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“Hammer Time”

By Craig Pulliam, CFP® and Michael Comstock, CFP®

You are familiar with the saying, “If you only have a hammer, you tend to see every problem as a nail.” Psychologist Abraham Maslow wrote this almost 50 years ago, pointing out that different tools are required for different jobs. Maslow believed that as a person matures he is confronted with new challenges requiring a variety of new skills, coping mechanisms, and adaptabilities. People must have a deep arsenal of skills to be effective and productive in a changing environment.

In our industry we take this to mean that we’d better have a wide variety of strategies, resources, and products to meet changing client needs and a dynamic economic environment. We’d better stay current and informed. Over the last 15 years, this has been a lot easier to do since we became independent advisors and later CERTIFIED FINANCIAL PLANNER™ professionals and Accredited Investment Fiduciaries®. Far easier than it was in our early financial careers. You see, when we started in this business we both worked for a large insurance company, who not only taught us that we needed to focus on just one tool –the hammer of life insurance- but that their hammer was better than anyone else’s hammer.

As we tried to balance true client needs with our sales manager’s quotas, the pressure to sell insurance to everyone we knew and to constantly seek new nails for our hammer became unbearable. We left in 1999. We found a new way of doing business, being independent of proprietary products of any kind, and building a full tool kit with which to approach almost any financial project/concern our clients have. We felt renewed.

Well, that was 15 years ago, and not a week goes by that we don’t chat about how happy we are that we are free of that. But, you know something? We are still big believers in life insurance. At its best it is a straightforward, simple, but versatile tool that has an important place in most families. At its worst, it gets overcomplicated and can be sold indiscriminately and inappropriately. But, for leveraging your dollars to cover the unthinkable financial impact of losing a loved one, in our opinion there is nothing quite like it.

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And that singular event . . . the loss of a person whose income is supporting a family . . . is by far the best and most common use of life insurance. There are other uses to be sure (to pay off debt, as an executive benefit, for estate taxes, business continuation and succession, etc.), but these are far less common. Replacing lost income that may be \$70,000 would likely make in excess of \$3 million in a lifetime). But, as devastating as the loss of future income can be to a family, we submit to you that *not everyone needs life insurance throughout their lives, and those who need it today may not need it “tomorrow”*. For example; do you still need insurance when you’re 65 and retired with a satisfactory nest egg? What loss are we insuring against at this point?

Many people just hold onto their insurance policies longer than they need to. They are still paying premiums into their 60s and 70s, and have accumulated large cash values in their policies that might be used for other purposes. Maybe they don’t need these policies anymore, or maybe they do. What *is* certain is that most of us don’t have much of a clue because we don’t remember what we bought years ago or how the policy works.

When we review coverage for clients and potential clients, we look at a number of things: what risks need to be covered; is the death benefit amount appropriate, or too high or low; is the premium too high, or is it so low that the policy may falter in later years; does the insured understand the policy; and is the policy appropriate? We have seen policies that cover the full spectrum . . . policies that are too expensive, policies that were sold as “permanent coverage”, but where the insured now needs to pay even more in premiums to avoid lapse, coverage that is far too low to cover the need, and even some that were sold as “investments” and “retirement plans”. Younger couples –who often have a real need for substantial and inexpensive coverage- represent perfect targets for these “insurance as an investment” pitches.

We are far from being anti-life insurance, but because we firmly believe clients must have the proper products, competitively priced, and for the proper reasons and time frame . . . we *are* understandably critical of much we see. Often, the problems we see are the result of life insurance being sold as the answer to every financial challenge. Life insurance is not your piggy bank; the growth of cash values does not compare favorably to investing in a well-diversified portfolio (Morningstar Moderate mix) over time; and borrowing money from your cash values is a recipe to alter the coverage and potentially crash the policy in most cases. However, these are popular themes we see repeatedly illustrated by those who see life insurance as the hammer.

Thankfully, most of the people we see understand. They want insurance because it will pay a death benefit to someone when they die. To build wealth and an investment portfolio, they turn to a diversified mix with us. Life insurance and an investment portfolio are two pieces of a successful financial strategy, but they are distinct from each other.

It'll be no surprise to you though, that most of these same people will admit that they haven't looked at their policies in ages, they don't know what they have, they don't understand the coverage, and they don't know whether it will last or if they really need it to last. But, don't beat yourself up if you're one of these people. We don't expect for a minute that clients will know what it was they purchased maybe 15-20 years ago . . . and how to assess if it's still what they thought they signed up for.

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So, here's the thing. You *ought* to dig out those policies sooner than later. And you ought to have them looked over. You need to answer those questions about whether you're paying too much, whether term or cash value insurance is the better option, whether or not you have enough, and if you even need what you do have. And for younger people who bought your policies more recently, you need to double check the appropriateness of the coverage and product.

We'll do that review for you, because it's part of the big financial picture. And –as stated earlier- because we are independent and have more than just a hammer in our tool chest, we can honestly tell you if your insurance is the right insurance for you. You'll know the “what” and the “why” of what you own.

We feel so strongly about this that Kim Weimer, our Executive Assistant, is now licensed in life, accident, and health insurance. Kim will focus upon these life insurance reviews and can find new solutions as needed. We will work with her as a team to help make sure your needs are met and your future is as secure as we can possibly make it.

You might be surprised at what we discover in these reviews. Sometimes we save a client thousands of dollars or can put languishing cash value to work for them. Or, we might tell them that what they have is just fine. Please give Kim a call at 615.777.2125, or email her at kim@premiercares.net. You'll be happy you took the time.

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