# The 'Simple' Banking System

*An easy to understand guide on using Permanent Life Insurance to maximize finances*

*By Joshua Thompson*

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# Quick Introduction

I was talking to a gentleman a few weeks ago. He had $350,000 dollars in his 401k. He had been contributing to it for over 30 years, just like he was told to do.

Everything was great until 3 years ago, his eldest daughter was getting married.

After all the initial excitement faded, he found that he had a major problem. Although he had a substantial amount of money saved, he had no money that he could access.

So, he and his wife had to start charging the credit cards. And the joy for their daughter translated into high interest debt payments for them.

They knew it was going to take some time to pay down the debt. It was frustrating, but what could they do?

Then, 1 year later, their next daughter had some news of her own. She was getting married too!

After it was all said and done, they had $50,000 dollars in credit card debt.

Society tells us we have to fund our 401k's and take risks to be able to retire. However, this is completely untrue and leaves many people extremely vulnerable to market conditions and unexpected emergencies.

The banking concept not only provides a better place to store your emergency funds and grow your money with no risk, but it also provides a smarter way to invest in the market, real estate, or your own business.

This system is meant to put power back into your hands so that you can make the best decisions possible with your money.

Now, there is a lot of information about this system out there in cyberspace. But, much of this information is complex, philosophical, and seems to never get to the point.

And worse, other books and agents will make it sound like you are generating free money—making it sound like snake oil, or a scam. People don't want to get duped, so they run.

And what's really unfortunate is that many of these people come back and take a second look at the system years later, and wish they had done something earlier. These people are usually in the same place financially that they were before, or worse.

So, I wanted to make something short and concise that would address the whole picture of what we are trying to accomplish, as well as dive into the core facts and misconceptions that surround the "banking" system, or really, as it should be called, a better way to use whole life insurance.

# Segment 1: The Big Picture

Overall, what is the point of using whole life insurance? The answer is, because it is a better vehicle, or starting point, for your money than anything else out there.

This is where all talk radio, financial experts, and most others just don’t get it at all. Whole life insurance (and I’m talking about a specific type of high cash value whole life insurance) is a better vehicle to grow your wealth.

And what does a better vehicle do? It gets you to your destination faster.

So, where does everyone get it wrong? They think that life insurance is an investment, and it isn’t.

**Investments Vs. Savings**

The guy on the radio is yelling through his microphone, “Whole life insurance is a horrible investment, get rid of that crap!”

But apparently he never took a second to think about the difference between investments and savings.

What is the difference? Well, investments have risk and savings do not.

Life insurance is safe. It has guaranteed growth, competitive rate of return, and it isn’t affected by market losses and gains. It’s really more like a savings account, but more specifics about these life insurance policies later.

This is why it becomes so confusing when people try to compare stocks, mutual funds, or any other investment to a life insurance policy. It isn’t an investment. That’s like comparing apples and oranges, it just doesn’t make sense.

Whole life insurance is a savings vehicle. And let me show you why it offers a better way to do what you are already doing.

# Segment 2: The Bottom Line

Some of you just want me to get to the bottom line of all this. So, I'm going to try to just get to it in this segment. Then, the next segments will focus more on the use, more benefits, and misconceptions.

The problem here is that there are many different benefits found in these whole life policies, and each person may see one thing they really like and want, while the other "benefits" will make no sense or not apply to them at all. This can make things confusing. Don't let analysis paralysis overtake you because something has too many benefits. Too many benefits is a good problem to have.

**Whole Life Insurance is Like a High Interest Savings Account**

I remember back in 2005 (if my memory serves me) when Capital One had a 5% interest rate on their savings account. I was stoked. I used that as my primary savings for money. Unfortunately, the interest rates dropped significantly a few years later because of the economy.

I liked this because it provided me safety and access to my money.

Little did I know these life insurance policies were paying more than 5 percent dividends at the time and have been still to this day.

I find that there are a lot of people like me. If they could find a safe place where their money could grow with 4-6% interest every year with no risk, they would be interested. But they don't know it exists.

I met a very nice woman a few years back. She had over $300,000 dollars in cash in her bank account. She was too afraid to move it anywhere because nothing seemed safe. The market was hitting all time highs, and she believed that meant a crash was coming. When she heard about whole life insurance, she asked (as I often hear), "Why didn't I know about this 20 years ago?"

A Mass Mutual case study shows that a policy from 1980-2013 averaged a 6.26% internal rate of return (this is one particular policy and results vary). The added benefits of these policies make this 6.26% even better.

This is tax-free growth, so that is the equivalent (at 30% tax) of around 9.9% with taxes.

In good economic years, dividends can rise to 12% or more.

I know many people who just want to get out of the markets. They don't want risk. They want to be certain where they are going to be tomorrow without having to worry about markets collapses affecting their financial portfolios and stress levels.

I believe that you do not have to take risk in order to retire. A steady savings plan coupled with guaranteed compound interest is all that you need to have a strong financial plan in place.

If all you are interested in is having a place where your money can have steady growth with tax benefits, then there is no better place than a high cash value whole life insurance policy.

I tell people everyday if they can show me a better place to get safe growth and these benefits, I'm in. So far, no one has even had a proposition. There just isn't anything like this.

*If you are not interested in whole life insurance as an investor or as a business owner, then you can skip to the Segment 3 on page 10.*

**Whole Life Insurance is a Better Vehicle for Your Investments**

Now, I want to show how these life insurance policies make your investments better. This is really going to focus on how life insurance takes a savvy investor and improves on what they already are doing.

I just want to make a quick disclaimer, I am not an accountant and I am not giving accounting or tax planning advice. Any decisions that are accounting or tax planning related need to be discussed with a tax professional.

There are a few problems when it comes to investing your money. The first deals with efficiency and the second taxes. Whole life insurance improves both.

**Investment Efficiency**

As an investor you always want your money working. However, efficiency is a huge problem many investors run into. They have to have every dollar invested otherwise they are losing money.

When they don't have a good investment for their money, many investors feel forced to find something—anything. Otherwise, their money is sitting earning little or no return.

I talk to a lot of investors who have decided to put dollars at risk, in places they really didn't want to, in order to try and gain some return on their dollars because they had no other options.

When your money is earning 1% in a bank account, then a high-risk investment with the potential of earning 5% looks appealing. You need your money earning a rate of return.

However, when you have whole life insurance you have the opposite problem.

My brother, Jake, had a policy with good cash value built up. He was making a decent dividend return in his policy and he was waiting patiently for the right time to invest.

When the markets crashed in 2008, many people were forced into selling homes. This unfortunate economic downturn became a benefit to Jake, and he was able to pickup a few rental properties for below market prices.

All because he had money in a place where it could grow safely and steadily until he had better opportunities to use it.

*Taxes*

In order to understand the tax efficiency of whole life insurance, we first need to understand how money is acquired from our whole life insurance policies. I am going to repeat all this later for those who skipped this section, but I will cover it all right now as well.

We don’t want cash value inside a life insurance policy to stop growing. It’s growing tax-free and growing with compound interest. On top of this, it’s providing us with a death benefit as well.

So, how do we get money from our life insurance policy without liquidating the account itself? Well, this may be a new concept to you, but the life insurance company gives us complete access to loans against our policy equity (or cash values).

The loan rates will vary as the dividend rates vary, but for this example let’s use a 5% loan interest rate and a 5% growth rate on our money.

When a typical investor goes out and invests his money wisely, he may have a profit. Let’s say he invested $100,000 dollars and made 10% on his investment.

So, he made $10,000. At a capital gains tax of 15%, he will owe $1,500 in taxes. He made $8,500 on his investment.

Now, the other guy borrowed his $100,000 from his whole life policy. He got the same rate of return. He made $10,000 on his investment. However, he had a loan from the life insurance company, so he paid $5,000 in interest on his loan. He earned $10,000 on his investment, but he wrote off $5,000 in loan interest so his earnings were only $5,000. On this, he paid $750 in taxes.

But, we have to look at the whole picture. Sure, he paid $5,000 in loan interest, but on the other side, the money in his whole life insurance policy never left and never stopped growing. It was only used to secure the loan. So, he earned $5,000 (100k growing at 5%) in his whole life insurance policy as well.

Total earnings, $9,250 or 9.25%.

His investment didn’t change, he just did it in a smarter way.

In summary,

Without whole life insurance – after tax earnings: 8.5%

With whole life insurance – after tax earnings: 9.25%

Not to mention the money in his life insurance policy was buying him death benefit and is still growing after his investment is liquidated. The other guy has his money sitting somewhere, probably a bank account, earning little interest and he is desperate to find another place for his money.

The point is that life insurance makes you smarter as an investor. It makes your investments more profitable, and gives you a benchmark to beat. If you can do better than the policy growth, do it, if you can't, don't. It's that simple.

**Whole Life Insurance is Better for Your Business**

Just like an investor, whole life insurance can add extra benefits to what you are already doing in your business. Why? Simply put—it is a better vehicle for your money.

There are 2 quick parts to this—future value of your money and taxes.

*Future Value of Your Money*

I talk with business owners often. They need a few things. The first is access to capital and the second is a return on their money.

But for all the business owners I talk to this is a catch-22. In order to keep their money liquid it sits inside of a bank account. It's the only place (up until they talk with me) that they know of where they can access their money whenever they need it.

And every day, month, and year their money sits inside the bank account, they are losing money they could be making in interest.

Whole life insurance offers you a place where your money can grow at a competitive rate of return (as I said before a Mass Mutual study shows the last 33 years growing at 6.26% internal rate of return on one specific policy). But it also gives you access to your capital.

As a business owner this can be the difference of hundreds of thousands of dollars over your lifetime.

You could be funding your retirement simply by changing the way your money flows.

Whole life insurance offers your money a place where it can grow as well as buy you death benefit. With the liquidity on top of this, whole life insurance becomes the best place to store money for your business needs.

You are constantly taking money out and putting it back into a bank account. Whole life merely increases the productivity of that same cash flow cycle.

*Taxes*

The other part of this is taxes. Life insurance offers you a nice little advantage when you use money for your business. Here is how.

To access money from our insurance policy we take a loan from the life insurance company. We'll use 5% loan rate here and 5% growth rate in the policy to make it easy.

I take a loan, let's say $100,000 dollars, to use in my business. Over the year, my business pays $5,000 in interest to the life insurance company.

Because that interest is for my business, it is a write off as a business expense.

But here is the best part. Your life insurance policy, with $100,000 dollars in it, grew at $5,000 dollars this year as well. For you, it was just a money changing pockets. But, by doing it this way you received a tax write-off that you wouldn't have received anywhere else.

Let's say you pay 30% taxes as a business owner. This simple change in how you access your money saved you $1,500 dollars in taxes… not bad.

And at the end of all of this, your money is in a safe place growing at a consistent, compounded, tax-free interest rate and buying you death benefit. The other guy just has a lump of cash sitting in his bank account waiting for his next purchase.

It's about making your money more efficient.

## Segment 3: The Problem with Paying Cash

This is probably the most sought after benefit for this system—putting interest back in your pocket.

Most people will go into debt or pay cash when they buy a car, finance a wedding, or pay for vacations, boats, etc.

We all know the problem with going into debt.

However, most people don't see the problem with paying cash.

When you pay cash for something, you have to save it first. And where do you save it? Somewhere safe and liquid, and just like we talked about above, that most likely means a low interest, taxable account.

The problem is once you have saved up all that money, you then spend the entire amount that you have saved up.

That money is gone forever, and you will never get it back.

There are really 2 problems here. The first is that while you building up the capital to make the purchase, you are likely earning little or no interest. The second problem is, once you spend the money you have lost all the future interest that money would have earned you.

By putting our money in a whole life insurance policy we will solve these 2 problems.

The first problem is easily solved. Life insurance offers us the safest place for our money with the most growth potential.

The second problem requires a bit more explanation. When we take a life insurance policy loan we will be paying interest to the life insurance company.

Let me ask you a question. When you make an investment, do you require a rate of return? Of course you do. It would be insane not to. We all want our money to grow.

Why then do we treat our capital so much differently? When we use our own cash for our needs, we act as if it doesn't have a cost. When we get it from someone else, like when we take a bank loan, only then does it have value.

The reality is that it always has a price tag, and I can be my own best investment, or my own worst investment. The choice is mine.

Let's look at it this way. Let's say you save $5,000 a year for a new car you buy every 5 years. In 5 years you'll have $25,000. If you didn't use that money, and instead decided to let it grow over 30 years at 5%, it would be worth $108,048.

The only reason you would not attain $108,048 (in a simple world) is if you decided to use that money and interrupted the compound growth. In other words, if you use that money to buy a car, and don't put it back with interest, you will have a value of $0 down the road.

The idea of banking is very simple. Don't be the reason the growth stops, be the reason it continues to grow.

Your money should always be expected to grow. If you want to use that money, you should be required to keep it growing, and not be the reason it doesn't achieve its full potential.

While you are accumulating the money, your money is growing, while you are using the money, your money is growing.

By taking life insurance policy loans, we let our money compound uninterrupted with all the advantages of whole life insurance. That small difference adds up to a large advantage when it comes time to retire.

## Segment 4: The Benefits of Whole Life Insurance

These are the benefits you will find with a properly structured, high cash value whole life insurance policy.

**Tax-free growth**

The first benefit, and arguably the most important, is the tax-free growth. It's pretty simple, the dividend growth inside your life insurance policy is considered "return of premium," and is therefore not taxable. And, as long as it remains inside the policy, it will continue to grow tax-free indefinitely.

Because it is tax-free, and we want it to remain tax-free, we never want to completely liquidate the insurance policy. It will take a professional to help you maximize your retirement when the time comes, but with proper planning you will never pay taxes on these dollars again. This is because life insurance also has….

**Tax-free Death Benefit**

This means that your life insurance death benefit will transfer with no income taxation when the insured dies. There is no better asset to die with than life insurance.

**Post-Tax Contribution**

Many people think that it's a good idea to put their money in a pre-tax account. Here is why I say 401k's, IRA's, and other government-sponsored programs are high-risk.

In a tax-deferred account you are making a bet. The bet is that you will be in a lower tax bracket when you withdraw your money.

However, if you are making more money when you draw from your account, you might be in a higher tax bracket than you would have been if you had paid the taxes when you were younger. If you have fewer deductions, because you have no dependents to claim or you have no house payment, you might also pay more taxes. If taxes go up because of government problems, government debt, or any other reason they decide to raise taxes, you might pay more in taxes.

The point is, deferring your taxes is a gamble. Not one I am willing to take. I'm not saying there is no place for using whole life insurance as well as a government sponsored plan, I am only showing you why I consider using post-tax dollars as a benefit.

With whole life insurance we pay tax now and with minimal planning we will never pay taxes again.

**Social Security Tax**

This may be one of the little known values that I want to hit on when it comes time to retire. When you receive social security, and you are also taking income from other sources, there is a calculation. What this calculation figures is simple—how much money are you making and should your social security income be taxable?

Whole life insurance is the only place where you can draw money and not have it count against this social security tax. Even other tax-free sources of income, like tax-free bonds and Roth IRA's, still count income into this equation.

This is another large savings in the retirement equation.

**Guaranteed Minimums**

Life insurance policies also have a guaranteed side to them.

The dividends inside a life insurance policy are not guaranteed. However, a portion of the growth inside your policy is guaranteed. In the event that the company does not payout earnings (and I don't personally recommend any companies that haven't paid out earnings for over 100 years) you are guaranteed to have growth.

**Death Benefit**

I know I talked before about the tax advantages of death benefit, but now let me address the death benefit in general.

First, it’s important to note that the risk of your death is now on the insurance companies shoulders. You have insurance.

Secondly, if your money is growing safely and buying you this insurance at the same time, then it’s a no brainer. The question becomes, “how much do I get?”

Having a death benefit is a great side benefit of these cash value policies.

Another thing to account for is the ever-increasing death benefit amount. As more cash value is added to the policy, the death benefit must go up. Therefore, the longer you have the policy, the higher the death benefit, and the larger the legacy you will leave.

**Liquidity in the Form of Loans**

You can always access funds from the life insurance company. They will give you a loan based on the rate they are earning in their investments. If today they are earning 5% on their investments, then they will loan money to you at 5%.

An important thing to keep in mind is this—we never actually touch our cash value. Our cash value will continue to compound and provide us with a death benefit whether we have loans out or not. Loans are from the insurance company, with your policy cash value acting as collateral.

It’s also important to understand that we can always liquidate money out of our insurance policy without loans. However, as a long-term strategy, it is more effective to take loans than to liquidate capital.

**No Minimums or Maximums**

There is no government minimum or maximum contribution to a whole life insurance policy. We are free to contribute as much or as little as we want.

**Flexible Contributions**

Many people are under the impression that life insurance requires consistent premiums over your entire life with no adjustments.

However, one of the benefits of high cash value life insurance is just the opposite. Because we have such high cash values early on, we can be flexible with the premiums when needed.

We can lower or even completely eliminate new premiums from the policy if we need to. This gives us the ability to make a plan today and adjust if necessary.

These are the major benefits of properly structured whole life insurance policies. It’s important to note that there is some careful planning that needs to be done in order to gain and keep all of these benefits. To maximize your benefits it is best to consult with a professional so they are structured properly.

# Segment 5: Specific Whole Life Insurance Policy to Use

Because many agents are out there pretending to understand these policies, it's important for you to have a good idea of what to look for in a properly structured life insurance policy. We like to call this type of policy a "high cash value life insurance policy". It is a policy that builds high cash value immediately, with high cash value in year 1.

**Whole Life**

First, we want to make sure we are using whole life insurance. We want whole life because it offers us certainty and access to our money.

Whole life also offers us an easy way to ensure that we die with our life insurance in tact. This way, our money will transfer with no taxes when we die. Life insurance is the best asset to die with.

I met with a lady a few days ago who has contributed $36,000 to a universal life policy over 12 years and her cash value is $22,000. Not a pretty picture. Do not use universal life or any variable product for this system, there is too much risk.

**A Stable and Mutual Life Insurance Company**

There are 2 different kinds of life insurance companies; stock and mutual. Stock companies are going to pay out earnings to stockholders first. Mutual companies pay out their earnings to their owners.

The owners of a mutual company are the policyholders themselves. So, in a mutual company, people like you and me that own life insurance policies are the ones that receive the dividend growth. In a stock company, policyholders essentially receive fewer profits because stockholders are paid first.

We also need a stable company. We want a company that has been paying out growth for 100+ years to policyholders. There are many of these companies, some of which we prefer over others…

**High Cash Value**

An ordinary life insurance policy may be a benefit to you in the long run, however, it can take 15+ years for you to recoup your contributions. After that, it can take another 15+ years for you to see some real encouraging growth on your life insurance policy. These policies have little to no cash value in the first 5 years, a tough pill to swallow.

A high cash value life insurance policy will be much more efficient. We can typically recoup 100% of our contributing dollars within the first few years and begin seeing a decent rate of return on our money within a short period of time after. A properly structured high cash value life insurance policy is made to get better overtime.

All of these 3 pieces are necessary. They ensure that we are providing the right environment for our money so that we can maximize our benefits.

# Segment 6: Things to be Aware of

As with anything in finances, there is no perfect vehicle. Life insurance, though it does have more benefits than any other vehicle, does have a few things you need to be aware of.

**Contributions and Structure**

Before the 1980's, life insurance didn't have many constraints. But, after the government began making tax shelter plans, such as the 401k, life insurance policies picked up a few regulations.

What this means is we cannot just dump money into a life insurance policy with no structure. We need a few years of consistent contributions in order to maximize the effectiveness of the life insurance policy and keep its tax advantages.

**Closing a Policy**

Life insurance policies can be closed at anytime. Your cash value is also called your "surrender value." You can walk away with your surrender value in your pocket at anytime. However, if you do close your policy, you will pay taxes on policy growth (anything above what you have contributed).

This is why we want to die with this policy in tact. This is easy to do with planning and our heirs will receive much more than we contributed in death benefit tax-free.

Now keep in mind, this never has to be an option. By handling it properly, you can always eliminate the ongoing premium, or out of pocket payment, and let your cash value grow. It is an option in all whole life insurance policies to stop paying premiums and keep your cash value inside the policy.

**Qualifying for Insurance**

This is, in fact, life insurance. In order to start a policy we need someone to put the actual life insurance on. If you are in bad health, you may not be a good candidate for life insurance.

However, what is the purpose of the policy here? The answer is, the high cash value. What’s nice is that we don’t have to put the insurance on ourselves in order to benefit. We only need someone we can claim insurable interest in. We can easily have an insurable interest in children, business partners, or a spouse.

This doesn’t mean that you will lose control of the policy either. The owner of the policy—the person with financial control who is responsible for paying premiums and also has the ability to borrow and liquidate funds—can still be you. You do not need to be the insured to be the owner.

Because we are creating these for the life benefits, you don’t need to be the insured to realize the potential benefits.

## Segment 7: Misconceptions

There are a few misconceptions being spread out there in the cybersphere and I want to address them quickly.

**You Pay Yourself Back**

Many agents and marketers are trying to convince you that you pay yourself back interest into the life insurance policy. This isn't true. If you take a loan from your life insurance policy you are paying interest to the life insurance company.

However, the insurance company is charging you interest based on their earnings. You get paid dividends from the earnings of the life insurance company. The money in your policy doesn't leave, it continues to grow with life insurance company dividends (earnings). This is why they say you are paying yourself back. Understand, however you aren't. It is simply a loan from the life insurance company.

**You Have to Pay Premiums for Your Entire Life**

This is hardly the case. Life insurance policies are easy to manipulate. We can always find ways to reduce premiums or even stop them entirely. When we realize the benefits we are gaining, we begin to see the value of contributing as much premium as we can.

However, there are times when it makes sense—such as problems with cash flow or during retirement—to stop contributing and let the policy continue on without new premiums going in.

# Segment 8: Other Uses of Whole Life Insurance

## Emergency Savings

Most people keep their emergency savings in a bank account because it's accessible. Overtime, however, they will lose out on money they could have been earning. Life insurance offers a better solution for any emergency savings fund because it offers us consistent growth, tax-free compound interest, death benefit, and complete access to money.

## Insurance for Life

Whole life insurance has great growth potential, but aside from that it is providing your family with income tax-free money when the insured dies. It's good to have term insurance when cheap coverage is necessary. However, I find once people have stored enough safe money inside their life insurance policies, they usually have enough whole life insurance to eliminate the cost of term insurance.

Also, the entire idea of retirement is changing. Many people are working longer and longer into their lives. Science is also changing, and people are living longer, thus having an insurance policy that is guaranteed to outlive you has more value than you might think.

# Outro

Whole life insurance isn’t for everyone, but it does have some extremely productive uses. It has been painted black by people who have little understanding of its major benefits and purpose. When structured and used correctly, whole life can be a significant and a very smart savings vehicle for your money.

I have seen a lot of agents that, unfortunately, don’t know what they are doing. Creating these high cash value policies takes a very in-depth knowledge of whole life insurance and all the pieces that need to be in place.

We are here not only to educate, but also to help consumers get the most efficient high cash value life insurance policies from the best companies.

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