Dick Weber: So, a 33-year-old has a life expectancy of approximately 50 years, and we looked at, if we just went with term insurance, what's the aggregate premium that 33-year-old would pay over those 50 years? And it's 70% of the death benefit.

[music]

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

[music]

"It [life insurance] is a portfolio asset, either literally or figuratively."

Cory Shepherd: Hello, I am a Cory Shepherd president of the Sound Financial Group, and one of the hosts of this soon to be renamed podcast. So, stay tuned for that news in the coming weeks. This is a very exciting episode for me because I have not just one but two brilliant gentleman to converse with today. First, we have, my friend, my partner, the co-host of this podcast, the CEO and founder of Sound Financial Group, Paul Adams, who is going to introduce our very special guest. Paul over to you.

Paul Adams: Cory, if you're gonna keep saying nice things like that, about me at the beginning of the podcast, I have you just invite me in as a guest.

[chuckle]

Paul Adams: Speaking of guests today, we have a guy who's been a mentor of mine, a guy who is a mentor to a lot of people who are looking for academic leadership and knowledge when it comes to taking care of their clients. Our guest today is Dick Weber. Now, Dick has been in the life insurance industry for 52 years, he's been experienced in sales, senior management, client advocacy, research focused on improving communications and interactions between advisors and their clients. On top of that, he's served as an expert witness in more than 30 cases, he owns a firm called Ethical Edge and their mission is to improve the integrity of communication and understanding of today's life insurance products. Let me translate that for you. Dick is able to command really significant fees from super wealthy families to give an unbiased fiduciary look at their life insurance acquisition decisions. You see, he also wrote life insurance as an asset class, which he co-authored with Chris House and received the Best Paper Award in 2008 from the Academy of Financial Services and has gone out and actually helped companies re-design their products to better care for their clients, and the client relationship. Dick, thank you so much and I'm... Well, I welcome you to the show.

Dick Weber: I'm delighted to be here, thank you. By the way, I should point out, I was a child agent, so I'm not all that much older than the 52 years I've been...

[chuckle]

Paul Adams: Got in... He got in the industry when he was four.

[chuckle]

Paul Adams: Now, I just, I wanna stay on this theme, of the degree of expertise people are getting a chance to listen to having you here on our show. And can you give a sense of the... When you do that, individual consulting for these high net worth families or corporations to look at the list of insurance products that perhaps people have proposed to them, what do those fees look like and what does that analysis look like? Just to give people some insight into the level of expertise that they're getting to hear.

"I have never found an advocate or a zealot of buy term and invest the difference who ever actually did it for more than one year."

Dick Weber: Sure, thank you. So we work on two bases either on an hourly basis, and our fee is $500 an hour, and I promise to be extremely efficient with that time. We will also work with a client on a project fee basis, so that when we have enough information to really understand the scope of what needs to be done, then we're happy to quote a fee. And for the purpose of such a client coming to me and saying, I've been pitched all of these different kinds of policies, I really don't know enough about it to make a decision on my own. I really need an objective person to guide me through this. I know that we're gonna spend several hours just talking generally about the reasons why they would even consider buying life insurance in the first place and what their considerations are about how they invest their money, what their risk tolerance is, what their needs for liquidity might be, what their plans and resources for retirement income might be. And so I know we're gonna spend several hours talking about that, I'm going to look at the information that's been provided to them by agents typically in the form of a policy illustration.

Dick Weber: With their permission, we may look at and address other kinds of policies that may not have been considered but again, pointing out that we do not and will not sell policies and we do not and will not accept or receive commissions. The client is our sole source of income, and that's what assures them that they're getting our total focus, the true definition of a fiduciary. So our fees can range from $2,500 and probably our largest single project fee was around $80,000, but of course it was a very comprehensive look at multiple families within one family. I mean, multiple generations of some intense work with other advisors such as accountants and attorneys and it also had a business context, so we were working with the CFO and other people to put together a best approach to how to manage all these policies and take advantage of the fact that there was a business that could be involved in the financial part of the construct.

Paul Adams: So if I were to summarize that for our listeners, people pay you five-figure fees to look at the life insurance and make the assessments about what's gonna be best for them and their family?

"Life insurance has been graced with a tax advantage that says that the increase in cash value over time is not taxed. And, if the policy is kept until death, all of the increases that might have been taxed within the cash value are, in essence, forgiven."

Dick Weber: Absolutely, and let's consider that the kinds of plans we have looked at can often involve a premium commitment of 50, 100, 200,000 a year. And so in that context, paying an objective expert to make sure you're getting it right in the first place... And by the way, also, we are often retained to work with their chosen agents, so that in implementation, in essence, the client has a seat at the table of the process that goes beyond the analysis of the actual implementation.

Paul Adams: Oh, very good. So you can go right from consulting to project management to make sure what you consulted on is actually what gets built?

Dick Weber: And on behalf of the client.

Paul Adams: That's very good, very good. So if we can, we're gonna ask you a bunch of questions about whole life insurance today. And one of my first is, why is it that you have some of the wealthiest families in corporations out there, people with the best possible access to information and financial instruments, why is it not only are they acquiring whole life insurance, but then on top of it, they're willing to compensate somebody like you, who you are the only one like you I know about, but they're willing to compensate you to give them an unbiased assessment of it. Like why... They're not only spending the money on the premiums, but they're in addition, willing to do extra ground work to make sure that it's right. Why are they considering and going after and why is there an appetite for whole life insurance for the people that have all these other financial tools, they could access?

Dick Weber: Great, it's a great question. So the first thing I would say is that that life insurance itself is a unique asset class. You referenced our white paper from 2008, life insurance as an asset class, and then our subsequent white paper was managing a valuable asset. There's a lot of mythology about life insurance and there are a lot of jokes about life insurance agents, and I think there's a lot of criticism of whole life insurance as being an old style policy. It is your father's or grandfather's Oldsmobile, and there are many more modern products that should be able to be more accepted by those who might consider needing or wanting life insurance. So we have to get through all of that. And the unique asset class concept is that life insurance designed for a lifetime, totally separate conversation from life insurance purchase for a specific period of time. So a period of time is term insurance; lifetime requires a policy that is designed to be affordable and to work for a lifetime. You're 35 years old. The probability of death that year is very low. When you reach age 95, the probability of death is very high, and that's what dictates the pricing of a term insurance policy. So, how do we defeat that if we're looking for a lifetime product? And that's whole life or the new comer universal life.

Dick Weber: So we first have to get to the uniqueness of such a policy and what it can do within your overall portfolio. The other part of life insurance as an asset class is that it is

a portfolio asset either literally or figuratively. So, when I consider my life insurance, it sits alongside my retirement plans and my property investments and other things that I've done for myself. And in that context, by the way, when it comes to paying the premium, my portfolio pays the premium because we've integrated this unique asset class into a portfolio construct. So just thinking of it in those terms, I think is one thing that is attractive to the people who are referred to us and with whom we work. Now, there's a lot of attention to addressing what kind of policy that's designed for a lifetime is going to be best in this specific situation. Whole life is a place that many people start, but there are other kinds of policies that exist. And so to be responsible, and in reality, to make real my fiduciary duty, I have to use your risk tolerance to suggest the kinds of policy or policies we should be talking about, rather than you look like the kind of guy who should have and could afford a whole life policy. That's not a reasonable basis on which to make that kind of selection.

"You have very little control over the stock market. We know it'll go up. We know it'll go down. Tends to go up five to seven times more often than it goes down; that's the good news."

Paul Adams: So if you are a conservative investor, if your risk statement is, "I'm more concerned about a return of my money than on my money," then that helps me understand the kinds of life insurance policies, you're likely to be comfortable with. That said, if you're an aggressive investor there's probably another class of policies that we should at least take into account, and then ultimately the work that we did, Chris and I did with life insurance as an asset class, was to recognize that when we're talking to people who have significant needs for life insurance, typically in excess of 5 million Dollars, we have clients who have 300 million dollars of insurance, that we need to bring the portfolio concept back to the selection of insurance products. So our 300 million dollar client, we have 17 different companies that have issued policies that are in the aggregate add up to 300 million. And we have whole life, we have universal life, we have guaranteed death benefit, we have variable, in a customized proportion consistent with their risk tolerance. So that's the approach we take, and that's how we, I think, uniquely serve that kind of client who needs that kind of attention that they would normally get from a financial planner, except a lot of financial planners aren't well-versed in the insurance issues, so we bring them together.

Paul Adams: So, when they acquire a whole life insurance policy, you've mentioned about it has an asset class perspective...

Dick Weber: Yes.

Paul Adams: Similar to fixed income assets. And that money is growing on their balance sheet, gives them access that they might not have from some of the other accounts. Do you have clients that are using it for not only as an asset class, but also for the sake of, as a cash reserve. For other business transactions, etcetera?

Dick Weber: That's an interesting question because I know it's often talked about in that way, but frankly, with most of our clients, they want to know that it's sitting in the right asset class wedge, [chuckle] in the entirety of what they have, but they rarely use it.

What helps us is to be able to suggest, as you've just indicated, Whole Life would reasonably be in that fixed income category. And part of the work that we did in life insurance as an asset class was to really focus in on what are those kinds of investments? Well, they're bonds mostly. They might be preferred stocks, but mostly bonds. And you've got long term and you've got short-term. And the long-term have the potential for being problematic if you did need some of that cash, especially if the markets aren't co-operating. And the short term has the dilemma of a relatively low return in exchange for being able to get out the asset whenever you want. What's intriguing about cash value of whole life insurance, if in fact whole life is the right style for your risk tolerance, is that its internal rate of return is at least as favorable as a 10-year bond and yet giving you instant access and liquidity.

Dick Weber: And I think that fact alone is what helps make people be more comfortable about... They've heard that whole life is an old fashion type policy, and it's a bad investment and all those other things. But the reality for them, is it fits in their portfolio in the right category. We're not talking about life insurance versus stocks; hat would be an inappropriate comparison. Talking about life insurance and the appropriate asset class for whole life, that's fixed income.

Paul Adams: So do you see whole life only as a benefit or a tool that would be used by the ultra-wealthy people that are 40-50 million net worth?

Dick Weber: It certainly is something that is attractive to them as an additional level of diversification. Often, those kinds of people, their principal wealth comes from an expertise they've turned into a business, and the only bad news about that is they're not very well diversified. So they're using this particular asset class to help balance, should there be, on the early side, premature death. And in the longer term, something that has significant potential for liquidity and continued accumulation of wealth. I would say that currently we were finding people of, relative to the kind of person we've just been talking about, of more modest means. Someone who's earning $300-500,000 a year. One of their concerns is focused on retirement. What kinds of assets should I be investing in accumulating to the point where I can depend on those resources to allow me to live in the style to which I'd like to become accustomed. And it seems counter-intuitive, but having a substantial amount of whole life insurance, which is completely uncorrelated to the stock market allows my resources to... I can call on them as I need them and in response to whatever the markets are doing currently.

Dick Weber: We've taken people who, a recent client who is making $500,000 a year, she's 45 years old, she's focused on retirement certainly within 30 years, and we simply assessed her current risk tolerance and investments and projected out her ability to draw upon those resources from age 70 to age 100. And there was a very high probability that those resources would provide her with the kind of income she wanted until she was about 85. And then the probability of success started falling off very rapidly, and there was very low probability, 11%, that the income capability would still

be there by age 100. We substituted in whole life insurance for a portion of the fixed return portion of her current portfolio and the age 100 probability of being able to provide the same level of income increased to 80% from 11%.

Paul Adams: Wow. Just by taking some of the volatility out, in a otherwise very normal person, the kinda folks we work with in that $300,000 to $2 million range, by just adding that in. And I think we're gonna have some questions more specifically about that here in a few minutes. But that is exceptional that somebody was able to have that big of an additional outcome simply with the Dad's Oldsmobile as you put it, in terms of financial tools.

Dick Weber: Exactly.

Cory Shepherd: So Dick, we're talking about a more average consumer here now, and the first place that a lot of folks would go for information is internet searches, and it might come up with articles, anything from a Suze Orman type site to the White Coat investor where they get articles that will say, a kind of a blanket statement that whole life is not a good investment.

Dick Weber: White Coat hates whole life insurance.

Cory Shepherd: Sure. And so, not to try to guess what they're thinking, but from what kind of grounding or basis do you think they're coming from when they say that? And how would you respond to that kind of statement?

Dick Weber: Well, let's take Suze Orman for our first example. And I've talked to a lot of agents and they just cringe when you mention her name. And I go a little counter-intuitive, and I say, "You know, I love Suze Orman." And the reason I love her is not that she's dispensing good advice to your client or to you because she doesn't know you. She's speaking to a generic audience, but if you're listening to her, it means it's something that's important to you. So just as you might take it out of the financial realm and just as you might sit in on an episode of Oprah and she's interviewing Dr. Oz, and Dr. Oz has some very interesting things, you're probably not going to run right out and do whatever he's talking about. You're going to consult with your physician to see if it's appropriate for you. So, hopefully, you hear Suze and you're gonna be activated to a particular issue. "Gee, do I really have enough protection for my family if I should die prematurely?" And then you're gonna go seek professional advice that is specific to you.

Dick Weber: So it doesn't bother me that there are these financial evangelists, is what I call them, that have their own particular perspective, their own particular methodology. Frankly, Ken Fisher, is one of them. "I hate annuities." I don't get it. I think it's a marketing ploy. Annuities have great advantage for certain people, and they should not be ignored. So, I think that, again, not to be too self-serving, but that's why I have enjoyed a steady stream of referrals and clients across the spectrum of net worth and

income, because people want objective expert advice, and it's hard to get it. You won't get it on the internet, you're not gonna get it from White Coat, and you need something that is customized to your own specific circumstances which is not just objective, how much are you worth, but how do you feel about the level of wealth you have now and what it is you're trying to aspire to and what is it you're trying to accomplish?

Cory Shepherd: Wow. And in terms of... And we've been dancing around this a little bit. Or you're answering it in kind of a few different ways without me asking yet, but you're talking about whole life as an asset class. You mentioned specifically already, not comparing it to the market. Is that the thing that's going on in some of these articles when they say it's not a good investment? It's because they're comparing it to the rate of return on the stock market or there's something else that is underneath the surface there?

Dick Weber: I think it's predominantly just exactly what you said. I think the inappropriate comparison is, "With good advice and over a reasonable long-term period of time, I should be able to earn 7, 8, 9% on average in the market, and in a life insurance policy, I might only earn two or three." Well, perhaps, that would be true for someone who only invests in the stock market, who has a very aggressive risk tolerance, and who has no need for the balancing act that, frankly, saved a lot of people in 2008 that had some diversification. I think more people today are both more conservative with their risk tolerance and are willing to have more conservative investments to balance that big potential drop in the market, so that I think that it is an inappropriate comparison. I can do better with my money without appreciating that you're not doing that with all your money. And all we're talking about is looking at the portion of your resources that is consistent with this interesting unique asset called Life Insurance and, typically, whole life insurance.

Paul Adams: So we're gonna go to break here in just a moment, and we're always happy to be, have this powered by Sound Financial Group. We're gonna hear from them in a second. And yet, when we come back, what I want you to answer, Dick, is there's all kinds of people out there that are zealots, where it's like, "This is the thing." They might be big term insurance advocates or big equity index UL advocates, or they're, "Whole life is the thing you should do and nothing else." And just, I wanna get your thoughts on, as people, I just refer to them generally as people that are zealous that don't do the math; they just give the opinion with a great deal of gravitas and then expect people to follow it. So we'll get that as soon as we come back from break.

Cory Shepherd: At Sound Financial Group, we are committed to continuing to bring you Sound Financial bites. Hello, my name is Cory Shepherd, President of Sound Financial Group. If you are finding value in these weekly podcasts, and they are making a difference in the way you think about money, then think about what kind of a difference could be made if you engaged one of our advisors to help you look at your personal finances. So, what would the next step be? Send an email to info@sfgwa.com with

"Philosophy" in the subject line, and we will coordinate with you to have a conversation with Paul, myself, or one of our other advisors to share with you our philosophy of money.

Cory Shepherd: No one is going to close you on that call. No one is going to make you an offer to become a client. The only thing we allow our advisors to do in that call is teach, and the only thing we allow you to do is ask for an application. While we don't accept everyone who applies to work with us, we are committed that any Sound Financial bites listener who wants to go deeper has the chance to expand their thinking and walk away with new education and resources around money. So, even if we find out we aren't right to work together, our team will absolutely take care of you in that call and make sure that you have access to resources that might be of help to you.

Cory Shepherd: And welcome back. So, before the break, Paul brought in this concept of the financial zealot, and what I took away from reading your white paper is that this message that whole life is the only good place to put money and you're silly if you put it anywhere else. Well, that doesn't produce a good result. And the same with the just a stock market portfolio. What your research is actually indicating is that whole life and some of these other assets together produce a better result than just one of them by themselves. Can you say more about that research?

Dick Weber: Sure. And we try to take it in very logical steps. By the way, for the rare consumer who might want to actually look at this white paper, it's readily available to you on our website which is insurancefiduciary.com. What we tried to do was address the mythology first, which is the buy term and invest the difference, and taking it from an academic at an actuarial standpoint rather than from a sales standpoint. What we were able to demonstrate is, when you go by the numbers, you have to invest and invest consistently at a very high rate of return to allow the so-called buy term and invest the difference concept to actually work out.

Dick Weber: On the other hand, so I've been in the business, as Paul mentioned, for 52 years, about half of which was as a successful agent, and the second half as the objective fee-only expert, and I have never found a advocate or a zealot of buy term and invest the difference who ever actually did it for more than one year.

S?: Woah woah woah woah.

[laughter]

Dick Weber: So you have a $20,000 premium.

Paul Adams: Wait, wait. Right before you answer that, I wanna make sure for our audience, if they're not as familiar with some of the distinctions, so the idea being is that, if you had a life insurance contract that you were gonna fund with, I think, you're

gonna use this $20,000 example so I'll stick with it, that you put $20,000 into a whole life policy, or you buy some term insurance that maybe costs $1500 and you take the remaining 18,500 and you deploy that into some other investment with the idea being that some time at the end of the term, maybe 20 years, you would have enough in assets that you would no longer have to own the term insurance policy.

Dick Weber: Correct.

Paul Adams: Now, roll with that. I just wanna make sure everybody...

Dick Weber: Very good.

Paul Adams: I think I had a sense of where you're going. I wanna make sure everybody could keep up.

Dick Weber: Very good. That's exactly the comparison. 20,000 versus $1500. And just on the face of that, who in their right mind would spend $20,000 for the same thing that could be purchased for 1500?

Paul Adams: Answer, the wealthiest people in the country.

[laughter]

Dick Weber: That's right. So it's not that simple. What does the $1500 buy you? It buys you protection for a certain period or term of time, and that's great. In America, we don't buy nearly enough term insurance for the kinds of contingencies that have a defined period of time. But what happens in the 11th year of a 10-year term policy? I've been paying $1500 a year, and it turns out I need the protection for longer than 10 years. The renewal premium in the 11th year is going to be 15 to 20 times greater than the guaranteed premium you had for the first 10 years.

Dick Weber: Now, maybe you're lucky enough to be able to go out and find a replacement policy 'cause you're healthy enough and can be underwritten to that, but we really can't depend on that. So when we look at what are the terms of the term policy I've purchased, that 11th premium or the 16th premium on a 15-year policy, or the 21st year premium on a 20-year policy, is an extraordinary leap. The insurance company, understandably, has to protect itself. People who keep the policies beyond the original guarantee period are probably not very healthy.

Paul Adams: Which, and they've actually designed it to price people right out of the market so that they don't keep it for year 21.

Dick Weber: And yet, ironically, I've read a recent study that looked at where the profitability is to the insurance company on the sale of term insurance, and it's

specifically from those who renew into the non-guaranteed period.

Cory Shepherd: Wow.

Dick Weber: And it's because of those huge increases because they won't all die right away.

Paul Adams: Yes.

Dick Weber: So, that's... It is an interesting anecdote. What we observe is that there's a lot of logic behind why pay 20,000 for something you could have for 1500, but then we start looking at the reality of how long you're going to need it. That really was our basic premise in the white paper. It's all dictated by how long you're gonna need it. Five years, 10 years, 20 years. That's term insurance. But if it's a lifetime because of liquidity needs, or estate tax needs, or legacy needs, whatever the purpose might be for having life insurance no matter how long I live or when I die, now we need a different construct because term insurance cannot possibly be affordable for that lifetime.

Dick Weber: In the white paper, we measured, from any particular moment in time, say, age 33 or 43 or 53, each age of which has its own duration of average life expectancy. A 33-year-old has a life expectancy of approximately 50 years. And we looked at, if we just went with term insurance, what's the aggregate premium that 33-year-old would pay over those 50 years, and it's 70% of the death benefit. And we looked at 43, and we looked at 53, and we looked at 63, and it was all the same. 70% of the death benefit is the cost to maintain such a policy to life expectancy. If you go to age 100, the cost to maintain a term policy is 400% of the death benefit.

Dick Weber: You'd never do that in reality it, but technically, when you run the numbers, that was our big aha. Even as academic and actuarially focused as we were, we didn't realize it was that bad for those who need lifetime coverage. Buy term insurance for up to a 20-year defined need, but if it's lifetime, we need a policy that's designed for that, and term is neither mathematically nor actuarially designed for a lifetime. That's what gets us into whole life or universal life or any of the variations on those kinds of products.

Paul Adams: And one thing that I noticed is, we'll talk with clients about the... Certainly, there's a need to have life insurance for a window of time, but then there's the reasons that we might want it beyond the needed period. Like, I've got kids at home and I need to make sure that my family is cared for, and I need to make sure I get disability insurance, things like that. And yet, when we get beyond that window, where "the need" is gone, there might be a want. The asset class diversification, the capacity to deal with money, can you just talk, just really specifically about why you defined it as an asset class, specifically? So somebody's listening to this, and maybe they've send it on to their skeptical CPA or a financial advisor that's with some big wire house, or the well-meaning

brother-in-law, who always throws his opinion around.

Dick Weber: Yes.

Paul Adams: How do you define it as an asset class as it... You've already mentioned earlier about it being non-correlated to the stock market. Maybe just go a little deeper into that.

Dick Weber: Well, let's consider what the traditional asset classes are. This really derives from modern portfolio theory and a very simple concept that won a Nobel Prize in 1992. And what it said is, take your financial resources and account for them, segregate them into cash, equities, and fixed returns. So, we have those three major categories. You can have some sub-categories. You might have natural resources such as gold or timber, or an interest in an oil well, but the classic ones are cash equities and fixed return. And that the premise of modern portfolio theory is that, in measuring your own unique risk tolerance, you then want to diversify your resources in an appropriate percentage of cash, fixed returns, and equities that will maximize return, give you balance in sharp declines of the equity markets, and at the same time, be consistent with your inherent risk tolerance.

Dick Weber: So then we said, well, should life insurance... Can life insurance qualify? And here, we're talking about life insurance that's designed for a lifetime. So, it's whole life, it's universal life, it's something, as I said, along that spectrum. The question now is, as an asset class, what are the attributes of asset class? Cash, equity, fixed return. The cash value of a life insurance policy will be categorized as to the type of policy it is. If it is whole life, a more conservative construct, then it's going to be thought of as in the fixed return. If it's a variable universal life and fully deployed into mutual fund like sub-accounts that are predominantly inequities, then that's going to be an equity category. So, the cash value of the policy contract to those concepts of the major asset classes. And then ultimately, this unique financial instrument becomes a death benefit, and that is of course, literally cash. It's in that way that we claim and attempt to contextualize in the white paper, why life insurance designed for a lifetime is a unique asset class that fits within the traditional construct of cash, equity, and fixed return.

Cory Shepherd: Dick, you you already talked about term insurance policies and what they were not designed for. And not to call out the entire industry, but when it comes to whole life where are you seeing people sold policies that are built incorrectly? What are some of the most typical pieces that you're correcting for and how a whole life policy is delivered that's sub-optimal for that person?

Dick Weber: Great Cory. So one aspect of our engagements is we're often asked to look at a portfolio of existing policies, and the question is, "How am I doing?" And unfortunately the information that you get from the insurance company each year, the annual statement, only tells you what the values are today. You have no way of

translating that into "how am I doing". So we can look back to the go-go 90s, when the markets were just tearing up the level of increases. And so there were a number of policies oriented to the investment side, the Variable Universal Life.

Dick Weber: And characteristic of all universal life contracts is they don't have inherent premiums, so whatever you pay into the policy is calculated on some basis of anticipated, I'll call it sufficiency. And in a variable universal life In the 90s, it was very common for agents to use the maximum allowable assumed growth rate of 12%. We would ask agents why they use 12%, and they said, "Because they won't allow us to use 6." They're using a high assumed constant levels of crediting rate to solve the very critical and understandable question from the customer which is: What's it gonna cost? Well, if I calculate at 12%, I'm gonna get a "What's it gonna cost" result that's pretty low compared to if I calculated at 6% no one was calculating at 6, they were calculating at 12. So come forward to today, and someone comes to us and says, "I've got this $10 million," that was a recent case that we worked on, a $10 million variable universal life. "It was joint lives, we're now both age 75. There's $50,000 of account value in the policy, and there's a $10 million death benefit. Is this gonna work?" And the answer of course is no.

Paul Adams: Nope.

Dick Weber: "Why not? We've been religiously paying our premiums." Well, there's the problem. There really isn't a premium. There's a funding level, there's a plan premium, and unfortunately, no one told you that you have to make up for the fact that when the market goes down, and your account values go down, you're probably gonna have to put in some more money. So that's... The construct of policies becomes important at over time when you look back and say, "There's nothing wrong with variable." I love variable. I actually love all the different styles of policy. Question is, what's the right one, or what's the right combination of ones for you? And so with a variable, we have to make sure to be not just monitoring it, but one of the things that Chris and I did about 20 years ago, is we invented a way of applying Monte Carlo analysis, statistical probability analysis, to life insurance policies that have fluctuating underlying returns.

Dick Weber: And so we'll use that to suggest what kind of renewed premium do you need to pay in order to meet your objectives. Or a whole life policy that, again, in the 90s, we saw a lot of a very small base policy with a very large term writer with the expectation that the dividend would buy paid up additions and buy out the term writers, so that after 20 or 30 years, all the term would be gone and replaced with increments of permanent life insurance. Except as dividend scales came down, because returns in the kinds of safe investments insurance companies make, those returns went down, dividends are much less, they're not buying out the term. What do we need to do now? Those are the kinds of things that we look at when we're looking back on something that was purchased 20 years ago.

Cory Shepherd: So what people were experiencing was effectively that rapidly escalating term cost that you mentioned before, but inside of the shell of a policy.

Dick Weber: Yes.

Cory Shepherd: So why do you think that so many policies that are put in place are over-funded? And of course, we're talking about variable...

Paul Adams: Under-funded.

Cory Shepherd: Right under-funded Yes, yeah, so many. So if you were to... The rates have gone down. But I think that the phenomenon still exists. So many of these variable policies are under-funded. Why do you think that continues to be the case?

Dick Weber: It speaks to a phenomenon that really was inspired by the introduction of these policies, we call universal life, literally 40 years ago. And what Universal Life did was freed up the necessity to pay a specific premium when it was built. In fact, the sales pitch early on for Universal Life was pay whatever you want. There is no premium pay whatever you want whenever you want. Well, what does that lead to from a consumer behavior standpoint? Pay as little as you want, as infrequently as you can get away with, right? So already, we are inviting a mentality that says... In a timeframe, by the way, in the late 70s, early 80s, where interest rates, current interest rates were very high. You could find... Paul, you might remember, Kentucky, Central came out with the Universal Life in 1979 that paid 14% crediting rate. And so the agent might very well compute a plan premium based on that 14% not realizing or not recognizing that that 14% was good for today, and maybe tomorrow, but not next week. And as interest rates came down on the economy, which forced insurance companies to bring down their crediting rates, that premium calculated at 14% is not gonna work at 4%

Paul Adams: Although it does work for a long time, which tranquilizes people.

Dick Weber: Yeah, exactly, but the other dominant issue here was, it trained everybody to think about comparing one possible policy I might buy versus another based purely on the apparent price. "My premium is better than their premium, therefore you should buy my policy." And price is the least effective way to make a choice, either about the kind of insurance or which agents or which insurance companies to buy. It's become probably the biggest problem that has emerged in the life insurance industry today, is that understandable tendency that when you're buying something that seems like a black box, you really don't know what drives it, and you're looking at one compared to another. And one is $20,000, and one is $18,000, our inclination is to go for the 18 and, in fact, ask if there's anything cheaper, without understanding that the 18 or the cheaper is not gonna be able to accomplish, over time, the same thing that the 20 might be able to, depending on how the 20 itself is calculated. It gets very confusing, and I'm very appreciative of how the insurance industry has really shot itself in both feet. These are

the...

[laughter]

Dick Weber: Customers want life insurance. They understand the vulnerability of the people they love or the people who are dependent upon them to have life insurance. But it's inexplicable, and the pricing model is terrible, and they're not getting good reliable customized advice. "Advice from Suze is not gonna work for me. I need someone who can really translate what my concerns and iterations are and give me answers that I can then make good decisions about."

Cory Shepherd: So, Dick, you mentioned, we've been talking about variable and then you mentioned that whole life, it does have a internal and imputed premium. There is an inherent premium to pay for whole life, and one of the consumer complaints that comes up might be, "It's so opaque about what's going on here." So I think we can answer a couple of questions at once if I ask, how can whole life companies pay a competitive rate of return when compared to fixed income? You mentioned comparing that return to a 10-year bond, how can they do that in this different model that's not the 14% crediting rates of a universal life?

Dick Weber: And there's one perfect answer, and that is: Life insurance has been graced with a tax advantage that says that the increase in cash value over time is not taxed. And if the policy is kept until death, all of the increases that might have been taxed within the cash value are, in essence, forgiven because the cash value is rolled up into the death benefit and the death benefit is explicitly free of income tax. Third, if you call this number, within the next 10 minutes, [chuckle], in addition to the extent that... What's been illustrated is taking money out of the policy at some point in the future. Even that goes untaxed. That's the main advantage of the cash value side of a permanent life insurance policy, a policy needed for a lifetime.

Paul Adams: Dick, we have these folks that are, some requiring life insurance policies, sometimes agents are selling it based upon an unreasonable rate of return or unreasonable projections. But before we get too far away from it, I wanna go back to what we talked about before the commercial break, about the zealots out there that are like, "No time, never ever, should you ever touch any form of permanent insurance, especially not whole life insurance." Or the ones that go the other way, like, "You shouldn't ever buy this kind and only that kind." And how do those folks occur to you as a professional dealing specifically in this space, and what do you think causes them to be so hard on their opinions with no availability of, like, maybe you should do the math?

Dick Weber: Well, if we're talking about the financial evangelists, I think it's a matter of what they learned early on, or explored early on, in their own needs for insurance, and maybe it wasn't a good experience. And so we know that there are people who buy different kinds of products for the wrong reasons. And so they got displeased and now

they have an opinion which they generalized to everybody. So that might be a, there's no reason to buy anything other than term insurance. But without taking into account... So Suze might say that, but that doesn't take into account that you may have a lifetime need and use for life insurance. On the agent side, I think it's a matter of what agents get comfortable with, what they're trained to. And frankly, at a time when insurance companies tended to have agents, they don't any longer, most agents are independent, but there were companies that only sold whole life, and there were companies that only sold universal life, and so their training tended to be to those products, and the result was insurance agents having a particular predilection, a particular favorite, because that's what they've been trained, and so that's what they sell.

Dick Weber: And I understand that. That's probably the same could be said of a Chevy dealer versus a Ford dealer. But for your kinds of clients, for the people listening to this podcast, earning 300 to 500 to $2 million a year. They have the resources and they want to make smart decisions, and we want them to make smart decisions. That's why we work with a lot of high-end advisory firms. They know they don't have that technical expertise, they wanna bring it to their clients. And so, this examination, this conversation we're having today, I think is very important for them because these are concerns that they have. It's a very difficult market place. The recommendation you get, just to your whole point, is depends on who you're talking to, so you wanna have someone who's more objective. And I'm not making that a pitch about me, but just trying to really understand the dilemma that the affluent consumer has about this very important foundational property, if you will need for insurance, whether it is life insurance, whether it is temporary, term insurance or permanent whole life insurance.

Dick Weber: You mentioned earlier human life value, essentially putting a value on our income-producing capability over our lifetimes. Let's not forget disability Insurance. We are far more likely to become disabled before 65 than to die before 65, and far too many of the financial evangelists take that into account.

Paul Adams: That's great, that's great. Now, we're running up on time here. So I wonder if you could give us... We alluded to it a little bit earlier, I think we've got plans to go into this deeper in another podcast, and I might actually have you... Fun to have you come back as a co-host for one of those instead of us just interviewing you 'cause I think you'd have some brilliant insights, but could you explain the use of whole life insurance as volatility buffer, to our audience, that you kinda mentioned about the woman taking distributions, that her money was only gonna get her so far, but after adding a volatility buffer made a difference. What is a volatility buffer and then what does it accomplish for people?

Dick Weber: So, a volatility buffer, if you imagine the stock market going up and down and you hope it goes more up than down, and you hope that the direction of up is at least towards the upper right-hand corner, that you have very little control over the stock market. We know it'll go up, we know it'll go down. Tends to go up five to seven

times more often than it goes down, that's the good news. But the question is, at any moment in time, we have a dilemma of what's called sequence of returns. You could retire in November of 2007, turned out to be the high of the market before the economic crisis of 2008, and in the 17 months between November of 2007 and March of 2009, the DOW went down 55% because of the unfortunate timing of retiring at just that point and experience in market decline. So you would ideally have liked to have had an alternative resource that was not in the market, that was not vulnerable to that decline, as a buffer to the decline. So that's how I would have defined it.

Dick Weber: And the buffer in the example, for the woman who was retiring and was not happy with such a low probability of success with retirement income if she lived that long, is that the cash value of a life insurance policy being uncorrelated, it's not invested in the market, and there's no negative side to itis return. You put money in the market;the market goes up, the market goes down. There's times when there's a negative aspect to your return. That doesn't exist in the cash value of a whole life insurance policy. So you already have a hard stop at the guarantees of the contract, and the dividend of the policy enhances it, and the combination of that and the strategy of having some internal rule that says, "It's January 1st and I'm about to take money out of my resources to retire on. I'm forced to take my RMDs, but in addition to that, I want more money. Do I take it out of the market, do I take it out of an insurance policy or some combination?" And you have some simple rule. How did the market do last year? That's not a predictor of next year, but it's some kind of indication.

Dick Weber: "If the market is already on the decline, I'm not gonna take money out of the market if I can help it because I'm destroying asset value. I'm gonna go to an uncorrelated resource, either cash or cash value." And that's how that buffer integrates with and provide stability in an overall portfolio that once you retire, you generally can't replace those assets, so it becomes really important that you have a good strategy. And with the people that we've worked with, which is exactly your type of client, your category of client in that 300, 500 to a couple of millions dollars worth of income, that's something they really should be looking at because that can be a very important decision made today, at 35-40 or 45, that they won't even think about again until they retire at 65 or 70 or 75.

Paul Adams: Really great, really great. Well, as we wrap up today, here's what I would love everybody to take away. Number one, we can't trust, not because they're untrustworthy, but because we can't trust that it's gonna work for us. We have to take all of the people that are zealous about this always or this never because the minute we buy into that, what we risk is implementing something that works for somebody else and we don't know if it works for us. So you've got to be working with an advisor that's willing to sit with you, understand the strategies well enough, and actually do the math with you. More important than doing the math with you, they should teach you how to do the math, putting you in the position that you get to be your own fiduciary. We've talked about in some past podcast episodes, that you can't sit back just because

somebody has a bunch of credentials, and they tell you they're putting your interest first to not be responsible for how that's going.

Paul Adams: A simple example for everybody is, imagine you're gonna build a home and you're gonna build the home you're gonna live in the rest of your life. And what people do too often, especially in the high income realm, is they discount the ability to get the job done, as if what they can do is give the keys to the gate of the property to the general contractor, walk away, come back in a year and that house is built. That doesn't work in real estate. We all know that; we get it intuitively. In fact, the more big, the home, the more important it is that you're on the job site, you're talking to the contractor, you're giving them the feedback, and you're making sure that it gets built the way that you want it built. That is key. Well, it's the same thing with our money, whether it's the life insurance component, the investment component, how we're correlating our estate planning or our real estate holdings. You've got to be on site. You can't be an absentee owner hoping that it's gonna produce the outcome that you'd want. So thank you so much, Dick, for being here. I'm thankful for your knowledge, your mentorship over the years, and especially your willingness to share this knowledge with our audience.

Dick Weber: It's been my pleasure, thank you for the opportunity.

Paul Adams: So for all of you listening right now, we've told in the past that what we'd love to do is send you a copy of Sound Financial Bites, send you a copy of Michael [0:57:36] ____ Clock Work, and how you can do that is simply do a podcast review for us. Helps us tremendously on iTunes, and it gives you the ability to get some great books that you will be able to use in your life and in your business next week. All you need to do is write your review on iTunes, which is go to our podcast page, scroll all the way to the bottom, you'll see the reviews, and you can make one there. Part one. Part two is, just send us an email at info@sfgwa.com. Cory and mine's team will get that out to you right away. And here's why it's important. We know there aren't many podcasts out there that aren't driven by some financial institution. They're not driven by advertisers. We are here trying to give the best possible knowledge to you 'cause we know not everybody is gonna be at the right time in their life or the right place to reach out to us to engage.

Paul Adams: You guys are always welcome to do that as listeners, but we want you, by doing that review, get this podcast in more people's hands. Send the episodes that resonate with you to people that you care about. It will make a difference for them. We're now hearing from people who are introduced to the podcast some time prior, because a friend of theirs posted social media, and they were listeners for like a year before ever reaching out to us. So we know there's many people out there that haven't reached out to us yet, and that's okay, but we wanna make sure people are getting this knowledge, getting this value, and getting a chance to shift the way they think about money. Now, this week, we have a very fun featured review. I got a chance to talk to this

guy, he wrote his name as Chasing Work Optional, and he wrote, "There's plenty of financial "gurus" telling you to get rid of your debt, max out your 401k to the company match. But what about helpful tips for the savvy professional in the 500,000 income bucket? Paul and Cory had been both helpful and entertaining on Sound Financial Bites. I listened to one recent episode, and it was insightful enough to make me go back and start with episode one. Absolutely love it. And most advisors would charge thousands for half of what is shared here for free. Great insights and great people. Thank you for committing your time and expertise, Paul and Cory."

Paul Adams: So, Chasing Work Optional, we are thankful that you both wrote that podcast and giving us insights 'cause we take those reviews, we work to build better content, and we're always open to hearing from you. Connect with us on LinkedIn, Twitter, Facebook, and don't hesitate to send us messages of what you wanna see on upcoming podcast. Cory and Dick, thank you so much for being here.

Dick Weber: Pleasure.

Paul Adams: And I hope that this episode has been a contribution to all of you being able to design and build a good life.

Speaker: I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances and your future to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn. If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, soundfinancialbites.com or email us at info@SFGWA.com. Be sure to check out the show notes for links to any resources that were covered in each episode. For our full disclosure please check the description of this episode, the description of this podcast series, or you can visit our website. Make it a great day.

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