Prosperity Multiplier: Financial Secrets of Life Insurance

Using various life insurance structures can give an individual the ability to "Be their Own Banker." This opportunity is accomplished through the "Living Benefit" features that whole and universal life policies can provide, when structured and funded properly. These benefits are often overlooked by policy-holders, as they default to the belief that life insurance only has a "Death Benefit." Thus, most life insurance owners never take advantage of the Living Benefits.

The following approach to life insurance is not a get-rich-quick scheme. In fact, it's the opposite; this is a get-prosperous-slow method, where your money can quietly and securely work for you.

These types of life insurance policies can help individuals find financial security, take control of their money, build generational prosperity, and provide a safe way to leverage their money – making it work double-time.

We work with everyday people who want to take care of themselves, bless their children, give to others, and perhaps even leave a financial legacy. However, many people don't know where to start and many financial strategies actually cripple people's efforts in accomplishing these objectives!

In our research of the financial industry, we have found very few advisors actually understand or utilize this financial product to its fullest potential to help their clients gain prosperity, not just protect their prosperity.

The most common reason we found that very few advisors use this product for financial planning, is because of the four perceived downsides to life insurance as an investment. The four items are seen to make life insurance inefficient:

- High front end expense (not much cash value building early)
- Long break even
- Yield about 3-4%
- Life happens/Lack of flexibility

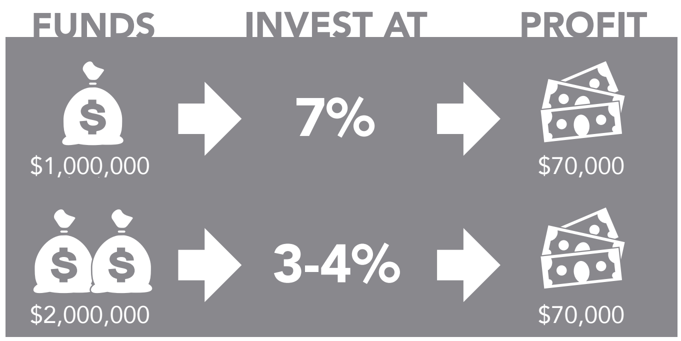
What if all four of these perceived downsides can be overcome?

First National Bank utilizes an investment process combined with insurance to supercharge your asset's income producing power, and we want to share with others the benefits of this financial product, so they too, can learn about a safe, secure way to actively grow their money. While that money is safely growing, its income producing power can be used to build a business, buy other assets, attend college, get out of debt and potentially retire with minimal or no taxes, and avoid future estate taxes.

The most common path of financial planning and investing relies on the mutual fund industry, retail brokerage, and/or a 401k/IRA approach. What is the problem with this approach? It hasn't worked for most people. Over the last 30 years, the annualized return for the average investors' overall asset allocation has been 1.65% , while the same markets their money was invested in returned 2-10x this return.

Individuals must also take into account a new factor, historically low interest rates. What used to be an adequate amount of funds to retire on is now, at best, half of what people need for retirement living income in this world of historically low-interest rates (assuming they stay low).

For example, in a world where people expected to get a conservative return of 7%, they only needed $1,000,000 to generate $70,000 in annual income. In today's 3-4% world, they will need $2,000,000 to generate the same level of income (See graphic below).



Living Benefit Life Insurance

One of the best kept secrets in the entire financial services industry are the "Living Benefits" found within certain kinds of life insurance. For example, a Whole Life Insurance from a Mutual Life Insurance Company, where you actually own part of the company or a Universal Life Insurance Policy with exposure to a wide array of asset sectors, are great financial instruments for gaining "Living Benefits."

In referencing the list of Living Benefits on this page, notice that nothing on this list is about avoiding estate tax, the ability to efficiently pass inheritances on to beneficiaries, the settlement of estate taxes, nor the succession plan or buy/sell agreements of a business. All of these are benefits are associated with Life insurance, but are more related to the Death Benefit part of the policy.

[1]According to DALBAR's 22nd Annual Quantitative Analysis of Investor Behavior, 2016 edition.

Most savvy investors do not purchase "Living Benefits" whole life insurance for the death benefit, but see that as a nice extra feature of the policy.

Living Benefits Associated With Specific Kinds Of Life Insurance

1. *Gain safety, control, freedom, and privacy*
2. *Borrow money low cost or net-zero cost*
3. *Avoid credit checks or bank approval*
4. *Gain tax-free retirement income – yes, tax-free!*
5. *Loan your business money and save taxes*
6. *Recapture lost opportunity costs*
7. *Keep your money safe from bankruptcy and lawsuits (depending on individual state laws)*
8. *Pay off debt faster*
9. *Create an emergency fund*

No other kind of financial vehicle can do ALL of these things. Sadly, many life insurance agents - not educated themselves on Living Benefits life insurance - will attempt to persuade you to use policies that cannot accomplish all of these things. Investors beware!

Policy Premium: Expense or Investment?

What if you began to view life insurance as a storehouse of money? What if you saw it as an opportunity to borrow money *and* grow money - at the same time!

Those who look at cost only (not taking into account the value (cost vs. benefit) of a policy) usually default to using term life insurance policies. In these cases, they are just looking at the death benefit, as they have not been introduced to the ways to take advantage of the extra benefits of this Living Benefit type of life insurance.

With term policies, 97% of the time the premium is an expense, as the policy terms out before a death occurs. Only 3% of the time does it result in the premium becoming an investment, where there is a return (Death benefit).

Is it a good investment bet when you lose 97% of the time? And when you do win that bet, it is because the insured died! That's what happens with Term Life Insurance.

Wouldn't you rather take a bet where you win 100% of the time? With whole or universal life, the premium of the policy is an investment 100% of the time (assuming you don't allow policies to lapse).

Bottom line: A properly constructed life insurance policy from a mutual life insurance company almost always costs less over the long haul. The money being 'spent' on premium is being invested inside the life insurance policy and goes to build cash value and long term the cash value increases the Death Benefit, and the cash value is available for providing the Living Benefits as well. Not to mention that this money passes to beneficiaries tax free, unlike most other investments and saving accounts/instruments.

The Living Benefits policy needs to come from a mutual life insurance company. It must have *Paid-Up Additions Riders (PUAs)* to jump-start the cash value and lower agent's commissions. When choosing an agent the agent must thoroughly understand the concept of "Living Benefits" of a life insurance policy. Not every agent knows this, nor knows how to structure the policy correctly for this. As well, some agents won't do it, because agents that structure policies in this manner by creating true "living benefits" policies give up two-thirds of the commission they might make with an ordinary policy.

Process X Product

We have shared details about the type (or product) of life insurance that can achieve Life Benefits, but there still needs to be an understanding of how to take advantage of those benefits, and that is where process comes in. It takes the combining of both *process* and *product* for one to see the full advantage of this prosperity-building program.

> This concept of Life Insurance suggests that you must believe that "My financial situation is my responsibility, and I am responsible for where I am financially and where I will be in the future." Neither are because of others (i.e. my parents, nor my employer).
>
> To truly take responsibility of their situation, one must be aware of the "Prosperity Stealers": Inflation, Debt, Bubbles/Bursts, Taxes, Consumerism, and Entitlement Mentality.
>
> We ask ourselves: Why do so many face retirement with so little? Our experience concludes that this is because the system is stacked against you, primarily the Prosperity Stealers. One must understand these threats before they can be overcome. The great news is that a Living Benefits Life Insurance policy can overcome most of the prosperity stealers.

This concept of Living Benefits was first revealed in the book "Be Your Own Banker" and has been repeated in various writings many times over. It was first known as the *Infinite Banking Concept.*

Mindset Paradigm Shift

Using life insurance policies for the living benefits may require a mental paradigm shift, as it is a contrarian way of thinking.

Our Group's use of life insurance for its living benefits grew out of our Owner's involvement in banking. How did banking lead us to validate this approach using life insurance policies? Let's look at the similarities :

- Conservative use of Leverage. Individuals can typically borrow up to 90% of their cash value.
- Use of compounding interest.

While a client's money is safely enfolded in a life insurance policy compounding interest and growing, they borrow against it. They take that borrowed money and invest it in real estate, businesses, or other income-producing assets. *This sounds like a similar approach to banking!* While depositors' money is safely enfolded in an FDIC insured bank account compounding interest and growing, the banks lend against it to borrowers to take the money to invest in real estate, business, and other assets.

Using life insurance, you cut out the middleman - the banker!

The most successful and savvy investors use these strategies, not by accident, but purposefully…even the longtime best, like Warren Buffet. But at his level he gets to take a whole different approach with the principles of this strategy - by simply buying the whole insurance company!

While investor's money is safely enfolded in a life insurance policy compounding interest and growing, they borrow against it to invest in real estate, businesses, or other income-producing assets. Now they have the asset (e.g. Real Estate purchased) and all the money (in Cash Value of Policy) they spent buying it! Unlike what most people believe, you are not "withdrawing" money from your cash value, you are "borrowing against" it. At the end of the loan period, they have both the item they bought (Real Estate), and all the money (unleveraged Cash Value) it cost to buy it!

Here is the other major paradigm shift - The hidden cost of paying cash...

When using the "Living Benefits" of a life insurance policy, you repay interest and the amount borrowed to the insurance company. But because you borrowed against your cash value, it continues to grow with compounding interest. (Important Disclaimer: Verify the policy has a Dual Recognition feature. If not, use a bank loan with the policy as collateral.)

If you were to withdraw your cash value for retirement income it will save on interest costs, but you lose the compounding effect of your money. Also, if you withdraw, you will pay taxes on all the money you contributed to your policy, as the dividend money is taxable.

There are even cases where, because your cash value continues to compound even as you are borrowing; you can actually make money (dollars) in spite of paying a higher percentage (%) for your loan than the return (%) you earn from the cash value money in your policy. It works because you are earning interest (compounding) on the whole cash value amount, while you are only paying interest on the decreasing balance due.

LOAN	INVESTMENT[1]	LIFE-INSURANCE INVESTMENT[2]
$25,000	$25,000	$25,000
-5.00%	3.75%	5.00%
-$28,307	$30,147	$32,084

[1]3.33% before tax return to break even to loan rate of 5%
[2]2.49% before tax return to be a break even to loan rate of 5%
After tax rates shown. Tax rate of 25%. 5 year loan and investments.

When you borrow conventionally from a bank, you pay the payments to someone else and they earn the interest. You end up with a car or whatever asset you financed. When you borrow against your cash value, *you end up with both the item you bought and the money you spent!*

For an in depth look at the previous topics discussed take a look at the three following concepts. For more information contact First National Bank, we provide a proven team of professionals focused on taking the optimal amount of risk, assisting you in igniting prosperity for your family, now and for generations to come.

Concept 1:

Something called "lost opportunity cost" is a very powerful awareness. Think about the following:

- Visible Opportunity Cost: If you had $25,000 and invested at 5%, your money can make you $7,084; but if you spend the $25,000 on a car, the opportunity to make $7,084 is gone.

$25,000	**$25,000**
Invest at 5%	**Pay in Full For Car**
$7,084	**$0**

Loan - 5 year monthly amortization at loan rate of 5%
Investment - 5 year compounding 5% return.
Tax bracket of 25%.

- Hidden Opportunity Cost: What is the lost opportunity cost of not being 'appropriately' leveraged leaving lazy dollars on your balance sheet? This is why we can say for many clients, they have "hidden" money in their finances, as shown in Concept 2.

Concept 2:

You have three ways to buy an item:

1. Pay with cash.
2. Borrow money – probably from your credit card or bank.
3. Borrow against a "Living Benefits" policy.

Ex: The chart below illustrates a comparison between the three ways to buy an item.

Pay With Cash

Car costs $25,000 + lost opportunity (interest income) $7,084

= $32,084

Borrow From Bank

Borrow from bank: $25,000 + interest paid $3,307 - interest income $5,313

= $22,994

Borrow Against Policy

Borrow against "Living Benefits" policy: $25,000 - interest paid $3,307 + interest earned from policy cash value $7,084

= $21,223

Loan - 5 year monthly amortization at loan rate of 5%
Investment - 5 year compounding 5% return
Tax bracket of 25%

With Living Benefits policies, the car cost you less than the purchase price! By borrowing money and paying it back, you've come out $3,777 ahead of the purchase price!

One must look at this approach as finding multiple jobs for your money to work. (Some of us used to work two jobs plus overtime. Now it is time to make your money work multiple jobs!) How many jobs can you make the 'same' dollar work at the same time?

Concept 3:

Borrowing a total of $1,541,060 – over $1.5 million – from a policy, is a taxable equivalent to $2,049,610 in a 33% tax bracket. That's a lot of buying power!

If a person had *withdrawn* the money from the policy, it would have been tax-free up until the time they took out all that had been paid in. Then the interest would become taxable.

At the same time, it would change the compounding curve. Less and less money would be available to compound on.

Because they only borrow from the policy, the cash value continues growing and the loan is tax-free.

Some further benefits:

- *Life insurance policies provide both creditor and law suit protection of assets intended as an inheritance for your heirs.*
- *Avoid time delays as the court settles matters – sometimes a year or more. Your heirs have access to their money in a matter of weeks.*
- *The freedom to choose your heirs unencumbered by common law rules.*
- *Your beneficiaries cannot be contested. The disposition of funds can't be fought over.*
- *Additionally, you avoid the laws and complexities of IRA and 401(k) distributions. For your heirs, this is a taxable event. When they inherit, they assume all the taxes you avoided paying on these IRA AND 401(k) accounts.*

The policies preserve and grow the money instead of letting it dissipate, making Living Benefits Life Insurance one of the key tools to the Generational Prosperity Curve.