Sound Financial Bites 072 - Cory Shepherd

Episode Transcription

"If it's not catastrophic, then it's probably not cost-effective to insure."

Paul Adams: How much would you want to protect the $300,000 a year printing press for?

Cory Shepherd: I would want all of that money to keep coming in.

Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host, Paul Adams, now brings directly to you.

Paul: Hello and welcome to Sound Financial Bites. I'm Paul Adams, President and CEO of Sound Financial Group, and I'm excited about the guest that we have here today. But, I'm most excited that all of you are here listening, that you're taking your time while you're washing dishes, on a run, on your drive to work, and you're taking the time to learn about something that's going to help you design and build a good life, and that's what we're here for, and we know we're not the only podcast that you listen to. We are the one where we're working to surround you with appropriate financial philosophy that's going to help you design and build that good life on the financial front for the future.

Today, what we're talking about is having a philosophy around protection, a philosophy around how we protect ourselves from what would otherwise be financial calamities. That's why we call this "Getting it right before it all goes wrong", because today's episode is all about what are the things we have to have in place from a protection perspective before? Now, why I'm excited about our guest here today is because it's Cory Shepherd. Cory Shepherd, who, by the time this podcast is released, will have been announced that he's President of Sound Financial Group. He took some time off to write his book, Cape Not Required, now available on Amazon, and we're so glad to have you back in the fold at Sound Financial Group, but more importantly, here on the podcast, today. Welcome, Cory.

Cory: Thanks, Paul. I appreciate you turning your head around my door and asking me to be on the podcast, and it's great to have a door close to you again so that I can do that.

Paul: Yeah, it is great. For those of you that have ever had the experience of working with somebody where things work really well and then getting the opportunity to have that startup again, that's certainly been our experience here at Sound Financial Group having Cory back with us. Cory, just first off, quick insight for people, since we just talked about the book, maybe tell people what they could expect if they read the book, where they can get it just because that may be a question for people as they listen.

Cory: First, I'll share what you can't expect from the book, which is a lot of talk about your money and what you should do with it. I specifically wanted to write a book inside of our atmosphere that hadn't been done before. Paul wrote a great book a few years ago about our client process, and so I made it about all of the things outside of money that I had encountered in my life and had to learn to grow and progress in my career and my business. It's called Cape Not Required, and it's about ways to live a life more powerfully, to seek out greater ways of moving powerfully in your life.

Paul: I got to say that when you told me the title of the book, and every business person that I've ever introduce to you to - many of you know that I'm a member of EO Seattle here in the area, and periodically, Cory has come to me to those events, and there's not a business owner that's met Cory that hasn't mentioned how impressed they are with him, our clients. So, if you've got somebody in your life that people I think of that you would, say, go order the book for right now, anybody that you're grooming that you want to come up as a leader in the organization, number one.

Number two, your kids. If they're between the ages of 18 and 30, they probably haven't ruined themselves yet. This book would be a great contribution, and it really talks about his journey of finding coaching, and then learning how to find help, and help that he found along the way that allowed him to really accelerate to one of the top people in our industry in an incredibly short period of time.

"If a primary breadwinner dies, then all we've got is a replacement rate of 4%."

Now, onto our subject at hand today, getting it right before it all goes wrong. One thing that we know, when it comes to any kind of protection, what are the first things you think of, Cory, of the ways that people have to protect themselves?

Cory: The state of Washington, and I think every state in the country, mandates car insurance as one of those.

Paul: So, car, homeowner's, health, disability insurance, life insurance, wills and trust are important --

Cory: Liability insurance.

Paul: Yeah, especially if you're a business owner. We've got all these ways that we think of to protect ourselves, and what we see too often is people make decisions because a tactical situation pops up. If they're not a client of our firm and they haven't got organized yet, they pull open what I would refer to as the financial junk drawer, and they take their best look at what's missing or, "What should I have in here?" and they pick some new thing, and it's usually not picked because they have a philosophy that's helping them make the assessment. It's because of price, or because my friend recently became a car insurance agent, or a guy I know from college joined an insurance company.

Cory: Really, most folks think of it like it's a quote-based process, not a strategic process. They're looking for a quote, which is really them saying, "Here's how much I think I need," and asking for a price.

Paul: Yeah, and sometimes not even asking how much they need. Like, I ask most clients if they asked their car insurance agent and said, "Hey, I need a quote," they looking for pricing. By the way, especially when it comes to car insurance, that's what they've all gotten used to. Most car insurance agents built, at least, the beginning of their career, it was all about calling people saying if they could save them money. So, they're very sensitive to give you the least expensive - well, maybe the most expensive - the smallest amount of monthly premium --

"We only need to insure it if it is catastrophic."

Cory: But, you make a good point that someone calls for car insurance and asks for a quote like there is based on their address and their car, there's one policy out there for them. One level that's just, "What does it cost for me?" when there is a giant spectrum of different things that could be included or not and different levels of protection for just a car insurance policy.

Paul: We need to go in and approach, "What's my philosophy about acquiring this?" Now, that applies to all those protection pieces: everything from car insurance to homeowners, umbrella policy, life insurance, disability insurance, even getting your will and trust. Let's start on the philosophy of when to even insure. Because, you don't have to insure everything. Intuitively, we know that. Like, if somebody came up to me and said, "Hey Paul, would you like to insure the sprinkler system in your lawn?" I would say, "No, because I can fix that pretty easy if it breaks." But, if they said, "Paul, would you like to insure if your house burned down?" that answer would be, "Yes, because I don't want to have to rebuild a home."

Cory: I was saying, like what you described -- gosh, this is a long time ago. I just remembered this. This is probably from one of my first license exams in the industry where it's got to be catastrophic and infrequent, because if it's not catastrophic, then it's probably not cost-effective to insure. We're not insuring the plates in our house like it's dropping them, because it happens fairly often and it's not that catastrophic. But, if it's catastrophic and frequent, you won't be able to get insurance on it.

Paul: Yes, yes. So, that really leads right to where I was going to go next, which is the idea that we only need to insure it if it is catastrophic. If you can repair it, that's fine. There's nothing you need to go do if you could just fix it, so it's got to be catastrophic. But, now, if we're going to lose something, and it's a catastrophic loss, it begs the next question, which is, "How much of it do we want back of what we lost?"

If you think about that for a moment, and let's think about your home. If your home burned to the ground with all your stuff in it, too often, people will ask themselves the question first, "What do I need? What do I need? What do I need if X goes away like the house?" but they don't do that with the house, like something physical you can see. You don't just default the need because nobody says to themselves, "You know what? I think if my house burned down, I could just sort of level the plot out, we'll get all the burned embers out of the way, and then I'm just going to buy a 1976 Airstream trailer and just park it there, and then that'll save me a lot money in my homeowner's insurance because I won't be replacing the whole house. I'll just put a RV where the house was."

Cory: I was going to say that I just gained so much thinking from you and the talking I've done about simplification in your life that me that me and Danielle barely have anything more than we need anymore. We don't have a lot of extra stuff, so if it all burned down, I probably want all of it back, because I pared it down to the most of what I really, really want to have.

Paul: Absolutely, and that's the other thing, when it comes to these losses, most insurance policies are insuring, like people say, "I don't really need to document my stuff," which, by the way, you have to prove the loss. So, if your house burns down, and you don't have pictures of it -- and we've talked about that in some of our earlier podcasts. This is more about amounts, but I will tell you that it's important that you document what you have so you can actually hand that to a claims adjuster and make sure that they can replace what you said you lost. Otherwise, that process becomes very, very difficult.

We insure if it's catastrophic, and then we insure for full replacement. Now, this full replacement idea, that means if my home burns down, what I want back in its place is the house like I had before. If my car is stolen, or I get in a terrible car accident, I want my car back the way it was. But, now that branches into some other things, like what about my income for disability insurance, or what about the money I bring into my household if I were to die on the life insurance front. Both of those are key, because how much hangs in the balance with one person's income in the household? Even if you're a dual-income household right now, and let's say both people, one person makes 250 and the other person makes 180. So, Cory, what is that added together?

"It's important that you document what you have so you can hand that to a claims adjuster."

Cory: Oh gosh, thank you.

Paul: 430? I think it's 430. So, $430,000 is the 250+180, $430,000 total income. Now, I would think for most people that listen to podcast, like, "Wow, if that much of a household income, either about two-thirds or about one-third just up and disappeared, it's going to be a problem. Some people will say, "Well, what if they saved one of the incomes? What if 100% of the income was saved?" how we might judge the catastrophic loss will be based upon the future output of the money we were saving.

Because if, let's say, the person with $180,000 income, maybe they don't need it to pay the bills, because after taxes, they're saving $115,000 a year, so they're using it literally for retirement savings, or college savings, or both for their kids, now they would say, "Well, we don't need to get disability insurance." It will be pretty quick to see the future impact of having saved that money for another 20 years, and it would be significant without doing any serious math here on the podcast so we don't cause them to fall asleep while they're driving, but it would be a big impact, big future impact of not having that money insured, even if they're saving one full income.

Cory, in your years of experience, how often do you see incomes that high where they're saving one of them in its entirety?

Cory: I see very few dual-income households at any level where they're saving that great a percentage of the household income. It's not often.

Paul: The other thing I would have you ask is, sometimes, people, they'll go to, "I don't really need to worry about full replacement --" Oh, go ahead. I saw Cory's eyes light up.

Cory: It just struck me is let's say they are, our hypothetical household we're talking about. It doesn't matter which one of them they lose, income-wise. If either of them is compromised, they are no longer in a position to save that much money, and it clearly was important enough of a value to the household for them to do so, therefore, it is a highly catastrophic event, and we would want to insure that income at full replacement value or as close as we could.

Paul: I go back to that all the time where what I can see happen, I see the gears grinding in people's eyes when we're meeting with them by our online meeting platform, and sometimes they'll actually say it if they're not just struggling through it something to the effect of, "Well, we would just change this or that about our lives if that bad thing happened: disability, death, or even being sued," which is where the umbrella policy comes in that what can happen, if that happens to them, and they say, "We just change this." I always ask the question, "Why don't you change it right now?"

I tell them I don't want you to answer. I mean, you're welcome to answer that, but I'm not after you answering it. But, what I want you to pause to reflect on, "Is there some reason why if the way you would save money if one of you died is that she would take the kids and move to Gilbert, Arizona, or he would take the kids and move to Gilbert, Arizona, and they would get by. If that would work, and that's the life that you're after, why wouldn't you do that right now? Or, periodically, the business owner says, "Well, if something happened, I don't really need to go into the office anymore. The business pretty much runs itself," well then, how come you're gone 40 hours a week right now?

"You've got to get it right before it all goes wrong."

There's something you're after, whether it's you're trying to build a bigger future for your family, or you're trying to build a business large enough that kids can come into one day. There's some reason why you're doing it. Let's understand that, and it's not to say that anybody needs to own the full replacement. What we need to do is have enough conversation about the economics of why you would fully replace an asset. That asset includes a capital asset, the income-generating tool that you are, not to be too like pragmatic or mean about it.

Cory: Clinical.

Paul: Yeah, a little clinical. But it's if you had the printing press in your basement, and that printing press was kicking off $300,000 a year, and that's your income as you listen to this podcast, $300,000 a year, here's the question I would ask you: how much would you insure the printing press for that prints $300,000 a year? Maybe it could get damaged, maybe it could just break, maybe somebody could come in and steal it from you. How much would you want to protect the $300,000 a year printing press for?

Cory: I would want all of that money to keep coming in. Here's what I know everyone is thinking. Like, the business owner that we say, "Why you wouldn't just go do that alternative now?" They don't want to do it, but I think they might have the impression that if they bought the insurance, they'd be forced into that anyway, meaning it would cost a prohibitive amount to protect this ineffable what-if kind of future.

Paul: I think that, for everybody listening, the thing that you should reflect on and really think about is set aside cost for a minute. Whether you're working with us or you're working with some other financial professional, it's their job and their professional duty to figure out what's the most efficient way that you can acquire the coverage, whatever the coverage is. But, most importantly, is you have to pause long enough to reflect, if you really had your ideal situation, what would you want? What would you want for yourself, what would you want for your family, and would you want 100% of it replaced? Now, here's bad news. Cory, will they let you replace 100% of your income if you're disabled?

Cory: No, never.

Paul: No. How about life insurance? Can you own enough life insurance to fully replace the actual economic engine that you are to your household?

Cory: As I told my wife, no we can't get as much life insurance on me as you would get if you kept me alive and well for the rest of my life, and that's why.

Paul: I'll tell you that every now and then -- it's very funny. My wife is in leadership at our church and works inside some mom's groups, and every now and then, there'll be a joke a mom will make like, "My husband's worth more dead than alive. He's got a million dollars of life insurance." My wife, in a very polite way, tears into them. Because, if you all have listened to our podcast at all about the idea that the most, not like the ideal, or the recommended, the most money you can take out and have a portfolio survive for long periods of time is 4%. That's what we talk about for portfolio distribution in our old age.

If a primary breadwinner dies, then all we've got is a replacement rate of 4%. Meaning, if you currently make that $300,000 a year, and somebody says, "How do you feel today?" don't say, "I feel like a million bucks," say, "I feel like seven and a half million," because that's how much capital as to be set aside that, at 4% a year, would generate $300,000 a year of cash flow.

For you, as you listen, if you want to replace that income for your family, they won't let you acquire, in all likelihood, 25 times your annual income, because the typical standard is, in your 20s, they'll let you get 30 times, but they know your income is going to grow. In your 30s, it's 20 times, and it goes down every decade from there all the way out to your 60s. You don't have the ability to just get whatever you want. When they say, "Well, I'm over-insured now," probably not.

Cory: Like, clinically, mathematically, most likely not, because no insurance company that knows what they're doing will let that happen, because if they did, if someone was literally insured for more than they're worth, the insurance company thinks of it like that's when couples do math when they argue, and they don't want. Like, the movie where the wife offs her husband for the insurance money, she's just not good at math, because an insurance company would not let him be worth -- now, she may have some plans what she wants to do with that money and not have to deal with him, which is a whole other story, but mathematically, it's not a winning move compared to keeping him alive.

Paul: Why my wife will kind of tear in a little bit and say, "Well, listen, if he's making more than $40,000 a year, you're not going to be okay," because I currently have just short of $14 million for the life insurance and my wife is crystal clear that she still is in a losing proposition compared to the value I will bring the family purely economically. That's aside from the fact that I'm a father, a husband, a memory creator, somebody who's leading our household spiritually, like all the other things that we bring to bear, and I'm still not replaced fully economically by the amount of life insurance that I own.

Once again, that doesn't mean -- we're not talking about type of life insurance maybe we should get her, disability insurance, car insurance, any of that. But, what we do need to do is think, "Is this loss going to be catastrophic?" It's one of the reasons why we don't talk to people a lot about getting accidental death insurance from work. When they offer it to you, it's like two bucks every two years or something ridiculous, it's because you have to die getting hit by a car, in a train, or on a plane, or on a bus, and that's not planning. You have to own life insurance that's going to pay when our life is no longer going, because then we can plan on that.

What we want to do is not speculate. We want to insure only if it's catastrophic, insure it for full replacement, or at least start there and see if it can be designed in a way that would create the opportunity to have that full level of protection, and then put you and your family in the place where there's the least amount of possible disruption if something were to happen, whether that be the end of your economic capacity, which is the disability, or the end of your life. Now, I'm going to tell a story here that would be, I think, described by Cory as just offensive enough.

Cory: Now, I really wish we had talked about what we were going to talk about.

Paul: Yeah, that's why I don't like giving Cory outlines before I start when I'm on podcast with him. Here's what I want you to think about. Let's say you're somebody who has almost no life insurance right now, and let's say it's $50,000 or $100,000, it's whatever your work gives you. If you're one of those people, this story is for you.

The story is about a woman and her husband. They're having a great marriage, a couple of great kids, he makes great income, makes 300 a year, and he has to travel around and do all kinds of different things in different places, different countries. One day, he just never comes back from his vacation -- not his vacation; his business trip. As it turns out, he ran off with someone he met on one of his business trips and he's not coming home. All she ends up getting is $100,000 that he left in a bank account, and she gets to keep all the assets, the house, everything is hers, but he's gone and he's never coming back. He never calls, never talks to the family again.

Many of you are listening to that and saying -- like, if I asked you to describe how you would describe a guy that would do that, the words we're going to get back are not going to be very flattering for him. That would be an incredibly tough situation for any spouse to be in if their spouse just left with all the income. Even if they left behind all the assets, they just left with all the income. Even if they sent back like a one-time payment of a 100 or 200 thousand dollars, but left with all the other income-earning capacity, it would be a bad situation, and everybody would have really bad things to say about that.

Cory: Like, scorch him on social media, like a giant string of posts.

Paul: It would be horrible. Though, let's think about the flip side. If that same person dies with two or three hundred thousand dollars of life insurance, and that's it, no full replacement, no thought about catastrophic, and now what happens is all the income's gone. All of the assets are still there, that's good news, but all the income is gone, and all they get is a $200,000 life insurance policy from work.

Here's the drawback. That is also a very, very hard situation. The part that's probably most difficult is that that spouse has to stand in a receiving line hearing from everybody about how great that husband was, what a great person they were, what a wonderful thing, and yet she knows - and I'm going with the traditional "him working, her not working" roles, but you guys can reverse, you're smart listeners - here's the thing: that's harder. I would challenge you, it's harder.

Because, now, there's not even that good, solid, righteous anger to carry you through the next stage of life.

Cory: That's exactly the same effective tradition at the end of the day.

Paul: Same effective outcome. If you guys want to take that to its next logical conclusion, what if a husband just - same husband-wife roles - what if that same husband just said, "I'm not going to work anymore. I'm going to sit around the couch and you got to pay all the same bills." "No, you need to get up and go to work." "I don't want to. I just don't want to earn money anymore. I'm going to sit here." You see, that's also the same outcome as the disability, financially, for the family. It's really, really hard, it's really unfair, and it's also, you could say, unfair for me to use this description.

But, what I'll tell you is it's these descriptions that, if they hit you to the core, will hopefully put you in a position where you would say, "It's just like the title of this podcast today. You've got to get it right before it all goes wrong," because everything we just talked, any insurance provision, any legal document that needs to be done has go to get done before it goes wrong, because nobody in the world, a personal umbrella policy that picks up where your car and homeowner's insurance leaves off, or a car accident liability, there's no insurance company in the world that is going to give you the insurance the date after the accident happens, the day after the diagnosis, the day after the tremendous physical accident puts you in a position you can't earn money. That's why we have to make sure that we get it right before it all goes wrong. Cory, why don't you bring us home?

Cory: That is just offensive enough, and I hadn't been thinking about it that way. That's also why, if you're a married couple with kids that knows me personally and you've probably gotten a phone call from me with just a couple of questions around that, just a little pushing and prodding, and if you didn't, you might have just missed the voicemail or email that I left, and I thought you didn't want to talk about it, so we just dropped. But, it's because I've lost members of family and friends in situations like that, had to see it after the fact before I could get to help them and I just don't want anyone to have to be in that position anymore that I know personally. At least, have a chance to know what those implications are.

Paul: That's great. As you're listening, what I want you to do is it take some time. If this produces some reflection for you, what I want you to do is take some time and go to the show notes. In this show notes there, right there on iTunes, you're going to have a worksheet that you can download that Cory's designed that's going to give you the ability to just make a quick assessment of whether or not just your current protection meets that criteria of catastrophic and full replacement, and will it put you in a position that's going to give you the greatest ability to make sure that you've gotten it right before it all goes wrong.

I hope you enjoyed the podcast today. This is meant to help you design and build a good life so that what you get the opportunity to do is have those things that are bumps in the road, or what most people refer to as a bump in the road, never become a dead-end for you, because you got it right before it all went wrong. Have a great rest of your day. I look forward to you digging in, get into our podcast page, SoundFinancialBites.com, and you can also find this episode on SoundFinancialBites.com episode number 72, and go right into there to get the link, go to your email address, we're going to email you that worksheet that Cory designed. Hope you have a great day. I'm going to look forward to seeing you on the next episode.

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