Guest Editorial

A Failing Grade For a Failed Report

BY GARY H. HOFFMAN, MD

I don’t mind when a day goes by and I have not learned something new. But I hate those days when I learn something that is wrong.

—Thomas Brittingham, MD, Vanderbilt University Medical School, 1977

Truer words than Dr. Brittingham’s have never been spoken. What is worse, when flawed healthcare studies are reported to the public, the results tend to become gospel and are almost impossible to dislodge from the forum of public discussion.

How do we protect our patients from misleading healthcare information?

Recently, I opened my e-mail and found in my inbox what I think may be the most misleading medical information published so far this year. I am referring to a report by HealthGrades.com called “HealthGrades Quality Study: Third Annual Patient Safety in American Hospitals.” Worse than providing little if anything useable the 56-page report promulgates information which I consider a danger to the public’s perception of American healthcare.

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Older surgeons had higher operative mortality rates with certain, high-risk operations,” said Jennifer F. Waljee, MD, MPH, one of the study authors and general surgery resident at the University of Michigan, Ann Arbor.

The findings sent a strong message, however, that surgeons stop practicing surgery long before their skills actually deteriorate. The researchers found that, overall, a surgeon’s age has little effect on operative

Controversial Operation Yields Impressive Results in Super-Obese

BY CHRISTINA FRANGOU

Super-obese patients lose more weight after a bilipancreatic diversion with duodenal switch than a Roux-en-Y gastric bypass, a new study shows.

“For surgeons who are busy bariatric surgeons, this study should get them to take a closer look at the [duodenal] switch and consider incorporating it into their practice. At the least, it’s a piece of information in the process of informed consent that the surgeon should discuss with the patient,” said Vivek N. Prachand, MD, assistant professor of surgery, University of Chicago Pritzker School of Medicine, Chicago. He presented the study in Boston at the American Surgical Association’s 2006 meeting.

The data endorse a procedure that many bariatric surgeons do not offer. These surgeons believe the duodenal switch (DS) operation is risky and complex compared to the Roux-en-Y gastric bypass (GB), and patients may have long-term nutritional deficiencies. The weight loss is not enough to justify the added risks.

Older Surgeons on Par With Younger Ones For Most Operations

BY CHRISTINA FRANGOU

A new study is raising questions about the ability of older surgeons to perform long, complex procedures. Patients are more likely to die during a pancreatectomy, carotid endarterectomy and coronary artery bypass grafting, or within 30 days of these operations, when surgeons older than 60 years of age perform the operation, researchers reported at the 126th Annual Meeting of the American Surgical Association in Boston.

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Variable Universal Life Insurance: Buyer Beware

BY LAWRENCE B. KELLER, CLU, ChFC, CFP

Over the past 15 years, I have reviewed thousands of physicians’ life and disability income insurance policies. Rarely have I seen a product as misunderstood as variable universal life insurance. This article provides an overview of how this policy works and why it should almost always be avoided.

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Life Insurance Basics

Unlike term life insurance, which offers protection for a specified period of time, permanent life insurance—like whole life, variable life and universal life insurance—is designed to provide other significant benefits for physicians, including cash value accumulation, additional disability insurance and in some states, even creditor protection. What distinguishes these policies is the extent to which risk is transferred to the insurance company or retained by the insured or policyholder. While whole life insurance provides the policyholder with guaranteed premiums, guaranteed cash values and a guaranteed death benefit, this is not the case with a variable universal life insurance policy. Generally, premiums for a variable universal life insurance policy are only guaranteed for a limited period of time. There is no guaranteed death benefit and there is no guaranteed cash value, either, as the policyholder decides how his or her cash value will be invested, retaining all the investment risk.

With the lack of guarantees, there are many potential problems associated with variable universal life insurance that can cause policies to fall apart. These include what I call the accumulation problem, the distribution problem and the disability problem.

Variable Universal Life Insurance

The concept of variable universal life insurance is relatively easy to understand. When you pay your premium, part of your payment covers the cost of insurance, part of your payment covers administrative expenses and the balance of the premium is invested in mutual fund "subaccounts" of your choice. For this reason, this type of policy gained popularity during the extended bull market of the 1990s, with its prevailing low interest rates.

While most of these policies were purchased to provide death benefits, physicians also purchased this policy to build cash values to provide emergency funds, funds for their children's educations or supplemental retirement income.

Unfortunately, the majority of these purchasers were unaware of the effect that stock market volatility has on the performance of a variable universal life insurance policy.

The Accumulation Problem

The typical sales illustration outlines how a policy might perform based on an assumed "average" rate of return chosen by the insurance agent or financial adviser. The selected rate was often 10% because that was the "average" rate for large company stocks from 1926 to 2001. However, many investors overlooked several "minor" details, such as:

- The illustrations assume a constant rate of return (usually 10% to 12%) for every year that the policy is owned. Therefore, if the policy experienced poor investment results (less than the assumed rate of return) or had negative returns, its values would be dramatically different than what was illustrated.
- The illustrations are based on an arithmetic average, not a geometric average. Therefore, "average" investment results could be grossly overstated compared to actual investment results. An example might be someone investing $100,000 for a two-year period. In the first year, they earned a 100% rate of return and their investment grew to $200,000. In the second year, they experienced a loss of 50% and their balance returned to $100,000. Although the actual rate of return on their investment was zero, their "average" rate of return was 25%, not including any management fees and/or taxes that needed to be paid. Therefore, a variable universal life insurance policy's illustration is flawed the day it is presented.

Most investors underestimate the risks that must be assumed to earn a 10% “average” rate of return, including the fact that negative and positive rates of return are often serial in nature.

The "average" rate of return does not take into consideration response to market volatility. Generally, investors embark on long-term investment disciplines during periods of rising markets. However, during declining markets, investors sell at or near market bottoms. Essentially, they buy high and sell low, increasing their personal volatility and lowering their investment returns.

The Distribution Problem

In addition to cash value accumulation, a common variable universal life insurance presentation will focus on taking distributions from the policy during retirement. Looking at Figure 1, if we assume a cash value of $591,000 at retirement with an "average" return of 10%, an agent might show his/her potential client how they can take distributions of $50,000 per year for 30 years beginning at age 65. Under these assumptions, at the end of 30 years, the client would have withdrawn $1,500,000 ($50,000 per year for 30 years) and still have an account worth $1,265,000.

However, when we replace the 10% "average" rate of return with the actual returns of the Dow Jones Industrial Average from 1897 to 1999, things look radically different (Figure 2). We can take distributions of $50,000 for the first 12 years without a problem. After that, our account would run out of money and distributions would no longer be possible. This is surprising, as the average rate of return for the Dow Jones over that period was 10.46%, which is greater than our assumed rate of 10%.

The Disability Problem

Another important aspect of a whole life insurance policy is the waiver of premium rider. This rider enables you to have the premiums of the policy paid by the insurance company in the event of your disability. In addition to providing for the continuation of life insurance protection, the savings component of the policy is also maintained as cash values continue to build for your lifetime. This characteristic provides a unique benefit to the policyholder that cannot be matched by even the best stocks, bonds or mutual fund investments.

While whole life insurance policies may contain a waiver of premium rider, variable universal life policies generally contain a waiver of monthly deductions rider, paying only enough premiums to keep the policy in force and not allowing the cash values and death benefit to grow.

Summary

By its nature, insurance is designed to transfer risk from one party to another in an attempt to create certainty and mitigate loss. Whole life insurance can effectively accomplish this by providing policy owners with guaranteed premiums, guaranteed cash values and a guaranteed death benefit. Investments, on the other hand, are designed to lure individuals into accepting a greater level of risk in the hopes of earning a larger return. As a result of these two contradictory objectives, variable universal life insurance is not an effective risk management tool. At best, one might consider it as an investment with a limited amount of insurance protection.

Reference


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