Creative

wealth maximization strategies*

2019 / V11/2019

"In an ideal world..."

When someone starts a conversation with ***"in an ideal world…"*** you can be pretty sure that whatever follows isn't likely to occur. For example:

In an ideal world…

…Every college graduate finds employment in their chosen field.

…All drivers obey the posted speed limit.

…The Detroit Lions go to the Super Bowl at least once in a century.

Those are nice ideas. But we all know that some PoliSci majors are going to work as baristas, no one drives the posted speed limit, and as for the Lions making the Super Bowl, well, that's just crazy.

So, it's interesting when an August 2018 article in a prominent personal finance magazine (Kiplinger's) begins a discussion of life insurance with:

In an ideal world, you buy life insurance when your kids are young or you've purchased your first home, and you need the coverage only for about 20 years. By the time your policy nears the end of its term, your kids are on their own, your house is mostly paid off, and you've accumulated enough money in retirement savings for your spouse to pay the bills if anything happened to you.

Wait a minute. This sounds exactly like the *recommended strategy* for life insurance that this publication has promoted to the general public for the past 30 years. Why does the article begin with ***"In an ideal world…"?*** Because what has been recommended, while once seeming like a great idea, apparently hasn't always worked so well in the "real world." The following paragraph explains:

But these days, many people in their fifties are still supporting grown kids who graduated with student-loan debt, or they've refinanced their mortgage and locked in a new 30-year term. They may have been divorced and are now supporting a new set of kids. Or they still haven't saved enough to retire comfortably. Their coverage is about to end, but they still need the security that term insurance provides.

"What to Do When Your Term Life Insurance is Expiring" goes on to explain the challenges of keeping a policy in-force past its original term (the premiums "jump enormously," and may increase annually), and offers some alternatives (if you are still healthy, you could apply for either a new term policy or switch to a permanent policy, like whole life). Apparently, the ideal-world idea that "you need the coverage only for about 20 years" simply hasn't worked in the real world. But it sure sounded good.

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* The title of this newsletter should in no way be construed that the strategies/information in these articles are guaranteed to be successful. The reader should discuss any financial strategies presented in this newsletter with a licensed financial professional.

Pub 6357 (11/19)
2019-87286 Exp 10/2021

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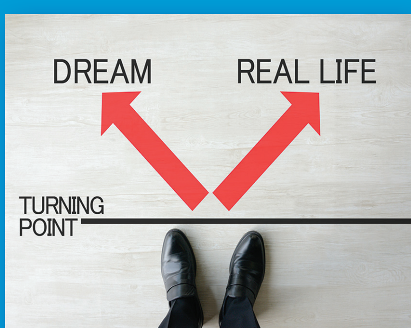
A Mea Culpa – And a Better Approach

A fundamental concept in insurance – of any kind is the acknowledgment that we don't live in an ideal world. Stuff happens, unpredictably. That's why it's prudent to allocate some resources to risk management.

So, when a strategy for life insurance is based on "in an ideal world…" it isn't surprising that it requires this follow-up article (which is essentially, "What to Do Now, Since Our Ideal Recommendations Didn't Work Out").

The magazine doesn't admit that its idealistic premise of only needing life insurance for 20 years hasn't withstood the test of time and unforeseen events. But there's a mea culpa of sorts later in the article, under the heading "A Strategy for Younger Buyers." *(psst…"mea culpa" is Latin for "my bad").*

The section lists some different strategies, such as longer terms, conversion options, layering policies, and blending term and permanent coverage, all with the aim of providing coverage for longer periods, under varying circumstances. And it recognizes the importance of starting from a pragmatic instead of idealistic paradigm: "The decisions you make when you buy life insurance in your twenties or thirties can help you avoid scrambling to find coverage before your policy term expires." Because y'know, sometimes things don't go as planned.



The Seduction of Ideal Scenarios

This misguided belief that real-world success in personal finance can be achieved by pursuing ideal scenarios isn't exclusive to life insurance planning. It's pretty easy to find financial strategists touting other ideal plans that are susceptible to real-world turmoil.

It's the investment guru (or your next-door neighbor) who says, "In an ideal world, the best retirement accumulation results have been achieved by remaining fully invested in the stock market (or real estate, precious metals, or whatever) for 30 or 40 years." That declaration might be historically accurate, but it's also an "in an ideal world…" statement that glosses over the real-world issues that can derail success.

This criticism can seem dismissive of new ideas, or progress. It's not; innovation is good, and so is the desire to discover better methods and outcomes. But many ideal-world strategies (and their proponents) often neglect or minimize the practical value of having options in case things don't go as planned. That's the problem with "in an ideal world…"

There's a well-known personal-finance guru with a nationally syndicated radio program who proclaims it is reasonable to "expect to make a 12% return on your investments," because he is "using a real number that's based on the historical average annual return of the S&P 500" for the past 80 years. Because this expert feels the long-term results are almost inevitable, there really isn't a need for alternatives. The dismissive comment on his website: "Don't let your opinion about whether or not you think a 12% return is possible keep you from investing."

Remember the issues that undid the ideal scenario for term life insurance? Adult children at home, divorce, second families, refinanced homes, insufficient saving. Any one of those same challenges could prevent you from executing an ideal-world investment strategy as well. In the real world, stuff happens.

Who knows? Twenty years from now, you might see an article, "What to Do When Your 30-year Plan Hasn't Earned 12%." And if you had taken practical steps to mitigate against the possible underperformance of this ideal plan, you might find the title amusing. Because, you know we don't live in an ideal world.

Are your financial strategies based on an ideal world, where everything needs to go according to plan? Or do you have the flexibility to succeed under a variety of circumstances?