempting to reach the savings and investing public with products specifically designed for the various segments of that market. But in these times of turmoil and uncertainty in the financial markets, it is impossible to assess the success that life insurers eventually will have in the marketplace with these new products.

Tax-Sheltered Buildup of Cash Values

The concept that life insurance should not be viewed as a divided contract does not mean that the predeath value (cash value) of life insurance policies should not be considered an asset by the policyowner, just as he would consider as an asset his equity in a house, automobile, or any other item purchased on the installment plan. For example, the December 30, 1972, consolidated balance sheet of Valmont Industries, Inc., and subsidiaries shows as an asset life insurance cash values of $324,524, an increase of $40,207 over the $284,317 reported for December, 1971. A note to the December 30, 1972, Consolidated Financial Statement shows loans of $299,787 made against the cash surrender values of these policies at the policies' contractual rate of 5 percent. Interest on these policy loans when paid in cash to the insurance companies is treated as a deductible expense in computing taxable income.

The yearly increase in the cash values of these policies is not treated either in whole or in part as taxable income for the year. This income-tax treatment leads those who prepare life insurance sales literature to present the argument that, since annual increases in life insurance cash

values attributable to the interest earned on the "savings portion" of life insurance policies is not subject to income taxes in those years, cash-value life insurance offers policyowners a unique income-tax advantage. The concept of favorable income-tax treatment for cash value life insurance is an outgrowth of the divided-policy, divisible premium concept, and seems to be a fallacious argument.

The life insurance cash buildups do not appear to be treated any more favorably than are the equity buildups in any other installment-type purchases. In fact, as will be developed in this discussion, if the policy-owner surrenders his policy for its cash value, he might find himself at a disadvantage when compared to the purchase of other items on the installment plan. Furthermore, the discussion will show that because installment premiums for whole life insurance include a charge for interest, the income-tax treatment of level-premium life insurance financing is unfairly discriminatory when compared with the income-tax treatment of other installment type financing.

Consider the purchase of a $60,000 house under an arrangement where the buyer had agreed to make a $10,000 down payment and finance the remaining $50,000 under a 7½ percent 30-year amortized loan secured by a mortgage on the house. The monthly installments, including retirement of the principal and payment of the interest, amount to about $340. For the first year, the buyer of the house paid about $3,750 in interest and increased his equity in the house from $10,000 to $10,330. The buyer would be allowed a $3,750 interest deduction in computing his income taxes. Furthermore, he would be allowed to deduct the full amount of the real estate property taxes paid on the assessed value of the house. He would not be required to report as income the rental value of the owner-occupied house. In addition, the $330 accumulation in his equity in the home is not taxed. Obviously, each year, more of his payments will be used to increase his equity in the house and less will be used to pay interest on the declining balance of the loan.

Assume that the buyer continued his payments for 15 years. During these 15 years, the homeowner would have paid in $61,200. Of this amount, $47,600 would have been used to pay tax deductible interest and $13,600 would have been used to increase the homeowner's equity in his house, income-tax free. At the same time, he would have been living in the house without having to report as income the rental value of the house. If the rental value of the house (net after real estate property taxes and insurance) is assumed to be $500 a month, the homeowner would have had $90,000 of tax-free income during this 15-year period.

Assume that the buyer decides to sell the house after living in it for 15 years. Assume further that the homeowner is under 65 and that he does not intend to purchase or build another house. What will be the income-tax implications involved in the sale of the house? The acquisition cost of the equity he has in his house is $23,600, made up of the original $10,000 down payment plus the equity buildups arising from his install-

ment payments. The amount of the debt outstanding against the house is $36,400, the original $50,000 mortgage less the $13,600 applied toward retiring the debt over the past 15 years. If he sells the house for $60,000 or less, there are no income tax implications. He would not be allowed to take a capital loss. However, if the price exceeds $60,000 which in an inflationary economy is likely to be the case, a taxable gain can be incurred. The gain will be treated as a long-term capital gain and not as ordinary income.

How does the income-tax treatment involved in the purchase of life insurance compare with the income tax treatment accorded to those who purchase a house? Suppose a man wishes to purchase $100,000 of life insurance, and the cost is $30,000. He decides to purchase the insurance on the installment plan and pays $1,350 a year for the policy. Included in this $1,350 is an insurance payment that makes it possible for the insurance company to eliminate the remaining annual payments of $1,350 when the insured dies. (Such a payment could have been included in connection with the home purchase and used to buy decreasing term life insurance to provide funds to pay off the debt following the death of the mortgage payer.) Also included is an interest charge just as under any other type of installment purchase.

Unlike in the purchase of the house, the insurance premium payer is not allowed to deduct the interest included in his installment premium payments. This appears to be unfair discrimination against the life insurance installment buyer, and lacks a logical explanation. Of course, the insurance buyer has the benefit of the full amount of the insurance and of the tax-free equity buildups in the policy, but the house buyer also has the benefit of the full use of the house and of the tax-free equity buildups in his home ownership. Is there an acceptable fundamental difference in these two types of installment purchases that explains the difference in how they are treated under the federal income tax law?

The level premium includes an amount to pay the costs of operating the insurance scheme and this includes the state premium tax levied upon the insurer. The state property taxes levied against the home buyer are deductible from income subject to the federal income tax but the state premium taxes levied indirectly against the premiums paid by policyowners (and appears to resemble a sales tax) are not deductible from income in computing federal income taxes. This is another example of what appears to be unfair discriminatory tax treatment of life insurance policyowners.

Finally, the level premium includes a charge to pay the $100,000 death claim. It is from this charge that the policyowner's equity in the contract accumulates, reaching the full $100,000 face amount of the policy at the death of the insured or, at the limiting age of the mortality table upon which the premium computations are based if the insured survives to that age.

Assume that the installment life insurance buyer has continued his payments for 20 years. During these 20 years, the owner has paid a total of $27,000 in premiums. None of these premiums is considered to have included tax deductible interest and no charge is made against them for the insurance to discharge his obligation to pay the remaining premiums following his death. His acquisition cost of the policy, therefore, will be the $27,000 in premiums paid.

Assume that he decides to sell his equity in the life insurance policy after having enjoyed for 20 years the financial protection provided under the life insurance contract. One of the contractual nonforfeiture values under which the insurer agrees to repurchase the insured's equity in the policy at a schedule of agreed upon prices provides a ready market for the insured's equity in his life insurance. If the cash surrender value is equal to or less than $27,000, there are no income tax implications. However, if the cash surrender value exceeds $27,000 a taxable gain will be incurred. But unlike in the sale of the equity in the house, the gain will be treated as ordinary income subject to income averaging rather than the more favorable treatment accorded to long-term capital gains. This further distinction in income-tax treatment represents one more example of unfair discrimination against equity buildups in installment purchases of life insurance in comparison with equity buildups in the installment purchases of homes.

Summary

A whole life insurance policy should be accepted for what it is—a single contract under which the face amount of the policy is to be paid upon the death of the insured. The policy is paid for under the installment plan. Each installment includes a component of interest and state taxes, both of which should be deductible against income reported for federal tax purposes. The installment payments build up an equity in the policy just as installment payments build up equity in other items purchased on the installment plan. This equity may be counted as an asset. If sold for a gain, that gain should be taxed as a capital gain and not as ordinary income, in order to be consistent with the tax treatment of other items purchased on the installment plan.

Instead of the favorable tax treatment so often argued as an advantage of the purchase of life insurance, life insurance appears to be subject to unfavorable tax treatment. The root of the problem is the failure to understand the true nature of the whole life policy, with its concommitant level installment premium payments, and the continued insistence that the policy be looked upon as a divided contract—one part savings and one part protection, a concept that never should have been introduced to cloud the issue and one that should be left to die a natural death. The time has come to reexamine the concept of the level-premium whole life insurance policy!