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JIM: Today, we have back a very special guest, David Buckwald, and he’s been on before and he had the unique experience of serving an entire firm and a lot of their employees with life insurance and they had the unfortunate experience of being in the towers on 9/11 and David probably, unlike most insurance agents, has had to deal with widows and their families all in one snap of the fingers and dealing with death claims, probably more death claims in one day than most of us deal with in a career. That brings to mind the importance of life insurance and reviews and how important it is to make sure you know what you have. Dave, if you wouldn’t mind, talk about that day and how it shaped your career to where you believe reviews are one of the most important things that people can do that own life insurance.

0:55

DAVID: Thanks Jim. Thanks for having me on. Yeah, that 9/11/2001 obviously shaped my life, as well as many other people’s lives as you mentioned. I had 51 clients that passed away in the north tower that day, but I saw and learned up close the importance of life insurance and more importantly the importance of planning and putting a plan together to take care of your families and your loved ones and unfortunately I’ve seen now 15 years later the good and the bad of that day on how some families have turned out that did not do the planning and how their children’s lives have changed dramatically. I’ve also seen up close how families that took the time to do the planning and how their lives and their children’s lives have turned out quite differently than the families that have not taken the time to do the planning, so unfortunately I’ve seen and had some good and bad experiences of that day, but I think it’s made me a better planner today where I can share what I’ve learned over the years.

1:49

JIM: Now I know Dave when we talked about this in the past I know the vast majority of those folks were younger, the vast majority had term insurance, and I’ll never forget you talking about a couple of the widows that called that had policies, the policies had lapsed, and being a younger agent back then we kind of look at term insurance as just insurance. You pay a premium, maybe it will pay a claim someday or whatever, but even as agents sometimes get a little lackadaisical sometimes about how important that coverage can be. Share with us maybe a couple of those stories.

2:22

DAVID: I had a couple clients that they’re busy, they’re raising their children, they’re working hard and some people bought term insurance, some people bought permanent insurance, but I had a couple unfortunate stories of clients that bought term policies and just decided or never got around to it or thought they could invest their money better, but they did not pay the premiums and as you know with a term policy if you miss a premium the policy lapses, so I don’t know if that was intentional or not but that’s what happened, so today it’s far more important that when we sit down with a client, when we look at their holistic plan and incorporate insurance into that plan, whether it’s term insurance or permanent insurance, it’s very important to review the insurance policies, the type of insurance, to make sure it changes and meets the goals and the family as their plans and estate plans and financial plans change and evolve over the years, it’s critical that we do these audits and reviews of their insurance to make sure it’s still doing what’s important to the clients.

3:20

JIM: I think a lot of people are kind of lackadaisical about it because they actually look at it as an expense. They don’t really look at it as an asset and the thing about life insurance is it pays a lump sum of cash that is tax-free as a death benefit to the beneficiaries and that money can be a lifeline for those families and I look at term insurance policies today. If we’re trying to replace, let’s say they’re just starting out and they’re making $40,000, $50,000 a year, those folks should probably have $1,000,000, $1,500,000 of coverage in today’s low interest environment just to try to replace the income and the benefits that might be derived from that job, especially if they’re the main breadwinner. Would you agree with that David?

3:59

DAVID: Yeah absolutely, I mean one of the things that we’ve learned over the years is most people when we sit down and ask them questions we’ll find out that they really do not have enough life insurance to accomplish what is important to them, what they’ve shared with us when we figure out exactly how much they want or need for their families, but one thing that came out that was pretty interesting that after 9/11 the Victim’s Compensation Fund with the federal government actually determined what the lost wages would be so when a family member passed away who was in their 30s or 40s the federal government came out and said life insurance is to replace lost earnings and they recommended about 20 to 30 times annual income was recommended for the clients. Now as you got older, 40s and 50s, it was probably 20 times, and then when you got into your 50s and 60s it was probably 10 times your annual income, but I know a lot of 30 and 40-year olds that don’t even have close to what the federal government recommended was the necessary amount to replace your lost wages to a family.

4:59

JIM: What’s interesting; I find this and I’m sure you find it too, when I talk to clients about those numbers and what the right amount is to have, they’re all thinking that’s way too much, I don’t need to make my widow rich or my husband rich or whatever, but $1,000,000 isn’t what $1,000,000 was in the 20s or 30s. It seems like a lot of money but you can go through it in a hurry and what’s interesting I sometimes will pose the question, if you were killed in a car accident, how much would you want your family to sue for, and you look at these lawsuits and they have multi-million dollar lawsuits and yet the same people that are trying to sue for that amount of money might have had $50,000 of insurance or no insurance at all, so it’s kind of interesting how people come to their conclusions when it means taking care of their own family from their own means versus looking for somebody else to pay for it.

5:46

DAVID: That’s a great point. I’m going to have to bring that into my next presentation. That’s a good one, Jim, I like it.

5:51

JIM: Well it is important that people are properly covered. We’re going to take a short break and when we come back, we talked about the importance of making sure you have coverage in place, but a lot of our listeners probably do have coverage in place and I find when I’m meeting with clients, especially if it’s for the first time and we’re reviewing everything that they have and we talk about their life insurance, more often than not they don’t remember even who their agent was because they haven’t seen them since they sold the policy and I think that’s a big mistake. If you’re dealing with an asset that might be worth hundreds of thousands of dollars or a million or even more, an asset like that should be reviewed at least once a year and we’ll talk about the importance of what is included in a review and things you should be looking at when we come back, so pleased stay tuned.

6:36

BREAK

7:06

JIM: Welcome back as we continue to visit with insurance professional, David Buckwald. David is a past guess and he was sharing what happened on 9/11 as he insured a lot of people with the firm in one of the towers when it came down and he, unlike most insurance agents, has had to deal with the amount of death claims that we might deal with in a career, he dealt with it basically all in one day. David, I really appreciate you sharing that because I think a lot of us can learn from that. What was the lesson that you learned being an agent, and you were fairly new in the business when that happened, only a few years in the business, what did you learn from that?

7:41

DAVID: Well unfortunately, painfully, I learned that the importance of planning and putting a plan in place is you never know what tomorrow holds. That was kind of an extreme case, but whether it’s a car accident or what I went through with 9/11, it’s the importance of planning and taking care of your family.

7:57

JIM: Now let’s talk about the life insurance reviews and audits and I think right now it’s probably more important today than it’s ever been because we’re in an environment right now that we really haven’t seen before and that is the low interest rate environment. Nobody predicted we would stay at or near these record low interest rates year after year. Why is that important to be aware of that and how does that effect the life insurance, David?

8:25

DAVID: Well what’s happening now as you mention; I mean life insurance is an asset class like anything else in a portfolio, but too many of our clients review their 401(k)s, they review their investment statements, but they really don’t have a clue how their life insurance policy works and what it costs and what can happen when interest rates go up and down because they don’t really review these policies on a regular basis, so what we’re seeing right now, I mean after 9/11 I learned what happens when a plan is not in place and reviews are not on a regular basis, well now we’re coming full circle to another, in my opinion, I just wrote an article on it called the “Perfect Storm”, but I believe the consequences of what’s going on to a family member for not reviewing their existing life insurance policies can be potentially catastrophic as well. Not in the sense of 9/11 but in a different sense because this prolonged low interest environment that you eluded to Jim on permanent life insurance policies is having negative effects where these policies now can potentially lapse or client’s premiums can potentially go up dramatically and the problem is most people do not review their policies and they haven’t seen or heard from their agent in quite a while and the agent is probably embarrassed because the policy is not meeting the projections that they originally laid out as it was only projections just like you project out a retirement plan, a lot of clients are going to be suffering and find out when it’s too late that premiums can go up or their policies can lapse.

9:51

JIM: I think back to the 1980s when we had these double-digit interest rates and coming out of that universal life came out, which had a lot of moving parts to it, and one of the moving parts that was very attractive is paying a current interest rate and a lot of those polices I remember when I first got in the business those policies are paying 12%, 13%, 14% out of the gate and I remember when I first got involved in the business where I was advising clients on insurance, I remember the interest rates being 9% or 10%, and I remember I would always show 7% or 8% thinking I was being responsible by scaling that back a couple percentage points because back then we never thought interest rates would go low again. Unfortunately, if you have interest rates that are below single digit, below 1% in interest rate environment, that really effects the companies because that’s a big part of what they do. They invest that money and it’s usually in the safer type of investments. They’re typically in bonds, government bonds, and things like that and if they’re getting a very low interest rate they can’t make much money there to help support these policies, so the next thing they do is they look at cost of insurance and with people living longer we’ve seen costs of insurance rates go down but because of this low interest rate environment we don’t have the interest rates to help support the cost of insurance, so what’s happening there, David?

11:08

DAVID: Actually what you mentioned earlier, Jim, you were one of the good guys where back in the 1980s when interest rates were so high you were running at lower conservative substance, which now we’ve learned probably still weren’t conservative enough, but a lot better than a lot of the agents and what we call that today is stress-testing the policy. We do that a lot. What happens if the crediting rates go down 1% or 2%, whether it’s a dividend on a whole life or the crediting rate on a universal life policy to see what happens, to share with clients on a downside situation; what can potentially happen. What you were mentioning is when these older products, when companies were guaranteeing higher interest rates, well now they just can’t make enough money to meet the spread. Unfortunately, what’s happening now, which is unprecedented and I’ve never seen it in my 28 year career, that some companies, actually five in the last few months and we think with many more to come, are left with no other options, that they have to go back in and raise the internal charges and expenses, which no one, including me, ever thought could happen, but if I’m not aware of it and it’s actually happened to my own mother, who is 79-years old, where the company raised her internal charges and her premium went up by over 50%, so this is going to leave a lot of clients in very unfortunate situations, but the sooner they address it and review these policies from an independent insurance professional the better off their clients and their families are going to be.

12:36

JIM: One thing that I hear a lot of people say is well my agent retired a long time ago. The person that’s distributing this program is a prime candidate for someone who can review your policies. This isn’t something that the agents controlled. This is something the insurance company controlled. It’s part of the environment that we’re in right now, so it doesn’t make these companies bad companies. They’ve been fulfilling their promises for centuries and in order to fulfill those promises and continue to pay the claims, they have to financially responsible. A lot of these companies have prolonged making these changes for many years, but at these low interest rates, nobody predicted they would continue. Everybody’s saying oh yeah the feds are going to raise interest rates next time they meet, next time they meet, next time they meet, and it just never seems to happen. They’re having to make these adjustments and these adjustments make it all the more important for you to be reviewing. Let’s talk about another reason to review. We talked about on the insurance industry side, but what about the family situation. Are there reasons to review the policy based on circumstances in the family?

13:39

DAVID: Well yeah that’s a great point. Just remember how you were when you were in your 20s and 30s. Life changes and life happens and too many times we’ve done audits and reviews of client’s financial plans and what they thought their life was going to be like in their 50s, 60s, and 70s when they were planning in their 20s and 30s couldn’t be more opposite. It’s critical that you’re reviewing a client’s overall goals and plans, I mean because tax laws change, family dynamics change, people get married, people get divorced, they have children, I mean things change. It’s critical that your insurance, as well your financial and estate plans, are updated and reviewed on a regular basis to make sure your insurance is still what is important to you, but many of these products can be tweaked and changed and altered and restructured to provide more value and more efficiency in your current plan, so it’s critical to have these independent reviews in audit.

14:31

JIM: You know what’s amazing is we talked about earlier the 401(k)s and things like that. I’ve got clients in today’s electronic change, they are literally checking their accounts sometimes more than once a day, two, three times a day they go on; what’s going on, the markets up a little bit, let’s see what my account is doing. The market is down a little bit, let’s see what my account is doing, and they may have an account that’s worth $30,000 and they’re checking it like this, and yet they have an asset and I think the biggest thing I can share with people is life insurance is one of the biggest assets in most people’s portfolio if they’ve properly planned it’s always going to be one of the largest ones, and to set it and forget is the biggest mistake. You need to be looking at this on a regular basis. Sometimes there are positive changes. In the 1980s we saw interest rates going up and up and up and up and sometimes that gave us some flexibility we could scale back, but now interest rates are going down and down and down and staying down. Now the opposite is there that we might have to contribute a little bit more, but if we get on top of that early than it’s a little change. If we wait until the policies are at a critical state where it’s ready to lapse, we may not be able to afford that insurance anymore, so I think it’s probably one of the most important things you can do and I’ve glad you’ve come onto share this because it’s been a long time since we’ve talked about this subject and it’s probably more important now than ever. Any parting thoughts, David?

15:52

DAVID: I agree with you a 1000%, Jim. This is an asset class and most of the time it is people’s largest asset class and it’s usually the most misunderstood asset class, but it is imperative and critical these days just like you said to review these policies sooner as opposed to later because the quicker you get on top of this the better off for your family because potentially the consequences can be catastrophic to your financial plan, your retirement plans, your family members, if this is ignored but if you get on top of it it’s not that big of deal but you need to have independent reviews and audits of your life insurance policy and review it like any other asset class you would in your portfolio.

16:32

JIM: It’s not a matter of if we’re going to die, it’s when, and will be prepared and will our family be prepared, and when you’re talking about something as important as life insurance you need to review it, so go to your insurance professional today, call them up, schedule a review, make sure the policy is doing what you expect it to do, make sure the coverages are in alignment with what your needs are so that you’re not misaligned with this asset class that is so important. Thanks David. I really appreciate you taking time to share with our audience and take some time on something as important as insurance reviews.

17:04

DAVID: Thanks Jim. Thanks for having me, always a pleasure.

17:06

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth Process, and remember, if you anything you heard in today’s show you’d like to get more information about, contact your Real Wealth Advisor. Also, if you feel that any of this information would be helpful to a friend or family member, just click the forward to a friend button.