

By Mark Skousen

## Antidote to Death and Taxes

I know I'm taking a big risk, but I'm going to discuss a financial topic that normally bores people to tears. Be forewarned, however. If you skip this article and turn the page, you'll be missing out on one of the most exciting investment opportunities of the 1980s.

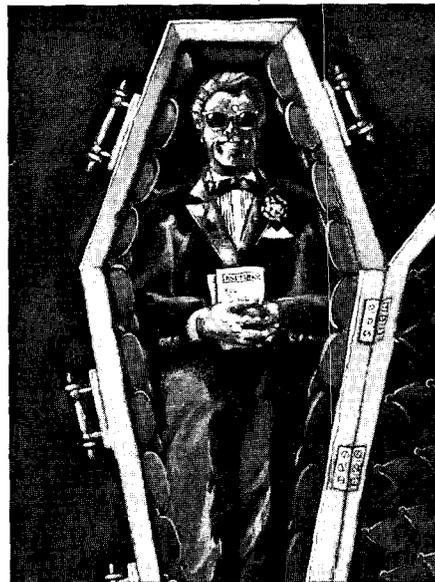
Okay, here's the subject: insurance. Before you go to sleep, you should know this fact: the insurance industry has gone through a major revolution in the last 10 years and now offers the most exciting tax-free investment vehicles on the market. In many ways, they are more versatile and practical than tax-free retirement plans or secret foreign bank accounts.

Prior to the insurance revolution, insurance products were definitely not consumer-oriented. Traditional whole-life policies were heavily "loaded," meaning the agent made huge commissions, usually exceeding the first-year premiums. Cash-value insurance was so expensive that it required customers to pay monthly. The cash value inside the policies typically grew at a slow 3 percent or less, even while inflation was raging at double-digit rates.

But all that has changed. In the face of double-digit inflation and high interest rates, the traditional whole-life policy took a beating. Old whole-life was just too expensive, so new customers sought cheap annual-renewal term, which was simply death insurance with no savings buildup.

The insurance industry responded by offering incredibly low rates—a 40-year-old could buy \$100,000 in annual-renewal term for a first-year premium of \$150 or less. Since then, rates have risen a bit, but there are still bargains galore. (Want a quote from five insurance companies that specialize in annual renewal and level term? Write or call Insurance-Quote, P.O. Box 790127, Dallas, TX 75239, 800/972-1104 or 214/490-7720.)

Yet term insurance is just the tip of the iceberg. The industry has created several investment programs, the hottest new one being the single-premium whole-life policy. This policy is like a bank certificate of deposit, a tax-free municipal bond, and a paid-up life-insurance policy



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all rolled into one. The basic idea is simple: in old insurance plans, you paid an annual premium and the cash value built up slowly. In the new, single-premium plans, you make just one payment and *all* of it goes toward the cash value. The cash value earns a market interest rate, currently around 7.5 percent (depending on the insurance company).

This is a no-load (no front-end commission) product, so 100 percent of your money goes to work immediately. Like old whole-life policies, the cash value accumulates tax-free. You can also borrow from the cash value at low (2 percent or less) interest charges. Finally, you get a substantial paid-up life-insurance policy along with it. For example, a 50-year-old putting in \$10,000 would get about \$25,000 in insurance.

According to David T. Phillips, an independent insurance agent who specializes in single-premium plans, the best deals are available from Equitable, Confederation Life, Old Line Life, and Fireman's Fund. All are rated A+ by Best & Co., the insurance rating firm, and minimum investment is only \$5,000. For more information, write or call David T. Phillips & Co., 1255 W. Baseline Rd., Suite 160, Mesa, AZ 85202, 800/223-9610 or 602/897-6088.

Now here's the ultimate tax shelter, just announced: the first no-load, single-

premium, "variable" whole-life plan. It's a mouthful, but it offers a chance to earn 35 percent or more on your cash value tax-free! How? Through Discovery Life Plus, a single-premium plan offered by the largest insurance company in the world, Prudential. Prudential offers eight different types of investments for your cash value, including a common stock fund that increased 35 percent last year, a bond fund that increased 25 percent, and a money market fund for those who wish to sit safely on the sidelines. You can switch among funds up to four times a year.

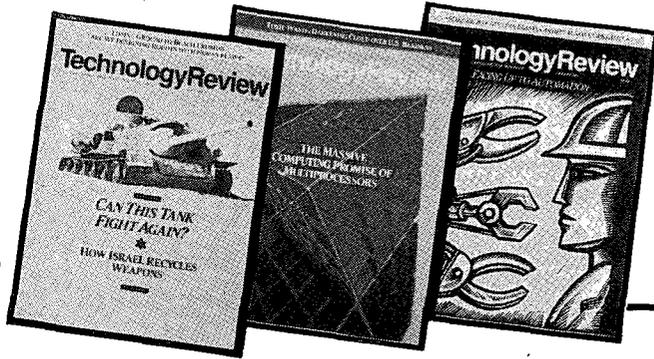
Prior to Discovery Life Plus, there were several other "variable" plans available, but they were heavily loaded. Crown and Monarch (sold by Merrill Lynch) offered them, but you had to make 11-12 percent on your money the first year just to break even. Clearly, Prudential's no-load product is better. The insurance coverage is also one of the best I've seen. A 50-year-old investing \$10,000 can get nearly \$40,000 in insurance.

The insurance industry has gone through a revolution all right, and frankly, I think it's better for all concerned. The old-line insurance agent, who used to get 100 percent or more on first-year premiums, probably doesn't care much for these newfangled products that pay only 3-4 percent of the premiums. But perhaps what they lose in percentages they can make up in volume, now that customers are coming back in droves.

The only clear loser in this deal is the IRS, which continues to pester Congress to change the rules. Last year, the House considered making the "cash value" in whole-life plans taxable, but was deterred when the insurance lobby had customers write thousands of letters to their representatives. I suspect, however, that the issue is not dead, especially if these single-premium plans grow in popularity. Be prepared—you might have to join a letter-writing campaign.

*Mark Skousen, editor of the investment newsletter Forecasts & Strategies, is adjunct professor of finance and economics at Rollins College.*

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By John Dentinger

## Freedom's Justice?

Last year, at the age of 35, Alex Kozinski became the youngest person in this century named to a federal appeals court (the Ninth Circuit Court of Appeals). He is mentioned as a candidate for the next Supreme Court vacancy. Married and with two children, Kozinski is described by most as a conservative, though a few say he is more libertarian. He calls himself a "classical Republican," his political philosophy being "to oppose totalitarianism, because I grew up under communism and I think it is an evil system."

Kozinski was born in Bucharest, Rumania, in 1950. In 1961, because they were Jewish, his family was allowed to leave Rumania. They traveled first to Israel, but soon went on to the United States.

The family arrived in Baltimore with \$5 in their pockets, but various Jewish organizations found them an apartment and a job for Kozinski's father. The parents soon scraped together enough money to buy a small grocery store. But his parents, both survivors of Nazi concentration camps, found the Eastern winters hard, and the family moved to California.

They told their son his job was to learn, and Alex studied economics at UCLA, which "stands for University of Chicago at Los Angeles," he jokes. He went on to graduate first in his class from UCLA Law School in 1975.

For the next year, Kozinski clerked for a judge on the Ninth Circuit Court of Appeals. The following year, he clerked for Chief Justice Warren Burger. "I was fascinated with the process," he says. "Ever since then, it has been my ambition to be a judge."

After the clerkships, he joined a nine-member Los Angeles law firm, rather than a large, name-brand firm. Kozinski, who speaks four languages in addition to his moderately accented English, discovered that the firm's international specialty was "not all it's cracked up to be. It's a lot of domestic law with people who talk funny. I can do that all by myself," he laughs, displaying his characteristic humor.

He returned to Washington, D.C., in



Alex Kozinski

1979 and became an associate at Covington & Burling. Retaining his ambition to be a judge, he says he "let people know whenever the occasion arose that that was my goal."

He let the right people know. In 1979-80, he devoted his spare time as a volunteer legal adviser to Ronald Reagan's presidential campaign. "Ed Meese would call and need research on a legal issue, and there would go my weekend," recalls Kozinski, who says he has admired Reagan since his gubernatorial days in California.

His volunteer work paid off. Kozinski served as deputy legal counsel to the president-elect's transition team, then worked in the White House until June 1981, when Reagan appointed him special counsel to the Merit Systems Protection Board, which handles cases brought against the government by its civilian employees.

His critics claimed that his service on the board indicated a "harsh and cruel" manner. During Senate debate on his appellate confirmation, Sen. Carl Levin (D-Mich.) charged: "He is exceptionally intelligent... but he lacks judicial temperament, is prone to anger, and is lacking in compassion." Kozinski responds, "When I came in, I cleaned up the office and made people start working or get fired. I demand a lot, and I felt I should be as discriminating with the taxpayers'

money as if it were my own."

Next, when Congress reorganized the US Claims Court, Reagan tapped the 32-year-old Kozinski as its chief justice. Kozinski streamlined everything from the phone system to the way judges render decisions. He cut down on the number of written decisions and encouraged decisions directly from the bench. "My feeling is that if I can't look [litigants] in the face and say my judgment, there is something wrong," he says. Under his leadership, the court successfully handled a greater number of cases with one-third less staff. His controversial appeals court nomination (he was approved by the Senate 54-43) followed.

"I decide cases on the law and the facts," Kozinski says, "but when appropriate, I try to do justice." What happens when the law is antithetical to justice? "I believe in applying the law. But when there's latitude, I believe in taking it. I agonize over my decisions as a judge. I try as best I can to understand what the law is, to understand what my function is, what discretion I have available to me; and I have frequently reached results which I thought were necessary under the law... but which I thought were wrong from some philosophical or human point of view."

Contrasting his position with that of academicians like Richard Epstein and Bernard Siegan, who argue for judicial activism to counter decades of statist decisions, Kozinski says that as a judge he is strongly bound by precedent, and in a position to make only incremental improvements.

Bound as he may be by precedent, Kozinski at least alludes in his decisions to something of whose existence most judges seem unaware: the market. Whether his general sympathy for liberty in the abstract will translate into an advance for liberty in the concrete, only time will tell. In the meanwhile, it will be worth our applying to Kozinski the strongest test judges themselves apply to laws: strict scrutiny.

John Dentinger is a free-lance writer in Los Angeles.