Tax-Free Income & Wealth Through Whole Life Insurance

I have found that the reason people often miss the very best in life is that they hold misconceptions and falsehoods closely as truth. It may be because of a parent or teacher, a book or television show, but somewhere along the line people create a series of truths that become inviolable, but in fact, are completely false.

It is my belief that the single best place to 'save' retirement dollars is in a permanent life insurance contract.

You may find the voice of some previous financial advisor or book or talk show host whispering in your ear, that can't be true. Why do I know this? For two reasons; First, I had that type of reaction myself; and secondly, so do many of the people I visit with.

When I ask them why they believe what they do, they often cannot produce an answer. That is because they're not really sure why they believe what they do. Until we visit, they have never looked into the truth or figured it out for themselves. They simply heard a statement somewhere along the line that they have thought to be true for years.

They think life insurance is about dying. With all of the jazzed up financial products on the market, how in the world can life insurance be the best place for the long-term savings and wealth accumulation?

Once you understand how permanent life insurance really works, you will understand why I think this way. Life insurance should be used as a strategy, not as a product, a strategy to build a financial foundation for money that can be accessed and utilized throughout your life. The best insurance policy is one that is in force at death. Permanent policies will always be in force at death when used as a strategy.

Now you can understand why I hold a strong bias towards permanent insurance. However, I provide both permanent and term insurance to my clients, because the one feature that both term and permanent similarly provide is a death benefit. One of the most important issues in the life insurance discussion is the proper amount of coverage. If the amount of insurance that is wanted (not needed) can only be afforded through term insurance, then term it is.

Most people don't get excited figuring out the proper amount of death benefit. Many people see life insurance as a necessary evil. Many don't even see it as that - they avoid it all together.

However, if a person is looking for the best place to 'save', not invest, and create wealth, a properly structured permanent life insurance policy from a highly rated insurance company can serve as one of the most powerful retirement strategies available anywhere. Permanent life insurance and annuities are savings systems. A major problem today in financial planning is that 401(k) and mutual fund marketers have successfully blurred the difference between 'saving' and 'investing.' When one saves, money is safe and liquid. When one invests, 100% of your money is at risk 100% of the time. If in a 401(k) or IRA there is no liquidity without penalty. Enormous losses in today's stock market illuminate the dangers of investing without guarantees.

I am partial to properly funded whole life policies from a mutual insurance company. Properly funded means maximum funded up to the government MEC limit, or maximum cash value with minimum death benefit allowed. You want to pay as little for the death benefit as possible and you want the death benefit to get larger as time goes on, so it will be at its highest when you will need it most.

They offer guaranteed safety of growth through dividends and interest accumulation. The mutual insurance companies we deal with have paid dividends every year for over 100 years. We prefer mutual companies, where the policy holders are the actual owners of the company, who offer the best long-term value, as you are in theory receiving additional profits as "owners" (all policyholders) versus additional shareholders (not you or other policyholders) getting the profits. They are perfect at providing the 'banking' function. Once you have built up your capital, you can use it as collateral to borrow against and repay for major purchases. For more information on whole life 'banking' policies, you can go to our website and watch a short 12 minute video at (http://www.americancollegefunding.net/byob.htm) as well as download and read my white paper for a further explanation.

As your cash value builds up and just like any other savings account you might posses, you have complete liquidity, use and control of the money via collateralization. However, the largest single factor in utilizing the power of life insurance comes with distribution *(not counting the Leverage that the death benefit offers)*. Accumulation is easy. Anyone can stuff these things full of money yet not fully realize the powerful tax advantages provided by Uncle Sam to all Americans, regardless of income, regardless of age, regardless of any other type of potentially discriminating factors.

Life insurance companies have set up provision within their policy features that allow the policy owner to take a loan against their cash value. Not *from* their cash value but *against* their cash value. Your initial reaction might be, 'that doesn't sound good during my retirement years. I don't want to be taking loans.' But what if I told you that this loan charged you little or no 'net' interest, and that it *never* needed to be paid back during your lifetime? Does that change the picture? You bet it does. Let's explore how this works.

The amount that is borrowed does get charged an interest rate, just like any other loan. The life insurance company uses the cash value and death benefit as collateral for the loan. Because of this the rate is often more competitive than that obtained with an outside lender. Since no money has been removed from the cash value it continues to compound as if no loan had happened. This means that you are often credited with dividends equal to the interest charged for the loans. Prior to retirement you always want to pay back any loans used to purchase items. Once you have found a good tax haven for storing money you want to continue to utilize it. You are able to access your cash value via loans during your lifetime 100% tax-free, and your balance continues to compound. It just doesn't get much better than that.

Does the government tax loans? No. When you borrow money for anything it is not taxed. It shows up nowhere on your tax return. The same is true when a loan is taken from a life insurance company. As far as the IRS is concerned, it's invisible money that you get to use during your entire lifetime completely tax-free.

The last component you need to understand is how the life insurance death benefit is taxed, because it is the death benefit that makes this whole strategy work. Without the death benefit, this strategy would not be available. At death, any loans outstanding are paid off and any amount left will be paid to your beneficiary – income tax-free!

Tax-free dollars while you're living and tax-fee dollars distributed to whomever you choose upon your death. Anyone who says that life insurance cost too much, just doesn't understand how to structure it and use it as a strategy. Now that you know these things, wouldn't you agree?

You might be asking yourself two questions about now. One, what's the catch? Two, if it is so good why isn't everyone doing this? Two great questions, but I can tell you this; there really is no catch. There is one caution. As long as you understand that you are buying life insurance - it is not like other savings plans. Most people need life insurance anyway so purchasing it in this manner is a great way to get the life insurance they want (need) and tax benefits they didn't know existed.

Why isn't everyone saving this way? The primary reason is that most people don't know how it works. Did you? I didn't know about it until I started studying it. My insurance person never explained it to me. It has been far too long that this great benefit has been hidden from mainstream America.

Most people are more concerned about having a retirement account versus having adequate life insurance. The tragedy is that few Americans realize that permanent life insurance can be a protection plan, a savings plan, and a viable methodology to provide additional retirement income. Retirement plans such as 401(k)s and IRAs have never been able to perform multiple economic jobs simultaneously like life insurance.

Since the tax-free income and tax-free death benefit make this strategy work, it is ***imperative*** that the policy stays in force until the insured's death. I know is sounds pretty basic, but it is too important to gloss over. If the policy lapses or cancels then all that money you have taken out as a tax-free loan now suddenly becomes taxable; and that is one tax bill you *never* want to see.

In these whole life policies, all of the money you put into them will be returned to you, **ALWAYS**, either while you are alive, as tax-free income, or it will go to your heir's income tax free. If you are going to get all of your money back sometime in the future, what does that mean? It means that there is really no long term cost, just a temporary cash flow issue. Is that the way you understood it?

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PS: We believe that human life and human capital are of much greater value than the stock market. Life insurance companies know how to manage risk better than the banks or mutual funds and have done so for decades.