The Scranton Life Insurance Sales Process

ADVISORS' ACADEMY

Serious Results for Serious Advisors

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Chapter 1
Introduction to the Scranton Sales Process

Hello, I'm David Scranton, the founder of The Advisors' Academy.
Congratulations on making a career changing decision to join our group! Now, I urge you to take full advantage of my years of experience in the financial industry by studying and absorbing what I call the Scranton Sales Process!

Some of you at this point may have gone through our **academy training** and already have a basic understanding of my process. If you have not had this opportunity, by reading and rereading this manual you will, eventually, become proficient at my sales process. Ok let's begin!

There are several overriding themes that you must keep in mind:

Discovery Process
The sales process should be part of a **discovery process,** wherein the prospect discovers, with your help, that they have a problem – and that you are the solution to that problem.

As renowned sales trainer Brian Tracy says, "Telling is not selling." You cannot simply tell a prospect that they have a problem. Nor can you tell them what product they need in order to solve their problem and expect them to automatically take action. Instead, they must **discover** it on their own.

Judo vs. Karate

You should approach financial sales by using "less force, and more momentum." Think of it like comparing Karate to Judo. As a fighter in **Karate**, you attack your opponent and they attack you back. The relationship between advisor and prospect often mirrors this, unfortunately. By the end of the appointment, both parties are exhausted from the back-and-forth combativeness. As a fighter in

Judo, however, you entice your opponent to lean toward you and use the opponent's momentum in order to win.

As the advisor, you want to practice Judo, not Karate. Instead of bantering back and forth, let the prospect gracefully come to the conclusion that they do in fact have a problem and that you are best suited to solve their problem.

Just Say NO to "Life Insurance Breath"

Wouldn't it be nice if we could simply show a prospect a better way, a better financial tool and they would sign up? Unfortunately, that's not how it works. People are more motivated to change advisors to solve a problem than to merely improve their current position.

Perhaps the biggest mistake an advisor can make is to provide the product solution before the prospect understands the magnitude of the financial problem that the product is intended to solve.

Process Not Product

Let's face it: most advisors have access to similar products. It's not your product that will solve the prospect's problem – it's your educational **process** and philosophies. The Scranton Sales Process will help you make a paradigm shift, allowing you to see the solution as a process, not a product.

One Decision at a Time

A lot of traditional sales techniques ask a prospect to make four decisions at once:

1. That they have a financial problem that needs to be solved
2. That their current advisor is not best suited to solve the problem, so they must switch
3. That they want you as their new advisor
4. That they need a specific product from you

This is a lot to handle all at once! It's no wonder the most common client objection is: "I want to think about it." Our process will help the prospect by keeping his or her decision making process pure: **one decision at a time.**

The Scranton Sales Process consists of **7 steps**. The order of these steps is important:

1. CFQ
2. Categorize the Prospect
3. Use Appropriate Track
4. Build a Wedge
5. The Commercial
6. The Close
7. The Grid

Step 1 is to get a **Confidential Financial Questionnaire (CFQ)** - also known as a Fact Finder for those of you who've been in the industry for a while.

Step 2 is to **Categorize the Prospect**. They will be either labeled a: multiple-advisor prospect, single-advisor prospect, or do-it-yourself prospect. Then, based on the most likely outcome, the prospect will be deemed either a: product sale, planning trail, or garbage pail.

Step 3 is to **Use the Appropriate Track** to help the prospect discover that they have a problem and to motivate them to make a change in order to solve that problem.

Step 4 is to **Build a Wedge** between you and their current advisor. You want to enable the prospect to discover that their advisor is doing more to hinder -not help- their financial situation. Only then can they realize that they need a competent advisor (that's you) to take on their financial portfolio. Don't think of Steps 3 and 4 as separate and sequential. Rather, interweave them as you go through the process with your prospect.

Step 5 is to **Give Your "Commercial"** to the prospect – only after they've asked for it! You can't just "vomit" it out – otherwise, it comes off looking like a sales pitch. Instead, you have to entice the prospect to ask for your commercial.

Step 6 is **The Close**. The goal is to get some form of commitment in writing that the prospect wants your help. Most commonly, this is accomplished by taking a preliminary life insurance application, which serves as an indication of their willingness to being the underwriting process ("the medical close"). Alternatively, this could be an engagement letter or letter of intent. If you are securities licensed, it could mean a change of broker of record on a mutual fund or variable annuity. It can also mean an ACAT transfer on a brokerage account.

Step 7 is the **Presentation of the Specific Product Solution**. This step is done only after the prospect has begun the underwriting process and often after underwriting approval. Ideally, this is the first time you're reviewing a life insurance illustration with the prospect. As you will see in some of the disturbing tracks, Step 7 includes a presentation we call **The "Grid."** This is where you get to present the product solution in a compliant way. The prospect will most often choose cash value life insurance as a material part of their strategy.

Each step will be explained in detail in the subsequent chapters.

Do You Want to be Viewed as a Sales Person or a Trusted Advisor?

Ideally, steps 1-6 should be completed in the first 1-1 ½ hour meeting. Occasionally, a second meeting is required, but never more than that.

Think about it! Sales people are willing to offer unlimited meetings at no charge in the hope that the prospect buys something. Sales people offer recommendations, free of charge, and sometimes create detailed proposals in the hope that the prospect buys from them. Professionals, however, get paid for their work.

If you act like a salesperson, you will be viewed as one. Acting like a professional, whose time and advice is valuable…priceless!

Chapter 2
Step 1: CFQ

The big idea to keep in mind here is that the ultimate sale is not made during the close – but during the **CFQ!** (Confidential Financial Questionnaire)

Right from the start, put yourself in the position of the trusted advisor. Use an educational approach without the use of sales aids. Limit small talk to 2-3 minutes maximum. Think about it; sales people use excessive small talk and canned sales presentations (including flip-charts and PowerPoint presentations). The best way to build rapport, is to show people that you are trying to help them.

The CFQ should take no more than 20 minutes. Round numbers are ok; don't get anal retentive! Start with the quantitative data, then go to the qualitative questions. Most standard CFQ's are probably sufficient for obtaining the quantitative data. Although it's not essential, I like to gather quantitative data by starting with the least invasive questions. Here is my order:

1. Occupation

Ask the prospect what type of work they did before they retired. This is important because their employment history gives you a trail of clues about their personality and decision-making process.

2. Family

Ask the prospect how many children they have. Other relations might include stepchildren, grandchildren, second marriages and the like.

Questions 1 and 2 are my idea of small talk.

3. Home/Real Estate
4. IRAs/401Ks
5. Individual Stock/Bonds
6. Mutual Funds
7. Non-qualified annuities
8. Life insurance
9. Money in the bank
10. Debts
11. Income Sources: now and/or after retirement (including cash flow from investments)

When obtaining investment related information from the prospect, be sure to ask them for statements – it's easier and quicker.

> **Key Point:** When obtaining the income information from the prospect, make sure to ask them for their tax return. It's easier to transfer the income sources right from the 1040, rather than trying to gather the information from the potential client.
>
> **Key Point:** The ultimate sale is made during the CFQ.

The next step, is gathering the **qualitative** information, using 6 "softer" questions. This is the step in the process where the sale is made. **You need enough detail to create a track**.

Who?

Simply identify the prospect's current advisor. It's helpful to know who you're up against. This is necessary information for building a wedge between you and their current advisor.

What?

Figure out the type of investments the prospect has.

Where?

Find out where the assets are held:
-In certificate form
-Subscription (directly held mutual funds)
-In "Street Name" (brokerage account)
-By the transfer agent

When?

Find out when the prospect began a relationship with the present advisor(s). Find out when they bought the particular investment (if it's not part of a brokerage account).

Knowing when the relationship or investment began is important because it will give you a better idea as to the prospect's resistance to change. A "when" that is too recent or distant, might imply more resistance to change.

Keep in Mind…

The 'Who', 'What', 'Where' and 'When' can typically be gleaned from the statements and thus, attained for all accounts. Then, when you've determined which accounts are problematic, you will also want to obtain the following:

How?

Figure out how the prospect works and gets along with his advisor. Does the prospect typically acquiesce to their advisor? Or is it more of a flexible, give-and-take relationship?

Why?

Finally, you must learn why the prospect chose their advisor in the first place, or why they decided on the particular investment. This is the question that will give you a glimpse into the client's psyche and find out what makes them tick. The 'How' and 'Why' will be the most difficult to obtain, but are the most important.

Chapter 3
Step 2: Categorize the Prospect

The second step is to **categorize the prospect in two important ways.** Based on their advisor orientation, the prospect will be considered one of the following:

1. **Multiple-advisor** –more than one advisor handles their case

2. **Single-advisor** – most of their assets are with one advisor

3. **Do-it-yourselfer** – handles their own finances. If you're watching the DVDs that accompany this manual, you'll see that our role plays assumed a do-it-yourselfer.

Then, based on information you will gather throughout this first meeting, the prospect will be categorized as one of the following:

1. **Product Sale** – needs help with a portion of their portfolio
2. **Planning Trail** – needs help with their entire portfolio
3. **Garbage Pail** – someone you cannot help in any way

You should be able to discern, pretty quickly, whether the potential client is a multiple-advisor, single-advisor, or do-it-yourself prospect.

It will be more of a challenge to decide if the prospect is a product sale, planning trail, or garbage pail.

The important thing to keep in mind with the latter classification is that you'll be constantly trying to categorize the potential client during the first meeting. In fact, your choice might even change. For instance, what you initially may think is a product sale, could actually turn out to be a garbage pail.

Multiple-Advisor Prospect

This prospect believes the old adage "two heads are better than one." As advisors, we think of diversification in terms of investments. Multiple-advisor prospects (or M.A.P.s) however, think of diversification as diversifying their advisors. Often, they don't want to take the time to understand various strategies, so this"diversification" is their safety net.

Always ask a Multiple-Advisor Prospect…

"Please rank your advisors. Who is doing the best job, the second, the third, etc."

If you can't get them to rank, try this:

"Ok, Mr. Prospect, let me put it another way – if President Obama passed a law that you can only have one advisor which one would it be? Then, if the law were appealed, which would you add back on?"

This will give you insight into which advisors are the most vulnerable. It is important to realize that it's unlikely you'll be able to help them with all of their accounts.

Single-Advisor Prospect

Single-advisor prospects (or S.A.P.s) believe there are advantages to having most or all of their investments coordinated by one advisor. Therefore, they can be our best clients over time. They can also be more resistant to change because of their deeper relationship with the current advisor. Because of their beliefs, they will typically move all their assets to us, or leave all of them with the incumbent. Because of this "all or nothing" attitude, the most important step in the sales process will be Step 4 – Building the Wedge.

If the prospect has been with their current advisor for 10+ years, it may be difficult to sway them over to you – no matter how competent you are. On the other hand, if they came to you, already dissatisfied with their advisor, it might be easier to convince them to make the switch.

Single-advisor prospects often "shop around" if they sense that they need to switch advisors – that's why it's imperative that you find out if they are simultaneously interviewing other advisors, or if they are coming to you exclusively. This might be a situation where you have to offer a second meeting in order to get a written commitment.

If so, be sure that your second appointment comes after they have interviewed everyone else. Sometimes telephone contact between the two meetings can build rapport as you coach them through the decision making process. You have to build a strong foundation to base your financial relationship with this person – so you can't rush! If you go for the close too soon, you run the risk of losing the prospective client.

Do-it-Yourself Prospect

This prospect has taken care of their own financial portfolio for many years, and has not relied on a professional to handle their finances. Sometimes, this is because they don't trust anyone else. Other times, it is due to an over-inflated image of their own abilities. Regardless, a do-it-yourself (or D.I.Y.) prospect will typically want to begin a relationship with only a portion of their assets.

There is some good news – as these prospects age, they will be more inclined to relinquish more and more control over to you.

Common instances when do-it-yourselfers look for a financial planner:

1. They are about to take income distributions from their investments. The problem is – they are usually clueless about how to properly invest for a viable income strategy.

2. They are concerned about the death of the "financial caretaker."

3. They are tired of managing/investing their entire portfolio. Many people are realizing over the last 10 years that it's not as easy to do as it appeared to be back in the 1990s. You must motivate the do-it-yourself prospect to think,

> *"Do you really enjoy managing your own money and investments?"*

Remember to be extremely tactful when questioning this type of prospect about their abilities.

Here's an Example…

Your approach will sound something like this:

> *"Mr. Prospect, often times do-it-yourselfers are proficient at one or two areas of financial planning, but not all. To have a sound financial plan, you need to be a good banker,*

investment advisor, insurance agent, accountant (CPA), and attorney. Some times, do-it-yourselfers will complement their own weaknesses in certain areas by hiring advisors in those specific areas. For example, you might handle your own investments and insurance, but hire a CPA and an estate-planning attorney. Other do-it-yourselfers actually have specialists in all those areas, and they act as the "general contractor" who coordinates the efforts of all the specialists Often, however, that one do-it-yourselfer doesn't have deep enough knowledge in all those areas to be an effective general contractor. So if the banker, investment advisor, insurance agent, accountant, and attorney aren't meeting together as a group at least once or twice a year to coordinate all their efforts on your behalf, then things could be falling through the cracks." (See the disturbing track entitled, "Defense/Offense").

Classifying a Product Sale vs. Planning Trail vs. Garbage Pail

Product Sale Prospect

They will let you handle part of their portfolio, but don't yet feel comfortable handing you the reins to the entirety of their finances.

Do-it-yourself and multiple-advisor prospects typically turn into **product sales**.

> **Key Point:** Product sales are usually do-it-yourselfers or people with multiple advisors.

Planning Trail Prospect

A planning trail prospect believes in diversifying several investments with only one advisor. A potential client may come to you having already lost confidence in their current advisor.

Single-advisor prospects usually become **planning trails**. They typically want you to coordinate their entire financial process – as you have earned their trust and confidence!

You may be asking yourself if it's possible to classify the prospect as a planning trail even if they don't give you 100 percent of their assets – and the answer is yes!

With planning trails, you should get at least ½ of their assets, and might take over a combination of different accounts. The key is that they view you as the "key" advisor.

Garbage Pail Prospect

When you meet with a potential client for the first time, you have to get them to focus more on the **problem** than the solution. If you are able to make them realize the magnitude of their problem, you can turn the prospect into a product sale…

…If you can't do this – the prospect gets labeled a **garbage pail**.

A prospect can get categorized a **garbage pail** for several reasons:

1. The prospect might have little or no discretionary assets – so there's nothing you can do to help their financial situation.

2. Despite your best efforts to positively influence the prospect and raise their awareness of the seriousness of the situation – they may just simply not understand you.

3. The prospect could very well be "all set" and have no discernable financial problems

4. There is also the possibility that you and the prospect just don't "click." You are too disparate philosophically.

Regardless of the reason why you classify a prospect as a garbage pail, categorizing them as such can be the single-most important thing that you can do in this process.

Misclassifying the Garbage Pail Prospect

Closure is paramount! One of the biggest amateur mistakes advisors make day-in and day-out is misclassifying prospects.

You **must** avoid the bad habit of inviting 70 or 80 percent of the prospects back for a second meeting. Statistics will show you that you'll only be able to effectively close 30 percent of the real prospects – so why bother filling your calendar with unnecessary potential failure? This is a waste of your time and will drain your energy.

> **Key Point:** No matter the reason that you classified a prospect as a garbage pail, classifying them as such can be the single- most important thing that you do.

Here's an Example…

I had an appointment with a prospect that seemed undisturbed during our initial meeting. He had been interviewing several advisors to take on his case, but was nowhere near making a final decision. I realized I had a decision to make: I could either say he was a waste of time and blow him off; or I could invite him back for a second meeting, which might possibly waste more of my valuable time.

Instead, I spent an additional 20 minutes in the first meeting to ask him some specific questions. I asked him why he didn't take action with the other advisors and urged him not to procrastinate.

We delved deeper into the appropriate track, and I tried to quantify into dollars the potential losses that could occur if he didn't fix his particular problems. In other words, I tried to instill urgency.

During my meeting with the prospect, he finally said that he was put off and somewhat offended by my approach. He felt I was too aggressive with him for his comfort level.

You may be thinking that this was a negative outcome – but it was actually a good one. I finally obtained closure and was able to say with certainty that the prospect was a garbage pail. I knew there was a zero percent chance that I could help him. This saved me scheduling another full meeting.

It's so important that you get the prospect to decide whether or not they are going to work with you. If I hadn't invested that extra 20 minutes to absolutely verify that the prospect was indeed a garbage pail, I would have gone home that night and wondered whether I was just taking the easy way out, and not working hard enough to get somebody who could be a potential client.

Remember, it's crucial in the first meeting that you help the prospect see that they have a serious financial problem – and that YOU are the advisor that can help them solve the problem!

It's a fine line you have to balance when it comes to the level of your aggressiveness. You want to be aggressive in these initial meetings so you don't waste time calling back prospects you have no chance of selling, yet you don't want to be overly aggressive during a closing appointment and risk losing the sale.

It’s important in the first meeting that you instill a sense of urgency with the prospect. Let them know that you are genuinely concerned about their financial situation – at this stage in the game, you’ve got nothing to lose.

Here’s an Analogy…

Imagine that you are a doctor, and you’ve just diagnosed a patient with cancer.

If the patient was in denial about their condition, you would be morally and ethically obligated as their doctor to push them to treat the disease quickly and properly.

It is your duty as a doctor to give your patient a wake-up call and get them to understand that they do indeed have cancer. If the cancer goes untreated, they will surely die.

We have the same moral obligations to our prospects here in the financial services arena. A prospect may come to you with a financial situation that needs a professional’s attention – and that’s what you’re there for.

Bear in mind that even if you classify a prospect as a garbage pail, they may have potential as a client down the road. Maybe they’ll be selling their home in the near future and will have a significant portion of their home’s equity to invest. Or, they may be inheriting some money, which of course you could help them invest.

These reasons will give you confidence that there will be some future business between you and the prospect. Therefore, have your Client Service Representative (CSR) follow up with them on the telephone every three months to keep in touch.

Don’t Just Pursue the Easy Lay-Up

You don’t want to only take in prospects that seem to be easy sales. By doing so, you rob yourself of valuable income – and you rob the potential client of your unique ability to truly help them.

Multiple-Advisor as a Planning Trail

There will be times when you classify a multiple-advisor prospect as a **planning trail** – usually when they are getting close enough to retirement age and are starting to realize that they don’t have a cohesive plan coordinated at this point. Some advisors might have offered a mediocre plan at best; others might have pushed products on the prospect that weren’t the best for their particular financial situation. Sometimes, the prospect will be actively interviewing for a competent advisor who will coordinate their financial affairs.

A multiple-advisor can also become a planning trail if they are concerned about the health of their spouse, who has been the one to coordinate with the couple’s financial advisor. Should the uninvolved spouse suddenly need to learn how to manage their finances, they will need help consolidating their investments with one central advisor.

The basic rule you’ll want to remember – be honest with yourself! Don’t work on a classic product sale as though it were a planning trail. To turn prospects into clients, you need to focus on either the problems with their investment or with one of their advisors.

A potential client will be deemed a product sale 80-90% of the time.

Home Runs

The key thing to remember with planning trails is this: they will be less than 1 out of 5 of your overall sales, but they will bring in the largest **net volume**– they are your home runs!

In a busy practice, you should get a planning trail client who will bring in $25,000 to $100,000 of total commission typically 3 to 5 times per year.

Misclassifying the Planning Trail Prospect

Misclassifying a prospect as a planning trail can become a huge problem. The prospect might eventually convert to a planning trail, but they start as a product sale. As with not classifying a garbage pail accurately, misclassifying a product sale as a planning trail can drain your energy, and will set you up for failure.

If you go after all their assets initially, they are likely to pull away from you entirely – so don't be greedy! Your goal is to make the prospect a client first and foremost.

If you're not sure which category the prospect belongs in – product sale or planning trail – be conservative and classify them as a product sale.

> **Key Point:** The ultimate sale is not made in the second meeting – it's made in the first.

Final Thoughts on "Categorize the Prospect"

The trick is knowing that the ultimate sale is made in the first meeting – based on the quality of the track you've provided to help them understand their financial problem. We'll talk about tracks in detail later on.

> **Key Point:** Always get prospects to decide whether or not they are going to work with you in the initial meeting.

Chapter 4
Step 3—Using Tracks

Wouldn't it be a wonderful world if people, by nature, were always trying to improve their situation. If that were the case, they would be willing to change advisors simply because you have a better plan than their current advisor. Unfortunately, that's not the real world.
Most people are motivated to change only when they have a significant problem. That's why tracks are so important. In a word, people are more motivated by the stick than the carrot.

Tracks are designed to help our clients realize the magnitude of the problem they have. Once they've done that, they're much more willing to make a change. Our job is to help them **discover** the problem on their own and then **discover** that we are a formidable solution to that problem.

Keep them Engaged
When using the tracks, it is imperative that you keep the prospect involved along the way. One good way to do that is to keep asking them questions like:

- So does this make sense, Mr. Prospect?
- Do you have any questions, Mr. Prospect?
- Are you starting to see a trend here, Mr. Prospect?

Keep your prospects in the loop. Confirm that they understand and are keeping up with the discussion. Like all of us, prospect's minds can wander after a few seconds and start thinking about their to-do list. If they are not paying close attention, any track will lose some of its impact.

> **Key Point:** You must solve what the prospect perceives to be the most pressing problem first. It may be obvious to you that the issue that brought them in shouldn't be their greatest concern, but they're not going to be able to hear what you have to say until you've taken care of **their** issue.
>
> **Key Point:** At times, a prospect will come to you already "disturbed." The temptation is to cut to the chase and sign them up. Don't do it. Go through the track that best addresses their distress in its entirety. There is value in reinforcing their concern with good data—it cements their thoughts and it makes you look more knowledgeable.
>
> **Key Point**: Back in Chapter 3, I discussed the importance in a multiple-advisor situation of getting the prospect to rank their advisors. If they're struggling with this, as many do, try this approach.
>
> *"Mr. Prospect, suppose that President Obama were to sign a law that made it illegal to have more than one financial advisor. Which advisor would you choose in that situation? Now suppose there was a public outcry, so the next year the law was amended to allow two advisors. Who would you re-sign?"*

Here's my caution regarding advisors. If you feel the need to disturb your prospect on a position taken by one of their favorite advisors, tread lightly. That may be a battle you want to take on after you've become one of their advisors.

> **Key Point:** Be careful not to "over-disturb" your prospects. You do want to motivate them to make some financial changes, however you also want to give them courage and positive

reinforcement. Sometimes, if you criticize their current financial situation and investment choices too harshly, they lose confidence in their own ability to make sound financial decisions and become frozen with fear.

Find some decisions they've made that made sense at the time and compliment them. Convince them that although they need to make some changes, all is not lost and there is a way to improve their situation.

Four Key Tracks You Will Use

We will cover four basic life insurance tracks in this section. If you function as more of a "macro" financial advisor, and/or are securities licensed, you may find the 10 additional disturbing tracks we've included in our supplemental guide helpful. These additional tracks are most commonly used if you're attempting to help the prospect with their investment portfolio in addition to their insurance. They can also be used when discussing the possibility of liquidating certain investments to fund an overfunded life policy over time.

In the initial meeting, it's important to quickly determine which track is most applicable for that particular prospect, though with any given client you may use more than one. Determining the correct track is one of the primary purposes of the CFQ. If the client hasn't given you enough information in the CFQ to launch into a track, **stop!** This isn't a game. Your time is valuable and it won't be possible to make any progress if they aren't willing to share the information you need to correctly assess their situation.

There are four tracks that I believe you'll find extremely helpful as you educate your clients. They are:

Track A—Defense/Offense
Track B—Life Insurance "Upgrade"
Track C—Annuity Arbitrage
Track D—Estate Planning

I want to begin by looking at the track you're likely to use more than any other. It can be extremely helpful if you have prospects you believe would benefit from using a portion of their assets to purchase over-funded cash value life insurance.

Track A—Defense/Offense

This track is designed primarily for multiple advisor or do-it-yourselfer prospects. The multiple advisor prospects may have different advisors handling different portions of their finances, but no one coordinating the big picture. Most prospects don't realize that if the efforts of their banker, insurance agent, investment advisor, accountant, and attorney aren't coordinated on a regular basis, things will fall through the cracks.

For do-it-yourselfers, try this:

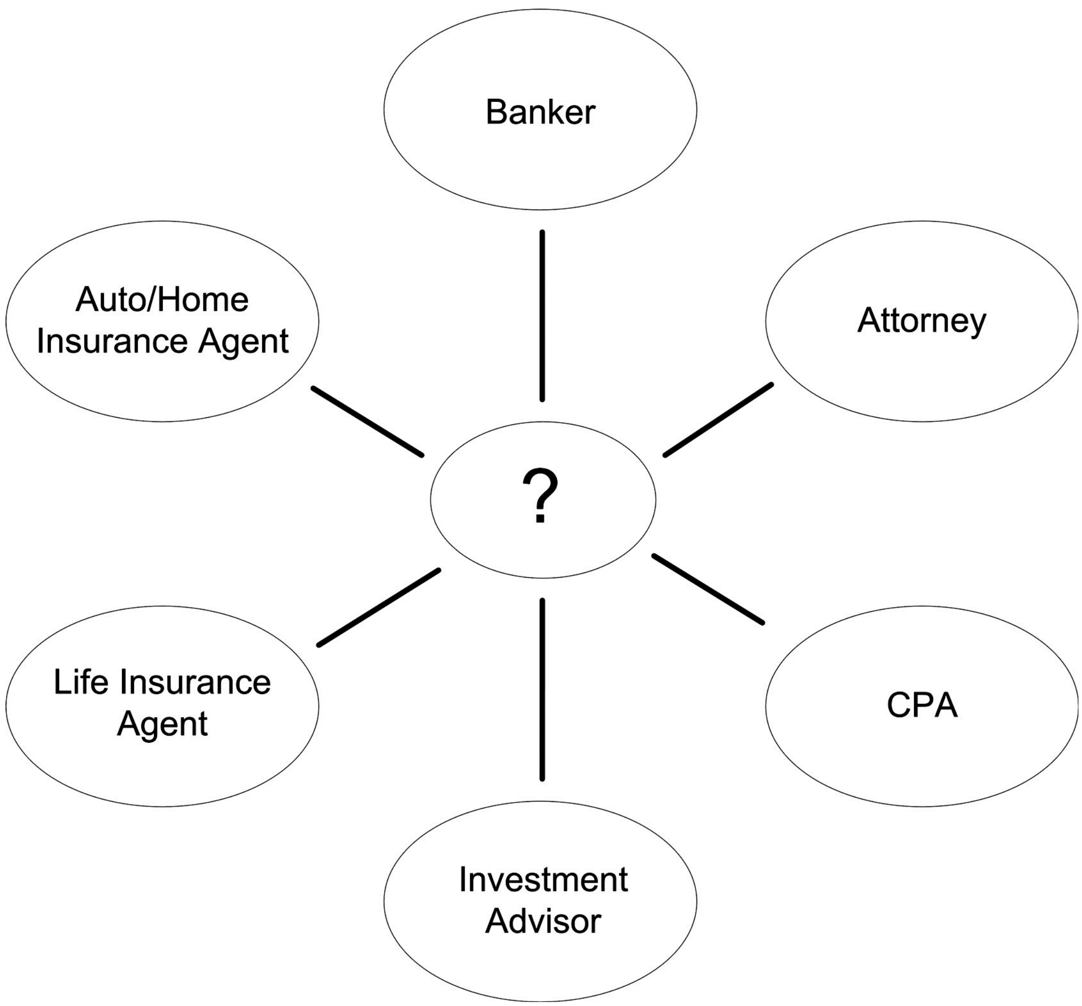
> *"Mr. Prospect, often times do-it-yourselfers are proficient at one or two areas of financial planning, but not all. To have a sound financial plan, you need to be a good banker, investment advisor, insurance agent, accountant (CPA), and attorney. Some times, do-it-yourselfers will complement their own weaknesses in certain areas by hiring advisors in those specific areas. For example, you might handle your own investments and insurance, but hire a CPA and an estate- planning attorney. Other do-it-yourselfers actually have specialists in all those areas, and they act as the "general contractor" who coordinates the efforts of all the specialists Often, however, that one do-it-yourselfer doesn't have deep enough knowledge in all those areas to be an effective general contractor. So if the banker, investment advisor, insurance agent, accountant, and attorney aren't meeting*

together as a group at least once or twice a year to coordinate all their efforts on your behalf, then things could be falling through the cracks."

For multiple advisor prospects, try this:

"Mr. Prospect, often times people have many different advisors because they see the value in having a specialist in every area of financial planning. To have a sound financial plan, you need to have a good banker, investment advisor, insurance agent, accountant (CPA), and attorney. But what many don't realize is that if the banker, investment advisor, insurance agent, accountant, and attorney aren't meeting together as a group at least once or twice a year to coordinate all their efforts on your behalf, then things could be falling through the cracks. In other words, that person may be in need of a 'general contractor.' "

Typically, I draw the following graph on the board:



Now I continue:

"I have found that the best way to illustrate this potential problem is by sharing with you a concept I've developed called "Defense/Offense." This takes about 15 minutes and should give you clarification as to whether or not things are actually falling through the cracks in your financial world."

Here is an outline of the steps to this track. As you go through this track, I suggest you write these steps on a whiteboard or notepad during your client meeting. It's important that this be done simultaneously with the script. This outline should not be pre-written, or it will give the appearance of a canned sales talk.

The board would end up looking something like this:

<u>Defense</u>

1. Auto, homeowners, and umbrella liability—property and casualty insurance.
2. Disability insurance
3. Life insurance
4. Wills and estate planning

<u>Offense</u>

1. Emergency fund—3-6 months living expenses
2. No non-deductible debt
3. Home ownership
4. Tax-deferred savings strategies
5. Other—taxable investments

For the following sample script, let's assume this fact pattern:

- 45-year-old male
- Married
- Three children, ages 10-15
- $200,000 single annual income
- $500,000 401k
- $16,500 401k contribution
- 50 cents per dollar 401k match up to $10,000
- $50,000 in the bank
- $300,000 mortgage
- Minimal other debt
- $1 million umbrella liability policy
- Group disability insurance
- $1 million group life insurance
- No wills

The following is a sample script:

> *"Sometimes it gets confusing out there in terms of where to start. Do you start on retirement, do you start with college, do you need life insurance or disability insurance? One of the things that I am known for is that I do many workshops on a topic called defensive and offensive financial planning. It is an outline of things that are important for you to address. Many clients find this helpful and take notes so they can take it with them and review it with their spouse.*
>
> *"Defensive/offensive financial planning is just like any sport. You need to have a good defense as well as a good offense. Most people focus on the offense—the sexy part. By offense I mean growing your net worth. Very few people actually focus on their defense. Mr. Prospect, I think it is important to do both. This outline that we are working on will give you the tools to do both.*

Defense

Auto, homeowners, and liability insurance

"So Mr. Prospect, I am going to use the board here to go over the outline with you; please don't hesitate to ask any questions. What we are talking about first is defense. Let's start with your property and casualty insurance, or in other words, your auto, homeowners, and liability insurance.

"I am glad to hear that your insurance agent gave you a $1 million dollar umbrella policy, costing approximately $200. I would like to talk a little bit about that, because it is a very important type of coverage. Having 3 children, one of your major concerns is something called vicarious liability. Let's say one of your kids is swinging a golf club and accidentally hits a child behind him, and that child is injured, the parents of that child are going to sue you and your wife. You are responsible for the actions of your children or pets. That is vicarious liability. I just heard of a case yesterday where a dog bit a young child and the owners of the dog are going to be sued.

"I don't sell any of these types of insurance policies, but as your advisor, I want to make sure we can put a check mark next to these types of insurance and that you have the right amount of coverage. So I'm glad that your insurance agent has gotten you some umbrella liability coverage. The thing we need to consider, though, is whether or not you have the right amount. Depending on the rest of your assets, you may need more than the $1 million of coverage you have now. Quite frankly, $1 million of coverage goes by quickly once you're involved in a lawsuit.

"For example, let's say you were killed in a car accident and the other driver was deemed to be at fault. Your family would likely sue that other person, would they not? Of course they would. Now let's assume that the jury found the other party at fault. Do you happen to know how the courts would calculate the amount of the settlement? They would use a concept called Human Life Value or HLV. Since you are 45 years old, earning $200,000 a year which will probably increase over the next 20 years, your HLV will be somewhere in the range of $4-$6 million. $200k times 20 years, plus the projected growth would make that the present value of your future earnings.

"So our goal here is to make sure that your coverage is adequate so in case, God forbid, you hit someone else with a high HLV, you have the proper amount of coverage. Mr. Prospect, I am explaining this to you because it is important that you understand the concept of umbrella coverage and HLV. In many cases, in going from $1 million to $5 million of coverage, your premiums might increase by only about $300-$400 a year. So with this in mind, do you agree that you should consider increasing this coverage?

"Great. That is why we consider these things to be on defense, because we need to evaluate them before your child swings that golf club and hurts someone, or before you get into that accident. I'm sure you have a good agent, and if you don't, let us know, and we can refer you to someone to double check it and give you a second opinion on that as well.

Key Point: Notice that the concept of Human Life Value was introduced during the discussion of umbrella liability insurance. This is well before life insurance was ever discussed. This was done intentionally. Ideally, we like people to buy into the HLV concept in an area where they know the insurance premiums are extremely inexpensive. This will significantly increase the probability of them being agreeable to this concept. In a few minutes, we'll now transfer this concept to the life insurance side.

Disability Insurance

"The second issue we are going to look at is disability insurance, otherwise known as income protection—insurance that protects your paycheck. I noticed on the questionnaire that you have 60% coverage through work.

"So the first issue, is whether or not you and your family would be ok with a 40% reduction in income. Many people find that that would require significant change in lifestyle and seek to purchase a supplemental disability policy. This is especially true because these benefits are taxable.

"There is a second potential issue that has to do with how they define the word "disability." I won't get too far into it today, but just to give you a sense of what we are looking for, there are really two definitions of disability—total and partial. Prior to today, you may not have defined them as two definitions, but total disability is when you're totally wiped out, such as being in the ICU or being paralyzed. This is what most people envision when they think of a disability. Partial disability would be anything less than total incapacitation. So, Mr. Prospect, not being in this industry, most people think most disability claims fall under total disability. The truth is that most claims fall under partial disability. When we review these contracts that the employers provide, they typically don't cover partial disability, only total.

"The third potential issue is that many disability contracts change how they define disability at the two-year point. Often, the long-term disability may only pay you for two years, and then discontinue payments if you can do any type of work, even at a significantly reduced salary.

"When it comes to disability insurance that is offered through work for free, for the most part it is very good if you are below a certain income range. When you get above that income range, it could potentially become a liability. Because disability insurance at work is free, any new employee will qualify for coverage automatically regardless of health. This is a good thing. However, the insurance company has to protect themselves. A new employee with significant medical problems would be a claim about to happen. So the way they protect themselves is in the language of the contract. So one of the things we do for our clients is review a copy of the disability coverage from the employer, focusing on the definitions of disability. Also, there are usually about 10 caveats just like the ones above that we review and help you understand.

"Now the bad news is, you can't replace it because you can't opt out of your group contract. The good news is we often can supplement one's group coverage to fill the gaps. Most employees have not seen their disability contract. Chances are, it is somewhere online. All you would have to do is contact your human resources department, and have them email you a PDF of your disability insurance contract. We could walk you through it.

"There is going to be a short-term disability policy and a long-term disability policy. Frankly, you have to ask yourself why there are two? The short-term disability generally covers you for the first six months and it has every definition, both total and partial disability. The issue is that after the six months, you then go onto long-term disability. That is where all the caveats and potential landmines are. So Mr. Prospect, we may not be so concerned about your short-term disability, but we are definitely concerned about your long-term disability. Mr. Prospect, in light of these possible landmines, do you think it makes sense to review your disability contract? Great, I completely agree.

Life Insurance

"The third item that should be reviewed is your life insurance. I understand that all your life insurance is through the company and you have 5 times group life insurance for which you pay a minimal amount of money. You told me earlier that you are getting life insurance equivalent to two times your salary for free. Generally speaking, they can only offer you $50k of life insurance for free. Any "free" life insurance above that amount will cause the premiums to be included in your taxable income at the end of the year. So although you don't have to pay the premiums, you are paying the tax on the premium, which in your bracket is equivalent to more than a third of the premium. Unfortunately, the tables for the "assumed" premiums that the government forces employers to use are often much higher than the term premium for a healthy individual. Interestingly enough, the taxes on this premium may be higher than the cost of term life insurance you can get on your own. So, you are under the impression that you are getting $400k for free, but by law they can only give you the $50k without increasing your W-2.

"The reason is that as a group, because you're young and healthy, you're helping to offset the cost for that 60-70-year-old in the same group that might be a smoker or otherwise unhealthy with a shorter life expectancy. Today, with the new 2009 mortality tables, we tend to find that for healthy individuals, less expensive insurance can often be purchased outside the group. But, more important than cost, is that today with the economy pulling back, the company could decide they are not going to offer this benefit anymore. Or, what if the company gets acquired and the new company comes in and changes the benefits. Ideally, your group benefits should be viewed as supplemental, and everything that you own individually seen as your core coverage. If you left your employer three years from now and went to the company down the street, you could take your core coverage with you and not have to rely on that new company to offer you these benefits. So you will have more control and chances are it will be cheaper. It's almost like what we would call in the industry a "no brainer".

"The other thing you may want to consider is whether that $1 million of coverage is the proper amount. Ideally, the spouse would want to invest this money and live off the interest. Unfortunately, in this day and age that is difficult. Let's assume that over time we can earn 6%--a high number these days, I know. But for the sake of argument let's assume that we can average 6% over the long run. You know that approximately 2% of this will go to the IRS, so she will only net 4% after taxes. Based upon $1 million, her net cash flow will be approximately $40,000 per year. There will be some social security if your wife doesn't work, and also for the kids. The maximum would likely be approximately $30,000 and would only last until your youngest child is 18. So her income early on would be $70,000 per year net, and ultimately drops to $40,000 a year net. So the question you want to ask yourself, Mr. Prospect, is if something were to happen to you now, could your family live comfortably on $70,000 net? I agree with you, Mr. Prospect, that that $1 million might be a little short.

"Now let's go back for a moment to this concept of Human Life Value. If your goal were to replace all of the lost income in case of your death, then you would want to have a total of $4-6 million in life insurance coverage. Now at first glance, that may seem like a large number. But we already identified that if you're killed in a car accident at the fault of another driver, that your family would seek to replace the entire HLV in a lawsuit. So, why should it be any different if you were killed in that same accident, but you were found to be at fault? Would the economic loss to your family be any less if it were your fault and not the other drivers? Of course not."

At this time, the prospect will often object, "Sure, that HLV concept makes sense when you're discussing a lawsuit, or increased umbrella liability protection, which is extremely inexpensive, but wouldn't $4-6 million of life insurance coverage cost a lot more?" At this point, I would respond:

> *"Hypothetically Mr. Prospect, if we could obtain the $4 - $6 million for free, would you want it? Of course you would, but we all know that life insurance isn't free. Although life insurance isn't free, often there are ways that we can structurally engineer a life insurance policy in combination with other assets so that we can get the cost down to something similar to your umbrella insurance, and virtually free over time.*

Wills and Estate Planning

> *"The next item that we have on our defense is going to be wills and estate planning. I noticed that you don't have any wills in place. If anything were to happen to both you and your wife, that would be difficult for your children. Now I just want to double check—are you both US citizens? Do you realize that although you do not have a will, the state provides one for you. It is called dying intestate, without a will. The primary issue is, who will be guardian for the kids, because if something happened to you and your wife together, it is going to be up to some judge to choose their guardian. You can have a basic will, or what I call a tax-effective will. We will get into this a little bit later. For most people, the basic will is sufficient, and at least can dictate the guardian for your children. You should also consider durable powers of attorney, so if you are incapacitated, your wife can step in and make decisions. You should also consider the designation of a health-care agent to communicate with the medical doctors. These often come with a living will quite frankly to communicate your wishes as to when to discontinue life support if you're in ICU and brain dead. These additional things get done at the same time you write your will. We don't do wills, but this is something that we want to make sure is taken care of in defense. If you need a referral to a qualified estate-planning attorney, we can provide one.*
>
> *"These are the four items on defense that you should consider reviewing. As you can see, these are some things that need to be taken care of before something happens: Liability protection, disability protection, life insurance, and estate planning.*

Offense

> *"Now the second phase is offense. In this phase, it's considered a good idea to have 3-6 months of living expenses liquid in an emergency fund. That means if it costs you $5k a month to live—mortgage, food, basic living expenses—you should have $15k – $30k liquid. In your case, your wife does not work, so erring to the side of $30,000 would be preferable. The good news is that it seems you have this covered. This should be kept in a liquid account, such as a savings account or money market, to cover you if something should happen: You get hurt, lose your job, or have a financial emergency.*
>
> *"The second thing that's good to see is having no non-deductible debt, such as credit cards, car payments, etc. The good news is, it seems like you're all set here too.*
>
> *"The third component of good offense is home ownership, and you have that taken care of.*
>
> *"And the next element to review are your tax-deferred investments like your 401k. I notice that you're putting the maximum in your 401k, but are not currently using other tax-deferred options.*
>
> *"The fifth and final item in a solid offense is simply your non tax-deferred investments.*

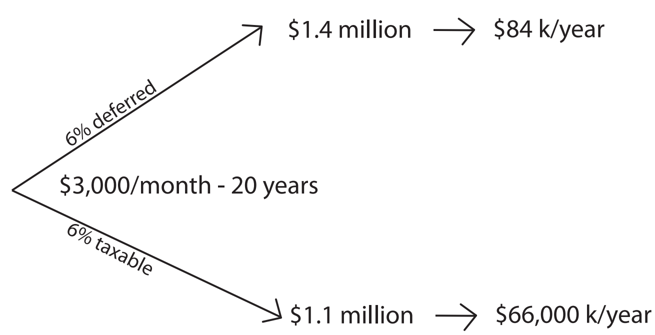
Typically, this is the last thing to get reviewed. Many people have very little in this category because they attempt to maximize their tax-deferred options first."

As you go through this section, I suggest you write this chart on a whiteboard or notepad during your client meeting. It's important that this be done simultaneously with the script. This should not be pre-written, or it will give the appearance of a canned sales talk.

	401K	**Roth IRA**
Contributions	No	Yes
Interest/Gains	No	No
Distributions	Yes	No

"So why do people attempt to max out their tax-deferred options before they look into taxable investments? Let's use your 401k as an illustration. When you make a contribution into your 401k, you receive a tax break on that contribution. As your balance grows, it grows tax deferred. So those are two separate and distinct tax benefits that the 401k has. But the question is, economically speaking, which of the two benefits is more powerful? Over the long run, it's clearly the second benefit. Ironically, the first benefit is what employees tend to appreciate the most, because it gives them an immediate tax break. But again, it's the tax deferral on your interest and gains that is truly the most powerful over the long run. Additionally, we know that in exchange for those two tax benefits, 100% of the withdrawals are taxable to you at retirement."

I suggest you write this illustration on a whiteboard or notepad during your client meeting. It's important that this be done simultaneously with the script. This should not be pre-written, or it will give the appearance of a canned sales talk.



"Let me give you an example of why this is true. Hypothetically, I am going to use that $36,000 annual savings number that you discussed last time we met. We can lower it in the future if you'd like; this is just an example. Ten years ago, everyone wanted to assume that you could make 10%-12% per year on your money. Obviously over the last ten years, we have realized that you can't make a 10%-12% return consistently. So I am going to use 6% as a reasonable projection. Is 6% an assumption with which you're comfortable? I know that right now, it's hard to get even 6%, but I think over the long run that's a reasonable assumption."

"So, on my financial calculator here, I'm just going to perform some really simple calculations. I'm going to show you that if you saved $36,000 per year for 20 years, and earned an average return of 6%, you would end up with $1.4 million in that account.

Now, let's say on the other hand that you had to pay tax on the interest. In that case, your 6% will drop to about 4% net of taxes. So, if we just change the interest rate to 4%, you would end up with about $1.1 million in that account. So, if I can have it tax deferred, it will be worth $1.4 million. If it's taxable, it will be worth $1.1 million. "Now let's say that you deferred the taxes until retirement. Unfortunately, like we talked about last time, you might end up in the same bracket instead of a lower bracket. If you were to cash out this whole $1.4 million investment in a lump sum, and pay taxes on all the deferred interest, how much money do you think you will have left over once you pay the tax? You're probably thinking you might have the same $1.1 million, because you're paying the tax in both scenarios, only the timing is different. Well, the real answer is that you are going to have a little more. How much more doesn't really matter, but you are going to have more because you are deferring the tax. This is your traditional argument for the benefits of tax deferral. All this future tax money that was being deferred in the account was like an interest-free loan from the government. That deferred tax money kept compounding and growing and compounding and growing. Even when you pay taxes on it 20 years later, you will still have a little bit more money in the account. Again, this is because you had that interest-free use of those deferred tax dollars. Does that make sense? Great.

"However, let me ask you this: Are you going to retire and cash out your entire account the day you retire? Of course not. Your intention is probably to keep the principal intact and draw interest, correct? Great. That $1.4 million would give you $84,000 of annual income. But if this account were taxed annually as it grew, the $1.1 million balance would only generate $66,000 of annual income. Now the withdrawals, in either case, are going to be taxable. So what would you rather have $66,000 of taxable income or $84,000 of taxable income? Of course you would rather have the $84,000. What is the difference? Well, the difference is that the interest-free loan from the government that I mentioned a moment ago doesn't end when you retire; in essence it continues. If you live to be 100 years old, all that tax-deferred money is still sitting in this account generating retirement income forever. Now granted, when you die, your heirs are going to have to pay this tax and will end up with the same $1.1 million they otherwise would have. But you get interest-free use of all that money to generate income for yourself during your lifetime. So, can you see why I said the most important component of tax savings is tax-deferred interest or growth? Again, this component mathematically is more powerful than having tax savings on your contributions. It is the same issue that we discussed last week: Would you rather pay tax on the seed or the harvest?"

"Many individuals think that's ok, because they're working under the assumption that they will be in a lower tax bracket after retirement. Unfortunately, for many retirees that is simply not true. When you retire, you no longer have your deductions for your children, your mortgage, as well as some other things. Therefore, if you plan to retire with 60-70% of your pre-retirement income, you might find that your taxable income and your marginal tax brackets are the same.

"Plus, if you look at what's happening right now with the national debt, there are some valid concerns about rising tax rates in the future. I don't know if you're aware of this, but income taxes first started in 1913 as a temporary tax. Almost 100 years later, it's still here. Also, our current tax rates are some of the lowest in history. Do you know what the highest marginal tax rate was in our country? That's right—90%--much higher than the current 35%. So you tell me, in light of this information, do you think tax rates are likely to go up in the future? Of course. At bare minimum, we should probably assume that we will be in at least the same tax bracket after we retire as we are today.

"One way that people often think of 401ks is like saving taxes on the seed but paying taxes on the entire harvest. Let me ask you, if you were planting a crop, would you

rather pay taxes on the seed or the harvest? Of course, you'd much rather pay taxes on the seed, because it is a much smaller number.

"That's why Roth IRAs have become so incredibly popular over the past decade or so. You're putting after-tax dollars in (the seed), but are able to withdraw your money tax free (the harvest) in the future. Unfortunately, you cannot contribute to a Roth IRA because your income is too high. It seems that when anything is really good, the government tends to put limits on it. However, I'd encourage you to check with your employer to see if they have a Roth 401k. Many companies do not, but if yours does, it will allow you a tax-free harvest.

"Those who do not have access to a Roth 401k will often contribute just enough money in their traditional 401k to maximize the company match. For any additional dollars, they'll look into some of the many other tax-deferred options that exist. In your case, that would mean reducing your 401k contributions by $6,500 and potentially channeling that money elsewhere. Mathematically, it almost always makes sense to maximize the company match, despite the fact that you'll be paying taxes on 100% of the harvest.

"In summary, it seems like some minor tweaking is in order for your offensive side. However, it appears the most work needs to be on the defensive side. We all know that any sports team with a great offense, but no defense, has a tough time winning games."

If you consider yourself to be more of a macro financial advisor or have a securities license, this is where you might want to consider integrating one of the additional investment-related disturbing tracks. Examples of this could be: If the prospect had a high percentage of his money in the stock market, had low-yielding bank accounts, or owned bond mutual funds. These disturbing tracks are contained in a supplemental publication that you can obtain by contacting our office.

If no other tracks apply to this particular prospect, go to the commercial and the close (Chapters 6 and 7). Let's assume for a moment that the close was successful and the prospect made you agent/broker of record on an account or signed a letter of intent. Additionally, the traditional medical close can nudge the prospect forward:

The medical close – the "life expectancy report."

"So do you agree that as part of our planning process over the next several meetings we should at least consider the possibility of increasing your liability insurance and life insurance to a level closer to HLV? Great, I agree. Unfortunately, at this stage we have no idea how much you could qualify for in each category.

"On the liability side, we're going to have to coordinate with your property and casualty insurance agent to apply and see how much you qualify for.

"On the life insurance side, the first thing we need to do is get a life expectancy report from an insurance company. Let me tell you what that involves. We would need to get some medical background from you. Then, we would have a nurse or doctor come out and see you. That nurse or doctor would take your blood pressure, a urine sample, and do an EKG. They do it in the convenience of your home and there is no cost. It will take about 45 minutes. Then, they will request copies of your medical records from your doctors. After a few weeks, they will give us a life expectancy report. Then we can get together again, crunch some numbers, and figure out to what extent this makes sense for you. Does that sound fair? Let me have you sit down with Amy for a few minutes so she can start doing the paperwork for that life expectancy report. If the numbers come out unfavorably, I'm going to recommend you not do this, so nothing is set in stone yet.

I know that everyone who has gotten a good life expectancy report has seen these numbers come out favorably, and has wanted to do it."

So what do you do in the next meeting?

The next step in the sales process when using this track will be The "Grid" presentation (See Chapter 8). This step comes in a subsequent meeting, usually after receiving medical approvals from the insurance company. This is where you get the prospect to see the value of cash value life insurance.

Key Points:

- In the "Defense" section, I educate them about all areas of protection. We discuss auto and homeowners insurance, umbrella liability insurance, disability insurance, life insurance, and estate planning. Since you're interviewing for the job of general contractor, it's important that you advise them in all areas of protection—not just those for which you get paid. This will also help prevent "life insurance breath."
- I also believe that in order to help posture yourself as an advisor, not a sales person, you can't do any type of proposals for free. Therefore, you'll notice that when we get to the life insurance section, we did not do any sort of traditional needs analysis. Instead, we introduced the concept of Human Life Value (HLV). This can be calculated in a very simple way in front of a prospect.
- Whereas a needs analysis helps calculate the minimum amount of life insurance someone should have for their family to get by, the HLV calculates the total lost economic value caused by death. Therefore, it gets them to start thinking about bigger numbers. If prospects are looking at life insurance as a necessary evil, then they are going to want to buy the minimum amount they need, as well as the cheapest form of coverage (term insurance). However, if the prospect truly understands the economic value of life insurance for them and for their family, they will want to buy more than the minimum, and also will also want cash value insurance rather than term insurance. Our job is to get them to want it!

- In the "Offensive" section, our goal is to get the prospect to understand the very basic elements of sound financial planning. Also, this is your opportunity to begin to educate the prospect about the power of tax deferred options and that there are many such products available to them.

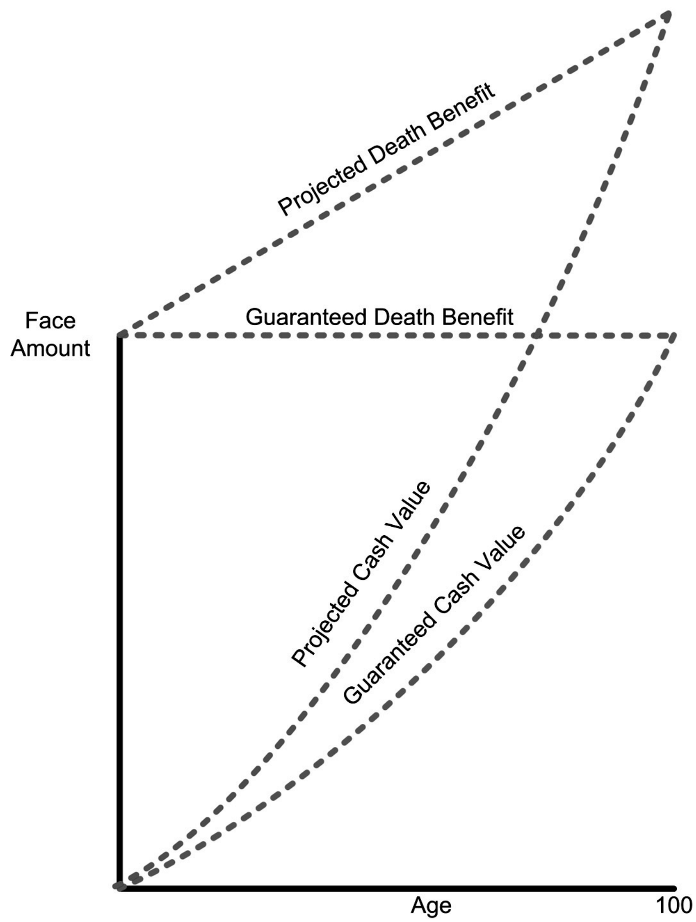
Track B – The Life Insurance "Upgrade"

This so simple that even a caveman can do it. So can an annuity agent!☺

Often times while doing a CFQ, you will come across an older life insurance policy where the cash value represents a significant part of the death benefit. In other words, that person is partially self-insured and the insurance company does not have nearly as much at risk as in the early days of the policy. This may present an opportunity with a healthy prospect to increase their insurance coverage with no additional out-of-pocket cost. It may also enable a healthy prospect to have the same amount of coverage with less out-of-pocket cost. For a "paid-up" policy, this could create an opportunity to withdraw some of the cash value from the policy but keep the death benefit the same.

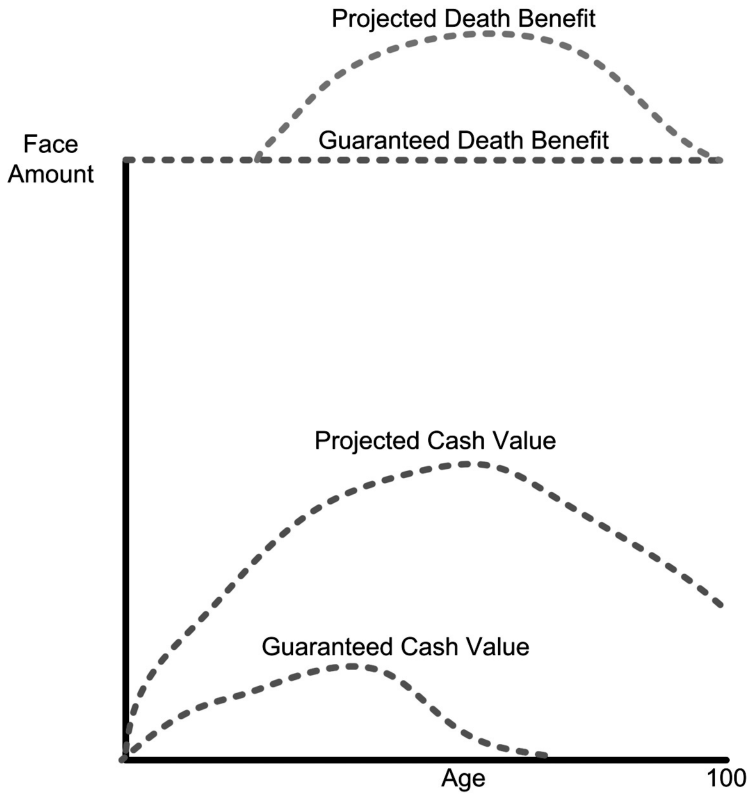
One reason for this is that the older policy likely used older mortality tables, which assumed shorter life expectancies, e.g. 1958 CSO or 1980 CSO. Another reason is that these policies are most likely whole life insurance. Whole life insurance by definition is designed so that the cash value and death benefit become equal at age 100. If the prospect bought the policy primarily for cash accumulation, then perhaps that's ok. But I find that most people bought the policy primarily for the death benefit. In the latter case, you have an incredible opportunity to help this prospect do a "life insurance upgrade," often with a "no-lapse" universal policy.

The following graph represents whole life insurance



Note that the difference between the projected and guaranteed numbers are simply dividends. Also note that in both the cases of the projected numbers and the guaranteed numbers, the cash value and death benefit become equal at age 100. In other words, the policy is said to "endow" at age 100. Because of the policy's forced cash value accumulation, the premiums for whole life are typically higher than those for "no-lapse" universal life.

For the no-lapse universal life, note the following graph:



Because "no-lapse" universal life is not built for cash accumulation, and the cash value can tail off in later years, the "no-lapse" universal policies are often less expensive than whole life.

The following sample script is extremely simple, because basically you're offering the prospect free money. All you're trying to do for the close is get permission to order in-force illustrations from the existing insurance company. These illustrations will help you determine whether or not an "upgrade" will be beneficial for the prospect. Explain at this point that if an opportunity exists, the next step will be to have an insurance company do a "life-expectancy report" (medical close) to see if the prospect can still qualify at favorable rates. This entire meeting can be completed in less than 30 minutes. When the "in-force illustrations" come in, an assistant can easily be trained to determine if an opportunity exists. If it does, then the same trained assistant can often call the prospect and fill out the preliminary application with no additional time required from you. Your next meeting with the prospect comes only if and when they're approved and you feel confident that this "upgrade" would improve the prospect's situation.

Here's the sample script:

> "*Mr. Prospect, one of the things I noticed is that you have a whole-life policy with a highly rated company. Let me ask you, has your agent done an annual analysis on the status of this policy? No? What was the primary reason for taking out this insurance policy—the cash value component or the life insurance component? The life insurance component—great.*
>
> *"Well, I'm not surprised that the agent has not reviewed this routinely, because I couldn't help but notice that there was a lot of cash value in this policy. In and of itself, that's not*

a bad thing, but at your death, you heirs will only get the death benefit; the company keeps the cash value. Often, there are options to "upgrade" your life insurance to get more death benefit with absolutely no more out-of-pocket cost. This is because people are living longer now, and the newer life expectancy assumptions are much greater now than when your policy was first written. In other words, the insurance companies today are using newer mortality tables.

"It's also good to do a routine review of this policy in light of the recent sagging economic conditions. We've seen policies that were supposed to be "paid-up" in 12 years that will now require more than 20 years of payments at today's interest rates. If conditions get worse, premiums that you thought were no longer due could, in essence, reappear and become due again. Most of my clients don't like any surprises, so they ask us to take an audit of their policies annually.

"About 50% of the time, these audits reveal that a reasonably healthy individual can get more coverage with no out-of-pocket cost, or the same coverage at a lower cost and/or a partial refund of the cash value.

"These life insurance audits are free of charge. With your authorization, we can order what's called an "in-force illustration" at the current dividend rate. If you wanted us to do that, I would also suggest an illustration assuming a 1% reduction in the current dividend rate. Again, none of us like surprises. The insurance company will send the report to you, and you could forward it to us. We will review it and invite you back in to go over it together.

"So, if there's a 50% chance that we can reduce your premiums, or increase your death benefit without increasing your premiums, can you think of any reason not to do this? I agree. Let me get some forms.

Key Points:

- Because the cash value increases over time, the net amount at risk to the insurance company, i.e. the net death benefit, reduces over time. People don't like to lose something they paid for.
- The premium payments can be longer than expected or even reappear and become due again after you thought they were done.
- This track is hard to mess up because you're offering somebody free money!

Track C – Annuity/IRA Arbitrage

This is also so simple a caveman can do it. In some cases, an annuity agent can too. ☺

In order to understand the client benefits of this strategy, you must first understand how annuities/IRAs are taxed at death. Generally, income taxes are due on the gains shortly after death. Depending upon the client's net worth, estate taxes could exacerbate the situation. Now in the case of IRAs, under certain circumstances, the income taxes can be paid gradually over the course of the beneficiary's remaining life expectancy. But even then, the taxes eventually have to be paid. In many cases, by taking some type of installments before death, they can spread out the taxes which often times can be paid in a lower tax bracket than the beneficiary's. Many retirees would rather pay a bit more tax now so as not to saddle their beneficiaries with a heavy tax burden later on.

By investing part or all of these installments into life insurance, the client can effectively "turbocharge" his annuity or IRA. Life insurance, of course, creates leverage, and the death benefits are income tax free. Using this strategy, many retired folks can significantly increase their financial legacy.

Now the traditional method of annuity arbitrage is to annuitize an annuity with a lifetime guarantee. The biggest benefit of this is that each annuitized payment contains some taxable money, but also some tax-free return of principal (of course, in the case of IRAs, this tax advantage disappears). However, at death there will be zero value to the remaining annuity, and the heirs will only receive the proceeds of the life insurance. This approach tends to work well with wealthier individuals who are in a higher income tax bracket and have estate tax issues. In this case, the life insurance is often put in an Irrevocable Life Insurance Trust (ILIT).

Another way of helping clients using this arbitrage technique is to invoke an income rider on an existing annuity and channel part of all of those installments into a life insurance policy. The benefit of this method is that the payments are still guaranteed for life, but the annuity value does not automatically go to zero at death. Many times, the heirs inherit the life insurance proceeds as well as some remaining value from the annuity. Unfortunately, though, these withdrawals from the income rider are taxed as LIFO, and are not pro-rated. This approach typically works better for middle class individuals whose beneficiaries may be in an even higher tax bracket than they are, or where a lump-sum inheritance could push those beneficiaries into a higher bracket. This is the example we'll be using in our sample script.

Here are the steps to this track:

Step 1: Confirm that most likely, the prospect will have no need for this money during their lifetime, and that it will most likely end up as an inheritance for their heirs.
Step 2: Explain and quantify the tax consequences at death. If there are multiple heirs, show them that the IRS is like an additional heir, who will likely receive more than each of the others. (Show numbers on a whiteboard or notepad).
Step 3: Re-educate them on how the income rider works, and remind them that it doesn't benefit their heirs (it is a "use it or lose it" feature).
Step 4: Show the prospect that taking some income now might actually save taxes in the long run. If their beneficiaries are forced to take the money in a lump sum, it would likely push them into a higher tax bracket. This is especially helpful if we can invest those installments in a place better suited for their beneficiaries.
Step 5: Tell the story about an informed client who "turbocharged" his IRA/annuity by putting the installments into a life insurance policy.
Step 6: Discuss how insurance companies traditionally made money and "arbitraged away" their risk by balancing life insurance and annuity product portfolios.
Step 7: Show the prospect a guesstimate, or range, of the additional legacy dollars they could provide to their heirs by simply moving installments from one end of an insurance company to another. (Show numbers on whiteboard or notepad).
Step 8: The medical close – the "life expectancy report."

Here's the fact pattern for the sample script that follows:

- 72-year-old prospect
- IRA money invested in an indexed annuity
- The annuity has a $535,000 account value
- The annuity has a $600,000 income base
- Prospect has three children
- Prospect is taking RMDs only
- Prospect believes he will not need this money

Here's a sample script:

Step 1: Confirm that most likely, the prospect will have no need for this money during their lifetime, and that it will most likely end up as an inheritance for their heirs.

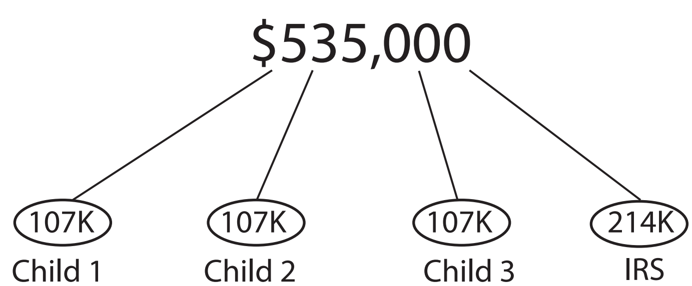
"Mr. Prospect, I can see that you have an indexed annuity as part of your IRA. Let me ask you, are you taking only the required minimum distributions, or are you taking additional withdrawals? If the government didn't force you to take these RMDs, would you take them? Let's talk for a moment about your best guess as to the eventual use of this money. Do you think that you'll end up using much of this money, or is it more likely that most of this money will wind up going to your heirs after you're gone? So again, it sounds like this money is money that your children might use eventually, but not you. Great."

Step 2: Explain and quantify the tax consequences at death. If there are multiple heirs, show them that the IRS is like an additional heir, who will likely receive more than each of the others.

"I want to show you what happens to this IRA account at your death; for now, let's assume that is today. Hopefully it won't be today, but let's assume today since we know what the account is worth today and we don't know what it is going to be worth in the future. Of course, at death, the penalties are forgiven so your heirs will get the entire $535,000. Except for one thing; you actually have a silent partner in this IRA, whether you realize it or not, known as the IRS. The IRS is going to take, depending on tax brackets, approximately 40% off the top between federal and state income taxes. 40% of this account equals $214,000. This amount is going to go to the IRS; the remainder, which is $321,000 is going to get split between your three children, $107,000 each. So at your death, it's almost as if at age 71 you adopted a fourth child and decided that you like that child better than any of the other three.

Did you think the tax would be that high at your death? Of course not. Truth be told, there are some options where your children can defer the taxes for a while, but the bottom line is that eventually those taxes are due. Right now, if you withdrew the entire $535,000 as a lump sum, the tax consequences would be the same. In other words, even today, the IRS has a $214,000 lien on this account. Obviously, you would never do this."

As you go through this section, I suggest you write this illustration on a whiteboard or notepad during your client meeting. It's important that this be done simultaneously with the script. This should not be pre-written, or it will give the appearance of a canned sales talk.



Step 3: Re-educate them on how the income rider works, and remind them that it doesn't benefit their heirs (it is a "use it or lose it" feature).

"I want to review with you where you are regarding the annuity that you invested in three years ago. As you know, the first two years that you were in the annuity, you didn't get any indexed gain because the markets went down. The good news is you didn't lose, but unfortunately you didn't make anything. This past year, you made a 7% gain on the base contract. However, the market is down a lot from the time you got into the annuity three years ago. If you had stayed in the market, you actually would have lost money.

But again, all you made is 7% over the three years. The good news is that if you recall, you have an income rider. That income base is guaranteed to grow at 6% per year. I am going to get up on the board for just a moment and show you where you are with this account. The $500,000 you started with, of course, has now grown to $535,000. However, the income base has grown by substantially more. The income base has actually grown to $600,000 thanks to that 6% guaranteed growth rate that we discussed.

"Let me give you a brief refresher course on how that income base works. Remember, the income base is really a fictional number, because if you were to cash out the annuity at this point after three years you would only get the $535,000. Actually, it would be a little bit less than that because you haven't gone the full 10 years yet, so there would still be some early withdrawal penalties. Again, the income base is up to $600,000. If you were to begin taking guaranteed lifetime income from this account, it would be based upon that $600,000 number. So that is why it is called an "income base." Here is the interesting thing about that $600k: It is a "use-it-or-lose-it" benefit. In other words if you were to begin taking guaranteed lifetime income from your account, you would continue to receive that 6% per year for the rest of your life every single year no matter what happens to the actual account value. So, even if the markets were to do horribly for the next 30 years, and you were to receive zero indexed gain each and every year, they would continue to pay you that guaranteed income even if your actual account value were totally depleted. However, if you don't invoke the rider and just let it accrue and grow, then it would disappear at your death. In this example, your heirs would only receive the $535,000. Again, it is a "use-it-or-lose-it" benefit. So, at some point you are going to want to invoke this guarantee so you can make this dormant guaranteed amount come to life. Does that make sense?"

Step 4: Show the prospect that taking some income now might actually save taxes in the long run. If their beneficiaries are forced to take the money in a lump sum, it would likely push them into a higher tax bracket. This is especially helpful if we can invest those installments in a place better suited for their beneficiaries.

"Right now, you're in a lower tax bracket, so the RMDs, the amount the government forces you to withdraw, are being taxed in a bracket much lower than 40%. The IRS knows that when you die, they get to realize this $214,000 tax lien we discussed before. However, with life expectancies lengthening, people are living longer and longer now, so the IRS is afraid you are going to live to be 100 years old. They don't want to wait another 30 years for their money, so they force you to start taking distributions today. Sounds crazy, but I think that is the rationale why the laws work this way.

"Ironically, these distributions actually benefit you and your heirs, because they're being taxed over time in your current, lower tax bracket. Now some people decide to voluntarily withdraw more than the IRS forced distributions in their current, lower bracket. This way, they can reduce the impact of the large lump sum pushing their beneficiaries into the highest possible tax bracket. Of course, this strategy can be even more beneficial if those extra dollars are channeled toward a vehicle that helps provide a larger legacy for the children."

Step 5: Tell the story about an informed client who "turbocharged" his IRA/annuity by putting the installments into a life insurance policy.

and

Step 6: Discuss how insurance companies traditionally made money and "arbitraged away" their risk by balancing life insurance and annuity product portfolios.

are comingled below:

"I would like to share with you a concept that one of my clients gave to me. It's actually a little embarrassing when your client shows you a great financial idea. This particular fellow is one of those engineer types. He likes to get on the computer, create excel spreadsheets, and analyze everything. I have since shared this concept with a whole bunch of my clients like yourself, and virtually everyone has thought it to be a great idea. I have come to refer it as "turbocharging your IRA."

"This particular fellow understood how insurance companies make money, or the way they made money in the old days. More recently, some insurance companies like AIG thought that they were in the speculative investment business and forgot that they were actually in the insurance business. Traditionally, insurance companies made money through annuities and life insurance, and by managing the balance of those two product portfolios. By balancing these two, they can pretty much guarantee that they will never lose money. They would assume a 2-3 year difference in life expectancies between both portfolios. The longer life expectancy would be assumed on the annuity side, and the shorter on the life insurance side. This 2-3 year spread would guarantee the company a profit no matter what happened to future life expectancies. If life expectancies shortened, they would lose money on the life insurance portfolio, but make money on the annuity portfolio. Conversely, if life expectancies lengthened, they'd lose money on the annuity and make more money on the life insurance side. In essence, they arbitraged away the risk.

"This is similar to what casinos do with roulette. I'm not much of a gambler, but the roulette table has somewhere between 40-60 numbers. One half are black and one half are red. However, one is green—the double zero. This one spot on the wheel is what guarantees profit for the casino.

"This particular client realized that if he invoked the income rider, he would enjoy the benefits of the guarantee and not lose it. Also, this extra income would be taxed at his current, lower bracket, which would help his heirs. Lastly, if he were to take this income and simply reposition it from the annuity side of an insurance company to the life insurance side of an insurance company, he would benefit from creating a similar arbitrage. In essence, he was plotting one side of an insurance company against the other side of an insurance company and coming out the winner. Also, he realized that a life insurance death benefit is income tax free. In his case, his heirs will eventually receive a few hundred thousand dollars greater inheritance with significantly reduced income taxes."

Step 7: Show the prospect a guesstimate, or range, of the additional legacy dollars they could provide to their heirs by simply moving installments from one end of an insurance company to another.

"So let's say, hypothetically, that you liked this idea and wanted to copy it. Your gross guaranteed lifetime withdrawal would be $36,000. In your bracket, the income taxes on this withdrawal would be about $9,000. So the net additional income to you would be $27,000 after tax. I'm going to guesstimate, assuming you're still in reasonably good health, that this $27,000 could provide your heirs with an additional tax-free legacy of $400-500,000. Even if I am incorrect, and the number ends up being only $300,000, your heirs will most likely still be in a better position. Let me explain why.

"If you recall, these "income riders" represented what I call a scientific breakthrough in the annuity industry. Historically, to get an income stream guaranteed for life from an insurance company, you would have to annuitize. In this case, the insurance company

keeps the remainder of the money at your death. In the old days, the heirs would get nothing. Because of this "breakthrough" I'm referring to, any remaining balance in the annuity will be paid to your heirs at death. Unless the indexing portion of the annuity has incredibly poor performance in the future, it is likely that it will still have value at your death. Therefore, your heirs will inherit the tax-free life insurance benefit plus some additional amount from the annuity. Hypothetically, if the indexing were to average 6% per year between now and your death, it would still be worth approximately $535,000. If the indexing averaged 8%, the death benefit would be greater, and at 4%, it would be less. But even at 4%, there would most likely be a balance remaining for your heirs after your death."

Step 8: The medical close – the "life expectancy report."

"Now, Mr. Prospect, I don't know at this point if you could qualify for this strategy. In order to determine that, an insurance company would have to do a life expectancy report. If you could quality, the benefits for your heirs could be substantial. You would be bringing a dormant guarantee to life, and therefore not losing it. You would be paying tax on increased withdrawals over time at a reduced tax rate, thereby reducing the tax burden on your heirs. Lastly, you'd be creating this arbitrage with the insurance company, and channeling the withdrawals into the single best legacy creating vehicle that exists.

Do you think that this strategy is something you should at least consider? Great. Do you think it makes sense to see whether or not you even qualify? Great.

"The first thing we need to do is get a life expectancy report from an insurance company. Let me tell you what that involves. We would need to get some medical background from you. Then, we would have a nurse or doctor come out and see you. That nurse or doctor would take your blood pressure, a urine sample, and do an EKG. They do it in the convenience of your home and there is no cost. It will take about 45 minutes. Then, they will request copies of your medical records from your doctors. After a few weeks, they will give us a life expectancy report. Then we can get together again, crunch some numbers, and figure out to what extent this makes sense for you. Does that sound fair? Let me have you sit down with Amy for a few minutes so she can start doing the paperwork for that life expectancy report. If the numbers come out too low, I'm going to recommend you not do this, so nothing is set in stone yet. I know that everyone who has gotten a good life expectancy report has seen these numbers come out favorably, and has wanted to do it."

Key Points:

- This strategy will not work if the prospect believes they will need most of this income in the future. If the prospect believes they will need some income, simply adjust the life insurance amount downward.
- Most people don't realize the magnitude of taxes due at death.
- People are more motivated to "not lose something" than they are to gain something. Therefore, the concept of "use-it-or-lose-it" is emotionally powerful.
- People love to hate the IRS. Showing a prospect that the IRS will get more than any of their individual heirs is powerful. Saying that, ironically, RMDs save taxpayer dollars insinuates that the prospect can beat the IRS at its own game.
- Telling the story about the really intelligent client implies that they too are intelligent if they use this strategy. Also, since "telling is not selling," it's more powerful to use the client's words than it is if I just "tell" them the same information.
- People love to hate insurance companies. Discussing this arbitrage concept insinuates that you can beat the insurance company at its own game.

Track D: Estate Planning

The following are the key steps for this track:

Step 1: Familiarize prospect with the basic IRS rules for estate taxation.
Step 2: Calculate and demonstrate the estate tax liability if the prospect were to die today. If possible, illustrate how the IRS will inherit more money than each of the prospect's heirs. (Show numbers on a whiteboard or notepad).
Step 3 (if necessary): Calculate and demonstrate the estate tax savings realized with the use of a "tax-effective will" (A/B trusts). (Show numbers on a whiteboard or notepad).
Step 4: Help the prospect discover that unless they're in bad health, or have an incredibly poor family medical history, their joint life expectancy is probably 90+ years of age.
Step 5: Calculate and demonstrate to the prospect how large their estate might get if they live to that joint life expectancy. (Show numbers on a whiteboard or notepad).
Step 6: Educate the prospect about the four different methods of paying the remaining estate tax. Let the prospect decide which one makes the most sense. The prospect will always choose option 4—to "prefund" the estate tax through annual gifts into an irrevocable trust. (Show the range of costs for the four methods on a whiteboard or notepad).
Step 7: Educate the prospect about the "miracle" of life insurance. Help them discover that using anything other than life insurance in the irrevocable trust would require that they live past life expectancy to completely fund the tax. Explain that the life insurance is not as expensive as they may think because it is designed for this specific purpose.
Step 8: The Medical Close—the life expectancy report.

The following is the fact pattern for our sample script:

- Husband and wife are both 60 years old.
- They have three children.
- Their current estate is valued at $3 million.
- In two years, they will begin to draw $100,000 per year from their assets.
- They believe they can grow their assets at an average rate of 6% a year.
- They have simple wills.
- The taxable equivalent amount to the federal estate tax credit equals $1 million.

The following is a sample script.

Step 1: Familiarize prospect with the basic IRS rules for estate taxation.

"Mr. Prospect, are you familiar with the basics of estate tax law? Estate taxes were initially created so that wealthy families could not perpetually grow their wealth and become too powerful. It was designed to prevent us from becoming a landed aristocracy. Initially, it was intended for only the extremely wealthy. Over the last hundred years however, the net-worth thresholds at which this tax is triggered have not been raised sufficiently to keep up with inflation. So even though you may not consider yourself to be wealthy, the IRS does.

"Under the estate tax laws, you can pass an unlimited amount of money to your spouse in case of death with no tax. The problem exists when both spouses are gone and the assets get turned over to a non-spousal beneficiary. That is when estate taxes are due. As a general rule, estates are taxed at the 50% rate. Under current law, each spouse can pass $1 million down to the next generation without any estate tax. Everything over that amount would be taxed at approximately the 50% rate."

Step 2: Calculate and demonstrate the estate tax liability if the prospect were to die today. If possible, illustrate how the IRS will inherit more money than each of the prospect's heirs.

"Again, each of you can pass $1 million down to the next generation estate tax free. This is what I call a "use-it-or-lose-it" privilege. In your case, you have what we refer to as simple wills. At the death of the first spouse, 100% of the assets transfer to the second spouse. At that point, the first spouse hasn't used it, so he has lost it. When the second spouse subsequently dies, she would only be able to pass the first $1 million tax free to the next generation. The remaining $2 million would be taxable. At the 50% rate, the estate taxes due would be approximately $1 million. Each of your three children would inherit $666,000 each. So it's almost as if you adopted a fourth child, whom you've favored over the other three!"

Step 3 (if necessary): Calculate and demonstrate the estate tax savings realized with the use of a "tax-effective will" (A/B trusts).

"Your first goal should be to reduce or eliminate the tax. Many people in your situation upgrade their will to what I refer to as a "tax-effective will." With this type of will, you can regain the second credit and effectively transfer $2 million between the two of you to the next generation. In this case, only $1 million of your estate will be taxable. At the 50% rate, the estate taxes due would be approximately $500,000. Each of your three children would inherit $833,000 each. So for $2-3,000 in attorney's fees, you could save $500,000 in estate tax. So do you think that is something you should consider? I agree.

"Now I want to stress that I am not an attorney. If you know an attorney who specializes in estate planning, feel free to use that person if you're comfortable. If not, I can refer you to someone who specializes in that area."

Step 4: Help the prospect discover that unless they're in bad health, or have an incredibly poor family medical history, their joint life expectancy is probably 90+ years of age.

"Mr. Prospect, let me ask you a few questions. Do you or your wife have any major medical problems at this time? No? Great. Tell me a bit about your family medical history. Are your parents alive? At what age did your parents and grandparents pass on? Given that information, if I were a life insurance actuary, I would project that you have a pretty average life expectancy. Do you know what the average life expectancy is today for both you and your wife as a couple? Well, that life insurance actuary would say: Age 92. In other words, there is a 50% probability that at least one of you will live past age 92. Remember, that it's only after the second death that the estate taxes are generally due."

Step 5: Calculate and demonstrate to the prospect how large their estate might get if they live to that joint life expectancy.

"Mr. Prospect, it might be helpful to take a moment or two and project what the estate tax liability might be at your life expectancy 30 years from now. Do you agree? Great.

Use a financial calculator to project the estate growth in the future, using the following dialog.

"If you're withdrawing $100,000 per year, and the remaining estate is growing at an average of 6% per year, your estate should be worth almost $9 million at age 90. Assuming you upgrade your will to the "tax-effective will," the taxable estate will be $7 million. At the 50% tax rate, the taxes due would be approximately $3.5 million.

"Did you ever think that your estate could be that large during your lifetime? I didn't think so.

But I bet that 30 years ago, you didn't think your estate would be worth $3 million today.

Step 6: Educate the prospect about the four different methods of paying the remaining estate tax. Let the prospect decide which one makes the most sense. The prospect will always choose option 4—to "prefund" the estate tax through annual gifts into an irrevocable trust.

"Now that $3.5 million estate tax will be due within nine months after your death. So perhaps we should spend a couple of minutes discussing the different ways that your children can pay this tax. Would you agree? Great.

"The first way they could pay the tax is in cash. But in order to do that, you would have to keep $3.5 million liquid, sitting in a money market or savings account in case of death. In essence, it would cost your estate $1 for each $1 of taxes due.

"The second way they could pay the tax would be to liquidate investments. But let's say, for example, that the investment were in the stock market, and the market had taken a significant drop right about the time of your death. Your children would be forced to liquidate that stock at a reduced value within nine months. We also know that having to liquidate real estate quickly seldom gets full market value. In essence, it could cost your estate as much as $1.50 for each $1 of taxes due.

"The third way they could pay the tax is to borrow the money. Assuming they have good credit and this is possible, they might be able to borrow it at 8% interest. The long-term cost of this loan will vary depending upon the repayment period. In essence, it could cost your estate $1.08 - $2 for each $1 of taxes due.

"The fourth way to pay the tax is to "pre-fund" the tax. This would require setting up an irrevocable trust and transferring money into it annually at the rate of 3-5 cents on the dollar annually. Over the long run, this can be the most cost-effective method of paying the tax.

"Also, by transferring this money into the trust annually, it can actually retard the growth of the estate so less estate taxes will be due down the road at your death.

"So Mr. Prospect, let's talk for a moment about which method of payment you'd like your heirs to use? I agree with you, option 4 looks more desirable.

"The good news is that the same estate planning attorney that would write your tax-effective wills could also establish this trust."

Step 7: Educate the prospect about the "miracle" of life insurance. Help them discover that using anything other than life insurance in the irrevocable trust would require that they live past life expectancy to completely fund the tax. Explain that the life insurance is not as expensive as they may think because it is designed for this specific purpose.

"The last thing to consider is how to invest this money that is transferred periodically into the irrevocable trust. If it's invested in the stock market or real estate market, then we could have the same problem as before. If those respective markets happen to be doing poorly about the time of your death, your children could be forced to sell the assets at a loss. If it's invested in safe instruments like CDs, it could take until well past your average life expectancy before the trust grows to a sufficient level to pay all the tax.

"You could try to fund the trust more quickly by making larger annual transfers. Unfortunately, the estate tax laws only allow you to transfer $72,000 per year maximum

between you and your wife to your three children. Transferring more than that annually will trigger a gift tax which is at the same rate as the estate tax which we're trying to pay!

"Let me share with you one method that many in your situation use to eliminate these risks. They put a life insurance policy into this trust. The life insurance death benefit would be a guaranteed amount sufficient to pay the taxes. The annual transfers into the trust would be of a maximum guaranteed amount and could not increase. Now, I know you thought you were finally at the age where you didn't need any more life insurance for your family. And you probably think that life insurance premiums would be pretty costly at your age. But the type of policy I'm discussing is actually fairly inexpensive because it is designed for this specific purpose—the payment of estate taxes. It is designed to pay off at the second death; exactly when the taxes are due. Therefore, the event that triggers the taxes is the same event that triggers payment of the income- and estate-tax-free death benefit.

"At this point, I'm not even sure whether you can qualify for this particular funding vehicle, because it depends upon your current health. If you could quality, the benefits for your heirs could be substantial. Given what we've talked about today, do you think that this funding vehicle is something you should at least consider? Great. Do you think it makes sense to see whether or not you even qualify? Great, I agree.

Step 8: The medical close – the "life expectancy report."

"Now again, I don't know at this point if you could qualify for this funding vehicle. The first thing we need to do is get a life expectancy report from an insurance company. Assuming you qualify, this will also tell us whether it will cost you 3 cents, 5 cents, or even 7 cents annually to "pre-fund" the estate tax. This can typically be determined in approximately the same time frame it takes the attorney to create the "tax-effective" wills and irrevocable trust. In essence we're killing two birds with one stone.

"Let me tell you what getting the life expectancy report involves. We would need to get some medical background from you. Then, we would have a nurse or doctor come out and see you. That nurse or doctor would take your blood pressure, a urine sample, and do an EKG. They do it in the convenience of your home and there is no cost. It will take about 45 minutes. Then, they will request copies of your medical records from your doctors. After a few weeks, they will give us a life expectancy report. Then we can get together again, crunch some numbers, and figure out to what extent this makes sense for you. Does that sound fair? Let me have you sit down with Amy for a few minutes so she can start doing the paperwork for that life expectancy report. If the numbers come out too low, I'm going to recommend you not do this, so nothing is set in stone yet. I know that everyone who has gotten a good life expectancy report has seen these numbers come out favorably, and has wanted to do it."

Key Points:

- Most people don't realize the magnitude of taxes due at death.
- We did not get into a technical discussion about the details of A/B trusts. At this stage, the prospect needs to know how to tell time, not how the clock works. There will be plenty of time for detail later on.
- People are more motivated to "not lose something" than they are to gain something. Therefore, the concept of "use-it-or-lose-it" is emotionally powerful.
- We helped the prospect discover the high probability that he'll live another 30 years or more, before we projected the growth of his estate for that same time period. We got the prospect's agreement first.
- He may not purchase the entire $3.5 million of life insurance. But by projecting the estate growth over 30 years, we got the prospect to think big.

- We helped the prospect discover that the "pre-funding" option is probably the best. Notice that at this point, our goal is to get him committed to an annual gifting program. We did not have "life-insurance breath."
- Before we mentioned the word "life insurance," we focused on all of the risks of the other funding options.
- People love to hate the IRS. Showing a prospect that the IRS will get more than any of their individual heirs is powerful. Saying that, ironically, RMDs save taxpayer dollars insinuates that the prospect can beat the IRS at its own game.

Chapter 5
The Book of Wedges

Although we talk about wedges separately, wedges are really part of the tracks. The tracks disturb the prospect on their investments. The wedge teaches the prospect that it's really their current advisor's "cancerous philosophies" that are causing their investment problems.

The wedges are not to be thought of as something separate, but rather as something that should be interwoven into the appropriate track. Think of the track as the science and the wedge as the art. If, after a track, the prospect indicates they want to go back and discuss the situation with their advisor, that's an indication you didn't execute a good enough wedge.

Wedges are important with every case, but are crucial with single- advisor prospects because of the depth of the existing relationship. Think visually of a wedge. In a wedge, the top part is gradually increasing, but the bottom part is gradually trending downward. Think of that as an indication that a wedge needs to be reasonably subtle, so you're not beating up the advisor.

I think of it as if you were underwater with someone else. If you pushed them downward, yes, they would go down, but at the same time you would float upward. What you're trying to say in building a wedge is, as a female advisor from the south that I know says, "You can't blame your advisor. I know he's really trying - it's just that he has limited tools at his disposal. Bless his little heart, he's trying." Now, obviously, as a male advisor from the Northeast, I can't use those exact words, but that's the concept I'm trying to convey.

When you're building a wedge, you're answering the question, "Why?" "Why is it possible that my trusted advisor for so many years could have made what now seems to be such a simple and foolish mistake?" Remember, they've known him for a long time and he is the incumbent. You're brand new.

The spirit of the wedge is to explain that the problem lies with their current advisor's business model.

Wedges Inherent in Life Insurance Tracks A-D

In the case of Track A, Defense/Offense the primary wedge typically addresses the fact that this prospect does not have a "general contractor." Therefore, we are able to show him that things are falling through the cracks. By bringing to light problems in his financial plan that his current advisors didn't establish, you're setting yourself apart. You're also differentiating yourself by helping him in areas for which you do not get compensated, as well as those for which you do. Additionally, you're not doing a computer-based needs analysis, which the prospect has probably seen several times before. Instead, you're educating them about a concept which, until now, has been foreign to them—Human Life Value.

In the case of Track B, the wedge is self-evident in the fact that their insurance agent has not kept them current vis-à-vis the new mortality tables. In some cases, a wedge can be driven even deeper if their current agent is a captive agent with an insurance company. It is possible that this company doesn't offer the newer "no-lapse" universal life products. It's also possible that that captive company doesn't condone internal replacements, or the exchanging of their products to another company. In this case, the advisor is doing what is best for the company, not the client. If the original agent is no longer in the business, the same wedges can be used against the servicing agent.

In the case of Track C, the wedge implies directly that the advisor's business model is geared more towards annuities and not toward taxation, estate planning, or life insurance. The current advisor may not be aware of how heavily these annuities/IRAs are taxed at death. Or, he may not offer life insurance as part of his practice. He put the prospect's money in a product that has both good and bad attributes. Your goal now is not to replace the product, but instead to keep the good attributes and "turbocharge" the bad attributes. Of course, if you are the agent of record on the annuity, no wedging is necessary.

Finally, in the case of Track D, you're educating the prospect in areas that their insurance agent and/or investment broker have not. If they have life insurance inside their estate, you can wedge against the current agent on the basis that this insurance will be part of their taxable estate. In other words, half of it will go to the government at death. Again, you're elevating yourself because you're not only focusing on the areas for which you get paid, but also on those for which you don't. Even if the prospect's attorney has recommended A/B trusts, he probably has not discussed with him the options for paying the taxes upon death. Attorneys never do.

Chapter 6
Step 5—The Commercial

So when should you give your commercial to the prospect? ONLY ONCE THEY'VE ASKED YOU FOR IT and not a moment earlier. I tell advisors that they need to avoid "vomiting" their commercial on the prospect. Prospects are expecting a sales pitch. If you give them your commercial too early, they'll interpret it as a sales pitch and be put on the defensive.

When I first started in the financial industry, I was taught to start with my company's commercial and how great it was. I quickly realized that this early in the meeting, nobody cared about my commercial or my company because they had not yet been able to determine what was in it for them. A lot of so-called sales coaches will tell you to use the "assumed" close. (A version of karate.) As a proponent of judo, I completely disagree. By waiting for the prospect to ask you for your commercial, you can be assured that they are ready for it, and prepared to listen and absorb it.

If you've done a good job with the tracks and the wedges, prospects will often ask for your commercial without a lot of prompting. For example, they might ask:

"So, how do you recommend I invest the money?"
or
"Tell me how much you would charge to help me with this."
or
"What should we do next?"
or
"Tell me about your company."

Sometimes, however, you might get fairly far into the first meeting and feel like the prospect is adequately disturbed and that you've used your wedges successfully, but the prospect just doesn't seem to be asking you for your commercial. In this case, I'll entice the prospect to ask me for my commercial with the following simple words:

> *"So, Mr. Prospect, do you have any questions for me?"*

Sometimes, they'll ask me financial questions that could pull me off my track, such as:

> *"Do you think we need long-term care insurance"*

or

> *"Do you think we should have living trusts?"*

With questions like this, it can be tempting for an advisor to give lengthy answers to show off their knowledge in a particular area. It's important that you fight this urge and keep your answer to 60 seconds or less, so you can stay on track and continue to entice them to ask for your commercial. I might say:

> *"At your asset level, yes, you might want to look into long-term care insurance. What I do for my clients is send them to a long-term care insurance specialist with whom I have a good relationship who can consult with them at no charge. So, Mr. Prospect, do you have any other questions for me? Anything else you can think of."*

or

"Living trusts are not necessary, but they are a nice thing to do for your heirs because they simplify the estate settlement process. What I do for my clients is send them to a local estate planning attorney with whom I have a good relationship for a free consultation on the appropriateness of living trusts. So, do you have any other questions for me that you can think of? Any at all?"

Sometimes it may take four or five tries, but eventually the prospect should ask you for your commercial. With a more challenging prospect, persistence is key. If you start to veer off track, re-focus the prospect by giving them a quick re-cap of everything you've gone through in that first meeting. Remember, you must deflect diversions quickly! If, after four or five tries, they still haven't asked you for your commercial, it could be because:

1. They could be naïve. Some people might think that you are simply doing pro bono work and not trying to get new clients (thankfully this is rare).

2. They don't think they have enough money to work with you. Maybe they believe that you only work with mega-wealthy investors and think that you won't want to work with them. If you suspect this, you might want to tell a story about a non-wealthy client whom you helped with a small amount of money.

3. They believe that you are going to try and take over all of their money. In this case, you might want to reassure them that you are simply applying for the job of "general contractor" to help ensure that all their accounts are coordinated and nothing is slipping through the cracks.

4. Finally, people might not want to work with you because they think you're going to charge them too much for your services. You might need to hint that, for many of your clients, you don't have to charge an asset management or planning fee.

If you absolutely cannot get the prospect to ask you and you're 50 minutes into the meeting, confident that they know they have a problem and are motivated to solve it, then get them to commit by saying:

"Mr. Prospect, there are two kinds of people that come to these Free Financial Physicals. The first is the kind of person who just wants the free information and plans to go back to their current advisor or back home and solve the problem themselves. We get those people every week and that is certainly fine with us because that's what these Free Financial Physicals are for."

"But, I also get a second type of person. Yes, that person is here for the Free Financial Physical, but they are also often here for a second reason—they are interviewing me. They are interviewing me as a potential financial advisor."

"Now, Mr. Prospect, don't let me put words in your mouth here, but I am starting to get the sense that you are in the latter category rather than the former. Is that true?"

At this time, either they are going to say yes or no. If they say no, then you know they are a garbage pail. If they say "yes," then it gives you a wonderful opportunity to reconfirm that with them and say:

"Now, once again, don't let me put words in your mouth but is that one of the reasons that you are here? Great, then perhaps I should take a moment and tell you a little about myself and my company."

So, what exactly is your commercial? It's your two-minute spiel on how great you are and how great your company is and why they should do business with you. You need a tailor-made commercial that is specific to your background. There are several factors about yourself that you'll want to relay to the prospect, but not necessarily in this order:

Independent: "I'm completely independent, which means I can offer you virtually any financial instrument that exist. I am unbiased and not limited to any particular financial companies."

Focus on this Specialty: "I specialize in working as a general contractor to help people coordinate their financial affairs and make sure nothing slips through the cracks."

My Process: "Let me tell you what I do for my clients. The first step would be for me to become broker of record on one of your accounts and/or agent of record on your insurance policies, so that I can begin to help you."

This portion of "Your Process" is obviously going to vary depending on the track you use. It's important when describing your process to send the message that it truly is a process, not the sale of a product. It's also important that they realize there are several steps to the process and therefore it will require a fair amount of your time (since professionals don't work for free, that justifies a change of broker record, an agent of record letter, or a letter of intent).

(Optional) "It's never happened, but if we got through the entire process and you decided you didn't like any of the options, I guess you could transfer the broker of record or agent of record designation back to your previous advisor and it wouldn't cost you a dime. It's kind of, sort of, like a money back guarantee."

How I Get Paid: "The good news is, that if you were to work with me, it wouldn't cost you anything. Now, don't get me wrong – I do get paid, it's just that it doesn't come directly out of your pocket. The best analogy I can think of is how travel agents used to get paid. It wasn't too long ago that if you bought an airline ticket, the cost to you was the same whether you bought it direct from the airline or through a travel agent. But, you knew that if you bought it through the travel agent, that agent was getting paid through a commission from the airline. The same is true in my business. With most of these instruments, the compensation is built in; I get paid from the respective company. There won't be anything out of pocket from you. If there is an exception, here or there, where there's a visible fee or commission, it will obviously be my job to inform you of that upfront."

The following are some additional/optional things that you can sprinkle into your commercial. Be sure to focus on your personal strengths.

- Number of Years in Business
- Designations
- RIA / Series 7
- Grew up locally
- Family
- Active in the community—committees, etc.
- Mentored / Trained Other Advisors
- Number of employees

And anything else you can think of that will give you credibility.

Chapter 7
Step 6—The Close

So, now we're at the point in the sales process where you've disturbed, and wedged, and the prospect realizes that they have a problem. They've asked you for your commercial and you've given it. Now, there is that period of awkward silence where you're wondering what they're thinking and whether you did a good enough job for them to choose to become your client. Again, a lot of so-called sales experts will encourage you to use some type of "assumed close" (karate). The problem is, that if the prospect is really not ready to be closed at that time, you might put him on the defensive and never get him back. In the spirit of judo, I believe in taking a very non-threatening approach by asking a very open-ended question:

"So, tell me, Mr. Prospect, where do we go from here? What's your next step? You tell me."

Sometimes, if you've done everything well, they will be ready to move forward. They might say something like:

"Well, you tell me. Do you have some paperwork for me?"

Obviously, if this happens, it's time to get the paperwork. And what do I mean by paperwork? Well, I don't necessarily mean paperwork for a product sale at this point. Depending upon which track you used, it's possible you used a medical close. Yes, in this case, you're closing for a preliminary insurance application—a product sale. It's also possible that you're closing for an agent of record letter, a change of broker dealer on an investment, or a letter of intent. The most important sale is that they buy you.

Realistically, though, that doesn't always happen. In many cases, they've come in to see you thinking everything is ok and simply seeking a second opinion. In a 1½-hour meeting, you've turned their world upside down and they might be feeling a bit overwhelmed, like deer in the headlights.

The following are some of the most common responses and/or objections that you might get at this time:

1. I'm sorry my spouse couldn't be here today. I need to bring this information home to him/her.
2. My spouse and I really learned a lot from you today. We need to go home and talk it over.
3. I think we need to go back and talk to our advisor about this.
4. I have a great relationship with my CPA/attorney and I want to run this by him.
5. I want to talk to my children and see what they think of this.
6. We plan to interview some other advisors before we make a decision.
7. I can't commit to you until I know what you're going to recommend.
8. And, last but not least, the infamous "I want to think about it."

Now, let's take some time and go through each of these one-on-one and see how to overcome each of these objections.

Objection 1—I Need to Bring this Information Home to My Spouse

Despite our best efforts to encourage both spouses to be present for the initial meeting, sometimes, at the last minute, one simply cannot make it. When only one of the two spouses does show up for the meeting, I don't feel I can call it off—I feel I have to continue with whichever spouse could attend. I do this knowing full well that I will probably have to have a second meeting with both present and repeat a lot of the information I shared at the first meeting.

So, when this objection is actually voiced by the prospect, it comes as no surprise. The best thing that you can do at this time is simply suggest another complimentary meeting that both spouses can attend, at which time you can reiterate the information and delve into it a bit further.

"Mr. Prospect, may I make a suggestion? I feel badly that your spouse could not make this meeting today and I hate to have you feel the pressure of being the messenger when you go home. Besides, we both know what usually happens to the messenger. So, what might make sense here is for me to have the two of you come back in, when you both can make it, so that we can go over this again in a little more depth. This way, he or she can get it straight from the horse's mouth."

Objection 2—My Spouse and I Really Learned a Lot from You Today and We Need to Go Home and Talk it Over.

Many times, both spouses have agreed, before the meeting, that they weren't going to make any decisions or sign any paperwork today until they've had a chance to talk it over. However, you may have done such a masterful job in the meeting that each of them is separately thinking that this is a good idea and they should move forward. Nobody is willing to make the first move, however, because of their previous agreement with each other.

In this case, I encourage you to leave the room for two or three minutes and at least give them a brief moment alone. This doesn't always work, but many times it does. If you're in their home, excuse yourself and use the bathroom. If you're in your office, pretend you need to talk to your assistant for a moment and leave the room. You just may be surprised when you re-enter that they'll proclaim that they're ready to sign on and move forward with you. If this doesn't work, then please see how to overcome Objection 8—I want to think about it.

Objection 3—Need to Go Back and Talk to Our Advisor

This objection is most likely an indication that you need to go back and use more wedges with this particular prospect. Wanting to go back to their current advisor is a clear indication that you didn't sufficiently answer the question, "Why?" Additionally, you're going to want to go back and use The Doctor Analogy. Hopefully, this will get them to realize how silly it is to want to go get a second opinion from the same person who gave them the first one.

The Doctor Analogy

It is designed to get the prospect to realize that their advisor will not be able to say anything at this stage to make them feel more comfortable. It attempts to get the prospect to realize that they really only feel the need to go back to their previous advisor out of loyalty and because of a long-term relationship. This is used most often with a single-advisor prospect.

Use language similar to the following:

> *"Mr. Prospect, in light of what we have talked about today, do you agree that you need to make some changes in your financial picture?"*

If the prospect says no, then you need to go back and work more on the track or wedge. However, if the prospect says yes, you may continue.

> "*Mr. Prospect, you have a tough decision to make. You have been with your advisor now for a long time and have a*

wonderful relationship. You have trusted him and, let's face it, you really don't know me. So, the first thing you could do is go home and do nothing. Based upon what you just said though, I don't think that's going to happen. It would be silly to do nothing at this point knowing what you know now."

"The second thing you could do is go back to your current advisor to get his input on what we discussed today. But, let's think for a moment about what your advisor might say. Mr. Prospect, what is the first thing he could say when you tell him about your newfound knowledge and information? That's right, he could defend his initial recommendations—in essence telling you that you don't have a problem and you shouldn't make any changes.

"But, let me ask you—knowing what you know now about….
and the different business models of various advisors, do you really think that he's going to make you feel any more comfortable if he uses this approach? No, I don't either.

"So what else could the advisor say instead? That's right, he could acknowledge that you need to make some changes. In essence, he could say, "I'm so glad you came in today to see me. I'm not sure how we could have overlooked this, but I'm so glad you brought this to my attention. We need to make some major changes quickly." Well, Mr. Prospect…if he committed this obvious oversight, do you really think that you're going to feel any more comfortable? The concern, of course, with that would be just as if you had gone to a doctor. Imagine if you went to the doctor for a routine physical and you had to remind the doctor to take your blood pressure because last year he forgot to do that. And then, you had to say, "Gee, doc, don't forget to check my cholesterol levels because two years ago you forgot to do that." And then you had to add, "Oh, and doctor, please don't forget to do my EKG exam because three years ago you forgot to do that." Clearly, you wouldn't have a lot of faith in that doctor any longer and would probably start looking for a new physician."

"Clearly, you want a doctor who knows what tests he should be taking so you don't have to worry about it. Let me ask you, in the financial world, do you want an advisor who is going to advise you or do you want to have to advise your advisor? I guess you could keep coming to my programs every three months because that's about how often we come back to your town. You could keep coming in for the Free Financial Physical each time, have me give you some good advice, then take that advice back to your current advisor, to make the appropriate changes. Unfortunately, I still think that would be a lot like going to the doctor and having to remind him what tests he needs to take. So Mr. Prospect, is it that you really want to go back to your advisor to see what he thinks, or that out of courtesy, you feel compelled to see him and tell him you intend to go into a different direction with your money? After all, don't we already know what he thinks?"

At this point, you should explain to your prospect that it would be a lot less stressful and much easier for them to have this conversation over the phone with their current advisor, rather than in person.

Objection 4—I Have a Great Relationship with My CPA/ Attorney, and I Want to Run this by Him.

The key to overcoming this objection is to be subtle, yet convince them, that what they're doing is analogous to going to a doctor to get advice on a legal issue. The following is an example of some words I might use:

> *"Mr. Prospect, let me ask you—is your CPA/attorney also an investment advisor or just someone whom you've known a long time and respect? (Assuming the CPA/attorney isn't an investment advisor). Well, in that case, I can't imagine that he's going to feel comfortable giving you any advice in this area. I know that if you were to come to me for a second opinion on a specific tax or legal recommendation that he made, I would feel obligated to defer to him since he is the expert in that area. If I had questions, I might get your CPA/attorney on the telephone to clarify some issues, but would most likely end up deferring to him, the expert.*

At this point, I might suggest calling the CPA or attorney right then, or at least setting up a joint telephone conference with him and the prospects at a later date. If this works successfully, then at least I can be involved in, and have some control over, the conversation. If this does not work successfully, please see Objection 8—I Want to Think About It.

Objection 5—I Want to Talk to My Children and See What They Think.

This is an objection I get much less frequently than the others. In fact, I hardly ever hear it. However, if you do get this objection, the best thing that you can do is to try to set up another meeting with the prospect and child (or children). If this is not feasible due to scheduling difficulties, then set up a telephone conference with the child at a time when the prospect is in your office.

Objection 6—I Want to Shop Around

This is an objection that is very difficult to overcome at this stage. If you try to convince a prospect that he shouldn't shop around, you might make him suspicious and he might start to think you're trying to hide something. So, I believe, that the best thing you can do here, is to determine whom they plan to shop around with and coach them in terms of how they should shop and the kinds of questions they should ask. But, again, most importantly—don't be afraid to ask them who else they plan to interview and who they have already interviewed. If you can get this information, then you can start to wedge preventatively against your competition.

Let's say I have a prospect who is determined to shop around with three other advisors. I will wedge fairly hard against two of them, but I'll find one to kind of, sort of, befriend. If you try to wedge against all of them, you start to lose credibility in the eyes of the prospect.

It's obviously a bit more difficult if the prospect does not yet know the people with whom he will be interviewing. In this case, you still need to wedge preventatively, but, in a way, you're wedging against a ghost. In this case, I would wedge against:

- All stock brokers
- All fee-based advisors
- All advisors who don't have the same licenses you do
- All advisors who are not independent.
- All advisors who don't share your specialty or niche
- All advisors who don't have the strengths you highlighted in your commercial

A big part of your goal is to create little land mines that an inexperienced advisor, with whom they might be interviewing, might step on. Simply put, if you can identify all of the wrong or bad things an advisor might say, you've done the absolute best you can to wedge against a ghost.

The last steps to take, in either case, are to find out when they plan to complete their interviewing process with the other advisors and then schedule a meeting or telephone conference with you, afterward. Use your judgment as to which type of meeting you choose to ask for, based upon the seriousness of the prospect.

> **Key Point:** Oftentimes, the prospect will come back saying that one or more of the other advisors had given them a proposal or specific recommendations in the first meeting, or suggested a second meeting to do so. This same prospect might ask you to do the same or seem frustrated with your unwillingness to do so. Frankly, this is a wonderful opportunity to help the prospect make an enormous paradigm shift and to eliminate that competition. Here are some words I might use:
>
> *"Mr. Prospect, I'm not sure how these other advisors can make a recommendation after having only met you once.*

(Continue with the dialog below in Objection 7)"

Objection 7—I Can't Commit to You Until I Know What You're Going to Recommend

Try these words:

> *"When I'm coaching people on how to interview advisors, I often tell them that if any advisor has the audacity to make a recommendation after only one meeting, that they should grab their wallet and run, not walk, in the opposite direction. This is an indication to me that that advisor, somewhere behind the scenes, has a specific business model or set of recommendations that he makes to virtually every prospective client, regardless of their situation. He has a specific package of products that he typically sells. A true advisor, who is completely independent, would need to take you through an interview and educational process over the course of several meetings before a specific set of recommendations could be made. Through this process, you and the advisor would work together to determine which products, out of the universe of options are most appropriate for your goals and objectives. As a true independent advisor, I'd be committing malpractice if I tried to make specific recommendations this early in the game."*

Objection 8—I Want to Think About It.

"I want to think about it" most often is not a real objection. Instead, it's a smoke screen for another objection or an indication of total confusion on the part of the prospect. Keep in mind that it's very possible that the prospect came to see you thinking everything was ok and looking only for a second opinion. In one meeting, you turned his world upside down. You've presented to him one solution only, which is you. You've also given him a lot of information and done a lot of talking. He may be thinking that he needs to go home in peace and quiet, without you talking at him, and think about what his options truly are and whether you are the best choice.

Keep in mind, though, that the prospect is a layperson and may not really know how to go about making these financial decisions. Left to his own devices, he may get his decisions out of order, get confused, and become overwhelmed. It's no wonder why most prospects who give the objection, "I want to think about it," go home and do absolutely nothing. We know, however, that the four decisions the prospect needs to make, in order, are as follows:

1. That they have a financial problem that needs to be solved
2. That their current advisor is not best suited to solve the problem, so they must switch
3. That they want you as their new advisor
4. That they need a specific product from you

If we can help the prospect make the first three decisions, in order, then we can keep him from getting confused and overwhelmed. If he chooses us as the replacement advisor, then we can take him through an educational process to help him make the fourth decision.

Therefore, it is our job to determine which of the first three decisions he has made. Which ones he has not, and coach him along on making the remaining decisions. Sometimes, by taking him through this process, the prospect might make a decision to move forward with you in that meeting. Other times, the prospect may just be the kind of person who really does not like to make decisions on the spur of the moment, or who has made mistakes with snap decisions in the past and has promised himself that he would go home and think about it and not make a decision today. In the latter case, your efforts in coaching the prospect through this decision making process have not been wasted. Why? Because you've helped him, the layman, start to work through his decision-making process in the proper, logical order.

Here's an analogy you might be able to relate to—when you were in school, in any given day, you might have had two different teachers who gave you homework assignments. Perhaps one allowed you to start your homework assignment in the last five or ten minutes of class while the other did not. Let me ask you—which of the two homework assignments were you most likely to do first when you got home? If you're like most people, you would have completed the assignment that you had already started. You would gravitate toward that assignment because your brain had already begun to move down that track. You had some momentum, where the other assignment was more intimidating because you were starting from scratch.

You must dig down to find the real objection

Whenever I get the "I want to think about it" objection, I always feel like I must dig down deeper to get to the real objection. The following is the approach that I typically use:

> *"Mr. Prospect, I've coached hundreds, if not thousands, of people just like you and helped them make these decisions before, so I think that I might be able to help you. Whether you end up choosing us or not is secondary. So, I'd like to start by finding out which decisions, if any, you've already made, as opposed to any you might be getting hung up on. First, based upon what you've learned here today, have you decided, for the most part, that you need to make some material changes in your financial plan?"* (If the prospect says no, go back to the track. If he says yes, continue)"
>
> *"Ok, Mr. Prospect, knowing what you know now, are you beginning to think that your current advisor might not be the best one to help you solve this current problem?* "(If he says no, then go back to the wedge and perhaps the Doctor Analogy. If he says yes, continue)"
>
> *"Ok then, Mr. Prospect, is sounds like where you might be getting hung up is on your third decision, which is really whether I am the one best suited to help you solve this problem. Is that the item you were referring to most when you said you wanted to think about this decision?"*

Most often, if the prospect says yes to the first two questions, he will also agree with your prognosis on the third. You can actually see him breathe a sigh of relief because, in essence, you read his mind and don't seem to be upset or insulted by his hesitation. So, now you can continue to help him by digging down one level deeper, brainstorming and making an all-inclusive list of his options for solving this problem (you're helping begin his homework in class).I would use the following words and while I'm speaking, write a list of all the options on a board or piece of paper.

> *"Mr. Prospect, I'd like to take a moment with you then and help you brainstorm about all the options you might have—including me—to help you solve this problem. So, Mr. Prospect, what's the first thing that you could do? That's right, you could go back to your current advisor. What else could you do? Yes, you could do nothing and stay right where you are. What else could you do? You could use me. What else? That's right, you could shop around for advisors. What else? Yes, you could do it yourself. Anything else? Ok, you could talk to your son-in-law, who's a chief financial officer for a corporation. Can you think of anything* else? *Well, I think we've covered most of the options. Let's go through them one at a time and see which ones make sense."*

So, the writing on a board or paper might look like this:

- Current advisor
- Do nothing
- Me
- Shop around
- Do it yourself
- Talk to son-in-law

These are the typical types of things that will be on the all-inclusive list. It's your job to go through each one with a prospect and eliminate all the options that don't really make sense. The dialog might go as follows:

> *"Mr. Prospect, one of the options here is to do nothing. But, let me ask you; knowing what you know now, in your heart do you really think that doing nothing is the best solution?* (If he thinks it might be the best solution, you need to reinforce the tracks). *Of course not—may I cross that out on the board? Great.*
>
> *"Another thing you could do, is go back to your current advisor. But, knowing what you know now about his business model, do you really think that is the best solution?* (If he says yes, go back to the previous section on overcoming the objection on their current advisor). *Ok, then should I cross that one out also? Great.*
>
> *"Now, you can do it yourself. So, I guess you could go take some courses or read some books and learn about investments, insurance, taxes, and estate planning, but let me ask you: Without any real-world experience in these areas, do you really want to risk your life savings going it alone? I agree. So, may we eliminate that option? Great.*
>
> *"So, let's talk about your son-in-law. Does he manage money for individuals or is he more into corporate finance?* (The prospect says he's into corporate finance, but does a great job with his personal investments). *That's great, Mr. Prospect, but do you think the financial strategies he uses for his company or for himself, being 25 years younger, are the same strategies that would be appropriate for you? Of course not. Another thing you might want to consider, is that a lot of my current clients have told me that they are not sure they would want their son or, even more so, son-in-law, involved in their personal financial matters. So, in light of all this, do you really think this is the best option?* (If the prospect still thinks it might be the best option, then please see the previous objection, "I want to talk to my children"). *Ok then, should I cross this one out on the board? Great.*

> *"Now, another option, Mr. Prospect, is you could shop around for advisors. Now, I guess that you could go to the Yellow Pages and pull out the names of a half-dozen advisors who seem qualified. You could create a list of interview questions for these advisors and spreadsheet all their answers. After the interviewing process, you could analyze the data and make a decision, but let me ask you; is that something that you really feel the need or are looking forward to doing?* (If the prospect says yes, then please see the previous objection, "I want to shop around")."

At this point, or sometimes even earlier, the prospect will look at the board or piece of paper and say jokingly, "You've eliminated all the options except for you." In that case, I would say:

> *"Well, let me ask you, Mr. Prospect, based on what you've heard today, is there any reason you wouldn't want to use us? Please, be straightforward with me. Is there anything we said today that doesn't make sense to you? Conversely, is there any reason at all that one of these other options might seem better to you? Keep in mind that although it's never happened, we could get through our entire educational process with you and, I guess, you could decide you don't like any of the options. You could transfer the agent/broker of record back to your previous advisor and it wouldn't cost you a dime. Here's my philosophy—if you're committed to me, I'm committed to you. In other words, I don't care if it takes us 10 meetings for you to feel comfortable with a particular strategy, provided you're committed to us. So, based upon this, is there really any reason we shouldn't move forward?"*

At this point, you're probably completely out of ammunition. Either the prospect is going to say yes or they're going to say that they really, truly, just want to think about it. In that case, I would encourage them to set a goal, in terms of a time frame, for thinking it through and making that decision. If you've drilled down this far and there are no other objections, they hopefully will admit that they are 95-99 percent with you and just want to sleep on it. If it really, truly, is an "I want to sleep on it" objection, then their goal in terms of a time frame should be no more than one or two weeks.

Your final step, in the process, is to schedule a follow-up meeting or phone call after the time frame they indicated. Which approach you use depends upon your interpretation of their seriousness.

Chapter 8
Step 7—The "Grid"- the product solution for Track A

This is the point in the sales process where we've already gotten a written commitment, and therefore it's time for the prospect to make the fourth decision—which financial tools to use. In many cases, this step comes after the prospect has gone through underwriting and already has medical approvals. We start by educating the prospect about the power of tax deferral. Then we invest some time and teach him about the "universe of tax deferred options." At this point, the prospect chooses which options he believes are in his best interest. The good news: Virtually every time he chooses the life insurance as part of his financial strategy.

Why The "Grid" is the best presentation you can make for Track A!

I have consistently been excited about The "Grid," and I am confident that it is the best presentation you can make when you get to the product stage. There are several reasons why:

- From a compliance standpoint, you are doing a wonderful thing for the prospect (now your client) by showing them a universe of tax-deferred options. The regulatory authorities like it when you educate people.

- You are letting the client choose the life insurance on their own. Again, the regulatory authorities like it because they prefer that you be unbiased. We give a client the options and the client makes a choice.

- From a sales standpoint, I like the presentation because if you give a client a choice in what instruments they want to use, they cannot have any objections. But, if **YOU** recommend the life insurance, they can have objections.

- The client still goes through a discovery process when you get to the solution stage. You can't tell them that the life insurance is a great tool, you need to let them discover on their own that it's a tool they'll want for part of their portfolio.

- In most scenarios, the client chooses at least two or three different solutions as a combination. This way, the client is buying into a **plan**, NOT a product. As a result, the client is thinking macro and therefore, is unlikely to get analysis paralysis on unnecessary details.

- Life insurance sells itself. More often than not, the client will pick the life insurance as one of their favorites. Actually, I cannot remember the last time I did this presentation (out of hundreds) when the client did not pick life insurance as one of their favorites.

- You're showing the client the universe of options. You're sending the message that the client does not have to shop around because they can get it all here. There is no other advisor who can show them a tax-deferred option you don't offer.

Use Full Disclosure

At the end of The "Grid," you pivot to a formal application for cash-value life insurance. Remember that you have already completed the preliminary application and may already have underwriting approval. Interestingly, most of the time, the client makes the decision to move forward with certain tax-deferred strategies without asking you the details of the life insurance or any of the other options. That's an ideal scenario, where the client doesn't feel they need all the details to make a decision. However, in the spirit of full disclosure, you will have to make sure that you weave all the details of the life insurance into the formal application process.

Use Common Sense

You must obey a compliance disclaimer when you get to The "Grid": use your common sense and only talk about products for which you are licensed! You need to modify my example to tailor it to your own capabilities. (For example, if you're not securities licensed, don't talk about variable products, mutual funds, or 529 plans).

Also, use your judgment based upon your knowledge of the client's income and, therefore, their tax bracket. In other words, you need to know whether or not this particular client can contribute to a deductible, traditional IRA or a Roth IRA. You also need to know the contribution limits on IRAs, 401ks, and 529 plans.

The following are the steps for The "Grid" presentation:

Step 1:	Congratulate prospect on insurance rating approval (if complete).
Step 2:	Remind the prospect that tax-deferral on the interest and gains is more powerful than a tax break on the contributions.
Step 3:	Show mathematical example of the power of tax deferral.
Step 4:	The actual "Grid"—the universe of tax-deferred options.
Step 5:	Help the prospect eliminate less appropriate tax-deferred options.
Step 6:	Help the prospect create a percentage allocation.
Step 7:	Change the answers if necessary.
Step 8:	Ask the prospect, "Are you ready to give me the green light on that allocation today?"
Step 9:	Determine internal funding method—fixed or indexed.
Step 10:	Analogy--comparing the early cost loading of cash-value life insurance to the hypothetical option of prepaying a lifetime of income taxes on an investment.

The following diagram should be drawn on a white board or a piece of paper in front of the client while going through The "Grid" tutorial. Please be sure not to pre-print this illustration because it will come across as a canned sales talk. It's important that you recreate it each time, giving the impression that it is a presentation tailor-made for that particular client.

Also, I use the same format for this diagram each time and encourage the client to take notes.

The Grid

Vehicle		Taxation Of			
	Cont.	I/G	Dist.	Age/Use Restriction	Loans
401k	No	No	Yes 100%	59.5/70.5	<$50K 5-yr repay
IRA	Yes	No	Pro Rata	59.5/70.5	No
Annuity	Yes	No	LIFO	59.5	No
Roth	Yes	No	No	59.5	No
529	Yes	No	No	College Only	No
Life Ins.	Yes	No	FIFO	None	<100% Int. only repay
	100K	400K	500K		

"Tax-Free Cash Flows"

The following is the verbiage that I would use in a complete Presentation of The "Grid":

Step 1: Congratulate prospect on insurance rating approval (if complete).

> *"Mr. Prospect, I have some great news for you. As a 45 year old male, we got you approved through the insurance company with standard rates. You were approved with one of the top rates the insurance company offers: So that is great news. So on the life insurance side, I feel pretty confident that we are going to be able to engineer it in such a way where there is little or no economic cost to you. I feel pretty confident that we are going to be able to get you closer to that Human Life Value that we have been talking about. So that is great news: I guess I should say, "Congratulations, you are going to live for a while."*

Step 2: Remind the prospect that tax-deferral on the interest and gains is more powerful than a tax break on the contributions

"If you remember, the last time we met we talked about taxes and whether you want to pay taxes on the seed or the harvest. We discussed how a 401k will give you tax benefits on the contributions and the interest and gains, but when you draw money from a 401k it's 100% taxable. A Roth IRA is, of course, the opposite: You pay taxes up front, but then you get a break on the harvest. Do you remember me saying that in the case of a 401k, the biggest tax break isn't that you get pre-tax contributions, instead it is that you get tax-deferred growth on your interest and gains?"

Step 3: Show mathematical example of the power of tax deferral.

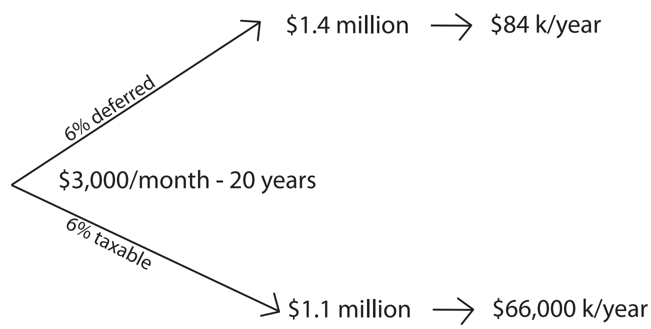
"Let me give you an example of why this is true. Hypothetically, I am going to use that $36,000 annual savings number that you discussed last time we met. We can lower it in the future if you'd like; this is just an example. Ten years ago, everyone wanted to assume that you could make 10%-12% per year on your money. Obviously over the last ten years, we have realized that you can't make a 10%-12% return consistently. So I am going to use 6% as a reasonable projection. Is 6% an assumption with which you're comfortable? I know that right now, it's hard to get even 6%, but I think over the long run that's a reasonable assumption.

"So, on my financial calculator here, I'm just going to perform some really simple calculations. I'm going to show you that if you saved $36,000 per year for 20 years, and earned an average return of 6%, you would end up with $1.4 million in that account. Now, let's say on the other hand that you had to pay tax on the interest. In that case, your 6% will drop to about 4% net of taxes. So, if we just change the interest rate to 4%, you would end up with about $1.1 million in that account. So, if I can have it tax deferred, it will be worth $1.4 million. If it's taxable, it will be worth $1.1 million.
"Now let's say that you deferred the taxes until retirement. Unfortunately, like we talked about last time, you might end up in the same bracket instead of a lower bracket. If you were to cash out this whole $1.4 million investment in a lump sum, and pay taxes on all the deferred interest, how much money do you think you will have left over once you pay the tax? You're probably thinking you might have the same $1.1 million, because you're paying the tax in both scenarios, only the timing is different. Well, the real answer is that you are going to have a little more. How much more doesn't really matter, but you are going to have more because you are deferring the tax. This is your traditional argument for the benefits of tax deferral. All this future tax money that was being deferred in the account was like an interest-free loan from the government. That deferred tax money kept compounding and growing and compounding and growing. Even when you pay taxes on it 20 years later, you will still have a little bit more money in the account. Again, this is because you had that interest-free use of those deferred tax dollars. Does that make sense? Great.

"However, let me ask you this: Are you going to retire and cash out your entire account the day you retire? Of course not. Your intention is probably to keep the principal intact and draw interest, correct? Great. That $1.4 million would give you $84,000 of annual income. But if this account were taxed annually as it grew, the $1.1 million balance would only generate $66,000 of annual income. Now the withdrawals, in either case, are going to be taxable. So what would you rather have $66,000 of taxable income or $84,000 of taxable income? Of course you would rather have the $84,000. What is the difference? Well, the difference is that the interest-free loan from the government that I mentioned a moment ago doesn't end when you retire; in essence it continues. If you live to be 100 years old, all that tax-deferred money is still sitting in this account generating retirement income forever. Now granted, when you die, your heirs are going to have to pay this tax and will end up with the same $1.1 million they otherwise would

have. But you get interest-free use of all that money to generate income for yourself during your lifetime. So, can you see why I said the most important component of tax savings is tax-deferred interest or growth? Again, this component mathematically is more powerful than having tax savings on your contributions. It is the same issue that we discussed last week: Would you rather pay tax on the seed or the harvest?"

As you go through this section, I suggest you write this illustration on a whiteboard or notepad during your client meeting. It's important that this be done simultaneously with the script. This should not be pre-written, or it will give the appearance of a canned sales talk.



Step 4: The actual "Grid"—the universe of tax-deferred options.

"Remember last time we discussed the five tiers of offense? We covered the importance of having your emergency fund, paying off consumer debt, and then having a home. Tier Four included tax deferred accounts, and Tier Five included taxable accounts such as regular brokerage accounts. Do you remember me saying that in many cases, people try to focus on Tier Four and have very little in Tier Five? This is because of the math that I showed you just a moment ago. So, what I would like to do now is compare and contrast for you the universe of tax-deferred options. We'll cover the differences among these as well as their pros and cons. Then we can begin to decide which of these you are going to want to include in your plan. Is that fair?

"First, I'm going to list the various options or vehicles down the lefthand column. They are: 401k, IRA, annuity, Roth IRA, 529 educational plans, and life insurance. When I say life insurance, I don't mean the kind of insurance you have at work. Obviously, that is only an investment for your family if you die. What I am talking about is something that is geared more toward cash investment for you and would provide you with the least amount of death benefit legally required. In other words, something that is geared toward accumulating cash. This represents the universe of tax-deferred vehicles. In other words, there literally is no other tax-deferred vehicle that exists. Now if you were a teacher, you would have a 403B, but it's just like the 401k. And if you worked for the state, you would have a 457 plan, again it's just like the 401k.

"Now we are going to compare and contrast the taxation of your contributions, your interest and gains, and your distributions of all these instruments. As we discussed last time, the Roth IRA is different than the 401k. Now, this middle column is all "no", because you are paying no tax on your interest and gains on any of these. This is because by definition that is what we are comparing: the universe of tax-deferred instruments.

"Now, let's start with your 401k because you are familiar with it. As we discussed last time, it has pre-tax contributions, correct? That's money you haven't paid tax on yet. So that means you paid no tax on your contributions. Are you with me? Now when it comes to distributions, there is a "yes" because these are 100% taxable. Now, as it turns out for

you, that is the only one that has a "no" in the contribution column.

"Everything else works like the Roth IRA insofar as utilizing after-tax contributions. Therefore, we will put a "yes" in the contribution column for the remaining options. Now the traditional IRA for lower-income earners can have pre-tax contributions. However, because you make $200,000 a year, you are over the income limits and can't deduct an IRA contribution.

"So, how are the distributions taxed? Well, in the case of a traditional IRA, they are taxed pro rata. For example, let's say that your cumulative contributions were $100,000 and the deferred interest or gains were $400,000. For every $5 you withdrew, $1 would be tax-free and $4 would be taxable.

"Annuities are taxed a little worse. Annuities are taxed by a method called LIFO—last in first out. That means the last money in the account, which would be the deferred interest, is deemed by the IRS to be the first money to come out. So, you would only get your $100,000 cumulative contribution back tax free if you were to withdraw the last $100,000 in the account. Now, let me ask you, "Do you really think in your lifetime you are going to spend that last $100,000?" Probably not. So the reality is that you would be paying taxes on all the retirement income withdrawn. Your heirs will get the $100,000 back tax free, but probably not you.

"We talked about the Roth IRA when we got together a couple of weeks ago. There are no taxes on the distributions—the distributions are tax free.

"In the case of a 529 plan, there are also no taxes on the distributions—the distributions are tax free. In other words, it works much like a Roth IRA.

"Now, let's talk about the life insurance. The life insurance withdrawals are actually taxed more gently than the annuity and the IRA. They are taxed in a way that is referred to as FIFO—first in, first out. If you take withdrawals from life insurance, your first monies in would be considered to be your first monies out. For example, let's say again that your cumulative contributions were $100,000 and the deferred interest or gains were $400,000. In this case, the first $100,000 in my example that you withdrew would be yours tax free. Only if you withdrew more than that would you have to pay taxes. So it is better than both LIFO and pro rata taxation. Are you with me?

"These are the tax ramifications, but there are other things that are more subjective that I want to explore with you. I'm going to add two more columns here. The first is, age and/or use restrictions. The second is "loanability."

"Regarding the former, the government loves these plans which I call "use restricted" plans. Last time we discussed that if anything is too good, like the Roth IRA, the government likes to put limits on it. That's why I call it a "use restricted" plan. If you use the account for retirement income, it works great, but if you take money out before age 59½, there is a penalty, and the withdrawals are not tax free.
"The 401k is also "use restricted." Generally, you can't touch your money until you're age 59½ or there will be penalties. Also, you have to start taking withdrawals by the time you are age 70½.

"A traditional IRA is the same, with restrictions at age 59½ and 70½.

"Non-qualified annuities have the age 59½ restriction, but no 70½ restriction. They tie your money up until age 59½, but they don't force you to take withdrawals at any given age.

"Roth IRAs, as I mentioned, have an age 59½ restriction, but no age 70½ restriction.

"Now, how about 529s? 529s are college plans. Remember how I said that the government likes "use specific" plans? The 529 works great if the money is used for college, but if you use it for retirement, or any other reason than college, the withdrawals are taxable and there is a 10% penalty.

"With life insurance, there are no age or use restrictions. You can use the money for whatever you want at any time.

"In the last column, in the case where there are age or use restrictions, we want to know if there is any ability to take loans. Now, as you probably know, you can borrow against your 401k. You can generally borrow up to half of your 401k balance up to a maximum of $50,000. So you have half a million dollars in there, but you can only borrow $50,000. If you were to borrow $50,000, you would have to pay it back in a five-year repayment schedule. In this case, your monthly payments would be approximately $1,000. That means borrowing $50,000 for college for your children wouldn't work because the payments would be so high. Those payments would restrict your ability to pay tuition out of cash flow over the next five years.

"You cannot take loans against IRAs, annuities, Roth IRAs, and 529 plans.

"In the case of life insurance, you can generally borrow up to 100% of your money. And, instead of a five-year repayment, the payments are interest only. So, what does that mean? Well, what some smart people do is create "tax-free cash flows". They can withdraw, in my previous example, the first $100,000 tax-free because of the FIFO component. Once they've exhausted the tax-free withdrawals, they then take periodic loans to generate "tax-free" cash flow. Now, you might think, "A loan; I don't want to borrow, I want to withdraw." Well, let me ask you, when you take a loan, do you have to pay taxes when you receive the proceeds? Of course not. But the difference is that most loans you have to repay. What if I told you that this loan never has to be repaid? That probably would make a difference wouldn't it? Let me show you how you can take out a series of loans for "tax-free" cash flow and never have to repay them. The insurance company plays an accounting game. It says, "We are going to leave your money in your account and pay you 7% or 8% interest. We are going to lend you our money, and charge you 8% interest. We are going to hold your money as collateral. In other words, you are paying the insurance company 8%, but they are paying 7% or 8% into your account. Isn't the net interest cost 0 – 1%? It's almost like an interest free loan. Now, why don't you have to repay it? There is this big tax-free death benefit on life insurance. The one thing we do know is that, at some point, everyone is going to die—everyone. And when you die, that tax-free death benefit will repay that loan. In essence the loan gets washed out and the taxes are never owed. So its basically an accounting game. It's done all the time, and it is perfectly legal. It's not an aggressive tax strategy, it's specifically allowed in the tax code. So in essence, they have engineered a life insurance policy to work a lot like a Roth IRA—after-tax money going in, tax-free cash flow coming out, but without the age restrictions.

"Any questions on any of these things and how they work?"

Step 5: Help the prospect eliminate less appropriate tax-deferred options.

"Now let's take some time and begin to narrow this down. Let's see if we can eliminate any of these options that don't make sense for you, and narrow it down to what does. So tell me, are any of these things that you would like to eliminate from consideration? With a 401k, you get a tax break up front. So do you think that the traditional IRA makes sense when you're not getting a tax break on either the contributions or the

withdrawals? So do you think we should eliminate that? Great. Since you agree that we should eliminate that, then we should probably eliminate the annuity too, because the annuity is worse. Ok, so we have eliminated those two.

"Now unfortunately, you cannot contribute to the Roth IRA because of your income level. I wanted to put it on the board, however, in case your company ever implements a Roth 401k. For now, the government says we have to eliminate the Roth IRA."

"So it seems that we've narrowed it down to the 401k, 529 educational plans, and life insurance."

Step 6: Help the prospect create a percentage allocation.

"In the case of the 401k, you get a tax break on your contributions, and although there are age restrictions, a least you have some loanability. So we should still do the 401k, at least up to the match. And we know that that is considered retirement money.

"Next, is the 529 plan. Your kids are in their teens now, so you don't have a long time for college money to grow tax deferred. However, you said that you do need to start working on the college planning. So, if we are going to start working on the college planning, it seems to me that this might be a good college bucket. But remember that it is just for college. If you don't use it for college—your kids don't spend it because they get athletic or academic scholarships or they just decide not to go to college—then it is taxed and penalized.

"Which now brings us to the third bucket which we didn't eliminate, the life insurance. This bucket might be an ideal bucket for that flexible money, the middle money. I'm referring to the funds that you're not sure will be used for college, retirement, or even a vacation home for that matter. I say this because, if you decide to use this for retirement, you can take these "quasi tax-free withdrawals" and engineer a tax-free cash flow stream. In this case, you would be taking a series of loans with the intent of never paying them back. They would get repaid eventually from the tax-free death benefit. However, if you decide that you want to take loans to supplement college, you can always borrow against it and then after the kids are out of school, you can always repay some or all of the loans before retirement. The same is true if you wanted to buy a vacation home. In essence, you are depleting the bucket for college or a vacation home, and then refilling the bucket for retirement.

"So what I am envisioning here is most likely a three-pronged approach. Does that make sense? So let's discuss how much money should be contributed annually to each bucket.

"First of all, have you thought any more the annual contribution to which you could comfortably commit? You and your wife have decided on $24,000 per year? Great. I agree with you and your wife that $2,000 a month is a good starting point. A plan only works, and you're only going to follow through with it, if it is not ridiculously painful. If it gets too painful and you're contemplating every dinner out because of the cost, then it's just not worth it. Life is too short—who knows, you may not live to retirement age. You have to live now also.

"You're currently putting $16,500 into your 401k, and only $10,000 is being matched by the company. Last time we met, we discussed the possibility of reducing the 401k contributions to $10,000 because you'd rather pay taxes on the seed rather than the harvest. Do you still think that's a good idea? Great.

"So that means that we need to allocate approximately $30,000 annual savings toward the 529 plan and annual life insurance. Do you have any thoughts on how you might split that

$30,000 between the college account and the flexible account? So, you're contemplating $20,000 into the 529 plan and $10,000 into the flexible plan, the life insurance?"

Step 7: Change the answers if necessary.

"Mr. Client, do you want to know what I think? Normally, I would agree with you about putting $20,000 in the college account and $10,000 in the flexible account. There is only one reason I might do something different. Remember when we talked about your 401k last time that the investment options are limited to mutual funds. We discussed our concerns about the stock market and decided that you might want to change that allocation to something more conservative. The only thing that concerns me about the 529 plan is that it is just like the 401k in that your only investment options are mutual funds. With our concerns about the market and a shorter time horizon to college for your teenage children, we have to be concerned about the amount of risk we take. My concern is that with a few more years to go, those mutual funds could take a dip around college time. It's great that the gains can be withdrawn tax free, but what if you don't have any gains to take out? Do you see my point? So, if it were me, I might actually flip this. I might consider putting $10,000 per year into the college plan and $20,000 per year into the flexible plan. Some people, depending upon the degree of their market concerns, might decide to opt out of the 529 plan completely and put all their funds into the flexible bucket. Of course, this decision is totally up to you. So in light of these facts, which allocation do you think makes more sense? Ok, so you agree that you should at least consider flipping it? Great."

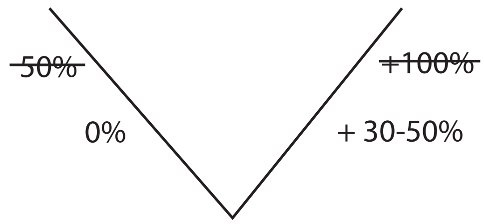
Step 8: Ask the prospect, "Are you ready to give me the green light on that allocation today?"

"Ok, so we're talking about reducing the 401k contribution to $10,000, putting $10,000 into the 529 plan and $20,000 into the life insurance—the flexible bucket. Does that seem like a good plan at this point? So do you want to give me the green light on that allocation today? Good."

Step 9: Determine internal funding method—fixed or indexed.

"Now there is one more small decision you need to make—do you want to go with a fixed strategy or an indexed strategy? I know you don't want to go into mutual funds because we already talked about that. A fixed strategy might pay 3% because interest rates are low right now. Fixed strategies were pretty popular several years ago. However, during the last 10 years the indexed strategies have become much more popular. The reason I think it has become so popular is because of what has happened over the last 10 years in the market. If you think about it, from the year 2000 to now, the market dropped 50% and recovered twice. I don't know if you have ever done the math on it, but if something drops by 50%, you have to gain a lot more on a percentage basis to recover from that 50% loss. How much? Well, you have to make 100% gain. That's just how the math works. If you reduce a dollar to 50 cents, now that 50 cents has to double to get back to a dollar. That doubling represents a 100% gain. This is the reason I think these indexed strategies have become so popular lately. People are starting to realize that if you could eliminate the losses in the bad years, then you wouldn't have to get all the gains in the good years to do well overall. In fact, if you only got 1/3 to ½ of the gains in the good years, you would have made a 33-50% return in a 6-7 year period that the market made zero. That is why I think in today's low interest rate environment these are becoming much more popular. The fact that they have the potential to earn a little bit more, but with the same safety as a fixed account, makes them attractive. So now that we have determined which tax deferred wrappers to contribute to, tell me, which do you think makes more sense, the fixed strategy of the indexed strategy? Ok, you would rather be indexed because you want to be as aggressive as you can with as little risk as possible. Great."

As you go through this section, I suggest you draw this illustration on a whiteboard or notepad during your client meeting. It's important that this be done simultaneously with the script. This should not be pre-written, or it will give the appearance of a canned sales talk.



Step 10: Analogy--comparing the early cost loading of cash-value life insurance to the hypothetical option of prepaying a lifetime of income taxes on an investment.

"Regarding the 529 plan, because the plan contains mutual funds, I want to do a little bit of research before making a recommendation. Next meeting, we're also going to want to talk about reducing your mutual fund exposure in your 401k.

"Last time we spoke about the life insurance, we discussed that we might be able to engineer it for minimal cost. In a few minutes, I'll show you an illustration, including a sample projection of how this might accumulate. In fact, I'll have to get your signature on this projection before we can implement it. Before we get to that point, I would like to give you a simple overview of how it works. It may be a bit of an oversimplification, but it will help you understand why it could be such a good strategy.

"It's as though the majority of the insurance costs are taken out of the contributions from year one and perhaps year two. After that point, the cash value increases by more than the amount of the premium each and every year. So again, this is an oversimplification, because there are insurance costs that are charged each and every year. However, after the first or second year, the projected gains on the account exceed the insurance costs. That's why the account increases each year by more than the amount of the premium. It's almost as though the first $20,000 contribution buys you a paid-up life insurance policy of $500,000, and now every remaining $20,000 contribution can be allowed to grow tax deferred.

"Imagine if you could go to the IRS and work out a deal. They would take your first $20,000 payment and consider it to satisfy a lifetime of income tax payments on the growth of this investment account. Then, for the next 19 years, your $20,000 investment can grow completely tax free. If the IRS were to offer you that deal, would you take it? Of course you would.

"In reality, without those upfront costs, you wouldn't have the life insurance. Without the life insurance, you wouldn't have these tax benefits. In the case of my IRS analogy, you wouldn't even get a thank-you note in exchange for your pre-funded income tax payment. At least here, you're getting life insurance that you need, in exchange for it. Does that make sense?

"Let's take a few more minutes and look over this illustration and make sure that you understand it. I can show you how it works in the first year and then how it works in subsequent years.

Key Points:

- Showing the prospect the math regarding the power of tax deferral is an important first step. This step justifies why we're limiting our options to those on The "Grid".
- During the creation of the actual "Grid", the life insurance is explained in a compliant way. We discuss the letter of the law and then discuss how tax-free cash flows can be engineered through loans.
- Comparing and contrasting the taxation will often eliminate the traditional IRA and annuity from consideration.
- The subjective columns regarding age restrictions and loanability help create an emotional attraction to the life insurance option. People like to have control of and access to their money.
- Notice that you can entice a prospect to change his answers by saying, "Mr. Prospect, do you want to know what I think?" This will work as long as you have a valid reason for the suggestion, as I did in my role play.
- Notice the simple closing statement, "Do you want to give me the green light on that allocation today?"
- Once we have agreed upon the bucket allocations, the decision regarding fixed or indexed strategies is simple. If you think about it, fixed strategies and indexed strategies are available in all of the accounts except 401ks and 529 plans. Since 401ks and 529 plans are usually two of the final three or four choices, the prospect will typically want to stay away from mutual funds in the Roth IRA and life insurance.
- Use what I call "the big V" to show that a 100% gain is required to recover from a 50% loss. This is a powerful tool to help someone discover the merits of the indexed strategy.
- The analogy that I used comparing the upfront life insurance costs to an income tax prepayment is powerful. But notice I was clear that it was just an analogy and not literally how these function.