The Rational Reminder - EPISODE 23

[INTRODUCTION]

[0:00:05.3] Benjamin Felix: This is the Rational Reminder podcast, a weekly reality check on sensible investing and financial decision making for Canadians. We are hosted by me, Benjamin Felix and Cameron Passmore.

This week, we were joined by Glenn Cooke. Glenn is a fixture on the personal finance Canada sub-Reddit but he also built up lifeinsurancecanada.com which is well, what it sounds like I guess, it's an insurance website but Glen, he's got a very matter of fact, rational approach to insurance and that's what we talk to him about today.

[0:00:36.4] Cameron Passmore Yeah, it was a really great interview, he was really nice, very forthcoming, I loved how he talked about the mistakes he commonly sees in insurance, especially on the fact that most people way under buy, the amount of life insurance, I thought he was spot on that.

[0:00:49.6] BF: It's absolutely true. They don't really realize how cheap it is in a lot of cases when you're buying term for the right reasons but they also don't realize how much you need like if you die, how much it cost to replace your income for your family for 20 years, it's a lot of money.

[0:01:02.1] CP It's a lot of money. I like this income based approach. I also liked how he described permanent insurance, what it is, when it makes sense, in what situations. Anybody else tells a pretty personal story about his own family. I thought it was a great interview.

[0:01:14.6] BF: He was spot on. I don't want to make the intro too long here but he was spot on when permanent insurance makes sense and how it can be an asset class, it can be part of the portfolio but it has to be for the right reasons when you're in the right situation which I would say, most people aren't. Anyway, we'll go to the episode.

[0:01:28.6] CP Have a listen.

[INTERVIEW]

[0:01:35.1] BF: Welcome to Episode 23 of the Rational Reminder Podcast. Today, we're joined by Glenn Cooke. Glenn spent many years and we'll talk more about this as we go but he spent many years running lifeinsurancecanada.com which is an online platform for insurance information and also for purchasing insurance or it used to be a platform for purchasing insurance.

We'll talk a little bit more about that and how it's changed as we go. Glenn, welcome to the Rational Reminder Podcast.

[0:02:03.8] Glenn Cooke: Hey Ben, it's good to talk to you again, thanks for having me on the podcast.

[0:02:07.8] BF: Kind of like what I would just talking about with the business that you had, you built an insurance practice in a – I would say a very unique way especially for the time period when you did it, where your model was strictly over the phone and online. Can you tell us a little bit about why you think that approach to insurance was so successful?

[0:02:24.9] GC: It's really, I think more so the industry than the consumers. Though consumers are still a bit reluctant to work in this fashion. 10 Years ago when I founded lifeinsurancecanada.com, the industry was not used to doing, like they didn't like internet leads, people collecting names and phone numbers off the internet, they had a very bad reputation. The insurance companies did not want to sell insurance policies to somebody that you hadn't met in person. There was a lot of rules around that kind of stuff that I had to – I basically I just was very compliant, I was very careful about the methodology and I had a process for everything that satisfy the insurance companies.

Eventually, over time, we got them to bend and let us work with clients just over the phone.

[0:03:09.1] CP Because I guess the risk is that you get people that are in need of insurance, there's bias set of applications potentially coming, is that what the fear was of the industry?

[0:03:17.8] GC: Well, the way I had to describe by an underwriter was how do we know we're not ensuring somebody's dog. Rover Brown, because you didn't see them or you don't know them and my response that was, there's a sense in the industry that your insurance agents are supposed to be doing what's called field underwriting.

They're supposed to be looking at the people and judging them and thinking if determining if they're a good risk or not. In practice, this was one of the points I made the insurance companies. Most agents don't do that and if they do it, there's no training, I can't look at somebody and tell if they're sick or a good risk. I have no training in that.

Instead, what I would do is I would – I was very careful about always taking my clients through a very methodical approach on how to do the medical examiner, the medical questionnaires so that the insurance companies have a very good overview of the clients and in the end, I think the insurance companies actually prefer it that way because they got a better picture of the client when there's full disclosure instead of me trying to judge whether or not they smoke or not.

[0:04:14.3] BF: What about from the perspective of the clients, there's that classic image of the insurance sales person sitting at the kitchen table trying to jam you with a permanent policy. The way that you were operating was the opposite of that, can you just talk a little bit about why?

[0:04:28.0] GC: Yeah, absolutely. You know, curiously Ben, as much as everybody on the internet and get rid of the old insurance agent and the kitchen table and stuff. The vast majority of life insurance is still sold that way and I think that's because the vast majority of consumers still want it that way.

I think consumers do all their research online but when it comes right down, they're still not quite ready to pull the trigger and actually purchasing insurance and they want to have somebody that they know and trust sitting at the kitchen table. I was very much working a niche when we're doing sort of over the phone stuff.

What I would do that's different is, I would just give them an education, there was no sales process or anything, I spent an hour with them on the phone, give them a full run down on how much insurance to buy and the various types, making some recommendations and I think the one big difference between what I do and what a traditional agent would do is I would never try and close them on the initial phone call. There's no pressure there.

We would normally conclude with, "tell you what, take the weekend to think about it, discuss it with your spouse and your family, do some more research based upon what we've talked and I'll call you back next Wednesday and if you're ready, we'll start the paper work." If you've got an insurance agent that's driven halfway across Toronto, 7:00 at night and they're sitting in your kitchen table, there's a lot of pressure there. They do not want to spend that three hour round trip again going to your place, they want you to close right there, start the paper work.

There's just – it's the over the phone bit is there's a lot less natural pressure there I think.

[0:05:59.6] CP: But so few people, I would guess are actually going on the internet looking for life insurance or am I just wrong on that assumption?

[0:06:06.3] GC: In terms of numbers of people?

[0:06:08.0] CP: Yeah, most people that I talk to about life insurance, I mean, it's not kind of the top thing that they want to do. To do that on their own in their home, I just don't see that being that likely, although the process you talk about is very appealing to talk to someone online and that's not trying to sell you something, it's very appealing.

But you got to get to doing it.

[0:06:27.1] GC: You're correct again Cameron. This gets back to the idea that consumers still need to be sold life Insurance, you've got to have an agent, an experienced agent for the most part, bring up the topic, suggest that we have a meeting and explain the options, they're still – the people we worked with were very much a niche, they on their own had decided that they wanted to investigate life insurance, went on the internet and found us.

But that is certainly not most people. I know that life insurance companies would love. I've actually have them tell me this, they would love to get rid of life insurance agents and just do it all over the internet but again, consumers are not ready, they won't buy life insurance of their own accord unless there's a life event that does that.

Its' still very much a niche. It's a growing niche and it's a fairly large niche but it's still a niche, it's still not the majority. Most people are still doing it the old school way.

[0:07:17.4] CP You've got the selection bias of people who are seeking out life insurance, they've already done their own research. When those type of people get to you, what's the most common question that they're asking?

[0:07:27.9] GC: They normally have actually done a lot of their research. I think it's like you know, when you go and buy a car, you know what kind of car you want. They're more just looking for confirmation that their research is correct. I think that's a big thing, a specific question so much as, this is what I think it is. Can you please confirm that you know, I want term or I want permanent and that's correct so I don't' end up with the poor life insurance policy.

[0:07:52.3] BF: What's the most common mistake that you see that people make when it comes to life insurance?

[0:07:56.4] GC: In terms of the most common mistake, far and away, it's not buying enough and I hate to sound like an insurance salesman but the amount of insurance that people buy is almost never enough, I know there's a concern out there about being over insured across thousands of clients. I have only ever seen two people that were over insured in my opinion and the insurance companies were both reluctant to insure them.

I had to make a case for that and the clients were very deliberately – they had their personal reasons for over insuring. Other than that, 99.998% of the time, you're not over insuring. There's a fear there and I think the problem is because, with most people that are buying their first term policy, typically for family needs, middle income, that kind of stuff.

They tend to look at the wrong thing, they'll look at 500,000 or a million dollars of life insurance as a lump sum but for most of us, we're actually replacing an income over the next 20 years if we die. You need to just kind of rejig and say, "I need this much income for the next 20 years to get the kids out of the house" and the fact that it's a million dollars to do that is irrelevant, it's not the million dollars you're buying, you're buying $50,000 a year for 20 years.

As long as you don't, you're looking at the right thing and that's I think consumers don't a lot of the time, they'll just see the big number and say, "well that's a big number" but it's a big number upfront, if you got to live off it for 20 or 25 years, it's a lot smaller number. That's probably the biggest mistake is not buying enough.

[0:09:27.1] BF: How would you walk people through justifying how much they need?

[0:09:31.6] GC: There's the long way and the short way. I have a calculator, it's called just an income replacement calculator so we make an assumption on if you pass away, from an insurance perspective, you've lost your paycheck. We determine how much of your paycheck we want to replace that your family needs to live on, we pick a timeframe, 20 or 25 years and inflation and an interest rate and what those four numbers, you can figure out how much insurance you need to produce that income stream.

On one hand, I would use the calculator but having done that calculation many thousands of times. With most people's assumptions, using standard assumptions for interest and inflation and 60 or 80% of your paycheck, you almost always end up with between 10 and 15 times your gross income. If you want a long answer, it's a present value calculation of an income stream.

The short answer is, yeah, 10 to 15 times of your gross income almost always fits the bill for most people's assumptions.

[0:10:30.3] BF: Yeah, that's really interesting. What about calling the stakes with disability insurance?

[0:10:34.3] GC: Well, disability insurance actually ties in very closely to life insurance because again, you're ensuring your income if you die and you lose your income as a result of death, that's replaced with life insurance, disability insurance is the same thing except you don't die, you become disabled.

The other difference of course is that you're the beneficiary of disability insurance because you're still alive. It's more immediate. You're saying, you're living off of your own paycheck. The biggest thing with disability insurance in my opinion is, to make sure you buy a platinum plan with life insurance, I mean, a check for a million dollars is a check for a million dollars, they're all the same, they all cash the same.

It doesn't matter if it's for manual life or RBC. But with disability insurance, the plans can be substantially different and every instance I've seen of somebody who has become disabled in retrospect, they wanted the platinum gold standard plan. That would be my based on recommendation. Unlike with life insurance where we very much shop on price. With disability and insurance, you almost want to sort for most expensive to cheapest and then start deciding why you want to go with the cheaper plan, what benefits you're losing.

Disability insurance is a bit of a sticker shock, it's not ever perceived as inexpensive but it is absolutely an important part of your – on the financial pyramid, at the base of it, one of the things you want to be looking at is insurance, protecting your paycheck and disability insurance is a big part of that.

[0:12:00.9] CP Yeah, as we tell clients, the more expensive it is, it just reflects the risk, correct? The more expensive it is, the more you can't not have it.

[0:12:07.8] GC: Well, absolutely. There's two reasons, well, I guess there's three reasons it's expensive. One is, because I don't think life insurance companies that I've ever seen are making a lot of money on disability insurance. It's a real tough market to make a living in. One is, there's a lot of claims, statistically, I think the number is, it's I don't recall the number, it's very high, the percentage of people that become disabled before 65.

There's a lot of claims and somebody's got to pay for that. The other thing is, with disability insurance, the difference in prices are there's different features, disability insurance tends to be more complex than life insurance. There's conditions upon what qualifies you as disabled, the conditions that got you disabled, under what conditions they'll pay, how much they'll pay, whether or not it's taxable or not taxable.

It's a little bit more complex, by going cheaper, generally, you're cutting back on some of the more tangible things like the conditions under which you'll be paid out. You normally want that as flexible and as all-encompassing as you could possibly get. With disability insurance, you don't want to end up being disabled and not able to work and a plan that doesn't cover you, that's the risk that we really want to make sure of when we're evaluating different types of policies.

[0:13:17.1] BF: I think a lot of people will settle for their group disability insurance through their employer. Do you think that's sensible for most people?

[0:13:23.6] GC: Well, I'd like to see it differently but in practice, that's the way it happens. With group disability insurance, you normally require to take it as part of the plan, you got it, it is what it is, individual plans that you'd buy through an individual broker, typically are better policies, premiums are guaranteed, the conditions under which they pay out are far better but the difficulty is if you're already paying for at work, to actually buy another separate plan and you end up with double coverage.

People just aren't willing to pay that. Technically, yes, they should be buying an individual policy over the group stuff but if you're forced to pay for the group stuff anyway, it's kind of like 80% of the way there and most people will just accept it.

[0:14:02.2] BF: Is it a bit cheaper though to do a top up plan like if I already have a group. I have that, I have my own disability policy privately on top of my group. I thought there were some sort of price integration.

[0:14:12.7] GC: Well, you can carve out, again, a gift complicated, you can add on layers and stuff like that. It gets a bit complicated but in my experience, I found that again, people just

won't buy a second layer of coverage with long term disability. Like I said, I think you're kind of – if you're making up numbers, you're 80% of the way there with long term disability insurance. I think long term disability group plans.

The workplace coverage are mildly better than they were years ago, I actually worked in the industry, doing pricing of workplace benefits a long time ago. At that point, the benefit plans were, they would do stuff like stop paying after two years. You become disabled, they give you a check for two years. I haven't seen many of those plans around anymore so the big problems with workplace benefits, I think it mostly gone away but yeah, if you've got a workplace planned, where if you become disabled, it only pays for two years or five years.

That is absolutely something you need to grow and get a wrapper individual policy plan. Or, if you don't have enough, that might be another reason you'd get it as well.

[0:15:15.3] CP Another type of insurance is permanent life insurance. How do you describe what it is in simple terms and can you talk about situations where permanent insurance might make sense.

[0:15:25.2] GC: Okay. The way I describe this is, because this is actually true, there's only one type of life insurance. The type of life insurance where you buy a million dollars of coverage and you die and I show up with a check for a million dollars. In terms of the benefit that you're getting the product that you're purchasing. All the different types of insurance are the same. It's not the insurance that differentiates when I say there's different types.

What differentiates the different types is how you pay the premiums over long periods of time. It's not one type's better than the other, it's how long do you want the insurance for? If you only want it for a defined period of time, after which time you don't want life insurance anymore, then that would be a term policy, that's the cheapest way to solve that need. However, if you want life insurance over the long term, until you pass away, no matter what age that is, it might be age 95, then, the cheapest way to solve that problem is permanent life insurance.

Permanent life insurance being just simply a policy that has premiums that are level for life. Do you want to pay cheap now and no insurance later or do you want more expensive now but level premiums for life. It's the same insurance, you just need to kind of drill down and say, "how long do I want the insurance and that dictates whether or not you want permanent or not."

[0:16:39.1] CP Can you give us some examples of when somebody might want to have coverage for their whole entire life?

[0:16:44.1] GC: Yeah, there's a whole bunch of reasons and I know some of this stuff kind of gets poo-pooed in certain places but there are absolutely reasons why you would look at buying permanent insurance. I'll give you actually my personal example to start with. I grew up fairly, I'm not sure what the word is. We grew up below the poverty line and I just have a personal desire to leave in a state. So even though I make a good living but I am self-employed there is some possibility, some risk that I might end up completely flat broke when I die and I am prepared to pay money to guarantee that there is an estate there for my kids and how do I guarantee it? Life insurance guarantees.

So that is one example, some people just want to have 50 or a $100,000 to leave behind to the grandkids and to bury them, that is a reasonable me and it is typically the cheapest way to do. If you look at dollar for dollar, life insurance when you die is cheaper than trying to save it up yourself. As good as you folks are in investing, the life insurance companies are often better than that. Another example would be and this is very I think common north of the GTA.

And this is an example of a permanent need, one of the permanent needs would be tax implications upon your death. Always going to be there, you always got to pay the tax man. So if you've any sort of capital gains or tax implications upon your death, the cheapest way to pay that tax bill is by buying life insurance. Again it is going to be cheaper to pay the insurance premiums than to actually try and save that amount of money up when you pass away.

And an example of that would be grandma and grandpa bought a cottage back in forever ago, 1950's or 60's or so for $28 and then that has been in the family for the last 50 years and they want to pass that down. Well when they both passed away, there's some tax implications

there. There are some taxes that have to be paid and I have been told that the biggest reason behind the sale of cottages in the Muskoka area which is north of Toronto is because it's tried to be passed down from one generation to the next and they don't have the money to pay the taxes.

So maybe the money is there and maybe it is not but if grandma and grandpa want to make sure that the cottage passes down to the kids, you need to buy some permanent life insurance. It is the cheapest solution to that problem. So when they pass away the government says, "I need $200,000" you pay it, just handle the life insurance benefits and you keep the cottage in the family.

[0:19:03.1] BF: Yeah, I have seen that play out with real people and like you said, the situation is often that the cash is there but maybe one sibling has the cash and the other doesn't and the sibling with the cash doesn't want to pay the tax bill. Yeah, it can get interesting.

[0:19:15.7] GC: Yes and the life insurance just fixes all of that.

[0:19:18.3] BF: Yeah, exactly. When someone makes the decision so say they have decided, "Okay I do want permanent coverage for…" one of the reasons that you've described, what are your thoughts on the type of permanent coverage that people should buy like whole life, participating, level you well?

[0:19:30.5] GC: Well there's two general categories of permanent insurance in my opinion. These days on the marketplace and then each one has a sub-category. So there's whole life which is level premiums for life with what's called the cash value. If you cancel there is some money back. The second type of policy or category is universal life which is more of an insurance policy with an investment on the side that you can use or not.

And within each of both the whole life and the universal life, there is guarantee to non-guaranteed versions. So with the whole life, if you ever see the word participating or dividends, those are typically non-guarantee policies where different attributes of the policy

can change. Sometimes it is the premium, sometimes it is the face amount and then there is the fully guaranteed type of whole life and the same thing with universal life.

There's some aspects that are non-guaranteed or you can buy and structure universal life policy so it is fully guaranteed. My recommendation for most people unless there is a compelling reason not to do this is to head towards the guaranteed version. If you are just looking for the cheapest way to get life insurance when you die, you want level premiums, everything fully guaranteed. We don't want any surprises 40 years from now when we are now 75 years old and something has gone sideways.

And now we are too old to fix it because what are you going to do with life insurance at 75? So whole life, universal life, I shop at it normally and see which one is cheapest and compare those because those things do change overtime in the market place but one of those two and I am a very big believer unless I am told otherwise by the client to walk everything in there and get it fully guaranteed.

[0:21:02.8] CP: Interesting. Another type of insurance is critical illness insurance. I have seen a number of clients actually be paid on this and I see a number have policies with return to premium which after I believe 15 years they have gotten large checks back. What is your take on critical on this and should people think about it more often?

[0:21:21.4] GC: Mildly changed my views on this. I used to be fairly avidly against it. We're not in the US, if you get cancer you are not going to get a racked up half a million dollar hospital bill or something like that. So generally speaking there is – I guess if you compare it with life insurance that is an urgent need. Disability insurance is absolutely an urgent need. You got to have that stuff looked after immediately and then if you are so compelled, you might look at critical illness insurance.

Now what critical illness insurance does is, is there is about 25 or 28 different critical illnesses they call them, covered conditions. If you develop one of them they just give you a check. So it is structured not unlike life insurance except you have to live for the critical illness. The reasons you would buy this are and again, these are less compelling. So if you have an emergency fund you can argue that you don't necessarily need critical illness.

Critical illness is really handy if you don't have an emergency fund and if you develop one of those covered conditions, have a heart attack or cancer or something you are going to be off work for six months. So there is six months of lost income and this is something I think a lot of people miss, your spouse is going to be off work for six months too because someone is going to drive you back and forth to the hospital, look after your chemo treatments and all that kind of stuff.

So really, if you are going to look at critical illness insurance putting aside the stuff like go to the United States and stuff. You are planning to stay in Canada, you should look at six months to a year of your income plus six months to a year of your partner's income and both of you should have that level of coverage. Now I am also a believer, I've got a curious instance of critical illness insurance in our family. My daughter went to school in the United States and I had to co-sign a huge loan.

A six figured loan to get her to school because it is very expensive down there and because I am in the insurance business I was concerned what if she dies or develops a critical illness insurance or becomes disabled. As a student, she didn't have any money for to justify long term disability insurance. You need to have an income for disability insurance. So it is a replacement for disability insurance. We purchased a critical illness insurance policy on her.

And about a year into her schooling, she developed just some mild skin cancer and the check paid out. We had a $100,000 of coverage and most policies have two layers of coverage. They have the main coverage amount of let's say the $100,000 for most of the covered conditions and then some of the milder cancers that are less likely to kill you. There is normally a small amount of pay out that they'll do. So we at Manulife, they gave us for the mild skin cancer, I think it was staged T1A or something like that, they gave her a check for $25,000. So yeah, like you said Cameron I've actually seen it pay out right within the family.

[0:24:09.0] BF: Is that what caused you to change your mind?

[0:24:10.6] GC: No, as I said because I tend to look at this always financially. Where is the risk? In particular, where is the loss? So I just come to the conclusion that the loss is your income.

What I don't like with critical illness sales in the insurance industry is often – well it is almost never sold based upon loss. So if you developed cancer, where is the loss? And the answer is, you've lost six months of your income but that's a really boring way to convince somebody to buy a critical illness policy.

It is much sexier to say and much more exciting to say, "Well listen Ben if you get cancer, you are going to get a check for $100,000 and you can go to the Mayo clinic in the United States and you can take a last trip to Disney World with your family" that is not insurance. There is no loss there, you are creating wealth that is not insurance but it is a much sexier way to do it and I have a bit of a visceral reaction to those kinds of sales techniques.

Even though as I said just saying well you lose an income for six months isn't every attractive or motivational way to sell critical illness insurance. My realization is that there's actually a loss there instead of talking about Disney vacations and trips to the United States.

[0:25:19.6] CP: Right, interesting because the last time that we spoke which was about critical illness which was probably two years ago you were very much against it. So that is interesting to hear your perspectives changed a bit.

[0:25:28.8] BF: I think one of the other types of insurance that are sold probably inappropriately a lot of the time is permanent insurance. So we have talked about some of the cases where you might need that but I think it is often sold as an investment. Do you think it is sensible for people to think about permanent insurance as an asset class or is it just protection?

[0:25:46.8] GC: Oh no, absolutely not. There's three ways you can use life insurance but they are not always appropriate for everybody. So the first and most important way for most people would be using it for insurance loss of your income, you lose your income when you die. You get a replacement paycheck through the use of life insurance but life insurance is an asset class or an investment is absolutely – I think it might even be overlooked far too frequently as an asset class or an investment.

But for the right kind of people so the rule of thumb is, before you want to start looking at life insurance as an asset class or as an investment, you need to say a few things kind of rules of

thumb. Your RSP and TFSA's need to be fully matched out and perhaps a different way to say it is you need to have enough money saved for retirement already done so you are not going to outspend yourself and then once you get above that point and you got more money beyond there now absolutely using life insurance as an asset class and the tax benefits of a life insurance policy are absolutely something you should be looking in.

In fact, if you're in that situation and you haven't looked at life insurance, I think you are missing out. It shouldn't be your whole or even necessarily a primary part of your investments beyond that point but the industry throws around 15 to 20%. I throw around 10 to 15%. You should be looking at that kind of thing. So in terms of using it as an asset class, what you are basically saying is, "I am going to buy an insurance policy and then put these premiums into a policy that is going to give me a $1 million death benefit when I die".

That is when you die that's a $1 million in return capital. That's when you actually see the benefit of the investment as an asset class. It is fully guaranteed because it's coming from an insurance company. So it gets into those things, the performance in terms of interest rates, if you look at the returns are often better than the more guaranteed types of things. So it fits in very well there as an asset class but the drawback is that this stuff is not liquid and it is not very flexible.

Once you are in, you're in which is why you don't want to be using this, any money going into insurance policy that you might ever need. This is above and beyond.

[0:27:54.7] BF: Can you talk a little bit more about that because I think that when permanent insurance is sold, it is often sold in the basis of eventually you'd be able to take some money out. You are able to take a loan against the policy, can you talk about the ways you can get money out and why they're not that great?

[0:28:08.8] GC: Sure, so if you look at the type of investments that you folks would work on even say an index fund or something like that, you put your money into a mutual fund or an RSP or something like that and it's growing, you can get that same type of investment inside say universal life policy. In fact, a lot of the very common types of mutual funds are actually specifically tracked inside some company's universal life policies.

So if you've got a fund you like, McKenzie or wherever it is, you can probably find that exact policy, exact fund within the confines of universal life insurance policy but the first problem is, is that the management fees inside the universal policy are almost always far higher than they would get outside of the universal life policy. So if you get it outside of the universal life policy, you're going to have more money because there is less fees.

That's one of the big draw backs to universal life policies. The other thing that happens and particularly if it is being miss sold that nobody ever does a comparison. They'll just show you the benefits of investing in universal life policy. If they stop and said, "Yeah but what if we put this money in an RSP or TFSA how would it look?" and the answer is it would look a lot better inside a TSFA or an RSP. So again that gets back to what we discussed earlier.

That is a good rule of thumb, if you haven't maxed out your RSP's and TSFA's you're almost always going to be better off doing an inside there before you put money into a universal life plan. However, the benefit inside the universal life plan is the growth is pack sheltered. So it is not this similar to an RSP if you put the money in, if you put a 100 bucks in it will earn 6%. You got 6 dollars at the end of the year in growth that growth is not taxed until you take it out in most cases.

So again, that is not ideal. There's tax implication there but there is two ways you can get that money out of the plan. One is die because when that investment comes out it is paid out as a death benefit. There's no taxes on it. So again, if you are using it as an asset class, it is very tax advantaged because you've got all that growth, you've never paid taxes on it, it comes out as a death benefit, very taxed advantaged and the other thing that they have been doing for about 20 years or so is something called insured retirement plan.

There's variations on this but again, the purpose is to get the money out of the plan without paying taxes and what they do is you put or invest money inside a universal life plan, let it grow on a tax sheltered basis and then when you retire rather than taking money out of the policy which will cost, you'll end up paying taxes at that point, you go down to the bank and take out a loan using the investment as collateral and of course the loan.

There is no taxes on it because it is a loan, when you die the death benefit pays off the loan. So just some tax shenanigans going on there. Again that kind of stuff that is called insured retirement. If you got your retirement fully looked after, you've got more money than you need to spend, that type of plan is extremely advantageous. It is really something that I think not enough people that are in that situation are looking at but again, if you are still maxing out your RSP's and TFSA's not something you should be looking at. So it just depends on your environment.

[0:31:11.9] BF: That's exactly the way we always look at it. It's like what you said, if you have everything done, if you have all of your liquidity needs for retirement done and funded then in excess of that permanent insurance starts to become really interesting for the tax benefits especially as a piece of your fixed income in your portfolio. We are getting to about the time window on how we like to keep these episodes Glenn. Is there anything else that you think would be important for our listeners to think about in terms of insurance?

[0:31:36.0] GC: No, I think we've – well I could talk for days but I think we have done a good coverage. We've talked about term versus permanent, when it's important to use investments versus not and as long as consumers stick to those basic rules, it's hard to go astray.

[0:31:50.6] BF: Cool, anything else from you Cameron?

[0:31:52.2] CP: I'm just curious about how much time you spend on the sub-Reddit on personal finance Canada. You have a lot of activity there I know.

[0:32:00.7] GC: Yeah.

[0:32:01.2] CP: Based on your time there, what's your observation about financial literary in Canada?

[0:32:05.4] GC: Well the people that are on Reddit particularly not sub-Reddit – actually let me just back up a second because you can ID people's age by use of the word Reddit and I maintain if you are – keeping in mind Reddit is one of the five most popular websites in the world. It is freaking huge but if you say have you ever heard of Reddit, everybody under 40 has

heard it and everybody over 40 has never heard of Reddit. So if you heard of Reddit and your over 40 the answer is probably no. So it's a very big website.

[0:32:34.0] CP: Glad to know I am well under 40 then I guess right?

[0:32:37.2] GC: Yes, me too. So it is really a micro chasm, the people that are on that sub-Reddit are very financially literate, very financially astute. Most of the stuff we have discussed today, they're already very familiar with. So I don't think it represents what most Canadians are looking like. I think most Canadians have the same problems we had 20, 30 years ago in the industry. Just got to be careful you're buying the right type of insurance and the right amount.

And the sub-Reddit personal finance Canada on Reddit, I don't think reflects that. They are very knowledgeable generally speaking.

[0:33:08.9] CP: Interesting.

[0:33:09.5] BF: Cool, all right well Glenn, thanks a lot for coming on the show. We really appreciate it.

[0:33:13.5] CP: Great time, I appreciate it as well very much.

[0:33:15.4] GC: Thanks for your time.

[END]