SOUND
Financial Bites
with Paul Adams

Episode 134 - Whole Life Is a Bad Investment - Debunkisode

Episode Transcription

"It's not meant to compete with our stock market investments or real estate investments. It's meant to be a completely different type of non-correlated book value asset that has liquidity."

Paul Adams: Hello, and welcome to the show, I am Paul Adams, your co-host and founder CEO of Sound Financial Group. I am joined by the ever so charming, friendly, and exceedingly intelligent Cory Shepherd. Glad you could be with me co-hosting Mr. Shepherd.

Cory Shepherd: Happy to be here too Paul. Kinda worried about what you're gonna ask me for after the episode is over, kinda buttering me up, like, that was the nicest intro that I've ever gotten, maybe. And I appreciate it. And it's all accurate, there's no reason that... It's all true.

Paul Adams: I will keep getting better as I learn how to be a better co-host in engaging with our audience. But here's what we're gonna cover today, guys. This is continued on from this weekend planning last week and the... This idea that we ran across this article with truckloads of errors, and it happens to be one of the most popular articles on the Internet, if you were to Google like whole life insurance critical view, or whole life insurance bad investment, whole life insurance investment. This article is one of the top ones that comes up, and it's called Whole Life Insurance is a Bad Investment. Now to start with, Cory and I, we're just gonna hit all these really quick. But yes, it is a bad investment. In fact, it's such a bad investment that legally, you cannot call it an investment. Next episode, we're gonna have Dick Weber on, where he wrote a white paper that was chosen by the financial services industry as white paper of the year 2011 and that is... Yes, it's an asset class, life insurance is an asset class. Exactly accurate, but not an investment.

Paul Adams: And yet, what everybody is saying is it's a terrible investment. We agree, if you were to think of it as an investment, but it is an asset class, so we're gonna debunk this a little bit as we go through it. Before we get to it, 'cause I'm chomping at the bit, let's just give you all the reasons why he says it's a terrible idea. Reason one, whole life insurance is un-diversified. Reason two, whole life insurance returns are not guaranteed. Reason number three, positive returns take a long time to appear. Reason number four, whole life insurance is a liquid. Reason number five, less cash flow flexibility. Reason number six, the claim of tax-free withdrawals is misleading. Reason number seven, lack of transparency. Reason number eight, there are plenty of other options available. So, we're gonna tackle these one at a time, but I wanted to get them all out on the table before we started riffing Cory.

Cory Shepherd: And he has an intro section too, that I had a couple of notes on that I think are really important for the context. Number one, he says, term insurance is the only type of life insurance most people should consider. And this was huge for me, after I read the whole article and went back, he acknowledges this most people piece. Like, there might be some reasons, but he never comes back to that. And that's a real problem for me. It tells me that there was an answer that was already on someone's mind ahead of time, and they wrote an article to fill in those gaps, not actually make an assessment of something from a neutral position. So that was just one piece of ground in there. And then, he says the primary purpose of life insurance is to ensure that your children have the financial resources they need to get themselves to the point where they can provide for themselves. While that may be the first reason people buy life insurance for early in their life, one thing we'll be looking at throughout all of this is, does that change and do we start wanting it for another reason? Well, he even gets into it, which is, it is this purpose as a retirement tool of whole life insurance that I would like to deconstruct here.

Paul Adams: And just so you guys know, Cory did do scary quotes around retirement [chuckle] tool. You guys can see him on video.

Cory Shepherd: So... Which is what we're gonna talk about too, because he's dancing around something, which is the ways that we can use life insurance after we've gotten our kid's gonna be okay part of our life out of the way, that are some of the things that he dances around, but doesn't really dive into, and probably 'cause he may not have had a chance to learn it himself. So, with that Paul, you wanna start us out with reason number one, whole life insurance is un-diversified. Is it un-diversified?

"Whole life can be a catalyst to let other money on our balance sheet work better."

Paul Adams: I do wanna hit that, but I do wanna say, this is so that we have it here on the podcast, this is by... On momanddadmoney.com by Matt Becker June 19th, 2013. So just to make sure that's out there, so if anybody wants to reference this or check us out, I think that's key. But when you mentioned about the most people Cory, most people make under a $150,000 in this country, like more than 90% of all households. So yeah, and he does leave room that maybe some should consider it, never comes back to it, odds are, those who should be considering it are probably in the uncommon level of income on the high side, not on the low side. So, to your point about whole life insurance being un-diversified.

Cory Shepherd: Yeah, that's great.

Paul Adams: Now, this one shocked me, because right in the article, the guy has a link to diversification is the practice of spreading your money over different types of assets and investments, in different types of companies. Now, we'll hold right there for just a moment. So, I clicked over, looked at his diversification guide, that he links inside his own article and diversification explained. There he says, what is diversification? Simply put, diversification is the practice of spreading your money out over a number of different investments. That's his definition. It's an incomplete one, but good enough for this, but there are two big reasons to diversify, one is decreased risk and an attempt to get same expected return. And then he goes on to how he thinks you should build a diversified investment portfolio. Well, one of the things that any diversified investment portfolio would have is it would include some amount of fixed income or bonds.

Paul Adams: Now, when you buy a whole life policy and again, we are saying a whole life policy from a Mutual Life Insurance company, which you guys heard us talk about on past podcasts from a Mutual Life Insurance company, meaning the policy holders and the fiduciary responsibility of the board are aligned. They... You put the money in, and then they spread it out among all kinds of assets. So Cory, what are the... Some of the first ones you think about when an insurance company is having to invest their reserves?

"Newsflash: Mortality is a midpoint, not an endpoint."

Cory Shepherd: Super high quality bonds, government bonds, corporate bonds from very, very highly rated companies, real estate holdings. They do own small amounts of common stocks. Some companies maybe own none at all, actually, but even if they do, it's very, very small, so it's long-term low risk investments is the bulk of what they are buying.

Paul Adams: And in a degree that is wildly diversified compared to anything we could do individually in trying to buy a bond fund or just trying to buy our own tranches of bonds. Well, the idea being is if we wanted to put $100,000 into a set of bonds, you could buy a bond and you gotta wait around till the bond matures to no longer be subject to market volatility, whereas life insurance is a book value asset which we'll get into when we get down to his comments on it not being liquid.

Cory Shepherd: Well, so in his diversification link he talks about All-In-One funds as being a way to diversify and mentions Vanguard's Target Date Retirement Fund. So, I think for him to say, life insurance is not diversified, great, but then he gives an example of something that's practically the same thing, which if you're buying one Vanguard Fund, it's kind of saying, you shouldn't do that either. It's one company, it's one...

Paul Adams: Cory, it's just one life insurance company that's risky, it's like, "Well, yes, it is one company," that part is true, but it being risky is pretty far field, because of some of the guarantees inside the contract, which we'll get to as we get to his next component, which is reason number two, he says, Cory whole life returns are not guaranteed.

Cory Shepherd: That's correct. [chuckle] That's correct, and...

Paul Adams: Incomplete.

[chuckle]

Cory Shepherd: Incomplete. And so, there are guaranteed interest payments inside of a whole life contract, and they're not large, 2%, 3% sometimes, maybe less. Then there are... The other component of return is dividends. Now the dividends are not guaranteed, because they're based on the performance of the company's portfolio each year, so there's no way they could know what they could be to guarantee them. And while they're not guaranteed, they are predictable, because these mutual whole life insurance companies, the major ones have been around for 100, 150 years, and largely, I think, never is a safe word, never missed paying a dividend in their entire history.

"That's the thing that all the big Wirehouse's, investment management and mutual fund companies don't want to teach you is that you'd be better off spending your money in your old age than just leaving it there at interest with them and infinitum."

Paul Adams: There was a time they had to go to guarantees yet, and that guarantee means that it's growing on whatever is in it. So what people can be misconstrued about, if you look at the guaranteed column of a life insurance illustration, also the cure for insomnia, in case you have trouble sleeping, just read an entire life insurance illustration.

Cory Shepherd: Oh, my God.

Paul Adams: And yet, that is growing at the guaranteed rate based upon everything that's accumulated. We're not talking about the money can go up and do as predicted for 20 years, and then reverse course on you. No, it's whatever it has done up until now, and then, if they have some serious problem, it means it's a one-way economic ratchets that once it goes up, it cannot go down, it does not embrace volatility. It's what can be referred to as a book value asset. Now, I have one more problem with this one, Cory, before I ask you a question about number three.

Cory Shepherd: Well, I've got a question for you about number two as well, so you asked me...

Paul Adams: Oh, fire away.

Cory Shepherd: Well, you just talked about an economic ratchet, and the money cannot go down. Let's just really go worst-case scenario, if a life insurance company that someone had bought a policy from, actually were to go under, would they lose all their money?

Paul Adams: No. Did I answer that too quick? Like, even the companies that I don't agree with, who were publicly traded companies that... There were a couple like ING, I was Downtown New York the day ING closed people's offices, and I saw the people walking down the street, as I was back there for an educational conference at the time and I kid you not, no life insurance policy holder who had guarantees in their contract even lost money with ING going down.

Cory Shepherd: And why is that?

Paul Adams: It's because you have two different things that occur. One is you have state level guarantees that are required that the state makes each company pay into in the states they do business in, part one. Part two is, no life insurance company can afford for any other life insurance company to not be able to keep their promises. So even in times where an insurance company has had the worst possible situation and the National Associative Insurance Commissioners has had to come in and effectively take them into some degree of receivership, they all as a community of companies have an interest in never letting a life insurance company not keep a guarantee, because they need to make sure that that community is trustworthy, because of how long these products have to last. And when it comes to guarantees, what he says in his article is, you could be better off with better guarantees from a bank with CDs. But here's my challenge to everybody, and something you may have never realized. Your bank does not put guaranteed next to CDs. Go to the Bank of America website...

Cory Shepherd: Oooh.

Paul Adams: Go to your local credit union, go to the page where it gives you the price or the return on your CDs, hit Control F on your keyboard for find and type guarantee, and the only thing you'll see at the bottom is, it'll have a general disclosure or something like, if you do any investments with our bank, these are not FDIC insured, and are not guaranteed by any government agency. But notice that even the CDs are only called FDIC in short. The idea of being able to use guaranteed around financial products is something that's exclusive to insurance companies, that they have the ability because they've taken the time, effort, energy to reserve enough money that they can say it's guaranteed. So now we've got number three Cory. Reason number three is positive returns, take a long time to appear. Why does he do you think have a problem with the fact that returns take a while to appear?

Cory Shepherd: So, what he's talking about is... He's saying, "Okay, yes, you might buy a mutual fund this year, and the stock market could go up or down and so you have a possibility of loss at any time." He's talking about whole life as the promise of loss in the early years, because you won't have as much cash or as much access to cash as you put in year one, you put in $100,000 year one, you won't have $100,000 to work with. This is true. And we talked about this in our last episode, where there's lots of things we put money into thankfully, and gratefully that actually have the same phenomenon, which is like, let's take rental real estate. You are not net positive immediately in buying a rental property. In fact, if you were to sell it a year later, even if you are cash flowing positive from year one... From day one, you've got your down payment to recoup and you may be using a real estate agent, you've got some commissions, taxes to pay that are not gonna have you net positive on that property over the short term. Now, that's the easy, high level or face value of what's happening. But Paul, what are some other reasons that whole life can produce a positive return underneath the surface?

Paul Adams: Well, I would say, number one, you're gonna get a chance to avoid some other costs. For instance, you won't have to have term cost the same way, meaning for every million dollars of whole life that makes sense for you to cash flow as an asset class, that's a million dollars of term insurance you don't have to own, that's an immediate return to your cash flow bottom line. And it's also one of the decisions that we're making are meant to be short-term decisions. In fact, he's using the 10-year treasury bond that he links to, which I could not figure out how he got historically returned 5.4%. The highest I could get that thing, that's columns of numbers that he links to, is 5.15 if I average all of the yearly returns, but that's a very different outcome than the actual return. There's a difference between averaging together the percentage returns each year and then doing the math on the beginning value and the end value, which only came to about 4.5.

Paul Adams: So let's think about that for a moment, that if you put yourself in a position that you could own a whole life insurance and get 4% return with no taxes due on it, or 5.4% over 10 year treasury, meaning you gotta buy 10-year treasuries and before you take your money out, you're gonna have to be in a position that you wait till those bonds mature, otherwise, you are subject to market activity. So, I'm gonna have an asset that yes, it takes a little time to get traction, we talked about that in the TEFRA TAMRA episode. That it takes time, it takes three to four years, sometimes five, where when you're adding money, if it's properly funded up against the TEFRA TAMRA corridor, it takes three to four years for the money to start showing up as fast as we put it in. But inside of the life insurance policy with it, not positive returns, taking a long time to appear, but he does say that it takes time to appear and they do appear, part one. Part two, he starts off with its a bad investment, but then he compares it not to an equity type investment, but bonds, which is our stance the entire time. It's not meant to compete with our stock market investments, or real estate investments, it's meant to be a completely different type of non-correlated book value asset that has liquidity. Cory, he says Life Insurance is not liquid, why is he wrong?

Cory Shepherd: Well, as the first step of answering that question, I wanna... We're both getting really into this, everyone listening and we wanna reset our mood here, reset your listening just to be real clear on where we're coming from, which is, Matt is definitely on the camp of whole life is an awful place to put money, you'd be kinda dumb to put it here. There's lots of other places to put it. We're saying that that's not true, but we're also not saying that whole life is the only place to put money where good things happen and you're stupid if you put money anywhere else. But we're just observing that it is one of the asset classes that we have access to, and it has some elements that are the same and some elements that are different than the other places we can put money. So he says, whole life is a liquid, because you put a dollar in in the first year and you don't have a... Like, probably at best you have about 80% of that dollar, so 80 cents, 70 cents on the dollar to work with in that first year, if you're really max funding that policy. So, great. But lots of things, again, that we put money into happily and gratefully are not liquid. The point is not liquidity or illiquidity. Illiquidity doesn't mean bad, like we put money into 401Ks, and IRAs, because we want that money to be ready for us down the road in our long-term bucket, and we're willing to accept some illiquidity for some of those other benefits. So, illiquid's not the problem.

Cory Shepherd: Too much of your balance sheet illiquid at any one time is. So what we're really talking about is financial balance. Some of our money is going to be locked up in illiquid things to get more benefits out of it. Real estate, highly illiquid, incredibly illiquid, and yet that's not a downside for the people that want to put money into real estate to get some kind of positive return.

Paul Adams: And I would go as far as to say it's not that it's... It is totally liquid, it just has to be built first. So you're gonna add money for a few years before it starts growing as fast as you put money in, but after it turns that corner where it's growing faster than you put money in, that's a corner it turns around and never comes back. Now, I gotta say that if I can, I wanna tackle number five.

Cory Shepherd: Yeah, I was gonna say go for it. I see your chomping.

Paul Adams: Yeah, less cash flow flexibility. Here's the thing and this is not a life insurance conversation, what I'm about to share with you, but this is a... Just an economic fact, as it has to do with dealing with your finances and your future, and that is you don't have to set aside any money anywhere for the future, period, end of story. You don't have to do that, you can totally opt out of doing that in your life. But here's what you cannot opt out of: The consequences of not having set aside the money. That when your business becomes not as valuable one day, your particular offer is not as valuable, regulatory change, etcetera. That's why we really talk about, on this podcast, the importance of building your balance sheet outside of the business, that by building your balance sheet outside of the business you create that degree of flexibility and freedom.

Paul Adams: Now with whole life insurance, one of the things he says that's incorrect... And multiple times this article he's conflating this idea of whole life with permanent life insurance that oftentimes involves universal life. So he's used already in this article a couple of places where he talks about surrender charges, which is not something that applies the whole life, it's something that applies to universal life, that's when they use the overarching permanent. But then when they get the less cash flow flexibility, he's only talking about the characteristics of whole life. Now, you can stop paying premiums periodically on a whole life policy and catch them back up later. Here's the difference in doing it with whole life than any other tool under balance sheet: Whole life insurance tells you the truth about what's not in it.

[vocalization]

[chuckle]

Paul Adams: Meaning if I was putting money in for five years, then it's gonna automatically log a little loan inside of it as it pays its own premium. But then it's going to tell me what it doesn't have in it as a result of me not making the contribution that year. But I'll tell you what doesn't tell me that: My mutual fund investment, my 401k, my IRA, if I miss an investment, there's no accounting of it that tells me what I'm missing to get back on the trend line I was originally at without me doing some math, that's part one, Part two is that if you own the life insurance correctly, like we talked about in the TEFRA TAMRA podcast just last episode, 133, you can fund it right up against the IRS limit, and you have a lot of flexibility in an overfunded life insurance policy in how you fund it on a year-to-year basis to optimize the amount of cash flow for you and your family. And you can reduce the overpayment, you can skip a year, you can catch it up later, you could take it from another asset, because keep in mind, once you get past year three, four, five, depending on your health and age, it's growing faster than you put money in each year, which makes it real easy to just grab money from another asset and pull it in.

Paul Adams: Speaking of which, we actually end up with far more flexibility in our financial life overall, because after you've owned that life insurance policy for several years, if you're a household that wants to keep 200,000 in cash all the time getting half a percent interest, well, now, once we have enough in our life insurance that that could be the supplement for the family's emergency fund, we no longer have to keep a couple hundred thousand dollars in cash, and in fact, can invest all of that money if we choose to, because the life insurance money can serve as the household cushion.

Cory Shepherd: And that's... You're getting into the deep waters that almost no one swims in, and frankly, no one swims in as well as you do. And you get to say good things about me at the very beginning of every podcast, so I'm just gonna take a second now and just say a few good things here. Paul Adams is ready to take you in a scuba tank, dive you deep down at the bottom of the ocean, and talk about some of these things that a lot of people don't even think to bring into the equation like, crazy, crazy, crazy thought, the whole life... The return that whole life is may not be limited to just what's inside of the box called a whole life policy, but if you're familiar with science, the concept of a catalyst in a chemical equation is just a thing that participates in the equation but isn't eaten up by it, isn't consumed in that reaction. And whole life can be a catalyst to let other money on our balance sheet work better. Which is why this reason number six, Paul, I'm really excited to see what you say here. The claim of tax-free withdrawals is misleading. Can you answer his question... His point directly, but then let's also talk about how it can help us get more withdrawals out of other assets, too.

Paul Adams: Yeah, his... And by the way, I think, on this point, I agree with him, but not for the reasons that he's making the statement. He's making the statement from the standpoint of you can take tax-free withdrawals out of a life insurance policy, I don't agree with that. I think it's not a very good rate of return when you take those withdrawals. From that perspective, I'll just agree that I think most people are taught when they acquire a whole life insurance policy, very few people have done it for planning purposes. Most people have just been sold the policy because they had some surplus on their balance sheet, and maybe they've dutifully and loyally funded it every single year. Here's the trouble. If we start taking distributions at age 65 in some manner of tax-free withdrawals, what that creates for us is a diminishing asset that's one of the only assets on our balance sheet that is compounding. And when I say compounding, I want you to picture a snowball rolling down a mountain, getting bigger and bigger and bigger. It's the only asset that doesn't have taxes or potential market loss on our balance sheet to hinder it.

Paul Adams: And every year, a mutual life insurance company pays dividends to you, as I like to say, like, "Thank you for staying healthy and not dying another year. [laughter] You're more profitable than we anticipated. Here's a little extra money." And those rewards get the greatest after age 65. And every insurance company is teaching you to start taking your distributions at age 65, 'cause if you do it draws down the cash value, it draws down the death benefit. Instead, we want to leave the life insurance alone for the sake of tax-free withdrawals in old age for a little while; I'll come back to that in a moment. On the flip side, we want to use tax-free withdrawals in the capacity to build, like your own little private reserve strategy, this little bank that's on the shelf that's got a lot of cash that you can reach into at any time, and it wouldn't matter if you're reaching in because of an angel investment, you're reaching in to start another business, you're reaching in to help pay for college. You've just got this big pool of guaranteed money. Part one.

Paul Adams: Part two, one of the the best ways to take the distributions from the life insurance policy is a volatility buffer, meaning you put yourself in the position that when your market portfolio goes down, which does happen, you you still have... Even if you're age 65 right now with $7 million in investments, you've got a lot of lifespan left. If you and your spouse are healthy today, you don't reach mortality as a couple until age 93, and news flash, mortality is a midpoint, not an end point, meaning half the couples have at least one person that lives longer than age 93. That means you will have a long time to take distributions. It doesn't mean your investment portfolio goes conservative the day you walk out at age 65. So it's gonna have ups and downs, and when it does, if you have a safe pool of money you can draw from in the down years in the market, that puts your portfolio in the position, it never gets drawn down on during the down years, maximizing across the board your overall investment performance.

Paul Adams: So we do wanna take some tax-free withdrawals from, say, 65-85, but the bigger strategy, is for us to consistently and predictably spend down the actual assets. That's the thing that all the big wirehouses, investment management, and mutual fund companies don't wanna teach you is that you'd be better off spending your money in your old age than just leaving it there at interest with them ad infinitum. Instead what we should be doing is drawing down our other assets, spending all the tax-free principle that's built up in those over time.

Cory Shepherd: I know that we're both on this episode, we're both on this podcast as hosts now, and I'm supposed to be bantering, but sometimes I just like to... Kinda like sitting on the beach in Mexico, [chuckle] n basking in the Paul Adams rays, that was so great. I love that, I just love watching that happen. So the other thing that came up for me as you were talking there, Paul, is way back to the beginning of this article where he references life insurance for your kids when you're young, pre-retirement as the main reason for most people, and it just came to me that the element of that that's really hardly ever talked about is... Picture managing a term insurance strategy perfectly so that your last policy is set to expire on your 65th birthday and you're retiring the next day, but at 64 you get diagnosed with a terminal illness, and now there's no way to keep that money for just a few months more, and does someone who's in that position start feeling just... I don't know, at least a little bit silly, that this pallet of money somewhere with their family's name on it is going to evaporate or disappear with no recourse to get it back.

Cory Shepherd: So for that purpose, even... Not all of our clients get whole life insurance, because for different reasons at different times it's not appropriate. But every term insurance policy we work with, if it's possible, if the insurance company's willing to give it to them, has something called convertibility, so that even right at the end of that term you have a guaranteed right to convert that to whole life, because even if you don't see a reason why now, you may want that to be able to extend some little bit longer in a really important situation, and that is an incredible amount of tax-free withdrawal from a portfolio.

Paul Adams: That to me is one of the biggest problems with the financial zealotry that's out there, meaning if it's a young and enthusiastic intern for some life insurance company that says the sun never sets on whole life insurance is the way, the truth, and the light, or somebody who says term insurance [30:09] ____, anybody that says this is the only way to go and you shouldn't do anything else, and is not willing to do the math with you. And when I listen to political conversations that are out there, I love listening to people that are on the other side from me, as long as they're the people that go through their thoughts and ideas and don't make me seem like an idiot if I disagree with them. That works for a lot of people, it doesn't work for me, doesn't work for many of our clients. So we just want you to be in a position that the minute you hear somebody just being zealous, like this is the only way to go, no other way to go, that's when you may want to say, "Ooh, I'm gonna need some help in getting this math done."

Paul Adams: Let's quickly knock off the last two here, Cory, on the lack of transparency. And the reason number eight is gonna be there are plenty of options available...

Cory Shepherd: Which we've really taken care of reason number eight in a lot of different ways already. Number seven, lack of transparency, his first line is, "Whole life policies include many fees that are never explained to you." Well, he's talking about other types of insurance right there, because those are the kinds that have surrender charges, expense ratios, line item costs that make it very complicated, and you don't know what's happening under the hood. The other thing he talks about is there's the commission to the salesmen. Now... And then there's administration costs. Administrative costs for a whole life policy are actually built into the dividend; whatever dividend you get is net of administration costs, so that's easy. And the commission of the salesmen or salesperson [chuckle] is that...

Paul Adams: Did he say salesmen? They should be... There should be a...

[laughter]

Paul Adams: Twitter pounding of somebody who would use salesman. Yeah, it's so... The toxic masculinity out there, I know. It's just killing me.

Cory Shepherd: So Paul, that is definitely something to consider as far as whether someone's willing to do the math for you, why they're suggesting something. Fees, commissions, all of those are... It's big in the public mind right now, why is it not a problem with whole life?

Paul Adams: Well, number one, with whole life insurance, very simply put, every insurance company has built into their COGS, cost of goods sold, any compensation to an advisor, period, who's putting the life insurance policy in place. Now here's the thing. I'll just pick on somebody, let's say Northwestern Mutual. A first-year Northwestern Mutual agent has a compensation methodology that's different than a Northwestern Mutual intern, that's different than a senior Northwestern Mutual agent. And yet they're all selling Northwestern Mutual policies. And if you bought a million dollar whole life policy, let's say, on their adjustable comp life platform, you would have the exact same policy bought from three different agents, even though every agent had a different contract with the company.

Cory Shepherd: By law, the illustration you get from each of those agents cannot look any different. The performance of that policy is not any different.

Paul Adams: Exactly right. By law, it cannot be. Those three policies issued on the same age person with the same health cannot behave differently because the agent was compensated differently. So the companies have different costs of goods sold. Somebody might do a lot of business for the insurance company, and that advisor gets paid more than somebody that does very little with that insurance company. That doesn't... It's not like car, homeowners insurance, or commercial insurance, where the advisor gets a chance to build in their compensation, that just doesn't exist on the life insurance side.

Paul Adams: Now what can be done is the policy could be made more or less efficient by adding extra capital. That is often referred to as paid up additions, or overfunding to the whole life insurance, and that has a lower compensation level, but even that is already priced in by COGS for every insurance company, and even if agents get different compensation methodologies the policies must perform exactly the same. And it couldn't be more transparent because right there when somebody says, "Well, I wanna see what all the costs are," I'm like, "They're all netted out here."

Cory Shepherd: Right there.

Paul Adams: All the costs that could exist in the policy are all right there. So let's just look at the plenty of other options. And what this speaks to is... And this is not meant to... If one of those folks... We had somebody have a review of our podcast not long ago where they said something to the effect of, "I'm not yet in the income realm to become a client of Sound Financial Group, but I will be one day and I'm listening till then." Well, there's no diminution of people that are under $150,000 of annual income. But look at what he says is most people don't need this. Why? They already have a 401k or other retirement plan with their employer, and they can contribute to IRAs. So even if you max out your 401k and your IRAs, but you're making half a million dollars a year, that's nowhere near enough money to actually get you to long-term financial well-being, number one. Number two, it ignores any mid-term bucket conversation, that everybody else is really ramping up to long-term assets, long-term assets, long-term assets, but nobody talks about the mid-term buckets.

Paul Adams: Now, you could go all the way back to episode number two if you wanted to hear something about the long-term, short-term, mid-term buckets, but just know that we're gonna have some money we need right now, some money we're gonna need in 30 years or in our old age, and then there's money we may need to access in the meanwhile.

Cory Shepherd: So there you have it, eight reasons why whole life insurance is a bad investment, and a lot of agreement to some of those reasons, but a bigger, more complete picture about how it could be helpful in someone's life. So as always, we wanna invite you to leave an honest review on iTunes or anywhere else that you're listening to this podcast; that just helps us get more non-biased, non-financial institution-funded ideas, concepts, and strategies out to you, all of our listeners. So leave that review, take a picture, screenshot, email us at info@sfgwa.com, and we'll get you a copy of whatever book you haven't read yet in our library, whether that's my book, Cape Not Required, Sound Financial Advice from Paul, or Clockwork from Mike Michalowicz. So please do that so we can recognize you for giving us that honest review, and then you might even hear your view featured on our podcast. So with that, we hope that, as always, this episode has contributed to you designing and building a good life.

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