Building Bridges - Newsletter

Cross Selling Tips from the Cross Selling Experts

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Three Financial Products to Consider in 2009

CapitalROCK™

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Investors and savers normally see their fortunes rise and fall opposite one another. Not in this recession. In an effort to stop the bleeding on Wall Street, the Federal Reserve has lowered interest rates to historic lows—in some cases just a few basis points above zero. Many savers are happy just to have their principal guaranteed, with little concern for interest earned.

But of course that means that after taxes and even modest inflation, the purchasing power of their savings is declining. For those who have already lost so much in the market or in the interest earned on their safe money, people hope that there some positive alternatives. Fortunately, there are. Consider three that you might not have thought of before:

1 Whole Life Insurance

Insurance? No, we're not crazy. It turns out that if you have a legitimate need for life insurance, whole life may provide multiple benefits, including death benefit protection that lasts a lifetime, tax-deferred growth of cash values, as well as a safe place to grow your money. It works like this: whole life policies guarantee that the cash value of the policy will equal the face amount at age 121 (an age set by regulation). What that means is that the policy cash value will increase each and every year for as long as you pay the premium, no matter what happens to interest rates or the stock market. Plus, the actual premium you have to pay is guaranteed never to increase and the death benefit is guaranteed to be paid no matter when you die.

But that's only part of the story since nearly all whole life policies sold today are eligible for dividends. Dividends can be used to reduce the out-of-pocket premium your clients have to pay or to increase the net cash value and net death benefit of the policy. Many policies even allow you the chance to increase cash value by purchasing paid-up additional life insurance that has a very low expense charge and that helps you build policies values based on current non-guaranteed dividends.

Check out a proposal to see if this makes sense for you. In many cases clients can experience an internal rate of return on premiums paid equal to 4% to 5% ten years or later into the policy. That compares very favorably to certificates of deposit, savings accounts, and even bonds (and other accounts in which principal is guaranteed).

[IF YOUR CLIENTS NEED COVERAGE NOW IS THE TIME. CLIENTS CAN EXPERIENCE AN INTERNAL RATE OF RETURN THAT COMPARES FAVORABLY TO CERTIFICATES OF DEPOSIT OR BONDS AND ALSO HAVE THE PROTECTION OF A DEATH BENEFIT AND TAX ADVANTAGES.]

Special Point – Dividends are not taxable on an annual basis if left in the policy. In fact they are only taxable when withdrawn and when total withdrawals exceed the premiums paid. Thus you don't have to pay taxes each year on your increasing cash value – a real plus when it comes to building total value.

2 Mutual Funds

Go ahead and rub your eyes as you read this one. After the terrific beating investors have taken in the stock market in 2008 and 2009 it may seem crazy to recommend anything based on the stock market. But the fact is that throughout the many business cycles of the past 80 years, the stock market has eventually provided real value to investors that exceeds both inflation and the return on savings. Of course no one can say that the past is predictive of the future. But if you accept the theory that it makes sense to buy stocks when they're priced low and to sell them when they're high, then you have to wonder if this isn't a good time to buy some very low-priced stocks of fundamentally sound companies.

Of course the risk of any one company failing or struggling may be high – too high to bear. That's where a well balanced mutual fund can help as it allows you to pool your money with thousands of other investors so that together you can buy a share of a well-balanced portfolio that includes the stocks and bonds of many companies.

It will take some courage to think about this, but at least consider it – talk with your broker, or if you're a broker speak with your clients. Consider the risks, determine how long money can be left in the fund, be sure to keep your emergency money in a safe place, and then decide for yourself if it might make sense to put at least part of the assets back in the market now that it's dropped in price so much.

3 Tax-Deferred Annuities

Did idea number two give you a stomach ache? If so, you're not ready to go back into the market. So, consider a powerful tool that gives you fair returns with the additional benefit of tax-deferral. A tax-deferred annuity allows you to accumulate money (either with a single premium or with flexible, ongoing premiums) that guarantees principal plus a minimum interest rate for the rest of your life, but that pay a current interest rate that can be guaranteed for either a relatively short to mid-term period (usually between 1 to 10 years). Some annuities guarantee the interest rate for the entire term, others for just a year, with subsequent years renewing at then current market interest rates.

The big pro of tax-deferred annuities? Tax-deferral. You don't pay any taxes on interest until you actually take money out of the annuity. This allows your clients to maximize total income, perhaps even reducing or avoiding having their Social Security benefits taxed. Plus, you can name a beneficiary so that the money passes directly to your heirs at death without having to go through probate?

Potential cons? To pay the relatively high interest rates that tax-deferred annuities promise, insurance companies that issue annuities have to know that they will have use of your money for a stable period of time so they can go out and buy government insured bonds and bonds of high quality companies (as well as other stable investments) that match that period. To minimize early withdrawals, most annuities have a decreasing schedule of surrender charges that can run from 1 to 10 years. If you cash out early, you pay a penalty. Fortunately, the penalty is often offset by a "withdrawal window" that allows you access to some portion of your money each year without a surrender charge, (often 10%).

Annuities are complex, so help your client study them carefully and build a trusted relationship. If you're a buyer, seek advice from a qualified agent with a reputable company, and ask questions until you're satisfied.

Summary

Hopefully one of these three ideas will prove interesting to you. One thing is for sure – you don't have to leave your money or your client's money languishing at zero percent if you don't want to. But you may have to think in new ways and consider taking money to an insurance company or mutual fund rather than the bank.

A final note – It's almost never an "All or Nothing" proposition. For example, just because an annuity is good idea doesn't mean you should put all your client's money in. Diversify not only by type of saving and investment, but by the places you put them as well. You and your client will sleep better if you do.