

INFINITE BANKING

Buying a house and other expensive items

Part 2

Cash Value Life Insurance became a nasty term once the concept of buy Term and Invest the Difference became a marketing slogan. But traditional Whole Life Insurance Contracts have some very viable and truly beneficial aspects with one being “Become Your Own Banker.”

If one is insurable, or has descendants like children and grandchildren who are insurable, one has an insurable interest in cash value life contracts especially with Paid Up Additions can truly make you a profitable self-banker with what can be termed Non-Callable Loans on several related individuals.

One critical provision is 4 out of the first 7 years premiums must be paid with new funds to avoid the contract to be construed as a Modified Endowment Contract (MEC) as opposed to a true life insurance policy or contract.

Also the younger the applicant, the lower the premium. But the increased reason for the suitability of the policy requires diligence to be exercised.

Now the concept:

Male Age 70 and Female age 65 with substantial cash available due to exchange resulting in a substantial joint estate value, two children, wives and 4 grand children. Living Trusts on husband and wife, Pour Over Wills into Living Trusts, and a Family Foundation.

A $10 Million cash value life contract with paid up additions on each with the premium on the male at

$38,000 annually and the premium on the wife at $32,000 annually with an additional premium contribution on the paid up additions on the two policies of $96,000 first year. What you have agreed to is to putting $70,000 into these contracts at least 4 times before you start using policy loans to keep the policies in force knowing the face amount is $10million on each policy so ownership of the contracts is critical from an estate point of view.

Policy guarantees, policy loan interest expense, as well as the non-callable loan concept means a death benefit will always exceed the loan provision of the contract. The guaranteed interest rate on your policy is 4.5% and the net loan expense to borrow money against the policy is 5% so the net cost to create a loan is one half percent (0.005%) and the fact that there is a $10M face amount you have created a non-callable loan as the death benefit will always exceed whatever the carrier will loan you.

Where else can you borrow money at a half percent interest?

Now get creative and buy and fund insurance policies on kids and grandkids with paying off mortgages and college tuitions along with room and board as well as auto loans and if the policies are owned by a Family Foundation or Charitable Remainder Trust. You can pay family members a fee for services rendered to assist in the management including a medical and dental reimbursement fringe benefit plan where they pay all their premiums and drug costs during the year and then submit those expenses for a tax free reimbursement check. The Trust or Foundation takes a 100% business expense deduction for the reimbursement to those very important contributors to the success of this organization.

Hopefully this provides some food for thought when you meet with your professionals as well as your wealth manager.

Fees involved are not a critical consideration when understanding the overall death benefit, the desire to maintain and increase assets, and the knowledge of using the leverage of having the same dollar at work in multiple assets at the same time with many tax advantages and guarantees.

Example

Let me see if I can design a portfolio of a conservative investor whose interest is the safety of his invested dollar, wishes to have a cash flow he can never outlive, provide an income for life for his spouse, keep income and estate taxes to the lowest possible legal annual expenses, and leave the rest and residue to his children and grand children after he and his wife pass on.

At his present age and health he can purchase a policy with close to $10million of face value death benefit. With the allowable cash accumulation provisions of the current mortality table being used by the carrier, he can load approximately $783,000 into the policy. He then can borrow $500,000 from these reserves and purchase a single premium immediate annuity, 10 year certain, and life income stream. This means either he will get a monthly distribution for a minimum of 10 years and his lifetime or his named beneficiary will receive that amount monthly for 10 full years should he die immediately after the contract takes effect.

The monthly income should be in the neighborhood of $2,500 to $3,000 per month.

Now since he has retirement income from a pension plus social security benefits this monthly annuity benefit is actually producing more revenue that current living expenses so he decides to establish a Nueveen Municipal Tax Free Bond Fund and contribute $2,000 per month after the initial cost to open the account and elects to take monthly distributions of the tax exempt revenue.

You can borrow from the cash values as soon as the funds are received. Were you not to pay in excess cash at the time of application you would necessarily need to allow the policy to generate interest and dividends so it would be a couple of years before any meaningful amount of cash could accumulate.

At time of application, you advise the agent you wish to load funds into the cash value side of the policy and have him determine just how much the company will allow you to pre-fund. You also ask about Paid Up Additions in order to place more cash into the policy.

You must make sure to fund the annual premium for the contract at least 4 out of the first seven years

of the contract's life to avoid the policy from becoming a Modified Endowment Contract for tax purposes.

The agent should be able to explain how all this works with their particular company

We use the bride's policy to purchase new vehicles and then repay the loan like you would if you had made a loan at the bank.

The policy I use for the rancho operation has several hundred grand in it that I use for operations until we sell the calves - at which point I pay the loan down. I have been doing this for over 20 years.

It is best to use a Mutual company vs a stock company due to better rates. And you participate in dividends as the policy holders own the company.

AddedSnake likes this 7 minute video illustrating the mechanics of Infinite Banking viewable at <https://www.youtube.com/watch?v=NRnduZFfC4M>