Billions for Charity
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Part One: The Extra
Our value proposition with our clients is to enhance the yield on a portion of their capital base in order to put them in a position where ultimately, their investment portfolio can be bulletproofed from a bear market. The second part of our value proposition is to reduce or eliminate tax wherever possible, and the third aspect is to put them in a position where they will be able to give away more money than they ever dreamed possible while they live and when they die. Thus, the value proposition is to enhance yield, reduce or eliminate tax, and increase charitable donations.

We then asked our clients what they are doing with their “extra.” Just as the story of the rich farmer illustrates that the extra is not for us, we challenge our clients to think about the extra in their lives and where it is currently going and where it may be applied well in the future.

The wealthy farmer had received an abundance of crops and, in one particular year, his harvest was more than plentiful. He decided that as a result of the overabundance, he would simply build more barns in order to store his good fortune. And, while he left the crops rotting on the fields as he built his barns to hoard his great blessing, he died and, ultimately, the extra was not used by him or his family, but rotted in the fields. The point is that God killed him because he considered him to be a foolish and unwise person who was not a generous steward of his many blessings. He was one who thought only of himself as the extra was not meant for him, but rather for people who had little or nothing.

We then ask our prospects to reflect upon what they are doing with the extra in their lives, recognizing that we live in a much more luxurious lifestyle and manner than all of the kings of old ever did.

We also ask our prospects to think about checks they have written and to reflect upon the largest check they have ever written or sent to a charity or not-for-profit and compare that to a similar
sized check they have written for consumption purposes—something they have purchased for themselves. We then ask them to think about which check has given them, since the writing of it, the greatest amount of pleasure, the one they wrote for consumption and self or the one they wrote for donation and others. Invariably, the answer is the one they wrote for others.

This sets up very nicely our ability to talk with our clients about the extra in their financial lives.

I believe that no prospect is willing to talk about the allocation of any portion of the extra until she or he knows—particularly our female clients and spouses of male clients—that their “nests” are safe. My wife, Karen, has made one request of me during 44 years of marriage and business, and that is to make her safe financially.

Thus, until a person or couple is convinced that their nest is safe, they are reluctant, in the vast majority of cases, to take the elastic off their wallet and write a large or meaningful check, relative to their capabilities to do so, to their favorite charity.

As financial advisors we have the unique opportunity of showing our clients, particularly our ultra-wealthy clients, that the vast majority of their capital is not needed for their own particular situation and can be directed to others who have little or nothing.

In the model we’re going to talk about today, we show a couple with $50 million. If they allocate 20 percent of that, or $10 million, into a tax-sheltered investment grade permanent life insurance policy, commonly known on the street as “whole life,” and allow it to accumulate for seven to ten years, the yield from that policy will put them in a position where, regardless of financial circumstances, they will be financially safe for the rest of their lives both in terms of consumption and donation.

This then leaves 80 percent, or $40 million, available for donation to others who have little or nothing—the extra.

**Part Two: The Showroom**
Using what we call “Joseph’s 20% Rule,” which is an idea we resourced from a library that is comprised of 66 books written between 2,000 and 3,500 years ago by 40 authors and commonly known as the Bible. The reason we use this resource is because I believe there is not a financial advisor in the world who can look his clients in the eye and tell them they know exactly what lies ahead.

If in fact their prospects are people of faith, then they will admit that there is one being in the universe who knows what lies ahead. However, on the other hand, if they are not a person of faith, then they have to admit that no one knows what lies ahead.

Given the fact that I believe we will see more and more economic tsunamis and earthquakes, it is extremely important for us to advise our clients in accordance with time-tested guidance principles that work. Thus, I put on the table the library commonly known as the Bible, which has stood the test of time for between 2,000 and 3,500 years, depending upon which author one is referring to therein.

It’s interesting to note that in this library there are over 500 references to the subjects of faith and salvation, which one would expect from a library considered by most to be spiritual in nature. Recognizing that the Million Dollar Round Table is a whole person organization that recognizes the value of the physical, the mental, the social, and the spiritual, I, as an MDRT member, advance the reality from my personally most trusted resource that it is not an unexpected fact to have over 500 references to each of faith and salvation in this library.

However, I’m sure we would all agree that it is particularly surprising to note that there are over 2,350 references, in fact verses, in the 66 books of this library with regard to the subject of money and possessions.

It is said that it is not money that is the root of all evil, but rather the love of money. As the Romans said, “Riches are like salt water—the more you drink, the more you thirst.” I have found in over 46 years of business that this, in fact, is the case. And that greed is a terrible thing.
I believe there is a reason why there are almost five times as many references to money and possessions in this library than there are to faith and salvation because the ultimate author and creator of this library knows that mankind is easily distracted by and, in many cases, actually worships the false god of money.

I propose to my clients in each and every situation, regardless of their faith or lack thereof, that unless they have a reference source that has a track record of over 2,000 to 3,500 years of proven results, we use my reference source as a guideline. I suggest we use my reference source rather than the research material coming out of any university, college, or financial institution’s research department as man’s ideas have again and again, particularly in the financial markets, proven to be, in many cases, fallible. We then take the prospect to what we call “Joseph’s 20% Rule.”

In ancient Egypt there was a young lad, Joseph, in prison and who had the gift of being able to interpret dreams. Pharaoh, the King of Egypt, was having terrible nightmares, which none of his magicians or soothsayers could interpret. He sent for Joseph. Joseph told the King that the land of Egypt was about to have its seven most plentiful and profitable years followed by the worst famine known to mankind, which would also last seven years.

The King asked the kid what he should do to which Joseph replied that Pharaoh should allocate one-fifth of the GNP of the land of Egypt each year for each of the next seven years to his tax-free barns. While Pharaoh taxed his people mercilessly, he did not tax himself and, thus, he allocated over the course of the next seven years with Joseph as the overseer and prime minister of the land, one-fifth, or 20 percent, of the capital so that his barns were filled to overflowing.

When the famine struck as predicted, the land of Egypt had enough in its barns to allow it to survive as a nation and, through Joseph, so did the land of Israel. This is a historical fact that has been confirmed by historians, archaeologists, researchers, and economists. And you can look it up in the first book of this library known as the book of Genesis, chapter 41.
My point herein with my clients, some of whom are people of faith and many of whom are not, is that this 20 percent formula, as applied by Joseph, is a formula that works. If we take 20 percent of a client’s capital—in this case $50 million is the capital, 20 percent is $10 million—and allocate that at the rate of $1 million a year into a whole life permanent policy, then at the end of ten years (or seven subject to underwriting), there will be enough capital growth in the policy plus tax sheltered, compounding cash values over the rest of the client’s life to allow the client to virtually never have another bad financial day in her or his life with regard to both consumption and donation.

We then show how the IDF yield curve compares to a taxable fixed income yield and the resultant income stream from that capital. We prove this by showing the client an example of the capital efficiency test, which compares the income yield from the money invested in the whole life policy to the money invested in a fixed income, dividend, or equity strategy. In essence, the yield from the tax sheltered whole life policy over the lifetime of the client through until age 100 will produce two and a half to three times as much money as would otherwise be the case from any other type of investment.

We have funded up a financial lifeboat that can be used for consumption or legacy purposes for the client, regardless of what happens with the balance of the client’s money. The financial lifeboat we have used will float in 100-foot tsunami waves, whereas we have found over and over again that economic “racing yachts” and normal financial ships do not.

Our lifeboat strategy model shows the greater yield for consumption or donation purposes coming from the IDF. The lifeboat model shows almost three and a half times as much income from the IDF (insured deposit fund, also known as whole life policy) as compared to a taxable fixed income noninsured investment.

The donation strategy model shows a similar same result. Thus, consumption (lifeboat) or donation (legacy) the whole life strategy is superior. The showroom example educates the prospects on how this asset class or instrument works and how they can use it for consumption or
donation purposes while bulletproofing their capital base. The bulletproofing concept is very simple and yet unique.

Each dollar invested in the life insurance policy has the capacity of generating two and a half to three times what would normally be the case in traditional fixed income instruments, given traditional fixed income rates of return.

In essence, the 20 percent of the client’s capital invested in this instrument has the yield capacity equal to 60 percent from any other fixed income class. The client’s investment profile, let us suppose, was 80 percent equities and 20 percent fixed income. By moving the 20 percent from the fixed income into the whole life policy, we now have 20 percent invested in the IDF whole life instrument and 80 percent in equity.

If the next economic tsunami reduces the 80 percent to 40 percent (by half) and the client’s IDF lifeboat is properly funded, the 20 percent in the fixed income whole life policy has the capacity to generate an equivalent yield of 60 percent. The overall income position of the client is protected and preserved at 100 percent—60 percent from the insurance policy and 40 percent from the equity portfolio, which has just been cut in half by the bear market.

The client’s capital base and income yield is bear market proof, and they have put themselves in a position of being able to maintain their financial lifestyle both from a consumption and donation perspective, regardless of what happened to the extra (the 80 percent). They have taken some of their capital—that which is necessary for the preservation of their lifestyle and the preservation of their basic donations—and preserved it.

In addition, if they lose the other 80 percent, then the life insurance portion of the IDF will, at their death, replace all or a significant portion of the capital they lost. However, if they do not lose all or have another bear market impact the balance of their portfolio—the 80 percent, which in this case represents $40 million—why would they not consider experiencing the joy of giving away that $40 million at the rate of, let’s say, $1 million a year for the next 40 years to use a simple example? From age 60 to age 100 they give away their $40 million and, when they die,
the life insurance creates $40 million at least which will flow into their estate and replace the $40 million they’ve donated.

Part Three: Charitable Referrals, the Golden Key
Here is how to build a charitable or philanthropic portion of your practice and do so via key referrals. Over the past almost 20 years, I have invested significant amounts of time with many charities and not-for-profits in order to learn how they think about money and what is important to them. As a result of getting to know them, I have boiled down their financial focus to a golf analogy wherein they have three clubs in their bag.

The first club is the driver, which they use annually to make sure that the annual revenues flowing into their organization are sufficient to keep it afloat. This is the primary focus in 99 percent of charitable organizations.

The second club is the three wood which, as every golfer knows, is easier to swing than the driver, and which is, by charities and not-for-profits, used primarily as a capital fundraising target for the capital campaign, which inevitably occurs once every three to five years. While this money, in many cases, is intended for capital endowment purposes to endow or assist the future operation of the institution or organization, in the vast majority of cases, it is spent, or consumed, upon receipt.

The third club has traditionally been known as the planned giving club and, while all of the charities I’ve spoke with understood a little bit about this subject matter and in some cases a lot, very few of them did anything about it. The reason for this is because they were so focused on the first two clubs that they had little time, effort, or energy for the latter.

Now, with a well-established university this is not usually the case, as the university has major staff therein with which to speak about planned giving. However, for less established charities and not-for-profits, it is just that—spoken about and seldom acted upon. Therefore, we call the key to most charities and not-for-profits financial futures (or planned giving) “the rescue club” because it is just that. It is the rescue club of their financial future.
What we try to do is to simplify the use of this club for the charity by illustrating a showroom example (part two of my talk above) and address them with regard to the true financial interests of their major donors in terms of the allocation of the extra.

Over time we understand the goals and objectives of a charity or not-for-profit, and we have an opportunity to educate their senior executives about how the showroom example works. We then ask for a referral from that charity to a person who is either on the board of directors or is so secure a donor that we cannot do anything to negatively affect that relationship, and thus we commence a test case or pilot project with the charity. In each and every case that we have been introduced to, the test case has resulted in a significant life insurance policy being acquired by the donor for the charity, and the flood gates open in terms of referrals.

This, along with private client referrals from our traditional client base, is how my firm was privileged to be able to generate $1 billion for charities and not-for-profits between the years 2000 and 2010. The billion was comprised of $800 million of face amount of permanent cash value life insurance which would trigger, when donated to the various charities, an additional $200 million in tax credits, and thus the billion dollar total. And this from only 30 families!

In my first book, *See The People*, I talk about, and continue to talk about in all the talks and seminars and workshops I give around the world, how to replicate our top 20 clients and, in particular, our top five to ten clients.

If the advisors follow my advice, they will, within a two-year period, put themselves in a position of dramatically multiplying and magnifying the number of affluent quality prospects they have with whom they can invest their time. This will expand their traditional business as well as begin to develop a charitable aspect to their practice. I must underline, however, that it requires patience and education to build a charitable aspect of your business.

While our tag line is “family harmony and philanthropy—helping others help others,” it does take time to do so because we must understand the goals, objectives, and priorities of our
prospects. We start to understand what is important to them by asking them simple questions such as, “If you died tonight, how would you like to be remembered,” or “If you died tonight, how in particular would you like your children to remember you?” combined with questions as simple as, “Do you have a favorite charity and, if so, what is it and why?” This allows us to build dialogue with our prospects and clients that enables us to understand what’s important to them and not just what’s important to us.

Once we understand what is important to them, we can craft our recommendations to fit their desires, goals, interests, passions, fears, and charitable focus, specifically using language that appeals to them with pictures, analogies, and metaphors that suit. This will assist them in understanding what we are recommending and encourage them to take action accordingly because, as Guy Baker said, “People buy what they understand and do not buy what they do not understand.”

Most importantly, once they understand how much we care about helping them reach their goals and objectives, they are willing to understand how much we know. But unless we first make a “heart connection,” they will not let us, or grant us, the time or take the energy in order to make with us a “head connection.” To make a sale, particularly in this market place, we must connect first with the heart and then with the head.

**Part Four: Upward Transition**

Upward transition takes time, but it is made possible, as I briefly mentioned in part three, by the replication process.

Recent surveys in both Canada and Australia have shown that the vast majority of financial advisors are reluctant to ask their top clients for new introductions to new people with whom to speak. Once again, in my book, *See The People*, I have laid out, step-by-step, how to effectively replicate our top clients. And, thus, we’ll take the time to briefly share a strategy therein.

Each advisor should take the time to make sure that each year she or he speaks with each of her or his top 20 clients and asks them for introductions to new people with whom to speak. What
will happen is that at least three introductions per client will be forthcoming, and we will receive, each year beginning with our top 20, at least 60 new referrals.

Using my methodology as outlined in *See The People*, each advisor will get in to see 48 of the 60, or 80 percent, and wind up, within one year of meeting these prospects selling 70 percent of the original number of 60, or seven out of the eight, thus resulting in 42 sales.

I will then ask those in attendance to take out their pens and write down four numbers. The first number is the average size check they received last year for each of the cases they underwrote. For instance, if they made $200,000 and made 100 sales, their average check would be $2,000. The second number is the average size check they received from their ten largest sales in the past year. That number is generally larger than the first number. I also ask them to see where those checks came from and, invariably, they came from their top ten clients, not their bottom 10.

The third number I ask them to write down is the largest check that represents what they have ever had the courage to ask for.

The fourth number I ask them to write down is the check that represents their dream check—the largest check they think they have the courage to ask for.

Then, I suggest that if they take 42 and multiply it by the first number, this is exactly what this idea is worth to them now in terms of their practice.

They then take 42 and write down the number that represented the ten largest checks they received last year. Let’s suppose that number is $4,000. Then 4,000 times 42 has now doubled the size of their business. Why not transition to this level all the time?

However, if they then take the third check, which is the largest check they’ve ever asked for, and multiply that check times 42, we now see exponential growth occurring. And then I ask them why they wouldn’t continue to dream and act upon their dreams and apply the dream check to all or a significant portion of those 42.
While everybody appreciates that change is a reality, no one, in many cases, likes the subject of transition. However, the subject of transition can be very exciting as each step we take leads us to bigger market opportunities and greater results. For instance, if we look at the 42 new sales and the 42 new clients we have just acquired and we plan, in the following year, to sit down with each of those 42 and ask them for referrals, we’re going to wind up with an average of three each, which is 126 referrals. We’re going to get in to see 80 percent of those and sell 70 percent of them, and that 70 percent represents 88 new sales.

Now we have 88 new clients. So in the last two years, our clientele has increased by 42 plus 88, which is 130 new clients. You get the picture.

This 130 new client base (having replicated our top 20) is going to have given us at least a 75 percent replacement factor of our original 20 top clients. In the process, by speaking with each of our new 130 clients about their charitable goals and interests, and sharing with them our showroom and how we can put them in a position to not only bulletproof their capital base, but also give away more money than they ever thought possible (increase yield, decrease tax, and increase donations), we will then have put the advisors in a position where their clientele is overflowing with abundance and opportunity.

In addition to speaking with their own personal private client referrals and having rebuilt and restructured and enhanced dramatically their client base, they will also be able to take the time to implement a strategy where they educate the chairs, presidents, chief executive officers, chief operating officers, or executive directors of their favorite chosen charities. And they will build a relationship with him that will ultimately lead to test cases or pilot projects where significant supporters of those charities will have seen firsthand how they can give away more than they ever dreamed possible and also become clients in the process.

Sadly, I have found in Canada that the vast majority of financial advisors, while being aware of the use of a life insurance policy for charitable purposes, have not taken the time to create the infrastructure in terms of a marketing and sales strategy that will enable them to come alongside
affluent clients, educate them about how they can do what we have talked about, and put themselves in a position of truly being able to experience the joy of giving, regardless of market fluctuation and change. Thus, herein lies opportunity.

**Part Five: Final Part**

I would also be delighted to chat briefly about how I became the beneficiary of a critical illness policy and how it was used not only by me for business investment purposes, but how it could be used by others for philanthropic or charitable purposes. It could put the donor client in the position where the $100,000 or $1 million that was spent by them, from their investment portfolio, for medical costs would not have to be spent because the benefits of a critical illness policy would have been used to do so. This would preserve the capital base for donation or consumption purposes within the portfolio of the client.

In my case, the $1.5 million I received tax free from the payout of a critical illness policy within 28 days of my diagnosis of prostate cancer and subsequent radical prostatectomy surgery was a particular blessing from an investment and donation perspective. However, it would have been a lifesaver had I not had other financial resources and health plans in place to look after me and the expenses therein. The fact that I took six weeks off following the surgery was a significant blessing as was the fact that I was in a financial position to do so and, thus, obey my doctors.

However, if a person did not have those blessings and was in a position where he had to consume his capital base in order to survive, what a devastating impact that would be on his ability to not only continue to consume, but also to donate.

The realization of a tax-free cash benefit in the form of a CI payment was, for me, a blessing and could also be for many others. My interest in speaking about and continuing to educate our clients about the value of a critical illness policy in their portfolio in addition to the presence of a whole life policy is that both represent significant sources of fuel for our clients financial lifeboats when they live too long, die too soon, or become critically ill or disabled along the way.