PHYSICIANS
PRACTICE
YOUR PRACTICE YOUR WAY

How Physicians Can Stop Hating Life Insurance (Part I)

By Ike Devji, J.D. | July 26, 2011

Doctors typically recoil from any discussion of life insurance. As a medical professional you are oversold, underserved, and likely inundated with calls and marketing materials from financial advisory and insurance groups inviting you to dinners at steak houses several times a week. I'll assume that most of those invites go in the garbage and that you are tired of being "hustled" to buy huge amounts of life insurance in various wrappers.

I don't sell life insurance but I encourage my clients to have it, and often very large amounts of it. I've seen its power first hand and the way it has saved the families of many we work with. Here are some simple tips to help you use it as a powerful tool and think about its vital place in your portfolio and financial plan.

Insurance Can Be a Protected Asset Class, Not Just an Expense

Sure, everyone likes the idea of having and potentially leaving millions of dollars in insurance proceeds to their families, but no one wants to pay the bill, that's human nature. Given the current economy and the instability in both the securities and real estate markets, many people are heavily allocated to cash in money market accounts or other non-productive vehicles like low yield bonds and CDs. Unfortunately, all of those cash equivalents are exposed to you and your family's personal and professional liabilities, a dangerous place for your savings to be vested.

Given this low yield and your never-ending risk of creditor exposure as a doctor we are increasingly examining life insurance as a creditor protected alternative to cash. In many states (Ariz., Texas, Ill., N.M, Fla., and Hawaii, to name just a few) the cash value of your life insurance is creditor protected to an unlimited amount by law.

I know, you are immediately thinking that the reason you were in cash was that you wanted and needed to maintain some liquidity for opportunities, expenses, or both and that being in a life insurance policy would destroy that liquidity; that's no longer true.

Traditional life policies have either large surrender penalties (imposed if you take money out in the first few years), lagging cash values (i.e. you put $100,000 in but there is only $65,000 in your account the first three years) or in the worst cases, some combination of both. Those penalties are in place to protect the insurance carrier from you taking the money out too quickly and so that the expenses of the commission they paid and various other items are covered. In many cases, when carefully planned for as part of a long-term estate planning strategy, that's OK, but that kind of policy is not a good "cash alternative."

The kind of policy I'm talking about will likely supplement that traditional estate planning policy and is typically fully liquid from day one should you want or need to use the cash. Thank about it, if you have large amounts of cash allocated to one of the non-productive cash alternatives listed above you are earning as little as 15 basis points (that's .15 percent!) on your money, it's exposed to your creditors and fully taxable when you die.

Compare that low-yield, taxed, and exposed cash to a strategy that can be 100 percent liquid, is often creditor protected by law, offers potential tax-free growth in excess of what you are now getting a 1099 tax form on and has a death benefit multiplier of as much as 1000 percent and the power of using and understanding these new policies and strategies becomes pretty clear.

If you are wondering why you have never seen a policy like this its because most insurance advisors don't know they exist and many can't even sell them if they are single line agents tied to just one carrier (more on this next time). Only top advisors who regularly deal with the affluent physician and business owner market are aware of these kinds of strategies because they have been trained to be aware of your risks and address them more proactively than the guy in your neighborhood who you buy your auto insurance from.

In our next installment we'll discuss other issues including, "Why That Pesky Insurance Salesman is Probably Right; You Do Need More Insurance."

For more on Ike Devji and our other bloggers, click here.