



Sound Financial Bites 087 - Basics of Life Insurance Part 7 Episode Transcription

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“There are no good or bad types of life insurance just good or bad implementation of certain kinds.”

Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host, Paul Adams, now brings directly to you.

Paul Adams: Alright, welcome back. This is part 7. Now part 7's only purpose is to help us review all the other episodes. We're going to cover this in five minutes or less. So, sit down, hang on, and here we go. Cory Shepherd is with us. Cory is President of Sound Financial Group, he wrote *Cape Not Required*. Great book, can't recommend it enough. My name is Paul Adams. I am founder and CEO of Sound Financial Group. I'm super-glad you're here. Let's get at it.

Cory Shepherd: Let's get to work.

Paul: Yeah, so number 1 in our series was introduction to the types of life insurance. We talked about the differences between term insurance, that it is terminating insurance, one day, it will go away, all the way to the other side of the spectrum, which is whole life insurance, and then every other type of life insurance sits in between: universal life, variable universal life, equity index universal life. All of those tools, which you can see in episode 3, are all built on the term insurance chassis, meaning there's an ever-increasing cost of insurance inside of those products.

Cory: There are no good or bad types of life insurance; just good or bad implementation of certain kinds.

Paul: Yes, and managing of the different strategies is big. Too often, it is only sold, not planned for. So, want to make sure that you own the right type for your situation.

Okay, part 2 was where we went in depth into the universal life. Universal life insurance, underlying term chassis, it can be complicated. It definitely has to be managed. I would encourage you to take your time if this is a product you're going to participate in. We have used some types of universal life for our clients, but they might now have the option to own whole life insurance, for instance, for health reasons, but it requires much more management on our part, which means if you own it and you're not actively managing that contract, if you are not requesting an inforce illustration from your insurance company on at least an annual basis, then you may be neglecting it, and sometimes if too long goes by, you may not be able to go back and fix it.

Okay, episode 3, all about the amount of life insurance and how do you go about applying for it. See, the biggest thing that can go wrong if someone with life insurance is not owning it, we need you to have it. When you have something go wrong health-wise, and now can't get it anymore, guaranteed, every single time, we've had somebody get sick and they can't get life insurance. Somebody who, as a part of their planning, may have previously considered life insurance as, "I don't care if I have it or not," suddenly, if you tell them they're not healthy enough to own it, then they want to do whatever they can to



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acquire it.

Why? Because, it's not Walmart. We feel like we can go into Walmart any time, 24 hours a day, you can walk in at 2 in the morning wearing scuba flippers, and a mask, in a tutu, with a snorkel, and it's fine. Everybody can come in, you can get something whenever you want to. The problem is life insurance is gated, and it's gated by our health, and we're not always guaranteed to have it.

The most important thing is to have it, because if something happens, your family depends on you. Now, there are reasons and situations where you may not have to have it. But, odds are if you've sat through these six episodes, and now you're watching the review, you probably should have life insurance in your life. I would encourage you to make sure you have the right amount, and that's where you can go back to episode 3.

Episode 4, we talked about the types of life insurance companies. Stock companies that are owned by shareholders, Wall Street, and the board of directors has a fiduciary responsibility to those people versus a mutual company that also has a board of directors, but who they're responsible to is their policyholders, to whom the policyholders, a mutual company has to send all of their profits.

Often, if we're going to own permanent life insurance and we're healthy enough to acquire it with a mutual company, we would encourage that that be part of your analysis. At a minimum, you don't want to overlook mutual insurance companies just because you're working with somebody at a stock brokerage firm or something, and they only -- by the way, you'd be surprised how often many of the people who might manage your money, who would be perfectly happy to refer you to an insurance company, in fact, if they are the ones that get you the policy, you may not even be able to acquire it from a mutual company because mutual companies tend to not align themselves with some of these big stock brokerages, etcetera. So, something to consider, make sure a mutual company's always in the lineup when you're looking at life insurance options because they're responsible to you instead of being responsible to just Wall Street.

Number 5 is why it is the IRS has actually put limits on how much you can put in life insurance. That's right, it's the IRS that says that you can only put so much money into a whole life insurance policy because of the advantage it gives you as a taxpayer that they want to curb.

Cory: If the IRS don't like it, I probably would.

Paul: Yeah, that's right. The enemy of my enemy --

Cory: The enemy of my enemy is my friend.

Paul: Yeah, so if life insurance is the enemy of the IRS, then I at least want to shake his hand and see if we might get along. It's not a vehicle that is skirting taxes. It's 100% following the tax laws, but the IRS does limit it, and because of their limit, we can build up significant amount of liquid capital inside of whole life insurance, still have access to it,



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have it creditor-protected, put us in the position where it can act as a bond substitute, or a substitute for cash we would have kept in the bank so that we can put other money at better use, not to mention -- and now something I realize I forgot to put in that video, it is such a valuable asset that banks will lend to you at unbelievably low rates because it's tier 1 capital to them.

You see, a bank can lend the most money when it has tier 1 capital in the books, which is why banks own bank-owned life insurance, or BOLI. So, if you have a policy, you can, of course, take the money directly from the life insurance company as a loan or withdrawal, or you can go to a bank directly, collateralize the life insurance, something we teach our clients to do all the time, and put yourself in a position where, in fact, you can get ultra-low rates of interest, being able to take the money out, and why do we take this alone? Because, we want to be able to put it back in and the loan keeps the space to put the money back in. Otherwise, if you just withdraw it, it's a little bit like taking toothpaste out of a tube: it's nearly impossible to get back in.

Okay, episode 6. Episode 6 was how we can integrate the death benefit of our life insurance into the distribution planning in our old age. You see, if we have life insurance, we can put ourselves in the position if it's whole life insurance, if it has guaranteed death benefit, we can put ourselves in the position where we can spend our money differently in retirement. Simply put, go to the episode if you want to see more. We've got some mathematical examples in that one.

Here's what I'd have you consider. If you retire with just \$3 million, then all you've got \$3 million and you can take your 4% distribution off of that every year. Or, if you retired with \$3 million of capital and \$3 million of guaranteed death benefit, you can spend down the \$3 million of capital, making it look, taste, and feel much more like you actually have \$6 million of assets in retirement. So, a way to consider your planning might be to match your capital at work to the amount of guaranteed death benefit you have in life insurance, doing so will make it feel, during your distribution phase, like you actually have much more money.

Okay, that's it. That's the quick review of episodes 1 through 6. We're so glad you joined us. Bless your heart if you actually took the time to sit through all six episodes, and if you haven't, here's what I would have you consider.

Did we cover a lot of material in these videos? Yes. Did we cover a lot of material here if you're listening to this via podcast? Yes. And if you were going to acquire life insurance for hundreds of thousands or millions of dollars without at least investing some amount of time in learning about the decision rather than just having somebody pitch you or give their opinion about what you should own, that may be an error.

I cannot tell you how important it is that either your advisor spend the time educating you or that you dig into the videos in this series that are most applicable to you, or go back to our podcast and listen to those that are most applicable to you to take care of you, allow you to be a better customer, and allow you to implement this in a more efficient strategy for yourself.

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We hope this has been a contribution to you being able to design and build a good life. If we can help or support you in any way, reach out to us and we will do our best to walk you through our philosophy, see if we're a fit, and take you through the assessment to see if you'd be a good client. I hope you're having a great day. I look forward to future conversations. Subscribe to our channel, and we'll talk soon.

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withdrawal may also be subject to a 10% federal tax penalty.

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