Safer Investing Tools

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Investing for your future doesn't have to come with all the anxiety of the stock market.

With financial advisors urging people not to get too emotionally attached to their accounts, it's easy to fall into the trap of the bleak outlook regarding retirement. Because of this, a common question today is whether there exists a safe investing tool that can be used. The answer is a qualified "yes."

The word "safe" has many meanings for many different people. However, the most common connotation is "risk-free." Essentially, people need to find out what tool they can use to invest their money for later life without the worry that they might lose all of that money. Good financial advisors will point out that there is no entirely risk-free way to invest money toward a comfortable retirement.

However, there is one risk-free way to invest money toward retirement: get completely out of debt, including your mortgage. Debt is a liability because you are legally bound to pay back the credit you have used. When you eliminate debt, you empower yourself to keep all of the money you earn, thus recapturing that interest you were paying to your creditors.

Remember that you absolutely must have a reserve put away in a savings account so that you are ready to handle life's emergencies. However, it makes little sense to pad a savings account that earns 0.5 percent interest while you could be using that money to pay down a credit card debt with 12 percent interest. So build your reserve, then pay down debt.

There are some other excellent tools that can be used that we could safely refer to as "very low-risk." We're talking about insurance-backed products.

Why Insurance?

Let's take a look at the stock market's history so that we can get some good perspective to start out with. Warren Buffet, who has studied 100 years of ups and downs in the stock market for the last 100 years, found that the average growth was 5.3 percent, compounded annually (2006 annual report to shareholders of Berkshire Hathaway).

The stock market is like a roller coaster, with moderate ups and downs as well as extremely steep growth and declines. If you invest in the stock market, your money participates in the growth, putting a smile on your face and money in your pocket. But if you don't cash out during a high, your money participates when the market loses.

What we're looking for is a tool that does not participate in losses; one that simply increases regularly. Savings accounts do this at an incredibly slow rate. **However, indexed insurance is a powerful and safe tool for investing.**

Indexed insurance products, as part of insurance companies, are regulated by state and federal agencies. Despite the incredibly bad press some companies like AIG have had of late, the insurance industry remains one of the most solid industries out there today.

Though AIG had bad press because of being overly aggressive in their investment strategies in certain areas, their annuities and life insurance are and have been regulated by state agencies; they could not invest that money anywhere dangerous, and these are still the company's healthiest offerings. This is the case for all insurance companies.

With that said, we can move on to indexed insurance products, such as annuities and universal life. If one of these products is indexed, that means it has both a floor and a cap, meaning it will never participate in market losses.

Specifically, let's say that you are using an indexed universal life policy with a floor of 2 percent and a cap of 15 percent. If the market grows at 9 percent, your policy grows at 9 percent. If the market grows at 17 percent for a given year, your policy grows at 15 percent - this is the cap. Finally, if the market declines for the year, say at a rate of -2.5 percent, your policy does not participate in that loss. You still have a growth of 2 percent for that year. Floors and caps vary between providers, so this is just a hypothetical example. This is the power of indexed insurance and annuities.

Some Specific Products

Let's take a few minutes to make sure we understand what an annuity is. Then we'll look at some indexed insurance policies.

Annuities

An annuity is a product that provides an annual income to its owner. The amount that you invest in the annuity, along with how long you leave it intact and do not take money or income from it, affect how much that income you receive amounts to.

More specifically, an annuity consists of two accounts: a cash account and a benefit account. The cash account tracks an index, like the S&P 500, and will lock in gains each year at the anniversary date. The income account indicates the amount of income you could receive from a certain date until the day you die.

Let's say that you have $100,000 to invest, or that is already in a retirement account. You choose an annuity. If you choose wisely, you find a provider that gives a ten percent (10 percent) bonus up front. What this means is that if you start with $100,000 that you put into your cash account, the provider adds a bonus of $10,000 right away. So your cash account now has $110,000 in it.

If you get a solid indexed annuity, you should experience an average of 8 percent yearly growth in your cash account. You can also add to it as you are able over the remainder of your earning years.

During those accumulation years, your cash account can increase every year, based on market growth and your contributions. If you have an indexed annuity, there will be a cap to that growth, but you will also never participate in market downturns. Then, when accumulation years are up and you are ready to retire, you activate your income. The insurance company will provide you a chart with the exact dollar amount you can access annually at any given year.

In short, annuities are not the kind of investment tool where you build up a sum of money to be cashed out at retirement. They are a tool that provides a guaranteed lifetime income benefit. You could very well cash out your account and get a lump sum from your annuity and try to stretch it throughout retirement, but the point is to have an income to live off of throughout your retirement.

This is why the indexed annuity is such a good tool. Your money might grow slowly, and it does in many cases, but you know the money will not disappear because the annuity is indexed. Furthermore, if you allow the cash account to grow for fifteen to twenty years before starting to take out an income, you will have a comfortable income that is guaranteed for the entire length of your retirement.

Keith Jacobson, a prominent Utah agent who is licensed in over twenty states, puts it simply: "I am simply amazed that my clients can utilize an annuity that provides them a ten to fifteen percent up-front bonus and a guarantee of eight percent annual growth for up to twenty years. It is not for everyone, but for certain clients, there’s nothing that can compare."

A final word on annuities: They are customizable to fit any client or need. You can set one up for a ten year period and then plan on cashing it out. In this case, your goal would just be to have a steady growth to your investment with zero downside market risk. Another option is to roll your current 401k or IRA into an annuity. An insurance professional can assist you in this process.

Life Insurance

Great life insurance agents teach their clients that a properly structured life insurance policy can protect your hard-earned money from five major risks:

- Market loss
- Increasing taxes
- Disability
- Death
- Frivolous law suits

Another feature of investing in life insurance as a retirement strategy is that life insurance grows tax free and the benefits from the policy come out tax free. For example, if you need to receive a death benefit from your policy, there will be no tax on the proceeds.

However, money withdrawn from your policy is technically taxable, which can be unpleasant. **Taking a loan on your insurance policy's value - not like a loan from a bank - is a technical way to use the value of your policy without being taxed.**

The danger of taking out insurance policy value as a loan is that you might take out the entire value of the policy. If this is done, you have essentially caused the policy to lapse. This means that the policy is no longer in effect and you have taken out a pile of money on a policy that doesn't exist anymore. Then the taxman arrives and wants his share.

To avoid this danger, good insurance providers offer a guarantee that they will help you keep from allowing the policy to lapse. This brings us to a take-home message for today: If you have permanent insurance and you don't exactly know how it works or if you could be in danger of lapsing the policy at some point, you need a thorough audit. To do this, call your insurance provider directly and ask for an "in-force illustration." If your agent told you the policy is designed to accumulate cash to supplement retirement, ask that the illustration demonstrate what your goals are. This report will show if you are still on track with your original plan. If you have any questions as to the integrity of your agent, shop around - this can make a big difference. As for what type of life insurance to invest in, there is no one answer. Certainly you want to seek out an indexed policy, but whether you go with universal, whole, or term is up to you, your situation, your income, and your needs and expectations.

For your information, here are definitions of universal, whole and term life insurance:

Term: This is what it sounds like. It is insurance that is purchased with a specific period of time in mind for the policy to function. This term can be from one to thirty years. During this time, your premium will be the same. This is usually the lowest monthly premium form of life insurance, but it is very expensive unless you die, because it builds no cash value. One critical point is that you want to have your term with a company that will allow you to convert to permanent at any time. Yes, the premiums will increase, but if you were to become ill and really need the insurance, you could convert it and keep it in place until you die.

Whole: This is insurance for the rest of your life. The premiums are higher than term life insurance, since the premium is supposed to stay the same for the entire life of the policy. There is also usually a guaranteed cash value to this type of policy.

Universal: Often referred to as "flexible premium, adjustable life." It offers a lot of flexibility if you need to decrease your premiums for a certain period of time. It also allows for the death benefit to increase or decrease as needed. Typically monthly premiums are lower than whole life, but certain guarantees aren't as strong.

There are three types of Universal Life:

1. Traditional
2. Indexed
3. Variable

The details are long and complicated with these three, but the primary point is that they differ in how the accumulation value is credited. Traditional is determined by the insurance carrier as they see fit. Indexed is based on a specific market index and the cash value is not at risk of market loss. Variable is when the policy cash is invested into mutual funds with full upside and downside potential. There are pros and cons to each, but there is no silver bullet out there and definitely no one-size-fits-all solution.

Safety of Insurance Investments

It is worth taking a moment to explain what opponents of insurance as an investment tool might say.

First off, there is sometimes a worry that since the insurance companies make all the rules, they can change the rules of your policy anytime they want. This has only a little truth to it. Certainly rules can be changed and everyone wishes insurance companies were more transparent. That being said, when you purchase an insurance policy from a provider, you are making a contract.

You must honor your end and the company is also legally bound to honor the terms of that agreement.

The other major problem that some financial advisors have with insurance as an investment tool is that it grows slowly. This is particularly the case at the beginning of the life of the insurance policy. The only way to make your insurance policy grow more quickly is to make a fairly large initial contribution. But remember, you're not trying to get rich quickly. You're planning for retirement and you are looking for a comfortable retirement income.

One fair caution financial advisors offer is not to invest solely in an insurance policy for your retirement plan. Look into CD's, which are FDIC (Federal Deposit Insurance Corporation) insured, and other instruments that have a guaranteed and secure income. It is always a good idea to avoid putting all of your eggs into one basket.

Final Words on Safe Investing

If you are looking to safely invest for your retirement, remember to keep your eyes on the prize. If you are like most people, you want to have a sum of money in place that will provide income throughout retirement. If you want that guaranteed, you probably want to look into an indexed annuity.

But always remember that you are your best investment. Find ways to increase your education, training, and skills base. Keep a vibrant professional network at all times. Explore methods of creating different income streams.

And remember, retirement doesn't have to be an age. It can be an amount!

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