“ Consistency^{2} ”

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My focus today is on the “certain consistency” or consistency^{2} of permanent insurance (and I am not talking about dying, although that has always been quite consistent). I am referring to permanent life insurance’s consistency of growth and the stability it provides through one’s entire life.

With the constant volatility of the marketplace and an increase in taxation, we are always looking for assets that are not correlated with the market, can provide long term, consistent growth and, if possible, help reduce/eliminate taxation. In many financial planning conversations, permanent coverage is downplayed, degraded or at worst, simply avoided. When it comes to this type of planning, I feel there is a large knowledge gap for individuals and advisors as well.

Like most individuals nowadays, we all first head to the internet when researching a topic. The internet has become our encyclopedia to life. If you Google permanent life insurance, the negativity is abundant. Whether it is the media, a family member or trusted advisor, it is portrayed as something to be leery of, inefficient and/or unnecessary. Quite often, financial planners (many who did not obtain the designation of Charted Life Underwriter CLU) or are just not truly experienced working with risk products in general) defer clients to “another person” in their office or to someone down the block who handles this topic. That alone portrays to the client the “secondary” nature or unimportance of the conversation.

I believe the “referral” element of this discussion also demonstrates the complexity and multifaceted considerations surrounding this insurance product, as well as the lack of needed knowledge the average advisor has in this field. I also feel many advisors do not want to discuss defensive planning in general in any prolonged fashion for they fear the client may not view them as a true “investment advisor.” This is silly given the age old adage of “what is the best offense but a good defense.” In this vein, many advisors hold themselves out as overall wealth advisors, but what they truly want is to gather the investment assets. For them, any conversation not centered on asset gathering is viewed as secondary.

What I have found is that most people have a preconceived notion/attitude about life insurance. However, most of these theories are not based on fact or experience; only what they heard/read, as well as “handed down” attitudes perpetuated by bias. I continually have to educate individuals on what a well-performing, multi-use contract can do for one’s overall personal and business planning.

An important note. Large U.S. corporations have been employing permanent life insurance for decades and utilizing the tax favorability of it’s cash value growth and tax free death benefit. They deploy this tool in developing advanced nonqualified retirement programs for their top executives. It is a well-respected and utilized tool for the top executives throughout the nation.

Accountants and attorneys have similar inherited biases like any other individual. It is funny, for they will quite often balk in providing any investment opinions, instead telling a client that they should "discuss with their advisor". However, when it comes to life insurance, they usually are willing to offer their views.

As I look back on literally thousands of conversations I have had over the last 25 years with clients, I identified a common goal. This goal is to provide a moment in time where my client captures a sense of security and control for themselves, and more importantly, for the one's they love. In essence, that is what "planning" is truly all about. "The key is returning to the planning task at all of life's pivotal moments to be sure the plan is on track and remains secure over the long haul." How do we harness all of the energy spent on one's career and capitalize on the sacrifice of time spent away from family to finally deliver that feeling/reality of financial independence and security?

If I was meeting someone for the first time and discussed that a new product was developed that Congress approved with generous tax favorability, and it is called Beta Stabilization tool (better known as BS), you know individuals would be open minded to understanding and evaluating the tool. They would want to see historical evidence that truly demonstrated success. They would also want to confirm that Congress truly does provide the tax favorability as well. If they could also talk to people who actually have successfully used this tool over the years, that would also go a long way for them to actually consider making it part of their financial plan. Once satisfied, they may implement and begin to tell their colleagues and family how they found a tool that is not volatile like the market, provides good growth, and is tax efficient…..then … I would go to jail…. for it is simply permanent insurance.

When analyzing the characteristics of permanent insurance, what other tool can have cash grow tax-deferred (with a guaranteed minimum), have tax-free access at any point via the loan mechanism (unless it is a Modified Endowment Contract which can easily be avoided), and when you pass away, deliver a tax free lump sum larger than the cash value to your family? Take a step back and think about that. All of this in a product not directly tied to the market nor experiencing the market's volatility.

Over the years I have heard it all:

- "Lou, buy term for me and invest the difference in the investment account you created for me" (**HERE** … possible, but taking on more risk).
- "I will not need insurance later in life."
- "It has low returns, and high costs."
- "Lou, I do not have the cash flow to support it."
- "We will need to start it later. I am buying/upgrading/repairing the house, having a child or buying a car (or the many other things we want to do in life)."

The list goes on, but all are either predisposed heuristics and/or excuses for not committing to long term planning. Keep in mind, any client concern, question, or misunderstanding is extremely important to address. However, once someone puts aside the "herd mentality" (this applies to investments as well) and takes the time to understand how this type of insurance works, the tax favorability, and how each carrier offering permanent insurance has a unique performance history (**HERE**), this may be an appropriate tool to add to your financial tool box.

My bigger question becomes, why does the permanent insurance conversation usually start by having to unwind misconceptions and deep rooted opinions? If you looked back at the historical, consistent performance of a well-constructed permanent contract compared to other options, those looking for control and stability will discover a very helpful, life-long tool. I have to tell you, clients that have been with me 20 years or longer, not one of them has ever said to me during a review, "Man, I wish we never did that permanent coverage." You want to know how that conversation usually goes? "Why didn't we do more back then?" This is why over the years, I have encouraged my clients to establish permanent coverage early on, in significant amounts, and also to start it for their children, giving them a leg up in their future planning.

An important note here: you also have to realize, most people in this country should just own temporary (term) insurance. Average income is approximately $50k (US Census Study 2012). Many will find it difficult to max out their retirement plan, put food on the table and pay the rest of their bills. Those in that situation may be better served renting their coverage (term) versus owning it (permanent). Even those more fortunate, who just want to get their "butts" covered at the lowest possible short term cost should use term. There is nothing wrong with term or temporary coverage. It is a great tool depending on your short and long term goals.

If you are planning for the long haul, can afford to own versus rent, looking for ways to achieve tax deferred cash value growth, possibly leverage against estate taxes while providing inheritance for the family, then permanent coverage may be a tool you should consider.

Reflecting back on my life and my clients' lives, would I still recommend establishing permanent life insurance as part of one's overall finical planning? The answer is hands down emphatically yes. It is one of the most multi-faceted, tax-efficient, consistently performing tools that you can put in your proverbial "financial toolbox". For you nay-sayers, weary of vested interests (this includes this Bronx boy who goes under the assumption "people suck" and if they behave differently I am pleasantly surprised) who say "Lou, when insurance is written, do you not get paid?" I do! I also get paid when money is invested. I also get paid helping you plan now and for the future. I get paid to help you avoid making mistakes, to avoid making bad long-term decisions in your life, and assist in making the good ones. I get paid for creating/monitoring your portfolio and making sure you stay on track with all your long-term goals. I get paid for helping you ignore all of the BS when it comes to investments and the "newest" investment strategy or product Wall Street has to offer. If you are working with me or any other advisor and are not sure if we are doing "our" planning versus "yours," then you are working with the wrong person.

What I do know is that a well performing, well-structured permanent life insurance contract is one of the most versatile tools a healthy person building wealth can implement. We all strive for independence and control in our lives. You will utilize different tactics as we endeavor to get there. Permanent insurance is one multifaceted strategy that brings us closer to that common goal.

Consider any tool/tactic and take the time to evaluate the pros and cons. Try to take a step back and as I always say "lift the hood" to see what is really going on. Do not blindly accept what I, other advisors or your brother-in-law for that matter, say. Take the time to understand and evaluate. Keep in mind, this applies to investing, insurance, estate planning and all other strategies you consider utilizing to achieve your goals.

Is permanent insurance the greatest thing since sliced bread? Nope. Do you put all our money in permanent coverage? Nope. Is it an important tool to at least consider… you bet.

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