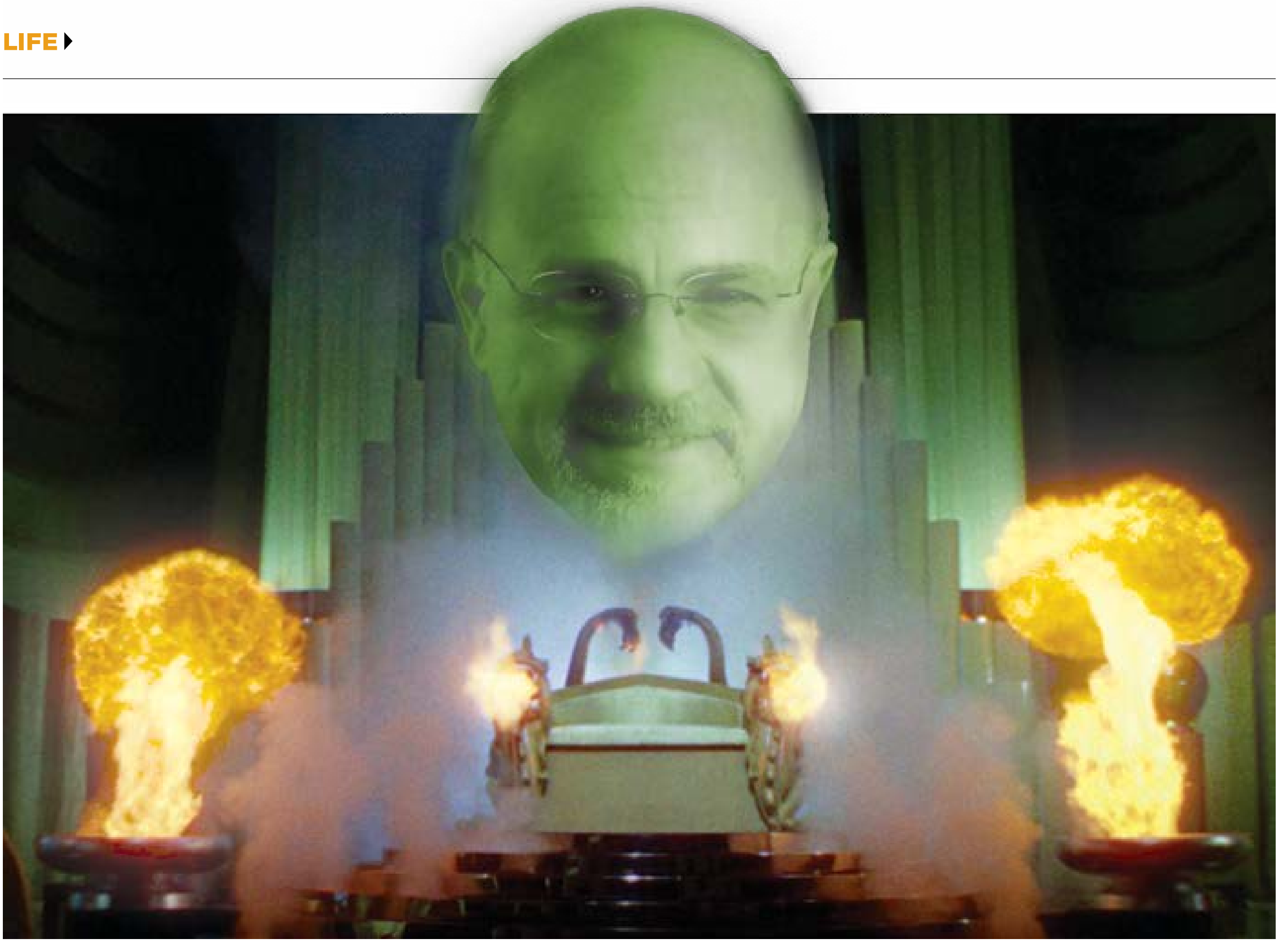

Pay No Attention to the Man Behind the Microphone

Why your clients shouldn't put too much stock in great and powerful talk show pundits' advice on life insurance.

By Robert M. Barnes

I was driving home around 7 p.m. one evening when The Dave Ramsey Show came on the talk radio station I was listening to. I didn't change the station as I certainly know of Dave Ramsey.

I had a recent encounter with a friend who said she and her husband had attended his course at their church. She shared a few of the prescribed financial strategies and recommendations taught in his course. I immediately disagreed with one of them, and we both disagreed with another one. So, of course, when the show started I continued to listen to it for the rest of my drive.

An elderly gentleman called in to the show. The man started out by thanking Dave for his "advice," commenting that he recently canceled his life insurance. Now he was calling to ask whether he should have long-term care insurance. He mentioned he had a pension paying $5,000 a month and his wife will receive 75 percent of his monthly benefit when he dies. One of Dave's first comments was along the lines of "Well, I am not sure I would get rid of your life insurance, because you have to take care of your wife." Dave then emphasized to the caller how important it is to protect his wife. I actually was cheering in agreement with Dave. Then I remembered two things: 1) the caller mentioned he already canceled his life insurance and 2) according to my friend who attended his course, Dave doesn't believe in permanent life insurance.

This is the heart of the problem with pundits and those who follow them blindly. In this case, the damage was already done; the caller canceled his life insurance. Perhaps he can obtain another policy, but what if he can't? He likely can't get a better deal. If this retired gentleman had term insurance and needed to carry coverage to protect his wife after he dies, what will happen when the coverage runs out or becomes prohibitively expensive?

I liked the fact that Dave did suggest the caller purchase three years' worth of LTCi coverage. My concern is that the only facts we knew were his income and that he had $30,000 in savings. No other financial information was disclosed or questioned, nor did Dave ask whether the caller was in good health. I mention this because, in my experience, this caller is not likely to be someone who will buy long-term care insurance once he knows the cost. Nothing was mentioned about his health or his ability to qualify for coverage.

The other point to consider is that this caller doesn't have much to protect. If he couldn't or won't purchase LTCi, he could wipe out their savings and they could find themselves in a Medicaid spend-down spiral. I found myself wanting to ask Dave one question: Wouldn't it be nice if the caller had a life insurance policy that was not going to expire or become prohibitively expensive so that when he dies it could help offset the pension and Social Security loss the wife will experience?

When the gentleman called in about LTCi, I was thinking he likely could use and afford a small policy. However, if he needed care beyond the average length of time, he and his wife still could be financially wiped out. I thought for sure if he or his wife needed care, they will likely end up taking out a reverse mortgage (assuming he owns a home, which was not disclosed on the call). As soon as I had this thought, I had to go online to look up Dave's directive on reverse mortgages. Let's just say Dave doesn't like them, but at least he agrees they are an option if someone has no other resources. He actually prefers that people take out a regular mortgage and invest the money. He didn't say how to invest the money and did not mention anything about investing in an annuity or what would happen if the money runs out.

Instead, Dave made the statement: "Some goober in the financial planning field tries to talk them back into debt" when asked about reverse mortgages. So Dave thinks any financial advisor other than he is a "goober"? I immediately had a flashback to Goober Pyle from The Andy Griffith Show. Dave is certainly no goober, as he has created a substantial net worth peddling his "Dave-knows-best, one-size-fits-all" advice.

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By now, you're getting the idea I may not have a lot in common with Dave's perspective on financial planning. It started when my friend mentioned Dave's advice to cut up all credit cards. I had just purchased airline tickets and reserved a rental car for my trip via credit card points. Now I understand if someone doesn't use credit responsibly, perhaps they shouldn't have free access to it. But this is the problem with one-size-fits-all financial advice: The world isn't equal, and we shouldn't be dispensing untailored advice. Debt can be good, Dave! How did you purchase your first house or first new car?

Some people actually use their credit cards wisely and receive benefits from using them instead of paying high interest. And yes, Dave, some people should own permanent life insurance because things don't always work out like we are told they will. Yes, people may be able to self-insure but what if they can't? What if the plan doesn't go as planned? What if the market didn't return what you projected it would?

The bottom line is, insurance is a safety net so you don't fall all the way to the ground and wind up in ruins. The higher one climbs, financially speaking, the more they have to protect and the farther they have to fall when life events strike. On this particular night, Dave thought it was important for the retired caller to have life insurance, but due to his prior preaching the coverage was already canceled.

Yes, I am a life insurance expert and have been proudly selling life insurance for many years. There may not be another financial tool that is nearly as controversial as life insurance. Dave is not the only one out there dispensing one-size-fits-all advice. It happens all the time. The beauty of life insurance is in the eye of the beholder. As with other things we might do with our money, perhaps there is a better way or a better return. But projections are not guarantees, and hope is not a strategy. Death is not something that might happen; it will happen. The value of life insurance can truly be determined only at that point in time.

When I started in the business, I quickly understood the value of "owning" life insurance. I also learned how important it is to have an appropriate amount. In many situations, it can make sense to own some permanent life insurance. It can help people across the financial spectrum. Low net worth can replenish the bucket of assets if the market or extended care depletes it.

It can offset Social Security or be a permission slip to annuitize and not disinherit. It can help equalize an estate or inject capital as needed. It can help pass on a family business or pay estate taxes. With many insurance companies offering long-term care or accelerated benefit riders, it can help pay for care if needed. At the end of the day, it is a leverage and liquidity tool. Help your clients choose wisely and think long term.

I don't believe everything Dave is telling people. What do you believe?

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