Filename: P4P 019 The Facts of Life Insurance

Todd: [0:00:18] Hey everybody, welcome to another edition of The Prosperity Podcast, this is No BS Money Guy Todd Strobel. Once again, we're lucky enough to have my cohost and bestselling financial author Kim Butler with us, welcome Kim.

Kim: Thank you Todd, I'm delighted to be here today and totally looking forward to our conversation.

Todd: Super. Well today, we're actually going to address one of our listener's concerns which we always like to do and of course encourage all of you out there who are listening, we take your questions and comments very seriously, glad to talk about any conversation that's important to you. We're gonna be discussing the question of how old is too old to buy life insurance and also I wanted to touch on if for some reason it doesn't make financial sense for you to buy life insurance. What might be some alternative ways that you still can take advantage of the savings features of life insurance without necessarily insuring yourself or your spouse? So we've got a great person to talk about with Kim here today because she's even written a book on the subject.

Kim: How about that? Yes we love books and I just have to give a quick shout out to my daughter Kaylea Butler which has her first book on Amazon called Every Day is a Miracle. So if you're looking for a non-financial book, it's on global leadership, got some great stories, really quick read by Kaylea Butler spelled K – A – Y – L – E – A and from there, we'll just go right to life insurance, that's a logical transition books to life insurance, don't you think?

Todd: Make sense to me. So how old is too old for life insurance?

Kim: Well, it's such a fun question because everybody thinks that when they hit 40, they're too old and then when they hit 50, they're too old and then when they hit 60, they're too old and then we get calls from people on their 70s and 80s that think they're too old and it always cracks me up when I get it from a 40 or a 50 year old and most of those people probably realize they're not really too old but the best news in the world is that nobody's ever too old to take advantage of life insurance. Now, they may not buy it on themselves and that will be the second part of our discussion today but let's address the first part of the discussion which is you buying life insurance on your life and so we and all our analysis, my husband and I have probably analyzed literally I would bet close to million policy, that's a huge number but I don't think it's an accurate. When I think about the number of clients we have, the millions of people that have life insurance all across this country and Todd gets a peak at them constantly because advisors bring them in and other clients of advisors bring them in and we've been able to determine that if you're talking whole life insurance, dividend paying whole life insurance from a mutual life insurance company, there's really no difference on the internal rate of return from about 30 – 50.

Todd: I just wanna interrupt you for just one second and this particular instance that Todd she is mentioning is Todd Langford which is Kim Butler's husband not the Todd Strobel the No BS Money Guy so there are 2 Todd-s here.

Kim: That's right, we do have to keep that straight. And Todd Langford at TruthConcepts.com is an analytical person that really looks at the number and between 30 and 50, there is very, very little difference in the internal rate of return on life insurance and internal rate of return is a tough one to get our arms around but it basically means after the cost of the death benefit, after the cost of all the commissions, what is the rate of return, the interest rate rate of return that my cash value is earning. And we're in 2015 today, if you're between 30 and 50 years old and you own whole life insurance with a dividend paying mutual company, your internal rate of return is gonna be right around the 4.5% mark anywhere from 30 – 50. Now, maybe on another podcast, we'll address the younger set say the 20 year olds, the 10 year olds, the 1 year olds but today, how old is too old? So what do you think Todd, 30 – 50, what do you think happens after that?

Todd: Well first of all, I just wanna make a clarification on the internal rate of return and ask this question, when you're saying internal rate of return, are you also saying that that's a rate of return after the cost of my insurance so that's net to me?

Kim: That is correct, that is net net net, it is net of taxes, net of the cost of the death benefit and net of the commission that the agent that helped you buy the policy earned so that is truly in your pocket. Now, as we know, life insurance is like building a business and so a lot of people will look at the first couple of years of the policy and it's very clear that the policy is worth less than what they put in but you never analyze a long term product over the first couple of years. Life insurance is a long term product, 30, 60, possibly even 90 years so we always use 30 years as our timeframe for measurement and when you measure the internal rate of return on a life insurance policy over a 30 year period of time, it will average according to today's dividends scale 4.5% per year and what that means is that in the early years when it's very clearly less than 4.5%, that means that in the later years, again, I'm talking about according to the 2015 dividend scale, that means in the later years, it's actually greater than 4.5% for an average which we all know you add up all the years and divide by the number of years to get your average of the 4.5%. So if the 30 – 50 year old has an average of 4.5, now we can then begin the discussion of what happens after 50.

Todd: Got it. And I would also like to point out there, one of our favorite questions here is as compared to what and if we take our 4.5% and compare it to our 2015 banks paying on CD, savings accounts and money markets and things like that, what type of rate would it be comparing that to?

Kim: Well, today's world, less than 1%, I mean, you've got banks out there bragging about the fact that if you put a 10,000 dollar account in that they'll pay you .8% and of course that's taxable so that waddles that number down. You might be able to get 1% on the CD of course that's also taxable so yeah, this 4.5% because life insurance cash value is total liquid is compared to let's just call it 1% taxable.

Todd: Super, that's pretty good comparison. And then just one other quick point I wanna make out is so many times we like to defer back to the advice that we've gotten from our parents and our grandparents and when they look at life insurance and when they price life insurance, because life expectancies themselves have changed so much, it's really a different game, isn't it?

Kim: Absolutely and it's awesome to be able to help anybody understand a product's been around for almost 200 years and yet our society has completely forgotten how to use it.

Todd: Super. Alright, well now let's lead in to that next part of that question is we've talked about the 30 – 50 year olds, what happens when you go over that 50 mark?

Kim: And I wanna be clear that there's nothing magical about 50, I just had to pick a stopping point so I chose 50, it could be even 55, for some people it might be 48. Of course everybody's individual situation has to get looked at but what happens in about the 50 – 70 age range? So we had a 20 year period, 30 – 50, now let's group in the 50 – 70 year olds and again, there's nothing magical about age 70, I'm just picking a point in time to cut this discussion off of and that is in the 50 – 70 year olds, you're looking at an internal rate of return today, again, 2015 dividend scale which does change every year, at around 3.5% range. So we make the exact same statement, 3.5%, that's an average per year, I'm using just a ballpark and when you're 50 – 70 years old and you buy life insurance on yourself, in other words, where you are in the insured, and we're gonna pick this back up in the latter part of our discussion, the 50 – 70 year olds' internal rate of return today's dividend scale somewhere around the 3.5% mark. So still asking the great question compared to what, thank you so much for bringing that up, we have a fabulous environment. If you can earn 3.5% without taxes and understanding that that's an average, not gonna happen in the early years on a dollar basis but it absolutely happens on an interest rate basis because again in the later years, you're earning more than that so it averages back to a per year return, that's what internal rate of return does, then you're looking at the 3.5%. And if you compare that to your 1% savings, we're still better but I'll readily acknowledge that for the 50 – 70 year old age range, it's a challenge and so as you get in to that later age range in your late 60s and early 70s, we often start to shift the discussion but I wanna make sure we're clear on the 50 – 70s before we go on. Is there anything we need to ask or answer about that?

Todd: No. The only thing I would like to point out is maybe you could address a little bit about the male – female difference, the smoker – non-smoker difference, I mean, lifestyle does still reflect in the cost, doesn't it?

Kim: It does, absolutely. And of course the male – female issue is nothing that anybody can do anything about for the most part and so it is known that women, females, have a slightly better internal rate of return because we live a little bit longer but we're talking .01% and it's because their cost of insurance is a little bit less, it's very, very minor. Now, in some circumstances it might be maybe .2 or something like that but it's really a very small difference and yet the second issue that you brought up, the health issue if you're smoker, if you have any kind of high blood pressure, if you've had a medical history of any sort, that's absolutely going to potentially change the picture. So if you're questioning that, I really encourage you to reach out to us or reach out to somebody else that practices prosperity economics and works all the time with whole life insurance and have them go ahead and take you through the approval process which is a no obligation, no money commitment environment, takes about 4 – 6 weeks, sometimes even 8 weeks and then you'll know your own rating has what's it's called whether you're preferred or whether you're standard or whether you're a smoker or a whether you're maybe what's called table rated 1, 2, 3, 4. So for our discussion today, I don't wanna get sidetracked by the various ratings, let's just acknowledge that our discussion today is for people that are preferred or standard which are the top 2 basic rating tables. Some companies have a super preferred but it's really not a lot of difference. And again, the male and female is gonna impact at some but not much.

Todd: The big point I wanna make is that if you have a friend that's the same age that's applied for life insurance and said, well, it didn't make sense for me doesn't mean that it wouldn't make sense for you. Get your own information first of all and second of all, we talked about the 4 – 6 week timeframe that it takes to maybe get an approval, what is that cost the person?

Kim: Absolutely a little bit of time and no money. I was gonna say absolutely nothing but it is about 20 – 30 minutes with a nurse that will come to your home and take blood sample, urine sample, ask medical questions, get your height and weight, depending on your age, they may get an EKG that they can do right there in your home and then the most of it is just paperwork. So call it another 10 – 15 minutes for paper work so it's a bit of time commitment but no money commitment at all.

Todd: Got it. So the insurance company is paying for that for you to know exactly what the expense would be and what your projected rate of return is personalized to you. And I would encourage anybody not to make a decision on that until they have their own figures, would you agree with that?

Kim: Correct. Their own figures and have gone through the approval process because the first thing that an agent is gonna give you is an illustration based on guess work, nobody's gonna know your approval rating until you've actually gone through the medical and sign the application that says you wanna get approved. When you sign an application, you're not saying you wanna buy anything yet, you're just saying you wanna get approved.

Todd: Super. Alright, well let's move on to the next thing is what happens if the insurance is too expensive or maybe you can't get approved, is that the end of it or is there something else you can do?

Kim: Yes, absolutely and that question also addresses the question of the how old is too old. So now we're talking to somebody that's over 70, maybe they're even over 80, they could even be over 90 and there's absolutely a lot of different ways that somebody in that age range can benefit from owning insurance on themselves where they are the insured. But for somebody that doesn't want the death benefit on themselves or they can't get it on themselves no matter what their age is, there is a second alternative and we use this heavily and it's very, very effective and that is to buy insurance on adult children. So I make the point about adult children so you're 70, you're buying it on say your 40 year old because if you try to buy life insurance on very young children, which by the way we have a lot of people do that as well, that's an awesome strategy however, because the children are so young, I'm talking 2 to maybe 20 years old, even 1 year old to 20 years old, because the children are so young, the cost of life insurance is so small consequently the paid up additions that extra money that you can put in is very small and so you cannot get very much money stored in buying a life insurance on somebody under 20 years old. And again, there's nothing magical about 20, I'm just picking that as a timeframe. I guess I've left the 20 – 30 year age range open and we can talk about that later but our focus today is on those elderly people, 70s, 80s, 90s, even over 100, you're gonna hear more and more about that these days and the benefit of buying life insurance on your adult children so you, the 70 year old, the 80 year old are the owner, you're the premium payer, you're the controller of the cash and your adult child is the insured, they're the ones that the physical exam is done on, they are the ones whereby the paperwork get signed as the insured and you, the 70 or 80 year old, will sign as the owner and that enables you to get the advantage of life insurance to buy life insurance, use the cash value, put in extra pay up additions that you've heard are so valuable and yet, the death benefit is on the adult child. You as the owner are probably also the beneficiary and that's a complete normal structure for the insurance companies for a, let's call a grandparent to buy insurance on their adult children and have that as the grandparent's asset. What questions do we have around that?

Todd: Super. So again, we've discussed the 3 areas, the owner would be the person who's responsible for the payments and also gets the full benefits of the cash value so policy loans, the 4.5% internal rate of return, that's gonna go to the owner. The insured is going to be the child so we're looking at their health, their income, their ability to buy insurance which is probably more favorable than the older person and then the beneficiary can be anyone designated by the owner which could even possibly be another entire generation or the grandchildren which is really a way to affect 3 generations in one policy, isn't it?

Kim: Absolutely. So what we typically recommend is that at the beginning, the owner and the beneficiary are the same and this does mean that yes, if your adult child pass on, you would get the money but that works effectively because often times you have grandchildren that you may end up caring for if your adult child passes on. I don't mean to make light of that, that's an obviously very tough situation and one that we wouldn't hope to ever happen and it doesn't happen thankfully very often but that is the best structure at the beginning where owner and beneficiary is the same person, we're talking to grandparent and then the insured is the adult child. Now, as time progresses and let's say you're now in your late 90s and you're even early 100s and you're wanting to start to give away assets, you can give life insurance to the insured state tax free, gift tax free and income tax free so no matter how much cash value is in there, because you are giving life insurance to the insured, you are able to give that to them and you can do that while you're living or you can do that at death because what we do is we setup a secondary owner that says in the contract that if the older person passes on then the insured is the second owner and so then that policy gets given to the insured, the adult child, and everything just goes on. And many times, no more premiums are required because typically when we have elderly people buy insurance on their adult children, we make the policy paid up in 7 – 10 years or so so that there's no more premium obligation. Doesn't mean they couldn't keep putting it in but they don't have to.

Todd: Got it. So just to kind of summarize coz we're getting close to our time here, if you want to take advantage of this interest rate environment that is at least 4 or 5 times higher at a minimum what the current banks are paying, the tax favorable situation, the best plan or strategy would be 1: to sit down with the prosperity economics advisor, allow your particular health situation to be evaluated by the insurance company to see, hey, this is the exact dollars and cents that is gonna cost to buy insurance and then as a secondary option or a lot of times what we see our clients do is in addition to the policies they write on themselves, also look at the children and the grandchildren as an alternative place to store your cash that you could use during your lifetime while also having a death benefit that not necessarily to benefit you but a death benefit that will benefit those that you also care about.

Kim: Absolutely. And if you can't find a prosperity economic advisor or a life insurance agent that knows this arena, we will help you. We're licensed in all 50 states, we'd be more than happy to send you an illustration, take you through the approval process at no obligation, calculate your own individual internal rate of return which the best software to do that in is truthconcepts.com. Some insurance companies provide internal rate of return information right on their illustration but many do not and it's a tough thing to calculate but we can do that for you and we're more than happy to help if anybody has questions, they're welcome to reach out to us via phone or email and I think we've got a little gift for our listeners today, isn't that right?

Todd: I was gonna ask about that, do you have that available and ready now?

Kim: We do. We have an eBook called Financial Planning has Failed and it's about 60 pages, we'd love to share it with you and it is at partners4prosperity.com which is our website, partners4prosperity.com/eBook, E – B – O – O – K. People are used to that word these days and again, partners4prosperity.com/ebook will get you the immediate download to a 60 page eBook called Financial Planning has Failed and about a third of the book addresses life insurance and then the other two thirds are a surprise.

Todd: Super. Well again, this is No BS Money Guy for The Prosperity Podcast. Thanks so much Kim Butler, we'll talk to you all again soon.
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