Debt Free 4 Life Scripting

(from March 3, 2022 Retirement Solutions Webinar)

Tracey to the agents: Instead of putting your client on the defensive, what you want to do is make your client relaxed, so that they're not having to answer a lot of hard questions. Questions that they may not feel comfortable answering. Questions they may not even know the answers to. There can be immediate anxiety there. But if I'm talking to you, Allan, I would say just like this:

Tracey to Allan: Instead of me asking you a lot of questions, what I would like to do is just walk through how we approach the planning process. The first reason I do that is: number one, I think it's better if you just sit and relax a little bit and see how we do things. But number two: if you understand how we approach the planning process, that's going to let you ask me better questions. Because Allan, at the end of the day, the questions YOU ask me are going to be more important than the questions that I asked you. Are you okay with that, Allan? Now, Allan, are you okay if I just spend a little bit of time showing you what we do?

Allan: Yes, go ahead.

Tracey: Awesome, let me share my screen with you, Allan. Allan, can you see this pie chart on your screen?

Allan: Yes

Tracey: Awesome. Let me tell you how I got to his point. Allan, I've been doing this a long time. I've been doing this for <(***Insert your story here***) nearly 30 years, and when I first started, I worked with a lot of people I knew from church. And I want you to know what that looked like. We were all young, dumb, broke. So I was managing money for a bunch of guys that didn't have any money to manage. But obviously over the course of years, we ended up doing fairly well with some of these guys. > But what we started seeing was that there were two kinds of people that kind of started evolving, and this is true for our new clients, too. There are people that have money, and then there are people that want money. I'm going to tell you, Allan, the people that have money treat their money dramatically differently than the people that want money, and I'll tell you what I mean by that. When we work with high-net-worth clients, or when we work with high-income earners, their message to us is “you better not lose any of my money, it's so important that I keep as much as I can get. I don't want any losses here.” They weren't talking about being conservative on their investments. What they were talking about was “I want to make sure that I'm not risking my money in places I shouldn't be.” Now these people down here are not bad people, but they would have been just as happy finding a lotto ticket on the sidewalk... But, what we learned was, these people weren't looking for lotto tickets. What they really wanted to know is “how did these people do it?” So we started our planning models to help these people understand what these people already knew about money. That “lost money is a bigger influence on your wealth than money that you earn”. So let's take a look at this, and Allan, just so you know, this comes from the Bureau of Labor Statistics. These are not our numbers. But, when we started studying this, this is almost exactly what we found to be true for a client. But I want you to look at something. The average American, both before and after retirement, 40% of their money goes to some kind of taxes! Now, Allan, that's not always income tax. That might be tax on a pack of chewing gum. But you need to know something, Allan, money lost to taxes is money lost forever! You're never going to get this back if it's truly what you owed as a tax… Okay? Now we all want a good lifestyle, but because we can't often pay cash for that lifestyle, Allan, most of us generally go into debt. Maybe it’s because of a car payment, maybe it's a mortgage, maybe it's credit cards, maybe it's medical debt. But I want you to understand something here, Allan, money paid to compound interest for a bank … that money is lost forever too. Now, you might get to keep the “asset” that you bought, but you will never get back the compound interest that you spent! Allan, most of the clients we work with do a really nice job of saving money and this is primarily due to IRA's and 401K's. But on average, people save about ten percent of what they earn. Allan, I want you to think about this: If I were in Tennessee and I went to every financial advisor's office within 100 miles of your house, the one thing they would want to ask you is: "Allan, how much money have you saved? If you work with us we're going to help you get a good rate of return." That's not necessarily how you *grow* wealth, that's how you *manage* wealth. Now let me show you what I mean by that. If you worked with us, if you let us help you, if we were able to reduce or eliminate these taxes, and if it applies to you, reduce or eliminate some of this debt and get it out of the way….? Allan, look how much more money is in this bucket. This is what people want: a bigger bucket. Unfortunately this is the conversation they get [Tracey points to the "rate of return" section on the pie chart under 10% savings] and this conversation isn't always fun. But Allan, are you okay if we spent today focusing on one of these two problems? [Tracey points to 25% "debt lost forever" & 40% "taxes lost forever"]

A: Absolutely.

T: For example: Do you have any debt that you'd like to get rid of, that could help you start saving more money?

A: Yes I do.

T: Well, I'll tell you what. Let's start here [points to 25% debt "lost forever"], and as we continue to work together we'll eventually get to this conversation over there [points to 40% taxes "lost forever"]. But right now let's focus on this [debt lost forever on sheet] because Allan, remember we get paid to eliminate problems, not create new ones. At the end of the day with all this money, your question that you want answered is how much income will I have when I retire, and is it guaranteed (Using worksheet)? But that all starts right here [points to 25% debt "lost forever"], so Allan, let's work on this together and I'm going to show you a couple of models that I think will be a big benefit to you. Is that okay?

A: Yes, that's fine.

T: Great. Now before I dive into this, Allan, the number one thing I hear every time after I show my clients what this does is "oh my gosh how did you do that"?
So what I'm going to do is I'm going to show you how we did that, first, and you'll understand what this model works and looks like. Then, we're going to put your numbers in here and I'll show you what it would mean for you. Okay?

A: Okay.

T: Alright, let me share my screen with you again and let's take a look at what this is. Now, when we use our "Debt Free 4 Life" program, Allan, it's very specifically designed to not only get you out of debt, but they keep you out of debt forever. In other words: when we're done with this program, when it's time for you to buy nice things, when it's time for you to buy your next car, or maybe your next home or your rental property, we're not going to borrow the money. We're going to pay cash for it. Okay? So let me show you how this works.

"Debt Free 4 Life" was built on a premise of understanding what a debt-snowball is. Now, Allan, I don't know if you know what a debt-snowball is, but it's nothing more than a debt-elimination strategy. You may have heard of a guy named Dave Ramsey. Dave Ramsey has made a debt snowball famous for the last 30 years because he tells everybody that "that is what they should be doing to get rid of debt". We do the exact same thing, but ours has a little bit of a different scenario to it. (33:02 mark). In Dave Ramsey's program, he is helping you be debt-free, but the one thing he tells you religiously is to "forfeit your lifestyle now so you can have a better lifestyle later". Our program is designed a little bit differently because we want you to have a nice lifestyle now. We want you to drive nice cars, we want you to live in nice homes, we want you to be able to enjoy yourself, and we want you to have a fun and happy life. You can use the same model to get you out of debt faster. (Tracey's slideshow begins). So let's look at what that means, a “debt-snowball”. When we work with clients, Allan, these clients come to us with a number of different debt accounts. Maybe they've got some credit card debt, maybe they've got a student loan, maybe they've got a car payment, maybe they have a mortgage, maybe a medical debt. But Allan, it’s not the amount of money that they owe, it’s the amount of money that they pay. The credit card is about $70 a month. The student loans are about $640. That car payment is probably about $413. If they had a mortgage it might be $3,000 or $4,000 more than that, I don't know. But in this example, this person is paying about $1,100 a month on his credit card obligations, or on its “debt obligations”.

So, a debt-snowball says: we look at your budget, we identify if there's any excess cash in the budget, and we throw it at that lowest balance first. We continue to do that, every month, until that account is gone. Then, we start focusing on the next lowest account in the same way we’re throwing everything we could to get that debt paid off. Eventually, we're working on the final debt, and when you're done with the process, you're paid in full on everybody. So as an example, let's take a look at somebody that had an extra $500 in their budget. They take that $500 and pay it towards the credit card until the credit card is paid off. Then, they redirect everything at the next long until it is paid off, and then they redirect everything to the last line until 100% of the time, they're 100% debt free. The bad news in this equation is that you were giving all of your excess cash to other banks and lending institutions, and you weren't saving any. Because of that, if you have to buy a big expense now, more than likely, you're going to go back into debt. If you had to go buy a new car, if you had to put a roof on your house, etc. So what do we know about compound interest? “He who understands it, earns it. He who doesn't, pays it”. Allan, if you're in debt, guess which one you are….? You're making somebody else's bottom line a lot bigger. Not yours. So the way we do it is we use the exact same process, but instead of paying the money towards your balances you owe, we deposit that money into a compound interest account in your favor. Now, we happen to use an SDIC, which is a “specially-designed insurance contract”. Because it compounds at interest every single month, eventually, there's enough money to pay off your debts. But I want you to remember, you have to continue making your own minimum monthly payments. What we do is: we redirect that excess budget into your SDIC account, we track the interest every single month until there's enough money to pay off that lowest debt, and this is what happens next, Allan, we redirect that payment back into our compound interest account. We continue to track it. Eventually, there's enough in the account to pay off that next debt, and this cycle continues over and over and over again until we're ready to pay off that last debt. Now the good news is; you're 100% debt free from all your creditors, but also get to keep the cash that's inside that SDIC account [pause]. So, when it comes to making your decisions on paying off your debt, there are three choices. Your first choice is you can do nothing, and in this case, this guy had $52,000 worth of debt, and was going to be debt-free in 6 years. Second, he could have used the traditional debt-snowball method. If he looked at the debt snowball, we took the same minimum payments but added $500 to him, and he was debt-free in a matter of 3 years. But if you notice at the bottom of that page, Allan, both of those accounts have no cash in their savings plans. With option three, on a "Debt Free 4 Life" account, it's the same budget as you did with the debt snowball, but look how much cash this person has in that account. The amount of months it took to pay it off was almost the same as it was for the debt snowball, there was about an extra five months there. But, this guy had $17,000 left in his account. Can you imagine how much money would be in that account if he continues to save that kind of money for the next 10 or 15 years? So Allan, what I would like to do if you're ok with it, is to build a model for you that's kind of more in line with your debt accounts. Let's see what this looks like for you. Would you be okay with that?

A: Yes.

T: Great. Now let me ask you: when I just went through that, did that all make sense? The way I went through that with you? The way the debt-snowball works?

A: Yes I see. My problem is, I've done that before. But then I have no place to borrow money from, and then I go right back into debt again.

T: That's typically what a lot of our clients tell us too, but if I do this model right, you're going to find out that you won't have to borrow money to buy nice things again [pause]. So let's jump into that calculator real quick. I'm going to open this calculator up and we're going to build a model that's specific for you. Okay?

A: Okay.

T: [pulls up SMART advisor tools software] Alright, let's create a new account for you. And this will be a fake account, Allan. I'm not going to input all the data here. I just want to see what the numbers look like as it relates to you. Now let's see, you are right here. Let's take an inventory of your different debt accounts. So if we looked at these different accounts here, do you have a car payment?

A: Yes

T: Ok, who do you make the car payment to?

A: Bank of America

T: Alrighty. Now Allan this doesn't have to be an exact number, but about what's the payoff on that car?

A: About $27,000

T: Ok, do you know what your minimum payments are that they ask you to make each month?

A: $675

T: Okay. And what was the interest rate they gave you when you borrowed the money?

A: I think it was 5%. I'm not sure.

T: Okay. And we can change these, Allan, if we determine later that those numbers need to be adjusted. But do you have any other car payments? How about a credit card payment, do you have any credit cards?

A: Yes, I have one big credit card that I use for my business.

T: Okay. Who do you pay that card to?

A: USAA.

T: Alrighty. What would be the balance on that card?

A: $15,500.

T: Do you know what the minimum payment is that they ask of you?

A: I believe it is $250.

T: Alright. And what is the interest rate?

A: I want to say 7.5%.

T: Wonderful. Good for you. So let's keep adding to this. Now you said that's the only credit card you have, do you have a home improvement loan or line of credit?

A: Yes. I have a line of credit.

T: Alright. Do you carry a balance on that?

A: Yes.

T: Ok, and who do we pay that to?

A: Bank of America.

T: Alright, and how much is the balance on that right now?

A: $15,000.

T: Okay, good. Now what is the minimum payment they're asking you to make on that?

A: $325.

T: What was the interest rate?

A: 6%

T: Okay, good. So let's keep going here. (41:55min) Let's look at the list of credit accounts. Do you have a mortgage?

A: Yes

T: Okay, and who do you pay your mortgage to?

A: Bank of America

T: What's the balance on your Bank of America mortgage?

A: $270,000

T: What is your minimum payment? Now I want you to understand: not the payment you make, what's your principal and interest payment NOT counting the escrow.

A: I believe $1,340.

T: Alrighty, and do you know what the interest rate is?

A: 3.75%

T: Love it. Okay, now I think I heard you say that's the last debt you had, right?

A: Yes

T: Alright. So let's just take a look at something real quick, Allan. Right now, based on these numbers, there's about $320,000 worth of debt here [referencing the "balance totals" on the screen]. Okay? Now on paper you got really good credit because you carry a very low interest rate, on paper.. But Allan, the $320,000 is not your problem, this is.

[scrolls to total "monthly interest" on page]

T: You see that 43.9 number right there, Allan?

A: Yeah. What is that?

T: That's the amount of money, every month, that's the portion of your payments that goes to pay compound interest for those banks, and not for you.

A: But I don’t understand? I got a much lower interest rate. How is that possible?

T: Well, let’s look at this. According to these interest rates, this is the amount of money that you're paying each month on your minimum payments. But Allan, this is amortized interest that you're paying each month. If I took $1,128 and divided it by that $2,570, 44% of your money is going to the interest for these banks, not to pay down your debt. [pause] Allan, that is a problem. You're losing 44% of your money every month when you send those payments, and it is not helping you, it’s helping the bank. And I got one question: where on God's green earth are you earning 44% on any of your Investments or savings?

A: Nowhere.

T: Nowhere. Exactly. So look, let’s dig into this a little deeper. Because Allan, I want to see what I can do to eliminate this problem for you as fast as possible. I know you realize this: if you're giving away $1,100 a month to somebody else, that's $1,100 a month that you'll never get back. So let's walk through this planning process together. Okay?

A: Yes.

T: Now let’s fill this worksheet out, [45:10min mark, pulls out “Remember the Problem” SMART worksheet”] and remember, 44% is the enemy of our money right now. That's what we're paying on all of our minimum payments for interest. So let's go through this worksheet. So Allan, are you making any extra payments on those accounts on a regular basis?

[Tracey points towards “excess contributions paid toward debt” and “excess contributions paid toward 401k”}

A: Yes.

T: Okay. How much extra each month are you paying towards some of those debt accounts?

A: $350 a month.

T: Ok. Allan, do you have a 401k, at work, that you're putting money in?

A: Yes.

T: Ok. Does the company match that 401k?

A: No.

T: Ok. How much of your money are you putting into your 401k, at work? Percentage-wise, or value-wise.

A: $1000 a month.

T: Alright, Allan, I want to ask you a question. This is not getting matched, and I understand that, but is your 401k earning 44%?

A: Not even close.

T: I didn’t think so.

[points to “excess contributions paid toward 401k” on worksheet]

T: It might be smarter to use that right now to help us get out of debt faster, but let's keep working on this. Are you putting money into a savings program: like a credit union, a 529 plan, or an investment account?

A: Yes. About $300 a month.

T: Okay. Now, do you contribute that religiously? Or is that more of like a "contribute when you have it".

A: No, I contribute religiously.

T: Ok. Good. Now, if I can show you how to get out of debt faster, in addition to your current budget, do you have any excess in your budget that you could put into a "Debt Free 4 Life" account?

A: Um, yeah. Only $500.

T: Alrighty, and I'm not saying that we need that (referencing the excess budget), but let's just see what we've built here. This money here [points to top 3 "budgeting sources" on worksheet] is already in your budget, but none of it is earning 44%. [points to the top of the worksheet] So, let's see what happens if we redirect this to help you get out of debt faster. Remember, that 44% [points to the top of page] is hurting you more than it is helping you. And Allan, don't ever forget what I'm about to say here: compound interest working FOR you, is always better than compound interest working AGAINST you. Okay? If I add up all of these numbers right here, there's roughly $2,150 a month that we can start piling up against your debt accounts, and I think this is going to help us pay this off faster. Ok? So let's see what this looks like for you.

A: Okay.

T: Let's go back over here. Right now, we already know that the minimum payment that you're being asked to make is $2,500, but we just identified $2,150 more. So let's see what that number is together. 2570 + 2150, that's 4720. So let's put that right here. Now, if I've got 2150 x 12, that means that number's 25800. And this number here is going to be 12900. So let me just see something real quick. Okay, 35, got it. Now I want to build a calculator using that SDIC account because I want to see what this would look like for you. Allan, what is your age right now?

A: I'm 68.

T: 68. Alright. [Tracey is now using Ameritas illustration software] So if I went up here, changed this model for a 68 year old, and used that budget that we just looked at it 2150, and let's just say this is a 15 year program. I don't know if that is true. I'm going to download a PDF that I want to embed back into your report, but once I'm done, you'll see why I'm doing it, Allan. This not only is going to tell me when you're debt-free, it's also going to show me how much money you're going to have in your bank when you're done. Okay? Let's just upload that calculator that I just built. There you are, right there. Okay, Allan, let me see something real quick. I got to get the number off here. 313,508. Alright, let's look at what your report would be. Ok, Allan? Thanks for being patient with me while I built that. But, Allan, this is a specific debt-elimination program specifically designed based on the numbers you gave me. Okay? The goal here is to try to get you out of debt, and quit losing 44% of your money. But remember, the 327 is just part of the problem. The real problem is the money you're losing each month. This is what we're trying to stop. So, Allan, when you go down here and look at this model, according to this scenario: you're going to be in debt until 2049, which is literally another 27 years. Okay? This is if you keep doing what you've been doing. You'll be in there for another 27 years. If you let me help you, you'll be debt-free from all your creditors in 10 years. Allan, 27 years is a longer time to make payments than 10. But if you’re debt-free here when you finish this program, you're going to have $313,000 in your cash account. Allan, being debt-free in 10 years, and when you finish the program 300,000 in your tax-free cash account? That's better than making payments for the next 27.

A: You're absolutely right.

T: Now, I know I threw a lot of math at you there, Allan, and that this is a lot of stuff going on. Here's what I'd like to do. I'd like for us to go over this report again in the next meeting. I want you to get me all of those current payoffs on all those accounts, with the exact payments. I want to rebuild this model so that we can go through this over, and over, and over again to make sure you understand it. But, in the same process, I want to reach out to my insurance carrier so that they can do an underwriting review. Would you be okay if we sent some of your personal information over to them, so they could do an underwriting review, so that our math is right? I want to make sure that: number one you're eligible for this, and number two that we're not just shooting in the dark. I want to know what the numbers are. It's just an underwriting review at this point, we're not committing to $2,100 a month for anything. But if you're open to that, I would at least like to find out what the math is. Would you be willing to do that?

A: Absolutely.

T: Ok, good. Let's do the calendar first. What day next week is best for you?

A: I'm open on Tuesday from basically three oclock on.

T: Ok, great. Let's do it at 3:30. Now then, here is the other thing, I need to get some information from you. What's your whole name, who do you want me to give this money to if something happens to you, what's your contact information (your address, cell phone, and email) what's your date of birth, and oh yeah what's your social security number?

T ***to the crowd***: Guys, when I asked those questions: they're pretty readily giving me their name, who to give the money to, their contact information, they're date of birth, and their driver's license number. When I ask that last question, about their social security number, you will find out real quick whether they are on board or not. Real quick. They'll either say: "I am not comfortable giving you that", or "why do I need to give that to you." Or, they'll say 221-684-952. Now, the guy that readily gives you their social security? They're more than on board with this, they just don't understand it yet. The guy that hesitates? I've not had anybody yet, that's agreed to do business with me, that would not give me their social security number. But guys, I can tell you right now, I don't spend a lot of time trying to follow back up or convince them. If Allan would have flinched at that, I would have probably said: “Allan, I understand you feeling that way, but tell me what's going on. Because, most of the time people that do that are just not comfortable with the process that we just went through. So, what is it that's making you hesitate?” On the flip side, if he gives me all of that information, literally, I'm going to take that data and put it into an e-app. But I'm going to tell you, the number one response you get is “wow this sounds too good to be true.” Every time. And I'm going to tell you this is how you handle that response. So initially when I was first learning this process, I would get very defensive, and then I would try to validate my reasoning. The best response I heard is this, and I learned this from one of our other advisors:

T to *A*: You know what, it really is good. But it's not too good to be true, it’s just too good to be free. This program takes a lot of discipline between both of us. For that to work, we're going to have to work very closely together for the next several years. But, it's not too good to be true. It's just math. It's too good to be free. When we're done, Allan, remember, you're totally debt-free in 10 years. When you're done with the program, you'll have $300,000 in your cash account. I can't think of a better way for you to be able to take care of your family, than that. But Allan, thanks again. I'll see you next week. When we go through this, whatever it is you have questions on, you let me know.