QUESTIONS AND ANSWERS

This month, I wanted to go over a few really great questions that I was asked by people during meetings this past month.

1. **If insurance companies are so safe, why is the federal government bail out program setting aside money to bail them out?**

   While we only deal with the cream of the crop when it comes to insurance companies, all insurance companies are not created equal.

   A handful of companies have been having problems keeping enough extra money on hand to satisfy the regulators. The government wants to make sure that these companies will be able to satisfy the regulators and pay off anyone who cashes out or has a claim. That is why they were included in the bailout plan.

   Will the government actually have to bail out insurance companies? I sincerely doubt it.

   So far, the companies in question have been able to attract the additional capital investments needed to keep the regulators happy. Companies who cannot keep the regulators happy will be bought out by strong companies, as has happened in the past. Regulators do not allow problems to linger on with any insurance companies under their jurisdiction.

   Insurance companies are required to have a certain percentage of liquid assets above and beyond what they would need to pay off every potential claim and cash surrender they have. They are not allowed to loan more money than they have on hand, unlike banks. In fact, insurance companies only make loans to the general public through policy loans that are fully secured by the policy cash values. Regulators require that any investment an insurance company makes meet very high requirements for safety and dependability.

   I never want any of you to have to worry about whether your insurance company will be there to do what they promise.

   Many people have asked me why we only use two companies for BOY: Lafayette Life and Mass Mutual. The answer is that these are the only companies I found that meet all my picky requirements. I want to be as sure as humanly possible that you will never have a problem.

2. **How soon after I start can I use my BOY plan for financing things?**

You can start financing within 21 days if you are dumping in a lump sum of money or doing a tax free exchange from another plan. Normally, I like to see people finance their first purchase around the end of the first year they have their plan.

Everything is relative. While it may take a while to finance a $25,000 car if you are putting in $800 per month, you can still finance smaller things along the way and have those loans repaid by the time you are ready for the car.

I will be looking to finance my first car next year. By then our oldest plan will be 7 years old. However, in the meantime we financed our vacations, home improvements, a new roof for the house, a new refrigerator and some large auto and home repair bills. I will actually have more money to do my car because of these earlier loans that will have been paid off and that I charged myself extra interest on.

3. **Why should I charge myself a higher interest rate than the insurance company charges me?**

If your goal is to maximize your cash accumulation, you should be charging yourself what you would have paid with regular lenders or more. Anything you charge yourself above the insurance company's rate is pure profit.

Now if you pay cash for everything and never have to pay high interest on credit cards or consumer loans, that may not mean much to you. However, if you do pay or have paid 15% or more to credit card companies or other lenders, you can charge yourself 10% on loans and still save money. Right now that is about 4% more than the insurance companies.

At the end of the day, you control your investment return on your borrowing activities where you are both the borrower and lender.

DO YOU WANT TO FOLLOW UP ON THESE QUESTIONS OR ASK NEW ONES?

You can email me your question(s) at alan@thefinancefixer.com or call the office at (860) 496-1941 to get your question(s) answered!

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ALAN J. ECKSTRAND,CLU,ChFC,CRPC
ALAN J. ECKSTRAND,LLC
977 EAST MAIN ST, SUITE 2
TORRINGTON,CT 06790
PHONE: (860) 496-1941
TOLL FREE: (866) 496-4677
FAX: (860) 496-4677
Email: alan@thefinancefixer.com