

# THE GENIUS OF GOOD STRUCTURE

## *Insight into One of the All-Time Premier Financial Strategies*

A typical well-designed life insurance policy starts with a dividend-paying whole life chassis, issued by a company that is financially very strong and has an unblemished history of paying dividends for 100 years or more. Then we add riders (options) that can grow your cash value many times faster than the whole life policies most financial experts talk about, especially in the early years of the policy. With these riders in place, you have cash value in your policy from the very first month. And you can potentially use that cash value as a powerful financial management tool right from the start.

A key goal of our whole life strategy is to *maximize the growth of your cash value without increasing your premium*. The cash value in the policy is the storehouse of money you'll use to bypass banks, credit card and finance companies and become your own source of financing. Use the money in your storehouse wisely, and you might eventually be able to finance your entire lifestyle from it!

We start with a plain-vanilla base policy—a dividend-paying whole life policy issued by a strong company. Then we add a Paid-Up Additions (PUA) rider into which you can pour a significant portion of your annual premium. This rider is the most efficient way to build cash value because it channels most of your premium directly into the cash value portion of the policy, while purchasing a small death benefit.

We also add a term insurance rider that allows you to fill your policy with more cash value than you otherwise could, without running afoul of the IRS rules that would make your policy a modified endowment contract (MEC), losing a key tax advantage.

The following pages demonstrate the step-by-step results of:

1. Starting with a base policy
2. Adding a Paid-Up Additions Rider
3. Adding a term rider

### **The Allocation of Your Premium Is the Key to Growing Your Cash Value**

Table A compares three different dividend-paying whole life insurance policies, all created for the same 35-year-old man. The annual premium in each policy is set at \$12,000, but *how* the premium is being allocated varies. (Don't get hung up on this specific premium. It's just an example. Your policy is custom-tailored to your personal situation, so you start at whatever level works for you.)

## Cash Value Growth\*

			Policy 1		Policy 2		Policy 3	
			Designed for Maximum Death Benefit		Designed for Accelerated Cash Value Growth		Designed for Maximum Cash Value Growth	
			All Base		Base + Paid Up Additions		Base + Paid Up Additions + Term	
Policy Year	Age	Net Annual Premium	Annual Cash Value Increase*	Total Cash Value*	Annual Cash Value Increase*	Total Cash Value*	Annual Cash Value Increase*	Total Cash Value*
1	36	\$12,000	\$1,107	\$1,107	\$6,745	\$6,745	\$8,495	\$8,495
4	39	\$12,000	\$10,070	\$29,098	\$11,869	\$40,360	\$12,337	\$43,608
5	40	\$12,000	\$10,855	\$39,953	\$12,572	\$52,932	\$13,007	\$56,616
7	42	\$12,000	\$12,405	\$64,004	\$14,016	\$80,241	\$14,404	\$84,719
10	45	\$12,000	\$14,721	\$105,912	\$16,287	\$126,826	\$16,748	\$132,688
15	50	\$12,000	\$19,191	\$193,314	\$20,741	\$221,570	\$21,183	\$229,535
20	55	\$12,000	\$23,048	\$301,009	\$25,390	\$339,131	\$26,077	\$349,956
25	60	\$12,000	\$26,432	\$424,647	\$30,366	\$479,907	\$31,558	\$495,901
30	65	\$12,000	\$30,903	\$570,082	\$36,331	\$649,384	\$37,994	\$672,718
40	75	\$12,000	\$42,490	\$940,366	\$51,546	\$1,093,442	\$54,351	\$1,139,545
50	85	\$0	\$49,038	\$1,377,040	\$57,021	\$1,601,199	\$59,425	\$1,668,710
60	95	\$0	\$59,917	\$1,926,446	\$69,671	\$2,240,039	\$72,608	\$2,334,486

**Table A:** Cash Values in three dividend-paying whole life policies on a male, age 35, in good health

### Policy 1: All Base

Policy 1 is a traditional dividend-paying whole life insurance policy for a healthy 35-year-old we'll call Martin. In the Policy 1 example, all premium is allocated to the base policy.

See the circled amount on the line for Policy Year 7? This is significant because beginning in this year, the annual cash value increase is more than the premium Martin pays each year. (His \$12,405 cash value increase is greater than his \$12,000 premium.)

## Policy 2: Base Policy + Paid-Up Additions Rider

In Policy 2, only 40% of each year's premium goes toward building the base. The remainder goes into the Paid-Up Additions Rider. These additions accelerate the growth of Martin's cash value—which is what he wants—while providing a smaller death benefit. See the circled amount on the line for Policy Year 5? With much of his premium purchasing Paid-Up Additions, Martin's annual cash value growth begins exceeding his annual premium *two years earlier* than in Policy 1.

Well over 90% of every Paid-Up Additions premium dollar goes directly to building cash value, very little goes to the cost of the death benefit, and only a miniscule amount goes to the advisor as a commission. (An advisor who wants to help you build your cash value by adding a significant PUA rider *must* be willing to take a huge cut in commissions.)

Note: The premium you pay into your Paid-Up Additions Rider is an *optional* premium. You don't need to pay it to keep the policy in force. So in a pinch, you can cut back on it, and some companies will even let you catch up on some or all of it later, as your situation allows. That gives you greater flexibility than a traditional no-frills whole life policy has.

## Policy 3: Base Policy + Paid-Up Additions Rider + Term Rider

In Policy 3, only 30% of Martin's premium is used to pay for the base policy. The remainder purchases Paid-Up Additions *and* a term insurance rider.

Why add a term rider to a whole life policy? Isn't term insurance a bad idea? As a *substitute* for permanent life insurance, generally yes. But term coverage has a valuable place as a *rider* to a permanent policy. Here, the term *rider* allows you to purchase more paid up additions, and thus build cash value faster, without running afoul of the MEC guidelines.

**Note:** It's important to understand that **it's not always possible to structure a policy so that only 30 percent goes toward the base policy**. Every policy is different based on many variables such as age, need for insurance, how soon you plan to take retirement income, etc. But a well-trained advisor can structure your policy to direct the lowest percentage of premium to your base policy that will let you achieve the goals you set for your plan—without turning the policy into a MEC.

Looking at Policy 3, you'll notice several interesting items. First, look at the circled amounts on the line for Policy Year 1. At the end of the very first year, Policy 3 has almost *eight times more cash value* than Policy 1 (the policy with no riders at all). A properly applied Paid-Up Additions Rider and term rider provide that powerful supercharging effect.

What about the circled amount on the line for Year 4? The Paid-Up Additions Rider and the term rider have caused Martin's annual cash value increase to exceed his annual premium beginning in the fourth year—*one year earlier* than Policy 2, and *three years earlier* than Policy 1. (His \$12,337 cash value increase is greater than his \$12,000 premium.)

Your reward for patience in the early years is the growth curve that gets steeper every year you keep the policy. Go back to the chart and look at the line for Year 20 in Policy 3. Beginning this year, Martin's cash value increases by more than twice the amount of premium he pays (\$26,077 cash value increase, compared to \$12,000 premium paid). And beginning in year 30, his cash value increases by *more than three times* his premium (\$37,994 cash value increase, compared to \$12,000 premium paid.)

Even more exciting: Look at the line for Year 40. That's the last year Martin is scheduled to pay any premium at all, and the policy keeps on growing, but without any premium payments. See the line for Policy Year 50? The premium paid was *zero*, but the cash value *grew* by \$59,425—no luck, skill or guesswork required.

### **More Death Benefit *Plus* More Cash Value**

But what about the death benefits of these policies? If we've kept the premium at \$12,000 per year and used much of that premium to grow the cash value faster, are these policies building up much death benefit? Table B (next page) shows you the answer. As you see in that table, all three policies build solid death benefits. But over time, Policy 3 can actually build the *largest* death benefit of them all.

Compare the death benefits in Year 1. In the early years of Policy 1, the cash value was relatively small while the death benefit was relatively large, right? In Year 1, the death benefit in Policy 3 is a little more than half of the death benefit in Policy 1. For Martin, this is a good thing, because the growth of his cash value is very important to him. He's paying for roughly half the death benefit, but he's building almost *eight times more* cash value, with all the financing power, control, and tax benefits that a whole life insurance policy offers him.

Something significant happens in Policy 3 in Year 7. The death benefit drops from \$580,440 in Year 7 to \$506,010 the following year, because in this example, the term rider is jettisoned in Year 7. (Depending on the policy design, the term rider could be maintained for from 3 to 13 additional years.) But now Martin's policy is positioned for maximum cash value growth and the death benefit in Policy 3 is growing *even faster* than in either Policy 1 or Policy 2. In fact, by Year 24, Martin's death benefit in Policy 3 *exceeds* what he would have had in *either* Policy 1 or Policy 2.

In Year 40 in each of these policies, Martin's premiums will stop, because the policies are designed to be fully paid up at age 75. Both his death benefit *and* his cash value will continue to grow each year. By Policy Year 50, the death benefit in Policy 3 tops \$2,000,000, even though he didn't pay any more premiums after Year 40. If Martin passes away at age 75, Policy 3 could allow him to leave a legacy of \$1,646,123 for his family or favorite charities. And that gift can pass income tax-free under current tax law, and without going through probate.

Should he live until 85, Martin's legacy can grow to more than \$2 million, and should he live to 95, it could grow to more than \$2.5 million.

*See next page for Death Benefit Growth chart*

## Death Benefit Growth\*

			Policy 1	Policy 2	Policy 3
			Designed for Maximum Death Benefit	Designed for Accelerated Cash Value Growth	Designed for Maximum Cash Value Growth
			All Base	Base + Paid Up Additions	Base + Paid Up Additions + Term
Policy Year	Age	Net Annual Premium	Death Benefit*	Death Benefit*	Death Benefit*
1	36	\$12,000	\$692,188	\$353,378	\$352,704
5	40	\$12,000	\$726,227	\$478,468	\$505,915
7	42	\$12,000	\$751,463	\$541,440	\$580,440
8	43	\$12,000	\$765,688	\$572,942	\$506,010
10	45	\$12,000	\$796,446	\$635,741	\$579,227
15	50	\$12,000	\$881,289	\$790,221	\$756,297
20	55	\$12,000	\$968,626	\$939,377	\$925,454
24	59	\$12,000	\$1,038,696	\$1,057,438	\$1,059,008
30	65	\$12,000	\$1,148,637	\$1,239,339	\$1,264,082
40	75	\$12,000	\$1,358,401	\$1,579,525	\$1,646,123
50	85	\$0	\$1,673,053	\$1,945,398	\$2,027,422
60	95	\$0	\$2,135,300	\$2,482,891	\$2,587,577

**Table B:** Death Benefits in three dividend-paying whole life policies on a male, age 35, in good health

\* Annual Cash Value Increase, Total Cash Value and Death Benefits are based on the dividend scale as of March, 2014. Dividends can change and are not guaranteed, however we recommend a company that has consistently paid dividends every year for more than 100 years. Policies from different companies may vary.