Why Life Insurance Is NOT an Investment

I could make this extremely short and to the point by simply stating that **life insurance is not an investment** because the fees are exorbitant, but from the large number of insurance complaints we are representing for our clients the topic deserves a closer look.

To make a blanket statement that "the fees are exorbitant" in a life insurance product without clarifying which life insurance product you're referring to is to quantify your ignorance in the different actuarial designs of life insurance contracts. The large number of complaints this company represents are complaints from consumers not being paid on filed claims in a timely manner from Insurance companies. Not from disgruntled clients with max funded Index Life contracts.

First let me say for those agents who are promoting the ideas of Nelson Nash and *Infinite Banking*, Patrick Kelly and *Tax Free Retirement Income*, and Doug Andrew and *Missed Fortune 101* a word of warning. In 1994 MET Life was forced to offer restitution to 60,000 policyholders in Pennsylvania for **selling variable life insurance as a retirement plan**. In a similar case the same year MET Life was fined $20 million. ***The NASD responded with suitability guidelines for selling variable products.***

Met Life settled a class action law suit for "churning" in 1994. The Met Life sales force went out to their current client base involving 7 million current and former customers and replaced the client's cash value whole life contracts for variable life contracts. If a Met Life agent was allowed to representative a fully exposed Variable Life contract to a senior as an alternative retirement account, Met Life should have to pay restitution, and the agent should loss his licenses.

Whole life and Equity-Indexed universal life products are not securities so the NASD (now FINRA) has no authority over them, but every state has *consumer protection and fair dealing* laws and each state's insurance department has clear definitions of *concealment* and *misrepresentation.* If you ignore these laws we, the Center for Life Insurance Disputes, will look forward to seeing you in court.

This is correct FINRA does not have any authority over the state regulated life insurance sales, thank god! We all are aware of how well the NASD and FINRA was able to protect the consumers from crooks like Bernie Madoff former chairman of the NASDAQ stock market and Robert Allen Stanford. The US Securities and Exchange Commission was criticized over its handling of the billions of dollars in fraud. I have personally been investigated by the State of Virginia's dept of insurance for doing public seminars and recommending IUL's as an alternative retirement financial vehicle. The state seized my client files from my office and did personal interview with those I sold policies to. I'm not sharing a cell with Mr. Madoff or Stanford. The investigation was inconclusive; they found no fraud or misrepresentation in the strategies or products sold, and they returned all my client files. I have not heard any more form the Virginia State insurance department for 7 years. Why, because the Index Universal Life

contract is a fixed product with guarantees, not a financial vehicle that exposes a client's hard earned dollars to an open volatile market for thieves to steal.

Now let's look at life insurance as an investment.

Life insurance was originally intended to indemnify against the happening of an unexpected event; death. The basic idea behind life insurance is to provide money when an insured dies. If you aren't interested in that basic feature, don't buy life insurance.

This is correct, the original life insurance policy was decreasing term sold in the 1700's to protect the purchaser from premature death to indemnify those left behind. But again, this is a statement from an individual that has no idea how to optimize one of the newest products available on the market, an Index Life contract can be built to maximum accumulation, or for living benefits. Therefore, the product is called "Life Insurance" not "Death Insurance"

It seems that without being able to play on people's dislike of taxes the promoters of *Infinite Banking, Tax Free Retirement Income* and *Missed Fortune 101* would have a hard time selling their schemes.

There are many more reasons to purchase an index life contract above and beyond just the tax advantages. How about creditor protection, liquidity and control, competitive rates of returns, leveraging wealth to the next generation, guarantees, unlimited contributions, leveraged collateral.

They like to tell you that

1. The policy cash value earns tax-deferred interest – *This is true!*
2. You can get tax-free income at retirement from life insurance. - *This is true!*

Let's look at these items by comparing life insurance and a taxable mutual fund.

Life insurance: As interest is earned in life insurance there is no tax due if the money stays in the policy. *Not true, there is no taxes due on the interest if the interest is borrowed out of the policy using policies loans, or collateralized using a third-party lender, these permanent life contracts are the only financial product available today that has this valuable feature.*

At the same time, however there are, at the very least, policy fees and mortality fees (not to mention surrender fees, rider costs, cost-per-$1000 fees, and others as well). *There are mortality fees, policy loads and expense charges in all IUL's. The load is like the frontend load on managed mutual funds, except the load on premiums paid into an IUL are only on new premiums paid into the policy, once max funded these fees no longer exist, unlike the continual management fees associated with mutual funds that get larger and larger as the funds grow. The per thousand cost and the mortality costs are normally less than the income or capital gains taxes due on any gains in a taxable mutual fund, and unlike the taxes you pay on the mutual fund, you actually get something for these fees, the insurance. Unlike mutual funds the funds in the IUL are not subjected to market risk.*

A 60 year old healthy male, with a $1million death benefit whole life policy, could easily be charged $6,000.00 of fees for the year (why use age 60? Most people hope to retire near age 60). Each year the mortality fee goes up, and the policy gets more expensive. *The mortality cost in a whole life policy is most likely much higher than $6,000 on a million-dollar face on a 60-year-old, but that would depend on the CV. You would be incorrect in assuming the policy automatically becomes more expensive the longer you own it. Even though mortality costs increase the older we get, the older the policy the more cash that can be paid into the CV which reduces the amount at risk. As the interest compounds on the CV the corridor between the CV and the Death Benefit gets less per year, the cost actual decreases. If you were to build the policy correctly for wealth accumulation the cash value will be almost equal to the death benefit by the time we do distributions. By maintaining a small corridor between the cash value and the death benefit, the cost of the insurance is covered annual by the policies minimum crediting rate during down years in most cases, and it creates a hefty tax free profit in the up years.*

Think you'll live to age 85? Look at the mortality fee on a $1million death benefit for an 85-year-old. If you guessed $70,000.00 you'd be right in the ballpark. *This is correct if the 85-year-old were to purchase a 1-million-dollar policy at age 85, this is another example of an advisor making a blanketed statement about something they do not understand. If a had a 55-year-old client that I built a 1-million-dollar face for he would fund it with $300,000 over 5 years from 55 to 59, at age 85 the policy CV would be $1,985,500 and the 1-million-dollar DB would have to increase to maintain the corridor to $2,085,000. The amount at risk is $100,000, the mortality cost for an 85-year-old on $100,000 DB is $5,900, not $70,000. If the index tanked and the IUL paid a minimum of 2% in a down year, 2% x $1,985,500 = $39,710. If the index performed like it did this past year the client would be credited 14% or $277,970 tax free. Either one of these scenarios would out performs any safe money financial vehicle available.*

A mutual fund, by comparison, has an average fee of 1.5% of assets. So at age 60 I need $400,000 in my mutual fund before the fees are equal to the life insurance fee. *Man, he real missed something here; I am assuming we are comparing apples to apples here. If the client had $400,000 in a mutual fund this would mean he would also have the same $400,000 in the IUL cash value. This would reduce the amount at risk to $600,000 not 1 million on the DB. Using his numbers on the mortality cost of $6,000 per million, this would reduce the $6,000 down to $3,600. His 1.5% fee on the $400,000 mutual fund would be $6,000, plus the client would have the cost of the Term policy, remember we are buying Term and investing the difference. So if the client had the $6,000 management fee, and was able to get the best rate on a 30 year term, that cost would be an additional $6,000 per year, total cost now $12,000 for that year compared to the IUL of $3,600. So, the Mutual fund must make a rate of return of 3% in that year just to break even from the costs. To net a 3% gain, if we use current capital gains taxes this increases the required return to break even to about 3.6% or $14,400 to cover the fees and the taxes. The IUL cost is $3,600 the Mutual fund fees and the Term policy, and the tax cost $14,400, just in that one year there is a wealth transfer of $10,800 not counting the opportunity cost on the difference. This is a perfect example of ignorance giving advice about something they know nothing about.*

If I live to age 85 I need $4.6million in the mutual fund to equal the fees in the life insurance policy. *Now he's completely lost, the cost on the IUL at age 85 is $6,600; the fees on a $4.6*

million mutual fund would be $69,000. But you must add in the other things missing here, the cost of the Term policy, the lost opportunity cost and the wealth transfers that took place to even get to age 85 using this concept. They would be staggering; I hope you got that from the last paragraph explain just one year.

There are taxes on mutual funds each year, but the tax is dependent on factors like turnover rate, long-term or short-term tax rates and dividends. Your mutual fund may have a 10% rate of return for the year, but chances are you will only be taxed on a small percentage of that return (10%-30%) and then the amount of tax will be a percentage of that, depending on your tax bracket. So, when the schemer tells you that you'll pay 33% tax on your mutual fund, they're most likely wrong. *I like that, the 'Schemer" the only schemes I see in the financial world is the money managers that try to justify putting a senior's life savings in the open market. This should be a criminal offensive punishable by confinement until they replace all the lost funds to the senior.*

As for "tax free retirement income", there is no such thing from life insurance. Life insurance is NOT a retirement plan and if it was it does not produce tax free income, period. *This is spewing ignorance; life insurance policies have produced tax free distributions for millions of policy holders. True the distributions are made up of the basis, which is the return of principle, and the tax-free gains are loan distributions. At the very less we use zero spread loans, meaning the insurance company charges 6% and the borrowed funds earn 6%. If I own a 1-million-dollar life policy with 900k of cash that I funded with 200k, and I take out the $200k I put in, there is no tax there. If I borrow the other 700k before I die, and the death benefit pays the 700k loan from the Death benefit and forwards whatever is left to a beneficiary there is not tax liability there. Why is that a bad thing?*

What these schemers are promoting is the ability to borrow from a life insurance policy. When you borrow, you are taking a loan and there is no tax due, but the loan balance can get bigger than the cash value balance. *This is not correct, the IUL policy has a over loan protection provision that will not allow this to occur, wrong again!*

When that happens you either start paying off the loan or your policy lapses and you owe tax on all the money you borrowed. How would you like to be 85, having borrowed a couple million dollars from your life insurance policy and it lapses? The IRS then sends you a tax bill for $2million*. Even if this could occur, what are the chances the IRS will get a 2 million tax from an 85-year-old? Now I am getting tired of reading this ignorance. This would mean that this poor piece of crap life insurance contract that is not a Retirement Account would have paid this 85-year-old 6 million dollars to produce a 2-million-dollar tax liability!*

I admit that insurers have come-up with some interesting policy Riders to protect against this taxable event happening, but read the wording of the Riders and you'll see qualifying conditions like a) you must be at least 75 years old, b) the outstanding debt to us divided by the excess of the Accumulated Value over the Surrender Charge must exceed 0.95. c) and "Notification will be sent to you when these conditions have been met. The rider must be exercised within 60 days of the date we mailed the notification. If not exercised within that 60 days, the rider will be terminated." *Even if this were true, think about it, If I am 85 years old and I distributed 6 million from my life insurance contract tax free, and I get a notice from the insurance company that*

says, if you don't exercise this rider within 2 months you will owe the IRS 2 million dollars, don't you think I would sign the form or call someone and say, "Ah, yea I want to exercise that rider".

The mutual fund, by comparison will be taxable when you withdraw the money. Assuming you've held the mutual fund for more than 12 months you'll be taxed (under current law) at your applicable long-term investment rate. It's a pay-as-you-go system so you don't get blindsided by taxes. *What is not being said here is a mutual fund exposes your life savings to the open market, it has fees and taxes that exceed the cost of any well built IUL contract, it is not creditor protected in some states, it has no guarantee of principle. No one knows where the tax rates are headed on the earnings of these funds.*

I am a strong believer in the benefits of life insurance. My concern is that I am seeing too many complaints from unsuspecting consumers based on the schemes in *Infinite Banking, Tax Free Retirement Income* and *Missed Fortune 101.* The investment solution these schemers offer in each case is a very large life insurance policy and the inducement to buy the policy is always based on; a Retirement Plan with tax-deferred growth and tax-free income, no limits on what you can put in or when you can take it out. This is a scheme designed to earn large commissions.

There are some insurance agents in our industry that are as ignorant as this advisor that wrote this piece. They do stupid things with other people's money; don't be one of those agents. Understand what you're doing, and be aware of what your clients needs are. Always put their needs before yours, and you will always fair well in this business. Do the opposite, and you will have a short career in the financial services business.