

## BUY TERM INVEST THE DIFFERENCE?

There are many ways to approach the purchase of life insurance. Some believe only in term insurance and buy into the “buy term invest the difference” philosophy. We believe the “buy term invest the difference philosophy” is a flawed strategy because it suggests life insurance is an investment for the insured. We don’t believe that is its purpose. We believe the purpose is to provide tax free cash flow, at death, to address estate needs. That’s its value. In truth, few people who buy into the “invest the difference” strategy, actually ever invest the difference. It sounds good but is rarely done.

The biggest proponent of this approach is Dave Ramsey and that’s unfortunate, because his name carries weight. Dave is absolutely correct regarding debt, but couldn’t be more wrong regarding life insurance. By saying NO ONE should buy permanent life insurance, is stating as fact that no one ever has a need for insurance, after their term coverage runs out. How can anyone know that, when they don’t know what their life circumstances will be a year from now, much less 20 or 30 years down the road? He also ignores the fact that you aren’t guaranteed the right to buy more coverage down the road, if there is a need or want for coverage, as there often is.

The other argument for term only is that it’s cheap, but like most cheap things, cheap comes at a price. For term insurance it’s the >95% probability that the policy will be outlived and the possibility of not being able to replace it, due to health concerns. I find it interesting that people rarely buy the cheapest of anything to “invest the difference”. They don’t just go to cheap restaurants, buy cheap clothes, drive cheap cars, or live in cheap houses. Instead they buy based on value. Life insurance that is outlived has no value, while life insurance that cannot be outlived has absolute value.

In our view, term insurance treat life insurance as a commodity because it’s bought to only address a current need. The definition of a commodity is something you buy, use up and then buy more, as opposed to a tool that is bought once to always be available, when it’s needed. We believe life insurance is a financial tool that’s uniquely designed to provide tax free cash at the exact moment it’s needed to address estate needs, both current and future. Since our estate follows us to our grave, it only stands to reason that life insurance, at least

in part, needs to be coverage you can't outlive. Term insurance that runs out at age 65 isn't available to address an estate need or want that comes up at age 75.

That's why we believe the best strategy is to have a base amount of permanent coverage that can't be outlived and then supplement that with term for needs we KNOW are short term in nature.

In our tutorial "Life Insurance Basics", we discuss the various kinds of permanent life insurance and discuss which ones we believe are most suitable and why.