CHARLIE GIPPLE,

CFP®, CLU®, ChFC®, is the owner of CG Financial Group, one of the fastest growing annuity, life, and long term care IMOs in the industry. Gipple's passion is to fill the educational void left by the reduction of available training and prospecting programs that exist for agents today. Gipple is personally involved with guiding and mentoring CG Financial Group agents in areas such as conducting seminars, advanced sales concepts, case design, or even joint sales meetings. Gipple believes that agents don't need "product pitching," they need mentorship, technology, and somebody to pick up the phone…

Gipple can be reached by phone at ***515-986-3065****. Email:* ***cgipple@cgfinancialgroupllc.com****.*

Literal Language Versus Practical Language… The Client's Perception Is Our Reality

I remember when my oldest kid was a toddler, and my youngest kid was old enough to just barely sit up by himself. I was in my office which overlooked the living room. They were both in the living room sitting on opposite sides of the room as I was observing from afar. My wife was downstairs in the kitchen. My oldest son (Seth) thought it would be a good idea to grab a plastic cube that was a piece to some sort of puzzle and launch it across the room at his little brother. Nolan Ryan couldn't have done it any better. His form was perfect, and his fastball was delivered right to the side of Matthew's head. It made a loud "pop" when it made contact. Matthew burst out crying. Before I could say anything or do anything, my wife yelled from the kitchen down below, *"Seth, did you hit your brother?"* At this point Seth is nervous and he knows he's in trouble. My wife yelled out again, *"Did you hit your brother?"* He nervously and hesitantly yelled back *"I didn't hit Matthew!"* Although Seth was 100 percent telling the truth, I then got involved and clarified what really happened.

This is what I call "literal language." Literally Seth was 100 percent correct. However, my wife wasn't seeking a literal answer, she was seeking the practical answer. Seth was operating under the letter of the law. My wife was interested in the spirit of the law. Did Seth hurt Matthew? Absolutely he did. That is what my wife wanted to know. If Seth wasn't six years old at the time, he might've argued that she did not ask the right question and he was being truthful.

I see this literal language used a lot in financial services, whether it is intentional or just the way people were taught. One example is, *"With XYZ product you cannot lose money."*

One area that I want to focus on today has to do with cash value life insurance. I recently read about a lawsuit that was filed against an agent, and the insurance company, that had to do with IUL. The client stopped funding the policy and "lost" tens of thousands of dollars when they cashed out. It did not appear that the agent had done anything egregious in the design of the product! Afterall, the client stopped funding it! Of course it didn't perform well! As I read the lawsuit I just wondered how much literal language versus practical language was used in the sales pitch. Literal language being language that is indeed 100 percent truthful, but yet not adequate. To be clear, I am a fan of cash value life insurance as I distribute a lot of IUL and whole life insurance. So please don't take this column as a bash on the product, but rather guidance on setting the right expectations and also a demonstration of how sensitive these products can be in relation to projections.

Let's use as an example a male client that is 35 years of age, healthy, and wants to "max fund" an IUL for the next 30 years at $10,000 per year. Then, at age 65, he wants the maximum amount of **tax-free** income for the rest of his life (which we will say is age 100).

Example of "Literal Language" with Indexed Universal Life Insurance

After running an illustration on one of the top IULs in the country (and one of my favorites), our illustration shows a **projected** (note the emphasis) retirement income of about $85,000 per year from age 66 to age 100. In other words, for 30 years he would have paid a total premium of $300,000 into the policy, then for the next 35 years he is projected to get back out almost $3 million. This was illustrated at 6.71 percent and is the "maximum illustrated rate."

So, you discuss the illustration and the product with the client. However, as you reach the end of the discussion, you wrap the conversation up with a nice bow by saying, **"And remember, with this product you can never lose any of your money as a result of the market crashing."** You told the truth 100 percent!

When Reality is Different Than "Projections"

Fast forward a few decades. Our client has put money into the product, as promised, for 30 years. The market even performed halfway decently! The client retires and begins to take loans against the policy that you showed them of $85,000 per year. The problem is, the client gets a "Lapse" notice when he is only 72 years old—seven-years into retirement. Hopefully the product you chose had an "overloan lapse-protection rider," which is a topic for another day.

What happened? Did the market crash? Did the carrier jack up the interest rate on the loan? Did the carrier increase COI charges? None of that happened. Everything actually went fairly smoothly. The only difference in my two scenarios is that the **actual** performance was five percent rather than the 6.71 percent that was projected. *(By the way, this scenario can happen with whole life as well. Dividend rates can be different from projections and so can loan rates.)*

Did the client "lose money?" No, he actually got out almost $600,000 (seven years of payments), which is double what he put in. However, for this client that crammed money away into this policy to the tune of $10k per year for 30-years to have it "die" only seven years into his retirement, try telling him again that he "did not lose money." His perception is your reality. Him getting back twice what he put in will be no consolation to him if his mind was anchored on $85,000 forever. The 1.71 percent underperformance created an income deficit of about $2.4 million ($600,000 versus the $3 million projection).

What Went Wrong?

When you step back to the original conversation and the sequence in which everything was explained, what did the client hear when you wrapped it up with the comment, **"And remember, with this product, you can never lose any of your money as a result of the market crashing?"** In many cases what the client heard was, **"Even if the market doesn't perform well, what you see on this sheet will happen."**

Some folks may think my example above is egregious. Many financial professionals might think that this is common sense and basic math, and most clients would not be so assuming, especially considering that on the ledger are the **guaranteed columns** as well. I get it, but I have seen many examples of consumers not being really savvy with financial products "assuming" certain things in the absence of full "practical language" and full disclosure.

Now, where I admit to exaggeration is, I would hope that it would not take three or four decades for a financial professional to break the news to the client that they will not be getting their $85,000 per year.

A less "abstract" example that I see and hear occasionally is *"that you cannot lose money with IUL."* This one is less abstract because they are not even qualifying it with "losing money as a result of a market decline." I told an agent a while back that the client can lose money if the market does lousy and the insurance charges eat up the policy. I also stated that if the client puts in X dollars and ultimately gets a lapse notice, the client's perception is that they lost money. He said, *"Technically they were paying for life insurance though and were not losing money."* I understood what he was saying 100 percent, but in the client's eyes, if they thought their IUL policy was going to last until death and they got a lapse notice, they lost money. Sometimes a client losing money is more about expectations rather than actually losing money. So, we need to set the right expectations, and that starts with the marketing messages we put out.

Gipple

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