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[KN1 - Tom Hollinger.m4a](#)

Transcript

Hello everybody and welcome to the Newton Knowledge Podcast. My name is Steve Target and I'm one of the partners here at Newton one. I'm joined today by my colleague Mark Singer and today. We're gonna have the. Great opportunity to hear from our founder, Tom Hollinger, the New Knowledge Podcast is intended to complement our. New knowledge webinar. First, we're going to hopefully provide meaningful content to our valued advisor community. And generally anyone interested in learning more about sophisticated insurance related topics focusing on estate planning and executive benefits, we're going to focus our discussions on timely issues that provide you with unique insight into the people, processes and products that make our industry so critical. We're also going to occasionally highlight individuals who have been meaningful in new one and therefore have contributed to helping us serve our clients. New one is a national life insurance planning firm delivering sophisticated solutions help. Clients interested in estate planning, wealth transfer and business succession and executive benefits. We're a member of the and Financial Group and we offer our clients access to the nation's most prestigious insurance carriers. We would also develop innovative products available linked through our network. So without further ado, we're on to our program and. I think we really have a unique opportunity to hear from our founder, Tom Hollinger. Tom, welcome and welcome from Arizona. We understand you're in the warmer weather than we sitting here on out on the East Coast. Thanks for being with us. Well, thanks, Steve. The weather is in mid March right now, 85° in Arizona. So it's not too bad right now. It's sunny. No clouds. So not a lot to complain about. And thanks for having me. Appreciate it. 2022 is it is a is. A big year for you? I I don't know if I'll share the number of years, if you if you care to you. Right, but you've. Been in the insurance business for for a couple of years and. Anyway, and a lot's changed. What do you think? Are there a couple of positive changes that have occurred in the industry maybe since you began or over the years that that, you know, you look back and you say, boy, these these really help our clients and help the insured marketplace? Further question then? And and Full disclosure, I've been in the insurance business 50 years and in 1972. There are only. Two policy life insurance policy choices, term insurance or whole life. And if you didn't like turn insurance, you bought whole life. You didn't like whole life. You bought term insurance. There were no other choices. What has happened over those 50 years is today? We have term insurance and we have whole life plus probably 7-8 nine different permitted policies like variable life or index variable life. Or universal life, or no last guarantee. There are so many more different policy choices today rather than back in the early 70s in the 80s, where there was only two policies to. At all today we have the opportunity to have different policy choices, which I think is really good for the clients. It's very good for the public. We have the we have the opportunity to expose to our client all the different policy choices and we will explain the advantages and disadvantages of those. And I would. Rather take the choice of. Policy design, particular most most comfortable. That's a huge change and moving forward it continues to be that and transparency of policy designs has also changed. It used to be back in the in the 70s, we used to call the whole ice house. It was the black box. Nobody could ever figure out. Except for an actuary and life insurance company, how they ever came up with the premium Co. Today there is total transparency in the illustration that is given. To the client. On how the premium is made-up, whether the asset based fees or the how, the cost, administrative costs or what have you. So there has been a lot of changes and and for the good then

they should become and more changes should be coming in the future. Yeah. Yeah. So that that gives our clients more freedom to pick and and choose based on what their personal goals and objectives are and helps them for those who want want to see behind that black partner inside the black box, what's happening in there. So let's Fast forward. To current times. We've had a change. Of administration, there's been some talk about. Tax changes. Are there any opportunities that you see in front of of us right now planning opportunities based on where we are? Are you hearing about anything that may be coming in? In the future, that would benefit our clients from a planning perspective. Well, I think there's probably. Two major planning opportunities that may be coming open for US planning with clients with the new administration. One is in the estate tax area for individuals to pass assets to the next generation either at the. In the form of a gift, the poses are then that could go down as low as \$5,000,000 which is substantial. So you know couple that used to have \$22 million could pass as over generation to today it's gonna it could go to \$10 million. So that's a huge huge. Change. I think the planning opportunity is that it's very clear that from a gift tax standpoint, we can gift it right up to \$11 million. So for somebody who has an estate tax, I. Two in that range, we can just property right to its generation 2 today and if they change it down to \$5,000,000 it will never be brought back to an indoor state. So I I think there is a real planning opportunity there and winter trust is called slats, maybe an opportunity for us to look at with. Clients, I think the other opportunity is that. Income tax rates are going to go up for people and our clientele. Life insurance has some very unique advantages. One, the death benefit is tax free. We can get the death benefit out of the estate for estate tax purposes. The only issue is that today life insurance got the cash rate is. Also, grow income tax rate and I think we may in the future if income tax rates. Do go up. We may see life insurance being used as accumulation vehicle to accumulate wealth. For pure investment purposes, lower their debt benefit as much as possible and put as much money in it in the policy as you can because you can grow income tax rate, you can take out basis income tax free. And you can. Make a loan from the policy income tax free so that becomes pretty attractive. So the offset is. You're paying cost of insurance charges versus some taxes in the regular investment account. And I think that income tax rates going up, I think it may be a planning opportunity for everyone. You know one of the. Things that you've installed in the in the Newton one firm that we take to our clients on a daily basis is open and honest conversations and and as you mentioned before, transparency, if you look on the other side that all the people that we serve as clients is, is there something that you know when you look back that you want to make sure that. Everybody understands about the life insurance business as a consumer. Well, I guess probably the biggest frustration that I can use that terminology. Is that life insurance illustrations that are published by a life insurance company and insurance agents or insurance professionals use those to create a premium are basically wrong because they're wrong is to say that the premium is based on the interest. Assumption and the only thing we know is that the interest assumption that we're using today to create the premium cannot be consistently constant for the next 40 years of the power. Policy. So if the policy interest assumption to create this \$10,000 premium was 5%, the only thing we know for sure is the crediting rate will not be 5% every single year for 30 years. But there's only one policy design that is an exception to that. And my concern is that. And my frustration has always been that advisors, some advisors and proposed in shorts look at the planner and say, oh, it's \$10,000 and they say well. It can't go up or go down. If I pay \$10,000, everything will work out fine. That is completely false. The premium is based on an interest assumption, as you know. See what we do at new one is we track this interest assumptions every year to see where above or below the buggy. So if the interest assumption is 5%. When we started out and we made six, well, we had extra cash value. The policy on the other hand, if we made three, we have less cash value in the. Policy. So the interest

assumption on life insurance is frustration because it creates a premium and the only thing you know for sure is the premium is incorrect, that's for sure. Let's go back in 1999, you were a successful business owner at that time. You decided to make the move over to bring your home. Going over to the M Financial Group, could you share with us a little bit about what you wanted to build on Newton one and maybe a little bit about the end Financial Group as well for those who are not familiar with? Well, I have been a career agent with Provident Mutual Health Insurance Company for many, many years. Well over 25 years. One of my frustrations being our career agent with their primary company. Is that you don't necessarily have the opportunity to get exposed to what are the other life insurance products. Is there something better out there for a particular client and particular need our firm and groom? And I was frustrated having only primarily. One product design. Time. So I had the opportunity to join the in Financial Group, which then opened up the door to many policy designs. Many insurance carriers total transparency and gave me the flexibility and design of the life insurance policy and career choice that I did not have before. That was the reason that I did it, and I've been thankful ever since for doing it, and I think our clients clients would feel the same way because I'm creating proprietary products. What I always say retail pricing versus wholesale pricing. Has made a huge difference in our designer policies for our clients. In time, and also has its own reinsurance company. What what does that mean for the policy owners that are and the new one clients that may be exposed to the reinsurance market through the M rate? But you know. It's I I give a lot of credit to the Board of directors of own financial and. Over the last 25 years or so, or 20 years, 23 years or whatever, I want to know all the Board of Directors that I was on the board of them. But one of the. Things that we. Had to be very sure of that and financial corporate. Is that we knew that our relationships at the life insurance company level, they used all mortality cost rather than their mortality cost to create a premium, which is why our premiums are lower. Than normal, and by doing that we had to have a reinsurance company also where we reinsured approximately \$1,000,000 of debt benefit of any policy we wrote. So what that allowed us to do is to sit in the exact same side of the table with a life insurance company and designing the policy. And administering the policy over year over the. Years to make sure that that the life insurance carrier is going to do what they say they're going to do and what they promised to do and they have to do it because we have this reinsurance company. So we're part of the game. We have the risk in the policy, if you will. There is no other distribution system in North America that I'm aware of that can say that. As a group in designing and helping their clients being in the same side that payable as a life insurance company makes sure things. I'll go wrong, yeah. That's important. So let's say with that being, we're sitting at. The table what? We know is that these types of projects and engagements that we work at in Newton one are typically sophisticated state planning projects, executive benefit programs. There's all these other parties at the table with us along with our client and we're all sitting on the same side of the table. So the attorneys that are representing the client, the CPA firms and the accountants, sometimes the wealth managers, you know, all of those professionals that work in collaboration with us. And you've done a really. Good job of building those relationships and helping. Our clients understand that that we're, you know, we're really interested in and and frankly we consider it part of every project. So important to be working with the other advisors is. There something that? That you think helps build those relationships or what? What do you think makes the collaboration with the other advisors working with our clients so effective? The bottom line is the client is the most important person in that transaction. Two or three brains, or four brains is better than one. I've always felt that the more advisors we can get to talk about the client situation, the tax strategies, the non tax strategies, the emotional strategies are much more important than just one person. Trying to help a client figure out a situation. Tom, I have a question to go back to

the reinsurance component with them being one of the main factors in regards to how M firms receive such exclusive products and pricing. Does persistency and premium amounts come into play in regards to? Our ability to provide exclusive. Yeah, it's, it's good. Good point, mark. It does. Our persistency is so much better than the industry average life insurance companies. Make money in. Life insurance policy, as long as it stays in the books, but along the life insurance policy, stays in existence, the better the insurance company can make the profit. And our persistency is 20%. Better than industry average. And the policy size is huge. I mean it's very simple. I go to the hardware store and I want to buy one not and 1 bolt. I pay X, but if I buy 2000 I would have had a lot less than X -, 1. So the size of the policy in the emerald is substantially higher than industry average and persistency. How long the policy stays in the books is so much longer than industry average, which is all profitable things we bring to the insurance company and saying This is why we should have better, better. I'm gonna. I'm gonna tie together a couple thoughts here, and then I'm gonna ask the question and the first thought I wanna present is in really a compliment is when you started Newton one. And to this day maybe better today than when in many years past. You know, there's a. Normalized succession plan in new. One with multiple generations of advisors that are going to be there for your clients, for our clients, for getting one clients for generations to come. So helping clients understand that you know policy that is bought or sold and put into place is not a is not a one time transaction. It needs to be serviced. Overtime and that the death benefits will be benefiting future generations so that it's important new one future generations are connected with client future generations. But I want to talk a little bit about the audit process and the annual review process. And Newton won. And why that's so important. You know, it gets a little bit back to your earlier comment about illustrations on paper are just that, that they change. And so therefore it's it's important to monitor and and make adjustments if adjustments need to be made. But talk a little bit about your your background on on why you've implemented. You know, really. A strong annual audit annual review process. Well, see if. The the annual audit situation really came about when we when we when we started with them financial. Since we totally. Understand that a premium is based on an interest assumption that we know cannot be the same for the next 40 years, which means the premium has to change or the policy will not perform the right originally. Illustrated we do an audit every year on the policy to determine are we ahead of schedule or behind schedule based on that interest assumption. And we keep doing that each and every year. The policy will then absolutely perform the way we originally designed it. Whether the interest assumption is lower than expected and we have to put more money in or the interest assumption that we're using is less than expended and we can put less money in. But the audit process guarantees that the policy. Will perform the way it should. Has too many policies today, unfortunately. If they're not, have. Audits the insured gets the age 85 or 90 or whatever age later in years he gets a letter from the insurance company and says you used to pay \$10,000 a year to keep this policy for us. Now you gotta pay \$85,000 a year because it was not the the interest assumptions. Did not work out as anticipated. Well I I've gotten. Phone calls from attorneys who represent those clients, saying what the heck is going on and there's nothing wrong with the insurance company. It was a good policy design, but when it started in 1970, the interest of Sumption was 80% of the day. The interest assumption was to. It goes from 8:00 to 2:00. The policy can't perform as well, so the audit is a is a big transaction that we do every year. And I believe our advisors that clients appreciate that the only thought that you mentioned, Stevie, is that when you deal with multiple generation families, generation one, generation two, generation three, yeah. Well, it's a question this time, you know, you're a good guy, but you know your weight here is getting whiter and it's getting thinner and. I don't think you're. Going to be here 35 years from now or 40 years from now, when generation 2 needs

to help on redesigning this policy or helping us change it or doing the service work on. And that's really where realistic such a plan. To do 1. We're just like any other major company. We have partners in their 60s, their 70s to 50s in their 40s and soon to be in their 30s. So we have we're able to service contracts multi years into the future, which is something that should be done. Which allows the policy to stay in force, which makes the insurance company happy, but more importantly, allows the benefits to be paid as anticipated. I'm going to bring up the topic. Of underwriting and. You know, for our individual clients, we're we're implementing placing individual life insurance policies for state plan recorded some of our corporate clients on the corporate marketplace, maybe some of the the medical underwriting is abbreviated because of the number of contracts or the types of policies. But you know the only way the process is overwhelming for a client. We're looking in the medical backgrounds and sometimes it takes longer than any of us. Would like us to take. You know, I've said that underwriting is both an art and science, but what you've done in in implementing the art and the science effectively in Newton one again I think is unique. Can can you speak a little bit to the process that you have implemented to walk clients through the underwriting process? Yeah, sure. So so you know the underwriting process. Is boring. It's not flashy. Our clients would desire the best design life insurance contract for the best death benefit and the best premium. Well, we know at the end Financial Group we have proprietary pricing, wholesale pricing rather than retail pricing. But that only works very well if the insured comes out as a standard rate or preferred rate as a super preferred rate rather than rated. So we may have the best product design. In the world. But if our underwriting does not enhance our pricing. It's not going to do any good. When I realized that coming with MI don't want the underwriter at a life insurance company dictating what my clients status will be, is there going to be standard preferred super preferred or rated? I don't want that one person making all the decision. I'd like to know that information. Before we even send the policy, the policies out for underwriting purposes to the Life insurance company. So what we've done and even when is we. Do exactly that. We do all the other, all the medical information in house into our Wilmington office and we have our underwriters go through every single page to make sure all the things are completely exposed and understandable before we send it to the underwriters at 10-15 different life insurance companies. And when we set it up, we know the individual standard. We know that proposed client is preferred and if we don't get preferred, we're going to be asked why, because our medical people in the House have already gone through the file. The other factor is if there are things missing in the file, we need to find that. Now we get paid to provide great pricing for our clients for pricing is not only the premium from the insurance company, it's the underwriting process that really creates a good premium. Maybe even said another way, Tom is it allows us to be proactive on behalf of our clients and also. Really advocate for. For them, rather than being reactive, you know in many cases in the insurance industry, the process is a reactive process for the clients and the advisors, we don't want it that way. We want to be step ahead anticipating and then making sure that everything's cleaned up and buttoned up by the time they get to the to the carriage. And and see. Another good example is some. Barriers have a lot of knowledge on analyzing the health. If somebody had a heart attack, other carers may not have that kind of knowledge. There are a lot of kind of different diseases that people may have, and some carriers have more knowledge in one area. Than another area if you will. We also have to understand that and know. Which care to go to with those particular problems? Which makes a makes a big difference. Underwriting really determines many times what carrier would we reuse for a particular client. So I'm I'm going to close up here with a comment and then a question and the and the comment is one that you would ask me not to make, but I will and it's that all of us a new one and our advisor community and our clients appreciate what you've done for us. You have an amazing way of looking

forward, a great positive attitude. We appreciate that. So thank you for that. So that's my comment. I I don't expect any response from you because I know it would be. So my question is looking forward, what are you most enthusiastic about for Newton, one for end financial for our clients maybe for the? You know, to see what I'm most. Excited about at my age today at 70. Is the quality people we have a new one, including yourself, Mark Singer and everybody else in that. I've not built the firm. We have built a firm. We have built relationships with advisors all across the country. And more importantly, we've built clients. They're just super, super people to deal with. Our clients are wonderful to deal with. I I think that's that's the thing that makes me the happiest and I know we will continue to do that in the future. Well, we thank you for sharing your your valuable time with us today. I know that there's some some tidbits in here, some diamonds. That ways that listen to this podcast. We'll take away. And thanks for being with us. Thank you, Steve. Thanks. Thanks mark. The material and. Opinions voiced are for general information only and are not intended to provide specific advice or recommendations for any individual to determine what is appropriate for you, please contact a member. Of our team.

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