

## How The Tin Can Theory Helps Overcome The "I Can Get A Better Rate Of Return" Objection

I want to cover a few things that keep coming up. It goes down to the core belief system and the core of the whole College Funding Concept. A lot of agents and planners tend to over complicate things. It's because of the world around us and what we're constantly being bombarded with that forces us to make things a little bit more complicated than what they are.

What I'm referring to here are the savings habits of the American people, whether they're in what I call a Category 1, 2 or 3. Category 1 is somebody that might be in the situation where their income is such that they really can't afford much. They might be making less than \$60,000 or \$70,000 a year. Category 2 is about that \$70,000 to \$130,000 a year. Category 3 is over the \$130,000 in adjusted gross income.

No matter what category people seem to fall in, the savings habits of the American people have not changed, as far as we can tell, over the last 40 years. In fact, the little changes that have been made have been for the worse. In other words, people are saving less, and that goes directly to the Baby Boomer Era, which is where the College Funding Concept seems to hit home the most, but is certainly not limited to the Baby Boomer Era.

People tend to save to spend. When people save to spend, what I'm referring to is that people will pick a goal—they may pick that trip to Hawaii that they've never taken, they may pick that car that they've always wanted and they feel that they deserve, and the key word for most of these goals is that they feel that they deserve these things because they've put their time in, they're busting their butts 10 hours a day, they're working overtime, and they just feel that they can never get ahead. One morning they wake up and they say, "I've had enough. I'm done with this. I'm going to go on that trip because, darn it, I deserve it, and I'll figure out how to pay for it later."

So they end up using that \$5,000, \$10,000, \$15,000, \$20,000 that they actually saved up, and now they end up spending it on whatever that goal may be. It could be that trip, it could be a car, it could be a boat, it could be an addition to their house, it could be that cottage that they wanted, that time-share that they wanted. There're many, many things that people do, and if you follow the make-up and the statistics of what the American people purchase at different stages of their lives, it's been referred to as the "mid-life crisis," so to speak, where they just feel that they deserve certain things.

Financially, they're not prepared for these things. Most people will save to spend, but very, very few people in America actually save to save. In other words, most don't have monies that are designated every single paycheck as savings—monies that they're not going to be touching, monies that are going to be there to replace their jobs, to replace the ability that they have to get up in the morning and actually physically earn money for

that day or that week. The statistics in America are running about 3% when you get into people that actually save in that manner.

So whatever the case may be, when you're trying to communicate with a client or a prospect, in regard to savings, in regard to long-term goals, and ultimately, what this is all about is retirement. And that word "retirement" is not really a good word. I would like all of us to get used to using "passive income," talking to our prospects and our clients.

Retirement is just the idea that you can stop working. Most of the successful people that I know that truly saved to save, they continue to work. There's not this thing called a "retirement." The guy that walks around with his license plate that says, "retired," or he's got that baseball cap on or that T-shirt, that screams out to me, basically, "dead."

We shouldn't be just retiring. We're always going to be doing something, or we should be doing something, to keep ourselves going. That's just the way our minds work. That's the way our bodies work. People that tend to save to save usually end up continuing to do something—whether it's volunteer work, whether it's going to being the golf ranger at the local golf course making \$4.50 an hour but they get all their golf for free—they tend to do these things, but it doesn't mean that they're retired. They're still picking an occupation that they truly have a passion for.

That leads me back to the market that we're working and the tendencies of the market, and something that I did not phrase, but I learned from somebody named John Savage, who was one of my mentors, back in 1989, was the Tin Can Theory.

The Tin Can Theory is based on the fact that people do save to spend. They'll save that 5, that 10, that 15, even if the goal was originally, "I'm going to save this money for retirement." But the money is there, and all of a sudden they dip into it and they take \$2,000 out, they take \$5,000 out, and then they've got to put more money back in in order to get to the same place.

So the Tin Can Theory is really based on the fact that the human psychology for years and years and years, if you go back all the way into the '20's and what happened back then, is people tend to just simply save to spend.

John Savage realized this, and he put together a very simple illustration, or demonstration, that you can do with your clients. I certainly have been doing it for years and years since I learned it, and I've put some of my own tweaks into it, but I want everybody to understand the Tin Can Theory.

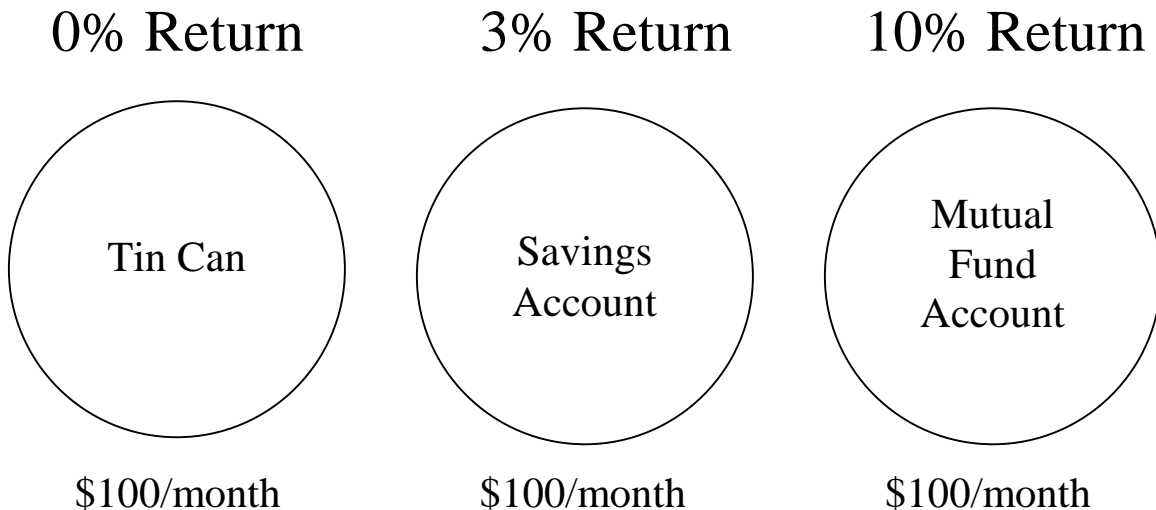
I want you to really sit back and think about it and think about the people you know, think about your clients, and really take a look at what their spending habits have been and see if the Tin Can Theory doesn't hit home.

You can pick up a newspaper around the country somewhere and pull out the Money Section, and at least once a week you'll find a report about somebody that passed away with millions of dollars, but yet they lived a life, in some cases they've a life on the streets. I know in Detroit here there was a report, it might have been a little over a year ago, but a homeless person would come into the soup kitchens every single day. He passed away, and when his heirs started looking into his situation, he had an apartment that was filled with cash. He actually had over \$1 million in cash inside this apartment, but yet he was living as a homeless person.

Am I saying that this is the norm? No! But he definitely is the epitome of a person that saves to save. Wherever he came from, whatever made him believe in the manner in which he believed—in other words, he had to have a big stash of cash and he had to live very, very mildly, and this goes way beyond mild, but that money was there.

I know that my wife's grandmother, she lives in Hamtramck, Michigan, came over to the United States in 1926 to escape the Polish depression. There was hardly any food. There was nothing for them there. They came over to the United States and they ran right into 1929 for the United States. I know when Grandma passes away, that when we start tearing apart her maybe \$40,000 home, we're going to find hundreds of thousands of dollars in there. I know that, because I know how much money she makes and I know how much money she spends. She still goes to the church every single day for her lunches. She's never driven, never owned a car. So it's these examples that I want to bring you down to and then bring that into normal America.

### The Tin Can Theory



In the Tin Can Theory, if you draw 3 circles onto a white board or onto a legal pad, and you put 3 circles, pretty much as big as you can, the way to demonstrate this is that on the circle to the left, on the very top of that circle or in the middle, no big deal, you want to write, "Tin Can." In the circle in the middle you want to write, "Savings

Account." And in the circle to the right you want to write, "Mutual Fund Account." I used to write "Stocks" back in the late 80's, early 90's, but everybody kind of knows what a mutual fund account is nowadays, so I usually put "Mutual Fund" in there.

And then on the top of the circle or in the circle, depending on what you're comfortable with, you want to write the rate of return for each one of those markets. The Tin Can is going to be a 0% return. The Savings Account I usually put in 3%. And for the Mutual Fund Account I usually put in about 10%. Again, the rates of return aren't even all that important in regard to this example because it is just simply an example. The Tin Can needs to be 0, the Savings Account needs to be a little bit higher than the Tin Can, and the Mutual Fund Account needs to be at least double the Savings Account.

Then I'm going to ask my prospect or my client—I usually use this presentation at the end of my first appointment with the client, I don't usually start the appointment with this—but at the end of the first appointment I get into a conversation with them about the Tin Can Theory. What happens is once you're done with the Tin Can Theory with somebody, the end result should be that you will never, ever get a question about rate of return ever again. The only thing that you should be getting and promising people is that you will have more money next year than what you had this year before you met me. I will promise you that every single year you will have more money than what you had the previous year. That is the guarantee. And it comes down to the Tin Can.

So this is how the presentation would finish up. You have your 3 circles drawn on a white board or on a legal pad, depending on where you're giving the presentation. You've written in the circle to the left, "Tin Can," the circle in the middle, "Savings Account," and the circle on the right, "Mutual Fund Account." At the top of the circle you've written 0% return for the Tin Can, 3% return for the Savings account, and 10% return for the Mutual Fund Account.

Then you're going to ask the question of your prospect or your client, "Over the last 17 years or 18 years (anything over 15 years—get your clients to think back at least 15 years.) I use 17 years because my primary market is working with Baby Boomers that are getting ready to send their children off to college, so I get them to think back to the day that their first child was actually born, and I ask the question, "In your specific situation over the last 17 years, if you were putting \$100 a month into each one of these buckets," and I'll write \$100 a month underneath each circle, "with the only stipulation being that when you put the money into the Tin Can, it's in a lid that closes and you cannot withdraw the money from the Tin Can. In the Savings Account, you're also saving the money and it was intended for a retirement goal, but if there was an emergency or something should come up, you could withdraw some of the money, and the same goes true for the Mutual Fund Account. Again, the goal is to save it until retirement, but if some emergencies come up, you could pull money from those 2 accounts.

"Based on your specific situation, which one of these buckets, which one of these savings vehicles, would you have more money in?" Now the response to that question is one of two. Usually, if you have a husband and wife team, the men almost always, at

least 90% of the time, will go for the Mutual Fund Account. The women, on the other hand, it's about 50-50. 50% of the time they'll go for the Mutual Fund Account, and 50% of the time they'll go for the Tin Can Theory.

Now I'm sharing those statistics with you just because I want you to understand that usually the women catch on to this much quicker than the men. I'm not going to go into what my personal beliefs are as far as why that is, but when it comes down to a marriage where you have two people in charge of probably different aspects of the financial situation of the household, it's important to understand that you will get a better, more favorable response from the wife.

Once they've given me their response, I will pause. I usually count to a minimum of 3 seconds as I am staring at them, and then staring back up at the board. A minimum count of 3 seconds... one thousand one, one thousand two, one thousand three. Now why am I doing that? It's because I want them to have at least a few seconds to think that they may have given me the wrong answer, especially when they talk about the Mutual Fund Account. Because in reality, if they looked back over the last 17 years, and they looked at their spending habits, they would find that they would have been a save to spend type of family. In other words, they would have had more money inside the Tin Can.

It goes back to the Millionaire Next Door. If you haven't read that book, I highly recommend that you do read that book. Most of the millionaires in this country, you would never recognize that they actually are millionaires, and most of those people never put a dime of their money into the market. They never cared about a rate of return. They cared about a return of their money, rather than a return on their money.

That's why you have so many people that still sit there in their CD's. And how about U.S. Treasury notes or bonds that are expired, that don't even earn interest? We have over \$7 trillion invested into U.S. Savings Bond notes that no longer pay interest that are still out there that have never been cashed in. Why on earth would these people do this? Why would they buy these bonds and buy these CD's that are only paying 1%, when they could go out into a good mutual fund portfolio and earn 12% over the next 20 years on average?

The reason is they don't want any of that risk. They want the return. And the Tin Can Theory is really nothing more than getting them to recognize their own spending habits.

If I can get you to take a certain portion of your income—if you earn \$1, then let's get 5%, 10%. I personally save 55% of my income every single year. And I've been over 50% for the last 7 years, and I've been over 40% for the last 12. That is the lifestyle that I choose to live. I know that by setting that money aside, that I have it over there. I have 85% of my own personal assets in all guaranteed, fixed rate of returns—substantial amounts of money in life insurance, whole life and over funded guaranteed UL is where I have a substantial amount of my money, plus I put a substantial amount of my money ever single year into those things.

Rate of return is not important to me. I'm fully licensed. I have my Series 6, 63, 7, I have mutual funds, I sell mutual funds, but I do it in a very limited basis, based on the client that I'm working with. If I have a client that does not have 6 months to 4 years of their income in cash, whether it's in a tin can buried in the backyard, I do consider a life insurance contract a tin can, and I am always talking to my clients about the tin can. My clients go out and talk to their family members and friends about the tin can. "Hey, how much money do you have in your tin can? Oh, you don't know what a tin can is, you need to go talk to Tim Austin."

The tin can is a way to get people to recognize that the rate of return is not important, and it's not the thing that you need to be focusing on when you're talking about the College Funding Concept. And you can neutralize that very, very quickly when you give them this very brief presentation. Three circles, Tin Can in one, Savings in the middle, Mutual Fund on the right-hand side circle, give them the rate of return and then talk to them about their own spending habits, and almost every single time, you will find that if you look back over the last 17, 18, 20 years of somebody's spending habits, you'll see that they were just simply save to spend-ers.

And you can identify that very quickly by making sure when they come in for the appointment with you, that they do have their last year's tax return, they have the last statements to all of their assets, they have their W-2's, and they have the information on any real estate, including the home that they live in. And once you look at that for no more than 5 minute, you're going to recognize right off the bat what type of people that you're dealing with. And then you'll understand that the Tin Can Theory absolutely hits home for them, and that's where starting the Infinite Bank for them really, truly makes sense.

You might have to help them identify where they can save some money on a monthly basis, and we've definitely covered that in the past, consolidating certain things, possibly having a consultation with them about lowering their lifestyle, if that's what it takes, reducing some of the money from the lifestyle.

If they're spending 60% of their cash flow on lifestyle, maybe you can get them to back it down 5%. How about we spend 55% on our lifestyle and move 5% over into our savings aspect. If they're making \$100,000 a year, that's \$5,000 a year that they can start building their bank with. Just because they can't save \$1,000 a month doesn't mean that you just walk out the door. If they can start it with \$100 a month, start it with \$100 a month. Every time you meet with them, they're going to see the benefits of that plan and they will continue to increase it.

So I wanted to get across today basically the Tin Can Theory. I've talked about it in the past and how it relates to rate of return, and how rate of return just truly does not matter when you're talking about College Funding.

If you're sending me an email, "Well, Tim, if I put this \$1,000 a month into a mutual fund account, a conservative mutual fund account, of course, and I earn 6% after tax, why won't I do that rather than open it up through the life insurance plan?"

If you're asking that question of yourself right now, and that is something that you're getting hung up on, that's what I was addressing here. Think about the Tin Can Theory. Think about what's really happening in America today, and you'll realize that using a mutual fund account of any kind just simply doesn't make sense. You can't count on that. It's not guaranteed. What if it's down in the year that you need money?

Even if you're putting it into conservative corporate bonds or even government bonds, you're still looking at a possible loss in any one year, and then once they take that money out in the year that you have the loss, that totally blows that plan away. Not to mention the fact that the utilization of the life plan allows you to recapture and continue to earn interest on monies that actually aren't even there! And that is a huge snowballing effect over time.