Retirement Planning Insights

October 2023

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Tenon Financial Happenings

Fun (and productive) times at the 2023 XYPN Live conference

Last month Michelle and I spent a few days at the annual XYPN Live conference in Atlanta.

XYPN stands for the XY Planning Network, which is a network of financial advisors who are all fee-only (i.e. don't sell any products for commission; they only receive fees directly from clients). It's a great group of over 1,700 like-minded folks who all generally think about and offer financial advisory services in a logical and commonsense way.

While I've attended the conference before, this was the first time I was one of the presenters. Specifically, I talked about charging flat fees for advisory services.

The topic is near and dear to my heart and I've since sort of taken on the role of being the leading voice within the industry about flat fees.

In my presentation, I talked about the pros and cons a flat fee model, why it's often more logical and fair than other fee models (such as the typical percentage of assets under management structure), when it's most appropriate and how to implement it.

There was A LOT of really good engagement and questions both during and after the presentation. It was great to see so many other advisors express so much interest in being on the leading edge of the future of advisory business!

Separately, here's Michelle and I at the conference's closing party, which was held at Coca Cola World:

One of the cool things about that venue is a tasting room where you can sample various of the company's products from around the world.

If anyone ever goes to Coca Cola World, be sure to try Beverly from Italy…you'll love it! 😉 (Anyone who's ever tried Beverly knows what I'm talking about, and knows how sick and twisted of a joke this is…Beverly tastes like a mix of licorice, sweat and dirty foot!)

See you next month.

-Andy

Retirement Planning Happenings

The truth behind common Indexed Universal Life ("IUL") insurance sales pitches

This article is the final part of a three-part series about Indexed Universal Life ("IUL") insurance policies.

August's newsletter had the first part; an explanation of the basics of IULs. Last month's newsletter was about how to use IULs as a potential source of cash flow in retirement. This month's newsletter discusses the truth behind common IUL sales pitches.

As discussed in the last two month's newsletters, this series on IULs isn't trying to say IULs are good or bad, or that you should or shouldn't consider them. Instead, it's simply a way to try to inform and educate you all about them, as IULs are - in my opinion - heavily oversold and often misrepresented.

With that said, let's now talk about some of the common IUL sales pitches, and the truth behind them:

IULs can't lose money – This is not accurate; IULs can definitely lose money.

The genesis of this pitch is based on the fact that the interest credited to the policy's cash value can never be less than zero. That much is true.

However, just because the interest credited to the cash value can't be negative, that doesn't mean that the product can't lose money. In other words, if you put in $X, you are definitely not guaranteed to be able to always have $X.

IULs are first and foremost life insurance (not an investment). As such, there will rightfully be costs and fees associated with having insurance. Those costs and fees get deducted from the policy's cash value, even when the interest credited to it is zero. Therefore, cash value can definitely decrease or "lose money."

IULs create tax free retirement income – This is potentially true, but requires some very important disclaimers and qualifiers.

As mentioned in previous newsletters, using an IUL for retirement cash flow is predicated on taking loans collateralized by the policy's cash value. Those loan proceeds aren't technically income; they're debt.

Like any form of debt (e.g. borrowing money to buy a house, taking out student loans, buying dinner on a credit card, etc.), the IRS doesn't consider it taxable income…because it's not actually income; it's borrowings.

Generally speaking, only if/when a loan is formally forgiven and doesn't need to be repaid is it then taxable.

With an IUL, the loans are eventually paid off (not forgiven) when the insured dies, at which point the policy's death benefit is used to pay back the loan.

Along the way while the insured is alive, it's possible for the policy to lapse or have to be surrendered while loans are outstanding. If/when that happens, any loans in excess of the total amount of premiums paid into the policy will be treated as a fully taxable distribution from the policy.

With this in mind, it's not entirely accurate to say IULs create tax free income. The income is technically tax deferred and THEN potentially/eventually tax free after the insured dies.

IULs give you immediate liquidity and access to your money – This is another point that requires a lot of very important qualifiers to make it truthful.

There are two ways to get money out of an IUL during the insured's life; 1) take outright distributions from the policy's cash value and/or 2) take out loans collateralized by the policy's cash value.

If you take outright distributions from the policy in the first 10 or so years, you will typically be subject to surrender charges. Also, the policy's underlying fees and expenses are relatively large in the early years. As such, if you try to actually distribute money from the policy in the first 10 years or so, you'll likely only be able to get out less than you thus far paid in.

For example, in the IUL I bought myself as an experiment (www.theIULexperiment.com), the policy's "surrender value" isn't expected to exceed the cumulative payments into it until year 9. In other words, I don't have a break-even amount of surrender value until nearly 10 years.

As for taking loans against the policy, that indeed can be done fairly early on. However, the amount of money you're able to borrow will typically be less than what you paid in, particularly early in the policy. Additionally, you'll have to pay interest on the loan.

Therefore, yes, you can generally access money in your policy, even early in the policy's life. But there will commonly be surrender penalties, reductions from ongoing fees and/or interest you'll have to pay on loans.

IULs let you "bank on yourself" – This is categorically false. Or at least, it's a gross misrepresentation.

One of the key selling features of IULs is that you can take out loans collateralized by the policy's cash value. This is 100% true.

Additionally, it's usually pretty quick and easy to take out a loan against a life insurance policy. Furthermore, unlike with taking out a loan to buy a house or a car, there is no credit underwriting. Also, the interest rate charged on loans against insurance policies is often lower than the interest rate charged on home mortgages, car loans, credit card loans, etc.

However, you are in no way banking on yourself. While it's true you're not borrowing money from a traditional bank, you're definitely not borrowing from yourself. You're instead borrowing money from an insurance company. As such, it's more accurate to say IULs let you "bank on the insurance company…not yourself"

Banks buy cash value life insurance (implying you should too) – True, but far from the whole story.

IUL sales pitches will often allude to banks buying lots of cash value life insurance, implying they do so because it's liquid, low risk and a good investment.

Yes, banks (and corporations) often buy cash value life insurance. However, they buy it as a way to help provide insurance against potential untimely deaths of their key employees. Additionally, it's bought to help fund employee benefit programs.

Banks do not buy life insurance for liquidity. In fact, the Office of the Comptroller of the Currency (i.e. the national overseer of banks) mandates limits on how much cash value life insurance banks can buy, specifically because they view it as not as liquid as other traditional investments.

Furthermore, the type of cash value life insurance banks and corporations buy is more akin to whole life insurance; not IUL. The cash value growth of whole life insurance is more stable and predictable than that of IULs.

IUL is a secret the rich don't want you to know about – This is simply laughable.

Rest assured the rich don't care whether you know about IUL or whether you choose to buy it.

This pitch is nothing more than a gimmick to try to make you feel like you can be part of some exclusive club by buying IUL. That's it.

401(k)s are a scam – This is also laughable.

The most unscrupulous of IUL salespeople will often try to sell the product by disparaging traditional investment accounts like 401(k)s. They will even go so far as to say 401(k)s are a "scam." This is a flat out lie.

Like any financial product or service, not everything is the right solution in all cases. 401(k)s are no different. They have their pros, cons and ideal use cases. They aren't always the right answer, but they are far from scams.

If anyone ever says a 401(k) is a "scam," run far away. And on the flipside, if anyone ever says insurance products are a "scam," also run away. Like investment accounts, insurance products have their place, but aren't the end all be all. That doesn't make them scams.

That's it for the three-part series about IULs. I hope you've found it educational and informative.

The landscape around IUL sales and marketing is unfortunately the Wild West. Hopefully this newsletter series helps you cut through the noise to make an informed decision of your own.

IULs are not inherently bad. But there are unfortunately a lot of bad actors out there peddling IULs. Buyer beware!