

At Witt's End

Cash Value Policyholders: Are You Living in Lake Wobegon? June 2011

It has been far too long since our last newsletter. Our fee-only insurance advisory practice has continued to grow. I've served as an expert witness in several insurance litigation matters and have been traveling around the country giving presentations to various groups of financial professionals.

One trend I've found is that many of these individuals - financial planners, attorneys, accountants, trustees, and journalists to name a few - readily acknowledge that they have **little expertise in dealing with cash value life insurance**, one of the most complicated financial vehicles around. As such, this usually leaves them in the unenviable position of trusting individuals that have **significant conflicts of interest**.

Other individuals believe that they know enough about cash value life insurance to serve as their own counsel, and what I've often found with these individuals is that they "**don't know what they don't know**". Another trend I see is that the **financial professionals themselves have conflicts of interest** when it comes to cash value life insurance. Two examples are estate planning attorneys that have a quid pro quo relationship with insurance agents that refer business and financial planners that are compensated on an assets under management basis.

Still others adopt some sort of middle ground, acknowledging that they don't know much about the intricacies of cash value life insurance, but they believe they are providing good service to their clients by **adhering to rules of thumb** that they have developed through experience or through "education" provided by other financial professionals or the financial media.

Garrison Keillor brought the fabled Lake Wobegon to life, where "**all the women are strong, all the men are good looking, and all the children are above average**." I'm not sure there is a better example of the so-called Lake Wobegon effect than what I have observed in my years in the insurance industry.

An alarmingly high percentage of all cash value life insurance buyers/owners are living in their own private Lake Wobegon, and they are completely oblivious to that fact. They believe that they bought a great policy from a great agent who represents a great company.

The sad reality is that only a small fraction - far, far less than one percent - of all consumers come anywhere close to maximizing value when they purchase a cash value life insurance policy. **And the expected economic difference between an optimally designed policy and a run-of-the-mill policy is absolutely staggering**. Even the difference between a policy at the 99th percentile and the 99.9th percentile is so large that the savings produced by a fee-only insurance advisor would typically dwarf the fees charged by that advisor. Click [here](#) to find out more about why so many policyholders figuratively reside in Lake Wobegon.

As always, please do not hesitate to contact us if we can assist you in any matter that requires objective advice regarding life insurance or annuities. Witt Actuarial Services is a fee-only insurance advisory firm that derives no compensation other than the fees paid directly by its clients.

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