CREATIVE Wealth Maximization Strategies

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"Life is difficult. Once we accept that, it becomes less difficult."
- M. Scott Peck

Everybody Wants Whole Life Insurance

(they just don't know it)

On some financial topics, people have become so conditioned to seeing things from a single perspective it makes them incapable of recognizing other – perhaps even better – ways of addressing these issues. The on-going fallout from the "meltdown/crisis/recession/global-economic-funk" offers a striking example of an obvious solution that almost no one seems to see:

For one reason or another, everyone wants whole life insurance.

Don't believe it? The disbelief just further proves the point. Whole life insurance is so far outside the awareness of both average Americans and the mainstream financial press that collectively "advises" them, that they have become blind to what's been there all along. Think about it. As various "better ideas" have fallen short of expectations or been unable to respond effectively to new economic realities, have you heard any experts, commentators, or consumers clamoring for whole life insurance as a viable answer?

And yet, the following news items and commentary make a compelling case for seeing whole life insurance for what is really is, and why everyone wants it – even if they won't admit it.

Do Americans want a 401(k)… or do they really want Whole Life Insurance?

Here are some excerpts from a January 8, 2009 *Wall Street Journal* article by Eleanor Laise titled "Big Slide in 401(k)s Spurs Calls for Change."

After watching her account drop 44% last year, Kristine Gardner, a 35-year-old information technology project manager in Longview, Washington, feels no sense of security. "There's just no guarantee that when you're ready to retire you're going to have the money," she says. "You either put it in a money market which pays 1%, which isn't enough to retire, or you expose yourself to huge market risk and you can lose half your retirement in one year."

Many retirement experts have come to a similar conclusion: The 401(k) system, which has turned countless amateurs like Ms. Gardner into their own pension-fund managers, has serious shortcomings.

When 401(k)s were first established in 1978, one of the selling points was the opportunity for individuals to participate in the uncertain (but historically profitable) market fluctuations. However, as Ms. Laise notes, "**a**

Financial Literacy Question

Answer on page 6

Here's a quick quiz on a basic financial concept. Do you know the answer?

According to an April 28, 2008 report from the American Association of Retired Persons (AARP), what percentage of American investors do not read financial literature (e.g., newspaper or magazine articles) because they believe the content is "too hard to understand?"

a. 27 percent **b.** 33 percent **c.** 47 percent **d.** 54 percent

market meltdown near the end of their working careers can …blow their savings to smithereens." Quoting Alice Munnell, director of Boston College's Center for Retirement Research: **"That seems like such a fundamental flaw. It's so crazy to have a system where people can lose half their assets right before retirement."**

In response, Congress has begun looking at ways to overhaul the 401(k) system. How? Among the proposals: government-supervised universal retirement accounts offering a "guaranteed, but relatively low, rate of return." Another idea is an index fund of stocks and bonds whose mix becomes more conservative as workers near retirement age.

But there's more to the 401(k) issue than just guaranteeing a retirement balance. Ms. Laise shares the experiences of another individual:

> **Peg Kelley, a 58-year-old small-business consultant in Watertown, Mass. didn't contribute anything to her 401(k) last year. Instead, she's been focusing on paying down credit-card debt and building up an emergency reserve in case the bad economic times turn worse. She's also still paying off an $8,000 loan she took from her 401(k) plan four years ago to buy a new car.**
>
> **After reliving the dot-com market meltdown, which knocked $100,000 off her retirement savings, she moved her entire 401(k) from diversified stock and bond holdings into cash-like investments early last year.**
>
> **"I'm not going to get rich on my 401(k)," she says, "but also don't want to get poor because of it." She had hoped to retire early, but now figures she won't quit work before age 65.**

In both Ms. Gardner's and Ms. Kelley's comments, 401(k)s seem to present a number of "either/or" financial decisions. Ms. Gardner sees her investment options as either a low-yielding money market account or "huge market risk." In a roundabout way, Ms. Kelley agrees, seeing her choices as either not getting rich, but at least avoiding poverty by choosing lower-risk, lower-return financial instruments. When it comes to extra funds, Ms. Kelley has to choose either pay down debt and build emergency funds, or contribute to the 401(k). And because of other financial needs, Ms. Kelley has already borrowed from her 401(k); like many Americans, she doesn't have enough money to fund all the buckets (one for retirement, another for emergencies, big-ticket purchases, college funding, etc.) so filling one means stopping another.

If you were to summarize the comments from these two individuals, they could easily be considered representative of the accumulation issues of most Americans:

- They want some guarantees, yet want to achieve annual returns better than 1%.
- They have a need for accumulating liquid emergency funds.
- They want opportunities to access funds prior to retirement, either as loans or withdrawals.

Guess what? With some variation in the sentence structure, those very features will be mentioned in almost any insurance company's brochure about whole life insurance! And these features aren't either/or. When you make deposits to a whole life insurance policy, you can address *all* of those issues simultaneously. Cash values can be accumulated for emergencies *or* retirement. The long-term rates of return on cash values are greater than the 1% low-risk options Ms. Gardner is aware of – *and* they include some guarantees.

In addition, many whole life policies will offer a Waiver of Premium rider; if the insured is disabled, the insurance company will pay premiums to ensure the future growth of the cash value. And in tragic situations of an early, unexpected death, the insurance benefit delivers significant tax-free dollars in a time of great need.

As a depository for tax-advantaged retirement savings, 401(k)s may fill the bill. But as more and more Americans are discovering, they want a financial multi-tool that can serve several different functions – before and after retirement. For many Americans, a custom-fit whole life insurance policy could be their ideal solution.

Do Americans want a "Medical Expense Fund"… or do they really want Whole Life Insurance?

What is the cost of health care in retirement? Robert Powell, in March 14, 2006 *MarketWatch* column said:

> **"A 65-year-old couple retiring today will need on average a tidy $200,000 set aside to pay for medical costs in retirement, according to an annual Fidelity Investment study released this week."**

That was almost three years ago. Does anyone think medical costs have gone down since then? No? That means the need for a "tidy $200,000" is larger today.

Powell's column elaborated on the Fidelity report, noting that Medicare B and D premiums accounted for $64,000 of the estimated costs, while cost-sharing co-pays ($72,000), and out-of-pocket costs ($64,000), comprised the rest. The $200,000 amount also didn't include expenses from over-the-counter medicines, dental care and long-term care, and was based on an assumed life expectancy of 85. The estimate assumed the couple enjoyed reasonably good health. Add nursing home or other long-term care expenses to the list, and the total health-care cost in retirement could be staggering. To make matters worse, expenses have been increasing at a rate of 5.8% annually since Fidelity started conducting the surveys in 2002.

Now, even if you have a couple million accumulated for retirement, setting aside $200,000 in a safe, low-return financial instrument could result in a significant decrease in retirement income. It's another one of the either/or, lose-lose decisions. Either you lose income because some assets can't be invested in potentially high-profit, long-term opportunities, or you lose the security of having the liquidity to meet possible medical expenses.

Guess what? Whole life insurance might offer some unique solutions to medical expenses in retirement. The cash values can not only serve as a great reserve fund, but many life insurance companies offer riders that delineate terms under which a portion of the life insurance benefit can be distributed to pay costs resulting from a long-term care situation or a catastrophic terminal illness. Further, because of provisions in the 2006 Pension Protection Act, these benefits could be received on a tax-favored basis in many circumstances. In terminal situations, the amount paid could equal up to 80% of the life insurance face amount. In chronic situations, the amount paid usually varies with the age of the claimant – the older the policyholder, the higher the percentage.

These riders (sometimes referred to as Accelerated Death Benefit riders) are not intended to serve as a replacement for the stand-alone long-term care insurance (usually the whole life rider's definitions of what constitutes an "LTC event" for which a claim can be made are not as generous or comprehensive as those in a long-term care contract). But these provisions give the insurance benefit – not just the cash values – a clearly defined financial value *before* death. And, Robert Lehmert explained in the June 2006 issue of the *Life and Health Advisor*: "Accelerated benefit riders do not require the negotiations associated with life settlements; the formula is predetermined and the entitlements can be taken at will." Even better, if the Accelerated Benefit option is not used, beneficiaries will receive the full insurance benefit tax-free. That's a win-win, either/or decision.

Lehmert goes on to note: "in an era of dramatically increased longevity, permanent (whole) life insurance has the potential to play a critical role in helping individuals live out their days with enhanced financial security."

Do Americans want "Yeah, buts…" or do they really want Whole Life Insurance?

If whole life insurance is such a good product, why don't more popular "financial experts" recommend it? And why don't more people own it? It goes back to the opening comment: When someone is so invested in seeing things from one perspective, it can be difficult to see it differently, even if the alternative is supported by facts and logic. For these people, the answer to retirement is a 401(k), the answer to emergency funds is a savings account, the answer to college funding is a 529, and the answer to life insurance is term. Anything outside their framework doesn't fit, and generates a dismissive "yeah, but…" response. For example:

"Yeah, but..." Hindsight Sees a Better Idea

By design, whole life insurance is conservative and predictable. It's boring. Here's what happens: Someone looks at historical results and says "You could have done better if you had…invested in the tech stock…, speculated in beach-front condos…flipped houses… bought term insurance, etc." Looking backward, it's always possible for someone, somewhere, to construct a better outcome than the one you have. This is true for every financial decision, not just life insurance. In hindsight, you could have bought a nicer home on better terms, earned more with a different mutual fund, paid less for a car.

But while hindsight can always develop a better scenario for the past, hindsight insights cannot guarantee future outcomes. Two decades of historically superior returns were irrelevant when the S & P 500 dropped over 30% in 2008. So instead of looking backward to guess what might be most profitable in the future (and occasionally guessing wrong), take a look at this: *the accumulation focus of whole life insurance policies is consistent, guaranteed, long-term cash value growth.*

"Yeah, but…." The Costs Exceed the Benefits

No one really argues the *benefits* of whole life insurance; the issue is the perceived *cost* of obtaining them. When compared to term insurance, whole life insurance seems inordinately expensive. (Typical comment: "If I can get $500,000 of term insurance for $35/mo., why do I have to pay $750/mo. for $500,000 of whole life?")

But other than the life insurance benefit, whole life and term insurance are radically dissimilar products. In a different context, whole life isn't over-priced.

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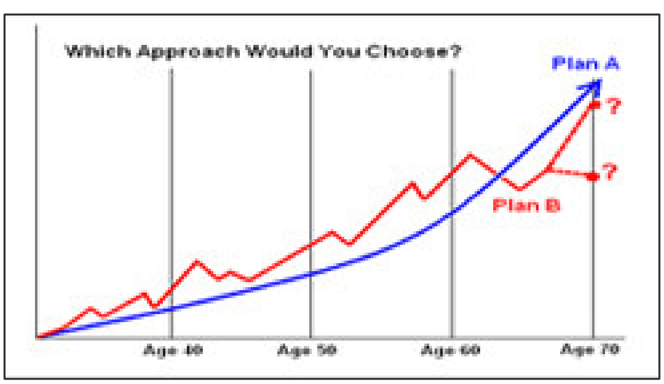
Consider a household with take-home earnings of $100,000/yr. that is attempting to save 12% of their income (a percentage which, by the way, most "experts" say must be increased to ensure a comfortable retirement). Maybe some of that $12,000 goes to a retirement account, some to emergency savings, some to buy term insurance, and some to an after-tax college savings fund. Or instead, maybe a sizable chunk of it is applied to a whole life policy, because the whole life policy can provide cash values, which can be used for retirement supplement income, emergency reserves, money for college – and life insurance.

"Yeah but..." There's Up-Front Commitment, and Delayed Gratification!

Whole life insurance is a long-term financial instrument with a long-term funding commitment. Although a whole life insurance program can be constructed in such a way that premiums can be paid for a limited period as opposed to one's entire lifetime, the shortest paid-up period is usually seven years. A whole life insurance purchase is big-ticket purchase, paid for over time – like a car, a home, a college education. While there is some payment flexibility in most whole life policies after the first few years, whole life works best with regular funding.

Because whole life is designed with the intention of being in-force at death (unlike term insurance), the costs of providing the insurance benefit – whether death occurs tomorrow or 50 years from now – must be secured by the insurance company. Thus, in the first years of a whole life insurance policy, most of the scheduled premiums do not accumulate as cash value. For some short-term thinkers, these "start-up costs" are an insurmountable psychological barrier.

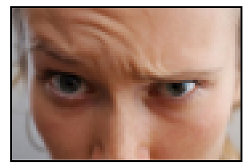
The diagram below doesn't represent a specific numerical comparison. Rather, it illustrates the *conceptual* difference between whole life insurance and other non-guaranteed accumulation strategies. **Plan A** is a slow-starting, well-planned financial path; if you stay on the path, the desired long-term results will be attained. In contrast, **Plan B**, while having the potential to deliver better results than **Plan A**, offers no guarantees; ups may be followed by downs.



As many Baby Boomers are finding out, what happens at the end of the plan is arguably more important that what happens in the beginning or the middle. But even though the long-term benefits of a whole life insurance program will accrue at an ever-increasing rate over time (**Plan A**), and even though various **Plan B**s offers little assurance of finishing strong, some people simply can't handle the longer start-up curve that comes with whole life insurance.

"Yeah but…" Is Anything Really Secure in This Economy?

In light of recent events, there's general skepticism about any financial promises. Considering the wide-spread turmoil at once-solid financial institutions, who can say that a similar meltdown might not also occur with life insurance companies? It's a fair question.



If we experience a complete economic and social collapse that plunges the world into a new "Dark Ages", life insurance companies will probably go down the tubes, along with everything else. But if your sense of pessimism is that high, you better start watching your "Mad Max" and "Waterworld" DVDs for survival tips in a post-apocalyptic world, because there is no safe place for your money or your financial future.

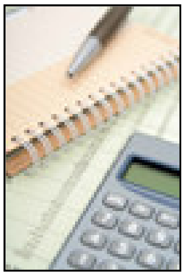
Otherwise, there are good reasons to think life insurance companies will remain viable financial institutions, even in tough times.

In a January 11, 2009 *Palm Beach Daily News* article by R. Marshall Jones, JD, CLU, ChFC titled "Life Insurance: An Additional Asset Class in Difficult Times," the author makes the following observations about whole life (or permanent) insurance companies in the wake of the past year's economic turmoil:

> **Fortunately, the life insurance industry has almost none of the problems of Wall Street… Until recently, permanent life insurance was arguably the financial industry's most complex instrument. Fortunately, due to its complexity, life insurance is highly regulated to assure there are always sufficient, safe assets to honor its guarantees. This is referred to as statutory accounting. For more than 100 years, every life insurance death benefit has been paid.**
>
> **All life insurance companies use statutory accounting. In addition, publicly traded insurance companies use GAAP accounting. It allows them to report the expected profitability of products that require reserves to back their contractual liabilities.**

Jones doesn't say life insurance companies can't fail. But life insurance companies have a proven track record of stability. And while whole life insurance may be considered a complex financial instrument, it isn't an untested new idea (like credit-default-swaps or other next-generation financial derivatives that were "virtually unsupervised," according to Jones). Whole life insurance has been around, been regulated, been through good times and bad – and succeeded.

"Yeah but…" It's Too Complex and Too Boring for Media Sound Bites



Like Mr. Jones said in the previous paragraph, whole life insurance is a complex financial instrument. It takes time to explain it (even a slim "overview" article like this one takes over four pages!). And it takes even more time and personal attention to tailor a whole life program that fits an individual's unique financial circumstances. There is no one-size-fits-all plan for whole life, and this is not a do-it-yourself project.

These characteristics are not ones that fit easily in column-length newspaper or magazine article, or a thirty-second analysis from a financial talking-head on a television program. And since whole life insurance is a long-term financial instrument, there's not much demand for headline-grabbing topics like "Experts Pick Top 5 Life insurance Policies for 2009" or "Best Whole Life Plans to Implement Right Now!"

Instead, establishing a successful whole life insurance program requires several face-to-face consultations with a knowledgeable professional, and regular reviews. Yeah, it sounds more like going to the dentist than dinner and a movie. Whole life insurance may be serious, complex, boring – but it works.

Bottom Line: Everyone wants Whole Life Insurance

Consider these common "yeah buts…" concerning whole life insurance. Should any of them really stop someone from taking a closer look at how whole life insurance might fit in their financial situation?

No.

Does everyone *need* whole life insurance?

No.

Does everyone *want* whole life insurance?

The opinion here is yes. Whole life insurance delivers a unique and flexible assortment of financial benefits. Properly situated in your financial program, having whole life insurance is better than not having it. And with the assistance of a skilled insurance professional, there are many ways to make whole life fit your plans.

Whole life insurance is a "financial classic." Newer products and approaches may grab popular attention, but as a solid financial foundation for every stage of life, whole life continues to be in style.

It's time to admit it…Everyone Wants Whole Life Insurance.

PUMPING UP YOUR CREDIT SCORE

Suppose you are in the money lending business. Suppose you loan money to people who don't repay it.

Question: As a lender, what is a logical response to this problem?
Answer: Find more reliable borrowers.

In the wake of a rising tide of borrower defaults on everything from mortgages and car payments to credit cards, U.S. lenders are tightening their business practices. And these changes may have a noticeable impact on almost every American.

A December 2, 2008 *Reuters* report noted that the U.S. credit card industry "may pull back well over $2 trillion of lines over the next 18 months due to risk aversion and regulatory changes, leading to sharp declines in consumer spending." Credit card companies pull back lines of credit by closing accounts, reducing credit limits, or limiting the offers of credit to a higher class of borrowers. Oppenheimer & Co. banking analyst Meredith Whitney says she expects "available consumer liquidity in the form of credit lines to decline by 45%." For many Americans, this pull-back will represent a substantial decrease in purchasing power. Similarly, banks are raising their credit-score and documentation requirements for other consumer loans, including home mortgages, auto loans and home-equity credit lines.

Five things you can do.

In this tightened credit environment, maintaining (or upgrading) your credit score is a priority. You may not need to borrow right now, but if and when you need outside funding, you want the best terms possible.

Culled from several sources, here are some tips for a robust credit score.

1. Know your FICO score. Although several reporting services offer free credit reports, the one that matters most to lenders is your FICO score. FICO stands for the Fair Isaac Corporation, and according to a 2008 report published by credit repair expert Ian Webber, the reports prepared by this company are most often the ones used by lending institutions to interpret your suitability as a borrower. (Webber says other credit-scoring programs can vary as much as 100 points from a FICO score for the same individual.)

2. Pay your bills on time. It sounds too obvious to mention, but 35% of your FICO score is based on payment history. If you find you may not be able to make timely payments, contact the creditor. Make arrangements for a late payment, partial payment, etc. A pro-active approach is much better than neglecting or avoiding your obligation.

3. Manage your credit card balances. FICO gives a 30% weight to the amount of debt you have, and pays particular attention to the size of the balance in relation to your credit limit. Example: A credit card with a $3,000 balance and a $10,000 limit has 30% usage. FICO divides balance limits into five usage tiers (20, 40, 60, 80 and 100 percent usage). Lower usage levels mean higher scores, and most experts agree that maintaining a usage level of 25% or less is best. Conversely, Webber states that maxed-out cards will "devastate your scores." A 100% usage level on one card can wipe out 100 points on your FICO score. Going over your limit can whack off 150 points.

If you are in the process of paying down debt on several accounts, this information can be helpful in deciding which credit cards should receive extra payments. Additionally, you might consider spreading the debt equally between the two cards through balance transfers.

4. Be careful about closing accounts. The old truism was: unwanted and unused accounts should be closed. But according to Craig Watts, a credit score executive, "closing accounts never help your score, and often it can hurt." because when you close an account, you lose the payment history. While FICO scores can be negatively affected by too many open accounts, some experts recommend lowering spending limits on little-used cards, while still keeping them active.

5. Avoid opening new accounts before applying for major loans. Department stores and specialty retailers often make special introductory offers to induce you to open an account. Resist the urge, especially when you may be contemplating a major loan, such as a mortgage or other large purchase. New accounts and credit score inquiries (which occur when you apply for a credit card), are 10% of your FICO score.

FINANCIAL LITERACY QUESTION

According to an April 28, 2008 report from the American Association of Retired Persons (AARP), what percentage of American investors do not read financial literature because they believe the content is "too hard to understand?"

a. 27 % b. 33% c. 47% d. 54%

Answer: d. Amazing, isn't it? By implication, this means that more than half of the people investing are financially illiterate – they don't understand what they're doing. Of course, if you've read this newsletter, you're not one of those people.

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