Wealth Notes

By Rob Wrubel

October 2018 | Independent • Individualized • Investment Advice and Financial Planning | ciginc.net

Rob Wrubel, CFP® AIF® AEP®
Senior Vice President

Cascade Investment Group
90 South Cascade Avenue
Suite 1250
Colorado Springs, CO 80903

719.632.0818
800.984.9074

Wealth Notes offers an insightful look at financial planning topics. This quarterly column reviews current financial planning trends and seeks to educate you about planning and investment opportunities. This column covers a wide-range of topics to help you make informed financial planning

Is life insurance ever an investment?

As advisors with many years of experience under our belts, we have seen numerous types of planning situations, investment ideas and life situations. We have shared and been part of all kinds of events like job changes, business starts and sales, births of children and grandchildren, divorces and marriages, the losses of family members, new home purchases and more.

We invest funds, monitor markets and make changes for our clients on a daily basis. These investment decisions are usually made with a clear understanding of goals – income needs, major expenses like college and homes, future gifting, charitable decisions, inheritances to pass along and legacies to honor.

It seems like every few months a theme develops in the work we do with our clients. Sometimes, several of our clients call to talk about getting ready to retire. The next few months might be filled with people changing jobs or sending students off to college. Then it could be people asking about strategies to protect assets for parents or receiving inheritances.

The most recent theme for me has been around life insurance. Several new and existing clients have heard pitches from life insurance salespeople about how they should have some kind of "permanent" life insurance policy. In some cases, people came to me after they purchased a whole life or universal life policy and wondered if they'd made good decisions. Most of these people were in the early stages of reducing debt, saving for future goals and building wealth.

Insurance products have a role in creating wealth – they protect us from financial disaster during those years we are saving, investing and working. The simplest form of life insurance, term life insurance, protects against the loss of income someone has during his or her working years. The benefit creates a bucket of income to be used for living expenses. Disability insurance protects against the loss of income if someone becomes disabled during his or her working years. Pretty basic stuff and both are important defensive products to have while working. Almost always, we recommend term insurance if people have a life insurance need.

So, what are these other products – whole life, indexed universal life, variable life? And why are they so hard to understand for people who seemed to get influenced to buy into them?

These other insurance products offer an "investment" account or "cash value" that has the potential to earn interest while providing a death benefit (the basic life insurance protection).

Why don't we like them, for the most part? So often, these products are confusing in structure and it's hard to find the actual fees charged by the insurance companies for their overhead, commissions, investment expenses and the basic cost of insurance. When we do find the costs, the investment costs seem high compared to investing outside of insurance and the insurance costs can be higher than that for simple term

Rob Wrubel is available for individual appointments.

Call 719-632-0818

Rob Wrubel, CFP® AIF® AEP® Senior Vice President

Cascade Investment Group
90 South Cascade Avenue
Suite 1250
Colorado Springs, CO 80903

719.632.0818
800.984.9074

rwrubel@ciginc.net

insurance. We'd rather buy term insurance and invest elsewhere to give flexibility and a lower cost structure.

Illustrations used to sell these policies show the potential growth in value inside the policies using "non-guaranteed" and "guaranteed" costs and returns. The guaranteed returns look attractive but only when not shown in comparison to similarly allocated investment portfolios. In the guaranteed piece, policy expenses are shown at their highest levels and the investment returns at their lowest. Insurance buyers need to review the lowest levels of returns possible, as so often, if these are delivered, buyers would be better off in bank accounts.

I've reviewed many policies for clients and in my reviews, I've rarely seen statements with decent rates of return. Most of the time, they have been close to zero (making that bank interest look awfully attractive). The cash values don't amount to much more than what was paid in premiums. Recently, I reviewed a new policy illustration and even there the best-case scenario showed a return of less than 2%. Maybe there are better policies out there, but less than 2% is not exactly an investment from my perspective.

Another issue has to do with financial behavior. These policies are bought, for the most part, with the intent that the owner of the policy will make premium payments for his or her entire life. To make this happen, the owner's financial situation needs to remain the same or improve. The owner's willingness and desire to pay premiums must remain intact. And all of this must happen for 30, 40, 50 years or more. Circumstances change. People lose jobs or get divorced. Some start businesses and need capital and cash flow. Others just don't want to pay premiums for a benefit that becomes a smaller part of their estate plans as their other assets grow in value. Some policies do offer premium flexibility but once payments are stopped, the policies can run into issues where all of the insurance benefit and any cash retained are lost. The issue recently made it in the Wall Street Journal in an article titled, "Universal Life Insurance, a 1980s Sensation, Has Backfired (September 19, 2018, wsj.com).

Life insurance has one primary job – to replace income from an early death while people save and invest. The more complicated forms of life insurance can have a role but it's rare and then how they're funded makes a significant difference in outcomes. For most of our clients, most of the time, we recommend term insurance. Then we find other ways to put money to work.

Life insurance does not also have to be an investment.