Reducing Insurance

CASE STUDY

ALLODIUM
INVESTMENT CONSULTANTS

Challenge

Lyle and Lisa, a couple in their mid-50s, were hoping to retire in about 10 years. They had accumulated a significant amount of wealth for their retirement, but it was tied up in life insurance policies which had not performed well. Lyle and Lisa came to Allodium to determine if they were making the wisest possible investment choices. Their current advisor worked for a large life insurance agency. As a result, all of their "investments" consisted of several life insurance policies with premium expenses totaling over $100,000 per year. They had been told that these were good investment vehicles, but the investment performance had not substantiated these claims. Each policy was worth significantly less than what they had invested.

Lyle and Lisa's objective was to achieve a position of financial independence to prepare for a successful retirement. They had more than enough funds to leave a legacy and they did not understand why they were paying for several million more in death benefits through life insurance policies. In addition, Lisa had recently changed jobs resulting in an income decrease. They couldn't keep up with the life insurance premium payments, so the insurance agent set up a line of credit which generated debt just to keep the life insurance policies intact. The interest on this loan was an additional growing drain on their nest egg.

Recommendation

Allodium facilitated a series of meetings to learn more about what was most important to them. Lyle and Lisa were surprised once we showed them how much of their money was consumed each year by hidden fees and the cost of insurance. We explained that though life insurance can be a great tool to protect against lost income or as part of an estate plan, it is typically not the most efficient tool for investing for retirement. We provided Lyle and Lisa with a comprehensive financial plan which included a detailed investment strategy. The financial plan provided them with a path to reduce their high-cost life insurance policies in a tax-efficient manner. Specific recommendations included separating their investments from their insurance to reduce costs and to improve diversification, maximizing 401k contributions for current tax deductions, and paying off their line of credit.

Result

Lyle and Lisa accepted our recommendations. They exchanged their life insurance policy for a low-cost, no-commission variable annuity. In addition, they were able to pay off their line of credit and take advantage of significant tax-losses that were embedded in their life insurance policy. In conjunction with the insurance cost savings, they were able to use low-cost index funds inside the annuity, which has the potential to save them tens of thousands of dollars each year. Lyle and Lisa told us they now feel much more in control of their financial future and are confident that their new financial plan has greatly increased their odds of retiring in comfort.