

REVISED SECOND EDITION



*LIVE Your*  
**LIFE INSURANCE**



*Surprising Strategies to Build  
Life-Long Prosperity  
with Your Whole Life Policy*

**KIM D. H. BUTLER**

*Author of **Busting the Financial Planning Lies**  
and **Busting the Retirement Lies***

**Also by Kim D. H. Butler:**

***Busting the Financial Planning Lies: Learn to Use Prosperity Economics to Build Sustainable Wealth***

(Available on Amazon.com, or get the audio or bundled version at ProsperityPeaks.com)

***Busting the Retirement Lies: Living with Passion, Purpose, and Abundance Throughout Our Lives***

(Available on Amazon.com, or get the audio book on Audible.com)

***Busting the Interest Rate Lies: Using Prosperity Economics to Understand the Whole Truth About Money***

(Available soon on Amazon.com)

Look for these forthcoming books from Kim Butler and Prosperity Economics Movement:

***Busting the Mutual Fund Lies***

***Busting the Life Insurance Lies***

## **Praise for *Live Your Life Insurance*:**

**“This is the way to look at life insurance.** Kim Butler has a unique and refreshing view of life insurance. Instead of only receiving benefit from your insurance when you die, she explains how to use it while you are alive. She clearly explains how life insurance can be an asset throughout your life. I am also one of Kim's clients, and I can honestly say that insurance as she explains it works just like she says it does in *Live Your Life Insurance*.

“A great book and a new way of thinking about life insurance that everyone should read.”

Tom Wheelwright, CPA  
Author of *Tax-Free Wealth*

**“A great book for those looking for a better way** to live your life outside the humdrum financial planner’s playbook. Kim offers a better path to saving for your whole life.”

Ken Trainor

**“Concise and illuminating!** Kim Butler is the real deal. This little book neatly explains the concept of Whole Life Insurance and its many benefits beyond providing a death benefit.”

Linda R., Amazon.com review

**“Mystery unveiled: making money work twice as hard for you.** This book... shows creative (even surprising!) ways to use certain types of insurance to build tax-deferred or tax-free growth of your money....”

Peter Sorrels

**“This is a very good book for the pro or experienced investor...** it's technical and quite succinct. Good strategies for the insurance pro.”

Jim Gaskins

**“Short and simple, but highly worth the time to read.** This book is a simple read but do not get fooled by its brevity. It is worth its weight in gold especially for those that own a whole life insurance policy. This

product can be hard to understand, but Kim does an excellent job of highlighting the merits of the product and what it can do for you. Highly recommend this to anyone who holds a whole life insurance policy."

Sam B., Amazon.com review

**"I would recommend this book to anyone ready to question the current status quo of investment advice** being doled out by so-called experts. It is a great complement to other books on the subject (any by Nelson Nash, *Financial Independence in the 21st Century*, *The Power of Zero*) and gives great definitions of all the basic terms associated with Infinite Banking/Income for Life, as well as providing possible scenarios as you age and your financial needs change. I'm ready to get started!"

N. Green, Amazon.com review

**"Very useful book.** Kim Butler... clearly presents you with the little known fact that "the first Beneficiary of your Life Insurance policy should be YOU."

I've known of Kim for years, and I've verified these concepts over the last 25+ years, even longer than I've known her. This is an excellent, common-sense approach to personal finance, and it could not come at a better time."

Bobby Mattei

R.S. Mattei & Associates

**"The heart of the matter.** One would be hard pressed to find another person on the planet with more working knowledge of the power of whole life insurance and the plethora of uses for this most underappreciated and often abused financial tool than Kim Butler. Kim's book provides specific examples of the benefits of whole life as a living contract where the owner is the first beneficiary of the product.

"Life insurance, properly structured and utilized is without a doubt THE most potent financial tool to create wealth for families, business owners and individuals... Kim's book is a welcome addition to the increasing clamor for accurate, viable information for those wanting to create, use and maintain wealth without resorting to the gambling in the markets."

Jim Kindred

Financial Strategies Group

# Live Your Life Insurance

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# Foreword

Decades ago, I started building financial calculators that could compare various financial vehicles. Today, I still create financial software and calculators that take into account many different factors such as varying rates of return, the impact of fees and taxation, and different distribution strategies. I was - and still am - driven to discover "the whole truth" about how money works.

It has surprised many people - including myself - that the mathematical calculations reveal that one much-aligned, often-misunderstood financial product is actually superior in many ways to other financial products, when all factors are considered. I have often said that if people truly understood this product, that they would line up around the block to purchase it. That product is participating (dividend-paying) mutual whole-life insurance.

It is said, "numbers don't lie," although they can be used to tell half-truths. If you have heard or read negative information online (often put out by those not even licensed to give financial advice), I urge you to set aside your preconceptions and get the facts.

The numbers reveal that whole life insurance cash value outperforms other safe and liquid financial vehicles when held long-term. When tax benefits, dividends (paid every year for over 150 years) and the death benefit are factored in, the returns often best that of the stock market. And when distribution strategies are compared, once again, whole life insurance surprises with its efficiency.

*But numbers don't reveal everything.*

How do you calculate the value of liquidity and the opportunities that arise when you have high-quality collateral and guaranteed access to money?

How can you compare whole life insurance to a qualified retirement account that will one day be divided up between the government and the investor who will have to pay income taxes at a likely higher "to-be-determined" rate?

How do you measure the stability of companies that have been paying dividends decades before the mutual fund industry even existed? It's equally difficult to quantify the value of the peace of mind that comes from knowing that your cash value and your death benefit will only grow over time.

And have we considered the significance of the fact that mutual life insurance companies have no stockholders? Mutual companies are owned by the policyholders who receive - in addition to modest guaranteed minimums - *ALL of the profits of the company*, after costs and required reserves, in the form of dividends.

This mutual ownership allows mutual insurance companies to make sound long-term financial decisions that benefit *policyholders*. They have no shareholders or 8-figure executives that compete with policyholders for earnings, nor are they pressured to drive up this quarter's profits with short-sighted decisions.

In full disclosure of what may be perceived as my own conflict of interest, the author of this book is my wife, Kim. We were both convinced of the validity of whole life insurance as a result of looking at the whole truth of it - which took us both by surprise. We now own many policies between us, on other immediate family members, and on key employees.

I am grateful for this book and hope that it serves, in some small way, to right what seems to be a wrong in the financial world. Whole life insurance was largely abandoned by the 1990's due to the 401(k) juggernaut and the rise of mutual funds. In recent years, interest has increased as Kim and other financial authors and educators have re-educated the public about the benefits of life insurance. I'm happy to say that I believe this revised, expanded version of *Live Your Life Insurance* will cause more people than ever to consider or to simply get the best use out of this valuable but often-overlooked asset.

**-Todd Langford, TruthConcepts.com**



# Introduction

It's odd that talking about life insurance is mostly a discussion about death. Who wants to talk about death? No one! So even though this book talks about life insurance, it is a book about life and living — living with, using, and benefiting from your own life insurance policy. As one friend puts it, *"the first beneficiary of your life insurance policy should be YOU."*

After reading this book, you will realize that the death benefit is only one important component of a life insurance policy. You'll discover how to utilize your cash value, and multiple other ways you can use your own life insurance policy to enjoy prosperity... while you are alive and well.

Life insurance is one of the oldest financial products around, yet is also one of the most misunderstood. People debate its efficacy from every angle, but rarely is it championed. That is, until recently. After more than twenty years of business inside the financial services industry, we have only recently seen a few positive notes in the press about whole life insurance being a good place to store money.

In these pages, you'll discover why we believe there is no better place for your cash than a participating (dividend-paying) whole life policy from a mutual life insurance company. What other financial product has stood the test of time, paying dividends every year for over 150 years, throughout wars, recessions, even the Great Depression? We know of none other than whole life insurance.

Traditional cash vehicles such as savings accounts, certificates of deposit, and money market accounts lack the flexibility and advantages of life insurance. And for several years now, rates have bottomed out near 1% or less in many savings instruments!

Whole life has proven itself to be a safe haven for cash that can out-pace inflation as well as a smart choice for permanent life insurance. And because whole life insurance policies come with a permanent death benefit, they are "self-completing" saving instruments. You begin funding your

policy, and the insurance company finishes, further increasing the value of life insurance as an asset.

Unfortunately, whole life policies are too often underutilized, or worse, surrendered because the policy owner has no "owner's manual" to tell them how to use the policy effectively.

*Live Your Life Insurance is the missing owner's manual.*

By offering simple principles, concepts, stories and examples, *Live Your Life Insurance* will help you make the most of your whole life policy. Furthermore, it will show you how your whole life policy can help you make the most of *all* of your assets.

This little book was originally written only for my own clients who had already purchased life insurance policies. I found it necessary to explain many stories and concepts again and again to remind my clients of the many valuable uses of their policy.

Over time, other financial advisors have begun using this book as well. Although it was never intended to "sell" life insurance, I have added a chapter in this revised and expanded version that explains the benefits of whole life insurance more thoroughly for anyone unfamiliar with it.

## **Why Whole Life?**

This book is about the two oldest types of life insurance known to man: whole life and term insurance, with particular attention paid to creative wealth-building strategies with whole life insurance.

We acknowledge that universal life, variable universal life, and equity indexed universal life may work with some of the strategies in this book. We don't specifically address these other types of permanent insurance for the following reasons:

- Premiums are often not guaranteed (how much you pay can vary, both up and down)
- No minimum cash value amount is guaranteed (whole life has a new floor set every year)

- Only an interest rate is guaranteed (which means nothing if your account has no money, or if mortality costs and policy fees outweigh your cash value gains)
  - Death benefits are not guaranteed without an extra charge
  - Mortality assumptions can change and are very difficult to understand
  - Indexed policies provide a poor hedge against the stock market (shouldn't life insurance be the safe, reliable, steadily growing portion of your portfolio?)
  - Lack of proof that these newer types of life insurance work on a long-term basis (we've seen some poorly-constructed policies lose value or even become worthless, as well as policy illustrations showing ridiculous 20%+ annual gains.)
  - Not all types of permanent life insurance endow, which makes me wonder why they are referred to as "permanent"! When a policy endows, say at age 100 or beyond (the policy contract will specify), the policyowner actually receives the death benefit. The cash value equals the death benefit at that point (subtract outstanding policy loans and interest).
  - Under-funding is promoted as a way to lessen the cost of the life insurance, which completely misunderstands the nature and benefit of the insurance. We ask, if life insurance is a good and helpful way to increase your assets, why do you want to put the least amount in it?

The value of saving money is extolled when a saver opens a savings account and proceeds to save as much as they can. Yet when saving in a life insurance policy, the people often aim to put as *little* money into as possible, thus *minimizing* the benefit of the cash value!

It is natural to do this because we typically think of insurance as a *cost* or an expense, not as a place to grow cash. In reality, the way to "save money" is by putting MORE into a policy, not less! Using life insurance to store cash builds liquidity, which can then be utilized in many ways, as we'll see in this book. We'll also explore how to use your death benefit to improve your own financial position.

## How to Use This Book

We've split *Live Your Life Insurance* into four sections:

- 1. Building Wealth for Life** gives an overview of the benefits of life insurance and answers some "frequently asked questions" that are better addressed sooner than later.
- 2. Living with Your Cash Value** includes the first two phases, which are the Start-Up Phase of the policy (years 1-5) and the Leverage Opportunity and Investment Capability Phase.
- 3. Using Your Death Benefit While You Are Alive** includes Phase 3, Spending Other Assets, Phase 4, Using the Death Benefit or Face Value, and Phase 5, Setting Up the Family Bank.
- 4. Glossary - Working Parts Definitions** (you'll want to refer to this section throughout the book.)

We tell stories about each of the five phases in the policy in parts 2 and 3. These stories are essentially composite case studies which give examples that may be relevant to you, either now or later in life. Regardless of your age, you can still start at the beginning, but you might skip a few of the middle phases and then implement the later ones.

And since "questions are infinitely more valuable than answers," according to Dan Sullivan, owner of The Strategic Coach, there will be questions throughout the book to get you thinking. Some of them even have answers. Then the fun begins — combining all the concepts together is what really makes life insurance *live*.

So "keep your mind wide open" (as Anna Sophia Robb sings in the theme song of the movie *The Bridge to Terabithia*) and let's begin a journey through a life filled with *living* your life insurance.

## Part 1 – Building Wealth for Life

### Who Can Benefit from Life Insurance?

Life insurance is often equated with the death benefit alone and spoken of as something you "need" only if you have dependents. This is a limited understanding of permanent life insurance and its *living* benefits. Sadly, even many certified financial planners have a poor understanding of the potential power and uses of a properly-constructed life insurance policy.

In contrast, corporations and banks understand *exactly* how to use life insurance for their benefit! It is a telling state of the financial industry that the financial corporations do one thing with their money while advising Americans to do something *else* with their money, but perhaps we can learn from the example. COLI (corporate-owned life insurance) and BOLI (bank-owned life insurance) are used to increase liquidity and grow money in a tax-advantaged environment, as well as fund employee benefits and compensation.

Of course, life insurance isn't just for banks and corporations, even though banks and corporations put billions of dollars into life insurance for good financial reasons. Neither is life insurance just for parents with children or other dependents, even though insuring breadwinners provides an important protection for families. You also don't have to be a high net-worth individual wishing to transfer wealth to heirs in order to benefit from life insurance, even though it is often used by those who wish to protect gains, gifts and inheritances from avoidable taxes.

You can learn to use life insurance to *your* benefit. In most cases, the strategies and concepts in this book can apply to men and women of all ages, health situations, and financial backgrounds. Whole life has been used by presidents, middle-class single parents, business pioneers, senior citizens, and young single professionals. The ways that life insurance can be used to increase financial security for yourself as well as your beneficiaries is only limited by your imagination.

## How Much Insurance Do I Really "Need"?

The question is often asked, "How much life insurance do I need?" *But this is a misleading question.*

We discuss life insurance (notice it's not called death insurance) from a Human Life Value approach, not a "needs" approach. Human Life Value (HLV), according to Solomon Huebner, is "the value of your future earnings." Many life insurance companies use various parameters to evaluate this, such as fifteen times your income or one times your net worth. Everyone has HLV, even if they are stay-at-home parents or retired volunteers living only on social security payments. You are important in this world, and HLV is only one way to measure that importance economically.

Insuring yourself for your full Human Life Value changes throughout your life. It is important for your family, but also for your own use. In this book, we also discuss how to use your life insurance death benefit (not just the cash) while you are living, to increase cash flow and make better use of the assets you have built along the way.

The needs-analysis approach, so often used in the life insurance industry, is mathematically incorrect. With car or home insurance, there is no assuming of various interest rates and inflation rates, nor attempting to perform a "needs analysis," yet it's done with life insurance all the time. Insurance is designed to indemnify or "make whole" something that is missing.

For example, if you drive a \$50,000 car, you insure it for \$50,000 — not what you "need" to insure it for, because you only "need" to drive a car worth maybe \$20,000. You *want* the \$50,000 car and you *want* to insure it for the full amount.

Properly understood, life insurance is a *want*. You don't "need" life insurance, your family may need it, but you can *use* life insurance, especially since the triggering event is guaranteed. Because death is guaranteed, you know there will be a benefit from the insurance as long as it is in force when you die.

*No other insurance works this way.* No one wants a guarantee that they'll use their car, home, liability, or even disability insurance. We're sure no one wants a guarantee they'll use their life insurance either, but if you knew it would be used, wouldn't you want it for the full amount?

### **Whole Life vs. Term Insurance... "Either/ Or" or "Both/And"?**

"Which is better, term or whole life?" is another commonly asked question, but it is can also be misleading. There is nothing wrong with term insurance for a period of time (hence the name, term insurance). Just understand that it rarely pays a death benefit, as term insurance almost always ends while the insured is, fortunately, alive and well. Sources inside the industry claim that between 1 and 2% of term insurance actually stays on the books long enough to pay a claim.

The simple fact is that term policies become prohibitively expensive to renew as we begin to approach our life expectancy. When most term life insurance policies expire, the death benefit vanishes from the policyholder's balance sheet. Therefore, term should be thought of as "temporary" life insurance and used accordingly.

The question of whole life vs. term should be replaced with the question "How can I protect my full Human Life Value *and* take advantage of what whole life provides?"

Most people fulfill their Human Life Value with a mix of whole life and term insurance, since funding their entire HLV with whole life insurance may be a big step to take. Term insurance can also be used to fill the gap during the whole life approval process, which can take weeks or even months. (With an instant issue policy, you won't even have to wait for an exam, although you will pay for the convenience.)

A common approach is to take full HLV now, with part of it being whole life and part of it being term, and then convert the term to whole life as you go. Most companies offer conversion credits, so you'll possibly get a little of your money back and have the full amount of coverage all along the way. Plus, on the occasion where a major health change occurs, you are already approved and the insurance company can't take the term insurance

away from you while you are converting (as long as it's before the term's time frame ends).

Interesting note: Most companies will allow you to convert your term insurance to whole life if the waiver of premium provision is on the policy (see glossary G) and *they* are the ones who have to start paying the premium due to disability. This should tell us something about which type of policy is less expensive in the long run. Term is only "less expensive" because it is typically temporary insurance that rarely results in legacy benefits.

### **Saving vs. Investing: What's the Difference?**

Everyone seems to be chasing after the next hot stock, the next big idea, and other "sure things." Common financial advice says to "max out your 401(k)" and sock your money away in mutual funds, often even before a solid emergency fund is built. But there are problems with this idea.

**First of all, savings should come BEFORE investing.** In *Busting the Financial Planning Lies*, I describe the Prosperity Ladder and the steps that lead all the way from poverty to prosperity. Just like walking comes before running, saving must come before investing if a person can have financial stability. Otherwise, investments must be liquidated - sometimes with penalties, taxes, and much inconvenience - every time unexpected expenses arise. That is no way to build wealth!

Saving money means putting money where it is SAFE! Saving creates the foundation for wealth. It is what allows a person to invest, knowing that their investments can grow without interruption. Saving money is where wealth begins, and it's a habit that the truly wealthy never stop practicing.

**Savings vehicles do not subject dollars to risk.** As long as the money remains in the mutual funds, you run the risk of another 2009, when retirees and those soon-to-retire found their nest eggs cut in half. As it turned out, those who lost so much in the last economic downturn weren't "investing" after all... they were *speculating*. Speculating is what we do when we don't KNOW what an investment will earn. We're just guessing.



Or hoping. (I don't believe that investment returns should involve speculation either, but that's another book for another day!)

Roth IRAs and 401(k)s are typically invested in mutual funds, in which case they suffer from most of the same problems as other qualified plans: volatility, inflexibility, and inability to borrow against.

Saving money is different from investing, and it's certainly different from speculating. Saving has nothing to do with market timing, nor does it require your time, attention, or lost sleep. Savings, as opposed to investments, are *guaranteed*.

In Part 2, we'll see some examples of how the savings component of a whole life insurance policy (the cash value) can be utilized to help you live your life insurance.

## **Why Life Insurance?**

There are numerous benefits to using life insurance as a cornerstone of your financial strategy. We've mentioned a few already, such as the stability of this asset class through every economy. But you have many choices when it comes to financial vehicles and places to put your money. What is unique about life insurance that makes it our favorite place to grow and store cash? Here are seven things we love about Life Insurance:

### **1. Custom-Designed for You.**

Life insurance requires little money to get started. You simply begin with monthly payments tailored to your capability, whether that is \$50 or \$5,000 per month. (And should your situation change, there are ways to adjust your out-of-pocket requirement.)

Life insurance can help those who wish to start saving with small payments on a "starter" policy or a child or grandchild's policy. It also provides tremendous advantages for anyone who wants to move larger sums of money into a private, secure, tax-advantaged environment, without the government restrictions and contribution limits.

There is no lump-sum requirement to start. You can choose monthly payments if the annual payment is not in your budget, and if necessary,

you can adjust payment frequency as you go along, or skip some of your optional paid-up additions.

Your life insurance policy is designed to fit you. Your policy can be structured to maximize cash or death benefit (we typically recommend the latter, but there are exceptions.) You can fund a policy in as little as 7 years or as much as a lifetime. In some situations, you don't even have to be insurable! You can be a policy owner even if you are not the insured.

## **2. Competitive Returns.**

When held long term (beyond 10 years), the internal rate of return of a life insurance policy typically out-performs bank savings accounts and CDs, money market funds, fixed annuities, t-bills and other cash equivalents and "safe money" vehicles.

Whole life insurance is a safe and reliable vehicle for long-term savings with a surprisingly impressive cash-on-cash rate of return. Current interest rates at banks are just above zero at this writing, while the internal rate of return (net) for whole life policies held long term is hovering about 4% - 4.5%, net of fees. This is historically low, as the rock-bottom interest rate environment has had an effect on life insurance as well as other economic environments. When bank rates rise, cash value rates of return tend to float higher as well, typically a few points higher than whatever rate savings accounts are paying.

## **3. Flexible Funds or Collateral.**

One problem with many savings and investment vehicles is that you are limited as to when, how, and for what purpose you can access "your" money. When you have life insurance cash value at your disposal, you don't have to wait until you are 59-1/2, pay penalties, ask permission from an employer, or prove that the funds are only being spent on healthcare or college tuition.

Whether you want a new roof, a down payment for a rental home, or a honeymoon vacation, your cash value provides the means. You can withdraw it or borrow against your cash value, using it as collateral. Borrowing against it is often a better choice when looking at the big picture of your personal economy, but it's liquid and it's your money!

#### **4. Privacy and Asset Protection.**

Cash value accounts and their growth are not reported to the IRS, nor are they counted as "assets" on a FAFSA student aid application. Policy loans require no credit qualification and are never on your credit report. Additionally, in most states, life insurance offers protection against lawsuits and creditors. This asset protection may be absolute or limited, depending on your state's regulations.

Some people find the ability to grow and store cash without the prying eyes of banks, the IRS, other federal agencies or creditors an important reason to prefer mutual insurance companies over banks when it comes to storing cash!

#### **5. Tax Advantages.**

As long as you don't cancel the policy, under current tax law, there won't be any income taxes on the cash value within the policy, the death benefits, or money borrowed against them. You can also receive income from a policy through dividends (up to basis) and policy loans without reducing your social security benefits. This is because policy loans and dividends (up to the amount that you have paid in premiums) are not considered taxable.

Whole life policies can also be used to gift money with no income taxes or gift taxes while you are living. If tax laws change, you still get all the other benefits.

It is interesting to note that Roth IRAs have been a hot topic. However, life insurance cash value, which is governed by similar tax law, is liquid and is not tied up until age 59 1/2. These cash value accounts grow tax-free while in the policy, can be used as collateral for tax-free policy loans, and unlike most retirement accounts, won't give up a dime in a downturn.

#### **6. A Financial Legacy.**

In spite of many attempts to do so, you cannot compare any sort of retirement account, mutual fund, income or savings vehicle "apples to apples" with life insurance for a simple reason that life insurance critics seem to conveniently neglect: *life insurance provides a death benefit!*

When you put your first contribution into an IRA, 401(k), or 529 savings plan, your future estate's net worth doesn't magically increase by tens or even hundreds of thousands of dollars. Yet this is exactly what happens when you pay your first premium on a whole life policy!

From the very first payment, life insurance policies are "self-completing" saving instruments. Should something happen to you three months from now, your policy will provide a legacy for your loved ones and/or the causes you care about. And should you live to age 100, your policy will provide you with even *greater* financial options for you and your family.

Life insurance has so many uses and benefits that sometimes we forget that it is also *life insurance*. And as we'll see in Part 3, the death benefit provides additional ways for you to "*live* your life insurance."

### **7. Personalized Protections.**

In addition to the death benefit, life insurance can provide other benefits and protections through optional riders:

- The Paid-Up Additions (PUA) Rider increases both your death benefit and your cash value.
- A Guaranteed Insurability Rider relieves concerns about your ability to qualify for additional life insurance in the future.
- An Accelerated Benefits Rider allows you to receive a portion of the death benefit in cases of terminal or chronic illnesses.
- The Waiver of Premium Rider keeps your policy and all of its benefits in force in the case of total disability.

In summary, your life insurance policy is a custom-designed financial vehicle with personalized protections that provides competitive returns, can be utilized or borrowed against, offers privacy and tax benefits, and creates a legacy benefit.

These are just some of the reasons that people who own, use, and *live* their life insurance love it. In Part 2, we'll also discuss the CLUE Method that makes your cash value even more valuable!

## Capsule Concepts in Part 1

### *Who Can Benefit from Life Insurance?*

Almost anyone can! If you've been told that life insurance is only for business owners, breadwinners with young dependents, or the super-wealthy, it's time for you to investigate for yourself.

### *How Much Insurance Do You "Need"?*

This is a misleading question, since in many cases, life insurance is a "want," not a "need." Many people want to obtain as much life insurance as they can - their "human life value" (HLV) so that they can maximize the benefits of life insurance.

### *Whole Life vs. Term Insurance... "Either/ Or" or "Both/And"?*

Many people cannot afford to insure their HLV in whole life insurance from the start. A combination of term life insurance and whole life is appropriate in many cases, as that allows people to insure their full HLV and get started saving in a whole life policy.

### *Saving vs. Investing: What's the Difference?*

Saving creates your financial foundation. Your savings is the safe, guaranteed portion of your personal finances that ensures your investments won't be interrupted by financial emergencies.

### *Why Life Insurance?*

Besides its almost unparalleled record as a quality asset that has survived every economic downturn since the Great Depression, we also love these 7 things about life insurance:

1. Custom-Designed for You.
2. Competitive Returns.
3. Flexible Funds or Collateral.

4. Privacy and Asset Protection.
5. Tax Advantages.
6. A Financial Legacy.
7. Personalized Protections.

It cannot be over-emphasized that whole life is BOTH a permanent life insurance product AND a solid savings strategy. Too often it is compared with temporary term insurance and/or investments that are risky, taxable, and illiquid. Other times, it is labeled as "too expensive" compared to life insurance that lacks guarantees and is likely to be devoid of cash value. These comparisons are not valid, as neither term insurance nor investments provide what whole life does for its policyholders.

As we progress through many real-life examples of how our clients have put their policies to work, you'll see even MORE benefits to using your life insurance—both your cash value and your death benefit—as a cornerstone of a solid financial foundation.

## Part 2 – Living with Your Cash Value

Many people view life insurance as a black hole where money goes and that someday someone gets a benefit and it isn't you; or worse, you pay for years, then see nothing. *This is incorrect.* Once you learn how to *live* your life insurance, you'll see that it's a perfect place to store cash that you will use for financing vehicles and other assets, as well as investment opportunities and your emergency fund.

We use what we call the CLUE Method of a dividend-paying, whole life insurance policy. This method is so valuable that almost everybody should own one for their own benefit.

Notice we said "own"... which doesn't necessarily mean the insurance is on you, but rather that you own and control it. You can own insurance on anyone for whom you have an "insurable interest" — a child, a business partner, a key employee, or anyone so close to you that if they died, you would be affected. This enables almost everyone (even many who have a thick medical file and may be uninsurable) to benefit from this concept.

### The CLUE Method

This method is an instrumental part of the principles in this book. So how do you get a CLUE? It stands for:

*C = Control*

*L = Liquidity*

*U = Use*

*E = Equity*

The cash value is your CLUE account. Cash value and death benefit are 100% in *control* of the owner (not the insured), and the cash value is 100% *liquid*. You (the owner) can *use* both the cash value and the death benefit while you are living, and they work like *equity* in real estate — with one major exception: they can never go down, only up.

Let's look more closely at each point:

**CONTROL:** You own it, you control it. You say when, how much, who, how often, and why. It's YOUR money - not your employer's, the government's, not even your beneficiary's (as long as you're living).

Contrast this to other types of accounts that don't give you full control:

- A qualified retirement account may offer government-blessed tax deferrals... but a loss of control! You are told when you can use the money and for what purpose. You'll even be told (later) how much taxes you will have to pay to access your money, as future tax rates are also not in your control!
- Health savings accounts and education savings accounts can only be used for approved reasons without suffering tax consequences and penalties.
- An UTMA or UGMA Custodial account (generally used for college saving) becomes automatically controlled by the child when they turn 18-21, depending on which state they reside in.

**LIQUIDITY:** Almost all of your account is liquid within ten days or less at most insurance companies. You can withdraw it, borrow against it, or simply let it grow. (Note, there may not be much net cash value in the first few years of the policy, but whatever is in there is available up to your company's limit, typically about 95% of cash value.)

Cash value accounts cannot lose value and their value won't "roller coaster ride," as stocks, commodities, and real estate are known to do. Your gains are locked in each year.

It is also important to note that cash value accounts are not leveraged and fractionalized by the financial institution as are savings accounts at a bank. Insurance companies are not allowed to lend out the same dollar again and again and again. For this reason, banks purchase billions of dollars of permanent life insurance to hold as part of their "tier 1," or highest quality, assets. (Insurance companies give banks liquidity, too.)



USE: Because cash value is under your control and liquid, you can USE it in countless ways! Like a Swiss Army knife or a smartphone, it can serve many purposes. Your cash value is an "all-purpose" account that can be used as:

- a short-term savings account to make planned purchases
- a long-term savings account for financial freedom or inheritance
- a college tuition and expenses fund that isn't counted as an "asset" on the parents' FAFSA.
- an emergency fund
- an opportunity fund (for investments)
- an account to leverage against for capital expenditures or a business loan
- and any other use you can think of!

Even if you never move a dollar, your cash value account is the single most-efficient and effective place to store money. It's *efficient* because it grows in a tax-deferred manner (taxable only if you cancel or withdraw cash above the basis). It's *effective* because you can borrow against it while it still grows at the gross value. Both capabilities are not available in 401(k)s and other tax-deferred accounts. In fact, when you die, this cash-value account (now turned death benefit) will pass on to your heirs without any income tax paid at all, under current law. It's the best place to store "peace of mind" money.

EQUITY: Just think real estate. Equity in real estate is leverage-able, you can borrow against it, but the underlying asset just keeps on growing unaffected by the debt. This is the single most misunderstood aspect of this product. You borrow against it, but you don't take it out. The net cash value is what is left over to still borrow. For example, if you have \$100,000 of gross cash value and you borrow \$40,000, your account will still grow as if it were \$100,000, not \$60,000.

If you are borrowing against your cash value to invest, that interest should be deducted against that investment's earnings. However, if you are borrowing against the cash value to pay premiums (for an Automatic

Premium Loan, see M) or go on vacation, then that interest is not deductible.

Unlike real estate equity, cash value accounts do not require you to qualify to withdraw or borrow against your own asset. Your credit score or income status is irrelevant. This is equity that's under your control, it's liquid, and ready to be used when needed or desired!

## **PHASE 1 – The Start-Up Phase (Years 1-5 of the policy)**

This is the hardest part, deciding you want to adopt this more-effective but less known way of handling your finances. It's like starting a business; not only do you have to work against the naysayers, but you have to write checks, write checks, write checks, and only *then* do you see any benefit.

During this phase, you are converting cash to cash value plus putting an immediate and growing death benefit in place. Both can provide tax-free income when used properly. And both are wonderful things to have, but hard to start. However, one start-up (though you may have many) equals a lifetime of benefits.

In my family, we own 30 whole life policies between us! We begin new policies as we increase our ability and need to store cash. Some are policies on ourselves, others on our children, and we also have "key person" policies on essential employees who would be difficult to replace. As you shall see, having multiple policies gives us multiple ways to benefit and increased flexibility.

It's very important during this start-up phase to remember that "you finance everything you buy." This quotation from Nelson Nash, author of *Becoming Your Own Banker*, indicates the accurate but rarely discussed fact that you either pay interest to someone for the use of their money or you give up interest you could have earned by using your own money. You either *pay* interest, or you *pass up* interest. Life insurance gives you a way to more-effectively finance the things you buy.

Many people want to save for their next car, home down payment, or investment. They save then spend, save then spend, and are always starting over from scratch! When you begin to think of the big-picture,

long-term view of your personal finances, you will understand that saving in order to create a long-term asset that you can borrow against (while it keeps growing) is a much better strategy.

Now let's look at examples of how people put their policies to use! The following examples represent real-life stories of how life insurance policies can be utilized to benefit the policyowners. Names and identifying details have been changed, some are composite clients, but each story demonstrates the real benefits of *living* your life insurance.

### **Ben & Bernie's Story: Starting Up... A Challenge**

A young couple named Ben and Bernie learned about *Live Your Life Insurance* and invested every spare dollar in three different policies. They stuck with the strategy they had committed to, even though their friends and parents thought they were crazy.

They suffered through the first few years of premium payments with no reward — but then the policy exploded like popcorn. It formed the foundation that allowed them to invest in everything they wanted to for the rest of their lives.

The life insurance didn't make them rich, but everything else they were free to invest in did. It was the foundation of the life insurance that helped all their real estate deals work when they weren't cash-flowing by themselves. It was the life insurance that supported them while the stock market was on one of its many roller coaster rides. And it was the cash value of their life insurance that supported them through a couple of down years in their business and gave them a place to store liquid cash in the good times.

### **Mark & Mary's Story: Starting Up and Keeping Going**

Mark and Mary were good savers and had been putting money into his 401(k), dollar-cost-averaging into mutual funds, and faithfully paying their life insurance premiums. When his income decreased due to company restructuring, they dropped their dollar-cost-averaging approach. Around the same time, they moved so their daughter could attend a better school,

and since their company wasn't matching their 401(k) contributions, they were debating dropping those as well. (Money was getting tighter every month.)

They called us, concerned that the only money they would be saving was their life insurance premiums, which were now equal to 15 percent of their gross income. We looked at their policy and identified that, for every dollar they put in, the cash value was growing by a dollar and twelve cents, since they were in their fourth year and had not added any manual paid-up additions.

Mark acknowledged the \$10,000 he had put in his 401(k) had actually gone down to \$9,000, so one dollar was turning into 90 cents during that year. He knew that this may or may not continue the roller coaster ride. Mary had been wanting to start saving for her daughter's education and realized they could use the life insurance cash value to pay for her college just as well, if not better, than a government 529 plan. She remembered the concept of lost opportunity cost (see section "O" in the glossary) and knew if they used the 529 plan they would lose the opportunity for that money to contribute to their retirement funds. Conversely, if they used the life insurance cash value, they could borrow against it *and*, since it would keep growing, it would be able to contribute to their financial independence later on as well.

### **Phase 1 Questions for You to Think About:**

1. How could you get your own policy started? How much would you like to save on a monthly or annual basis?
2. Who could you use for the insured while you were the owner, if that's a better arrangement for your situation?
3. What assets or cash-flow streams of yours might be better placed through a life insurance policy than where they currently are?

## **PHASE 2 – The Leverage Opportunity Phase and Investment Capability Phase (Years 6-30 of the policy)**

This is the phase where you begin to USE your life insurance. It can begin as early as year 2 or as late as you like. Taking full advantage of paid-up additions can help you start this phase sooner than later. (They are optional but they help your policy build cash value faster.) Utilizing your life insurance in this phase can enable you to make better use of the game of financing (cars, vacations, etc.), as well as to make better investment decisions.

Now that you are past the start-up phase, you can see that every dollar you put into your policy is turning into more than one dollar of cash value. Not only does this increase motivation to keep funding the policy, it gives you opportunities for leverage and capabilities for investments.

### **Victor's Story: What Happens If I Can't Pay My Premium?**

Victor had just completed the two-year mark on his policy when his business slowed and he asked for an automatic premium loan (APL). (See M in the glossary.) He knew this would allow him to stop paying premiums out of his pocket, yet keep the money he had put in there and enable it to still grow while borrowing against it for the premium, literally recycling the money. Since there wasn't quite enough money in the policy for a month's premium, \$530, we asked the insurance company for an APL for \$500 and he wrote a check for \$30. The next month, the cash value had increased by \$500 (and he had a loan for \$500) and he wrote another check for \$30. This went on for about five months until he hit his policy anniversary date.

Viktor paid the interest out of pocket for the next twelve months on the \$2,500 he had borrowed (at 8 percent it equaled \$200) and then kept borrowing against the cash value to pay the premium. And during this twelve months, for every \$530 he borrowed, his cash value increased by \$610, so he could borrow against it again — thus increasing the loan and increasing the cash value at the same time.

A year later, his business picked back up again and he could start paying his own premium, which he did. Then, as he was able, he paid off the loan in larger lump sums when he had the cash. This built his policy back up so he could borrow again in a time of need or for an investment opportunity.

### **Kelly & Katie's Story: Leverage Opportunities**

Kelly and Katie had just borrowed against their policy for the first time to buy a new car when Kelly lost his job. Katie was at home with their babies and he wanted to be doing outside sales. It was a huge relief to them *not* to have to make car payments for awhile. Then, in his new job, when commissions started up, he paid extra to replace the borrowed funds. They ended up with a paid-off car, a paid-off (life insurance cash-value) loan, and quite a bit of cash because the value of their policy kept growing even though it had a loan against it.

Not only were they able to finance their own car, but they would have had that capability even if Kelly had lost his job before they acquired the car. Their life insurance allowed them to be independent of dealer and bank financing.

### **Sam & Sarah's Story: Investment Capability**

Sam and Sarah had bought four policies over ten years and borrowed against them to finance cars. During this time, they weren't able to save in a company-sponsored retirement plan because they had to move around the country, frequently changing employers.

They knew they had paid back their car loans, but had forgotten that the policies had also grown quite a bit beyond the payments. They had effectively financed their own private form of retirement savings. They ended up with all the cars and all the cash, because they borrowed against the cash value and paid it back, borrowed it again and paid it back again, and again and again.

Sam and Sarah were also not subject to the "golden handcuffs" of a company benefit package. In this way, their policies provided them with

freedom as well as prosperity. They were free to take the best positions without feeling tied down or having to wait for company 401(k) contributions to become vested.

### **John & Jane's Story: An Investment Opportunity and Starting a Business**

John and Jane had wanted to open a toy store for years. He had a sales job and she'd been home with the children while they researched various options. Finally, with a loan from the bank, they got started on their first store. It'd been open for about a year when an opportunity came along for a second store, but the bank wouldn't give them a second loan for the additional inventory. Their return on investment in the first store was over 20 percent, so they felt they could do the same in the new store if they could just get the inventory.

They had been faithfully funding their life insurance for seven years and were quite surprised to be reminded how quickly and easily they could borrow against the cash value. After buying the inventory they needed, they opened their second store and began paying back the life insurance loan from the sales right away. At the time, it was summer and sales were high. When winter came along after Christmas and sales were slow, they took a break from the payments, which they resumed again the next summer. After three summers of diligent loan payments, the loan against the cash value was paid off and they were able to use the cash value again for another investment.

### **Tom's Story: Investing with Borrowed Cash Value**

Tom loved real estate, but due to limited time he couldn't invest in it directly — so he chose to borrow against his cash value and put the money to use to make a higher return. While this may not be a strategy for everyone, he had real estate contacts and confidence in this series of steps, and the ideas may stimulate your own thinking.

Tom borrowed against his cash value, paying 8 percent to use the life insurance company's money while his own cash value kept on growing. He then loaned this money to a bridge-loan broker and was able to find a

14 percent loan to invest in. (Again, not for everyone, as it does involve potential risk.)

Since he had borrowed to invest, he was able to deduct the 8 percent against the 14 percent. Life insurance loan interest isn't always deductible. However, if the loan is used for a business purpose or investments and you can prove it, then the interest is deductible against the earnings from the investment (but not typically against earned income, so you'll want to check with your CPA on this issue).

Every month when his investment gave him an interest payment, he paid it to the life insurance company. Over time, his life insurance cash-value loan was paid off and he still had his investment.

The downside of this strategy is that if he had lost the money in the investment, he would still owe the life insurance company the money he had borrowed. For this reason, we never recommend borrowing to invest unless you are putting the money in a proven investment with predictable returns. And even then, if it causes you stress, don't do it! The old adage to "only risk what you could afford to lose" is something to consider.

The upside of this strategy was the substantial 75% annualized returns! Many people think that borrowing at 8% to earn 14% is a return of only 6%. That is incorrect. We have to think of the *cost* of money, not the *spread* between borrowing and lending to calculate the gain realized. If you think of a store purchasing a widget wholesale at \$8 and selling it at \$14, it is easier to understand. The 8% loan is the cost of money, and the 14% return is the profit.

The Truth Concepts calculator below demonstrates the return on this real estate deal (or the widget example).



Meanwhile, Tom's cash value remained in his policy and continued to earn about 5% while he borrowed against it, plus he enjoyed a tax-write off for the policy loan interest as well!

### The "Be the Bank" Strategy

Of course, you don't need to invest a bridge loan to put your cash value to use. Perhaps you know a teenager close to you who would love to be able to purchase a car but cannot qualify for financing, or a trusted friend or family member paying off high interest credit cards. If you financed the car or consolidated the debt and charged a 10% interest rate, this would be a 25% return on investment for you. (Again, proceed with caution!)

For further information and examples on how interest rates *really* work, search out my forthcoming book (due out the end of 2015), *Busting the Interest Rate Lies*. (It will be available on Amazon.com as soon as it is published.)

### Phase 2 Questions for You to Think About:

1. What loans do you now have that could be restructured to take advantage of borrowing against your policy's cash value instead of from a bank?

2. How would the ability to provide your own financing or fund your own financial freedom account give you greater independence and more choices?

3. What investment opportunities have you found that need a lump sum of money, yet you only have the ability to save a smaller amount every month?

4. Could starting a life insurance policy enable you to build the lump sum by saving what you can now?

## **Capsule Concepts in Part 2**

Borrowing and receiving dividends (if left in the policy) are tax-free events.

### **The CLUE Method**

*C = Control*

Start flowing money to yourself in an account you control instead of away from yourself in accounts you don't control.

*L = Liquidity*

Build wealth that cannot be taken away from you by the stock market or the real estate market rollercoaster rides, or because you no longer qualify to access "your" equity.

*U = Use*

Save money for later or purchase discretionary items now.

*E = Equity*

Create an account where you are benefiting from the ability to leverage, in a way that is better than paying cash, because paying cash is losing interest in an investment. (See glossary O: Lost Opportunity Cost.)

### **Process to borrow**

1. Call your insurance company or financial advisor.
2. Request the loan. (There is no approval process.)

3. Sign one form so they know it's you.
4. Receive your money in ten days.

### **Process to pay back**

1. Choose the method and time frame. (Again, YOU choose this.)
2. Pay back interest only, OR
3. Make monthly payments of principal and interest, OR
4. Make quarterly payments of principal only, OR
5. Make lump sum payments of principal only.

### **How can you get your money to do more than one job?**

Most people have each of their dollars only doing one job — retirement funding, educating their children, paying off their mortgage, etc. However, once you've learned how to live your life insurance, you can see how easy it is to get one dollar to do many jobs. We want our dollars to do multiple jobs because this helps our dollars be more efficient and *multiply*, thus growing more quickly.

(MULTIPLY is one of the 7 Principles of Prosperity™, See two of my other books, *Busting the Financial Planning Lies* or *Financial Planning Has Failed* for details on all 7 principles.)

So, as we close our cash-value section, let's see how life insurance is similar to real estate and how the two together can get one dollar to do sixteen or more jobs. Real estate ownership has eight main characteristics:

1. Mortgage payments
2. Property
3. Potential appreciation
4. Depreciation (if it's investment real estate, which gives you tax advantages)
5. Cash flow
6. Disposition
7. Leverage

8. Stepped-up basis to heirs (no tax)

Life insurance also has eight main characteristics that are very similar:

1. Premium payments (which, like mortgage payments, are one of the few things benefited by inflation)
2. Cash value
3. Death benefit
4. Waiver of premium
5. Increasing death benefit
6. Paid-up addition capability to increase cash
7. Leverage
8. Income tax-free to heirs

Both real estate and life insurance also grow and can ultimately be “sold” with minimal tax liability, as indicated by the eighth characteristic.

If you can borrow against your life insurance to buy real estate and use your real estate to pay back your life insurance loans, you’ve got one dollar doing about twelve to fourteen jobs. This is just an example, and you don’t have to combine life insurance and real estate to get one dollar to do many jobs, but the two do work very similarly and potentially synergistically. Furthermore, if you add the ways to *use* your death benefit while living, which we’ll cover in the next section, you add at least five or six more jobs.

By using the same dollar in a real estate vehicle we can create leverage, start an income stream, purchase an appreciating asset and pay down a mortgage, thus our dollars can do more for us. Similarly, we can harness whole life insurance to grow an emergency fund, save for new cars, pay college tuition, create future income for ourselves and leave a legacy for our loved ones.

## Part 3 – Using Your Death Benefit While You Are Alive

### PHASE 3 – Spending Other Assets (Years 20-40 of the policy)

This is the cross-over between Part 1 and Part 2, between using your cash value as a cash account to borrow against and using your death benefit to borrow against. Typical ages of those insured during this phase are the 60s, 70s, and 80s, and how you use your life insurance at this point will depend on how long you've had it, as well as how many dollars are currently borrowed against it.

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*“The first beneficiary of a life insurance policy should be the owner.”*

– Bob Ball, trainer extraordinaire to life insurance agents nationwide

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If you knew that when you reached age 80 or so you would be given a large sum of money or a guaranteed stream of income that would last the rest of your life, would you act differently between ages 60 and 80?

Of course you would! You might do any or all of the following:

- A. Spend down the rest of your assets
- B. Mortgage or reverse-mortgage your home
- C. Give away more to charity to increase your tax deductions

... and in doing any of these, you'd be living your life insurance. Let's take a closer look at these examples.

### **The Prosperity Couple vs. the Poverty Couple**

Now, let's explore strategy A, spending down your assets (illustrated in Table 1 on the next page):

# Distribution

**Account Value: 1,000,000**  
**Earnings Rate: 5.00%**  
**EOY Withdrawal: (77,996)**  
**Withdrawal Increase: 0.00%**  
**Tax On Earnings**

**Illustration Period: 21**  
**State Income Tax: 0.00%**  
**Federal Tax Bracket: 35.00%**  
**Tax Credit For Losses**

**Account Value: 1,000,000**  
**Earnings Rate: 5.00%**  
**EOY Withdrawal: (50,000)**  
**Withdrawal Increase: 0.00%**  
**Tax On Earnings**

Year	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Tax Payment	Net Spendable	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Tax Payment	Net Spendable	Compare Dist. 1-Dist. 2
1	1,000,000	5.00%	(77,996)	(17,500)	60,496	1,000,000	5.00%	(50,000)	(17,500)	32,500	27,996
2	972,004	5.00%	(77,996)	(17,010)	60,986	1,000,000	5.00%	(50,000)	(17,500)	32,500	28,486
3	942,608	5.00%	(77,996)	(16,496)	61,500	1,000,000	5.00%	(50,000)	(17,500)	32,500	29,000
4	911,742	5.00%	(77,996)	(15,955)	62,041	1,000,000	5.00%	(50,000)	(17,500)	32,500	29,541
5	879,333	5.00%	(77,996)	(15,388)	62,608	1,000,000	5.00%	(50,000)	(17,500)	32,500	30,108
6	845,304	5.00%	(77,996)	(14,793)	63,203	1,000,000	5.00%	(50,000)	(17,500)	32,500	30,703
7	809,573	5.00%	(77,996)	(14,168)	63,829	1,000,000	5.00%	(50,000)	(17,500)	32,500	31,329
8	772,055	5.00%	(77,996)	(13,511)	64,485	1,000,000	5.00%	(50,000)	(17,500)	32,500	31,985
9	732,662	5.00%	(77,996)	(12,822)	65,175	1,000,000	5.00%	(50,000)	(17,500)	32,500	32,675
10	691,299	5.00%	(77,996)	(12,098)	65,898	1,000,000	5.00%	(50,000)	(17,500)	32,500	33,398
11	647,868	5.00%	(77,996)	(11,338)	66,658	1,000,000	5.00%	(50,000)	(17,500)	32,500	34,158
12	602,265	5.00%	(77,996)	(10,540)	67,456	1,000,000	5.00%	(50,000)	(17,500)	32,500	34,956
13	554,382	5.00%	(77,996)	(9,702)	68,294	1,000,000	5.00%	(50,000)	(17,500)	32,500	35,794
14	504,105	5.00%	(77,996)	(8,822)	69,174	1,000,000	5.00%	(50,000)	(17,500)	32,500	36,674
15	451,315	5.00%	(77,996)	(7,898)	70,098	1,000,000	5.00%	(50,000)	(17,500)	32,500	37,598
16	395,884	5.00%	(77,996)	(6,928)	71,068	1,000,000	5.00%	(50,000)	(17,500)	32,500	38,568
17	337,682	5.00%	(77,996)	(5,909)	72,087	1,000,000	5.00%	(50,000)	(17,500)	32,500	39,587
18	276,570	5.00%	(77,996)	(4,840)	73,156	1,000,000	5.00%	(50,000)	(17,500)	32,500	40,656
19	212,403	5.00%	(77,996)	(3,717)	74,279	1,000,000	5.00%	(50,000)	(17,500)	32,500	41,779
20	145,027	5.00%	(77,996)	(2,538)	75,458	1,000,000	5.00%	(50,000)	(17,500)	32,500	42,958
21	74,282	5.00%	(77,996)	(1,300)	76,696	1,000,000	5.00%	(50,000)	(17,500)	32,500	44,196
<b>TOTAL</b>	<b>0</b>	<b>5.00%</b>	<b>(1,637,918)</b>	<b>(223,271)</b>	<b>1,414,647</b>	<b>1,000,000</b>	<b>5.00%</b>	<b>(1,050,000)</b>	<b>(667,500)</b>	<b>682,500</b>	<b>732,147</b>

We have two theoretical couples of similar ages, with the same set of investment products purchased over the years, culminating in the following scenario. All four people are age 60, with “The Prosperity Couple” having \$1 million of paid-up whole life insurance and “The Poverty Couple” having just canceled their term insurance. Both couples have a \$3,000-per-month pension, \$1 million of real estate equity, \$1 million of taxable certificates of deposits, and are in the 35 percent tax bracket.

From ages 60–80, The Prosperity Couple on the left spends down their CDs so they are gone by age 80, uses their life insurance, is confident and thinking from abundance, and at age 80, places their home (they wanted to downsize) in a charitable remainder trust, increasing their income and yet insuring their children get some cash at their death.

From ages 60–80, The Poverty Couple on the right takes only interest off their CDs, ignores their life insurance, is fearful and thinking from scarcity, and at age 80, would like to give more to charity but are afraid of running out of money and having to rely on their children and don’t want to sell their “large” home for fear of paying so much in capital gains tax.

From ages 60–80, The Prosperity Couple has \$732,147 more income over the 21-year period. (See far right column.)

This difference is calculated by looking at The Poverty Couple’s interest-only income of 5 percent x \$1,000,000 for a \$32,500 net income versus The Prosperity Couple’s “pay down of principal plus interest” income of \$60,496 in the first year growing to \$76,696 in the twenty-first year. Obviously, The Poverty Couple will still have their \$1,000,000 and The Prosperity Couple won’t; however, The Prosperity Couple goes on to use any of the other strategies listed here to continue their income. Also notice in the table on the previous page how much less tax The Prosperity Couple paid due to this pay-down or spend-down strategy.

Now, let’s look more closely at strategy B, mortgaging or using a reverse mortgage on your home:

At age 80, the couples could also reverse-mortgage their homes to increase their income further. This would be done instead of donating the home to the Charitable Remainder Trust as above so they could keep living

in it. (Reverse mortgages provide tax-free income, especially effective when paired with a life insurance policy to pay off the debt upon death.)

At age 90, they could start taking out life insurance dividends in cash to offset inflation. And at age 95 or 100, they could sell their life policy if wanted or needed, using the money to supplement their income, hire an assistant, fund a retirement home, or for any reason they choose.

Selling your life insurance policy is typically known as a “Life Settlement.” This is done in a confidential, escrow-controlled environment in which investors buy your policy — paying you more money than the insurance company might in net cash value, but less than the death benefit. One might also use a bank or a private individual to accomplish this, basically leveraging the death benefit in advance.

Lastly, let’s have a look at strategy C, give away more to charity to increase your tax deductions:

Knowing you’ll have increased income due to the strategies to be presented in Phase 4, you may choose to give away higher amounts earlier — which would increase your deductions, enabling you to pay less tax and consequently have a higher income.

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*“Producers understand the best way to reduce their insurance cost (not price) is to buy as much of it as possible, because every moment you spend worrying about loss is a moment that you are not thinking productively, and that moment cannot be recaptured.”*

— Killing Sacred Cows by Garrett Gunderson

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### **Phase 3 Questions for You to Think About:**

1. Who do you know who is living only on interest because they are afraid to spend their principle?
2. How could your home and even your mortgage become tools to give you access to greater cash flow in your later years?
3. What steps could you take today so that you could act like The Prosperity Couple?



## **PHASE 4 – Using the Death Benefit or Face Value (Years 41-50 of the policy)**

There are seven ways you can use your death benefit or face amount while you are living. These can be combined or used as stand-alone strategies.

As noted in Part 1, life insurance helps people from a wide variety of financial backgrounds. For modest income earners the premium payments become an important strategy for forced savings. Also, medium income earners end up with more dollars saved outside the policy because of the CLUE account flexibility and the lack of a financial roller coaster impacting them. Lastly, life insurance helps those with larger amounts of money as they head into retirement age by enabling them to spend their own assets more efficiently. This last group could have \$1 million or \$1 billion, but the concepts are still the same.

Following are seven examples of how to use your life insurance death benefit while you are living. As you read them, consider how having many smaller policies is actually better than one or two large ones, because you can do all seven of these strategies with that number of policies.

### **1. THE SPEND-DOWN**

Typical retirees spend only interest, leaving their principal in the hands of the financial institutions. Guess who benefits from this? The institutions and the government do, and you don't! See Table 1 on page 26 where we show you how much the government gets in taxes while you leave your principal at the institution in a taxable account. This happens in a tax-deferred account as well; it's just less dramatic since we don't see it happening every year, because the problem is deferred.

Instead of leaving your dollars at the mercy of taxes and fees, you can purposely take out interest and a portion of principal every year in what is called a spend-down or a pay-down. When you do this, you receive more money, pay less tax, and leave fewer dollars in control of the financial institution.

This strategy should first occur with all qualified plan monies like 401(k)s and IRAs, as well as any SEPs, Simple IRAs and 401(k)s. Believe it or not, the Qualified Plan (IRA, etc.) is the last asset you want to die with! Many advisors recommend continuing to defer these accounts, and for some that may make sense, but every client whose situation we've looked at will end up with more money to spend and more to give away if they will pay down these accounts.

Secondly, spend down all taxable accounts like CDs, money markets, stock accounts, mutual funds, bonds, etc. If you are unsure of your time frames (like the 21 years we used on page 22), we suggest you take an 8 percent withdrawal. Most planners would suggest 4 percent or 6 percent, but this is not sufficient to remove enough principal. If 8 percent won't zero out the account in twenty years or so, then we suggest using an even-higher interest rate.

This spend-down strategy requires a Phase 4, which is what to do after you've spent all your money and have nothing left in liquid accounts. The various options in Phase 4 are the following ways to use your death benefit while you are living. Again, you could use them separately or together. This can be a tricky concept to understand, so get help from someone who can clearly explain it to you before you are ready to make decisions. If you are in your 20s, 30s, or 40s, all you need to remember is: "I can use my life insurance death benefit when I'm in my 80s."

### **Pat & Pam's Story: Using Their Death Benefit While Living**

Pat and Pam drove their ninth brand-new car down the road, talking about how they remember when they learned the most-efficient way to purchase and finance cars, some thirty years earlier. Their bumper sticker read: "We are spending our kid's inheritance and giving it to them, too." As they joined their friends for dinner, Pat explained they were able to spend their own assets more freely, knowing there would be a death benefit left over for the kids and grandchildren.

## **2. REVERSE MORTGAGE**

Remember, the value of a house is two-fold: a place to live and a potential asset that can be sold, leveraged against, or passed on to children or grandchildren. If you combine a reverse mortgage with life insurance, your cash flow will increase and your heirs will be better off (with more flexibility) after you pass on. Implementing a reverse mortgage to obtain a tax-free income from your paid-off (or almost paid-off) home is an efficient use of a lazy asset — if you can see the benefits and stop worrying about paying off your home.

This strategy increases your debt, but also allows for the life insurance death benefit to then pay it off, if you choose. Some people struggle with the moral ramifications of the concept or their own expectations of having a "paid off home," even though it's been a viable strategy for years.

Not all mortgage brokers are familiar with these loans, so look before you jump. (We can make a recommendation if you can't find a broker who is experienced with reverse mortgages.) Also be well aware that even if your mortgage payment vanishes or turns into an income stream with a reverse mortgage, you will still be responsible for property taxes, homeowner's insurance, and maintenance.

## **3. TAKE LIFE INSURANCE DIVIDENDS OUT IN CASH NOW**

This is a strategy to use later in life. Switch from using dividends to purchase paid-up additions to having them paid out in cash. This can supplement your income, which may mean the difference between a trip in the car and a trip in a plane — or more importantly, the difference between just surviving and really living. The annual dividend can be taken in tax-free cash, up to your basis. "Basis" is defined as the total amount of money you've paid as premiums and paid-up additions. If you exceed your basis, then your dividend (if taken in cash) will be taxable, although you could switch to loans at that time and avoid having the income stream taxed, according to current I.R.S. law. We suggest you still make the premium payment every year to enable the dividend to keep rising and keep up with inflation, but depending on your circumstance, this may not be necessary.

#### **4. PENSION MAXIMIZATION**

This suggests a strategy for those of you with defined benefit-style pensions whereby you must make a choice between taking income during just your life (single-life payout) or during two lives (joint-life payout). If you have life insurance in force, you can take the higher payout (single-life), knowing that when you die, your spouse will get the death-benefit money and can turn that into an income stream (to replace what may have been the pension income).

There are situations where this pension maximization strategy can be used with social security payouts as well.

#### **5. LEVERAGING THE BENEFIT BY SELLING IT**

The purchaser can be a public company or a private party, or you can use it as collateral. In the first instance, you sell your policy to a life settlement company, which specializes in buying death benefits for more than the insurance companies pay for them. Typically, life settlement companies investors are looking for policies of someone with in their 80's or beyond with a life expectancy of 1-7 years. Universal life policies are popular with these companies because they tend to have low cash values, therefore they can be bought for less.

The amount your insurance company would give you is the "current net cash value surrender amount," which is the cash-value account you've been using all along. The life settlement may be more, depending on your age and health at the time. Likewise, you could do the same with a private party or a family member who was willing to take the risk. (We always recommend discussing decisions with your children, they may make you a better offer in order to keep the assets in the family!

Selling your death benefit to a company or a private party ends your control of the policy in any form, just as selling a deed to a real estate asset ends your control of the property.

Lastly, you could also use the death benefit as collateral. Remember, at this point, we are discussing the phase of your policy when you are in your 80s, 90s, or beyond. So, at that age, you could go to a bank or private individual and assign to them some or all of your death benefit in exchange

for lending you some cash. This would leave you in control and with the ability to pay them off at any time and gain control over your policy again. Finally, when you die, they would be paid off and your family would receive the rest of the death benefit.

## **6. THE CHARITABLE REMAINDER TRUST (CRT)**

This is a way to sell a highly appreciated asset (like stocks, real estate, or a business) through a charity without paying as much capital gains tax as if you sold it directly. Here's a very simplified CRT process:

- 1) Give the asset to a charity;
- 2) Get a deduction for the gift;
- 3) Let the charity sell the asset;
- 4) The charity then invests the money and
- 5) Pays you an income stream.
- 6) The charity gets the remainder of the money when you die, and
- 7) Your family gets the life insurance instead.

In this process, step 5 would be the way you'd use your death benefit while you were living. Most people wouldn't follow this strategy if it meant their family would get nothing, but by having your life insurance in place, your family is made "whole" in step 7.

Charitable Remainder Trusts can work especially well with homes, businesses, and assets that are "hard to share," particularly if heirs live in different parts of the country and have varying interests. By utilizing life insurance as an "equalizer," this strategy can help prevent family feuds as well as reduce taxes, provide income, and contribute to a worthy cause.

## **7. ANNUITIZE THE POLICY**

You can annuitize the policy with the insurance company that is providing it. Most insurance companies will provide this option, but it's one you'd want to do quite late in life as it's irrevocable, and with some types of annuities, the older you are, the more monthly income you can receive.

You will pick a timeframe: 10 or 20 years, life expectancy, or life plus a certain amount to the beneficiaries. Then, the insurance company will guarantee you a certain amount of income for the timeframe you pick. It would be an alternative to selling it to a third party like a life settlement. This strategy also works well when you have multiple policies.

#### **Phase 4 Questions for You to Think About:**

1. Who do you know sitting in a paid-off home that doesn't have any cash flow to enjoy life?
2. Who do you know getting ready to make a major decision about their pension plan and how to take income from it?
3. Who do you know who owns a life insurance policy and isn't sure what to do with it?
4. Who do you know with a highly appreciated asset, but they're afraid to sell it because of the high tax liability?

### **PHASE 5 – Setting Up the “Family Bank” (Years 51+ of the policy)**

Ideally, you'll die late in life with (1) most of your assets used up and (2) your entire net worth, at its highest point, paid to your family and charities in the form of an income tax-free death benefit from the life insurance you own. Do remember the “right” amount of life insurance is fifteen to twenty times your income - your human life value - or one times your net worth, whichever is greater.

With proper estate-planning documentation, this lump sum of cash could create a “family bank” whereby your grandchildren and great-grandchildren could borrow sums of money to pursue opportunities. This is the way wealthy families stay wealthy for generations — they replace their assets at each generation's passing and buy life insurance at each baby's birth.

Your family's bank can have a Board of Directors or Trustees that make loan decisions. Ideally, each borrower should sign promissory notes, pay

interest and principle, and generally treat the asset like they would a commercial bank's (penalties included!).

How specific you wish to design your family bank is up to you. And the legal document itself that governs the family bank is generally a changeable trust until you die, at which point it becomes irrevocable. You can also leave specific amounts of the death benefit to charity or particular family members based on your desires.

**An Important Note about Estate Planning:** Most estate planning focuses on the estate tax as the main issue. As a result the estate doesn't maximize because typical estate planning *reduces* the value of the estate. The Prosperity Economics approach is to grow the estate as big as possible, pay some estate tax, but also end up with more money. Think through this question: Would you rather have a bigger estate and owe some tax or have a smaller estate and not owe any tax?

#### **Phase 5 Questions for You to Think About:**

1. Would you like to be able to set up your family with a banking opportunity they can use while you are living as well as when you are gone?
2. Do you have charities you'd like to continue to support after your death?
3. Are you curious about the various ways to use your life insurance while you are living? Then contact the people who suggested this book and they'll show you specific ways that would work for your situation so you could use your life insurance, too.

## Part 4 – Glossary

### Don't skip this part!

As we mentioned in the beginning, this little book is the missing owner's manual for your whole life policy. This glossary will help you understand the "moving parts" of your policy, and how they work together. Some of the terms also serve as a review of some of the concepts covered in the first three parts of the book.

### Working parts definitions:

- A. Premium
- B. Cash value (guaranteed portion)
- C. Dividends that purchase automatic paid-up additions (PUAs)
- D. Gross cash value = (b + c) (though some insurance companies call this net cash value)
- E. Automatic paid-up additions
- F. Manual paid-up additions
- G. Waiver of premium
- H. Death benefit or face amount
- I. Increasing death benefit
- J. Interest charged on borrowed cash value
- K. Owner
- L. Insured
- M. Automatic premium loan (APL)
- N. Reduced paid-up (RPU) policies
- O. Opportunity cost
- P. Internal rate of return

### A. Premium

The monthly or annual payment you make to the insurance company that goes into your account and also pays for the death benefit. It helps self-impose discipline, and helps money move (which is a critical principle in causing it to grow). The effect is that one premium dollar will do at least



five jobs: build cash value, create dividends, maintain waiver of premium (see G), increase the death benefit, and provide the ability to leverage.

### **B. Cash value**

For whole life, a guaranteed dollar figure, which is the amount in the account (not a guaranteed interest rate). This account is guaranteed to increase every year, even if the company does not pay a dividend. A new “floor” (minimum) is set annually on your policy anniversary date, and it can never go down as long as either you or your cash value or your dividends are paying premiums.

### **C. Dividends**

An amount paid to you for being an owner of the policy, or if the life insurance company is “mutual” instead of “stock,” for being an owner of the company. The word “dividend” in this context is a confusing term since it does not perform like a stock dividend. Once policy dividends have been paid, they become part of the guaranteed cash value, which increases on a guaranteed basis every year, even if no dividends are paid.

There are many ways to use dividends; most companies have at least twenty options to choose from and you can change them as often as you like. The best option in the early years is generally automatic paid-up additions (see E), which automatically increase the cash value, the death benefit, and future dividend-earning capability.

Dividends are not taxable as long as they are left in the policy to buy more paid-up additions (see E). They also are not taxed when borrowed against. And they are not taxed upon withdrawal until you exceed your basis (the amount of premium you’ve put in plus any manual paid-up additions you’ve added).

### **D. Gross cash value**

This is B plus C, the amount you can borrow against. This is your account, 100% owned and controlled by you. Recall the CLUE method from page 16: Control, Liquidity, Use, Equity.

**CONTROL:** You own it, you control it, you say when, you say how much, who, how often, and why. The size of your contributions, your access to funds, and the potential use of the money is not determined by the government, a bank, or your credit score.

**LIQUIDITY:** This account is 100% liquid within ten days at most insurance companies. (Note, there may not be much net cash value in the first few years of the policy, but whatever is in there is 100% available.)

**USE:** Even if you never move a dollar, your cash value account is the single most-efficient and effective place to store money. It's efficient because it grows in a tax-deferred manner (taxable only if you cancel), and it's effective because you can borrow against it while it still grows at the gross value. It's the best place to store "peace of mind" money.

And like a Swiss Army knife or a Smartphone, you can use your account in multiple ways, such as:

- emergency savings;
- an entrepreneurial "opportunity fund" such as liquidity for a down payment, bridge loan, or purchase of a cash-flowing rental property;
- liquidity for business financing, lease purchases, etc.;
- a hedge against risk such as mutual funds you may still hold in a retirement plan;
- a college savings plan that won't decrease your child or grandchild's opportunity to qualify for financial aid.
- money to finance your own (or even someone else's) purchases or to consolidate higher interest debt;
- an income source that allows you the ability to sequence the spend-down of your other assets more efficiently;
- a simple, tax-efficient way to pass money to heirs, before or after your death.

**EQUITY:** Just think real estate. Equity in real estate is leverage-able. You can borrow against it, but the underlying asset just keeps on growing, unaffected by the debt. This is the single most misunderstood aspect of this product. You borrow against it, but you don't take it out. The net cash

value is what is left over to still borrow. For example, if you have \$100,000 of gross cash value and you borrow \$40,000, your account will still grow as if it were \$100,000, not \$60,000.

*NOTE for E and F: The terms “automatic” and “manual” are mine. Insurance companies don’t use them, but I have here in order to help you understand what your opportunities are.*

### **E. Automatic paid-up additions**

These are what dividends buy and they do so automatically (assuming you choose this as your dividend election). The dividend purchases a paid-up (meaning no more premiums are due) miniature policy (that gets added to the base policy) that has cash value, dividends and death benefit that all increase annually.

Think of it like a fruit tree that grows from a sapling to a large fruit-bearing tree. There is the trunk of the tree, then each new branch adds potential for the tree to produce more fruit. Together, the trunk, branches and fruit grow exponentially in a compound way.

We like paid-up additions (automatic or manual) because they allow you to put more cash into the policy and have it be liquid almost immediately. It’s like grafting a new branch onto the tree!

### **F. Manual paid-up additions**

These are cash payments that can be added on an optional basis. They act in the same way as automatic paid-up additions, allowing you to increase your cash value more quickly, as well as adding to your death benefit. Some companies are more flexible with this than others. Some allow monthly payments, others only annual. Some require a little (\$100) to keep the door open (use it or lose it), whereas others don’t. Regardless, this is a manual environment, one you control 100 percent within the guidelines of the company and the I.R.S.

One important point: There can be too much of a good thing. Add too much money in manual paid-up additions and your life insurance policy

(with very effective tax law) will become a Modified Endowment Contract – MEC (with less-than-effective tax law). So make sure you know your particular company’s interpretation of the I.R.S rules and stay within them. This should pique your curiosity: If the I.R.S set a rule about the maximum amount of money you could put in a certain place, then maybe that place has some value.

### **G. Waiver of premium (WP)**

Not everyone gets approved for this, so if you do, you should accept it. It pays the premium (and sometimes depending on how it’s structured, the manual paid-up addition rider as well) if you become disabled for a minimum period of time, depending on the company. The waiting period is usually six months and the pay-out period often extends to age 60 or 65 with various definitions of disability.

Waiver of Premium is *not* disability insurance, but rather a rider that will let your life insurance continue growing and having new premiums added to it, if you are disabled and not able to add them yourself. It increases economic certainty because of the “self-completing” nature of the coverage. While premiums are being paid under the WP rider, the cash value and death benefit continue to rise and dividends could be taken in cash to supplement any other income.

It’s interesting to note that if you have term insurance with WP on it, most insurance companies will allow you to convert to whole life upon disability. What does that say about which is less expensive in the long run?

### **H. Death benefit or face amount**

Death benefit is just what it implies: you die, and the company pays. However, since that chance is statistically unlikely in the early years, we’ll just be grateful for the peace of mind that comes from knowing our loved ones will be cared for monetarily if we go early. “Face amount” is just another term for the same thing.

## **I. Increasing death benefit**

In most whole life policies, the death benefit or face amount increases every year. This benefit can be defined by one word: inflation. With medical and scientific advances, it's possible some of you will live 100 more years. You might think 5 percent inflation is high; however, we aren't talking about the government standard here, but your standard — for which things like travel, top-notch medical care, and schooling increase at a much faster pace. You'll want your death benefit to be increasing at a fast pace.

## **J. Interest**

The amount the insurance company charges you when you borrow their money. Yes, you are borrowing THEIR money; your cash value is the collateral. Borrowing against your cash value has an interest cost usually between 5 percent and 8 percent, depending on the company. In our research, we've found it doesn't really make as much difference as you'd think. The lower loan interest rate that life insurance companies often use is a variable rate (versus a fixed, but higher interest rate). See also the "direct recognition" section at the end of the glossary.

Do you want the companies you do business with to be profitable? Do you think insurance companies, banks, mortgage companies, and brokerage firms move their money all the time versus putting it in accounts and letting it sit there for 30 years? Since you probably answered yes to both questions, let's think about *why* the insurance company charges you interest when you borrow against your cash value or CLUE account. The most common question is, "Why do I have to pay interest to use my own money?" The answer is, you don't.

You can withdraw your money out of the life insurance net-cash-value account and go on your way. *Or* you can leave your money in there to grow and borrow the insurance company's money collateralized by your cash value, similar to a CD-secured loan. You pay the insurance company an interest rate for the use of their money. The cash-value account is yours to do as you want. The insurance company will pay you dividends on your policy based on the gross cash value, regardless of whether there is a loan

against the cash value or not. If you choose not to collateralize your account and get it to do more jobs (see page 17), the insurance company will collateralize it among their general account assets and use it to do many jobs for them.

“Why pay 8 percent to a life insurance company when I can borrow at 6 percent from a bank?” you may ask. Micro-economically, looking at the question in a vacuum, you shouldn’t. But *macro*-economically, looking at the big picture, sometimes paying a higher interest rate is worth the increase in flexibility. Since you control the loan at the life insurance company (unlike at the bank or car dealership), choosing to pay 8 percent gives you freedom and flexibility to skip payments or take longer if necessary to pay it back. Not that you should, but at least you have the freedom to.

You also have the freedom to use your policy as collateral and seek a lower interest rate from the bank. In the current low-interest rate environment, this could be a desirable option, particularly if your credit is excellent.

“Why pay 15 percent back to my insurance company when they only charge me 8 percent?” If the marketplace is charging 15 percent for an equipment loan, yet you can borrow at 8 percent, then paying the 7 percent difference to your policy in the form of a manual paid-up addition will enable you to profit from the financing deal like a bank would. You can literally pay the difference every month or save it up and add it annually. True Family Banking (see phase 5) would require that 7 percent difference to be fair and square with the marketplace, which is where your economy operates.

## **K. Owner**

This is usually the person who pays the premium, definitely the only person who can borrow against the cash value and control all of the working parts, and often (but not always) the insured.

## **L. Insured**

The person upon whom the policy is written. When this person dies the death benefit is paid. If the insured is not the owner, the insured does not have any rights to the policy. However, the owner may give the policy to the insured at some point in the future without any transfer for value. (Think about starting this type of policy on your child for a future gift.)

## **M. Automatic premium loan**

It may go by a different name at different companies, but this feature can help you in times of cash-flow challenges by literally recycling cash value to pay premiums and then increasing the cash value. It works the same way as a regular loan, but instead of the money going to you, the money goes to the life insurance company to pay the premium so your cash value increases and your loan increases. It's a strategy to use for a few years while you get back on track, not one to use forever.

## **N. Reduced paid-up**

This is the "end of the rope" savior in the event that cash flow simply dries and you don't see a light at the end of the tunnel for many years. The insurance company reduces your death benefit and makes your policy "paid up" so no more premiums are required nor allowed. It's not a strategy you can undo, but it will keep you from losing the money you've paid in so far.

## **O. Opportunity cost**

Opportunity cost is what you lose when you let dollars go unnecessarily to a financial institution or the government, or sit unproductively when they could be earning interest. Paraphrasing Heymann and Bloom in *Opportunity Cost in Finance and Accounting*, "the value of a resource is determined by its use in the best alternative given up."

Remember Mark & Mary's story about educating their children from page 26? If they had used a 529 plan, they would have given that money to the college and it would have been gone — causing themselves a large

opportunity cost because that money and all its growth was at the college instead of in their own accounts. However, by borrowing against life insurance cash value or real estate to pay for their children's education, Mark and Mary can educate their children *and* keep the asset growing.

### **A Note on Direct Recognition**

There are two different methods insurance companies use to handle the loaned cash value — direct recognition and non-direct recognition. In a non-direct recognition company, the earnings rate on cash value is totally unaffected by any loans against cash value. In a direct recognition company, the earnings rates on loaned cash value are affected both positively and negatively when the cash value is used as collateral.

Generally, the loaned cash value has a dividend rate that is a certain number of basis points lower than the interest charged on the loan. So if the current-dividend-crediting rate is less than the direct-recognition-crediting rate, then the cash value is affected positively. If the current-dividend-crediting rate is greater than the direct-recognition-crediting rate, then cash value is affected negatively.

For example, let's say the current-dividend-crediting rate is 6.5 percent, and the loan rate is 8 percent with all loaned cash value getting a "100 basis point" (1 percent) reduction from the loan rate (bringing it down to 7 percent). That being the case, since 7 percent is obviously greater than 6.5 percent, borrowing against your cash value actually improves your situation because your dividend-crediting rate will be at 7 percent for the borrowed cash value and 6.5 percent for the non-borrowed cash value.

After all the analysis we've done on many companies and policies, we've found either way works just fine. Maybe consider having both!

### **P. Internal Rate of Return**

The internal rate of return on a policy is what the policy cash value is earning, after costs such as death benefit, commissions, and other policy expenses. As of this writing in 2015, that is between 4 and 5% per year. What you can count on is it always being a few percentage points above



what a bank would pay on similar liquid accounts like savings and money market accounts.

## Conclusion

We've discussed the four major parts of living your life insurance. The first is understanding the concept of building wealth for life using life insurance, a centuries-old financial vehicle that has stood the test of time. A cash value life insurance policy is an asset that will pay dividends of many kinds over your lifetime and beyond.

The second part is establishing a "CLUE" account and using the cash value. This can be done from age 1 to age 81 or so. The cash value can stay in the policy and be your liquid "peace of mind account" or be borrowed against and used for other kinds of leveraged opportunities or investments.

Then, depending on age, health, and other financial instruments you have at the time, you switch focus to the death benefit, generally around age 75 or 80 or even 90. And you literally live your life insurance by using the death benefit while you are living. The seven strategies we covered in that section can be used alone or combined with each other to produce an income stream that is usually higher, due to less tax, than you could have without the life insurance death benefit.

Finally, we have given you a glossary of terms in plain English so you can truly understand what those statements from your life insurance company mean. And you'll know how to ask for what you want if you end up dealing with an 800-number rep (because the person who sold you the policy is no longer around). It is so important to keep policies in force, and in order to do that, you must understand what is happening to them. Since this is one financial product you will literally use your whole life (hence the name of the product) you will want to take the time to learn all the working parts.

You'll now start to see life insurance differently. Not as something for dying, but as something for living. Not as a policy to sit in a drawer, but as a tool to be used to make your life better. It's something to be funded and used, not denigrated and viewed as a necessary evil.

If you have questions about how to make this work for you, get back to the person who referred you to this book. Or if you are a client of Partners

for Prosperity, LLC, call us at 877-889-3981 or visit us at [www.partners4prosperity.com](http://www.partners4prosperity.com) and ask for a review.

We close our book with the following quotation from *The Richest Man in Babylon* by George S. Clason:

**The sixth cure, of seven — “insure a future income”**

Surely when such a small payment made with regularity doth produce such profitable results, no man can afford not to insure a treasure for his old age and the protection of his family, no matter how prosperous his business and investments may be.

I would that I might say more about this. In my mind rests a belief that some day wise-thinking men will devise a plan to insure against death whereby many men pay in but a trifling sum regularly, the aggregate making a handsome sum for the family of each member who passeth to the beyond. This do I see as something desirable and which I could highly recommend. But today it is not possible because it must reach beyond the life of any man or any partnership to operate. It must be as stable as the king's throne. Some day do I feel that such a plan shall come to pass and be a great blessing to many men, because even the first small payment will make available a snug fortune for the family of a member should he pass on.

But because we live in our own day and not in the days which are to come, must we take advantage of those means and ways of accomplishing our purposes. Therefore do I recommend to all men that they by wise and well thought-out methods do provide against a lean purse in their mature years. For a lean purse to a man no longer able to earn or to a family without its head is a sore tragedy. This then is the sixth cure for a lean purse: Provide in advance for the needs of thy growing age and the protection of thy family.

## Additional Reading

*Pirates of Manhattan*, Barry Dyke, 555 Publishing, 2007

*Becoming Your Own Banker: Unlocking the Infinite Banking Concept*, R. Nelson Nash, Infinite Banking, 2006

*Beyond Majority Thinking: Helping Remove Uncertainty from Your Financial Future*, Ronald Schutz, SMART Press, 2002

*Learning to Avoid Unintended Consequences*, Leonard Renier, Infinity Publishing, 2003

*The Richest Man in Babylon: The Success Secrets of the Ancients*, George S. Clason, Signet Publishing, 1988

*Opportunity Cost in Finance and Accounting*, H.G. Heymann and Robert Bloom, Quorum Books, 1990

*Killing Sacred Cows: Overcoming the Financial Myths That Are Destroying Your Prosperity*, Garrett Gunderson and Stephan Palmer, Greenleaf Book Group LLC, 2008

*Confessions of a CPA: Why What I Was Taught to Be True Has Turned Out Not to Be*, Bryan S. Bloom CPA, Infinity Publishing, 2011

*Confessions of a CPA: The Truth About Life Insurance*, Bryan S. Bloom CPA, Amazon Digital Services Inc., 2014

*Financial Independence in the 21<sup>st</sup> Century*, Dwayne and Suzanne Burnell, FinancialBallGame, 2014

## About the Author

**Kim D. H. Butler** is a leader in the Prosperity Economics Movement, and an often-interviewed expert on whole life insurance and alternative investments. She has also authored *Busting the Financial Planning Lies*, which explores the difference between “typical” financial planning and strategies used by the wealthy to create prosperity, and *Busting the Retirement Lies*, a handbook for re-thinking retirement, both financially and culturally.

Kim got her start in banking and then worked as a financial planner, obtaining her Series 7 and Series 65 licenses, and her CFP® designation. But she grew disillusioned over time, realizing that the practices of typical financial planning were irrelevant, misleading, and even harmful! The projections and assumptions of typical financial planning gave clients a false sense of security, but no guaranteed results. Recommended strategies subjected money to more future taxes, and put it under the use and control of others. Worst of all, the system *rewarded* planners when they convinced clients to put (and keep) their money at risk!

Driven to find a better way, Kim studied the commonalities between wealth builders. She observed what worked and what didn't work in the real world, and found synergy between strategies that followed certain principles. These common principles later became the 7 Principles of Prosperity, a foundation of the Prosperity Economics Movement.

In 1999, Kim left her established company and created Partners for Prosperity, LLC dedicated to the principles of Prosperity Economics. Butler is also a mentor to many as an associate coach for Strategic Coach and with her husband, Todd Langford, through The Summit for Prosperity Economics Advisors.

Kim's work as a financial advisor has been recommended by financial thought leaders and authors such as Robert Kiyosaki (*Rich Dad, Poor Dad*), Tom Dyson, publisher of the *Palm Beach Letter* investment newsletter, Tom Wheelright (*Tax Free Wealth*), and Garret Gunderson (*Killing Sacred Cows*). She has been interviewed by Robert Kiyosaki, consulted by the *Palm Beach*

*Letter* about “Income for Life” strategies, has appeared on the popular *Real Estate Guys* radio show, and frequently co-hosts The Prosperity Podcast show on iTunes.

When Kim isn’t busy strategizing with her clients, she puts her energy and skillful stamina to good use by enjoying time with her family, hiking, working on husband Todd Langford’s alpaca farm, and reading.

Lastly, Kim thanks Bobby Mattei, Andrea Lazerus, Monica Felton and many other colleagues for their help in making this book better, and to Kate Phillips for extensive assistance in producing the revised, expanded second edition.



To receive personalized instruction on how to implement the product (what you buy) and the strategies (what you do) in this book, please refer back to the person who recommended this book.

## About the Prosperity Economics Movement

Before the rise of qualified retirement plans, the ever-present 401(k), and the financial planning industry, people built wealth with diligence and common-sense strategies. Investors created wealth through building equity and ownership in properties, businesses, and participating (dividend-paying) whole life insurance. Only a few dabbled in Wall Street stocks, or built “portfolios” on paper.

Wealthy people, in fact, have never stopped practicing what we call “Prosperity Economics.”

Today, the common investor is steered away from traditional wealth-building methods. Instead, they are confronted with a confusing labyrinth of funds, rates and complex financial instruments of questionable value. Mutual funds have become so complicated that even the people who sell them can’t explain them, nor predict when investors are about to lose money. Worse yet, over time, more than 30 percent of the average investor’s wealth is drained away in fees to a financial industry rife with conflicts of interest.

The Prosperity Economics Movement (P.E.M.) is a rediscovery of the traditional simple and trusted ways to grow and protect your money. It was started to provide American investors an alternative to “typical” financial planning, showing us how to control our own wealth instead of delegating our financial futures to corporations and the government.

In Prosperity Economics, wealth isn’t measured by how much money you have, but by how much *freedom* you have with your money. The focus is on cash flow rather than net worth. Liquidity, control, and safety are valued over uncertain hopes of a high rate of return.

Typical financial planning is better than nothing, and will get you partway up the hill, but we want to show you how to reach the “peaks” of prosperity. Prosperity Economics shows you how to grow your wealth safely and reliably, with maximum financial flexibility and cash flow.

While Prosperity Economics strategies and thinking have been around for many years, they were only recently coined under that term and officially organized as a movement by financial author Kim Butler and financial software developer, Todd Langford.

The Prosperity Economics Movement is not-for-profit organization comprised of financial experts who practice Prosperity Economics and individuals who would like to learn how to apply the principles of Prosperity Economics to improve their lives. This book is part of a growing body of information that will support the organization and its members.

To learn more or buy your own copy of this book, go to:

**ProsperityPeaks.com** or **LiveYourLifeInsurance.com**.