The Downsides of Whole Life Insurance

Long-term readers know I’m not a fan of whole life insurance. I have owned a policy in the past, but do not currently own one and honestly doubt I’ll ever purchase one in the future. Long-term readers may not, however, be aware of an ongoing trend on this website. When I write a post on whole life insurance like this one, it gets a few comments from regular readers and then disappears down the list of blog posts. A few months later, as it starts gaining traction in the search engines, every few days a whole life insurance salesman, or simply someone who has completely drunk the Kool-aid, wanders in and tries to convince me I’m wrong. They are appalled by the fact that I don’t agree with them that whole life insurance is the best thing since sliced bread. This makes for some intriguing and occasionally bizarre conversations that frankly typically devolve within a few posts into ad hominem attacks leading to the agent’s IP address being blocked from the site. A few days later, a new agent shows up and does the same thing, ad nauseum, for years, on a dozen or most posts on this site.

However, recently I had two whole life “fanboys” show up who both claimed there were NO DOWNSIDES to a whole life policy. It was incredibly bizarre. I mean, everyone knows that just about anything has upsides and downsides. If the downsides outweigh the upsides for you, then you avoid it. And vice versa. So today, I thought I’d make a little list of the upsides and downsides of whole life insurance.
Upsides of Whole Life Insurance

# 1 A life-long, tax-free, death benefit

At the end of the day, a life insurance policy is life insurance. If you die while owning life insurance, you get paid the death benefit. This includes whole life insurance. Unlike term insurance, which rapidly becomes astronomically expensive after the term ends and you start getting to those ages where you are actually likely to die, whole life insurance is designed to pay out when you die, even if that’s at age 95. If this is a benefit you want, and you want that death benefit to slowly grow (it’s way cheaper to buy a Guaranteed Universal Life policy if a flat death benefit is fine with you), then Whole Life does that for you. All life insurance death benefits are tax-free to the recipient, just like when you inherit other assets like mutual funds and investment properties thanks to the step-up in basis at death.

# 2 The ability to borrow money against your cash value at pre-set terms

You can access this death benefit even before you die by borrowing against it, as long as the policy isn’t a Modified Endowment Contract (most aren’t.) The insurance policy dictates the terms of your borrowing. Depending on what’s happened in the economy since you bought the policy, those terms may be very attractive or very unattractive, but they are pre-set when you buy the policy. Note that when you die, the amount you’ve borrowed is subtracted from the death benefit before it is paid to heirs. So any given dollar can only be used as EITHER borrowed cash value OR death benefit, not both. Of course, the loan is tax-free but not interest-free, just like borrowing against your house, your car, or your portfolio.
# 3 In some states, significant asset protection for the cash value in the event of bankruptcy

About half the states, including mine, provide 100% asset protection for whole life insurance policies payable to spouse or children. Partial protection is available in a number of other states. Before buying a policy for this reason, make sure your state actually provides significant protection. Bear in mind the likelihood of you actually being sued for a significant amount above your malpractice or umbrella policy limits is exceedingly small (I calculate my risk at <1/20,000 per year).

# 4 Non-direct recognition in some policies

In most policies, when you borrow money the dividend on the policy is based on the amount of cash value that is not being “borrowed out” of (technically borrowed against) the policy. This is called “direct recognition.” There are some policies, called “non-direct recognition” where the policy continues to pay dividends as though no money was borrowed against the policy. This is the most important characteristic of the policies that folks use to “Bank on Yourself” or do “Infinite Banking,” one of the few reasonable uses of a whole life policy. The other characteristics are “wash loans” (where the dividend rate on the cash value is equal to [or greater than] the interest rate on the loan and maximizing the use of Paid Up Additions, which have a lower commission rate than the regular policy.

People who do this are essentially trading a few downsides of whole life insurance for the ability to earn a little more on
their savings in the long run, which can make a lot of sense when savings accounts are paying less than 1%, but not as much if you can get 5%+ in a money market fund like you could when I came out of residency. The only issue I have with the whole thing is the ridiculous amount of marketing and hype surrounding the concept which leads to people buying policies inappropriately and inappropriately structured policies being sold by agents. If you actually understand how it works, don’t mind the downsides, and buy a policy that is actually structured well to do this, it doesn’t bother me at all.

# 5 Life insurance cash value is an asset that doesn’t appear on the FAFSA

This is actually a benefit, although not a very big one for those reading this site. For most of my readers, it doesn’t matter that your cash value doesn’t show up on your Free Application for Federal Student Aid (FAFSA) because your income does and that alone is enough to keep your kid from qualifying for any significant college aid. When you combine that with the fact that most “aid” is loans, this is a pretty minor upside, but upside it is.

# 6 Dividends aren’t taxed

Whole life insurance dividends are considered “return of premium,” i.e. you paid too much in premium for the benefit and thus the premium is paid back to you. This “income” isn’t taxed, because it isn’t really income. It’s like a rebate on a lawn mower. You can spend the dividends, use them to pay the next premium, or use them to buy more insurance. The third option is what most people do and is what allows for the tax-protected growth inside the policy and for the slowly increasing death benefit. This tax protection/growth is similar to a non-deductible traditional IRA, but pales in comparison to the up-front tax break given to you in a 401(k) and the tax-free withdrawals available in a Roth IRA, but it
is an upside.

# 7 Works reasonably well in an irrevocable trust

Trust tax rates and estate tax rates are very high, so putting a whole life insurance policy into an irrevocable trust is a pretty good way to pass wealth on to your heirs IF you have an estate tax problem. Granted, very few high-income professionals have a federal estate tax problem these days given that the estate tax exemption has been raised to >$11M ($22M married), but the tax efficiency and simplicity of the policy, when put in the trust and left alone, is an upside.

Downsides

All right, let’s move on to the purpose of the post, the downsides of whole life insurance.

# 1 The insurance is really expensive

Life insurance is designed to pay a death benefit in the event of death. You buy a $1M policy. You die. Your heirs get $1M. Life insurance.

If you die after buying a $1M term policy, your heirs get $1M. If you die after you buy a $1M whole life policy, your heirs get $1M. Same life insurance.

But the problem is that the whole life policy costs 8-10 times as much. 8-10 times the premiums. Same death benefit. Remember your heirs don’t get the death benefit AND the cash value. When you die, they get the death benefit.

To make matters worse, thanks to all the moving parts and policy differences, the whole life market is not as efficiently and competitively priced as the term life insurance market.
Term life insurance is basically a commodity for most young, healthy people with a life insurance need. It’s like gasoline. You buy it based on price because it’s all the same. Buying whole life insurance for the death benefit is like paying $30 a gallon to fill up your car.

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# 2 You’re buying unnecessary insurance

On average, insurance is a bad deal for its purchasers. That’s because the sum of all the benefits paid out must by necessity be less than the sum of the premiums paid, at least when accounting for the time value of money. That’s because the premiums must cover the commissions to the salesmen, the expenses of the company, the profits of the company (unless mutual), AND the benefits. Benefits must be less than premiums or the company quickly goes out of business. So the general rule is to avoid buying insurance you don’t need. Basically, you should insure well against true financial catastrophes, and self-insure against everything else.

The period of life when you need insurance usually starts when someone else (usually spouse and/or kids) begins depending on your income and ends when you become financially independent. This is usually a 30-40 year period, but can be as short as 5-10 years or not exist at all. With whole life insurance, you’re buying insurance that covers you for your whole life, including those periods of time when you don’t have a life insurance need. Mandated, unnecessary insurance is a downside of whole life insurance.

# 3 Returns are low

This is probably the biggest downside of a whole life policy. If the long-term return on these things were 8 or 10%, I’d be writing all kinds of posts about why you should own one. Unfortunately, that’s not the case. In a reasonably well-
structured whole life policy that is held from age 30 to your death 50+ years later, the return on your cash value is guaranteed at around 2% per year and projected at around 5%. I would expect something between those two numbers. I find it very hard to get excited about tying my money up for 5+ decades in order to get a sub 5% return on my investment, even if it comes with a death benefit.

# 4 The crummy returns are front-loaded

Here’s another huge downside, as many WCI readers have discovered. Your initial returns on these policies are not 2-5%. They’re negative. Very negative. In fact, the cumulative return on the whole life policy I owned for 7 years was -33% or so. Did you see that minus sign? That’s right. Ignoring the value of the death benefit (which in these years is very low given the cost of comparable term insurance) you LOSE money for the first 5-15 years on these policies. It is not uncommon at all for me to meet a doctor who has paid $30K a year for 3 years in whole life insurance premiums, decided he doesn’t want the policy, and discovers the surrender value is only $50-60K or worse. $90K in. $50K out. That is NOT a very good investment return. Why are the returns so low early on? The main reason is the commission paid to the agent selling it. A typical whole life insurance commission is 50-110% of the first year’s premium. So if the premiums are $30k, that agent was paid $15-33K to sell it to you. Now you know why he was working so hard. He got paid what you have to see 400 patients to earn just to sell a single policy. Mad at that agent who sold you your policy yet? Join the club. Fees to the insurance company and the cost of the life-long insurance benefit also contribute to the low early returns on the cash value.
# 5 Most policies seemingly designed to maximize commissions to agent

There are ways to improve the returns on a policy. As mentioned above, maximizing the use of “paid up additions” while minimizing the amount of “regular policy” decreases the commission, and thus increases return. But is this the way most policies are structured? Nope. Why not? Well, it’s either because the agent wants to maximize his commission or is ignorant. Either way, it’s not a good thing for you. This isn’t so much a problem with the product itself as the way it is sold, which is the main beef I have with whole life insurance anyway. Speaking of which….

# 6 Most policies are sold inappropriately

Most whole life insurance policies are sold inappropriately. Thus, it isn’t surprising to see that 80%+ of whole life policies are surrendered prior to death, as their purchasers realize they are inappropriate for their life. These cases usually fall into one of three categories.

First, the purchaser has a better use for their money. This occurs when a policy is sold to someone with student loans. Why someone would buy an “investment” with terrible early returns and 2-5% long-term returns while carrying 6.8% debt is beyond me. But I know why that “investment” is sold to that borrower (see # 5 above.) This also occurs when someone has a policy but isn’t maxing out available retirement accounts like 401(k)s, 403(b)s, individual 401(k)s for the side gig, 457(b)s, Backdoor Roth IRAs, and HSAs. Even a defined benefit/cash balance plan with its generally lower returns (in comparison to a more aggressively invested and lower fee 401(k)) has far better tax benefits and asset protection benefits than whole life insurance. Whole life insurance doesn’t necessarily make sense if you’ve maxed out your
available tax-protected accounts, but it certainly isn’t a good move if you haven’t even done that. Likewise, a 529 has much better tax benefits (not to mention higher returns and dramatically lower costs) than whole life insurance when saving for college education.

Second, far too many purchasers of whole life insurance don’t even understand how it works. They’re shocked when they discover they’re underwater after 2 or 3 years of making payments. That’s not a bug, that’s a feature. It’s just the way whole life insurance works. Wait until they find out they have to pay interest to get to their money later.

Third, salesmen use half-truths like “tax-free income” to get people to buy the policies. If you took out a home equity loan on your home, you wouldn’t describe the proceeds as “income” would you? But that’s exactly how borrowing against a whole life policy works. The only thing tax-free about whole life insurance is the death benefit. In that respect, it really isn’t very different from passing along a house or a car or mutual fund shares to your heirs thanks to the step-up in basis at death. In fact, if you surrender (i.e. cash-out) a policy with a gain, you don’t even get the lower long-term capital gains rates on the gain. You have to pay at your ordinary income tax rates. And if you have a loss, you can’t deduct it against your taxes (even if you exchange it into a variable annuity before surrendering, a strategy that some people used prior to recent tax law changes.)

# 7 ‘Til death do you part

Due to the low early returns and the nasty tax consequences of surrendering policies with gains, a whole life insurance policy is not something you should buy for just a few years or even a few decades. Before buying it, you’d better be sure you really want to hold on to this thing for the rest of your life
because, like marriage, it’s going to cost you a lot of money and hassle to get out of it. That doesn’t mean that if you were sold a crummy policy inappropriately a few years ago that you should keep it. If you’re in that situation (like tons of other WCI readers), either pay someone else to evaluate your in-force illustration or evaluate it yourself and then if your evaluation convinces you that it’s still not a good investment going forward, dump it either through an exchange to a low-cost VA or by just walking away with your cash value, poorer but smarter.

The main problem with a life-long commitment to something like a whole life policy is that life changes. It’s tough to project your income and family situation for the next decade, much less the next half century. While there is some flexibility to restructure a policy, by decreasing the benefit or using the dividends and cash value to make the premium payments, these actions generally decrease the benefits you bought the policy for in the first place. Plus, there is precious little flexibility in the first few years before much cash value has built up. One way some people minimize this risk is by getting a “7-pay” or “10-pay” policy that you only have to pay on for 7-10 years. It would be great to find a “1-pay” policy, but unfortunately, these get classified as Modified Endowment Contracts from which you can’t even borrow tax-free.

## 8 Borrowing terms often terrible

As noted under the upsides, you can borrow against your cash value at pre-set terms. The problem is those terms are usually terrible. Like 8% interest. Interest rates are going to have to rise a long way for you to be able to get excited about using this source of funds unless your financial life is such a mess that you can’t get money any other way in a timely
manner. In which case, you probably can’t make your whole life
premiums anyway.

# 9 Many people can’t obtain a policy

Due to poor health or dangerous hobbies, many people can’t
purchase a whole life insurance policy at any sort of
reasonable price. No problem, say the agents. Just buy a
policy on your spouse, kids, friend, or family member. The
problem is now you’re likely buying a policy on someone for
whom there is no need for life insurance. It was bad enough
before when you were buying a policy for periods of your life
when you didn’t need life insurance. Now you’re buying
completely unnecessary insurance. That doesn’t come free.

# 10 Returns on tiny policies even lower

Speaking of buying insurance on your kids, I’m amazed how many
people buy life insurance from the same company they buy baby
food from. One of the big issues with buying life insurance on
your kid is that the policy is typically tiny. This was the
issue with the policy I was sold as a medical student. It had
a face value of only $20K. Policies that small still have the
same policy fees. Those fees make up a much larger percentage
of the premium, dividend, and cash value, thus lowering your
returns.

# 11 Leaving difficult decisions to your
adult kids

I am frequently emailed by someone whose parents bought them a
policy as a child and have now gifted it to them as an adult,
along with the required ongoing premium payments. It always
makes them sad when I point out that nobody needed that death
benefit for the first 20 or 30 years of their life and that if
their parents had just given them shares of a mutual fund they
might have received eight times as much money. They get even
more depressed when they see their in-force illustration and realize that their ongoing returns won’t even be the 2-5%/year that a halfway decent policy might bring. If your kid has to email someone in 30 years to figure out what to do with this crappy policy you were swindled into buying, did you really do them much of a service?

In addition, it likely only offers a minimal amount of death benefit (especially after 30 years of inflation) that didn’t preserve any significant amount of insurability for them (now that they’re entering the period of their life when they actually have a life insurance need.) If you’re the recipient of a policy like this, be sure to thank your parents for trying to do something nice for you. Don’t mention what they should have done instead. Then surrender the policy, take your $1500 of cash value, and put it toward student loans or a Roth IRA.

The Bottom Line

Now, if you understand the upsides and the downsides of whole life insurance and you still want a policy, knock yourself out and buy as many as you want. It really doesn’t bother me; I don’t get paid one way or the other. I would guess 1% of doctors and an even lower percentage of the middle class wants a policy once they understand how it works. However, if the person advising you to buy a whole life insurance policy can’t even see, much less articulate, the downsides of the policy, you need to go see someone else. In fact, if I were in the market for a whole life policy, I’d be seeing at least two agents AND one real financial advisor who wasn’t going to profit at all from the purchase before making a decision.

What do you think? Did I miss any upsides or downsides of whole life insurance? Comment below!
How I Review Existing Term Life Insurance Policies

[Editor’s Note: The following guest post was submitted by insurance expert and long-time advertiser, Lawrence B. Keller, CFP®, CLU®, ChFC®, RHU®, LUTCF. Larry has written extensively about disability insurance in the past for WCI but today he gives us an “insurance guy’s” perspective on what to look for when purchasing term-life insurance.]

Over their careers, physicians generally purchase large amounts of term life insurance. Term Life insurance, for the most part, is a commodity, so the pricing is very competitive and comparison shopping is easy. So, why is it that so many physicians have the wrong type of term life insurance and/or are paying significantly higher premiums than they should be for their policies?

Term life insurance provides pure insurance protection and does not build cash value. It allows you to purchase the largest death benefit while minimizing your initial premium outlay. When you purchase a term life insurance policy, you are buying coverage for a specified period of time. If you die within the term of the policy, the insurance company will pay
the death benefit to your beneficiary or beneficiaries.

While I am probably best known for my expertise in disability insurance, I am also often asked to review existing life policies. This post will focus on things that I take into consideration while evaluating existing policies and/or reviewing illustrations that have been presented when new coverage has been proposed.

**Top 7 Things I Consider When Evaluating Term Life Policies**

1) **What type of policy was purchased?**

Term Life Insurance typically is purchased with an annually increasing premium rate (known as “Annual Renewable Term” (ART) or “Yearly Renewable Term” (YRT) or a Level Premium Term, where premium rates are guaranteed for a specific period of time.

However, unlike Level Premium Term (the most popular type of term life), this product has an indeterminate premium structure. This means that there are two sets of premium rates: a “non-guaranteed” Scheduled Premium rate and a “guaranteed maximum” premium rate (and the guaranteed maximum is typically a multiple of the Scheduled Premium rate). Generally, after the first policy year, the annual premium payable may be more than the scheduled renewal premium, but it will never be more than the guaranteed maximum renewal premium (similar to an Adjustable Rate Mortgage).

As an agent that sold a large amount of ART/YRT policies in the past (before Level Premium Term became available), I can tell you that my experience with this product has not been
favorable. In my opinion, it is the equivalent of “lighting the fuse and hoping you can run away fast enough before your legs blow off” as it becomes prohibitively expensive over time.

As a result, very few companies still offer this type of coverage. In many cases, it is sold for very short-term needs (a loan that needs to be insured but will be paid off quickly) or for an insured that knows that they ultimately want to purchase Whole Life Insurance and are simply purchasing this product as “pre-conversion” term. However, more often than not, this is not the goal of the insured and they, in fact, typically, don’t realize that they are purchasing this product for this specific reason.

2) When was the policy purchased?

Level Premium Term Life Insurance policies are typically available with guaranteed level premium periods of 10, 15, 20, 25 and 30 years. One company makes policies available with level premium rates from 16-30 years (in one-year increments), as well as, a 35-Year Level Premium Term policy.

How many years with a level premium remain? For example, if a 20-Year Level Premium policy was purchased 10 years ago, 10 years remain with a level premium rate. How does the cost of a new 10-Year Level Premium Term (the number of years remaining with a level premium) compare to what the insured currently owns?

3) What underwriting classification was the policy issued in?

Purchasing term life insurance is pretty straightforward. Insurance companies look at age, height and weight, personal medical history and immediate family (mother, father, brother, sister) history of cardiac disorders or cancer. Some carriers ignore immediate family history of cancer altogether, others
take a diagnosis of cancer or cardiac disorders in a parent or sibling prior to the age of 60 into consideration and may prevent the proposed insured from qualifying for the most favorable underwriting classification while others only take this family history into consideration if it resulted in death.

Lawrence Keller

So, if the policyholder did not qualify for the most favorable underwriting classification with the company from which the policy was purchased, could they potentially qualify for a more favorable underwriting classification elsewhere and, pay a lower premium as a result?

4) Does the policy include a Waiver of Premium Rider?

This rider is designed to have the premiums of the policy paid for by the insurance company (waived) in the event of your disability. Generally, it has a six month waiting period and for the next year and a half (total of two years) or, in some cases next four and a half years (total of five) years will allow your term life insurance policy’s premiums to be waived. However, after this time, you must be unable to perform any occupation that is “reasonable” based upon your education, training and experience.

Again, if your goal is to ultimately convert some or all of your term life insurance to permanent life insurance, like Whole Life, it is important that this rider be included in your term life insurance policy. This way, when you convert to a permanent insurance policy, it will allow the premiums—which are substantially higher compared with term life insurance—to be waived. Otherwise, if you plan on sticking with term
insurance, you will want to forego this rider, because it is relatively expensive and will only waive the premiums associated with your (inexpensive) term life insurance policy.

5) Does the policy include an Extended Conversion Rider?

Some policies allow for the conversion to permanent insurance (like Whole Life Insurance) for the entire guaranteed premium period. Other policies, however, may have a limited conversion option (typically five years) in order to reduce the premium rates for the policy. If one does not have the desire to convert their term policy to permanent insurance, this is likely something that can be removed from the policy in order to reduce the premium rate.

6) Does the policy include an Accidental Death Benefit Rider?

Personally, I never understood this rider and would not be willing to pay for it myself. Why would your family need more money if you died peacefully in your sleep or died as a result of an accident? You should simply determine the amount of coverage your family needs in the event of your death and purchase that amount of coverage. Term Life insurance is inexpensive. At worst, you overestimate the amount of coverage and simply reduce the death benefit should your needs change.

7) Should the coverage be “laddered”?

A good rule of thumb when purchasing term life insurance is to replace 7-10 times your gross annual income. In many cases, physicians will simply determine the amount of coverage that they need or want and purchase a 30-Year Level Premium Term Life policy in this amount.
However, as children age, as student loans and mortgages are paid down and educations are funded, short of estate planning, the need for long-term death benefit is also reduced.

Let’s use a $4,000,000 death benefit as an example. What about purchasing $3,000,000 of coverage with a 20-Year Level Premium and $1,000,000 of death benefit with a 30-Year Level Premium instead? In this example, the insured would have the same $4,000,000 death benefit for his or her family for the first 20 years. It would then decrease to $1,000,000 for the remaining 10 years.

For comparison purposes, the cost for $4,000,000 of 30-Year Level Premium Term Life Insurance for a 35-year-old male in New York State obtaining the best underwriting classification would be approximately $2,960 annually. Using the “laddered” example above, the annual premium would be reduced to approximately $1,938, providing similar protection with an annual savings of $1,022 or approximately 35% less than purchasing coverage with long-term guarantees that might not be needed.

One carrier allows insureds to “ladder” their coverage within a single policy. The base policy purchased is the one with the longest duration and the additional coverage is purchased using Level Premium Term Riders. This provides an annual savings of $60 for each separated policy that would normally be purchased.

**Examples of Policies**

Here are three examples of policies that I recently reviewed, my recommendations and the outcomes:
1. A $3,000,000 10-Year Level Term policy was purchased 5 years ago by a 28-year-old male physician. Also included was a Waiver of Premium Rider, as well as, an Extended Conversion Rider. The total annual premium was $988.55 ($785.00 for the death benefit, $180.00 for the Waiver of Premium Rider and $23.55 for the Extended Conversion Rider).

This client was paying $180.00 annually to waive an annual premium of $785.00. This represented 24% of the cost of the death benefit. Clearly, not a good value for the premium dollar when this premium could be used to increase his personal disability insurance coverage or invested elsewhere.

The cost of the Extended Conversion Rider represented 3% of the cost of the policy. Since this client did not have any interest in converting to cash value insurance, it also did not make sense in his situation.

A new $2,000,000 20-Year Level Premium policy was purchased from another carrier, at age 33, with an annual premium of $764.00. He did not feel that $3,000,000 of coverage was needed as he was part of a dual physician couple.

3. A $1,000,000 Annual Renewable Term (ART) policy was purchased by a 44-year-old female physician. The (current) annually increasing premium was $664.00 annually. While she ultimately decided to increase her total death benefit and “ladder” her coverage, the annual premium for a $1,000,000 15-Year Level Term Rider was $549.99. Therefore, she was able to reduce her annual premium for this portion of her coverage, as well as, lock into the lower rate for 15 years.

4. A $2,000,000 30-Year Level Premium Term policy was purchased by a 33-year-old male physician six years ago. Unfortunately, at that time, he did not qualify for the best underwriting classification. As a result, the annual premium was $2,717.04. Knowing that another
carrier would potentially allow him to qualify for the best underwriting classification if he met the criteria, he applied at age 39 for $2,000,000 of 20-Year Level Premium Term Insurance. The policy was approved with an annual premium of $1,094.54. Since he was also part of a dual physician couple and 24 years remained (of the original 30 year) on his existing term policy, he and I no longer felt that a 30-Year Level Premium Term policy needed.

As you can see, there are a number of reasons to potentially review your existing coverage to make sure it still meets your needs, goals, budget and individual circumstances. In many cases, a lower premium rate might be obtained – especially if your situation has changed since the time the policy or policies were originally purchased.

*All life insurance policy guarantees are subject to the timely payment of all required premiums and the claims paying ability of the issuing insurance company. Lawrence B. Keller, CFP®, CLU®, ChFC®, RHU®, LUTCF is the founder of Physician Financial Services, a New York-based firm specializing in income protection and wealth accumulation strategies for physicians. He can be reached at (516) 677-6211 or by email to Lkeller@physicianfinancialservices.com with comments or questions.

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Questions from Doctors Doing Well and Doctors in Trouble – Podcast #57

Podcast #57 Show Notes: Questions from Doctors Doing Well and Doctors in Trouble

Lots of listener questions answered in today’s episode. We cover disability insurance, loaning money to family members, buying Facebook shares, student loan management, backdoor Roth IRAs, saving on your mortgage rate, whole life insurance, and more. You can listen to the podcast here or it is available via the traditional podcast outlets, iTunes, Overcast, Acast, Stitcher, Google Play. Or watch the video here or on YouTube. Or ask Alexa to play it for you. Enjoy!
Podcast # 57 Sponsor

[00:00:20] This episode is sponsored by Adam Grossman of Mayport Wealth Management. Adam is a Boston-based advisor and works with physicians across the country. Unlike most other advisors, Adam offers straightforward flat fees for both standalone financial planning and investment management. Whatever stage you’re at in your career, Adam can help you get organized with a personalized financial plan and can help you implement it with a low-cost index fund portfolio. Adam is a Chartered Financial Analyst and received his MBA from MIT, but more importantly, you’ll benefit from Adam’s own personal experience with many of the same financial obstacles and opportunities that face physicians. To learn more, visit Adam’s website mayport.com/whitecoat to download a free e-book especially for physicians.

Quote of the Day

[00:01:55] Stop buying things you don’t need to impress people you don’t even like. -Suze Orman

Intro

[00:01:08] The video of the WCICOn2018 is available now. This is the online course that includes all the lectures and the blogger panel from the Physician Wellness and Financial Literacy Conference that we held in Park City back in March. This is your chance to attend if you missed out on it.

[00:01:43] Also if you have an echo dot or some other type of voice activated device enable the White Coat Investor skill. Just say Alexa enable White Coat Investor and it should pop the podcast up for you.
Q&A from Readers and Listeners

1. [00:02:20] “Towards the end of my residency I developed a somewhat rare medical issue which left me with unilateral hearing loss. Unfortunately I waited until the end of my residency to apply for disability insurance and I was not unsurprisingly rejected with the condition saying they would consider me in a year’s time. I’m about to complete a one year fellowship and over the course of the year I applied to a second carrier for disability insurance and was also rejected. And per the agent who handled my case I was told they would also reconsider in a year’s time, two years from the onset of my illness. Unofficially my agent told me that given the relative unknown nature of my hearing loss it is unlikely that I would be approved unless my hearing improved which is unlikely to happen at this point. It seems unlikely I will be able to obtain disability insurance. I was wondering if I have exhausted all my options. Do you have any other suggestions for alternatives to disability insurance to look into?”

2. [00:05:56] “I would love to get your opinion about assisting family members with loans for a home mortgage. I’m considering making a low interest loan to my son in the purchase of his first home.”

3. [00:08:02] “I am a little confused about the selling that has been going on by Mark Zuckerberg, based on my readings on Insider Insights. Should I hold off on any Facebook purchases? Also on 3 to 1 Gold dot com, I am seeing the daily treasury bills are releasing less monies. Should I be concerned about recession coming?”

4. [00:10:22] “My wife plans on working part time and I was hoping for me to pull in about $350,000 and her to earn about $100,000 part time. We each carry four hundred
thousand dollars in debt. I’m in the process of refinancing her loans and I wonder if it is the right choice for her debt as I’m worried about having to pay five thousand dollars month each going forward. How much will I lose in taxes over the next 15 years if we file separately and do not refinance her loans? With this strategy I could refinance the loans in my name, put as much as possible toward them, while keeping my wife’s on Pay As You Earn until the forgiveness period at the 20 year mark. Does this make any sense?”

5. [00:14:47] “I recently switched positions. With my previous job I had a 401k with nearly 50/50 traditional 401k and Roth 401k always invested in Vanguard target funds. My new job is a 403b without a Roth option or without any Vanguard funds and the remaining funds have a higher expense ratio. Without completely thinking it through, I transferred the 401k to a Vanguard traditional IRA. Have I ruined my future Backdoor Roth IRA? Or is there a solution?”

6. [00:16:38] “I’m in a two physician marriage, no kids. My spouse has been an attending for five years and I’m finishing residency this year. We have paid off all our loans. We hope to buy a house this spring or summer with the money we have saved by living like residents. Bank of America is offering to drop my mortgage rate for 7/1 arm by an eighth of a point if I roll over some investments to their Merrill Lynch accounts. My question is how can I do this so it doesn’t compromise my backdoor Roth IRA from earlier this year via pro-rata. Is there a way to do this without having to pay additional taxes?

7. [00:19:40] “I expect when I do retire that I will have a substantial amount in non tax advantaged accounts. If someone has 8 or 10 million or whatever and was diligently saving over the years, a good chunk of this will be unrealized gains. How do you properly factor in what tax bite will occur? Seems like you have to work
that into your 3 or 4 percent or whatever you’re trying to use as a rough ballpark for a withdrawal rate. You are facing a bigger tax consequence no matter what compared to someone who will be withdrawn at a rate that keeps them in a low tax bracket. So you probably won’t have as much as you would think simply saying you’re going to take 3 or 4 percent out.”

8. [00:22:10] “I’m finishing the first year of my residency. My employer is now offering a Roth 401k option. I know in general you recommend residents to go for the Roth 401k option. But if I’m reading my employer’s benefits materials correctly I only get the employer match if I contribute to a traditional 401k. I won’t get the match if I go the Roth route. In this case is it still better to get the employer match using a traditional 401k and then do a Roth conversion when I finish my residency?”

9. [00:25:06] “Unfortunately I bought a forty eight thousand dollar per year premium for whole life insurance through a well-known mutual insurance company. How do I get out of this whole life insurance mess?”

10. [00:28:29] “I’m an anesthesiologist and my private practice group has decided to sell our practice, which means every physician in the group will receive a buyout of an amount to be determined. I can’t decide whether I should use the money to pay off my current home or sell my house and buy another house in a better school district. Curious to hear your thoughts.”

Ending
Remember the video course of the WC Icon 2018 is available now.

Full Transcription

[00:00:00] This is the white coat investor podcast where we help those who wear the white coat get a fair shake on Wall Street. We’ve been helping doctors and other high income professionals stop doing dumb things with their money since
Welcome to episode Fifty seven: questions from doctors doing well and doctors in trouble. This episode is sponsored by Adam Grossman of Mayport Wealth Management. Adam is a Boston based adviser and works with physicians across the country. Unlike most other advisers Adam offers straightforward flat fees for both standalone financial planning and investment management. Whatever stage you’re at in your career Adam can help you get organized with a personalized financial plan can help you implement it with a low cost index fund portfolio. Adam is a Chartered Financial Analyst and received his MBA from MIT. But more importantly you’ll benefit from Adam’s own personal experience with many of the same financial obstacles and opportunities that face physicians. To learn more visit Adams website mayport.com/whitecoat to download a free eBook especially for physicians.

Our new product we’ve got out lately is the video version of WCIcon 18. The physician wellness and financial literacy conference held in Park City last March. If you’re interested in getting this it’s a great time to do it. It’s a wonderful conference. We had a lot of fun and the video version is almost as good as being there live and available for a lot less travel and cost. It is just to ninety nine now and is selling like hotcakes so go ahead and come on over to the Web site or check out the links in the show notes and get your copy of it Today.
Also if you’ve got an echo dot or some other type of voice activated device enable the white coat investor skill. Just say Alexa and white coat investor and it should pop the podcast up for you just like that.

Our quote of the day today comes from Suzy Orman who said stop buying things you don’t need to impress impress people you don’t even like. I like that quote.

I don’t know if it’s the fact that I’ve been doing so many listener questions on the podcast this year or whether it’s just an effect of the growth of the white coat investor. But I’ve had a ton of great questions in my e-mail box lately. I think today for the podcast we’re just going to do questions.

Here’s the first one. Towards the end of my residency I developed a somewhat rare medical issue which left me with unilateral hearing loss. Unfortunately I waited until the end of my residency to apply for disability insurance and I was not unsurprisingly rejected with the condition they would consider me in a year’s time. I’m about to complete a one year fellowship and over the course of the year I applied to a second carrier for disability insurance was also rejected. And per the agent who handled my case I was told it would also reconsider in a year’s time, two years from the onset of my illness. Unofficially my agent told me that given the relative unknown nature of my hearing loss is unlikely that I would be approved unless my hearing improved which is unlikely to happen at this point.
It seems unlikely I will be able to obtain disability insurance. I was wondering if I have exhausted all my options. Do you have any other suggestions for alternatives to disability insurance to look into?

I like this question. It’s unfortunate for the doc in this situation but it’s a good question that will allow us to say a few important things about disability insurance. Number one, get disability insurance as soon as you start making money. That means as an intern you never know what’s going to happen to you in residency. I’ve heard entirely too many stories of docs becoming disabled or otherwise are uninsurable during residency. One of my residency classmates rode his bike into, not one of my classmates, but one of my residency mates rode his bike into the hospital each morning and while he was on the trauma rotation the chief kept telling him if you keep riding your bike you’re going to get hit and I’m going to put a chest tube in you and eventually he did get hit. She was on and she put a chest tube in him. Thankfully he had a full recovery but things like that do happen to residents so get some disability insurance in place early in your residency at the latest.

Another thing to keep in mind here if you don’t have perfect health you want to be using an independent insurance agent that’s somebody who can sell you a policy from any of the big five or six companies. And the reason for that is because they know which company is best for your specialty, your gender, your state, your level of health.

And one thing you should ask them to do if you have some sort of unusual hobby you know a risky hobby like rock climbing or skydiving or something like that scuba diving
flying or if you have an unusual medical condition they can kind of shop your condition around to the various companies. So without having a formal application to the company that then ends up in insurance database you can find out about what your rates would be and whether they’d even consider selling you a policy. But the way these medical conditions tend to work is they either say we’re not going to insure you at all. They say we will insure you but we’re only do it for a five year benefit instead of a benefit to age 65 or 67 or they put a rider on the policy that the rider won’t pay if your disability is due to that particular medical condition. And this varies by the medical condition. You know there’s obviously thousands of different medical conditions people can have and the insurance companies treat them all differently. But the key is to work with an independent agent and informally shop it around until you can figure out whether this is going to be even worth applying formally to a company for. I suppose you can still have a surprise after you apply. But I think doing it informally first is likely to help you to avoid getting reported to the database and causing problems down the road.

[00:05:56] All right next question I would love to get your opinion about assisting family members with loans for a home mortgage I’m considering making a low interest loan to my son in the purchase of his first home.

[00:06:06] The apparent advantages include a benefit for him and getting a loan at a discounted rate and avoiding the hassle and expense of applying for the loan and a benefit for me and obtaining a fair return on a portion of my non equity holdings. The obvious disadvantage comes in doing business with family members which is something I would typically shun. This fake case I feel comfortable with the risk and feel that
I am investing in helping my son better his life. He’s fortunate a very solid position as a professional with a large company and I believe is in an excellent position to repay the loan. Do you mind giving me your thoughts on this controversial topic.

[00:06:37] Well there’s no doubt that if multiple generations worked together they can come out ahead financially in a number of different ways. When you do your estate planning across multiple generations when you smooth consumption by having older generations offer loans to the younger generations you can make everybody better off at least on a mathematical basis. But there’s a reason people say Don’t loan money to family members. Thanksgiving dinner does not taste the same when you’re sitting across from the table from somebody you owe money to. In a lot of ways you’re far better off just gifting the money. Now be aware of the gift tax laws. You can’t give more than a certain amount without having to report it to the IRS. But if you do decide to loan money to a family remember that there’s actually a government dictated minimum interest rate that you must charge them. You can’t give them a zero percent interest loan at least if you do the interest that you don’t charge is considered a gift to them.

[00:07:37] And so again you need to be cognizant of the gift tax laws with regards to that loan. But as a general rule I’m not a big fan of making loans to family members. I think it can destroy a lot of relationships you got to be really careful. How are you going to feel if they don’t pay it back. How are they going to feel if they don’t pay it back and all those behavioral considerations must be taken into consideration.
This was an interesting question I got, came in said I am a little confused about the selling that’s been going on by Mark Zuckerberg based on my readings on insider insights. Should I hold off on any Facebook purchases. Also on 3 to 1 gold dot com. I am seeing the daily Treasury bills are releasing less monies usually 26 billion. The latest was 17 billion. Should I be concerned about recession coming. I appreciate your podcast. I commute for 30 minutes placing your podcast at one point five speed allows me to listen to your show in its entirety before getting to my office.

Well I guess what I would say is take the show off one point five x speed and listen to what I’ve been saying. Number one I’m not a fan of buying individual stocks at all. I don’t pay any attention whatsoever to the news about Facebook. I don’t pay any attention to what Mark Zuckerberg has said or done because I buy all my stocks through index funds. I own all of them all the winners all the losers.

When Facebook does well I do well when Facebook does poorly I do poorly. But the best part about it is I don’t have to either know or care about what Mark Zuckerberg is doing, if he’s selling shares, Great. If he’s buying shares. Great. I don’t care. And that’s one beautiful thing about it. Insider insights I don’t know anything about that Web site but it sounds like what I call investment porn. That is basically material that has no redeeming quality and actually will decrease the quality of your investments. three to one Gold Dot Com. Sounds like a Web site that I would avoid to be quite honest about it. You know when you get into those sorts of websites and those sorts of sources of investment and information you’ve got to bear in mind that usually they’re selling something and that’s usually not something you want to be buying. It’s not an unbiased source of investment
information and particularly if they’re hawking gold which it sounds like they probably are based on the URL of the Web site you’ve got to keep in mind that it’s going to be kind of a perma bear outlook on the economy. And so they’re always going to be predicting a recession. Buy Gold Now because stocks are going down. Well I don’t know maybe stocks are going down. I have no idea but I do know this. Nobody at 3 to 1 Gold Dot Com knows either.

[00:10:22] Next question my wife psychiatrist and I an anesthesiologist will be finishing her training in a little over a year. We own a home have one child plan for another one.

[00:10:32] My wife plans on working part time and I was hoping for me to pull in about 350000 dollars in her to own to earn about 100000 dollars part time. We each carry four hundred thousand dollars in debt. I’m in the process of refinancing her loans and I wonder if it is the right choice for her debt as I’m worried about having to pay five thousand dollars month each Going forward. how much will I lose in taxes over the next 15 years if we file separately and do not refinance her loans. With this strategy I could refinance the loans in my name put as much as possible toward them while keeping my wife’s on Pay As You Earn at the 10 percent discretionary income. Payment of one to two thousand dollars per month until the forgiveness period of the 20 year mark. Does this make any sense.

[00:11:16] Well this is a couple that definitely needs to spend some time and probably some money on getting some advice from a student loan specific advisor. I mean we’re talking about eight hundred thousand dollars in student loans here on
an income of what they’re talking about being about four hundred fifty thousand dollars. That’s not a crazy debt to income ratio but it certainly isn’t a great one. This plan of her doing PAYE while working part time could possibly work out better I suppose. Remember with PAYE you’re going for forgiveness at 20 years. So you’ve got to make payments for 20 years. It doesn’t require you to work for a 501 c3. It doesn’t require you to work full time. But the forgiveness is also taxable unlike public service loan forgiveness.

[00:12:04] So you really have to run the numbers and you really have to have a pretty good idea of what your financial life is going to look like for the next 20 years If this is your plan. If it were my wife and I and we’d run up a hundred thousand dollars in student loans going part time wouldn’t be an option for her. She’d be working full time at least until those loans were paid off. I’m all for part time work for one or both of you. And I’m a big fan of having a stay at home parent and especially for mothers. I like them to be able to get what they want. Want to stay at home. Great. They want to work part time great work full time. Great. But I think in a lot of ways you close a lot of doors in your life when you make a decision to attend medical school especially when you do it on credit and especially when you borrow enough money that your loans are two times your income. In my opinion one of those doors that you’ve closed is the ability to be a stay at home mom or even work part time right out of training. I mean I don’t know That’s great for your medical skills to start with but I think it’s particularly bad when you owe a ton of money.

[00:13:12] Now this particular Doc is married to an anesthesiologist. So this actually might be a financially viable option but for most doctors going part time right out
of residency or with those kinds of loans just isn’t an option.

And so I think what I would do in that sort of situation is cut our spend into the bone have both of you worked full time and maybe even a little more and really just crank down on those loans throw a ton of money at them. And when you get them under control then start entertaining options like a stay at home parent and one or both of you going part time. I think getting that sort of financial freedom is pretty beneficial but I can’t say for sure that dragging them out for 20 years and getting PAYE forgiveness while filing your taxes as married filing separately couldn’t potentially come out ahead numerically if you actually spreadsheet out the 20 years. And so I think it’s worth at least doing that and seeing what kind of a difference it could make in running those numbers. But there’s a lot of assumptions that go into that process and you’re probably best off hiring somebody for a couple of hundred bucks that can help you run those numbers.

Bear in mind what this particular couple. Either way they’ve got a lot of work ahead of them so they need to keep their spending down and really start shoveling money towards some loans even if they decide to do the PAYE thing for her loans. They’ve still got four hundred thousand dollars of his loans to pay off. So it’s not like they’re going to be moving into the big fancy Dr House anytime soon. At least I hope they don’t.

Here’s another question. Thanks for all the wonderful things you do to help out all of us fellow physicians.
I recently switched positions with my previous job. I had a 401k with nearly 50/50 traditional 401k and Roth for 10k always invested in Vanguard target funds. My new job is a 403b without a Roth option or without any Vanguard funds and the remaining funds have a higher expense ratio without completely thinking it through. I transferred the 401k to a Vanguard IRA but the traditional and Roth have ruined my future Backdoor Roth IRA. Or is there a solution.

Well this is the problem. The old advice was when you left an employer you rolled over your 401k to an IRA. And the reason for that is usually got lower investment costs you had better control etc. and so overtime every time you left a job you took your fortune can you put it in the IRA. The problem with that is line 6 on Form 8606 that’s the form you report a backdoor Roth IRA on and unfortunately it introduces a pro-rata calculation anytime you do the conversion step of a backdoor Roth IRA. Essentially you can’t have any money set SEP Ira a simple IRA or a traditional IRA and still do Backdoor Roth IRAs and any sort of effective way. So the solution whether you had one preexisting or whether you just accidentally created a traditional tax deferred Ira is one of two things you can either pay the taxes and convert the whole thing to a Roth IRA, which is usually the best solution if it’s small or you can roll it into a 401k or 403b. In this case he does have a 4 or 3 b at his job and so he could roll the IRA in there and begin doing Backdoor Roth IRAs if he likes. Now if it’s a terrible 403b maybe you don’t want to do that. But even an average one is probably worth doing that so that you can take advantage of the Backdoor Roth IRA.

All right. Here’s another one. I’m in a two
physician marriage no kids. my spouse has been attending for five years and I’m finishing residency this year we’ve paid off all our loans. I was an M.D. Ph.D. She had some tuition support from family and hope to buy a house this spring or summer with the money we’ve saved by living like residents. Our combined income will likely be around 550 or 600000 for the next four years and if I make partner at the practice I’m joining it will likely be closer to 900000 thereafter. So we’re pretty blessed. We’ve each maxed our 403b the last four years each contributed a backdoor Roth IRAs to the max and I have a fair chunk in taxable accounts to be used toward a down payment. Sounds like they’re doing awesome huh.

[00:17:18] Bank of America is offering dropped my mortgage rate for 7/1 arm by an eighth of a point. If I roll over some investments to their Merrill Lynch accounts, I could do this. Have 92000 n a 403 B for a job I’ll be leaving on June 30th and 86000 Vanguard taxable account plus thirty seven thousand my wife old orp from a residency in Texas and another 50000 in cash to make the 250000 dollar minimum. My question is how can I do this so it doesn’t compromise my backdoor Roth IRA from earlier this year via pro-rata. Is there a way to do this without having to pay additional tax on the 403b, the taxable account or the orp?

[00:18:00] Well I think before answering the question this doc asked I’m going to answer the question that he should’ve asked which is, is this worth it? Is it worth putting all this money at Merrill Lynch in order to knock an eighth of a point off my mortgage and I guess I’d argue it probably isn’t. That’s a fair amount of hassle. Chances are that you’re not going to be as happy with your investments at Merrill Lynch as you were Vanguard and it’s going to be overall I think probably not makes sense to do. that said could you do it? you could do it.
I mean all those taxable assets can just be transferred in kind from the Vanguard brokerage to the Merrill Lynch brokerage without any tax consequences. The four O3b can be rolled over into an IRA at Merrill Lynch as well as the other retirement accounts so it could be done. The problem with that is that you couldn’t roll it into a 401k there. So you would eliminate your ability to do the Backdoor Roth IRA. So when you add all that up worse investments hire investing expenses the hassle the inability to do the backdoor a Roth IRA all just to knock an eighth of a point off the mortgage. I think is probably not worth it especially with how well this couple is doing financially. It sounds to me like they’re going to be paying off this mortgage early anyway so I don’t think we should be running the numbers out on a 15 or 30 year mortgage and assume there’s going to be a ton of savings there. I’ll bet they have it paid off in five or seven years. In addition I’m not sure that I can think of anything that would induce me to move investments to Bank of America or Merrill Lynch.

[00:19:40] Next question I expect when I do retire that will have a substantial amount in non tax advantaged accounts meaning the money socked away in index funds I’ve been diligently putting away significant amounts each year. If someone has 8 or 10 million or whatever and was diligently saving over the years a good chunk of this will be unrealized gains. It seems to me how do you properly factor in what the tax bite will occur. Seems like you have to work that into your 3 or 4 percent or whatever you’re trying to use as a rough ballpark for a withdrawal rate. Seems like you’re facing a bigger tax consequence no matter what. Compared to someone who will be withdrawn at a rate that keeps them in a low tax bracket. So you probably won’t have as much as you would think simply saying you’re going to take 3 or 4 percent out.
Well. Yeah I think that’s exactly what you got to realize is when you’re talking about a withdrawal rate from your portfolio in retirement. That withdrawal rate also has to pay your taxes on withdrawals from the portfolio. Now if all that money is in a Roth IRA comes out tax free. You don’t have to account for that. If it’s in a traditional or traditional IRA or a tax deferred account of some kind you’ll have to pay taxes at your full marginal rate.

In a taxable account. It varies. You’ll likely qualify for some sort of qualified dividend or long term capital gains rate on the gains. But there’s a lot you can do to really boost the tax efficiency of withdrawing from a taxable account. For example you can first just spend the dividends you know the dividends you got to pay taxes on anyway. You can also sell shares that have a high basis. You know if you bought shares for ten thousand dollars and they’re now worth eleven thousand dollars and you sell them you only have to pay taxes on that last thousand dollars. The rest comes out tax free. You can also tax last harvest if you go and that can offset some of your gains. But the general rule here is you’re going to get out of there for quite a bit less than your marginal tax rate especially if you’re savvy about how you take money out of there. So you have to account for that yes is it going to be 30 percent of that money going to taxes. No it’s probably going to be down in the five or 10 percent range on your overall withdrawals from your taxable portfolio but it’s hard to predict exactly what it would be for any given person. Obviously it could range from nothing to quite a high tax rate.

Next question I’m finishing the first year of my peds residency. I’ve been following your blogs and starting residency just as of this last enrollment period my employer
is now offering a Roth 401k option. Great. out of laziness of only just now gotten around to addressing whether traditional Roth 401k would be a better option. I’m sure it’s laziness has nothing to do with how busy you are as an intern.

[00:22:30] I know in general you recommend residents to go for the Roth for one K option. That’s correct. But if I’m reading my employer’s benefits materials correctly I only get the employer match if I contribute to a traditional 401k. I won’t get the match if I go the Roth route. I contribute 4 percent of my fifty five thousand dollars salary the 401k and get a one point seventy five percent employer match. In this case is it still better to get the employer match using a traditional 401k and then doing a Roth conversion when I finish my residency. I guess I’m having trouble conceptualizing the math that would need to be done to figure out how much of a money difference this would make.

[00:23:06] I don’t think there’s a lot of calculating that has to be done here. That’s pretty weird that they only match the contributions to the tax deferred side of the 401k. It is so weird I suggested this doc that he double check that he actually go into H.R. and ask them but he sent me a link to his page for his 401k and literally that’s what it says you don’t get a match unless you put it on the tax deferred side. So if that was really the way the 401k is that’s what I do. I’d contribute to the tax deferred side and get the entire match. That’s your number one priority not getting that match on your 401k is like leaving part of your salary on the table. So what you have to do to get that. Make sure you get that.

[00:23:46] Above and beyond that everything else should go into Roth accounts. Whether it’s a Roth IRA whether it’s the
Roth 401K or B that’s generally where you want to be investing. As a resident, you know the only possible exception I could even think of is if you’re married to an attending neurosurgeon or something and maybe you’re already in the highest bracket and you want to do more tax deferred money I don’t know. Maybe some student loan situations where it makes sense to get your taxable income as low as possible but as a general rule Roth is for residents and tax differs for people in their peak earnings years.

[00:24:17] The other thing to keep in mind as a general rule is when you leave residency and you’re allowed to move that money out of the 401k or for 03b. You want to do so before the end of the year. And the reason why is because you earn a lower tax bracket that year you leave residency because for half the year you earned like a resident and half the year you earned like an attending the next year the whole year you earned like an attendee. And so that year that you earned like a resident for half a year is a lower tax bracket. And that’s the time if you can possibly squeeze some more money out of your budget to pay for it to do a Roth conversion of any tax deferred saving you did during residency or fellowship. And so pay the taxes move it into your Roth IRA. You’ll be glad you did all right.

[00:25:06] Next question. I’m very appreciative for your initiative to help educate doctors on this most important part of life. I wish I’d known about your book in all this years ago. Yeah I wish somebody had given me my book too. Read your book last year and now I can understand these various terms unfortunately have made some bad financial decisions. Here’s the summary finished training one and a half years ago after a fellowship, no student loans. Well that’s good. Made the max contribution of four 03b in 457 from employer for one and a
half years. All right. That’s good. But I’m changing jobs to private practice will no longer have the option of 457. OK that’s all right. Unfortunately bought a forty eight thousand dollar per year premium for whole life insurance through a well-known mutual insurance company. I’m sure regular readers and listeners know exactly who I’m talking about. My wife doesn’t work. We have three children. I got back surgery three years ago. Got a lot worse but now I’m able to work again. But my starting salary at the new job will be half of what I make now. How do I get out of this whole life insurance mess.

Well there’s two problems here. Number one this doc is mistaken a insurance agent for a financial adviser. It’s not the same thing even though the insurance agent wants you to think they’re a financial adviser. They are not. And so two things here probably need to be changed. Number one the IRA at the insurance company is probably not where you want to keep that that’ll need to be moved over to a better place to invest such as Vanguard.

If it’s traditional IRA you may want to convert it as well so that you can start doing Backdoor Roth IRAs that will be relatively easy relatively pain free. There are probably a few fees to close the account. Of course the adviser will need to be fired. You need to go get real advice if you need it otherwise do it yourself. The big question however is what to do with this whole life insurance policy that he has been paying forty eight thousand dollars a year for.

It’s financial malpractice to sell that sort of a policy to a doctor in this position, it is ridiculous. At any rate the truth is he’s only into this all couple of years. It
sounds like two – three years. If he can still get life insurance at a good rate term life insurance he should buy that before doing anything with the whole life insurance policy. But at two or three years into it you’re still well underwater on these sorts of policies. And the truth is you’re almost surely getting you’re almost surely better off getting rid of it. leaves you two options one you can just surrender and walk away with whatever cash value you have. Two you can exchange the cash value into a variable annuity and let the annuity grow up until it equals the basis. Basically what you paid and all those premiums and that allows you to have some tax free growth on that money. At which point you can surrender the annuity and reinvest the money in a taxable account.

[00:28:08] But in this sort of situation it just sounds like the stock’s been sold a policy completely inappropriately. if it wasn’t inappropriate in the beginning it certainly is now that he has half the income and he just needs to get out of it but make sure you have a real term life insurance in place before canceling any sort of whole life insurance policy.

[00:28:29] Next question I’m an anesthesiologist in my private practice group has decided to sell our practice which means every physician in the group will receive a buyout of an amount to be determined. I can’t decide whether I should use the money to pay off my current home or sell my house and buy another house in a better school district. I’ll be a new mom this summer. Congratulations. And our current school district is mediocre at best. We’ve only been living in our house for three years. We bought a brand new and our son won’t be school age for another five years so we’ll still have time to think about it. Curious to hear your thoughts. It would be nice to have the mortgage paid off. We lived like residents after my
fellowship and we were able to pay off my medical school loans and my husband’s law school loans and two and a half years. We just finished off car loans. All we have is a mortgage debt.

[00:29:08] Awesome they’re doing great but it seems kind of silly to buy a house because you think you might need it in five years. Why not wait four or five years to buy it. It just doesn’t seem to make any sense. I mean if you want the house for some other reason than the good school district that you’ll eventually need then sure move. But I think at this point I’d stay put and keep building wealth and look to move in four or five years.

[00:29:32] All kinds of things could change in five years maybe something happens to your job and you move to a different city. I don’t think we need to be buying homes just because eventually we’re going to want to have one in a different neighborhood.

[00:29:45] All right. I think that’s it for today. This episode was sponsored by Adam Grossman a Mayport Wealth Management. Adam is a Boston based adviser and works with physicians across the country. Unlike most other advisers Adam offers straightforward flat fees for both standalone financial planning and investment management. Whatever stage you’re at in your career Adam can help you get organized with a personalized financial plan and can help you implement it with a low cost index fund portfolio. Adam is a Chartered Financial Analyst and received his MBA from MIT. But more importantly you’ll benefit from Adam’s own personal experience with many
of the same financial obstacles and opportunities that face physicians. To learn more visit his website mayport.com/whitecoat to download a free eBook especially for physicians.

[00:30:28] Head up shoulders back. You’ve got this we can help. Be sure to get the video version of the physician wellness and financial literacy conference. See you next time.

Layering Term Insurance Can Save You Thousands

[Editor’s Note: This is a guest post from Jon Sycamore CFP®, founder of Physician Wealth Planning. The subject of laying/laddering term life insurance policies has been discussed on this site in the past, but it was over 3 years ago, so I thought it was worthwhile to hit it again. Jon and I have no financial relationship.]

Financial professionals have a bad reputation among consumers. I’m a financial professional, and I agree that it’s not without cause. There are a lot of people swimming in the financial services pool and a lot of them are, well…incontinent. It’s getting better though. You may or may not be familiar with the Department of Labor’s fiduciary rule, but basically, it requires anyone giving advice on retirement accounts to put the client’s needs ahead of their own. I’ll
spare you the details, but the point is that the bar is being raised on financial professionals. While there’s still a ways to go, I think the biggest culprit contributing to financial professionals taking advantage of consumers is the sale of commission based products. Many investment advisors have already gone away from selling products to charging a fee for services, but it’s still the standard in the insurance industry.

There’s a saying, “Insurance is sold, not bought”. You, the customer need to watch out for overzealous salesmen who will tug at your heartstrings to convince you to buy as much insurance as you can afford. I mean, you love your children, don’t you?

Jon Sycamore, CFP

I’m not trying to trash on insurance professionals here. In fact, I’ve found that they are raising the bar on themselves despite the DOL rule having no jurisdiction on most insurance sales. I recently attended a webinar hosted by Mark Maurer of LLIS, where he talked about layering term insurance to save client’s money. This strategy involves multiple smaller policies of varying lengths that reduce the amount of insurance over time as the client’s need diminishes. Before, you’d probably just be sold a single large policy so the salesman could collect as much commission as possible. Putting your client’s needs first! What a concept!

**Determining How Much Term Insurance You Need**

Before we go any further, it’s important to understand how much insurance you need over time. There are two approaches you can use to determine how much insurance you need, an
important part of buying term life insurance from independent agents.

# 1 Human Life Value

The human life value approach to determining term insurance needs estimates all future earnings, minus taxes and self-maintenance. This is the more straightforward approach as it simply looks at your earning potential and attempts to replace it.

# 2 Capital Needs Analysis

A capital needs analysis is a bit more cumbersome but is more precise. It looks at your needs individually and attempts to fund them. It doesn’t have to get too granular but usually looks at paying off large debts like a mortgage or student loans, funding education, basic living expenses, etc.

Regardless of the approach you take, you’ll end up with a series of cash flows for a given amount of time. Rather than simply adding up all future cash flows to get an enormous number, you choose an investment rate of return you think is realistic, then calculate the present value for each future cash flow and sum those numbers to get the net present value (NPV).

The NPV minus any liquid savings you have is how much insurance you need today. But what about in the future after you’ve had a chance to accumulate more in savings and many of those initial cash flows have passed? The amount of insurance you’ll need is reduced. This is where layering term insurance comes in.
Hypothetical Example

Let’s say you’re a 35-year-old female physician in good health and you don’t smoke. Your gross income is $275,000, you pay a combined tax rate of 28%, you max out your 401(k) and make nondeductible contributions of $11,000 into your IRA and a spousal IRA (and convert them to backdoor Roth IRAs). Finally, you determine that if you were to die, your family could live on $40,000 less. This leaves you with $150,713. Assuming your income only keeps up with inflation at a rate of 3% and an investment rate of return of 6%, we can project how much coverage you will need in future years. Is your head spinning yet? Click here for a breakdown of the numbers. As you can see in the chart below, the NPV represented by the blue line starts at $3 million and steadily descends as annual expenses are completed and savings accumulate.

Single Term Insurance Policy Versus Layering Term Insurance Policies

As the chart above suggests, this hypothetical client would benefit from layering term insurance as her need for coverage diminishes. If she purchased a single $3 million, 30-year term policy, that would cost her $2,310 per year, or $69,300 cumulatively. However, If she layers three separate smaller policies as illustrated above, she would pay $1,574 per year for the first fifteen years, then $1,234 for the next five years, and finally $810 for the next ten years for a cumulative cost of $37,880. In total, this strategy provides complete coverage and costs $31,420 less.

Does Layering Term Insurance Apply to You?

You may be saying to yourself, “well that’s great, but that’s
a lot of calculating for me to do on my own”. You’d be right. It is. That’s why I’ve included this spreadsheet for you to enter in your own personalized assumptions. For simplicity’s sake, it uses the human life value approach discussed earlier. A capital needs analysis, however, often make an even stronger case because educational expenses tend to keeps the NPV high until after that expense is completed, then it descends at a more rapid pace. Enter your personalized information in the blue highlighted cells and the formulas do the rest.

Gold Level Scholarship Sponsor

[Editor’s Note: Three comments I’d like to make to round out the topic.

First, I am a strong proponent of the capital needs analysis method of determining how much insurance to buy because it is based on your spending rather than your income. You don’t need to replace what you earn, only what you spend. For a good saver, there’s a huge difference between those two. So I find that using a human life value approach is much more frequently used by an insurance agent as a method to sell you more insurance.

Second, don’t forget the effects of inflation which are hardly insignificant over a 20-40 year career. A 30 year level premium policy is already layered/laddered on an after-inflation basis. In real dollars, both the premiums and benefits are higher in the first few years and lower in later years. Be sure to take this effect into account when determining your term insurance plan.

Third, I am a big fan of this strategy and have two separate term life insurance policies, a $750K policy that ends around
age 52 or so and a $1 Million policy that ends around age 57. However, I’m likely to cancel them both in the next few years thanks to reaching financial independence earlier than expected and probably would have been better off buying annually renewable term insurance instead of level premium policies.]

What do you think? Did you layer your term insurance? Why or why not? How much do you expect to save by doing so? Comment below!

Set For Life Insurance – Experts in Physician Disability and Term Life Insurance

[Editor’s Note: This is the first of our five sponsored posts this summer from the Platinum ($3500+) sponsors of the WCI Scholarship. Jamie K. Fleischner, CLU, ChFC, LUTCF is the president of Set for Life Insurance and a long-time advertiser here at The White Coat Investor. We have referred hundreds of readers to Set for Life and I have never had a single complaint. For this post, we decided to just keep it casual and do it interview style. Thank you for supporting those who support this site and especially the scholarship. 100% of proceeds go to the scholarship winners.]

Tell us about yourself. What are you like
outside of your professional life?

Jamie Fleischner, CLU, ChFC, LUTCF

I’m a married, busy mother of two teenage boys and two Border Collies. I spend a lot of time hiking and running and traveling every opportunity we can as a family. My friends would describe me as someone who is energetic, down to earth, productive and prioritizes people and experiences above things.

What drew you into insurance in the first place, and how did you end up working with so many doctors?

My father is in the insurance business so I had a lot of early exposure to the industry. Although we have never formally worked together, he has always been an invaluable mentor. When I was in college I did an internship with an insurance company selling insurance. I attended Washington University in St. Louis where they have a large medical school. I started making connections there and was referred to a lot of physicians and residents.

After graduation I decided to return to my hometown of Denver, CO. Within a few months, my mom became gravely ill and I took care of her full time. I had to take her to the University Hospital daily where I made a lot of personal connections and started writing a lot of business on the physicians and residents. She passed away 18 months later. This experience had a profound impact on my career and life. I learned the importance of income protection and it has stuck with me ever since. I have a great passion for disability insurance and realized early on that I love working with physicians. I
naturally connect with them on many levels. Throughout the years as my clients moved around the country I continued to be referred to their colleagues and my business blossomed.

How many doctors do you write policies for in any given year?

Close to 1000/year.

When do you think doctors should buy disability insurance? As an intern? As a new attending?

The earlier the better. The most important thing to protect early on is your insurability, the ability to purchase more in the future without further medical questions. A lot of students and physicians are not aware that you can start with as little as $1000/month benefit and still be pre-approved for up to $17,000/month in the future for about $25/month premium.

What mistakes do you see doctors making with respect to their disability insurance?

1) Working with someone who only shows them one option. It pays off to work with an independent broker who can objectively show you all of your available options to find the most suitable policy at the best price.
2) Thinking that your employer policy is sufficient. Employer policies can offer benefits but there are several disadvantages. The benefits are taxable if your employer is paying the premiums, the definition may not be own occupation, there are caps on the amount of potential benefit received and the benefits are not portable if you leave. As such, it makes
sense to supplement with an individual policy.
3) Paying full price. Find out if you are eligible for available discounts. This can save you anywhere from 10-75% depending on the situation.
4) Women paying female rates.

Which riders do you think are generally worthwhile on a disability insurance policy?

1) The most important contract language to have in a disability policy is the definition of disability that covers you if you can’t work in your specialty even if you can work in another medical specialty or occupation. Without this language, the company may either reduce benefits if you work elsewhere or may not even pay a claim if you are capable of working elsewhere.
2) Residual/partial disability
3) The clause “non cancelable, guaranteed renewable.” This means the company can never modify your contract or raise your rates.
4) The ability to increase benefits in the future without further medical underwriting.

What is the best way to buy term life insurance?

Work with someone who can shop around to find you the best rate for you based on your circumstances. Some companies may be better for you than others. For example, here in Colorado we see people who use marijuana. Some companies would consider them smokers and others may not.

What’s your opinion of whole life
insurance?

I am not a huge proponent of whole life insurance. I prefer life insurance to cover the life insurance need only and to invest your money elsewhere. My philosophy is that insurance is designed to fill in gaps until you are able to self-insure. Once you have accumulated enough assets to self insure, you do not need the life insurance any more. Whole life insurance is a very expensive product that requires a tremendous commitment. I prefer that my clients buy as much life insurance as they need for protection and for it to last as long as they need it, typically until their last dependent is out of the house.

Why do you think so many doctors regret their WLI purchase?

I have a lot of physicians who come to me regretting their whole life purchase elsewhere. It is extremely expensive and they feel trapped. Oftentimes they are embarrassed. For example, I had a physician contact me after purchasing a whole life policy a few years ago with another broker and was paying close to $30k/year for $3mil of life insurance. He was married with 2 year old twins. He suddenly had a job change and could no longer afford the premiums. They were about to lose their house. The $30k/year became a huge burden. Fortunately he was able to reduce the death benefit to the minimum amount thereby reducing his premium. He didn’t lose the premiums that he had already paid but was able to reduce his future premium payments. He purchased a $3mil term life policy for around $100/month.

Is there anything in particular women should be aware of when buying insurance?

Women pay twice as much as men for disability insurance. According to the top people at the companies that I have
interviewed, this is both due to the rate of claims as well as the length of claims. Women tend to not only become disabled more often, but stay on claim longer. The best strategy for women is to look for a unisex policy. This means that the rates are the same for men and women. Depending on the company, this can save women 50-70% off the female rates. It is important to note that not all unisex policies are created equal. It is important to ensure that not only the original policy is at unisex rates but future increases are at the unisex, discounted rate, too. Over the last 20 years I have focused on setting up unisex discounted rates at hospitals around the country. We have them in almost all 50 states. If they are not yet set up, we help clients put them in place.

**When does it make sense to replace a life or disability policy?**

First of all, it is important to note that you should never cancel a policy before the new policy is in force.

These are the circumstances when it can make sense to replace a life or disability policy:

1. **Cost.** If you are able to reduce your cost significantly or by at least 20%, it may make sense to replace your policy.

2. **Benefits.** If your policy is not a true own occupation policy or is not suitable for your needs, it may make sense to replace. Or, if you have a policy with increasing premiums such as an association policy, it may make sense to replace it with a fixed premium policy. This can save you a lot of premium over time.

3. **Your policy is no longer suitable for your needs.** For example, you have a term policy that is about to expire but you still have young dependents in the house, you may look into replacing or adding to that policy. Either
way, you will need to go through new underwriting.

**When does it make sense to cancel a life or disability policy?**

Once you are able to self insure, you can cancel your policy. For example, if you originally needed $2 Million of life insurance and your portfolio exceeds that amount, you may not need the insurance any more. However, if you have had a significant change in health and cannot go out and buy the insurance any more, you may want to keep the insurance.

If/when you reach financial independence and are only working because you want to and are no longer dependent on your income, you may no longer need your disability policy. For a disability policy, if you reach age 65 and are not working full time, you may need to drop the policy.

**Can you tell me more about the discounts available for disability insurance?**

There are several available types of discounts:

1. Unisex, discounted rates. As noted above, women can save between 50-70% on their female rated policies.
2. Association discounts. If you are a member of the AMA, there are a few companies that will offer a 10% discount.
3. Some companies offer a 10% discount if you also purchase life insurance.
4. Resident discounts. Some companies offer discounts for medical residents. These discounts are 10-20% depending on the company. Some of these discounts are only for the base policy and do not apply to future increases and some will allow you to maintain the 10% on future purchases.
What issues have you seen with doctors trying to make DI claims?

1. The first thing I tell my clients when they are going to file a claim is to document everything. The more organized you are the smoother the claims process will be. Keep track of when the injury/diagnosis occurred, lost hours or wages and the names of all of your doctors.

2. Delaying filing a claim. I’ve seen people not realize until several months later that they have had a loss of income.

3. Not realizing they have a claim. A lot of people forget that they have a residual/partial disability rider on the policy that only requires a 15 or 20% loss of income to instigate a claim.

How are you different from other insurance professionals?

1. **Responsive.** My clients can always expect a response within 24 hours. Even if I don’t have an answer to their question, I always acknowledge their question and retrieve an answer in a timely manner.

2. **Knowledgeable.**

3. **Experienced.** 24 years in the business.

4. **Discounts.** We have among the largest portfolio of available discounts in the country.

5. **Approachable.** My clients all have my cellphone number and call and text me 24/7.

6. **Candid.** I am very matter of fact when I work with people and advise them how I would advise a family member. People appreciate my honesty. They are often surprised to hear that they should continue working with their existing broker and that they do not need to make any changes or replace their existing coverage.

7. **Communicative.**
8. **Future service.** I keep in contact with my clients regularly throughout the year and check in at least once a year to ensure their contact information is up to date and that their insurance is still meeting their goals. I also remind people when they have opportunities to make changes on their policies.

9. **Professional.**

10. **Woman.** In a highly male dominated field, I’m the only woman at this level in this niche field of physician disability insurance.

Thank you Jamie for your detailed answers and for sponsoring the scholarship!

What do you think? Are there other questions I should have asked that you’d like to know the answer to? Have you worked with Set for Life Insurance? What was your experience like? Comment below!

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**A Widow’s Financial Plan**

**Q.**

I am a physician with a fairly large amount of life insurance. I have a non-working spouse and a daughter. I would like to see an article aimed at a potential surviving spouse regarding how to best manage and utilize a large death benefit, in order to maintain a comfortable standard of living. I believe that there are many physicians in situations like mine whose spouses could benefit from having a plan in place if the unthinkable would happen. Pitfalls to avoid in that situation would also be valuable.
A.

I often tell doctors to buy oodles of term life insurance if they have someone else depending on their income. Getting that in place is far more important than having a pre-set plan about how to use it in the unlikely event it actually pays out. Nevertheless, this is an interesting financial planning question to think about, no matter how morbid.

In some ways, it is no different from any other windfall. But there are some unique things about getting a life insurance payout due to a spouse’s death that we can discuss. In reality, you should have the outline of a financial plan in case of your death (or the death of the person whose income you depend on) before you buy the life insurance. How much you buy really depends on that plan. For example, if the plan is for your spouse, the orthopedist, to continue working then there might not be any need for life insurance on you at all! For this reason, we don’t have any insurance on my spouse. We figure between our savings, WCI income, and clinical income, even if I cut back some, that we can scrape by. However, if I die, things might be a little different. We’re rapidly approaching financial independence, but we’re not there yet, so we still carry significant life insurance on me ($1.75 Million actually, in a $750K 20 year policy that will expire when I’m 52 or so and a $1 M 30 year policy whose term goes to when I’m 57 or so.)

You all know I like making lists, so let’s make one about all the things to consider if you are the unfortunate recipient of a big life insurance benefit check.

# 1 Don’t Do Anything Quickly

There is no reason you have to do anything for months after your spouse’s death. This is the time to grieve. While it
might be nice to distract yourself a bit with some financial chores, don’t feel like you have to do any of this for a while. As long as you had a big life insurance policy on the breadwinner and you’re not grieving your way into the Lamborghini dealership, you can likely ignore your finances for the most part for at least a few weeks, if not a few months. When they send you the life insurance check, deposit it someplace safe. Remember that each of your bank accounts may only have FDIC (Bank) or NCUA (Credit Union) insurance for $250K. So if it is the usual $1-5 Million I recommend, you may want to split it up a bit, just in case.

# 2 Consider Your Other Income

There’s a good chance that you have some other income, aside from the earned income of your deceased spouse. The more you have, the less you will depend on that life insurance money to provide your income. This might include income from a rental property, your own earned income, income from a taxable investment account, or book royalties. Be sure not to forget about the Social Security survivor’s benefit, and I’m not talking about the bizarre one-time $255 check they’ll send you. You can check for the real survivor’s benefit on your (or your spouse’s) annual Social Security statement, (or log on to the Social Security website) to see how much you (or your spouse) may get. For example, my statement says that if I die my spouse caring for my child will get $1,961 per month and each of my children will get $1,961 per month, with total family benefits totaling not more than $4,577 per month. The rules are a little weird, but in my case, if I die my spouse
starts getting $4,577 per month, indexed to inflation. That will continue until my second youngest graduates from high school more than a decade from now. Then it will decrease to $3,922 for another 4 years until the youngest is 16 at which time the spousal survivor benefit goes away until she hits full retirement age. But for another 2 years until the youngest turns 18 and finishes high school, she will continue to get $1,961 per month. At that point, my spouse will be 56 and closing in on retirement age anyway. At full retirement age, she would get $2,615 per month. The bottom line is that just the Social Security survivor benefit would pay my surviving spouse almost $55,000 per year for over a decade, with a lesser amount for most of another decade.

# 3 Consider Your Earned Income

The plan for many couples in the event of the untimely death of the breadwinner is for the spouse to go back to work, if not immediately then eventually (such as when kids are in school full-time or after they leave home.) That can obviously provide significant living income. If you carry enough life insurance, you can eliminate that need, but it is okay to bake that into your plan as well if your spouse is okay with it.

# 4 Figure Out The Student Loans

Now would be a good time to see what happens to your student loans in the event of your death. Federal loans are generally forgiven in the event of the borrower’s death, but that is not always the case for private loans (including loans that have been refinanced.) So read the fine print. That’s not to say don’t refinance, but if you refinance with a lender that would assess your loans against your estate in the event of your death, use some of your interest savings from refinancing to buy some more inexpensive term life insurance. If the loans are going to be forgiven, make sure you don’t pay them off with the life insurance money!
# 5 Consider Reducing Your Fixed Costs

While you shouldn’t do anything in the first few days, weeks, and maybe even months, as soon as you have moved through the initial grieving process it is a good idea to look into any fixed costs you could reduce. For example, if you are now the only driver in the family, you can probably sell one of the cars. That will reduce licensing, insurance, and maintenance costs, but also depreciation. Plus, if the car is worth anything it will boost your savings by a bit. You may also want to get rid of “his” (or “her”) toys like a boat, RV, guns, snowmobiles etc for the same reasons. Pay off any consumer debts like credit cards or car payments. Pay off your student loans. Consider using some of the insurance money to pay off the mortgage. While all of this reduces your available cash, it has a more important effect of reducing your need for cash flow. In fact, you might even get it down to the point where Social Security and investment income is enough to meet all your needs.

# 6 Remember Your Retirement and Other Savings

As time goes on, the retirement portfolio eventually replaces the life insurance need. Chances are by the time your spouse dies, there will at least be something of a nest egg started. If what was formerly the retirement nest egg makes up a relatively small portion of your new nest egg (previous savings plus life insurance), then maybe you should just let it continue to compound for your retirement and plan on using the life insurance for living expenses in the meantime. However, if the old nest egg makes up the majority of the new nest egg (and this is usually a good thing) then you may want to incorporate it into your current income plan. Don’t be afraid of the Age 59 1/2 rule, it’s relatively easy to work
around.

# 7 Time For A New Financial Plan

Your financial life has now changed dramatically, and so must your financial plan. If you feel knowledgeable and confident doing that yourself, then go right ahead and draw up a new one. If that makes you quiver, now is a good time to seek some professional help. Even a couple of hours with a good hourly rate financial planner can make a big difference.

In a scenario like that of the question at the beginning, where the family’s only breadwinner has been replaced by a big life insurance check, the retirement date for the spouse has basically been moved forward. That means retirement will last longer and there will be a longer period of “retirement” before spousal (not survivor) Social Security benefits and Medicare kick in. So you may want to use a slightly more conservative initial withdrawal rate, perhaps as low as 3-3.5%. (i.e. a $3 Million nest egg provides $90K-105K in additional income per year. Now the retirement accounts, your taxable account, and all of the insurance money that didn’t go toward debt reduction is one big pot of money with a single goal- to help you live comfortably for the rest of your life. So you should probably revisit your asset allocation with these changes in mind. Most will probably want a more conservative one than they were using a few months ago. Many spouses will want a simpler plan. That’s often easy to achieve. 401(k)s, 403(b)s, SEP-IRAs, Individual 401(k)s and defined benefit cash balance plans can be rolled into IRAs. Roth 401(k)s and 403(b)s can be rolled into Roth IRAs. Your spouse’s IRAs can be rolled into your IRAs (not the case if you aren’t married, in which case the inherited RMD will start having RMDs immediately.) You’re likely to have no more than three accounts to manage- a traditional IRA, a Roth IRA, and a taxable investing account. All of those can be held at the same mutual fund shop, such as Vanguard, and if you really
want, they can all be invested in one simple investment such as the Target Retirement Income Fund or The Life Strategy Income Fund. Voila- the investing plan is done!

# 8 Withdraw Tax-Efficiently

Be conscious of how you withdraw from each account. If you’re careful, you may have a very low effective tax rate. You won’t be paying any payroll taxes. At least some of the Social Security survivor’s benefit won’t be taxable (remember a big chunk of it technically goes to your children and so will be minimally taxed if at all.) If you are in a low enough bracket (i.e. the 10% or 15% bracket) you won’t even have to pay taxes on any capital gains or qualified dividends from a taxable account. You can continue to tax loss harvest and use appreciated shares for charitable donations to further reduce your tax burden. Like a typical retiree, you can carefully balance withdrawals from the tax-free and tax-deferred retirement accounts to determine your own maximal marginal tax rate. You may be surprised at how low the rate applied to your tax-deferred dollars can be. Remember, of course, the general rule is to spend taxable assets (including life insurance benefit money) before retirement assets, thus preserving the tax-protection and asset-protection benefits of the retirement accounts as long as possible. But opportunities to get tax-deferred money out at very tax rates (like 0-15%) are the exception to the general rule.

If this is all very intuitive for you, then you likely will not need a financial advisor. If it is not, then don’t feel badly about hiring one. You really don’t want to blow this. But do make sure you are hiring someone who is giving you good advice at a fair price and remember that money used to pay that fair price is money you cannot spend on something else.
# 9 Extra Money?

Now, if there is more money than you really need, there are two other considerations. The first is to give some to your children, perhaps as a 529 or UGMA contribution. Many people buy enough life insurance to pay off the mortgage, provide for their spouse for the rest of their life, AND pay for their kids’ educations. The second is to give some money away. Just like any retiree with more than “enough,” giving money away can enrich your life.

What do you think? Did I forget anything? What would you do if you had a big life insurance windfall from your spouse’s death? Comment below!

The Bare Minimum

I keep running into doctors who haven’t done a thing to improve their finances. They have very little interest in anything but the eventual outcome. They certainly don’t want to read a book, wade through endless blog posts, or frequent an internet forum. Personal finance and investing will never be a hobby for them. Everything to do with anything financial is unpleasant, painful, and boring. They don’t want to spend the time to meet with a financial advisor, much less hire one.

If you’re reading this blog, the above paragraph probably doesn’t describe you. But I bet you know someone that it does describe. Do them a favor and email them a link. Or better yet, text it to them so they might actually read it.
Now, if someone just texted this post to you, well, you’re my target audience. The good news is someone cares a lot about you. The bad news is your financial life may be in pretty bad shape. I’m going to tell you the bare minimum of what you need to do to get your finances fixed up into “good enough” shape, such that neither you nor your family will ever eat Alpo. Not that it’s that bad. Okay, maybe it is.

**Insurance**

First, you probably need some insurance. Ask the nearest doctor (preferably the one who sent you this link) who they used for theirs. Go buy a disability policy from the same guy. Any policy. Get a $10K benefit. ($5K if you’re a resident.) If you’re married or have a kid, buy a 30 year level **TERM policy** for $2 Million from the same guy. Any disability and life insurance is 10 times better than no disability or life insurance. **Don’t buy whole life insurance.** Don’t know any doctors or just want an insurance agent you can trust? Call someone on [this list](#).

**Student Loans**

Still have student loans? Do you (or will you as an attending) work for a non-profit? If so, you need to spend an hour learning about **Public Service Loan Forgiveness**. If not, you need to refinance your loans. It will probably take less than an hour. **Pick one of the companies off my approved list.** They’re all fine and the rate you get will be better than what the government gave you in med school. Get a 5 year variable loan and make all the payments. Your student loans will be gone in 5 years.

**Saving**

You need to save some money. Anything saved is better than nothing saved, but ideally you’ll figure out a way to put about [20% of your gross income](#) toward retirement. So add up
what you spent last month and compare it to what you made last month. Did you save 20%? If not, spend less on something. Anything. I don’t care what it is. Less travel, less car, less house, less eating out, less kids’ education or activities.

On second thought, don’t bother. That’s too much work to add up what you spend. Set up your bank account and paycheck such that 20% of what you make goes somewhere else. It can be auto-drafted into your 401(k). It can be auto-invested into a brokerage account. It can even go into a separate bank account. But put it somewhere you can’t easily spend it and forget about it.

**Investing**

Pull out that paperwork packet that HR gave you when you were hired. Find the 401(k) stuff. Log in to your account. Scan down the list of mutual funds for something that has a date in it, like 2050 or 2040 or something like that. Have 100% of your contributions go into that investment. If there is more than one, just pick one. They’re all fine for your purposes. If you can’t find one, look for one that has the words “Total Stock Market” in it. Still nothing? Find something with the word “Index” in it. Invest in that.

If you need to invest more for retirement than can fit in your 401(k) or similar retirement account, you will also need to open a regular old brokerage account at Vanguard.com. Don’t worry, it’ll only take 5 minutes. Set it up to auto-draft your bank account every month and invest the money in the Life Strategy Moderate Growth Fund. If you are self-employed (i.e. an independent contractor or paid on a 1099), go to Vanguard.com and open a SEP-IRA account. An individual 401(k) is better, but the SEP-IRA involves less hassle. Set it up so that $4,500 a month will be pulled out of your bank account and put in the SEP-IRA. Unless
you make less than $300K, in which case just have 18% of your gross income go into it each month. Choose the Life Strategy Moderate Growth Fund as your investment. While you’re at it, have 30% of everything you earn deposited into a separate bank account. On April 15, June 15th, September 15th, and January 15th send 80% of it to the US Treasury and 20% to your state tax agency. These are called taxes and you’ll need to start paying them yourself since you are SELF-employed. You can have the person who prepares your taxes help you with this. It can get kind of complicated, but the bottom line is if you don’t want to pay a penalty, send the IRS 27.5% of what you paid in taxes last year each quarter.

**Estate Planning**

Do you have any kids? Go to LegalZoom and get yourself a will to tell your extended family which of them is going to be lucky enough to have to raise your rug rats lest you haunt them eternally. Eventually, you may have to do something more, but that’ll do for now.

**Spending**

Still have money left over after taxes, savings, and those student loan payments? Great! Spend it. On whatever you want. Have a good time.

Don’t have any money left over? Cut up your credit cards and spend only green stuff for a few months. That’ll probably fix the problem. If that doesn’t work, you might have to actually budget.

**Additional Learning**

At some point, you might get curious to learn more about financial stuff. Remember, this is just the bare minimum. With a little more interest, effort, and discipline, you can
improve your finances even more. So if you get curious, come on back to the website, buy the book, or check out some of the other recommended books. Want some professional advice? Start here.

What do you think? What do you see as the bare minimum for docs to do with their money? What do you do to help someone who has little to no interest in this stuff? Comment below!

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When to Drop/Reduce Disability and Life Insurance?

I got this via email from a two-doc couple a while back.

Q.

We have over $1M in invested assets. I am married to another physician. We have only ever carried $1.4M in life insurance each and the maximum (66% of salary) for disability. I bought multiple disability plans and two term life insurance policies for each of us long ago with the idea of slowly dropping them as our invested assets increased.

Now, we are at the point where we could drop the life insurance and reduce the disability. The life insurance is a pittance because we both have the ultra-preferred rates $550/year total each for $1.4M total each. However, the disability insurance is a sizable investment each year. About $12k after tax for me and $8k after tax for my wife. We both
have dual Guardian plans, and I have an extra Principal plan for me (She is also covered through her job).

That said, I’m at the point to implement my plan and can’t bring myself to do it. I can’t be the only one struggling. Any advice?

A.

This is a very important question but unfortunately one with no right answer. A key aspect of this whole idea of insuring only until financial independence is to actually drop the coverage upon reaching financial independence. This can even be done gradually as you approach financial independence as you originally planned. It is important to recognize that your need for life and disability insurance is greatest in the beginning when you have a high potential future wealth but have not yet converted any of your time and work into actual wealth yet. Then as you gradually convert your time and effort into actual wealth throughout your life, that need for insurance gradually decreases until it eventually disappears. If you continue to pay premiums at that point you are not insuring against financial catastrophe, you are making a bet against an insurance company and hoping you will win. That isn’t necessarily a bad thing to do (especially if you aren’t feeling well) but it is a different thing to do. For example, some people choose to ride out their level-premium term insurance to the end of the term. Since the premiums are level, they recognize that they overpaid for insurance in the beginning and are now “getting a good deal” on it. You can avoid that issue with an annually renewable term policy.

Another aspect of your situation worth discussing is the fact that in some ways you are married to a life and disability policy. Each of you earns a great living and I suspect you two could live very happily on just one of your incomes. One might
argue that you don’t really have a need for life or disability insurance at all already. What you need, is a plan in the event of the disability or death of one of you. If the plan is to live on the other’s income, you could have dumped all this insurance years ago. That’s a totally different situation from mine where my spouse’s professional training is in school teaching, which earns an order of magnitude less than an emergency doc in this part of the woods. I suppose there is a very small chance of both of your dying prematurely or becoming disabled at the same time. You might be able to find a life insurance company willing to sell you a term second to die policy (probably they’d want you to buy a permanent product to get that feature) but I doubt that any company offers a second to be disabled policy. And of course there is the risk that you cancel insurance, then get divorced and maybe even remarried and find you now have a need for insurance but are no longer insurable. Again, it seems a relatively low risk and maybe not one worth insuring against.

I am also surprised to hear you feel that a million is a large enough sum that you’re already ready to cut back on coverage. That amount of assets can probably only be counted on for $30-40K a year of income if you’re going to start drawing it in your early 40s. That seems much less than I would expect most two-physician couples would be use to spending. Heck, it would only cover my mortgage payments. If $1 Million makes you rethink your coverage, you’re probably dramatically overinsured. If you have really maxed it out, I wouldn’t be surprised if you have twice as much disability coverage as your actual expenses.

Another option to save money might be to cancel some disability insurance riders. A cost of living rider becomes less valuable each year and you certainly don’t need to be paying for a future purchase option rider. If you’ve bought riders you now regret (such as the retirement benefit rider or catastrophic disability rider) you could cancel those too and
save some money.

When To Drop Life Insurance

Let’s examine carefully when a reasonable time might be to drop life insurance. The key is to go back to the decision to buy it. What were you planning to use the proceeds to cover in the event of the death of the insured? Perhaps your plan was to:

- Pay off a $400K mortgage
- Put $100K toward college for each of three kids
- Use $1M to create a nest egg that would pay for spouse’s retirement at 65
- Maintain an income of $100K per year from now (age 35) to 65 for spouse.

Let’s say you totaled that all up, made some projections of returns, and decided to buy $400K + $200K (it had time to grow) + $1 M + $2M = $3.6M of insurance. Now here you are a few years later at 45. The house is paid off. You have the college accounts adequately funded. You have a million dollar portfolio. If you were buying insurance today, how much would you buy? Well, maybe now your need is only $1.5 Million. So technically, you would drop $2.1 Million worth of coverage. Reassess again in 2 or 3 years and maybe you can drop another $500K-$1M.

When To Drop Disability Insurance

Disability insurance can be a little more straightforward. You only need enough disability insurance to cover your after-tax monthly expenses and your retirement savings. If you’re done saving for retirement (it wouldn’t be unreasonable to expect that $1M to grow to $4M over the next 20 years and cover retirement), then you only need enough disability benefit to cover your monthly expenses. If you spend $10K a month, then you need $10K of benefit.
Your Situation

Personally, in your situation where it isn’t even clear that you need the life and disability insurance at all, and you’re paying $21K total for it (compared to the $6K I’m paying,) I think I’d take a moderate approach. You obviously weren’t comfortable with being each other’s life and disability policies before so you probably aren’t now. Why not cancel one disability policy each and cut your life insurance back to $500-$1 Million each and give it a year or two and see how you feel about it? Then you can reevaluate.

What do you think readers? How did or will you decide when to drop your life and disability coverage? Will you carry it all right up to the point of financial independence or drop it gradually as you approach? Comment below!

Tips From Physician Disability Insurance Agent Michael Relvas

[Editor’s Note: This post is one of five sponsored posts being run this summer as part of The White Coat Investor Scholarship program. Michael Relvas of MR Insurance Consultants (life and disability insurance) is one of five platinum ($2500+) sponsors of the scholarship, and each of those sponsors gets a sponsored post about their business. What’s a sponsored post
you may ask? Not only is the post all about their business, but they also get editorial control over what is written. If you have not yet matched my daughter’s $10 donation to the scholarship fund, you can do so [here](#). Michael has been advertising here at The White Coat Investor for years and has helped literally hundreds of your peers with their insurance needs. I have received positive feedback from dozens about their experience with him. Be sure to thank Mr. Relvas for his generous donation to the scholarship fund in the comments section and with your business.

Michael Relvas, CFP, Independent Insurance Agent

Tell us about your practice and how you got started. Why insurance and why mostly physician disability insurance?

Probably similar to many insurance agents, my start in the insurance business was unintentional. I knew I wanted to be involved in personal finance, but my interest was mainly in planning and investment management.

Coming out of college, I interviewed with several “financial planning” firms thinking I was going to be a financial planner. I ultimately decided on a small firm near Washington D.C. and started as a junior associate to two senior advisors who each had 20+ years of industry experience. I was quite uncertain about my decision when I realized the job primarily involved insurance sales, until I experienced my first life insurance claim six months in. Being involved in the claims process and witnessing a $1.7 million benefit get paid quickly changed my perception of the insurance business.
I spent my first two years learning a lot about life and disability insurance and how important it is to always do the right thing for people. My first training exercise was to review a handful of disability insurance policies and determine the contractual differences between them, so focusing on disability insurance wasn’t exactly optional. Working with physicians happened as a natural progression though. Those were the individuals I enjoyed working with the most, so I focused my energy on marketing to physicians exclusively. A career in the insurance industry is a lot more fulfilling and meaningful when you have a specialized understanding of a niche market and select products. It’s the best way to become a truly valuable resource to consumers.

What differences do you see between clients who are WCI readers versus those who are not?

The Do-It-Yourself approach many WCI followers take with their personal finance is what stands out the most to me. Some WCI followers are such DIYers that they already know exactly what they want before ever contacting me. I’ll occasionally even get emails or quote requests with a detailed summary of the exact benefits, features, and policy design a person wants. I personally enjoy having phone conversations to review policy differences and help with making decisions, but many WCI followers have done enough research ahead of time that they only require a brief conversation or short email exchange to make a final decision.

What are the top 3 or 4 mistakes you see doctors making when it comes to their life and disability insurance?

Buying too little coverage or for too short of a term
Many physicians assume they’ll accumulate assets quickly enough to self-insure earlier than they’ll actually be able to. This expectation can cause individuals to buy too little coverage or coverage for too short of a term. For younger physicians, determining the appropriate amount of life insurance can be done by a simple evaluation of income replacement needs and asset accumulation projections. A basic time value of money calculation can really help put things in perspective and I feel that too few physicians actually go through this type of exercise. I’m not saying that physicians should buy the largest death benefit they can, but a $1 million 10-year term policy for a physician, and parent of 2-3, earning $200k in an expensive city just doesn’t cut it. It would be very difficult for that family to accumulate $1 million within 10 years, to where they no longer need insurance. [Editor’s Note: Most docs coming out of training with dependents should plan on a 30 year $2-5M policy.]

Waiting too long to buy disability insurance

Disability insurance can be expensive, particularly for certain specialties, so I understand why so many physicians delay purchasing coverage until the end of training or even during attendinghood. That said, securing coverage earlier in a physician’s career could improve the likelihood of policies being issued under more favorable terms. I see so many policies issued with exclusions that could have been avoided if the person had applied during their first 1-2 years of residency.

If you aren’t able to afford the maximum monthly benefit available to you as a resident, buy less but at least buy something. Most insurers allow for Future Increase riders of 3-4X the base monthly benefit, so buy what you can afford and make sure you include a benefit increase rider on the policy.
Hopefully your health doesn’t change throughout training but this strategy would at least provide some protection if it does.

Not Asking Enough Questions

Although many physicians are diligent researchers, especially WCI readers, I believe there are still too many who don’t do enough research or ask enough questions when buying life and disability insurance. I hear from physicians all too often who want to revise or replace existing policies because they didn’t pay enough attention to detail when they first bought their coverage. Many residents barely have enough time to sleep, so I understand why they are unable to devote more time to these decisions. That said, spending a couple of hours and working with an experienced and objective agent who is willing to review all of your options can go a long way.

There are too many service providers marketing to physicians, many of which are not as experienced as they claim to be, and physicians therefore need to protect themselves better by gathering more information and asking more questions. For example, if the insurance agent you’re working with only recommends one company and without validating that recommendation by providing you with other options as well, you should be asking why. It might very well be the right recommendation, but it’s your hard earned money and your family’s protection on the line so you should have a complete understanding of your options before making a final decision.

What do you think about Metlife no longer selling disability insurance? Do you think this will increase rates across the board?

It’s never good when a major insurer like MetLife exits the business, especially since they were one of the most
competitive options for a number of medical specialties. We’ve seen rates fluctuate over the years, both up and down, but I don’t think MetLife’s exit will directly cause rates to increase across the board.

Aside from an obvious staff downsizing within their disability insurance division, I don’t think we’ll see much of a change for policy holders. Their underwriting process has slowed down, call centers will likely be transferred overseas, and hold times might increase, but I still expect overall service and claims evaluation to remain comparable. I expect it to be fairly seamless for consumers and given their Income Guard policy’s strong contractual language, find no reason not to continue recommending them until September.

This news was mostly bothersome to me because I fear it might reduce the likeliness of residents/fellows securing coverage. MetLife’s competitive rates for FM/IM physicians, IM-subspecialists and some surgeons made disability insurance more affordable for residents than it was previously. MetLife exiting the market will cause physicians to pay higher premiums for a comparable policy, buy less coverage with comparable premium dollars, or simply purchase a less comprehensive policy. MetLife has been the no-brainer option for many physicians during the last few years, particularly men, and it’s upsetting to see that option go.

For those who aren’t aware, MetLife will no longer be accepting applications for individual disability insurance after 9/1/2016. If you’re an FM doctor, IM doctor, IM-subspecialist, or surgeon (except orthopedics) and are considering buying coverage, you should really speak with an agent before the end of August.

You have worked with a lot of military
doctors in the past. Do you have any tips for them to help them get life and disability insurance both before and after coming on to active duty? What are the pitfalls there?

Although it isn’t great, military doctors have the best selection of options during medical school, residency and fellowship. Standard Insurance Company, one of the Big Six Insurers, will offer coverage to these individuals on a normal basis so long as call-up orders have not yet been received. This is a great option since it allows physicians to secure comprehensive, own-occupation coverage under the same terms as a non-military doctor. The downside is that Standard isn’t always the most competitively priced option so you might be paying a premium.

Once call-up orders are received, a military doctor’s options are limited to MassMutual, Lloyd’s of London and some professional association policies. Unfortunately, each of these policies will have some limitation: policy terms can be less favorable than with traditional IDI policies and benefit levels can be highly limited. Nonetheless, having some coverage is better than not having any. Military doctors can secure one of these policies during their AD time and then secure a new policy following their exit.

Military exiting exams are gold mines for the insurers because they often find a number of things disclosed there. This obviously shouldn’t change what military doctors disclose during their exiting exams, but you should be aware that anything disclosed and any VA disability benefits you receive will be accounted for and likely excluded on an individual disability insurance policy.
Why is it important to purchase insurance from an experienced agent?

It isn’t just experience that I think is important. There are plenty of experienced insurance agents that aren’t necessarily that great. I feel it’s important to work with an agent who has a good mix of experience and objectivity.

Experience is critical in allowing an agent to evaluate your overall situation, make appropriate recommendations and make the purchasing process as seamless as possible. An experienced agent should be able to clearly and accurately answer all of your questions, guide you toward the insurance policies and insurers that best suit your circumstances, needs and goals, and help you get through underwriting with the most favorable outcome possible.

Objectivity follows experience very closely though, because it allows an agent to advise their clients more thoroughly and hopefully make more appropriate recommendations. Working with an agent who isn’t objective and experienced in working with several insurers could be a costly mistake. With disability insurance, it could lead to paying a considerable amount more for very comparable, or even inferior coverage. With life insurance, it could lead to purchasing coverage at a less favorable health category, and therefore higher premium, than may be available with other insurers.

One of the things that I find most difficult for consumers is finding an agent who can avoid being impacted by personal biases and conflicts of interest. I personally believe that agents who are beyond the “hungry phase” are more capable of looking past conflicts of interest but that still isn’t always the case. Physicians should be aware that these conflicts can exist, ask their agent for disclosure of any conflicts they might have, and possibly secure a second opinion before signing on the dotted line. You might find a truly great agent
to work with from the start, but it’s difficult to know with certainty.

**What do you wish WCI readers knew about you, your business and insurance in general?**

There is a significant conflict of interest that exists when an advisor recommends you replace your existing policy. It could be great advice, or it could also just be a way of generating a brand new commission. There are many instances where replacement makes sense, especially if you want something the existing policy does not already offer (like an improved definition of total disability, or other policy provision) or you have an opportunity to save substantial premium dollars on comparable coverage, but there are also many instances where you could be better off making changes to an existing policy rather than replacing it. Tread lightly in these situations and be sure to ask a lot of questions. I’ve seen a lot of poor recommendations regarding replacements that were clearly not made with the client’s best interest in mind.

Although my income is dependent on selling life and disability insurance policies, I truly enjoy providing objective advice and helping physicians avoid pitfalls while securing these important policies. Nothing bothers me more than seeing physicians buy policies, replace policies and make other insurance/financial decisions based on completely inappropriate recommendations that are clearly more beneficial to the agent/advisor than the client. If any reader ever gets the sense they might be getting poor advice, they can feel free to reach out to me. I’m more than happy to spend some time helping readers avoid mistakes when it comes to their life and disability insurance.

Questions about your life or disability insurance needs? [Contact Michael today!](#)
What do you think? Have you received bad life and disability insurance advice in the past? If you’re a military doc, what did you do for disability insurance? How much life insurance did you buy coming out of residency and why? Comment below!

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**Anually Renewable Term Insurance**

Although my term life insurance policies are level premium policies (same premium due every year of the term) there are advantages to a non-level premium policy. An annually renewable term (ART) policy is one where the premium goes up each year of the policy. Although that makes later years very expensive compared to the first few years, it offers an advantage in that you have more money available early in your career to pay off loans and invest. For super savers, it also gives you the opportunity to drop the policy when you reach financial independence, potentially saving a large percentage of the total premiums you would pay by purchasing and then cancelling a level premium policy early. However, some agents are skeptical that ART is actually less expensive than a level premium policy, so I thought it would be useful to run the numbers.

Daniel Wrenne, a financial planner and advertiser on the site, provided me an annually renewable term policy from AXA, which was the least expensive one he could find. We ran the numbers using a healthy, non-smoking 30 year old male in Kentucky and a $1 Million policy. Now, bear in mind that while the company cannot cancel your policy on you, they can increase the
premiums by more than the schedule shows. So you have to look at both the projected premiums and the guaranteed premiums. The good news is that, reportedly, AXA has only increased premiums above the schedule one time in the past. We will compare to the least expensive level 10, level 20, and level 30 policies I could find.

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Sorry the table isn’t prettier.

Now, while you’re enjoying number overload, let’s try breaking this down. The first column is the year of the policy, it goes from 1 to 30. The next column is the scheduled column for an ART policy, with the third column being the total premiums paid to that point in the policy. You can compare this to the next two columns, for the guaranteed premiums in the policy. As you can clearly see, nothing is keeping the insurance company from raising the premiums through the roof right away. No guarantee there. That’s the first downside of using an ART policy.

Speaking of Crazy- This is the Golden Stair pitch of the Grand Teton

But, if for some crazy reason they raise the rates dramatically (and they have to do it for everyone in your insured class, not just you), as long as you’re insurable, no big deal. You just go buy another policy from another company. Combine that with the fact that raising rates significantly is very unlikely, and I feel pretty good just using the scheduled premiums for the rest of our comparisons. If you want the guarantee, get a level premium policy.

**ART vs 10 Year Level**
Now, let’s compare ART to a ten year policy. As you can see, the ART has higher rates than the ten year policy starting in year 1. So if you really only want a policy for a few years (i.e. 10 or less) there’s no sense in buying an ART policy. Just go get a 10 year level premium. It doesn’t make sense, but that’s apparently the way it is.

**ART vs 20 Year**

Next, we’ll compare ART to a twenty year policy. As you can see, the ART has higher rates starting in year 11. However, the cumulative premiums paid become equal in year 17. By year 20, you will have paid an extra $1,095 for the ART policy.

**ART vs 30 Year**

Now for the 30 year, which is what most people would recommend for a 30 year old. The ART rates become higher than the level rates in year 19. The cumulative total for the ART doesn’t become higher until year 28, and even if you keep it a full 30 years, you’re only going to pay an extra $2,385.

Bottom line for this particular person seeking insurance: if you’re going to cancel your policy in 17 years or less, better to buy an ART than a level 20 policy. If you’re going to cancel in 28 years or less, better to buy an ART than a level 30 policy.

**The Time Value of Money**

But wait, there’s more. We haven’t taken into consideration the time value of money. Money in year 28 simply isn’t worth as much as money in year 1. If we assume this particular person actually invested the difference, and earned 5% on it, how much better off would he be than if he had bought the level premium policy?
Comparing the ART to the 20 year policy, after 10 years when the premiums for the ART policy finally become larger than the level policy, the ART dude has an extra $1633 sitting around to help pay them. This has the basic effect of pushing the break-even point out from year 17 to year 19.

It gets even better when comparing with the 30 year policy. After 17 years when the ART premiums become larger, ART dude has over $14K sitting around. In fact, after 30 years, assuming all that money saved was earning 5% the whole time, he still has an extra $6K for his efforts.

**Pure Insurance**

I find that result kind of exciting. I see annually renewable term as more of a “pure” insurance than a level premium policy. You use it until you hit financial independence, then you cancel it. What it costs you is what it costs you. While some people might be pushed to cancel their policy earlier than they should due to the rapidly climbing premiums, others will use that escalating premium to motivate them to save more, trim expenses more and invest smarter. I don’t necessarily see behavioral issues (because personal finance is both finance-i.e. math and personal- i.e. behavior) working better for either policy. You do lose the guaranteed premiums. But as we’ve seen time and time again with various insurance products, guarantees aren’t free and they rarely come cheap. Only transfer the risk you absolutely need to and, with discipline, you’re likely to come out ahead financially.

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**Platinum Level Scholarship Sponsor**

**Your Mileage May Vary**

So what should you do? Well, I suggest that if you want to
consider this non-conventional approach that you make a table such as the one above using the actual policies a good independent life insurance agent generates for you. Project when you expect to be financially independent. Then compare the ART policy to a level term policy of appropriate length. I won’t be buying an ART because I already own level premium policies bought years ago and will reach financial independence in less than 1 years. But I kind of wish I had at least considered them when I purchased my policies. I might have chosen not to pay for the guarantees of a level premium policy.

What do you think? Do you own an ART policy? Why or why not? Did you consider one? If you are an insurance agent or financial planner, what would it take for you to recommend one to your client? Comment below!

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Should I Purchase Life or Disability Insurance from Professional Societies?

When I started writing for ACEP Now a couple of years ago, I was encouraged to write about controversial and inflammatory topics as much as possible. So as you might imagine I wrote about whole life insurance, annuities, financial advisors and other topics. However, in my most recent column, I decided to address a topic that I thought perhaps might generate a little more heat and I was a little nervous it wouldn’t even be published. But I never heard back from the editorial staff and eventually it was published…accompanied by a statement from ACEP defending itself against my column.
The column was about the life and disability insurance that gets pitched to us every month in the mail from the AMA, ACEP, and other specialty societies. I’ve been seeing these things for years and once looked into the disability policy to compare it to what I already owned. But what triggered the column was comparing the life insurance being offered to what you can buy on the sites of some of my advertisers, like term4sale.com and insuringincome.com, and seeing that it was basically going for twice the price. At any rate, here’s an excerpt:

Q.

Every month, I get mail from the American Medical Association, ACEP, and other organizations trying to get me to buy life or disability insurance through them. Why do I get these, and are these the best policies for me?

A.

Professional associations, such as ACEP, offer benefits such as insurance policies to their members for various reasons. First, they understand that these are important financial products for their members to purchase. When physicians become disabled without disability insurance, especially early in their careers, a financial catastrophe often occurs. Life insurance is similar. If you die prior to reaching financial independence, those who depend on you financially will very much appreciate your making up the difference between your portfolio size and what it would take to be financially independent with a solid life insurance policy or two. Your association wants to make it easy for you to do the right thing.

Second, some doctors have a difficult time obtaining disability or life insurance on the open market due to health problems or dangerous habits. Association policies often ask
fewer health questions; do not generally require a physical; and rarely ask about dangerous hobbies, such as rock climbing, scuba diving, flying, or skydiving. For these doctors, the association policy may be their only opportunity to get the coverage they need or want at a reasonable price. People in these situations see these offerings as important benefits of the association and are more likely to join if these benefits are offered.

However, what cynics would point out is that the insurance agent or company selling these policies is generally sharing revenue with the association. Unfortunately, that conflict of interest ensures the association may not give you unbiased advice on these topics. While it is possible an association group policy is your best option, you need to shop carefully prior to actually purchasing it. You will often find an association policy is neither the best nor the least expensive option.

Association group disability insurance policies generally have three significant flaws. The first is that their definition of disability is usually weaker than that available through a good individual policy. This means it is less likely to pay you in the event that you actually become disabled. The second flaw is that the payout is also often decreased by factors you might not expect, such as Social Security disability payments. The third flaw is that the policy can be changed by the association at any time and usually can’t be taken with you if you decide to leave the association. Emergency physicians should also be aware of other limitations, such as a requirement in the ACEP-sponsored disability insurance plan that you be working at least 30 hours per week. Consider that 15 eight-hour shifts per month, generally considered full-time among emergency
physicians, when divided over 31 days is only 28 hours per week. If you are working any less than that, you may not qualify at all for such a policy. In return for accepting these weaknesses, association disability policies are generally less expensive, sometimes much less expensive, than a good individual disability policy.

Read the rest of the article here (as well as the response from ACEP) and then come back and let me know what you thought.

Have you bought an association insurance policy? Why or why not? Have you regretted it? Would you consider buying one? Comment below!

Stupid Doctor Tricks-Biggest Financial Mistakes

Whenever possible, it is best to learn from the mistakes of others rather than your own. For example, I’ve made the mistake of using a commissioned financial advisor who sold me crappy, expensive, loaded mutual funds; I’ve bought whole life insurance (still hadn’t broken even after 7 years), and I’ve incurred unnecessary taxes in a taxable account due to not
fully understanding the kiddie tax laws. Luckily, these mistakes pale in comparison to financial errors made by some of our colleagues. A recent thread on Sermo revealed a lot of the mistakes other physicians have made before you, and I’ve detailed them below in this and the other 3 posts in this series. Consider this a financial “Morbidity and Mortality Conference.” Painful to listen to sometimes, but better than having to make each mistake on your own. Add your experiences as a comment at the end of this post.

Addendum: I originally posted this within a couple months of starting the blog. It has remained one of the most popular pages on the entire website, so I thought I’d give it a revamp, splitting up the original super-long post into 4 separate posts, making it easier to read, and categorizing some of the mistakes. Don’t worry though, all 175 mistakes are still here.

**Getting Ripped Off**

1) Working with a “financial planner” who specializes working with physicians and almost got me into whole life insurance

2) Overpaying for legal advice ($3500 to review an employment contract)

3) Buying a universal variable life insurance policy as an “estate plan”

4) Investing with Bernie Madoff

5) Listening to brokers/financial planners/coin dealers

6) Not realizing that the goal of brokers is to take your money and make it theirs

7) Giving OTHERS control of substantial sums of MY money

8) Hiring an expert to manage my money. This guy charged 1% per year on the balance. Got a call from the fraud division of
the FBI and they seized all my money. After about 2 yrs sweating got it back without interest. Taught me to learn about investing. I decided I may not be a pro, but I won’t steal my own money.

9) Investing (before I learned about personal finance) through a professional who gave “free” advice steering me to load mutual funds and life insurance with high fees.

10) Listening to an attending during med school for stock pick advice.

11) Paying a lawyer to do my tax returns for 10 years . . . He charged $10,000 for a return that a national tax preparation company does for $1,500 or less.

12) Allowing myself to get talked into a variable annuity when I was a chief resident. Bought it at roughly market peak; it sank w. market in 2001-2002; paid lots of charges and surrender charges when I got rid of it three years later to buy my first house, and due to nature of variable annuity, I didn’t even get to write the losses off on my taxes…. Stay away from those RIPOFF variable annuities; get a tax-deferred or even taxable account like everyone else.

13) Relying on money managers for too great a percentage of my net worth… It’s best to learn enough to oversee a lot of your assets on your own.

14) Bought front loaded mutual funds.

15) Getting ripped off to the tune of 11 k for a real estate closing by my lawyer who charged by the hour. Took his fees right out of the mortgage check before I ever saw it.

16) Buying time share, buying variable annuity, buying whole life insurance and depending on brokers to make financial decisions.

17) Stock tips from friends, relatives , or cab drivers should
be avoided at all costs. Those free financial newsletters are just scams. What they touted are probably their own holding which they will sell when your rush to buy them pushes up the stock price transiently before they fall off the cliff.

There is a common theme here and it is one I tackle frequently on this blog. You need to be very aware of how, and how much your advisors are paid. This includes financial planners, stock brokers, insurance agents, realtors, attorneys, accountants, and investment managers. As a general rule, people don’t go into these fields for the same reason firemen and kindergarten teachers choose their jobs. There is no Hippocratic Oath among financial professionals. It is your job to understand how much you’re paying and whether that is a fair price. Understanding how the person advising you makes their money also helps you understand their conflicts of interest. Learn everything you ever wanted to know about financial advisors here.

**Insurance Issues**

1) Not buying disability insurance

2) Mentioned a few divorce-related situation depression issues resolved in the past on a disability insurance application

3) Not getting OWN-OCCUPATION disability insurance on the first day of residency

4) Bought too much useless, expensive insurance

Well, no one said they wished they’d bought more life insurance. Of course, there’s a real survivorship bias there. All those dead guys who should have bought more aren’t here to tell us. Buy plenty of the insurance you need and avoid the insurance you don’t. Learn more about buying
insurance here.

**Personal Finance Issues**

1) Using credit cards

2) Buying too big of a house

3) Should have listened to Dave Ramsey and completed his course about 8 years earlier

4) Spent too much on a wedding

5) Credit card debt in med school

6) Marrying a fiscally irresponsible spouse

7) Spending $600 to replace the clutch on a $1000 car then donating it to charity 2 months later

8) Sending my kids to a private college in the future (50K a year, what a waste!)

9) Quitting one job before I had another (thankfully savings helped me through that transition)

10) Buying a used jeep and not noting it was burning out its engine from an oil leak

11) Signed up for AOL when it first came out. Had automatic recurring credit card charges of $24.95 a month for over 14 years (wife paid the bills) for essentially nothing that you cannot get for free now. Just stopped it when our credit card had to be changed. Be aware of recurring automatic charges

12) Not saving as much as possible early in my career to take advantage of compound interest

13) Allowing lifestyle to creep upwards with increasing financial success
14) Keeping the house in the divorce – I had to spend $76K repairing it to then short-sell at a >$200K loss. I’ll be paying on the loan I had to take for the repairs for the next 15 years

15) Giving my daughter a credit card (for “emergencies”) when she entered college in Boston

16) Not starting 529 plans for kids early enough, not investing aggressively enough

There you have it. A lot of accumulated experience that may save you thousands. Add your experiences to the comments below.

These are mistakes made every day by millions of people. They aren’t particularly specific to doctors, but doctors certainly make them as much or more than other people. Spend less than you earn, be wise with your cash, and if, heaven forbid you get divorced, take the 401K, not the house.

This is the end of Stupid Doctor Tricks Part 1 of 4. Continue on to Part 2. Or better yet, leave a comment below noting one or more of your own financial errors. Too many of us feel that talking about money is taboo, so we just keep making the same mistakes over and over again. Share your experiences and let others benefit from them, just as you’ve benefited from seeing others’ mistakes.

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**How To Buy Life Insurance**

I received a question today about the best way to buy life insurance. This is surprisingly simple for 98% of us. All you need to know about life insurance can be summed up in this
sentence: Buy the cheapest, long-term, level-premium term life insurance policy from a reasonably-reputable company that you can find on term4sale.com.

1) **Buy term life insurance.**

Don’t let anyone talk you into buying any type of permanent life insurance such as whole life, variable life, universal life, variable universal life etc. Term life insurance is a commodity, so the pricing is very competitive and shopping/comparison is simple. Fees and commissions are necessarily kept low because people shop for it primarily on price. Don’t mix insurance and investing.

2) **Buy long-term level-premium term life insurance.**

You may become uninsurable (or your health or habits may worsen and you become insurable only at a higher price) in a few years. So buy insurance now for the longest term you need, meaning until you become financially independent. The default option should be 30 years. Level premium means the premiums never go up. So you may pay $100 a month for $1 Million in insurance. 25 years from now you’ll still be paying that $100 a month. As you get older and inflation kicks in that $100 a month will cost you less and less as time goes on. Likewise, the face value of your insurance will be worth less and less. But that’s okay, because your portfolio will be growing to replace it so as time goes on you have less need for insurance.

[Update 4/5/2015: Another reasonable option, especially for someone who plans to become financially independent]
relative early in life (and thus cancel his life insurance,) is to buy annually renewable term insurance. It starts out dirt cheap and gets more expensive each year. But if you don’t need it after 50 or so, you will have spent much less money than buying a 30 year level premium policy that goes to age 60 or 65.]

3) Buy a lot of long-term level-premium term life insurance.

Your decision shouldn’t be “Should I get $300,000 or $350,000.” This stuff is pretty cheap. The default option should probably be about $2 million, but it varies according to your circumstances. A dual-physician couple that has no kids and could easily live off one income probably doesn’t need life insurance at all. You need to decide what you want the insurance to cover. I basically want my family to have the exact same lifestyle whether I’m here or not. So if I die, my insurance will need to pay off the house, send the kids to college, allow my wife to stay at home until the kids are out of the house, and provide most of her retirement portfolio.

4) Buy a lot of long-term level-premium term life insurance from a reasonably-reputable company.

Although the company can go out of business at any time, this isn’t nearly the risk it may seem to be. You probably don’t need to buy from the “very best” company, despite what many insurance salesmen will tell you. If the insurance goes out of business, the policy will likely be acquired by another company and its terms won’t change. If not, your state will
guarantee at least the first $300,000 of your insurance policy. If worse comes to worse, and your company goes out of business, no one will buy it from them, and the policy was much bigger than $300,000, most of the time you’re healthy enough to buy a new one to replace it for a similar price. For example, if you buy a 30 year policy at age 30, and you need a new one at age 50, you’ll likely only need a 10 year policy, which really won’t be much more expensive than the original 30 year policy.

You can minimize this risk by buying more than one policy. Most of us end up doing this anyway as our insurance needs change. For example, you might buy a $500,000 policy as a resident, then buy another $1,000,000 policy upon graduation, keeping the original policy. You can also buy multiple policies so they expire at different times. For example, I have one policy that will expire at age 53, when I anticipate being financially independent. My other policy expires when I am 60, which will be helpful if I don’t meet my goal of financial independence in my early 50s. It is a Plan B of sorts. I’ll likely end up canceling it early, at the same time I cancel my disability insurance in my early 50s. It will have cost me a bit more per month than if I had gotten a shorter policy, but that’s a small cost for the extra benefit it provides.

5) Buy the cheapest, long-term, level-premium term life insurance policy from a reasonably-reputable company that you can find.

Term life insurance is a commodity. This isn’t disability insurance where the definition of “dead” is all-important. With life insurance, you’re either dead, or you’re not. By law, you have to buy life insurance from an agent. But you don’t have to buy it from a “captive” agent, that is, one that
is employed by a single insurance company. Buy it from an agent that can sell you a policy from any insurance company. Two of the best places on the internet to compare life insurance policies are insuringincome.com (run by one of this blog’s advertisers) and Term4sale.com, put together by a guy who charges insurance agents to be listed on the website. Both are totally free resources to you. You put in your information and it spits out a comparison of the same policy from several dozen insurance companies. Term4sale.com gives you the names of 3 local agents you can buy your policy from. Print out the list, walk into one of the agent’s offices, and ask him to sell you the cheapest policy on your list. Done. You’ll get the price quoted on the site. Easy, quick commission for him and you have what you need without any hassle.

Well, you might have to tell him once or twice that you definitely don’t want to buy a whole life insurance policy, but that’s it. (Joe Capone at insuringincome.com promises to help you get your desired policy without having to decline whole life insurance multiple times.) If your circumstances are unique, such as risky hobbies or health problems, he may be able to point you to the cheapest policy that is least likely to move you from the most preferred classification due to your particular risk. Lastly, remember that policies are usually cheaper if you pay annually rather than monthly, even counting in the time value of money. If you can handle the slightly more complex budgeting, you might as well save a few bucks.

Disclosure: Term4sale.com does not sponsor this site. There are lots of good life insurance companies out there and some of their ads may show up on this site from time to time. My life insurance policies are with USAA and MetLife. Update: Term4sale.com was not a sponsor when this page was written, but they are now.

What do you think? How did you buy your life insurance? Are
you glad you used that method? Why or why not? Comment below!