Life Insurance in a Nutshell

What you really need to know about life insurance

A special report prepared by

Howard Wight, CLU, ChFC

– October 2003 –

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Overview

The purpose of this special report is to enable you to make smart, informed decisions regarding your life insurance. I want to help you and your insurance advisor do the best possible job for you and your family.

Most people do piecemeal planning when it comes to insurance and financial planning. They are playing the game of life without a game plan. Life insurance should be the foundation of that game plan, and that is the focus of this report. Once you have the foundation, you have something to build on.

Every financial plan should be developed with the underlying assumption that you may die or become disabled tomorrow. No one has a lease on life. If you don't die before age 65, you will die after age 65. No one dies at the right time. There is always a need for cash when someone dies. With life insurance, the event that creates the problem, i.e. the need for cash, also becomes the event that creates the solution to the problem.

Most people are reconciled to the need to purchase insurance on their home, their car, their jewelry, and other valuable assets. Unless they have had the time to accumulate substantial wealth, it is highly probable that the most valuable asset they have is their ability to earn an income...their Potential Earning Power (PEP). Their income makes everything else possible. If it makes sense to insure the golden eggs, it certainly makes sense to insure the goose. If you could insure one, but not both, which would you insure...the goose or the golden eggs?

The First Law of Insurance states that you should insure first that which you can least afford to lose…your income, your health, and your life. Think about that for a minute. Insure your most valuable asset first.

What would happen if you had been killed or disabled in a car accident last night? If you had been killed, would your family be okay? What's okay? How much money is enough?

Most people do not like to think about life insurance. It means thinking about death. Death is a fact of life. If you don't deal with it now, who will? Buying life insurance requires planning and foresight. By the time you know that you need life insurance, it may be too late to get it.

Being told by your doctor that you have a heart problem or cancer is too late. Life insurance is like a parachute. You have to buy it before you need it.

You can buy real estate or stocks or bonds anytime. That is not the case with life insurance. You have to purchase it while you are in good health. Buy it now. There is no advantage to waiting.

This report is intended to help you answer the following questions:

- ❑ Why should you buy life insurance?
- ❑ How much life insurance should you buy?
- ❑ What type of life insurance should you buy?
- ❑ How much will it cost?
- ❑ From whom should you buy?
- ❑ When should you buy?

Having a cash cushion is just plain common sense. Life insurance is a common sense cash cushion. The problem with common sense is that it is uncommon. This report will help you understand life insurance better, and it will enable you to make smart, informed decisions more easily.

THE FIRST LAW OF INSURANCE

Insure First

That Which You Can Least Afford To Lose

- ❑ Your Income
- ❑ Your Health
- ❑ Your Life

The only real security is that which you create for yourself and your family.

Why Should You Buy Life Insurance?

Why should you buy life insurance? Most people buy life insurance because they care deeply about someone or something (for example, a favorite charity), or because they owe someone (for example, death taxes or a loan).

The purpose of life insurance is to provide cash for your family, your business, or yourself. It can help create wealth when you have not had time to do so, and it can help protect your estate from taxes when you have accumulated a lot of money.

When you die, there will be an emotional loss felt by those you leave behind, but beyond the emotional loss is the economic loss which will be suffered. If your death will create an economic loss for your family, your estate, your business, your community, your church or temple or mosque, your college, your school, or your favorite charity, you probably need some more life insurance.

During your lifetime, there will probably be times when you can use a cash cushion, and that's why many people buy cash value life insurance. Cash value puts the life into life insurance.

What is life insurance? Let's eliminate the mystery about life insurance right from the outset. Life insurance is money. It is cash. It is a way to create wealth for your family or your business. It is a way to accumulate cash for your own future.

Let's take an example of how life insurance works. If you are now age 35, you can purchase $1,000,000 of life insurance for $10,000 per year. In thirty years, at age 65, you will have paid $300,000. Based on current assumptions which are not guaranteed, the cash value would be about $900,000, and the death benefit would have grown from $1,000,000 to over $1,500,000.

If you had invested $10,000 per year for thirty years at 5% net-after-taxes, you would have $697,000, and you would have had no life insurance. Where can you predictably get 5% net-after-taxes over thirty years without taking substantial risk? Once people start to understand these numbers, life insurance starts to make a lot more sense. Term insurance, which is discussed in Chapter 4, costs a lot less, but you have to die to win. Cash value puts the life into life insurance.

Most people do not want to think about life insurance. They don't like to think about dying and death and wills and trusts and estate planning. Many people spend more time planning their annual vacation than they invest in planning their family's financial future. Successful people do not have time to become experts in life insurance. They are too busy staying on top in their own fields of expertise. That's why it is essential to select an advisor who has the knowledge, wisdom, and vision to help with life insurance planning. The single most important factor in any relationship is trust. Trust implies competence, which should not be taken for granted.

Asset allocation and diversification. Virtually everyone agrees that it makes sense to diversify. Don't put all your eggs in one basket. Life insurance should be part of the defensive portion of a diversified investment portfolio. If your overall investment portfolio consists of real estate, stocks, bonds, and cash, why not put 1% or 2% of your total portfolio into life insurance each year? If someone were to suggest to you that you move 1% or 2% per year to government, corporate, or municipal bonds, you would probably not hesitate because the number is so insignificant in terms of the big picture. Reallocating 1% or 2% of your total portfolio each year to life insurance will have a far more dramatic impact. Let's say you are worth $10,000,000. Moving 1% per year, $100,000, would enable you to create another potential asset of between $5,000,000 and $10,000,000 of additional wealth. By the way, I call this the 1% solution. We're using 1% of your estate each year to create substantial additional wealth in the future.

Let's put this in the context of estate taxes. As this is being written, we really don't have any idea whether the estate tax will ultimately be abolished or not. It's important to understand the role of life insurance. Life insurance creates additional wealth regardless of estate taxes.

If you are now worth $10,000,000, the estate taxes and related costs could be as much as $5,000,000…or zero if the estate tax is abolished. If you were to purchase $5,000,000 of life insurance, your children, grandchildren, or favorite charities will receive an additional $5,000,000 whether there is an estate tax or not. It is that simple. If anyone suggests to you that you not purchase life insurance, ask them if they are going to provide additional money for your children, your grandchildren, or favorite charities. Clearly they are not. Let's say the $5,000,000 costs $100,000 per year, which is 1% of your $10,000,000 net worth. Why not let 1% of your estate help protect the other 99%? We're back to the 1% solution.

Why not create a standby line of credit for your family or your business? When you die, your family and your business will probably need some money. Why not create a standby line of credit whereby they will receive $1,000,000 when you die? All you have to do is pay 1% interest ($10,000) in advance each year. In essence, this is an interest-only loan where the principal never has to be repaid. If you decide downstream that your family or business will not need the money when you die, you will get your money back plus interest.

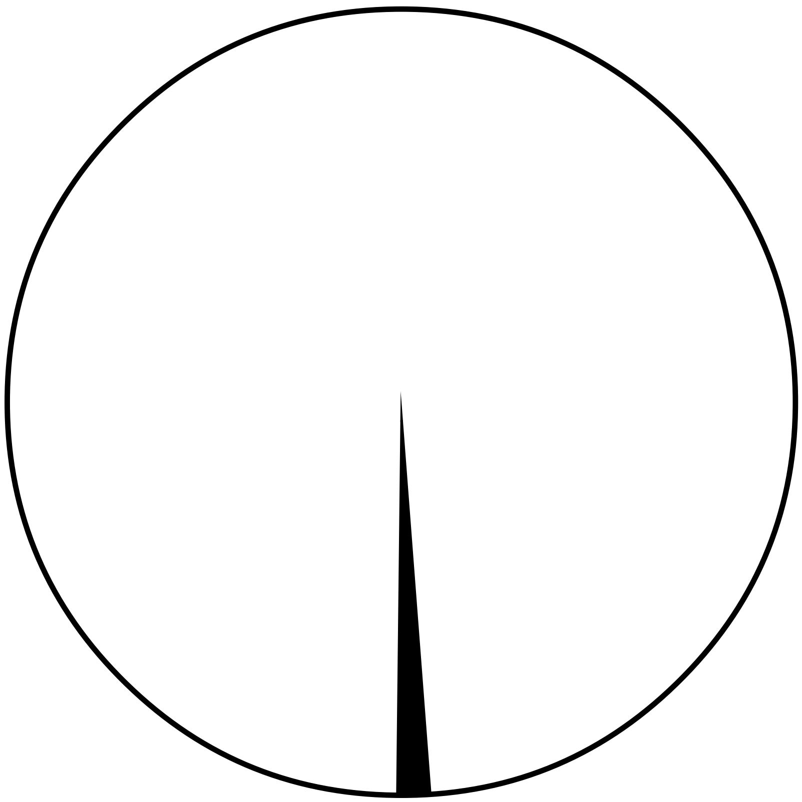
$1,000,000 will generate about $50,000 annually after taxes. How much money would you like your family to have? How much money would you like to have yourself? Cash value life insurance can provide money for your family when you die or it can be used to supplement your income when you retire. Without life insurance, how long would it take you to accumulate $1,000,000? Investing 1% per year, $10,000, it would take 30 years, if you were able to get 7% net-after-taxes. At 5%, it would take 36 years. At 0%, it would take 100 years. With life insurance, you can have the $1,000,000 of potential protection from day one, and accumulate the $1,000,000 during your lifetime too.

If people understood life insurance, they would be lining up to buy it. The fact of life is that most people do not understand it. This report is intended to help take the mystery out of life insurance. What do you know about life insurance? Most people think that the premium is an expense because the premium for other types of insurance is an expense. When you purchase cash value life insurance, you are creating an asset. The premium is not an expense. When you purchase term insurance, the premium probably is an expense because the likelihood is that the term insurance will not be in force when you die. This is covered in greater detail in Chapter 4.

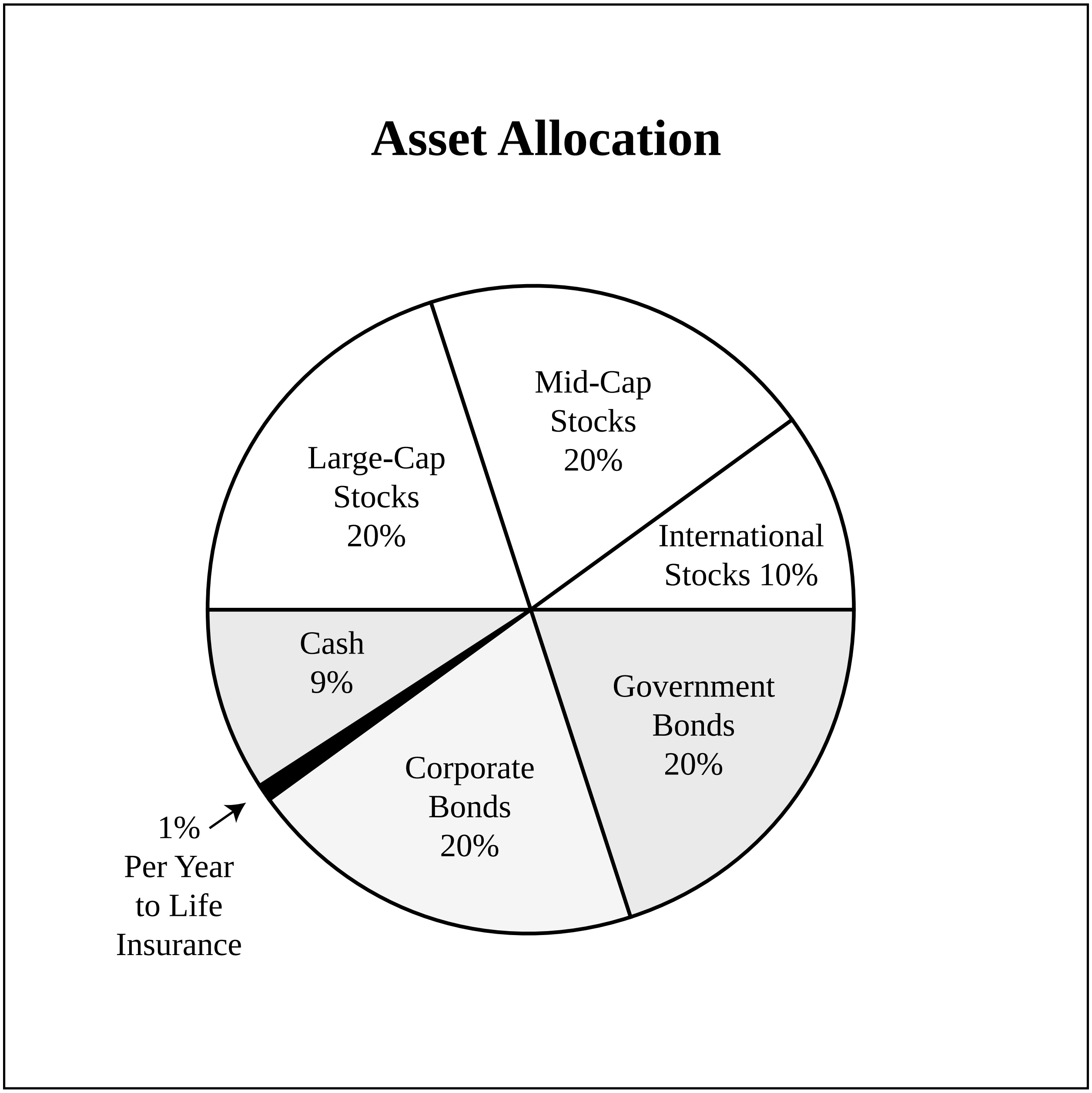
Summary. Life insurance is a proven way to accumulate money for your family, your business, and yourself. It works if you die. It works if you live. It even works if you are disabled. With the disability waiver of premium benefit, if you are disabled as defined in the policy, the insurance company will waive the premiums, and the cash value will continue to grow as if the premiums were being paid.

Once you accept the fact that you are going to die, and that it always makes sense to have a cash cushion whether you live or die, cash value life insurance starts to make sense. As I have said before, cash value puts the life into life insurance.

The 1% Solution



1% Per Year


Asset Allocation
Mid-Cap Stocks 20%
Large-Cap Stocks 20%
International Stocks 10%
Cash 9%
Government Bonds 20%
Corporate Bonds 20%
1% Per Year to Life Insurance

How Much Life Insurance Should You Buy?

How much life insurance should you buy? There are essentially two schools of thought on how to determine the amount of life insurance you should acquire:

- ❑ The buy all you can get approach.
- ❑ The needs-based approach. Buy what you need to solve specific problems.

Both approaches are valid. Let's examine them.

Why not buy all you can get? If life insurance were free, how much would you want? Stated another way, if cost were not a factor, how much life insurance would you buy? If you knew you were going to die tomorrow, how much life insurance would you buy today? The response to these questions from most people is that they would want as much life insurance as they could get. By the way, if you knew you were going to die tomorrow, it would be too late to buy life insurance. You would not be able to get it.

If you had been killed in a car accident last week, and someone else had been responsible for your death, how much would your family sue for? Wouldn't your family sue for as much as they could get? What if you had died last week as the result of cancer, wouldn't you want your family to get the same amount of money that they would have received if you had been killed in a car accident?

Should the way you die determine how much money you want your family to have?
Of course not.

How much are your tomorrows worth to your family? If you are now 35 years old and making $200,000 per year, over the next 30 years to age 65, you will earn $6,000,000. If your income increases at the rate of 6% per year, you will earn $15,800,000.

One major life insurance company's table that determines the maximum amount of insurance for which you would qualify without additional justification would be thirteen times income or $2,600,000. Forgetting about the cost of insurance for a minute, aren't you worth at least that much to your family?

According to the government table used to determine the amount to be paid to the families of victims of the World Trade Center tragedy on September 11, 2001, the family of an individual who was 35 years of age, earning $200,000 per year with a wife and two children, would receive approximately $3,500,000 from the government.

As you can see, there is quite a difference between the insurance company's maximum amount of $2,600,000 and the government's $3,500,000. If you were the widow, which check would you choose? Would you rather have more money or less money? The answer seems obvious.

Most people insure their homes and cars and other valuables for full value. Their most valuable asset is their Potential Earning Power (PEP), or what has been called their Human Life Value (HLV). Your income makes everything else possible. If it makes sense to insure the golden eggs for full value, it certainly makes sense to insure the goose for as much as possible. What do you think?

If you could insure one, but not both,
which would you insure…
the golden eggs or the goose?

The needs-based approach. Buy what you need to solve specific problems. A good rule of thumb for how much insurance to buy is ten times current income which would provide enough income to enable your family to remain in the world which you have created together. To this amount, you could then add other capital needs and then subtract the income-producing capital now available.

Based on your situation, you and your advisor should be able to identify the specific problems and fill in the numbers in the following section:

Personal Planning		**Business Planning**	
Problems	**Dollars Needed**	**Problems**	**Dollars Needed**
❑ Income Continuation	$_____________	❑ Buy & Sell Funding	$_____________
❑ Pay Off Liabilities	$_____________	❑ Key Management Loss	$_____________
❑ Education Fund	$_____________	❑ Pay Off Loans	$_____________
❑ Emergency Cash Cushion	$_____________	❑ Salary Continuation	$_____________
❑ Special Bequests	$_____________	❑ Selective Compensation Plans	$_____________
❑ Charitable Bequests	$_____________	**Total Business Needs**	$_____________
❑ Estate Tax Funding	$_____________		
Total Personal Needs	$_____________	**Total Personal & Business Needs**	$_____________

How much money do you want your family to have? Let's say that you are now making $200,000 and that you want your family to have at least $100,000 per year. At 5% net-after taxes, it will take $2,000,000 of capital to generate $100,000 annually. Let's add another $500,000 for an education fund and for an emergency cash cushion for your family to fall back on. That would mean the total amount of capital needed would be $2,500,000. In the typical needs-based approach, you would then subtract any life insurance that you might already have and you would subtract any other income-producing assets.

What's wrong with the needs-based approach to determining how much life insurance you need? Your life is a movie. The needs-based approach is essentially a photo or snapshot of one point in time. Your income and standard of living will be increasing as time goes by. The needs-based approach is based on today. It does not take into account your future potential. It also does not take into account the possibility that you might lose some of your other income-producing assets. What if you worked for Enron and lost your job and the income-producing assets used in your calculations were primarily Enron stock and money in your 401(k) account? This money disappeared in a very short period of time once the accounting scandals were uncovered.

In my opinion, using the needs-based approach to determining how much life insurance you should purchase will often result in your family having less money than you would like them to have.

Foresight. My experience has been that successful people keep buying more and more life insurance as their income, net worth, and standard of living increase. Understanding this at the outset would seem to dictate in favor of buying more life insurance sooner, because you never know when your health might change.

It takes foresight to buy insurance in the first place, because you are buying something which hopefully will not be needed for years. It takes even greater foresight and insight to understand that the best time to buy is now, and that you should buy as much as you possibly can.

Buying as much life insurance as you possibly can means that you have an understanding of the power of life insurance as being a tremendous asset to own. Life insurance can help you create a fortune for your family if you have not had time. It can help you accumulate cash for retirement to supplement your other investments, and it can potentially help you save your fortune from the devastation of death taxes and related costs. Life insurance is the cornerstone for building a firm foundation for your family's financial future.

What do I recommend? I recommend that you purchase as much insurance as you can get. We will explore the cost factor in the next chapter.

How Much Life Insurance Can You Buy?

These figures represent how much life insurance one major company will issue without further substantiation. For example, if you are now 35 and are earning $100,000 annually, $1,300,000 would be the maximum insurance protection available (including insurance in force) for your family. If you were killed in a car accident, and someone else were responsible for your death, an attorney representing your family would undoubtedly sue the responsible party for a lot more than that. In that context, it makes sense to insure your life for as much as possible, wouldn't you agree? Why not get all the insurance you can get?

AGE	**INCOME MULTIPLIER**
20	16
25	15
30	14
35	13
40	12
45	11
50	9
55	8
60	6
65	4

Age Now	______________
Annual Income	$ ______________
Income Multiplier	______________
Maximum Insurance Protection	$ ______________
Minus Insurance You Now Have	– ______________
Additional Insurance	$ ______________

Client

Advisor

Life Insurance Planning

Personal Planning

- ❑ Family Income
- ❑ Paying Off Liabilities
- ❑ Education Fund
- ❑ Emergency Cash Cushion
- ❑ Transition Fund
- ❑ Retirement Income
- ❑ Estate Tax Funding
- ❑ Estate Equalization
- ❑ Special Bequests
- ❑ Charitable Bequests

Business Planning

- ❑ Business Continuation
- ❑ Buy & Sell Funding
- ❑ Key Management Loss
- ❑ Working Capital
- ❑ Paying Off Loans
- ❑ Maintaining Credit Lines
- ❑ Salary Continuation
- ❑ Selective Compensation Planning
- ❑ Advisors Fund

Insurance Options

- ❑ Do Nothing
- ❑ Term Insurance
- ❑ Cash Value Insurance
- ❑ Combination

How Much
Are Your Tomorrows Worth?

- ❑ If you knew you were going to die tomorrow, how much insurance would you buy today? $ ______________
- ❑ If insurance were free, how much would you want? $ ______________
- ❑ If you had been killed in a car accident last week, and someone else had been responsible for your death, how much money would your family sue the responsible party for? $ ______________
- ❑ What is your Potential Earning Power (PEP)? (Average annual income $______ x ______ years to retirement) $ ______________
- ❑ How much insurance is there on your life? $ ______________

How Much Money Will Your Family Need When You Die?		
	EXAMPLE	**YOUR FAMILY**
Current Income	$200,000	
Family Income Goal	100,000	
Capital Required @ 5%	2,000,000	
Other Capital Needs *	500,000	
Total Capital Needed	2,500,000	
Income-Producing Capital Available	500,000	
Additional Capital Needed	2,000,000	

* *Education fund, mortgage payoff, transition fund, emergency cash cushion, key management loss, final expenses, death taxes and related costs, etc.*

How Do You Value A Human Life?

How much are your tomorrows worth? These figures are excerpted from a matrix developed by the government in connection with the September 11th Victim Compensation Fund. The entire matrix and the explanation of how the numbers were derived can be viewed by going to www.usdoj.gov/victimcompensation. The numbers are reduced by personal life insurance, pension, and 401(k) funds. This is creating quite a negative reaction because those who did provide for their families are, in essence, being penalized for planning. In any event, one should not count on the government for assistance. The only real security is that which you create for yourself and your family.

Presumed Economic and Non-Economic Loss						
	Married Two Children		Married No Children		Single	
	Annual Income		Annual Income		Annual Income	
Age	**$100,000**	**$200,000**	**$100,000**	**$200,000**	**$100,000**	**$200,000**
35	$2,095,456	$3,500,964	$1,926,323	$3,274,521	$1,215,619	$2,016,103
40	1,817,436	2,992,470	1,648,303	2,766,027	1,050,547	1,714,188
45	1,536,662	2,478,938	1,375,570	2,267,202	888,613	1,418,014
50	1,263,500	1,979,328	1,113,729	1,788,299	733,147	1,133,668
55	992,284	1,483,279	855,424	1,315,863	579,780	853,162
60	801,543	1,134,416	676,554	988,711	473,576	658,918
65	685,585	922,330	567,812	789,824	409,012	540,830

How Long Will $1,000,000 Last?				
Year	**Starting Capital**	**$100,000 After-Tax Income Adjusted for 3% Inflation**	**Remaining Capital**	**Remaining Capital Invested @ 8% After Taxes**
1	$1,000,000	$100,000	$900,000	$972,000
2	972,000	103,000	869,000	938,520
3	938,520	106,090	832,430	899,024
4	899,024	109,273	789,751	852,931
5	852,931	112,551	740,380	799,610
6	799,610	115,927	683,683	738,378
7	738,378	119,405	618,973	668,491
8	668,491	122,987	545,504	589,144
9	589,144	126,677	462,467	499,464
10	499,464	130,477	368,987	398,506
11	398,506	134,392	264,114	285,243
12	285,243	138,423	146,820	158,566
13	158,566	142,576	15,990	17,269
14	17,269	146,853	BROKE!	BROKE!

These figures are purely hypothetical and are used to illustrate a concept.
They are not intended to imply that any specific investment will perform in this manner.

How Long Will $1,000,000 Last?

Year	Starting Capital	$50,000 After-Tax Income Adjusted for 3% Inflation	Remaining Capital	Remaining Capital Invested @ 6% After Taxes
1	$1,000,000	$50,000	$950,000	$1,007,000
2	1,007,000	51,500	955,500	1,012,830
3	1,012,830	53,045	959,785	1,017,372
4	1,017,372	54,636	962,736	1,020,500
5	1,020,500	56,275	964,224	1,022,078
6	1,022,078	57,964	964,114	1,021,961
7	1,021,961	59,703	962,258	1,019,994
8	1,019,994	61,494	958,500	1,016,010
9	1,016,010	63,339	952,672	1,009,832
10	1,009,832	65,239	944,593	1,001,269
11	1,001,269	67,196	934,073	990,118
12	990,118	69,212	920,906	976,160
13	976,160	71,288	904,872	959,165
14	959,165	73,427	885,738	938,882
15	938,882	75,629	863,253	915,048
16	915,048	77,898	837,149	887,378
17	887,378	80,235	807,143	855,572
18	855,572	82,642	772,929	819,305
19	819,305	85,122	734,183	778,234
20	778,234	87,675	690,559	731,993
21	731,993	90,306	641,687	680,188
22	680,188	93,015	587,174	622,404
23	622,404	95,805	526,599	558,195
24	558,195	98,679	459,515	487,086
25	487,086	101,640	385,447	408,573
26	408,573	104,689	303,885	322,118
27	322,118	107,830	214,288	227,145
28	227,145	111,064	116,081	123,046
29	123,046	114,396	8,649	9,168
30	9,168	117,828	BROKE!	BROKE!

These figures are purely hypothetical and are used to illustrate a concept.
They are not intended to imply that any specific investment will perform in this manner.

Should You Insure the Need or the Potential Economic Loss?

Let's take a situation where we have a surgeon who is 35 years old. He is married and has two young children. He is making $1,000,000 per year, and the likelihood is that his income will continue to increase substantially over time.

He and his family are very frugal. They do not live high on the hog. Their basic living expenses are about $200,000.

Let's keep it simple. At 5% net-after-taxes, it would take $4,000,000 of capital to generate $200,000 per year. On top of that, it would make sense to have additional capital for education funds and for an emergency cash cushion. All told, one could make a good case for the surgeon to purchase $5,000,000 of insurance without getting mired down in the details.

Let's approach it from another standpoint. If his income never increases, over the next ten years, he will generate $10,000,000 of income. Over the next twenty years, he will generate $20,000,000. Over the next thirty years, he will generate $30,000,000.

One major insurance company's chart which establishes the maximum amount of insurance which one can purchase without further justification indicates that this individual would qualify for an amount equal to thirteen (13) times income, or in this case, $13,000,000.

Which makes more sense…$5,000,000 or $13,000,000? How much is enough? Is cost a consideration?

The purpose of this article is to get you thinking about this. What is your philosophy regarding life insurance? What are your feelings about life insurance? Should you purchase as little as possible or as much as possible? Should you purchase term insurance or cash value insurance? How much is enough?

If the surgeon had died two weeks ago, and you were his widow, and you had a choice between accepting a check for $5,000,000…or $13,000,000, which check would you choose?

Clearly, this individual's most valuable asset is his potential earning power. We have a tendency in our society to insure the golden eggs and to forget about the goose that makes the golden eggs possible. Wouldn't it make sense to insure the goose for as much as possible?

Wouldn't it also make sense to have as much disability income insurance as possible on the surgeon?

What Type of Life Insurance Should You Buy And How Much Will It Cost?

What type of life insurance should you buy and how much will it cost? There are basically two types of insurance for our purposes:

- ❑ Term Insurance
- ❑ Cash Value Insurance

Term insurance builds no equity or cash value. All you get is the insurance protection. When you stop paying, term insurance terminates and you will have paid a lot for nothing. Most people do not die before age 65. In round numbers, about 20% of people die before age 65, which means about 80% die after age 65. The percentages will vary depending upon whose numbers you are looking at. At age 65, as we will show in the comparisons in this chapter, the cost of term insurance starts to become prohibitive. It is good to know this fact at the outset.

As an important aside, it should be noted that accidental death insurance and flight insurance are variations of term insurance. They are also serious indications that your overall insurance program is inadequate. Under no circumstances should you buy either. Your family needs adequate protection regardless of how you die.

Cash value insurance includes whole life, universal life, variable life, and the many combinations and blends thereof. Cash value puts the life into life insurance. This will become apparent in the comparisons shown in the rest of this chapter.

Understanding life insurance and the ABC comparison. The best way to understand the difference between term insurance and cash value insurance is to take a look at some numbers. Otherwise you are trying to make a decision in a vacuum without options to compare. When you compare different types of life insurance, you can at the same time compare the costs.

Let's look at the numbers on the summary comparison on page 25. This page summarizes about thirty pages of computer printouts. It compares options for $1,000,000 of insurance starting at age 35. Option A is term insurance. Actually it is two term policies. The first term policy has an annual premium of $1,000 per year for thirty years until age 65. Then you would have to medically qualify for another policy which has an annual premium of $10,000 per year for the next twenty years until age 85 at which time the policy terminates. Of course, any change in health prior to age 65 might make it difficult or impossible to qualify for the new policy at age 65.

Option B is a combination of cash value and term insurance. The annual premium is $5,000 per year. Option C is a cash value policy which is called whole life. The annual premium starts at $13,600 but gradually decreases because of dividends.

Let's take a look at age 66. With Option A, your premium is now $10,000 per year. With Option B, your premium is still $5,000 per year. With Option C, your premium is $16,350 CR. CR stands for credit. It also means "cash received" or "check received." In other words, the insurance company is writing you a check for more than $16,000 that year. Let's compare that to Option A. Would you rather write a check for $10,000 or receive a check for $16,000? Let's say that the assumptions for Option C have been too optimistic and that you only get a check for $10,000 rather than $16,000. Would you rather write a check for $10,000 (Option A) or receive a check for $10,000 (Option C)? Which option do you prefer?

Let's take a look at age 85. With Option A, you will have paid $230,000 for nothing. With Option B, you will have paid $250,000, but you will have about $1,600,000 in cash value or your family will have about $1,900,000 when you die. With Option C, you will have received checks for about $455,000 more than you paid and you would have cash value of about $800,000 or death benefit of $1,000,000. Which option do you prefer? Looking back, which option would you prefer to have chosen at age 35?

Profound paradigm shifts. A paradigm is how you think something is. It is your point of view or your perspective on how something should be. Most people have read or heard that life insurance is a poor investment and as a result, they often think life insurance is a poor investment. The financial press for the most part says that you should buy term insurance and invest the difference. I am asking you to take a look at the numbers. Is life insurance an investment? You be the judge. Take a look at the numbers on page 26. Should you buy term insurance and invest the difference? Take a look at the numbers on page 27. Again, you be the judge. Most insurance premiums (home, car, etc.) are an expense. As a result, it is only natural to think that all insurance premiums are an expense. It is key to understand that the premium for term insurance is an expense unless you die before the term policy terminates. With cash value insurance, by paying the premium you are saving or accumulating money. You are creating an asset. The premium for cash value life insurance is not an expense.

Simply stated again, with term insurance, you are spending money. With cash value insurance, you are saving money. Most people would rather own than rent. You are renting term insurance. You own cash value insurance. It builds equity in the form of cash value.

What are the tax aspects of life insurance? Let's take a quick look at the tax aspects of life insurance. When you are purchasing life insurance personally or through a business, the premium is not deductible. With cash value insurance, the premium is actually creating an asset which appears on your personal or business balance sheet. The cash value accumulates on a tax-deferred basis and you can borrow the cash value out of the policy without paying taxes. In fact, the cash value accumulates tax-free unless you terminate the policy. The death benefit will, in almost all situations, be income-tax free.

The ability to accumulate cash on a tax-free or tax-deferred basis is a major advantage of cash value life insurance.

If a corporation pays the premium for an owner or key executive using what is called an executive bonus plan, the premium is deductible by the corporation but is taxable income to the individual. Would you rather pay the premium…or the tax on the premium? The answer would seem to be apparent.

What do I recommend? First I recommend that you ask your insurance advisor to provide you with a comparison of various term and cash value policies so that you can make smart, informed decisions. Then I recommend that you buy as much life insurance as you can get.
I further recommend that you purchase as much cash value insurance as you can afford and supplement that amount as necessary with term insurance. In other words, you might want to have $2,000,000 of life insurance but do not feel you can afford to purchase all cash value insurance. You might buy $1,000,000 of cash value insurance and $1,000,000 of term. Then you could convert the term as you feel you could afford it. If most people understood the cost of term insurance over the long haul, I am convinced that they would buy as much cash value insurance as they could get as soon as possible.

Which plan do you prefer? The ABC comparison approach makes it easy to see what your options are. You can basically tailor the options to match your goals and budget. As you can see from the chart, term insurance is incredibly cheap. You can easily afford adequate insurance to protect your family and your business…but over the long haul, cash value life insurance will probably be your best bet.

Cash value life insurance is the ultimate long-term, low-risk investment alternative. Over the long haul, a portfolio-based cash value life insurance policy will probably outperform both the bank and bonds on an after-tax basis. That's not a guarantee, but it is based on my experience of over thirty years in the financial services industry. Take a look at the numbers. You be the judge.

Life is a marathon…not a sprint.
Term insurance is built for the sprint.
Cash value insurance is built for the marathon.

Is Life Insurance a Good Investment?
The best investment is the one that provides you and your family
with the most money when you need it the most.
Using that common-sense criterion, life insurance is a pretty good investment,
wouldn't you agree?

Summary Comparison of Options for Robert Sample

$1,000,000 Male, Age 35	OPTION A Term Insurance	OPTION B Term & Whole Life	OPTION C Whole Life
ANNUAL PREMIUM **Year — Age**			
1 — 35	$1,000	$5,000	$13,600
10 — 45	1,000	5,000	9,170
20 — 55	1,000	5,000	788 CR
30 — 65	1,000	5,000	14,920 CR
31 — 66	10,000	5,000	16,350 CR
40 — 75	10,000	5,000	25,800 CR
50 — 85	10,000	5,000	33,050 CR
YEAR 20 SUMMARY			
Total Premiums	$20,000	$100,000	$159,890
Total Cash Value	0	162,411	307,360
Total Insurance	1,000,000	1,000,000	1,000,000
AGE 65 SUMMARY			
Total Premiums	$30,000	$150,000	$60,975
Total Cash Value	0	380,266	484,070
Total Insurance	1,000,000	1,000,000	1,000,000
AGE 75 SUMMARY			
Total Premiums	$130,000	$200,000	$148,215 CR
Total Cash Value	0	802,421	659,860
Total Insurance	1,000,000	1,000,000	1,000,000
AGE 85 SUMMARY			
Total Premiums	$230,000	$250,000	$455,425 CR
Total Cash Value	0	1,610,573	800,710
Total Insurance	0	1,902,339	1,000,000

Option A is actually two term policies. The first has a level annual premium of $1,000 for thirty years. The insured must then be medically examined for the second policy which has a level annual premium of $10,000 for twenty years, at which time the policy terminates. The premiums increase dramatically if the insured cannot qualify for the second policy.

These figures are based on current assumptions and are not guaranteed.

Which Option Do You Prefer?

Is Life Insurance an Investment? You Be the Judge.					
$10,000 Per Year					
	Rate of Return			Life Insurance (Age 35)	
Year	**0%**	**3%**	**5%**	**Alive**	**Dead**
1	$10,000	$10,300	$10,500	$4,037	$1,010,877
10	100,000	118,078	132,068	112,331	1,094,317
20	200,000	276,765	347,193	371,855	1,163,372
30	300,000	490,027	697,608	917,651	1,567,714
40	400,000	776,633	1,268,398	1,994,732	2,726,042
50	500,000	1,161,808	2,198,154	3,958,498	4,605,370

These figures are purely hypothetical and are used to illustrate a concept.
They are not intended to imply that any specific investment will perform in this manner.
The insurance numbers are based on current assumptions and are not guaranteed.

Is Life Insurance an Investment? What Do You Think?

Should You Buy Term Insurance and Invest the Difference?

In this comparison, we have assumed annual funding of $10,000. Plan A, buying term and investing the difference, assumes investing $9,000 per year at 5% net-after-taxes for 30 years and $1,000 is used to purchase term insurance. At age 65, the term insurance terminates, and the entire $10,000 is invested at 5% net-after-taxes. Plan B assumes the entire $10,000 each year is used to purchase a portfolio-based cash value life insurance policy. Compare the results in the 31st year and beyond when there is no term insurance.

PLAN A		**$1,000,000**		**PLAN B**	
Buying Term and Investing the Difference		**$10,000 Per Year Age 35**		**Buying Cash Value Life Insurance**	
Alive	**Dead**	**Year**	**Age**	**Alive**	**Dead**
$9,450	$1,009,450	1	35	$4,037	$1,010,877
118,861	1,118,861	10	45	112,331	1,094,317
312,473	1,312,473	20	55	371,855	1,163,372
627,847	1,627,847	30	65	917,651	1,567,714
697,739	697,739	31	66	996,563	1,658,747
1,154,765	1,154,765	40	75	1,994,732	2,726,042
2,013,053	2,013,053	50	85	3,958,498	4,605,370

These figures are based on current assumptions and are not guaranteed.

Which Plan Do You Prefer?

Term vs. Cash Value Insurance Summary Comparison

Year	Age	Annual Premium PLAN A	Annual Premium PLAN B
1	35	$325	$5,000
2	36	325	5,000
3	37	325	5,000
4	38	325	5,000
5	39	325	5,000
6	40	325	5,000
7	41	325	5,000
8	42	325	5,000
9	43	325	5,000
10	44	325	5,000
		3,250	50,000
11	45	6,295	5,000
12	46	6,795	5,000
13	47	7,335	5,000
14	48	7,935	5,000
15	49	8,585	5,000
16	50	9,315	5,000
17	51	10,165	5,000
18	52	11,135	5,000
19	53	12,255	5,000
20	54	13,495	5,000
		96,560	100,000
21	55	14,885	5,000
22	56	16,395	5,000
23	57	17,995	5,000
24	58	19,775	5,000
25	59	21,775	5,000
26	60	24,005	5,000
27	61	26,495	5,000
28	62	29,355	5,000
29	63	32,595	5,000
30	64	36,195	5,000
		336,030	150,000

$1,000,000 (Age 35)

Summary at Age 65	PLAN A	PLAN B
Total Premiums	$336,030	$150,000
Cash Value	0	380,266
Death Benefit	0*	1,000,000

These numbers are based on current assumptions and are not guaranteed.

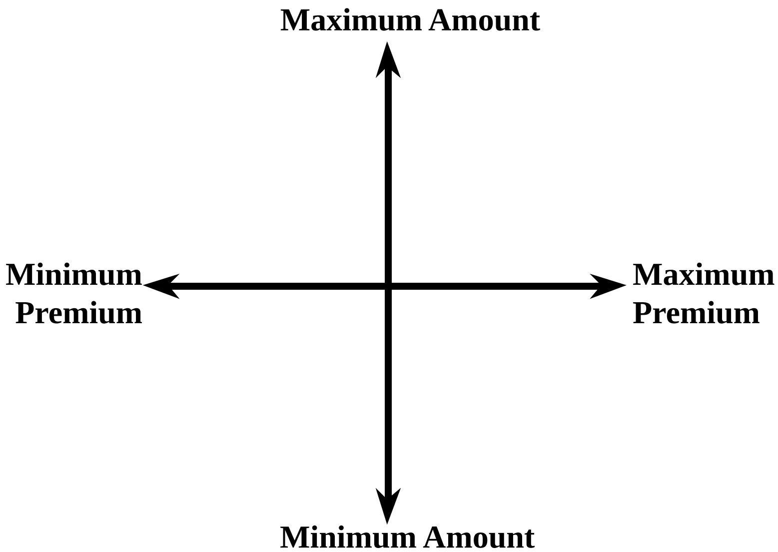
* The term policy terminates when you stop paying premiums.

Most people never see these types of numbers. They never look past the initial guarantee period on term policies. In this case, the premium is guaranteed to be $325 annually for the first ten years. Based on the scheduled premium, the cost escalates dramatically in the eleventh year. As you can see, the total premiums on the term policy almost equal those paid for the cash value policy by the twentieth year.

The summary at age 65 helps put things in perspective looking at the long-term results. Why would you want to have $1,000,000 of insurance one day and nothing the next? Term insurance makes it highly probable that you will not have insurance when you die. It is designed to terminate before you do.

Which Plan Do You Prefer?

What Is Your Philosophy Regarding Life Insurance?



For our purposes, your beliefs about a specific subject are your philosophy. Your philosophy regarding life insurance will ultimately guide your actions in terms of how much and what type of life insurance you purchase.

- ❑ What are your beliefs regarding life insurance?
- ❑ What do you know about life insurance?
- ❑ What do you know about how life insurance works?
- ❑ What are your thoughts regarding how much life insurance you should have?
- ❑ What formula did you use to determine how much life insurance you have?
- ❑ Why did you purchase life insurance in the past?
- ❑ How did you select the advisor and the company?
- ❑ Should you buy life insurance purely for the protection or should you purchase it as a way to accumulate wealth on a tax-favored basis?
- ❑ Do you see life insurance as being an expense or an investment?
- ❑ What do you like most about life insurance?
- ❑ What do you like least about life insurance?
- ❑ Do you think you should buy term insurance or cash value insurance?
- ❑ What are your thoughts about buying term insurance and investing the difference?
- ❑ How do you feel about having life insurance on your spouse?
- ❑ How do you feel about having life insurance on your children?
- ❑ If you knew with virtual certainty that you were going to die within the next six months, how much life insurance would you buy today?
- ❑ If life insurance were free, how much would you want?
- ❑ If you had been killed in a car accident, and someone else were responsible for your death, how much would your family sue the responsible party for?
- ❑ How much are your tomorrows worth? What is your potential earning power?
- ❑ How much life insurance do you now have on your life? On your spouse? On your children?

From Whom Should You Buy Life Insurance?

How do you select an insurance advisor? If an advisor has been referred to you by a friend or business associate, you should ask them how long they have been working with the advisor and how pleased they are with the work the advisor has done for them. If you are actively seeking an advisor on your own, I recommend that you check with your friends and find someone who is extremely happy with the job done by their advisor. Then contact that advisor. If an advisor contacts you directly without a referral, you may want to get the names of some of his or her clients and check with them.

One of the most important factors to take into consideration is your gut reaction to someone. If you sense that you don't like them or that you can't trust them, don't work with them.

I call these the TLC factors. Trust. Likeability. Competence. Ultimately you will need to decide the following:

- ❑ Do you trust the advisor?
- ❑ Do you like him or her?
- ❑ Do you think he or she knows what they are talking about? In other words, are they competent?

In terms of credentials, you can look for an advisor who is a Chartered Life Underwriter (CLU) or a Chartered Financial Consultant (ChFC), and a member of the Million Dollar Round Table (MDRT). There are many top advisors who march to the tune of a different drummer, so the fact that an advisor is none of these should not be a deterrent to working with them if you feel comfortable.

If an advisor is new in the business, this should not stop you from working with them if your gut reaction is that the advisor is trustworthy and knowledgeable. Looking back to 1969, my first year in the insurance business, I would hate to think that people would not have worked with me just because I was new both to the business and to the San Francisco Bay Area. Once I had my first client, I had someone that other people could check with to determine the quality of my work. Plus, I had exceptionally good training.

Again, in selecting an advisor with whom to work, I cannot overemphasize the importance of trusting your gut reaction. The relationship that you will have with your insurance advisor hopefully will be a lifelong relationship. It should be with someone with whom you feel comfortable and it should ultimately be a relationship where you view this person as a trusted advisor…not just as a salesperson.

The wimp factor. You do not want a wimp for a life insurance advisor! Your family cannot afford for you to have a wimp for an insurance advisor. You deserve an advisor who will tell you what you need to hear…not just what you would like to hear. Your advisor is your financial conscience.

Who should be involved in your meetings? The decision makers should be present. Both the husband and the wife should be involved in the meetings with the advisor. In some homes, one spouse may be primarily responsible for making the financial decisions. Even if that is the case, both spouses should take part in the planning process, because the entire family is going to be impacted by what the planning accomplishes.

When and where should you meet with your insurance advisor? When do you meet with your doctor, your dentist, your attorney, or your accountant? You probably make appointments during the day to see these people. Next to your physical health, I cannot imagine anything more important than your family's financial health. I suggest you meet with your insurance advisor at his or her office during normal business hours if at all possible. This will allow you to focus your entire attention on your financial situation rather than on whatever might be going on in your home with your children and interruptions.

What should you expect from your advisor? In your relationship with your advisor, what are the factors that constitute value from your perspective?

- ❑ Rapport
- ❑ Price
- ❑ Cost
- ❑ Benefits
- ❑ Ideas
- ❑ Solutions
- ❑ Quality
- ❑ Integrity
- ❑ Follow-through
- ❑ Performance
- ❑ Communication
- ❑ Service
- ❑ Trust
- ❑ Peace of Mind
- ❑ The Relationship

Those factors that are important to you will differ from those that are important to others.

How do you select a company? There are almost 2,000 life insurance companies doing business in the United States. How do you choose one? If you have been contacted by an advisor, he or she undoubtedly does most of his or her business with a relatively limited number of companies.

There are several organizations which rate insurance companies with regard to their financial strength and claims-paying ability. The chart entitled “Alphabet Soup” on page 33 shows the ratings used by these organizations. In selecting an insurance company, I suggest that you stick to companies with ratings in the shaded outlined area on the chart. This is a rather arbitrary determination, but there are plenty of companies that will qualify. For your own peace of mind, you may only want to do business with companies falling within the top two ranking levels. On the other hand, an advisor may be able to make an extremely strong case as to why you should do business with a company falling outside of these guidelines.

Where do you get the ratings information? You can ask your insurance advisor to provide you with ratings information. You should also be able to get the information in your local library or on the Web if you are willing to do some research on your own.

What do I recommend? I recommend that you select an insurance advisor whom you feel you like and can trust and who has clients who will vouch for his or her integrity and competence. If for any reason, you don’t feel comfortable with an advisor, don’t work with that individual. But make sure you work with someone. The advisor should be able to do business with a number of companies, and he should be able to show you that they have good financial ratings. If you have not heard of the insurance company, that may be a good indication that you might want to avoid the company.

Alphabet Soup

When is an A+ not an A+? Possibly when it comes to rating the financial condition of an insurance company. To most of us, A+ sounds like a pretty good grade, but when it comes to rating insurance companies, it depends upon who is doing the rating. This chart makes it possible to determine how one rating compares with another from the standpoint of the level of the rating. For example, A+ is a second level rating from A.M. Best, but it is the top level rating from Weiss Research. Because ratings are on the same level does not make them equivalent, as the definitions vary considerably among the rating services. In other words, there is no way to directly compare ratings. Is it any wonder that people are confused? We recommend that you review the ratings from A.M. Best Company and two other rating services. You may want to stick to companies who have ratings in the shaded area.

	RATINGS				
RATING LEVEL	A.M. BEST COMPANY	STANDARD & POOR'S	MOODY'S	FITCH	WEISS
1	A++	AAA	Aaa	AAA	A+
2	A+	AA+	Aa1	AA+	A
3	A	AA	Aa2	AA	A-
4	A-	AA-	Aa3	AA-	B+
5	B++	A+	A1	A+	B
6	B+	A	A2	A	B-
7	B	A-	A3	A-	C+
8	B-	BBB+	Baa1	BBB+	C
9	C++	BBB	Baa2	BBB	C-
10	C+	BBB-	Baa3	BBB-	D+
11	C	BB+	Ba1	BB+	D
12	C-	BB	Ba2	BB	D-
13	D	BB-	Ba3	BB-	E+
14	E	B+	B1	B+	E
15	F	B	B2	B	F
16		B-	B3	B-	
17		CCC	Caa	CCC+	
18		R	Ca	CCC	
19			C	CCC-	

When Should You Buy Life Insurance?

When should you buy life insurance? NOW! It's that simple. The best time to buy is now…before it's too late. If you wait, your health might change. You might have the ultimate health change. You might die. Waiting means your age will increase which means the cost will increase, and the benefits will decrease. There is no advantage to be gained by waiting.

Life insurance is like a parachute. You have to have it before you need it. When you know you need it, it's probably too late. Don't wait for a wake-up call from your doctor telling you that you have a heart problem or cancer.

You can buy real estate or stocks or bonds whenever you want to. Your health will not preclude your purchasing those investments at any time. With life insurance, health is a major factor.

What should you do if you have not decided whether you want term insurance or cash value insurance? Apply now for the term insurance, and then convert it later to cash value insurance. Get the insurance in force.

The good news is that there is a built-in "thinking it over" period in the process. Generally speaking, it will take four to eight weeks or more to determine if you qualify for the insurance. From the time you actually receive the policy from your advisor, you have another ten days during which you can still get your money back.

Most people have a natural desire to want to think things over. Procrastination is one of the biggest challenges most of us face on an ongoing basis in our lives. Why should it be any different when it comes to making decisions regarding life insurance? It's only normal not to want to think about dying.

It is important that you realize your advisor is acting in your best interest by getting you to take action as soon as possible. Companies have different rules regarding taking a check and giving you a conditional receipt when you apply for insurance. Most companies' conditional receipts state that you will be covered as of the time the advisor has a check and you have completed the required medical examination and tests, assuming you are insurable at standard rates. Some companies will insure you even though it may not be at the standard rate.

If the company's rules permit the advisor's giving you a conditional receipt for the amount of insurance for which you are applying, I heartily recommend that you give your advisor a check (made payable to the insurance company) and transfer the risk from yourself and your family to the insurance company.

Your doctor and your health. You should be aware that your own doctor may view your health from a totally different perspective from how an insurance company views it. Your doctor is viewing it in terms of the present and a few years into the future. An insurance company is viewing it in terms of your life expectancy. From an insurance company's viewpoint, your dying in ten years rather than thirty or forty can make a big difference in its results.

If you are in something less than perfect health, the insurance company may charge you an additional premium, which is the standard premium for someone with your health condition. I had to pay an extra premium starting almost thirty years ago because I had asthma. I did not consider that unreasonable. It always amazes me when people apply for insurance thinking they are in good health, and then balk at purchasing the insurance when the insurance company determines that they are not in good health. If insurance makes good sense when you think you are in perfect health, it certainly makes even more sense when it turns out you're not.

What about insurance on your children? After you have purchased adequate insurance on yourself and your spouse, it makes sense to give your children a head start. They will probably never be in better health than they are now. They probably aren't yet involved in any life threatening activities. And by starting their insurance programs now, you will be putting the power of compound interest to work sooner.

What do I recommend? I recommend that you acquire as much insurance as possible as soon as possible. There is no advantage to waiting. The best time to buy is now. Why wait?

Appendix

Money Management Maxims

❑ **Plan**. The only real security is that which you create for yourself and your family. Don't count on your company to provide you with financial security. The Enron disaster is a good example of what can happen when people count on their company. Look at the big picture from a multi-generational standpoint. The planning you do now will have an impact on your children and your grandchildren. Establish goals and deadlines. A goal without a deadline is a wish…not a commitment. What are your priorities? Have you covered all the bases? My experience is that no one has ever covered all the bases.

❑ **Advisors**. Don't try to do the planning all by yourself. The attorney who advises himself has a fool for a client. Select a dream team to help you achieve your dreams. Avoid piecemeal planning, which means getting different advice from different people at different times. The typical result of piecemeal planning is that hundreds of thousands of dollars, and in some cases millions of dollars, will fall through the cracks unnecessarily. When was the last time you met with all of your advisors at the same time? Why? From time to time, it makes sense to get a second opinion. Your primary loyalty should be to yourself and your family, not to your advisors. Remember, it's your money.

❑ **Pay yourself first**. Invest as much as you can… as often as you can…starting as soon as you can. Try to invest 10% to 20% of your gross income systematically each month. You cannot control the investment results. You can however control how much and how often you invest.

❑ **Diversify**. Don't put all of your eggs in one basket. As has been proven over the past few years, the stock market does not always increase in value. Again, Enron is a good example of what can happen when people fail to diversify. Diversification always looks best in retrospect after a problem has occurred. By then, it's too late. When you're highly concentrated in one investment, and things are going well, it's hard to justify diversification. That's just the reason that it's so important to do so.

❑ **Exit strategy**. When you get into something, it's a good idea to have an exit strategy. For example, it makes sense to have a plan for maximizing the money in your retirement plans so that it benefits you and your family as much as possible. Retirement plan distribution planning is a very specialized area of planning, so it makes sense to get advice from a specialist.

❑ **Time in the market is more important than timing the market.** Most studies on the subject indicate that market timing does not work. Buying low and selling high is a great concept which unfortunately few have consistently done over the long haul. Invest as much as you can as soon as you can to take advantage of the combined power of time and compound interest.

❑ **Insurance.** Insure first that which you can least afford to lose…your income, your health, and your life. Make sure you have adequate health insurance, disability income insurance, and life insurance. When it comes to life insurance, buy as much as you can get and afford. For most people, a combination of term and cash value insurance is the best approach.

❑ **Estate planning**. Where do you want your money to go? Probably not to the tax collector. It's not how much you leave, but how much is left that counts. Make sure you have up-to-date wills and trusts. If you have a large estate, death taxes and related costs could result in the loss of 50% or more of your estate. For that reason, many wealthy individuals choose to use life insurance to pay the estate taxes rather than have their heirs absorb the loss of more valuable growth and income-producing assets.

❑ **Don't let the tax tail wag the dog.** On the other hand, you can't afford to ignore taxes. For many wealthy people, cash value life insurance becomes a good place to warehouse money because of its inherent tax advantages, especially when coupled with its use in conjunction with sophisticated estate planning strategies.

❑ **Review**. Review your overall planning annually with your advisors. Circumstances change. Address mistakes quickly. If something does not go according to plan, discuss alternative strategies with your advisors.

Life Issues

- ❑ What do you want to accomplish with your life? Why are you here? What is your purpose?
- ❑ What is your overall financial and investment strategy or game plan?
- ❑ What do you want to accomplish with your money?
- ❑ What is your family financial philosophy?
- ❑ What's important about money to you?
- ❑ What are your goals?
- ❑ What is your exit strategy from your business?
- ❑ How do you want to be remembered by your children, your grandchildren, and your community or society?
- ❑ Where do you want your money to go?
- ❑ If you knew with virtual certainty that you were going to die within the next six months, what changes would you make in your life and in your planning?

Financial Statement as of ______________	
ASSETS:	
Residence	
Cash Accounts	
Cash Value	
Stocks and Bonds	
Real Estate Investments	
Other Investments	
Business	
Retirement Plans	
Other Assets	
TOTAL ASSETS	
LIABILITIES:	
Residence Mortgage	
Other Mortgages	
Cash Value Loans	
Margin Account	
Other Liabilities	
TOTAL LIABILITIES	
NET WORTH	

FINANCIAL FACTS & FEELINGS AS OF: _______________

Client	Birthdate
Spouse	Birthdate
Children/Birthdates	
Residence Address	Phone
Client's Business	Position
Client's Business Address	Phone
Spouse's Business	Position
Spouse's Business Address	Phone
Anticipated Changes	

ASSETS:		**LIABILITIES:**	
Residence		Residence Mortgage	
Cash Accounts		Other Mortgages	
Cash Value		Cash Value Loans	
Stocks and Bonds		Margin Account	
Real Estate Investments		Other Liabilities	
Other Investments		**TOTAL LIABILITIES**	
Business		**NET WORTH**	
Retirement Plans		Wills/Trusts	Dated
Other Assets		Attorney	Phone
		Accountant	Phone
TOTAL ASSETS		Other Advisors	Phone

INCOME: Salary	Bonus	Spouse	Investments	**TOTAL**	
Living Expenses	Deductions	Taxable Income	Tax Bracket		
Estimated Taxes	Disposable Income	Taxes Paid Last Year			
GOALS: Retirement Income	Age	Sources	Inflation		
Investments Favored	Results	Anticipated Rate of Return			
Cash Reserve	Cash Available to Invest Now	Systematically			
Inheritances	Gifts	Charities			
Disability: Income Needed	Disability Insurance	Medical Insurance			
Family Health: Client	Spouse	Children	Parents		
Death: Family Income Goal	Income for Spouse Only	Cash Reserve			
Education Funds	Adopted Children	Marriage Status			
Estate Distribution Plan	Estate Tax Attitude	Equalization			
Client's Insurance: Group	Term	Perm	Total	Premium	Smoker
Spouse's Insurance: Group	Term	Perm	Total	Premium	Smoker

What Do You Want to Accomplish With Your Money?	Financial Independence?
What's Important About Money to You?	Thoughts About Insurance?
What's Really Important to You and Why?	
If You Knew You Were Going to Die in Six Months, What Changes Would You Make?	

FINANCIAL FACTS & FEELINGS

Investment	Units/ Shares	Total Value	Liability	Total Cost	Year Bought	Title	Net Income	Sell/ Retain	Remarks

Comments:

Business Summary: How Started | Original Investment

Fiscal Year | Date Started | Date Incorporated

Product/Service | What Makes Company Unique

Employees | Union | Payroll | Cash/Accrual

Attorney | Accountant | Banker

Future of Business | Any Problems

Market Value | Book Value | Value in 5 Years | Liquidation Value

Sales Now | Sales in Five Years | Pre-Tax Profit as % of Sales | Tax Bracket

Earnings Before Taxes: Last Year | This Year | Next Year | Five Years

Family Involvement (Now/Future) | Business Disposition

Buy and Sell Agreement | Buy/Sell Funding

Key Management Loss Impact | Key Management Insurance

Credit Line | Loans Now | Interest | Personal Guarantee

401(k) | Profit Sharing | Pension | Cash Position | Cash Flow

Fringe Benefits | Salary Continuation | Group Benefits

Owners/Mgmt	Birth Date	Shares	%	Value	Salary	Bonus	Insurance	Family	Health	Remarks

Comments:

Financial Focus

- ❑ What role does money play in your life? What's important about money to you?
- ❑ What are your plans regarding retirement? What are you doing to accomplish your plans?
- ❑ What types of investments do you favor? Why?
- ❑ What are your investment results over the past five years? Are you pleased?
- ❑ Would you be pleased with the same results over the next five years? What would you do differently?
- ❑ How much time do you spend selecting and managing your investments? How much is your time worth?
- ❑ Do you feel you can outperform someone who spends all of his or her time managing investments?
- ❑ What would happen to you and your family if your income were to stop today?
- ❑ What have you done to enable your family to have an adequate income in the event of your death?
- ❑ Have you provided a cash cushion for emergencies, education funding, etc.?
- ❑ What role does life insurance play in your financial plans, both personally and in your business?
- ❑ How much life insurance do you have? How did you decide on the amount? The type? The company? The advisor?
- ❑ To what extent are your spouse and children involved in your financial decision making?
- ❑ What advisors do you use and to what extent?
- ❑ How did you get started in your business?
- ❑ What makes your business different from the competition? What problems do you foresee?
- ❑ What are your plans for your business at your retirement or death or disability?

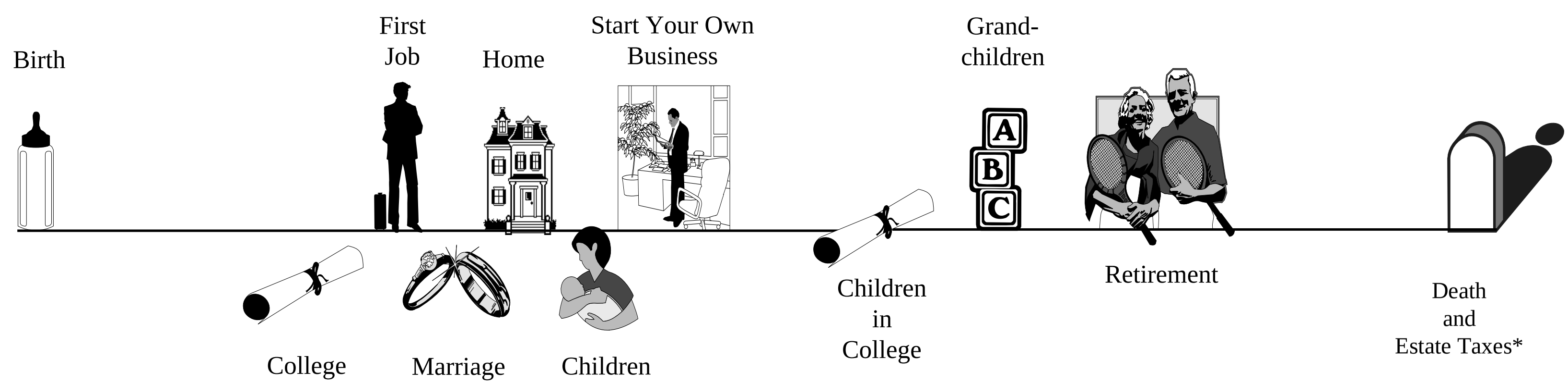
Financial Focus

- ❑ What steps have you taken to accomplish your plans for your business?
- ❑ To what extent are your children involved in your business?
- ❑ Who will ultimately run your business? What are you doing to retain and reward them?
- ❑ What are you doing in terms of selective compensation plans for yourself and your key people?
- ❑ What impact would the loss of key people have on sales, profits, lines of credit, retirement plans, and stock value?
- ❑ How much vacation do you take? What impact would it have on your business if you were gone for six months? Or forever?
- ❑ Where do you want your money to go when you die?
- ❑ How do you feel about your children receiving a large inheritance? Why?
- ❑ When did you last update your will(s) and trust(s)?
- ❑ What is the approximate value of your estate?
- ❑ What is the potential estate tax impact and what have you done about it? How will the estate taxes be paid?
- ❑ To what extent have you made gifts to your children or considered doing so?
- ❑ What are your thoughts regarding giving or leaving assets to a favorite charity or to your community?
- ❑ If you knew you only had six months to live, what changes would you make? What if you had died last week?
- ❑ How do you want to be remembered by your children? Grandchildren? Employees? Community?
- ❑ What are your primary concerns and goals and why? What's really important to you?
- ❑ What would you like to accomplish as a result of our discussions? Who else should be involved?

Life Insurance Questions

- ❑ What do you know about life insurance? Tell me what you know about life insurance and how it works.
- ❑ What is your philosophy regarding life insurance?
- ❑ What role does life insurance play in your overall financial planning?
- ❑ What are your feelings about life insurance?
- ❑ What is the purpose of your life insurance program?
- ❑ How do you view life insurance as an investment?
- ❑ When you bought life insurance in the past, how did you determine the amount?
- ❑ What formula did you use to determine the amount of life insurance you now have?
- ❑ When you purchased life insurance the last time, what prompted the purchase?
- ❑ When you purchased life insurance in the past, how did you select the company and the advisor?
- ❑ What are your thoughts about cash value life insurance?
- ❑ What are your thoughts about term insurance?
- ❑ What do you think about buying term insurance and investing the difference?
- ❑ What do you like least about life insurance?
- ❑ What do you like best about life insurance?
- ❑ If you were to purchase life insurance in the future, why might you do so?
- ❑ If our analysis indicated that additional life insurance is appropriate to accomplish your goals, would there be any reason why you would not go ahead with it?
- ❑ When was the last time you had a complete checkup with your doctor? What prompted that checkup?
- ❑ Do you have any health problems?
- ❑ Do any members of your family have any health problems?
- ❑ If life insurance did not exist, what would you do?
- ❑ How do you feel about having life insurance on your spouse?
- ❑ How do you feel about having life insurance on your children?
- ❑ How do you feel about your children inheriting a large amount of money?
- ❑ How do you feel about leaving a substantial cash gift to your favorite charity or charities?

Milestones



When is the best time to buy life insurance?

How much will you need?

How long will you need it?

How much will it cost?

* Unfortunately, death or disability could occur at any time.

The Need for Life Insurance is Permanent . . . Not Temporary.

What Your Family Will Need To Know When You Die?

- ❑ How much money is there?
- ❑ How much income is available and for how long?
- ❑ How much life insurance do you have? Where are the policies located?
- ❑ Where are your assets and important information located?
- ❑ Where do you want your money to go?
- ❑ Where are your will and any trust documents?
- ❑ Where do you wish to be buried?
- ❑ Is there a letter summarizing your wishes in addition to the will?
- ❑ Did you make any provisions for leaving money to a favorite charity or to a family foundation?
- ❑ What liabilities do you have and how are they to be paid?
- ❑ Which advisors (attorney, accountant, banker, insurance advisor, investment advisor, stockbroker, etc.) should your family turn to for advice and to what extent?
- ❑ What will be the amount of the estate and inheritance taxes (if applicable) and how will they be paid? Is there life insurance specifically for this purpose?
- ❑ What are your plans for the continuation or disposition of your business?
- ❑ Where are the written plans and agreements regarding the business?
- ❑ Who will own the business?
- ❑ Who will manage the daily operations of the business?
- ❑ To what extent do you want your family involved in the business?
- ❑ What income is the business to provide to your family? How?
- ❑ Is there life insurance specifically for the use of the business?
- ❑ Are there any loans from family members to the business? How are they to be repaid?
- ❑ Are there any bank (or other) loans? How are they to be repaid?
- ❑ Are there any plans (written or otherwise) regarding the retention and compensation of key people?

Important Information for the ________________ Family

FAMILY MEMBERS	BIRTH DATE	PHONE	ADDRESS	COMMENTS

KEY PEOPLE	NAME	PHONE	COMMENTS
Guardians for Your Children			
Attorney			
Accountant			
Life Insurance Agent			
Stockbroker			
Financial Advisor			
Family Doctor			

LOCATION OF	
Business Agreements and Documents	
Wills and Trusts (Date Reviewed _____)	
Insurance Policies	
Safe Deposit Box, Key, and Number	

OTHER INFORMATION

Life Insurance Summary as of ____________________

Insured	Company	Policy Number	Owner	Beneficiary	Amount	Type	Annual Premium	Cash Value	Waiver of Prem.	Comments

No One Has A Lease On Life!

On August 2nd, 1996, a Los Angeles television station carried a story about Marcia Clark and Christopher Darden, who were the prosecuting attorneys in the O.J. Simpson trial, attending a fund-raising event the prior evening for the Van Sloten family.

According to an article which appeared in the April 20th, 1996 issue of the *Los Angeles Times*, Martha Van Sloten, a 40-year-old legal secretary, had died in April from breast cancer which had spread into her bones. Her husband, Richard, who is 48, and who is a prosecuting attorney for Los Angeles County, has been diagnosed as having an inoperable brain tumor. Doctors say he'll be fortunate to live a few more months.

The Van Slotens have three daughters, one of whom is a 19-year-old who has been forced to drop out of college in order to help with her younger sisters who are ages 4 and 8. Arrangements have been made for the girls to live with relatives in Washington State. According to the article, the family's life insurance was modest.

What are the chances that even one spouse would die…let alone both? The chances are 100%. We just don't know when death will occur. No one has a lease on life. Life insurance must be purchased before you need it. By the time you know you need it . . . it's too late.

Have you recently reviewed your life insurance and your wills and trusts and guardianship arrangements? Wouldn't it make sense to do so right now?

Advisors

	ATTORNEY	CPA	INSURANCE AGENT
How paid	FEE	FEE	COMMISSION
Based on	TIME SPENT	TIME SPENT	RESULTS
Will act as the catalyst and coordinator with your CPA and attorney and save you thousands of dollars by assembling necessary background info, determining your goals and priorities, and developing the plan	NO	NO	YES
Will figure how much cash your family, business, and estate will ultimately need	MAYBE	MAYBE	YES
Will provide cash for your family	NO	NO	YES
Will provide cash for your business	NO	NO	YES
Will provide cash to pay estate taxes	NO	NO	YES
Will point out problems which insurance will solve	NO	NO	YES
Will be totally objective	NO*	NO*	NO*

* No one is totally objective because everyone has certain biases based on background. It is essential to differentiate between a professional and a personal opinion. *Integrity*, not *objectivity*, is the primary requisite for an advisor.

Time and Money

TIME is an acronym which stands for:

T axes
I nflation
M istakes
E mergencies

When trying to determine how much money you or your family will need in the event of death, disability, or retirement, these factors should be considered. When you take into account the impact of **Taxes**, the impact of **Inflation**, the fact that we sometimes make **Mistakes** with our investments, and that we may need to dip into capital for unforeseen **Emergencies**, we recommend that you use no more than a 3% real growth factor in determining how much money will be needed for a given period of time.

In a 40% income-tax bracket, 10% return is really 6%. If inflation is assumed to be 3%, the real growth is therefore 3%. This does not even take into account Mistakes and Emergencies. When it comes to planning for your family's financial future, it is better to be conservative than aggressive in your assumptions. It is far better to have too much money than not enough. Wouldn't you agree?

If you want to be conservative, we suggest assuming a real growth of zero per cent. Let's assume you were planning for your own retirement, and that you wanted $100,000 per year for the rest of your life starting at age 65. Let's also assume you plan on living 30 years. At age 65, you would need $100,000 per year multiplied by 30 years, or $3,000,000 of capital.

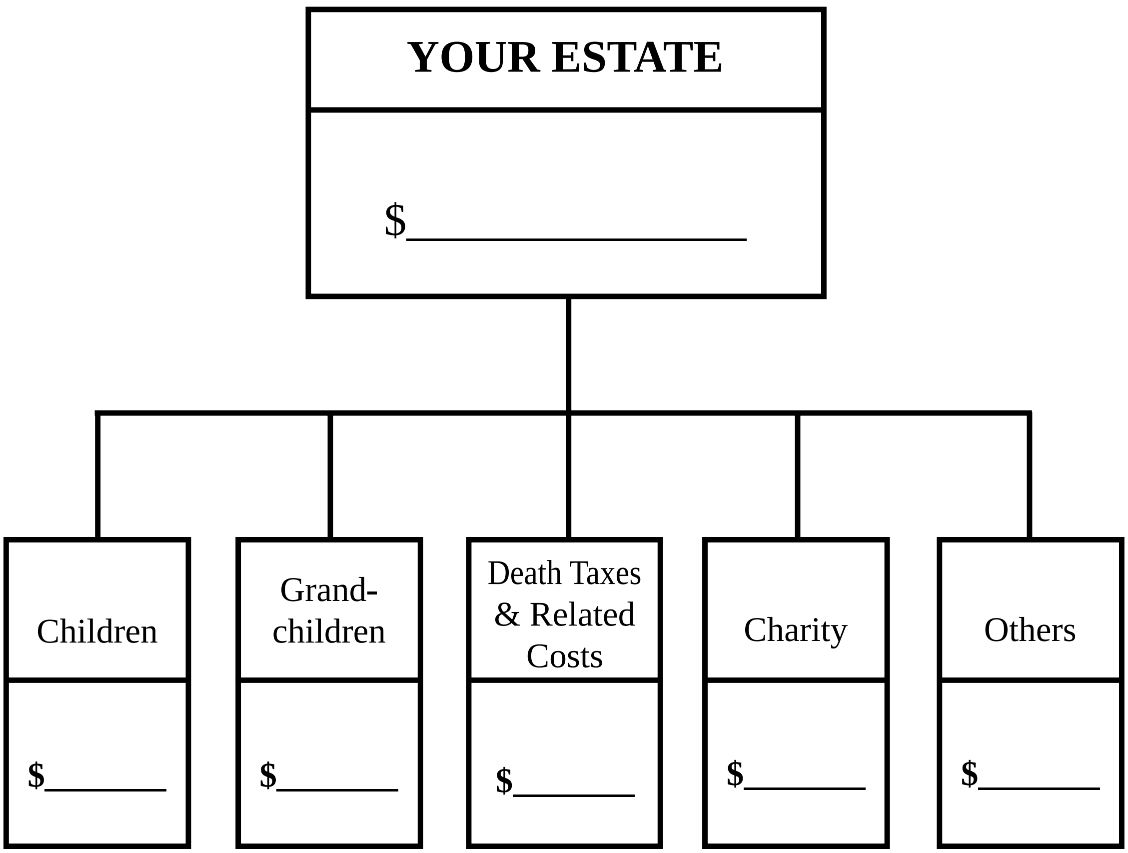
Life Insurance . . . The 1% Solution

Why Not Position 1% Per Year to Provide Protection for Your Family and Your Business?

- ❑ **ESTATE TAX FUNDING.** Why not let 1% of your estate each year help protect the other 99%?
- ❑ **KEY MANAGEMENT PROTECTION.** Why not let 1% of your sales each year help protect the other 99%?
- ❑ **BUY AND SELL FUNDING.** Why not let 1% of your business' value each year help protect the other 99%?
- ❑ **LOAN REPAYMENT.** Payment of an additional 1% each year on top of the interest you are paying would ensure the ability to repay the loan in the event of death.
- ❑ **FAMILY INCOME.** If you need $1,000,000 to provide income for your family when you die, why not set aside 1% per year to help provide the protection?
- ❑ **DISABILITY INCOME.** If you are now making $200,000 annually, why not set aside 2% annually to purchase disability income protection?
- ❑ **WEALTH ACCUMULATION.** If you want to accumulate $1,000,000 for your future, why not invest 1% or 2% annually? $10,000 per year for 30 years at 7% = $1,000,000. $20,000 per year for 20 years at 8% = $1,000,000.

NOTE: Depending upon the specifics of the situation, 1% may not do the job. It may take 2% or more . . . but the number is almost always peanuts compared to the problem which it solves.

Where Do You Want Your Money To Go?



Forbes Beats Tax Man with Insurance Buys

BOSTON (AP) - Insurance policies designed to protect Malcolm Forbes' estate from the taxman may have proved to be the bon vivant businessman's last capitalist tool.

Insurance companies that originally balked at paying millions of dollars in claims to the estate have paid up, a Forbes official said Friday.

The late publisher of the business magazine dubbed "capitalist tool" reportedly took out millions of dollars in life insurance with different companies in the years preceding his death in February at age 70.

Forbes died of an apparent heart attack at Timberfield, his Far Hills, N.J., mansion. But John Hancock Mutual Insurance Company last month withheld payment on a multi-million-dollar policy pending an investigation into the claim.

Hancock officials had said only that an investigation was being conducted, but published reports indicated medical information provided by Forbes was being examined.

But Hancock spokesman Richard Bevilacqua said the company had completed its "routine" investigation and paid the claim. Forbes spokesman Don Garson said all pending insurance claims have been paid to the Forbes estate.

Neither spokesman would discuss the amounts of money involved, but Garson said that the previously reported figure of $46 million in total insurance claims was too low.

"Forbes is an exceptionally valuable property. That ($46 million) seems like a drop in the bucket," he said. Garson said Forbes often commented that the only way to pass on an estate worth any money when he died was to have large amounts of life insurance.

Estimates of Forbes' estate range from $400 million to $1 billion. The estate would be taxed in the 55 percent brackets according to tax specialists. But much of Forbes' estate, such as the magazine and his art collection, could not go on the auction block to pay the government.

Garson said Forbes often commented that the only way to pass on an estate worth any money when he died was to have large amounts of life insurance.

Forbes' apparent solution was to take out insurance policies, some within the last two years, to pay the necessary cash.

Garson said no discrepancies were discovered in the medical information Forbes provided to Hancock. "I can assure you all investigations have been completed. There were no irregularities . . . and the claims have all been paid," he said.

Bevilacqua would not discuss the details of the agreement between Hancock and the Forbes estate, which he said was concluded Tuesday.

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Source: *Dayton Daily News,* Sat., June 9, 1990

Key Planning Issues Facing Business Owners

❑ **Exit strategy.** What are your plans for exiting your business? Who will own and run your business when you are no longer in the picture? Will you retain your interest in the business when you retire, or will you sell it, or will you transfer ownership to your children?

❑ **Retirement income.** What plans have you made to ensure that you will have a substantial income from your business when you retire? Will the income from qualified plans be adequate or should that income be supplemented by income from selective compensation plans?

❑ **Family income continuation.** When you die, what plans have been made to ensure that your family receives an ongoing income from the business to replace the salary or retirement income you were receiving? Can the business afford to make payments to your family if you are not there to contribute to the ongoing profitability of the business?

❑ **Buy and sell funding.** When you die, should your family continue to own an interest in a business in which they are not involved? Would you as a surviving owner want to be in business with the deceased owner's family and its advisors?

❑ **Key management loss.** What impact would your death or the death of other key people have on the business' sales, profits, growth potential, working capital, credit lines, and retirement plans?

❑ **Recruiting, retaining, and rewarding key people.** What special benefits are you providing key people in order to recruit, retain, and reward them? Qualified plans which cover all employees are generally inadequate in terms of providing sufficient incentives for key people.

❑ **Disability planning.** What plans have you implemented regarding the ongoing payment of income to yourself and other key people in the event of disability? If you are disabled for a lengthy period or permanently, will you retain your ownership in the business? What plans have been made regarding continuing your income and the retention or sale of your interest in the business?

❑ **Estate tax funding.** How will your children or other heirs ultimately be able to pay the estate taxes and related costs without being forced to liquidate valuable growth and income-producing assets?

❑ **Estate equalization.** What plans have you made to ensure that your children are treated fairly when it comes to transferring and distributing your estate?

Have you covered all the bases?

Should You Insure Your Spouse?

If your spouse were to die, wouldn't there be a tremendous emotional loss? Would you be able to function as you normally do, or would you be walking around in a fog for some period of time? If you work for someone else, would you be as effective at work as you normally are? If you work for yourself, would you just be going through the motions but not accomplishing much?

The following worksheet will help you put a price tag on the economic loss associated with the death of a spouse, but it is important to recognize that the largest economic loss may be associated with your own inability to produce at the same level that you were prior to your spouse's death.

It's easy to understand the economic impact with regard to the loss of earned income. You can also identify the cost of replacing the services your spouse provided at home. What's tougher to identify is the economic impact that their loss will have on your own income.

You may have to take several months off to care for your children, find a housekeeper, and deal with your own grief. If there is no life insurance, you may have to take a second job in order to just make ends meet. What would these scenarios, or others, cost you personally? What is the potential economic loss?

Should You Insure Your Spouse?

WHEN A SPOUSE DIES, THERE IS A TREMENDOUS *EMOTIONAL* LOSS. OFTEN OVERLOOKED IS THE POTENTIAL *ECONOMIC* LOSS WHICH CAN MAKE THE EMOTIONAL LOSS EVEN WORSE.

	Potential Cost	**Years**	**Total Cost**
Final Expenses (Funeral, Hospital and Medical Expenses)	$20,000	–	$20,000
Estate and Inheritance Taxes, Probate Fees, Attorney, CPA	10,000	–	10,000
Lost Income (if Spouse was Producing Income)	50,000	5	250,000
Cost of Cook, Housekeeper, Sitter, Shopper, Seamstress, Nurse, Chauffeur, Laundress, etc.	20,000	5	100,000
Increase in Income Taxes (Head of Household vs. Joint)	2,000 ±	5	10,000
Total Potential Cost			**$390,000**

NOTE: These figures do not take into account the impact the spouse's death may have on the survivor's ability to perform at a high level. The surviving spouse's earning potential may be impaired for some time.

Should You Buy Insurance on Your Children or Grandchildren?

Most members of the financial press would advise you against buying life insurance on your children or grandchildren. As you might expect, I totally disagree.

You would be buying life insurance on your children from two perspectives. First you would buy it to offset the financial impact that a child's death would have on you. The death of a child often means that the parent is incapable of performing productively for quite some time. They may go to work, but they are only going through the motions. Therefore, the impact would probably be more in the loss of your own income than in terms of the funeral and miscellaneous costs associated with the child's death.

More importantly, I am recommending that you buy insurance for your children as a way of giving them a head start in their financial lives. Right now, hopefully your children are in good health and they are not smoking. They are not involved in drugs. They haven't become involved in bungee jumping or other death defying avocations. They haven't chosen a career that an insurance company might find risky.

Right now, they can probably acquire life insurance at a better rate than will ever be available to them again.

It is important to reemphasize the role life insurance plays in terms of creating a fortune. The sooner you start, the sooner you have the power of compound interest working for you, or in this case, for your children.

If you wait, your children's health might change or they might die. Waiting means the cost will increase, and the benefits will decrease.

The High Cost of Waiting

Initial Life Insurance	$1,000,000				
Starting Age	**5**	**15**	**25**	**35**	**45**
Annual Premium	$6,520	$8,960	$12,400	$19,060	$32,750
Total Premiums to Age 65	391,200	448,000	496,000	571,800	655,000
Cash Value at Age 65	7,624,358	4,586,605	2,878,066	1,915,651	1,293,220
Death Benefit at Age 65	12,643,834	7,606,185	4,772,834	3,176,815	2,144,608
Cash Value Rate of Return	7.67%	7.46%	7.31%	6.97%	6.10%
Death Benefit Rate of Return	8.80%	8.87%	9.16%	9.58%	10.31%

These figures are based on current assumptions and are not guaranteed.

The sooner you start, the sooner you put the power of compound interest on your side, and you have the protection for a longer period. When you wait, the cost increases, and the benefits decrease. Of course, you might die or your health might change. Buying term insurance as an interim measure only adds to the cost of waiting unless you die while the term insurance is in force, which is unlikely. The best time to buy is now. Why wait?

Why Not Start Now?

How Much Disability Income Insurance Do You Need?

If you were unable to work as a result of sickness or accident, how long would you continue receiving income from your job? How long would your savings last?

One year of disability could result in the loss of ten years' savings!

Think about it. Just one year of disability could mean the loss of ten years' savings. Amazing, isn't it?

While statistics don't matter when it comes to individuals, the probability of disability prior to age 65 is higher than the probability of death. The bottom line is you cannot afford to not have disability income insurance unless you are independently wealthy.

Some people can't imagine anything short of death keeping them from working. What about a stroke? What about a back pain so severe that you can only stand for a few minutes at a time?

I purchased my first house from someone who had just retired from his job as a result of having suffered multiple heart attacks over a period of several years. He could no longer afford to live in the home, and he and his wife moved into an apartment.

The following worksheet is intended to help you and your advisor determine how much disability income insurance you need.

In addition to purchasing the disability income insurance, I also recommend that you add the disability waiver of premium benefit to your life insurance. This means that if you are disabled for six months or more, the insurance company will waive the premium for the duration of the disability and refund the premium paid during the six-month waiting period.

On a cash value policy, the cash value will continue to grow as if the premiums had been paid. If you are systematically investing in mutual funds and are disabled, the mutual fund company is not going to make the investments for you. This is what separates cash value insurance from other investments as an accumulation vehicle.

How Much Disability Insurance Do I Need?

ANNUAL LIVING EXPENSES	Example	Your Family
Housing	$ 20,000	$
Phone and Utilities	3,000	
Food	12,000	
Clothing	6,000	
Transportation	6,000	
Entertainment	3,000	
Education	20,000	
Medical, Personal Care	6,000	
Life Insurance	2,000	
Spouse's Job-Related Expenses	1,500	
Other Expenses	–	
TOTAL ANNUAL LIVING EXPENSES	**$ 79,500**	**$**
INCOME DURING DISABILITY		
Spouse's After-Tax Income	10,000	
Investment Income	0	
Group Disability Income	0	
Individual Disability Income	0	
Other Income	0	
TOTAL ANNUAL INCOME	**$ 10,000**	**$**
ANNUAL INCOME SHORTAGE	**$ 69,500**	**$**

Myths About Life Insurance

Life insurance is quite probably the most misunderstood financial tool that exists. Let's examine and dispel the myths which persist about life insurance.

❑ **Myth #1. Life insurance is a lousy investment.** Let's say that you are now 35 years old, and that you go to your banker and tell him that you would like to establish a special account for yourself and your family. You want to deposit $10,000 annually. When you die, you want your family to receive $1,000,000 plus all of your deposits income tax free. If you are disabled, you want your banker to agree to continue to make the deposits for you. Assuming you live, you want to accumulate more cash over the long haul than you would in a regular bank account and you want it to accumulate on a tax-deferred basis. Your banker would probably laugh. He can't do it. Does what I just described sound like a lousy investment to you? Of course not. What I have just described is a portfolio-based cash value life insurance policy. The cash value will increase each year. There will be no downs, only ups. Where else can you warehouse cash on a tax-deferred basis and rest assured that it will grow each and every day? In a nutshell, here's how life insurance works. When you die, your family will receive a lot of money, income tax free. If you don't die, and you want to get your money back, you will get it all back plus interest. Some people think they are not going to die. It's important to understand that no one has a lease on life. If you don't die before age 65, you will die after age 65.

❑ **Myth #2. You should buy term insurance and invest the difference.** Term insurance ultimately becomes so expensive that it eats up the money in the investment account. Another problem is that the money in the investment account is going to be subject to income taxes, which reduces the return on the investment dramatically.

❑ **Myth #3. You have to die to win.** With term insurance, you have to die to win. With cash value life insurance, your family wins when you die, and you and your family win during your lifetime. Cash value puts the life into life insurance. Not only does the cash value accumulate on a tax-deferred basis, it actually accumulates tax-free as long as you don't surrender the policy. You can access the cash value by borrowing the cash value. In essence, you have created a better bank than a regular bank, because the rate of return over the long haul is better than a regular bank.

❑ **Myth #4. You have to keep paying forever.** With term insurance, you have to keep paying forever, or more accurately, until the term policy terminates. With portfolio-based cash value life insurance, you can use the dividends to help offset the premium, or you can use the paid-up feature. The cash value at any given time will purchase a specific amount of insurance with no more premiums due. The cash value will continue to grow.

❑ **Myth #5. You won't need life insurance when your children are grown or when you retire.** Since cash value life insurance is such a good place to warehouse as much money as possible because of the tax-deferred growth, why would you want to stop accumulating money there? This money can be used to supplement your retirement income or it can be used to help pay the death taxes and income taxes that will be due when you die. The best investment is the one that provides the most money when you or your family need it most. Alive or dead, portfolio-based cash value life insurance will be one of the best investments you can make. It is a smart place to put your money. Cash value will put the life into your life insurance.

What is the Ultimate Investment Alternative?

❑ **What is the Ultimate Investment Alternative?** Portfolio-based cash value life insurance is the Ultimate Investment Alternative. Why do banks, major corporations, and wealthy individuals buy massive amounts of cash value life insurance? They have the best advisors. If it did not make sense, they would not buy it. It's that simple.

❑ **Is life insurance an investment?** The compliance departments of most life insurance companies tell their advisors that life insurance is not an investment. The prospectuses for most variable life insurance policies state words to the following effect. "Variable life insurance allows the policy owner to direct the premiums, after certain deductions, among a range of investment options." Undoubtedly, compliance approved those words. You cannot have investment options without having an investment. I rest my case. With portfolio-based cash value life insurance, the insurance company rather than the policy owner makes the investment decisions. It eliminates the uncertainty associated with variable life insurance. The cash value of a variable policy can increase or decrease. The cash value of a portfolio-based cash value life insurance policy increases each year. That's an important distinction.

❑ **Here's how it works.** When you die, your family will receive a lot of money…income tax free. Assuming you live, you will accumulate substantially more money over the long haul than you would in the bank or in bonds. If you are disabled, the insurance company will continue to make the premium payments for you and the cash value will continue to grow assuming you have purchased the disability waiver of premium benefit. In other words, the Ultimate Investment Alternative works whether you live, die, or become disabled. What other investment alternative can make that claim? Portfolio-based cash value life insurance is a good place to warehouse money. Over the long haul, it's a better place to warehouse money than a bank because of the tax advantage of the cash value accumulating on a tax-deferred basis. It actually accumulates on a tax-free basis unless you surrender the policy, which would not be a good idea because it would trigger taxes unnecessarily.

❑ **What's the catch?** We all know that there is no such thing as a free lunch. How can it beat the bank or bonds? The catch is that cash value life insurance is not a short-term investment. Over the first ten years, you might only get back slightly more than you put in. Then it starts cooking.

❑ **Predictability.** Unlike stocks and bonds, with portfolio-based cash value life insurance, you can count on the cash value increasing each year. On 9/11, the cash value in portfolio-based cash value life insurance increased. A week later, it increased. A year later, it increased. Next year, it will increase.

❑ **What is the best investment?** The best investment is the one that provides you and your family with the most money when you need it most. Portfolio-based cash value life insurance is the Ultimate Investment Alternative. It will provide your family income tax-free cash when you die. It will provide money during your lifetime to supplement your retirement income. It will provide a cash cushion for emergencies. Over the long haul, it will outperform the bank and bonds.

The Sample Example

In our example, the Sample brothers are twins, who are age 35. Each has decided to save $10,000 annually. Alan is not married and has decided to defer the purchase of life insurance until he gets married. His plan is to invest the money. We have assumed that he gets 5% net-after-taxes, which is by no means easy. Robert, on the other hand, recently got married and has decided to purchase portfolio-based cash value life insurance. His plan is self-completing in the event of death or disability. Which plan would you choose?

Alan Sample		**$10,000 Per Year**		**Robert Sample**	
PLAN A				**PLAN B**	
Investing @ 5% Net				**Insuring**	
Alive	**Dead**	**Year**	**Age**	**Alive**	**Dead**
$10,500	$10,500	1	35	$4,052	$1,012,944
132,068	132,068	10	45	114,617	1,168,024
347,193	347,193	20	55	386,650	1,402,976
697,608	697,608	30	65	966,662	1,758,282
1,268,398	1,268,398	40	75	2,168,645	2,961,607
2,198,154	2,198,154	50	85	4,454,737	5,271,490

These figures are based on current assumptions and are not guaranteed.

Which Plan Do You Prefer?

Life Insurance: The Ultimate Family Bank

$10,000 Per Year

Year	Age	Invested @ 5% Net	Life Insurance: Death Benefit	Life Insurance: Cash Value
1	35	$10,500	$1,010,877	$4,037
10	45	132,068	1,094,317	112,331
20	55	347,193	1,163,372	371,855
30	65	697,608	1,567,714	917,651
40	75	1,268,398	2,726,042	1,994,732
50	85	2,198,154	4,605,370	3,958,498

Cash value life insurance is the ultimate long term, low risk investment alternative. Over the long haul, it should outperform both the bank and bonds after taxes both during your lifetime and when you die. Of course, that is not a guarantee. Once you understand that you are going to die, either before age 65 or after age 65, insurance starts to make a lot of sense as a way to create and accumulate wealth for your family.

These figures are based on current assumptions and are not guaranteed.

Retirement Optimization Planning

PLAN A Preserving Capital				PLAN B Utilizing Capital			
Starting Capital	**Annual Income (5%)**	**Remaining Capital**	**Year**	**Starting Capital**	**Annual Income**	**Remaining Capital**	**Remaining Capital Invested at 5% After Taxes**
$1,000,000	$50,000	$1,000,000	1	$1,000,000	$76,422	$923,578	$969,757
1,000,000	50,000	1,000,000	2	969,757	76,422	893,335	938,002
1,000,000	50,000	1,000,000	3	938,002	76,422	861,580	904,659
1,000,000	50,000	1,000,000	4	904,659	76,422	828,237	869,648
1,000,000	50,000	1,000,000	5	869,648	76,422	793,226	832,888
1,000,000	50,000	1,000,000	6	832,888	76,422	756,466	794,289
1,000,000	50,000	1,000,000	7	794,289	76,422	717,867	753,760
1,000,000	50,000	1,000,000	8	753,760	76,422	677,338	711,205
1,000,000	50,000	1,000,000	9	711,205	76,422	634,783	666,523
1,000,000	50,000	1,000,000	10	666,523	76,422	590,101	619,606
1,000,000	50,000	1,000,000	11	619,606	76,422	543,184	570,343
1,000,000	50,000	1,000,000	12	570,343	76,422	493,921	518,617
1,000,000	50,000	1,000,000	13	518,617	76,422	442,195	464,304
1,000,000	50,000	1,000,000	14	464,304	76,422	387,882	407,277
1,000,000	50,000	1,000,000	15	407,277	76,422	330,855	347,397
1,000,000	50,000	1,000,000	16	347,397	76,422	270,975	284,524
1,000,000	50,000	1,000,000	17	284,524	76,422	208,102	218,507
1,000,000	50,000	1,000,000	18	218,507	76,422	142,085	149,189
1,000,000	50,000	1,000,000	19	149,189	76,422	72,767	76,406
1,000,000	50,000	1,000,000	20	76,406	76,422	BROKE!	BROKE!

If you have other assets to fall back on, you can generate more income by utilizing capital. In this example, your income would be more than 50% higher each year.

These figures are purely hypothetical and are used to illustrate a concept.
They are not intended to imply that any specific investment will perform in this manner.

The Ultimate Wealth and Retirement Optimizer

$1,000,000 (Age 35)   Annual Premium: $10,000

Year	Age	Total Premiums	Total Premiums at 5% Net	Cash Value	Estate Value
1	35	$10,000	$10,500	$4,037	$1,010,877
10	45	100,000	132,068	112,331	1,094,317
20	55	200,000	347,193	371,855	1,163,372
30	65	300,000	697,608	917,651	1,567,714
40	75	300,000	1,136,330	1,862,410	2,522,634
50	85	300,000	1,850,962	3,579,910	4,228,324

These figures are based on current assumptions and are not guaranteed.

This policy is put on a paid-up basis at age 65. You will note that there are no additional premiums paid beyond that point. The cash value and estate value (death benefit) continue to grow. Having this as a cash cushion would enable you to use up more of your other assets for retirement income purposes. This policy will be your ultimate fallback position if needed. Many people spend less of their assets because they wish to pass on a legacy to their children, grandchildren, or favorite charities. This policy would enable you to utilize more of your other assets.

How Much Will A College Education Cost?

AGE OF CHILD NOW	YEARS TO COLLEGE	ANNUAL COST *	FOUR YEAR COST **	ANNUAL INVESTMENT REQUIRED @ 8%
18	0	$10,000	$40,000	$40,000
17	1	10,800	43,200	40,000
16	2	11,664	46,656	20,769
15	3	12,597	50,388	14,371
14	4	13,605	54,420	11,182
13	5	14,693	58,772	9,276
12	6	15,869	63,476	8,012
11	7	17,138	68,552	7,145
10	8	18,509	74,036	6,445
9	9	19,990	79,960	5,929
8	10	21,589	86,356	5,520
7	11	23,316	93,264	5,188
6	12	25,182	100,728	4,915
5	13	27,196	108,784	4,686
4	14	29,372	117,488	4,492
3	15	31,722	126,888	4,327
2	16	34,259	137,036	4,184
1	17	37,000	148,000	4,060
0	18	39,960	159,840	3,952

* Adjusted for 8% cost increase annually.
** This is the cost discounted at 8%.

EXAMPLE: If your child is now 8 years old, what now costs $10,000 will cost over $21,000. To accumulate the four-year cost, which will exceed $86,000, you will need to invest $5,520 annually at 8%. If the cost today were $20,000, as opposed to $10,000, you would need to invest twice as much starting now (2 x $5,520 = $11,040 per year).

The Power of Compound Interest

$100,000 One-Time Investment

Years	0%	3%	5%	7%	10%
	Annual Compound Rate of Return				
10	$100,000	$134,392	$162,889	$196,715	$259,374
20	100,000	180,611	265,330	386,968	672,750
30	100,000	242,726	432,194	761,226	1,744,940
40	100,000	326,204	703,999	1,497,446	4,525,926

$10,000 Annual Investment

Years	0%	3%	5%	7%	10%
	Annual Compound Rate of Return				
10	$100,000	$118,078	$132,068	$147,836	$175,312
20	200,000	276,765	347,193	438,652	630,025
30	300,000	490,027	697,608	1,010,730	1,809,434
40	400,000	776,633	1,268,398	2,136,096	4,868,518

How Long Will it Take to Accumulate $1,000,000?

Annual Investment	0%	3%	5%	7%	10%
	Annual Compound Rate of Return				
$5,000	200 Years	65 Years	49 Years	40 Years	31 Years
10,000	100 Years	47 Years	36 Years	30 Years	25 Years
15,000	67 Years	37 Years	30 Years	25 Years	21 Years
20,000	50 Years	31 Years	25 Years	22 Years	18 Years

Annual Investment Required to Accumulate $1,000,000

Years	0%	3%	5%	7%	10%
	Annual Compound Rate of Return				
10	$100,000	$84,690	$75,719	$67,643	$57,041
20	50,000	36,132	28,802	22,797	15,872
30	33,333	20,407	14,335	9,894	5,527
40	25,000	12,876	7,884	4,681	2,054

These numbers are purely hypothetical. They are for illustrative purposes only and are not intended to represent any specific investment or to imply that any specific investment will achieve the results shown.

The Advantage of Life Insurance

“The advantage of life insurance as an
investment is that you make one purchase
and then forget about it except for
the annual premiums you pay.
Insurance protects you from yourself;
it allows the cash value to accumulate
without your being able to spend it.
In addition to an investment, you also
have protection for your family
in the event of your death.”

Christina Robertson
Author of *A Woman’s Guide to Divorce and Decision Making*

"It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money . . . that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot. It can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that . . . you will have enough to pay for something better."

JOHN RUSKIN

NO! I CAN'T BE BOTHERED TO SEE ANY PESKY SALESMAN . . . . I'VE GOT A BATTLE TO FIGHT!

About the Author

Born in Baltimore, Maryland, Howard Wight graduated from the U.S. Naval Academy in 1961. Following service in the Navy Supply Corps, which included a tour of duty with the Seabees in Vietnam, he joined Connecticut General in 1969 in San Francisco.

While associated with a Palo Alto financial planning firm, Howard did seminars on stock options and financial planning for such prestigious companies as Hewlett-Packard and Intel. He was an agent with Northwestern Mutual from 1973-1990. In 1983, he started publishing the Wight Financial Concepts Newsletter, to which many of the top insurance and financial advisors in the country subscribe. Howard has become the life insurance advisors' advisor.

Howard Wight conducts about 50 seminars annually in the United States and other countries on selling, motivation, success, and time management. He has spoken at the Million Dollar Round Table annual meetings five times. He is also the author of seven books including:

- ❏ *Financial Concepts*
- ❏ *Success and Time Management*
- ❏ *Life's Lessons*
- ❏ *Red-Letter Language*

Howard Wight, CLU, ChFC
Wight Financial Concepts Corporation
1330 Jones Street, Suite 404 • San Francisco, CA 94109
Phone: 800-486-SELL • e-mail: Howard@HowardWight.com
www.HowardWight.com