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Most of us have at least one personal relationship that bedevils us. It's often someone we wouldn't choose as a friend, but have to get along with, like a condescending mother-in-law, an impossible-to-please boss, or an obnoxious next-door neighbor. Interactions with these people can seem one-sided, and make day-to-day existence more stressful. But you can't just end the relationship, and telling them off would only make things worse. Your only real solution: flip the script. Find a way to reset the relationship so your discomfort is minimized, or you get more benefit from continuing to participate.

If you live in the USA, by default you have relationships with financial institutions. These relationships, while impersonal, can often leave you with the same sense of exasperation. But can you flip the script on your relationship with financial institutions?

You might, if you first understand the script as it's currently written.

THE INSTITUTIONAL SCRIPT FOR PERSONAL FINANCE

The Players. Individuals and financial institutions have an interdependent relationship; institutions need individual customers, and individuals need the products and services offered by the institutions. It may seem like institutions control the terms of the relationship, but if their actions alienate too many individuals, they risk going out of business. Going out of business goes against the primary objective of every financial institution: to make a profit.

Financial institutions derive profits from three money-related activities: Lending, Asset Management, and Insurance. Their business plan, whether they are lenders, asset managers, or insurers, is straightforward. These institutions...

- want as much of your money as possible,
- want it as often and regularly as possible, and
- want to keep it as long as possible.

The financial objectives and plans of individuals are much more diverse. It might be financial security, retirement, business succession, income protection, a new home; the mix is unique to each person, and changes regularly.

In this business relationship between institutions and individuals, institutions are sellers, offering products and services. Individuals are customers, paying for loans, accumulation products, and insurance.

The Personal Finance Script. There's an old saying that the customer is always right. But because of their collective financial strength and their unified business objective (to make a profit), financial institutions usually control the personal finance narrative. This "script" for personal finance can be summarized in seven words:

"Borrow for today, and save for tomorrow."

Sounds counter-intuitive, doesn't it? But as an implementation of the institutional business plan (to receive as much as possible, as frequently as possible, and as long as possible from individuals), this script is brilliant.

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* The title of this newsletter should in no way be construed that the strategies/information in these articles are guaranteed to be successful. The reader should discuss any financial strategies presented in this newsletter with a licensed financial professional.

Financial commentator John Mauldin is fond of saying that the “advantage of debt is that it brings the future into the present.” Instead of waiting for savings to accumulate, you buy now, then pay as you go (with interest). The script opens with borrowing (i.e., using future dollars) for a college education. After graduation, you borrow for a new car, then your first home, maybe a wedding, or perhaps a big vacation (it’s a reward for your first real job that makes it possible to start paying it all back).

At the same time, you begin saving for retirement, steadily setting aside 15-20 percent of annual income in long-term investments, where returns will theoretically be maximized if you don’t touch the money, but instead allow time to level out volatility.

As long as you maintain your saving habits, you can keep borrowing right up to retirement to enhance your standard of living (perhaps to move up to a nicer home, or acquire a vacation property).

An important caveat: Borrow-for-today-save-for-tomorrow needs ongoing income (to make payments, and build savings). And lenders may also demand *protection* for assets (like cars and homes) secured through borrowing. Hence, the necessity of life, disability, property and casualty insurance.

For the institutions, adherence to the borrow-for-today-save-for-tomorrow script produces an ideal customer, one who delivers decades of

- loan payments,
- saving and investment contributions, and...
- insurance premiums.

For the individuals who stick to the script (using the full range of lending, asset management and insurance options offered by financial institutions) there is the tantalizing prospect of immediate gratification and future security.

The Same Script for Both Demographics?

But while financial institutions want everyone as a customer, they also recognize their market is not homogeneous. There are two distinct demographics for financial services: The Wealthiest 10 Percent of Americans, and Everyone Else. And this distinction highlights another ingenious feature in the borrow-for-today-save-for-tomorrow marketing message: It works with both groups, for different reasons.

The Wealthiest 10 Percent: The Ideal Customers

For purposes of this discussion, here’s the threshold for inclusion in the Wealthiest 10 Percent of Americans:

By Annual Income:	\$108,000 – (individual)
	\$170,000 – (household)
By Net Worth:	\$1.2 million

You can quibble with the benchmarks (taken from a June 2018 DQYDJ.com article, which used Federal Reserve data). But whatever the numbers, the 10-Percenters represent the sweet spot for financial institutions. This group has the financial wherewithal to save, which also makes them desirable borrowers (they’re eligible for bigger loans, and are more likely to pay them back). And because they have higher incomes and acquire more stuff, there’s more to insure.

Everyone Else: The 10-Percent Wannabes

When researchers and policy makers bemoan Americans’ low saving rates, meager retirement accumulations, and increasing indebtedness, they’re not talking about the 10-Percenters. It’s Everyone Else. Because they don’t have the

incomes or the net worth of the 10-Percenters, Everyone Else has a tougher time saving for tomorrow. But...

Even if they can’t save for tomorrow, Everyone Else may still be able to borrow for today! Maybe for a college education, but certainly for an automobile, possibly for a home, and if necessary, credit cards to cover whatever else the present requires. After all, isn’t that how a lot of 10-Percenters got their start? You’re just following in their indebted footsteps. And who knows? Everyone Else might eventually save for tomorrow, and become a 10-Percenter too.

The focus on the 10-Percenters is “aspirational marketing” to Everyone Else; it says, “You’re not in the 10 Percent today, but it’s where you want to be.” This idealization of the 10 Percent isn’t exclusive to financial institutions. Just about every national business advertises the same way: The actors in ads buying the car, using the shampoo, eating out, etc. look like 10-Percenters (or in the case of younger actors, 10-Percenters-to-be), and they are placed in 10-Percenter surroundings.

This idealization of the 10-Percenters has strong roots in the American Dream, where anyone can rise from any depth to wealth and contentment. Even if the income potential and saving habits aren’t there, it’s a subtle endorsement that it’s okay for Everyone Else to borrow for today.

Do You Like the Script (and Your Part)?

You might interpret these observations on the institutional script for personal finance as criticism. That’s not the case. Lending is vital to expanding prosperity and opportunity. Saving is always productive. Insurance remains the most effective way to temper financial risk. And while the borrow-for-today-save-for-tomorrow script might be slanted toward financial institutions, it also often results in a very comfortable current standard of living and a secure future for the best customers, the 10-Percenters.

But...

If debt is keeping you from saving as much as you should, or the prospect of making loan payments for the rest of your working life is starting to affect your peace of mind, maybe it’s time to flip the script on why you borrow.

Or...

If you’d like to do some asset management yourself (like running a business, or developing real estate), it could be beneficial to flip the script on long-term investments.

And here’s another thought-provoking idea: What would happen if you literally flipped the script and said:

“Save for Today, Borrow for Tomorrow?”

This is the essence of many business plans. A company stockpiles cash before financing a major expansion. Or a developer accumulates a down payment for the financing of an undeveloped parcel, with a potential build-out over the next 20 years. It’s an alternative financial script with a lot of happy endings.

None of these alternatives will eliminate financial institutions from your life. But they might change your relationship with them, and the products and services you use. With input from financial professionals, you can write your own script, instead of working from the one financial institutions use to achieve their objectives. ❖





Permanent life insurance is a descriptive term for policies designed to remain in force for the entire life of the insured. Most permanent life insurance policies (such as whole life, variable life or universal life) also feature a cash value account, and this unique combination of a lifetime insurance benefit and tax-deferred accumulation can be a valuable asset in a comprehensive financial program. But making sure policyholders maximize the benefits from permanent life insurance requires thoughtful planning and on-going management.

Perhaps the most significant challenge in maintaining a permanent life insurance policy is continuing to pay the premiums. Leslie Scism, a *Wall Street Journal* reporter who covers personal finance issues, says, “Many buyers underestimate how difficult it can be to pay the premiums year after year, and they end up canceling their policy before they break even.” A 2016 study from the Society of Actuaries found that “more than a quarter of whole life policies are terminated in the first three years.” It seems redundant to repeat the obvious: To fully realize the benefits, a permanent life policy must remain in force.

Some critics say adhering to a premium schedule for a lifetime is not practical from a behavioral standpoint. This statement ignores the fact that many households make either rent or mortgage payments for their whole lives, month after month, year after year. The problem isn’t life insurance companies are asking too much of consumers; it could be that consumers don’t see their premium payments in the same light as their mortgages.

The Mortgage Analogy

Although the comparison isn’t perfect, buying a permanent life insurance policy is analogous to taking out a mortgage.

- An amortized payment (the monthly mortgage or insurance premium) secures the ownership of a much larger asset (the real estate or the insurance death benefit).
- In the early years, payments are proportionally weighted toward expenses (interest and cost of insurance) and only later tip toward accumulation (home equity and cash value). In the case of a permanent life insurance policy, it may take 15-20 years for cash values to exceed total premiums paid, depending on dividends¹ paid or investment returns on the cash value.
- At the end of the payment period the house is paid off, and the insurance policy is considered “paid-up,” i.e., no

additional premiums are required to keep the coverage in force.

- Today, the most common payment period for a mortgage is 30 years. For permanent life insurance policies, the most common payment period is for one’s whole life, i.e., from now until between ages 95 and 121.
- Consumers have some flexibility in determining the length of their mortgage, and the period of premium payments. Shorter terms result in higher periodic payments, but also accelerate home equity or cash value build-up.

In the right circumstances, policyowners may find that selecting a shorter premium period can be an effective approach to the challenge of keeping a permanent insurance policy in force for the long haul. Among the possibilities:

Single-premium life insurance. It is possible to obtain a permanent life insurance benefit and pay just one premium. Compared to a standard whole life policy with annual premiums, the single-payment amount will be significantly higher. But the cash value accumulation will also accrue more rapidly – in some policies, cash value may exceed the initial premium in the policy’s second or third year.

The cash values in single-premium policies are subject to slightly different tax treatment compared to most permanent life policies², and depending on individual circumstances, this may be a disadvantage. However, individuals with substantial liquid assets may find it desirable to secure a permanent life insurance benefit through a simple one-time asset transfer.

10-pay and 20-pay life insurance. Instead of planning to pay premiums for a lifetime, most life insurance companies offer policies that can be paid-up in shorter periods, such as 10 or 20 years. As with a mortgage, a shorter payment term means a larger outlay. But cash value accumulation will be accelerated as well. An illustration of projected values for a 10-pay policy will typically show cash values not only exceeding premiums paid at the end of the 10-year period, but often providing a rate of return comparable to other conservative, guaranteed investment choices.

Unscheduled paid-up additions.³ This feature allows a policyholder to make irregular additional deposits to the policy, increasing both cash values and the total insurance benefit. Similar to extra principal payments that retire a mortgage early, unscheduled paid-up adds can be used to pay up a life insurance policy ahead of schedule. (Note: The IRS has strict guidelines on the tax treatment of cash values. Paying up a policy too fast might mean forfeiture of the tax advantages of cash values. Professional assistance is essential when using paid-up additions to shorten the period of payments.)

Selecting Your Payment Period

The best decisions about permanent life insurance are those that see these policies as long-term assets, ones that will typically be purchased through a series of payments over time. Choosing a shorter premium payment period may be one way to ensure your permanent life insurance purchase remains a long-term asset.

But even with longer “whole life” premium schedules, there are options for adjusting premium payments while keeping the policy in-force. Once the policy accumulates cash value, it may be possible for policyowners to temporarily suspend payments.

For cash-rich policies, it may be possible to suspend them for longer periods with no intention of resuming premiums at all.

When you combine an appreciation for the long-term value of permanent insurance with the different options for paying the premiums, you should recognize the truth of the statement that opened this article. Maximizing the benefits from permanent life insurance requires thoughtful planning and on-going management. ❖



DOES YOUR LIFE INSURANCE PROGRAM INCLUDE PERMANENT COVERAGE?

ARE YOUR PREMIUM SCHEDULES HELPING YOUR POLICIES REMAIN A PERMANENT PIECE IN YOUR FINANCIAL PLANS?

1 Dividends are not guaranteed, and are declared annually by the insurance company's board of directors

2 A Modified Endowment Contract (MEC) is a type of life insurance contract that is subject to first-in-first-out (FIFO) ordinary income tax treatment, similar to distributions from an annuity. The distribution is also subject to a 10% tax penalty on the gain portion of the policy if the owner is under age 59 1/2. The death benefit is generally income tax free.

3 Paid-up Additions (PUA) are purchases of additional insurance (death benefit) that have a cash value. These purchases are made with dividends and/or a rider that allows the policyholder to pay an additional premium over and above the base premium. This creates the growth of death benefit and cash values in a participating whole life policy. Adding large amounts of paid-up additions may create a Modified Endowment Contract (MEC).



College Knowledge:

136 Names for a Student Loan

College is expensive. You know that. To help pay for college, scholarships, grants and loans are available. You know that, too. But determining how much college costs, and how much assistance you can expect to receive, well, that often depends on your definitions of “cost” and “assistance.” Or more precisely, it depends on how a particular institution chooses to define those words.

The Cryptic Award Letter

One of the problems is the “award letter,” a document that supposedly informs prospective students how much their education will cost, and what assistance might be available. Because there is no standardized format to present this information, colleges create their own award letters – and use their own language. This lack of uniformity makes it harder for prospective students and their families to decipher the true cost

of attendance, and to make comparisons between different schools.

“Decoding the Cost of College,” a June 2018 report prepared by the non-profit organization uAspire, analyzed over 11,000 award letters, and found that schools often

- used confusing jargon and terminology
- omitted the complete cost of attendance
- failed to differentiate types of aid (loans vs grants vs scholarships)
- provided vague explanations of work-study employment and parental assistance
- were inconsistent in their calculations of a student’s net cost of attendance.

Here are a few items where prospective students and their families may find award letters less than helpful.

“It’s a loan, but we don’t call it one.”

The most common student loan has the official title of “Federal Direct Unsubsidized Loan.” Among the 455 colleges represented in the award letter report, there were 136 unique terms for this loan – and 24 which didn’t include the word “loan.” For example:

- **Federal Direct Unsub Stafford**
- **Federal Direct Unsubsidized**
- **Direct Unsub**

In some instances, these vague terms were listed, along with scholarships and grants, as “financial assistance,” without any clarification that a “Federal Direct Unsub Stafford” is a loan that, if taken, will have to be repaid. Which means, it’s not “free money for college.”

“Oh, you mean *all* of the expenses!”

The cost of college is more than tuition; there are also living expenses. Referred to as “room and board,” these costs can easily run to \$15,000 a year.

If a student intends to live on campus, room and board may be factored into a cost of attendance (COA) calculation. But because some students live at home, or in off-campus housing, a school may not include living expenses in its award letter. And other miscellaneous but essential expenses, like textbooks, personal computers, lab fees, etc. might also be omitted from a school’s COA calculation.

But here’s the stunner: According to the report, approximately 200 award letters “*did not include any cost information with which to contextualize the financial aid offered.*” Hey, \$30,000 in financial aid sounds like a lot of money until you realize the cost of attendance is \$60,000.

“Yes, loans, EFC and work-study can be “awards.”

Most consumers wouldn’t consider a loan an “award.” (“*Congratulations! You just won a loan!*”) And there are other categories for which the term “award” is also dubious.

Financial aid assessments include an estimated family contribution (EFC), the amount the school believes should be paid by the student’s family, based on an assessment of factors like family income, qualifying investment assets, number of people in the household and, in some cases, home equity. Many schools listed the EFC alongside scholarships, awards and grants, suggesting that what the school wants the student’s family to pay is part of the school’s financial aid offer.

Work-study programs give students the opportunity to earn money for college through part-time, on-campus employment.

But eligibility for work-study doesn't guarantee a job upon enrollment; it depends on what's available and whether it fits a student's academic schedule. Yet a job you may not have might be listed as an award.

To be fair, some schools did an excellent job communicating critical financial information. Robert Morris University award letters grouped financial aid by type with clear definitions. One section was: **"Grants and Scholarships—Free Money!"** while another detailed **"Student Loan(s)—Repayment Necessary."** That's concise, and easy to understand.

Deciphering Award Letters, Developing a Strategy

Circling back to the opening statement: college is expensive. Which makes an award letter more than an informational report; it's an attempt to persuade students and their families that this very expensive item can be paid for. You have to read this correspondence with a critical eye.

When an award letter suggests that student loans are the financial solution to a college funding gap, proceed with utmost caution. If you're current with personal finance issues, you know many experts see a growing problem with student loan debt; too many students are borrowing too much. This debt imposes a significant financial drag on post-college finances – particularly for those who leave school without a degree. A sound financial strategy is to resist borrowing until the completion of a degree is in sight. When it comes to college, you borrow to complete your education, not to start it. ❖

The college-application process, including financial aid, is detail-driven. Beginning with the Free Application for Federal Student Aid (FAFSA), there is a lot to prepare, submit, and evaluate.



You must pay attention. If possible, get help.

Collaborate with your financial professionals to accurately assess your assets and develop strategies to make college as affordable – and debt-free – as possible.

That's Funny.

(And True)



Spoiler Alert #1: Per Wikipedia, *"The Onion* is an

American digital media company and news satire organization that publishes articles on international, national, and local news." Here's the headline and opening sentences from a June 27, 2017, article:

Study Finds Americans Do Most Financial Planning when Figuring Out How to Get Money's Worth at Buffet

WASHINGTON—Shedding light on how the nation manages its wealth, a study released Thursday by the Pew Research Center revealed that Americans conduct the vast majority of their financial planning when figuring out how to get their money's worth at an all-you-can-eat buffet. **"Our data show that Americans devote the greatest amount of attention to allocating their resources when determining how much value they can wring from the offerings at their local Hometown Buffet or Golden Corral,"** said lead researcher Michelle Keene...

At the close of the article, Ms. Keene observed:

"(T)he average American shows an unprecedented level of foresight and long-term thinking while heaping their plate with the most expensive meat and seafood."

Spoiler Alert #2: While almost nothing in the above-mentioned article is factual, the *Onion* is telling the truth.

To clarify:

- Although it's a real organization based in Washington, D.C., there is no report from the Pew Research Center.
- "Michelle Keene," is not a lead researcher, but per a Google search, a bail bondsman in Murfreesboro, North Carolina.
- As to the assertion that Americans "conduct the vast majority of their financial planning" at an all-you-can-eat buffet, there is no research to substantiate this claim.

And yet...the story is spot-on. Americans do make better financial decisions at an all-you-can-eat buffet. You see, when it comes to eating...

We do it every day. Not to equate it to Malcolm Gladwell's 10,000-hour rule (mastery of a skill requires 10,000 hours of practice), but most of us are adept at eating, simply because we've had so much practice.

We know what we like. It's the rare diner who goes to an all-you-can-eat buffet because they want to "try something new." Mac and cheese, fried chicken and soft-serve ice cream aren't exotic dishes that require a chef's explanation. People come to buffets to get huge portions of foods they know they like.

The feedback loop is immediate. From the first bite, you know if you're going to have seconds on meatloaf. And an hour later, you can tell if the asparagus is giving you gas. It's easy to assess if you made a good decision.

But personal finance? Well, none of the above factors are present.

We don't do financial planning every day. It's not like eating. Urgent issues of the day push financial planning into something to be addressed "tomorrow," when there's more time. Quarterly statements are stacked, unopened, on your desk, and you make it to annual reviews every three years. That's not a recipe for financial competence.

We don't know what we like. Mac and cheese? Easy to evaluate, and vote up or down. Whether the alpha of an investment is too volatile for your risk profile? Well, when you sat down with your financial professional for an annual review, it all made sense... until you left the office, and your spouse asked, "Did you understand those recommendations?"

The feedback loop is delayed. The evaluation period for some financial decisions can take years. Is it time to let go of that investment that has underperformed expectations, or is it on the edge of taking off? How do you tell?

You Can't Set it and Forget it.

In their 1996 bestseller, *The Millionaire Next Door*, authors Thomas Stanley and William Danko provided insights about habits and actions that define the wealthiest Americans. One of their findings: a distinct correlation between the amount of time individuals spent planning and managing their personal finances and successful outcomes. Those who invested more time – particularly those who kept to a schedule of reviews and updates – had better financial lives, i.e., they had more money, less stress, greater contentment.

Many Americans underachieve in their financial planning because they don't do it often enough to become good at it. Do you need to increase your time commitment to your financial plans? ❖



Life is not an all-you-can-eat buffet.

But copying the financial habits of the wealthiest Americans may provide you with a heaping plateful of benefits, including less stress, more contentment and a better financial life.

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