Dynamic Chiropractic

YOUR PRACTICE / BUSINESS

Ten Foot Pole

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That's right, a ten foot pole. I am sure you have all heard the statement, "I wouldn't touch that with a ten foot pole." That is usually the "safe" thing to do. I have never been accused of being "safe" or bashful, so stand back.

I am going to discuss a subject that will drive even the strongest person crazy. A lot of people are going to be very upset with some of my statements, but frankly, I just don't give a hoot! Based on some of the letters and e-mails I get, I think it's time to revisit this subject again and set the record straight. The subject is life insurance. Calm Down! All I am going to do is cover the four basic types so you have a better understanding of what they are and how they work.

There are four basic types of life insurance. That statement alone will upset a lot of life insurance people and others! We have: (1) term; (2) whole life; (3) universal life; and (4) variable life. Let's begin with term.

Term insurance fits its definition perfectly. The dictionary states that the word term means "designated period of time." That's term insurance. It is designed to cover a person for a designated period of time, not your entire life.

Take a good look at the rates of any term insurance plan. Run it for an entire lifetime and see what the premiums will be when you are really up in your years. Now see what I mean? In effect, every year you go to the insurance company, give them your money and say, "I'm going to die." They take your money and say, "No, you aren't" under their breath; they have the actuarial tables on their side. The longer you play and the odds switch more in your favor, they will "charge" you more to "play the game." As the "final event" gets closer, they will "price" you out of the game. In other words, the rates will get so high you can't afford to pay them.

It's very interesting to note that less than one percent of all term policies ever mature as a death claim. That either means that a) people who buy term insurance never die, or b) term policies don't stick around for very long. By the way, the answer is b! The average life of a term policy is around two years. When a person realizes how much the premium is going to increase, they convert it to a permanent plan of insurance.

One such permanent plan is whole life or ordinary life. It eliminates the increasing cost of term insurance with a level premium that is higher than a term premium. It gives you an equity value in the policy for that additional premium. You can in fact use the equity in a policy without any tax consequences or penalties as long as the policy remains in force. What is the bad news concerning these policies? You do have to pay an interest charge for the use of your money. The premiums are initially higher than any term policy, and the premiums must be paid each year.

Another permanent plan, universal life, came into being in the early '80s. The insurance industry saw that it needed a product that was more consumer-friendly, and with the equity sensitive to what was going on in the economy and the stock market. Premiums can be flexible, and so can the death benefit. It's the insurance industry's answer to the old adage, "Buy term and invest the difference." That is exactly what these plans do, and they do a better job of it, too.

What about the downside to these policies? Well, some have high internal loads, so even if they show you a high rate of return, how much of your money is really getting that rate? Some of these policies have not performed as illustrated, and others will never reach the high rates that some computer program stated they would pay. That should not come as a revelation. Computers are not the final word on anything.

The last type of permanent insurance is called variable life because it allows you to pick where you want your equity side of the policy invested. Each of these contracts has a portfolio of mutual funds where you can "invest" your policy equity. Your policy return is based on how well you pick the winners. A safe way to play the stock market and have all the earnings sheltered from current taxation. You can change the mix a few times a year, too.

Any downside to these flashy policies? Well, you can change your portfolio, but the companies state that most people don't change much after the first year. In fact, they change less than once per year. Why? Basically, because they are not pros at this and are afraid they will make a mistake. How are the loads in these policies? Well, you start with an insurance contract that has loads and stick in a mutual fund portfolio that also has loads. Then you need some tools so they can communicate, which requires more loads. In other words, loads on loads.

Now that I have totally scared you away from any type of insurance, your next question should be, what is the "best" policy for me? Good question! First, you should see what your needs are, then subtract whatever assets you have that could be converted into cash and see what is left over. That is "how much" coverage you need. The "what kind" portion of the formula depends on what you want your insurance program to do for you. How long do you need coverage? Should I use it to build equity in case I don't die "too soon"? Don't forget one other important element: what you can afford.

Let's not forget to take a good look at the company that you are going to deal with, too. A few years ago, there were over 1,800 life insurance companies. Now that number has been reduced to around 1,200. Some people are predicting that by the next century, that number will be below 1,000. Check out their ratings. They are all rated by the various rating bureaus and should be proud to show off their ratings -- A.M. Best & Co.; Standard & Poor's; Duff & Phelps; and Weiss. Make sure you pick a winner that will be around as long as you will.

Do you have a bunch of policies in a bottom drawer and are not sure what you should do with them? Why not call your agent and ask for an update on what you have, what it is, and what it will do for you. Check out the ratings while you are doing all of this, too. For the price of an envelope with sufficient postage on it, I will send you a sheet so you can figure out yourself what your insurance needs are. I also have a sheet so you can list all of your policies so you know what you have. It's yours for the asking. Please don't forget the self-addressed stamped envelope. It makes my life easier and saves me a lot of envelopes and stamps! Thanks!

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