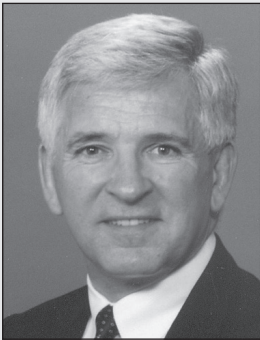


Permanent Life Insurance – It's the Logical Choice

Wayne D. Minich, CLU, ChFC



Wayne D. Minich, CLU, ChFC, is a 30-year MDRT member with 10 Court of the Table and one Top of the Table qualifications. The president of Applied Financial Concepts Inc. and Wayne D. Minich & Company Inc., he also is the past president of the Cleveland Association of Insurance and Financial Advisors. Minich's practice focuses on the development of wealth accumulation, management and transfer strategies for business owners through the use of financial plans.

Applied Financial Concepts Inc.
P.O. Box 472
Richfield, OH 44286
Phone: 330.659.2234
E-mail: wayne@appliedfin.com

I/R Code: 4400.00
Cassette: A0556
CD: C0556

Ladies and Gentlemen, it is really an honor to be making a presentation to the MDRT today. I am very fond of quotes. One of my favorites is from the Scottish poet and writer John Donne who about 500 years ago said "No man is an island unto himself". I wouldn't be standing in front of you today if it weren't for a number of people who have helped me along the way. One of which, of course, is my wife who has been supportive through all my ups and downs in this business. The second is my first manager, Jack O'Rourke, whom I was very fortunate to have as a mentor early in my career and who remains a very dear friend. The third is MDRT. The first time that I qualified for MDRT was in 1973. I did not attend an MDRT meeting until 1980 and I can state to you without equivocation that that decision cost me tens of thousands, if not hundreds of thousands of dollars. I would strongly recommend to you first and second year attendees that you make this annual meeting one of the industry functions you continue to attend. You will learn a tremendous amount. The fourth are my study groups, Great Expectations and The Pinnacle Group. They have made a tremendous difference over the last 10 years in my career and I thank them.

The words of the German philosopher Frederick Nietzsche are, in my opinion, most appropriate for our business and my presentation this afternoon. He said, "Show me your way; this is my way; THE way doesn't exist". I know that each one of you has your way of helping your clients implement life insurance. You are also good at doing things your way, or else you wouldn't be here. However, our business is about change. It was in the past and it will be even more dependent upon change in the future. At the 1996 MDRT meeting in Anaheim, General Colin Powell addressed us from the Main Platform. I was so moved and impressed by his speech that I was motivated to buy and read his book "My American Journey". I want to read a passage from this book because it relates to us. In the book he was talking about the decline of Communism, the fall of the USSR, what had happened and what was happening throughout

Permanent Life Insurance – It's the Logical Choice *(continued)*

the world. The Berlin Wall had come down and the world was in a state that had been unknown since 1917. Gorbachev was in the process of dismantling the Soviet Union and General Powell was talking about the state of things here in the United States. He said, and I quote “I felt sympathy for our Kremlinologists. The world they had studied and known so well for 40 years was losing its structure and rules.” If you truly think about that statement, isn’t that a metaphor for our business, as well? We now have banks and brokerage houses vying for business in our marketplace. The euphemistic phrase “multi-disciplinary practice” is a softer, perhaps more politically correct way of saying that accountants and attorneys are getting licenses because they, too, must look to other sources to increase their revenues and perceive our business as an avenue for accomplishing this objective. So, in the brief time we have together today, one of my goals is to share the style and the methods that have worked for me in the hope you can take some ideas, modify them to your style and implement them in a way that will make you better and more effective in your practice. Finally, my philosophy about our wonderful business is, “The sale of financial products is a direct by-product of the Financial Planning process”.

About 95% of my firm’s clientele are closely-held business owners. The reasons I chose to work in this market are:

- The prospects are plentiful. There are about 2,500 businesses within a 45 minute drive of my office that meet my demographic specifications of \$2 million in sales and 10 or more employees.
- They are fun to work with because they have the most interesting issues.
- You don’t have to go through levels of decision-making and bureaucracy. You’re talking with the decision-maker.
- If properly targeted, they have the ability to write large checks.

At this point, it is important for me to emphasize that what I am going to convey is easily transferable. I want you to concentrate on the process because it’s the process that works equally well and is easily transferable to your marketplace and clientele.

Virtually everything we do is based upon fees and a fee based Financial Plan. As I said earlier, I feel and strongly believe that the sale of products, including lots of life insurance, comes as a by-product of the planning process. I would like you to think about the huge amount of information that comes across our desks each and every day with respect to our business. I don’t know about you, but I can certainly say that it’s a daunting task just to try and keep current. Think about our prospective clients, irrespective of what they do for a living. They are faced with that same incredibly difficult task of keeping up with what goes on in their world – what they do for a living on a day-to-day basis. The more successful they become, the busier they are. The busier they are, the less time they have to try and understand and get their arms around their own Financial Planning. Not only that, although they recognize it’s important, they are not inclined to do so. Why? Because when they go home after a busy day, they usually want to play with the kids, chat with their spouse, read the newspaper or a book, watch TV or just kick back. Rarely do they say to themselves, “Boy, I can’t wait to get on the computer so that I can work on my Financial Planning”. My experience has been that they are usually looking for a trusted advisor to whom they can delegate the task of planning so they can get answers that are going to provide them with peace of mind without having to become an expert. My objective is to walk you through our process and how we bring the client to realize our firm is a wise choice to serve in that advisory capacity and recognize and understand, if properly planned, permanent insurance provides a very solid foundation stone for their planning and is clearly the most logical choice.

Our first interview with a prospect is relatively short. It is usually the result of either a referral from an existing client or a lead that has been developed by the telemarketing firm I use. During the first interview, “The Tough Questions™ ” booklet is my method of beginning a conversation with a prospect. It is a tool I’ve developed to separate and distinguish us from our competition. Because the people we deal with are extremely busy, this tool is designed to be presented in about 10 minutes.

Permanent Life Insurance – It's the Logical Choice *(continued)*

Through a question format, it specifically:

- Identifies areas that may be unfamiliar or of concern.
- Introduces the value our firms brings by allowing the prospect to do what the prospect does best, run his or her business, while obtaining answers by delegating the planning to us.
- Demonstrates how our unique process and abilities provide solutions to his or her problems and, as a result, peace of mind.

As I'm going through "The Tough Questions™" with my prospect, I want to use pictures and graphics whenever possible. People think in pictures. In my opinion, if we use pictures to communicate what we are trying to accomplish, the prospect will more readily and easily understand and visualize our process and relate it to what he or she feels it may help them accomplish. We talk about the importance of planning and strategy development. When you're dealing with successful business owners, they know and understand they didn't just get to where they are by accident. It required thought, planning and strategy. The implication, of course, is that their Financial Planning should be no different.

At this point, we introduce the concept that planning can't happen in a vacuum. Just as within the person's business, strategic decisions they make are going to have an impact on other facets of how their business operates. We demonstrate that their Financial Plan is no different. Therefore, they have to evaluate and set goals, explore alternatives, and then come up with solutions as part of their overall strategy.

As I mentioned before, "The Tough Questions™" is a booklet that we leave with the client. It's a series of 17 questions that are designed to make the client think. It's important to point out that not all of those questions are going to pertain, but I have never been in an interview where at least one questions hasn't elicited a strong response. Some of the things that we ask include:

- Could you be a defendant in a large lawsuit? What is your plan for asset protection should you lose?
- Can you verbalize your exit strategy from your business? Is it in writing? Is it current?

- What are your plans for your children who are not in the business? Do you want your children to be treated equally or fairly? There is a difference.
- Are you aware that your retirement plan assets could be subject to taxes as high as 70%?

The purpose is to begin a dialogue – to get the prospect talking about that which is most personal and perceived as being most problematic and which needs to be solved.

Again, I want to emphasize that we do not have the prospect answer these questions in the first interview. We leave the booklet with the prospect and want he or she to re-read and think about these questions. I do, however, specifically ask the questions again in our data gathering interview.

There is always at least one question, but usually several, that cause the prospect to pause and either respond – "I've been thinking about" – or – "I've never thought about that". "That's a good question."

After we have gone through "The Tough Questions™" booklet, the prospect usually wants to know the next step.

To help understand the process and determine if there is interest in proceeding, we introduce and explain our fee structure using the metaphor of custom-designing a home and the phases that one would ordinarily go through in having a custom-designed home built. We explain that Wayne D. Minich & Company, Inc., my registered investment advisory company, serves as the architect with my other company, Applied Financial Concepts, Inc., the vehicle for receiving commissions, acting as the general contractor.

Phase I is what we call our "Specifications Phase". We explain to the prospect that, in preparation for this meeting, they have to assemble all of their financial "stuff". When you are building a Financial Plan, just like when you are building a house, it's important to have all the information necessary. We then explain that we are going to spend very little time talking about that information. Rather, we are going to spend about 2 to 3 hours together, during which we will be discussing a specific set of questions designed to help them tell us as much about their planning goals and objectives as possible. The more

Permanent Life Insurance – It's the Logical Choice *(continued)*

they tell us, the better we understand. The better we understand, the more effective our advice.

We also explain that the results of that meeting will be our Value Proposition Paper, which is a document that provides a detailed summary of their present financial circumstances, specific statements about their short, intermediate and long term goals and objectives that they expressed during the course of our meeting. Given our understanding of the situation, the document will also contain a general idea of the results we believe are achievable using strategies that provide broad flexibility.

The purpose of these steps is to provide clarity to their current situation and a statement of direction – Where are they now? Where do they want to go? We typically charge \$500 to \$1,000 for this phase.

By this time, the prospect has significant time and emotion invested. In addition to the two to three hours they have spent pouring their souls out to us financially, if they've done their job properly, they also have several hours invested assembling their data.

As a practical matter, we know that if we have progressed to this point with a prospect, they will engage us for the full Financial Plan. After the client has received their Value Proposition Paper, we go into Phase II which is what we call our "Scope of Work". This is about a ½ hour meeting that takes place, usually at the client's office, where we review what was contained in their Value Proposition Paper and what will be involved in their complete Financial Plan. We then present our engagement letter outlining that, if they decide to utilize my firm, ½ the fee is due upon signing the letter and the balance when we deliver their Financial Plan or their "blueprints". It's typical that they want to know beforehand what our range of fees will be. We say that, generally, it is going to be between \$1,500 and \$9,000 in addition to the \$500 to \$1,000 they've already paid us. These fees are based upon the complexity of the client's case. After the client has accepted and signed our engagement letter, Phase III, which is the development of the Financial Plan, begins. In order for them to be able to have a better understanding, it's usual for us to show them a sample plan. It is in a nice

three-ring leather binder. We go through, on a Phase-by-Phase basis and show them what they are going to be getting. The most important part of the "blueprint" Phase is the recommendations. The client is able to view the recommendations and determine which are most appropriate and most immediate. Concurrently, they establish their priorities and target dates. What do they want accomplished? In what order? In what timeframe? After the plan has been presented, we send them an invoice for the balance of the fee and write them a very detailed letter outlining the results of the meeting where we have presented the "blueprints".

At this point, we have shown the client, based upon their goals and objectives, where they have holes in their plan – financial issues that are important to them that need to be addressed. The beauty of this is they are now going to tell us where their priorities are and what they want implemented. It's important to note that there is almost always a need for life insurance. Whether it is for family security or business security, it is very unusual to not have some life insurance need.

During our specifications or data gathering session, part of our process is an "Investment Design Questionnaire" (IDQ). This is merely a tool to develop an asset allocation model for the client. I'm sure that many of you use something very similar. It helps the client develop a mental picture of what their investment portfolio should look like.

For example, Joe and Mary are moderately aggressive investors. My experience has been that prior to January 1, 2000, there were some, but relatively few people whose profile was that of a truly aggressive investor. After going through what we have from 2000 through today, there are even fewer aggressive investors. I find that most fall in the moderately aggressive range or below. As part of their overall financial strategy, we show them that a moderately aggressive portfolio would consist of 55% aggressive equities, 20% in large company and 25% in bonds/fixed income. Please remember this, because it is key to the life insurance sale. Another thing that we often find is that very frequently little to no attention or assets have been directed into the bonds/fixed income segment of their portfolio.

Permanent Life Insurance – It's the Logical Choice *(continued)*

What I would like to do, to help with your understanding, is to use an actual case study to demonstrate how this methodology, in conjunction with the Financial Plan, generated a \$50,000 life insurance premium. Our financial plan has eight modules: Basic Data; Family Security; Estate Planning; Disability; Business Planning; Education; Financial Independence; Investments; and then a Summary.

In this case, the husband was 42 and the wife 41 at the time of our presentation. They were older when they married and she had just given birth to twins, so they had issues with both family security and retirement planning.

In the “Family Security” module, we first examined how much spendable income they require as a family and their current lifestyle needs. The next stage in developing the client’s understanding is to demonstrate, given their parameters, where the family would be financially in the event of the death of the husband. Mary is a teacher making good money. Joe and Mary felt comfortable that if something happened to Joe, Mary would be able to maintain their family lifestyle, given her income and the amount of life insurance that they already had. This is where doing Financial Planning becomes very important. In their Phase I, or Specifications session, they felt that if Mary had 70% of their current gross income, plus a paid off home mortgage, she and the children would be in reasonably good financial shape. What we did was look at the “Cash Flow” section of their Financial Plan. The reason this is so important is because we get an idea of how much money they’re spending as a family. In the event of Joe’s death, they both have expressed the desire that Mary stay in their current home and they maintain their lifestyle for she and the children. In their estimation, they didn’t have an extravagant lifestyle. They felt that Mary would need a gross income of about \$84,000 to make all of this happen. What we did in this section was show them that Mary would, based upon what they’re spending now, need a spendable income of between \$90,000 and \$100,000, not a gross income of \$84,000. As you can imagine, this took much more conversation than I am able to convey to you. Understand that this was disturbing to them, and

especially to Mary because she was under the impression that she would be okay financially.

In our Commentary and Recommendations section, what we were able to demonstrate was that she’s either going to run out of money or she is going to have to sell her house and downsize. At the bottom of the “Family Security” section A, we ask them “Does this make sense to you – yes or no?” The essence of the question is How do you feel about your situation? – And – What do you want to do about it”? After discussion, they said that they had never had their situation explained to them like this before. It became clear that Mary could not live on a gross income of \$84,000. So, we circled the “Yes, it does make sense” and my initials went in the “Responsibility” column. This became a very high priority issue. Next, I moved to observation/ recommendation B. Their financial shortfall was about \$1.1 million in the event of Joe’s death. If they wanted to fill this gap, we recommended that they acquire an additional \$1.1 million of life insurance. The next question was very simple – “Does that make sense?” They said “Yeah, it really does”, so I circled the “Yes” and my initials went into the “Responsibility” section. Their target date was to get this done as soon as possible. Then in Item #C in conjunction with their planning, we recommended that they consider utilizing permanent life insurance because it coincides with their “Investment Design Questionnaire”. They didn’t understand what that meant. I emphasized that I would provide more clarification as we progressed in the Financial Plan.

Now I’m going to skip to the “Financial Independence” or sometimes called the Retirement module.

This was Joe’s real area of concern because he had not put away much for retirement and he recognized that at age 42 he’s only got about 20 to 23 years left, in his mind, to accumulate a fairly large sum of money. As part of Phase I, one of the questions I asked was “How much, in terms of today’s dollars, do they feel they need for their lifestyle at retirement?” They felt that they would need about \$9,700/month, adjusted for inflation. I explained that \$9,700/month will equate to about \$21,000/month when they are ready to retire. Joe already knew that this

Permanent Life Insurance – It's the Logical Choice *(continued)*

was a problem. He was certain that he was going to have to start putting away relatively large sums of money. Using pictures emphasizes that the clients have a capital deficit at retirement of about \$3.1 million. The questions are (a) How is Joe going to achieve their retirement goal? and (b) Protect his family at the same time?

Now we go into the commentary and recommendations to help them accumulate money for retirement. We had an actuarial study done. It so happened that his company demographics worked out pretty well. By establishing a cross-tested profit sharing plan in conjunction with a defined benefit pension, Joe will be able to put about \$98,000/year into his qualified plans on a pre-tax basis. Of that, about \$80,000 is going to be allocated to him, with \$18,000 going to his employees. Once again, this involved a lot more discussion than I can go into here, but we went through the various questions like “Is this tax-deductible?” “How much do my employees get?” The essence was “Does it make sense? Yes or No?” Joe said “Yes”. My initials were inserted in the responsibility for implementation section. Joe wanted to get the plans implemented prior to the end of his year, which we were able to do. This allowed him to put as much money away pre-tax as the company could afford and also as much as he was willing to put away for his employees. One piece of the puzzle was solved with a \$98,000 pension contribution. However, he was still short of his goal.

Remember, his goal was to provide \$13,900/month for his family, adjusted for inflation, in the event of his death. His shortfall was about \$1.1 million. His retirement goal was to have \$9,700/month on an inflation adjusted basis, which meant his future need is \$21,000/month

As you saw earlier in the “Family Security” section, I recommended that he implement permanent insurance. As a supplement to his retirement plans, I explained that implementing a fully-funded life insurance contract would help him supplement his pension income at retirement. He agreed and wanted to implement the strategy ASAP.

At this juncture, they have received their “blueprints”, their Financial Plan. We have also gotten agreement from

the clients about which priorities are most important, what steps should be implemented and in what order.

The “blueprints” presentation was concluded and we scheduled a date and time for our Implementation meeting. Subsequently, within 2 to 3 days I write a follow-up letter detailing our “blueprints” meeting, what steps they have indicated are to be implemented and the timing for implementation.

After the follow-up letter has been sent, the clients are invoiced for the balance of their fee.

The stage is now set for the “Implementation Phase”. In that meeting, we had the qualified plan documents ready for signature. We also presented life insurance contract choices. This is where the reference to their asset allocation model comes in. Joe and Mary were presented with options for variable life and whole life. We discussed how whole life, with its guaranteed cash value, was consistent with the dollars that his asset allocation model suggested he should be investing in guarantees. Their premium budget was \$50,000 per year. We showed that if we loaded the policy up to the MEC limit, \$50,000 per year, it was projected to generate an annual tax-favored retirement income under the current dividend scale of a little bit over \$115,000 per year for 15 years. This would provide them with total tax-favored benefits of about \$1.7 million from Joe’s age 65 through age 80. At age 80, there would still be a death benefit of about \$1.9 million.

In contrast, we then showed Joe a variable life insurance illustration. In this case, we explained that the policyowner makes the investment decisions for the extra cash value; premiums are typically invested in a series of subaccounts. The policyowner assumes the investment risk; cash values are not guaranteed; the premiums, expenses and mortality charges are not guaranteed and the risk is assumed by the policyowner. In using that same type of comparison, we then showed income he could expect at 8%, 10% and 12% rates of return, on average if he paid \$50,000 into the contract.

After a good but relatively short discussion, the client said “Can I put \$25,000 per year into the fixed and

Permanent Life Insurance – It's the Logical Choice *(continued)*

\$25,000 per year into the variable?” And that’s exactly what we did.

The outcome of this case is fairly typical. When a client is presented with a logical approach to how permanent life insurance, as part of the overall Financial Plan, helps meet the objectives they have established, the sale of the product becomes a by-product of the planning process. There are no “objections” to overcome. There is NEVER competition. The clients feel great because you have helped them achieve peace of mind.

Now, let’s fast forward to today. As part of a review session, Joe emphatically stated that he was sure glad he had put some of his money in guarantees because of the stock market turmoil. I further pointed out that if he, for some reason, had to access money now, either for an opportunity or an emergency, the guaranteed cash values are where we would direct him first, because he wouldn’t have to sell them off at a loss. He asked what I meant by that and I pointed out that the cash values were guaranteed, not subject to fluctuation and they were just going to keep moving ahead as was guaranteed by his contract plus the dividends that were being paid. I pointed out that having to sell off some of his mutual funds or take money out of his variable life subaccounts would not be a good idea because the values and prices per share were substantially less than what they were just a couple of years ago. He immediately understood what I meant.

What I would like to do now is share with you a little bit more of the magic of the living values of permanent life insurance. Last year, we met in Anaheim, California, the birthplace of Disneyland and ultimately all that has become the Disney enterprises today. Yet, how many of you are aware that if it weren’t for the cash values in permanent life insurance, Disneyland might never have been. Three years ago, Top of the Table was held at Disney World. As part of that meeting, we were given a book entitled “Be Our Guest – Perfecting the Art of Customer Service” which is published by the Disney Institute. It is a marvelous book and I recommend it to you because so much of what the Disney organization espouses is also incredibly important to what we do on a day-to-day

basis. According to the book, in the late 1940s Walt Disney had come up with the idea for Disneyland. The problem, he wasn’t dealing with visionaries. His brother, Roy, held the purse strings of the Disney organization. Walt went to him with the idea of Disneyland, but Roy did not want to let Walt have the money for a “venture like that”. He felt that it was far too risky for Walt to go out and do something that nobody else had done before. But Walt was a visionary and in essence said “I’m not going to listen to you”. What he did was form WED Enterprises, Inc., a brand new company, but he didn’t go to his brother for money. He sold his vacation home in Palm Springs and he borrowed the cash value from his life insurance to form what we know today as Disneyland. So, when we tell our clients that life insurance and the cash value in life insurance is there not only in the event of death, but also for either emergency or opportunity, you can point out this example. Without that money, we might not have Disney Enterprises.

For those of you who have not had the time in this business to be able to deliver checks, I would like to share a couple more stories that are near and dear to my heart. Stories about some of my clients who have been helped by their whole life policies in the past couple of years. In April 2003, a very successful and long-time client of ours came to us. He has an extremely successful engineering consulting business with 200 employees. Unfortunately, many of his clients are in the rubber industry. I don’t need to tell you what happened to manufacturing in general, and the rubber industry in particular, in 2002 and 2003. He has been in business since the late 60’s. He started his company from scratch and built it to where it is today. But, in April 2003 he was in trouble. He came to me and said “How much can I borrow on my life insurance?” The bottom line was that he borrowed \$240,000 from a whole life contract he bought in 1984. This money literally helped his company survive during 2003. Without it, things would have been a lot tougher. My second example is the owners of a trucking company that have been clients of ours since 1994. When we first started doing business together, it seemed as though they were literally printing

Permanent Life Insurance – It's the Logical Choice

money. Everything that they touched seemed to turn to cash. Unfortunately, the father passed away four years ago. But the business at that time was still doing quite well. As part of the planning that we had done initially, the two brothers who are now running the company had been insured. In September 2003, they too came to me and said “How much money can we get out of our life insurance policies because we need it to make payroll?” Within 48 hours we were able to get \$200,000 wired from the

insurance company to them with an additional \$40,000 following a week later. That money helped keep them in business, too.

This afternoon, I hope I have helped show you the way in which we help clients make a choice and present in a logical manner how permanent insurance is a logical solution to helping round out their financial program.

I really appreciate your time and attention. It has been a pleasure making this presentation to you. Thank you.