FIVE KEY CONCEPTS FOR UNDERSTANDING LIFE INSURANCE WITHIN LEAP

Before studying the Leap financial strategies or money moves, it is important to understand the context in which they are performed. The philosophy and concepts of Leap have been built around the power of permanent whole life insurance as a key and fundamental financial tool to the success of any personal financial strategy. The versatility of whole life insurance toward achieving the financial needs and goals of individuals has been minimized or often overlooked in the financial services industry. Throughout Leap you will learn the reasons why permanent life insurance is such a valuable tool to own. It belongs at the heart or center of the financial strategy. All other financial products can better perform and meet their objectives when whole life insurance is in place.

The following explanations will enlighten your understanding of the key concepts regarding life insurance and its use within Leap. In order to fully understand all of the Leap strategies and moves, one must have a good grasp of the context in which the moves are performed. The appropriateness of any move within Leap is connected and coordinated to the understanding that permanent life insurance offers consumers a safe, reliable, long-term, and ever-increasing flexible financial tool to meet their financial needs and goals. Keep in mind that the efficiency and effectiveness of money strategies throughout one's lifetime should be the most important goal of all. Meeting one's needs and goals through inefficient, expensive, heavily taxed, or high-risk strategies should be avoided.

However, all life insurance products have a purpose, whether it be term life, universal life, variable life, or survivorship life. These life insurance products meet a specific need or goal and therefore are forms of supplemental life insurance that need to be used appropriately in any given situation. The Leap teaches and trains on all appropriate use of all the various types of life insurance products. No one product can stand alone as being appropriate in every client situation.

Therefore, the following five key concepts are essential for understanding Leap and its importance to our clients:

1. Economic Life Value and Needs-Analysis (Family Security)
2. Death Benefit as a Living Value (Asset Insurance)
3. Use of Lost-Opportunity Cost (True Cost of term)
4. Term Life Insurance versus Whole Life Insurance (Living Benefits of Whole Life)
5. Waiver of Premium

1. Economic Life Value and Needs-Analysis (Family Security)

Economic life value and needs-analysis both employ needs-based approach in determining recommended life insurance amounts for consumers. However, the economic life value approach is more comprehensive because it covers both specific and unforeseen needs. A needs-analysis approach covers specific needs and its accuracy relies completely upon the assumptions it uses to calculate the needs.

The economic life value approach does not rely on assumptions for accuracy, but rather seeks to insure for the full economic replacement value of the insured. Because of its accuracy, Leap prefers to use the economic life value approach. The main reason Leap uses an economic life value approach is that it is impossible to know what the needs of a family will actually be at any given point in time. This is especially true the longer one attempts to look into the future.

It is of historical importance to note that the American College and the CLU® program were established using the economic human life value approach. Dr. Solomon Huebner, founder of the college, wrote a book entitled “The Economics of Life Insurance” that has long been the standard of the life insurance industry. He explained that economic human life value is the most accurate approach for determining amounts of life insurance for individuals due to its contemplation of full economic replacement. Also, in 1924, the National Association of Life Insurance Underwriters met in Los Angeles, California to determine the “best methods” for evaluating life insurance needs for individuals. They, too, determined that the economic human life value approach was an appropriate way to solve for death benefit amounts for consumers.

The primary shortcoming of needs analysis is that in most cases it intentionally determines a smaller amount of life insurance for an individual than what is actually available. Various assumptions are used to help determine a smaller amount of death benefit that would actually be needed at the death of the primary wage earner. This guestimate of the income needs of a family at some point in the future is a risky proposition. The problem is that it is impossible to know, for a certainty, what a family’s “needs” will be at any time other than the present. In contrast, what is certain is that economic life value planning provides the consumer with an insurance amount equivalent to the insured’s economic worth. One’s economic worth can be simply estimated at any point in an individual’s life. Simply put, an individual’s economic worth, or economic life value, calculates a breadwinner’s value based on current income and age.

It is important to understand how Leap calculates economic life value. A formula that is acceptable to Leap and generally acceptable to most insurance companies is to multiply the proposed insured’s remaining working years (i.e. to age 67) by the gross annual earned income. Most life insurance companies’ underwriting departments provide specific details to their agents as to an acceptable economic life value calculation. However, other factors such as occupation, health, heredity, etc., will ultimately determine the final amount available for purchase.

Thus, economic life value is the most precise method for measuring insurability for life insurance. Needs analysis approaches result in an arbitrary figure that has significant shortcomings. The need for insurance policies such as for homes, autos, liability, etc. are all determined based on replacement values of the assets they insure. This is because if a loss were to occur, the consumer typically desires to have the lost asset fully covered for its replacement value. Life insurance should be no different.

Throughout the Leap planning process, the amount of life insurance protection owned by an individual takes center stage. An economic life value analysis provides that a client understands their full economic replacement value to their family. It is possible that another amount of life insurance protection, as directed by the consumer, may ultimately be decided upon, but this is always after the client has been educated about their economic life value.

Leap asserts that it is every insurance professional’s responsibility to inform the client as to the amount of life insurance available under an economic life value assessment. While the buying decision is always left to the consumer, Leap financial professionals have fulfilled their ethical, professional, and moral obligation of full disclosure in informing the client as to the upper limit of their insurability.

All individuals deserve to plan for the destiny of those they leave behind at death with the most complete knowledge and information available. This is especially important because this decision can’t be made after-the-fact. The Protection component must be properly structured because there are no do-overs.

Too often, clients have made life insurance buying decisions without ever being informed of the amount of life insurance a company was willing to offer. By using the most comprehensive economic life value analysis tool in the industry, the Family Security Calculator, Leap financial professionals provide their clients with the most complete life insurance protection analysis.

2. Death Benefit as a Living Value (Asset Insurance)

One of the major advantages of permanent life insurance is the "living value" provided by the death benefit to the insured during their retirement years. This feature of permanent life insurance makes it a powerful financial product. Few other financial instruments offer as many features as permanent life insurance.

The death benefit of a permanent life insurance policy has two functions. The first is to provide security to a beneficiary in the event of death of the insured. The second is to provide a living value to the insured prior to the insured's death. Both functions of the death benefit provide a valuable resource to all individuals, families, and businesses.

The need for permanent life insurance during your retirement years can be demonstrated through the integration and coordination with the retirement assets that you may own at that time. The performance of your assets can be enhanced with the existence of permanent life insurance. Also, when permanent life insurance is in place, your assets have the potential to be protected from several eroding factors such as market risk, inflation, income taxes, estate taxes, creditors, and interest rate decline.

Here is a list of some of the living values a death benefit may provide during your retirement:

- Make non-income producing assets, income producing
- Make income producing assets provide greater retirement income
- Reduce income taxes throughout retirement
- Minimize market or interest rate risk on asset portfolios
- Provide increasing income rather than fixed income during retirement
- Avoids the worry of running out of money
- Reduces the amount of capital required to meet your retirement needs
- Enhances protection of your assets against claims of creditors
- Provides for legacy planning

For Example:

> If I have $1,000,000 of assets and $1,000,000 of permanent death benefit on my life, then I have $1,000,000 of covered assets.
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> When an asset is covered, I know that I could spend the whole asset down during my lifetime and have it replaced at my death. This gives me the ability to deliberately use the principal asset to create a much larger income stream for myself to enjoy during retirement. Again, I can deliberately use the principal because I know it will be replaced at my death.
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> One of the options a person has with their assets at this time is to buy a guaranteed income stream from an insurance company. Call it a self-made pension or income annuity, where the insurance company will pay you a guaranteed income stream for life based on the money you gave them. Another option we would have is to do a deliberate structured pay down of the assets to life expectancy.

The key is that the principal can be used to create a bigger income stream. There will be many options available at this time to do this. All of which provide bigger income streams.

3. Use of Lost-Opportunity Cost (True Cost of Term)

The principle of lost opportunity cost is defined as: the cost of carrying a resource used in one particular application determined by its use in an appropriate alternative given up. Leap has pioneered the use of lost opportunity cost as a critically important tool for individuals to employ in their personal financial decision-making. In order for consumers to be provided a completely fair and balanced analysis, the lost opportunity cost of their financial strategies, decisions, or choices, must be considered. Lost opportunity cost and the significant role it plays in the strategic process can be illustrated by analyzing many popular financial strategies and products.

Specifically, lost opportunity costs may trigger increases in current income taxes, fees, penalties, insurance premiums, or charge loan interest. These costs have a diminishing effect on the overall performance of an individual's wealth building process throughout their lifetime. Leap has asserted itself as the most disclosure-oriented and holistic system in the insurance and financial services industry by accurately depicting out-of-pocket outlays as "costs" of owning or adhering to a particular product or strategy. This is a valid method accurately assessing the effectiveness of any financial product or strategy.

By way of example, a lost opportunity cost analysis can be easily understood by considering the strategy of 'compound interest' within a taxable savings account. In this case, it is assumed that the account-holder has elected to have the interest reinvested and compounded on an ongoing basis and that no withdrawals are being made from the account. The account has been left alone to accumulate for use at some time in the future. At the end of each year, the owner receives an IRS 1099 Form reflecting the interest paid on the account in that year. The owner must then declare this interest on his/her tax form and ensure payment of the associated income tax for that tax year. As each year passes and the account compounds and grows, the corresponding income tax liability grows as well. In order to assess the profitability of long-term compounding in this type of taxable account, the effect of the total compounded income taxes must be calculated and measured.

While the account-holder pays the compounding income taxes, it is imperative to calculate the potential earnings lost on those taxes paid in order to determine the actual lost opportunity cost. In other words, these tax dollars are forever lost because of the particular strategy or product owned or employed. For the purpose of analyzing a taxable savings account overall cost, the compound tax and the lost opportunity cost on those taxes must be calculated. Only in this way will consumers have full disclosure regarding their financial decisions.

A critical component to properly evaluating lost opportunity cost is the selection of the appropriate cost of money rate used within the analysis. Within Leap, there are three specific manners by which the cost of money rate is selected:

1. The first is for the client to use their assumed average long-term net investment rate-of-return. This is the most common cost of money rate used within the Leap process.
2. The second is for the client to use the actual net rate-of-return on their highest returning savings account.
3. The third is for the client to use the gross rate-of-return of their highest returning savings account. This last option is used least and only if the client has not made any investments but is expecting to do so shortly.

Another highlight of the Leap System approach to utilizing lost opportunity cost analysis is that it avoids a common problem found within virtually all other planning approaches; the use of net rates of return. It is inaccurate to assume, within a financial analysis, that a client's taxes are being paid out of an account (netting) when a client is actually compounding interest in the account, not making any withdrawals, and paying any taxes owed through withholdings.

Many financial professionals suggest that this netting approach "simplifies" the analysis, but it has two major problems. First, the netting approach illustrates the account as having less value in the future than it is actually projected to have. When no withdrawals are being made from an account, compound interest allows for greater growth. Second, the netting scenario will significantly under-illustrate the amount of income taxes the client will have to pay. Specifically, without making any withdrawals the account accrues more interest which, in turn, triggers more tax.

To summarize, the netting approach both underestimates the performance of certain assets while at the same time accounting for less tax than what a client will actually have to pay. Leap instructs Leap users to analyze all strategies that the client is actually using and to make 'lost opportunity cost' assessments as such. Any other approach leads to misinformation and errors in the actual results.

4. Term Life Insurance Versus Whole Life Insurance (Living Benefits of Whole Life)

Leap recognizes that consumers have a variety of choices as it pertains to life insurance protection. There are many types and designs of life insurance policies. Generally, all of these types of policies fall into one of four categories: Term, Universal, Variable or Whole Life.

Each has its own particular attributes that have significant impact upon an individual's financial future. Leap seeks to help clients make intelligent and informed choices regarding their life insurance protection. Fair and balanced presentations are provided which give the client the opportunity to make the most appropriate decision based on their unique particular situation.

Leap financial professionals are trained to use the Resource Identification Worksheet during the planning and preparation phase of the Leap Process. This worksheet allows the professional to properly gauge the suitability and affordability of any additional life insurance protection. It illustrates a client's available money resources, listed by asset-type, along with the corresponding cash flows that may be used to pay premiums for the purchase of additional insurance. The Leap financial professional uses the Resource Identification Worksheet as a guide that helps determine what amount of insurance is appropriate, as well as the proper type of policy.

Term insurance is generally designed for short-term purposes and for protecting a specific need. This type of life insurance is purely protection, and almost always generates no accumulated values. Typically, term policies have level premiums, annually increasing premiums, or both – one followed by the other.

Today, many consumers are engaged in a "buy-term-and-invest-the-difference" approach. This strategy calls for term insurance to be owned for a period of time and then cancelled when other investments and assets are considered to be adequate. Typically, this cancellation is designed to be at the start of retirement. Rather than "premature death" protection—an actuarially rare event, whole life is "ultimate" death protection—an event with 100% certainty.

Whole life insurance has significant advantages for a broad segment of the consumer market over the long-run. Whole life insurance is intended to provide "permanent" protection, presumably throughout the insured's life. These advantages include a number of guarantees: premiums that are level, portions of cash value accumulation, and the death benefit.

Also, certain whole life policies generate non-guaranteed dividends that can be utilized by the insured in a number of "options," including: taken in cash; purchasing paid-up additions, and reducing premiums. See the Dimensions of Life Insurance (DOLI) calculator. Over time, most term life insurance issued by a mutual company that was designed as temporary coverage may be converted to whole life insurance during all or most of the level term period (see each company's policy for details). This occurs as money resources from a clients' income going into S1 (Wealth Coordination Account) or assets in the Savings and Growth Components become increasingly more available.

One of the major contributions Leap has made to the life insurance industry, resulting in the sale of whole life insurance, is the education of the consumer as to the “living value” or “living benefits” of these policies. These “living values” are able to “come alive” to the insured during retirement when the proper coordination and integration of assets occurs. Since these financial benefits are attained only through the use of a long-run financial strategy that includes whole life insurance, it is Leap’s position and recommendation that whole life policies should not be surrendered or cancelled at any time.

Only in the event of an unavoidable and unforeseen circumstance, where there is no other alternative, should whole life insurance policies ever be relinquished. This allows for easier implementation of asset and income maximizing strategies throughout retirement—and especially more use and enjoyment of assets during the initial years of retirement when health tends to be better.

Leap supports and endorses the full indemnification (replacement) method of calculating insurance needs. It is a client’s income and the availability of money resources that are the key determining factors of policy selection types during a Leap presentation. With these factors considered, recommendations can then be properly balanced between all term life insurance, all whole life insurance, or some combination of both policies in order to reach the client’s full replacement value in the event of death.

As a result of both the highest quality of guarantees associated with whole life and also the replacement (indemnification) values of family security and economic life value, Leap financial professionals prefer to recommend separate policies of both convertible term life policies and participating whole life policy protection to meet economic life value requirement needs of an insured.

Universal life, variable life, and survivorship or 2nd to die policies are specialty products designed for a unique set of circumstances and under specific economic and market conditions.

> Because they are less predictable then whole life, these products should be recommended with much care and disclosure. This is especially true considering that systematic borrowing from a life insurance policy as a regular source of retirement income is prohibited Leap conduct.

Because they are specialty products, they tend to be part of a supplemental insurance plan rather than the foundation or basic structure of a sound overall portfolio that the combination of convertible term policies and participating whole life insurance policies provides

5. Waiver of Premium

An important aspect of a life insurance policy is the option of adding a waiver of premium rider, when available for the proposed insured. The rider enables the client to have the premiums of the policy paid for by the insurance company in the event the insured becomes permanently disabled. While there are limitations on the waiver of premium resulting from health ratings, amount of death benefit, net worth, and age, the waiver of premium rider is an essential piece of a successful life insurance portfolio and financial plan.

It is important to note that the waiver of premium is not disability income insurance in the traditional sense. However, it is considered to be a form of disability insurance because it is triggered by a disability claim of the insured and it provides premium payments to be made on behalf of the insured. The waiver of premium rider provides the necessary funds to pay premiums that allows for more of the disabled person's income to be used to support their income needs at that time. This is very important because an individual who has suffered a full disability often has a greater need for monetary resources, especially if life-supporting measures are necessary.

While most companies offer the wavier of premium on all types of life insurance, there is no more important application of the rider than with permanent life insurance. Not only are premiums proportionally larger for permanent life insurance policies, thus creating even a greater need for a waiver of premium, but there is also the need to protect the cash value portion of these policies that are guaranteed under the contract.

This characteristic of the waiver of premium within permanent life insurance provides a truly unique benefit to the policyholder that cannot be achieved by almost all other savings or investment vehicles. While many save money annually into bank accounts, money markets, Tax Deductible Plans such as a 401(k)/RSP, stocks, and mutual funds—none of these instruments are guaranteed to continued uninterrupted in the event of a permanent disability.

Any money that an individual is saving into these plans would most likely have to be suspended because of the inability to continue due to a reduction in earned income. This means that savings targets such as retirement, college education, and other family planning could be significantly diminished in the event of permanent disability.

This is a critical point to note since an individual's plan for financial success must be rooted in the idea that it will work under nearly all circumstances—not just best case scenario. The disability waiver of premium not only provides for the continuation of life insurance so that one's family and dependents can be protected in the event of premature death, but ensures that any current savings for future needs also contains a guaranteed element should a total disability occur.

By allowing the guaranteed cash value components, as well as any interest and/or dividends credited under a permanent life insurance policy, to continue to accrue uninterrupted, the financial success and well-being of an individual or family may be protected beyond what ordinary products and strategies have to offer in today's marketplace.