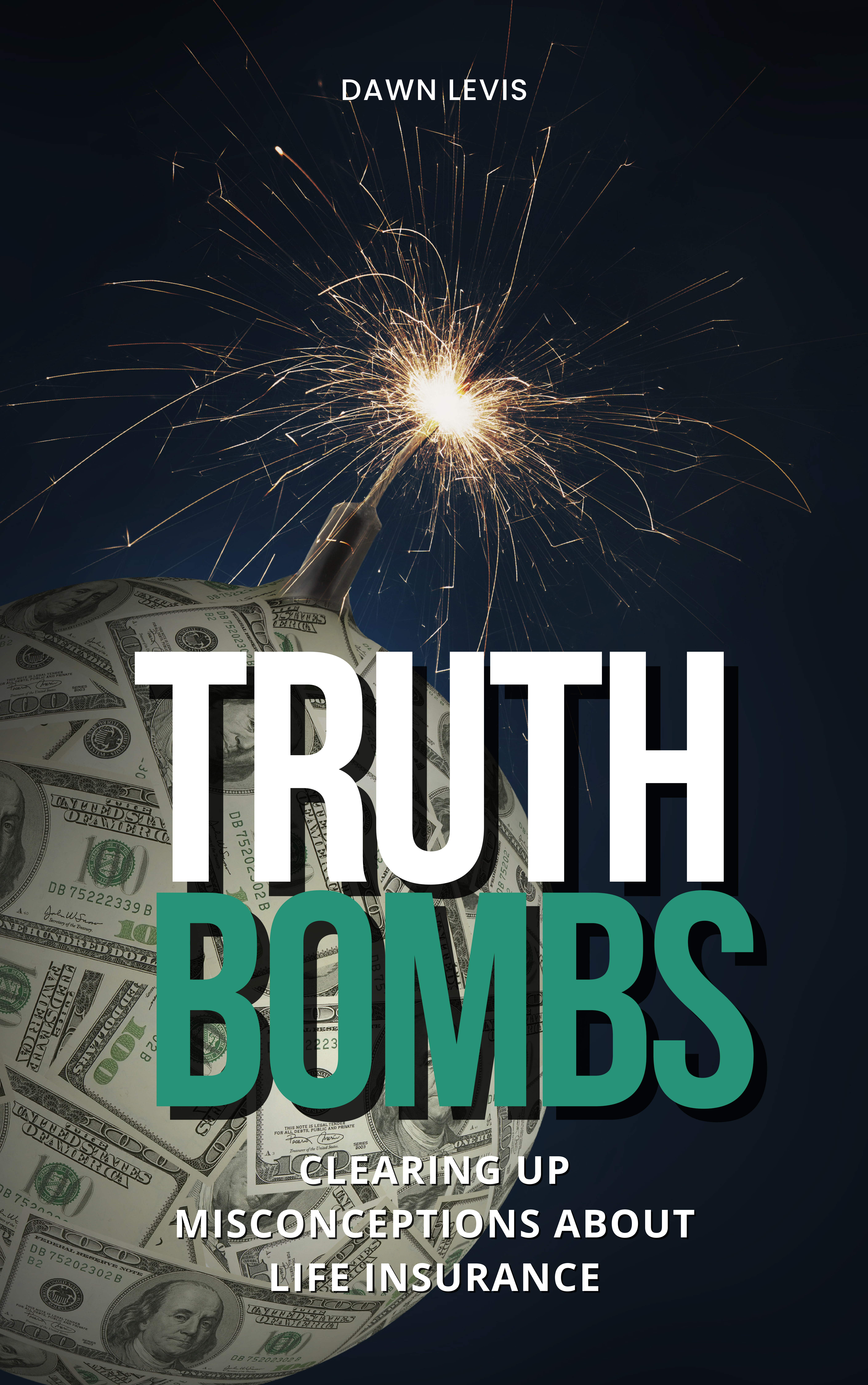
DAWN LEVIS
TRUTH
BOMBS
CLEARING UP
MISCONCEPTIONS ABOUT
LIFE INSURANCE

One reason people often miss the very best in life is that they hold misconceptions and falsehoods closely as truth.

Think of some of those things in your own life.

Did a parent tell you that if you went outside in the winter with wet hair, you'd catch a cold?

What about the idea that if you pull out one gray hair, ten more will grow back?

It's quite humorous what each of us holds to be true because others simply stated it as fact.

WHAT FALSEHOODS ARE YOU HOLDING AS TRUE WHEN IT COMES TO INVESTING?

Many people heard something about investing somewhere along the line that they have held true for years.

Today, we are going to drop some truth bombs and probably change the way you think about investing - specifically, investing for retirement.

Here is the million-dollar question:

WHAT IS THE BEST WAY TO PREPARE FINANCIALLY FOR RETIREMENT?

My opinion is this – the single best place to save retirement dollars is in a **permanent life insurance contract.**

There are a lot of misconceptions about life insurance out there. Today we are going to clear those up with some truth bombs.

Let me start with a simple but profound explanation of how life insurance works. This basis is the foundation upon which we will build the rest of our understanding.

In this world, there are only two kinds of insurance: TERM and PERMANENT

Yes, you will hear many different names like

- 10-year term
- Second-to-die
- Executive benefit life
- 20-year term
- 30-year term
- Whole life
- Graded premium life
- Decreasing term
- Universal life, etc.

Every company has its own name and variation for either TERM or PERMANENT.

Consider this analogy - Think of term insurance like renting a home and permanent insurance like buying a home.

TERM INSURANCE

The first characteristic of term insurance is that it is ***lower cost*** – initially - just like renting a home is cheaper than buying a home. Right?

The second characteristic of term insurance, however, is that the ***premium goes up over time***. Each term policy is a little different, but at some point, the premium will go up, just like rent on a home.

You may have signed a five-year lease with no increase in rent, but when the lease is done, what will likely happen? Rent will go up.

The third characteristic of term insurance is that it has ***no cash value***. Think about it. If you rented a home for ten years and then decided to move, how much of your rent payments would the landlord give back to you? None, except maybe a small damage deposit. All the money you paid out over the years did one thing: it provided a place for you to live.

The fourth characteristic of term insurance, and the one I consider the most significant, is that at some point in the future, even if you are still alive, the coverage will end. For some policies, it is at age 80, 85, or 90. For many, it is a specified period of time, like at the end of ten or twenty years. But regardless of how long it runs, one thing is true (at least of every term policy I have ever seen) it has a drop-dead point, even if you are still alive.

When do people need life insurance, at least the death benefit portion? The answer is simple – when they die. And when do most individuals die? The majority die when they are much older. Therefore, these term policies often terminate right before they are most needed. Unfortunately, since most term policies get so expensive in the later years of life, most have been dropped long before they have run their course. So all that money (just like rent) has been thrown to the wind.

PERMANENT INSURANCE

Now let's look at permanent insurance.

The first characteristic of permanent insurance is that it has a ***higher cost*** – initially. Just like it is generally more expensive to buy a home than it is to rent a home.

Secondly, however, the premium stays level. It is designed to not go up in the later years. Think about a home mortgage. If you were to take out a traditional thirty-year fixed mortgage, how much would your payment go up during those thirty years? Zero. Your 360th payment is the same as your first, at least as far as the principal and interest are concerned.

The third feature of permanent insurance is that it ***builds cash value***, just like owning a home. If you lived in your home for twenty years and then sold it, you would probably get back every dollar you paid for it and likely a lot more. The same is true with permanent insurance.

The fourth and final feature of permanent insurance is that the ***coverage doesn't end as long as you continue to pay the proper premium***. With most quality permanent insurance, there is not a predetermined date in the future when the coverage ceases to exist. It is designed to be there when you most need it – hopefully, much later in life.
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So let's review four characteristics that differentiate term insurance from permanent insurance by looking at the chart below (figure 17.2):

Term Insurance	Permanent Insurance
1. Low cost — intially	1. Higher cost — intially
2. Cost goes up	2. Cost remains level
3. No cash value	3. Builds cash value
4. Coverage ends	4. Coverage never ends

Figure 17.2

After reading that explanation, you might think that I hold a strong bias toward permanent insurance, and I must tell you – I do.

However, I believe both types of insurance are equally important because, just as both renting and owning a house provides a place to live, the one feature that both term and permanent insurance similarly provide is a death benefit. The most important issue in the life insurance discussion is the proper amount of death benefit coverage.

If the amount of insurance needed can only be afforded through term insurance, then term it is.

However, if a person can afford the monthly (or annual) premium for permanent insurance, then just like being able to buy a home, permanent life insurance, in my opinion, is by far the preferred option.

WITH THAT SIMPLE LESSON YOU PROBABLY NOW KNOW MORE ABOUT LIFE INSURANCE THAN 90% OF THE REST OF THE WORLD. TRULY.

Even though the issues just discussed are significantly important in the scope of a family's financial security, I have never met a person who has actually gotten excited about figuring out the proper amount of death benefit. Many people see life insurance as a necessary evil. Many don't even see it as that. They avoid it altogether.

THE TRUTH IS, IF STRUCTURED PROPERLY, LIFE INSURANCE CAN SERVE AS ONE OF THE MOST POWERFUL RETIREMENT STRATEGIES AVAILABLE ANYWHERE.

I wouldn't be a bit surprised if you found yourself so excited about this new-found knowledge that you picked up the phone and set the first appointment available to get together with your insurance agent to find out what specific options may be best suited for you.

Before you make the call, I want to talk about a specific product.

UNIVERSAL LIFE INSURANCE

There are many different kinds of permanent life insurance products available in the marketplace, but the type of product I believe best allows us to utilize all the benefits of this book is called ***Universal Life insurance.***

You've probably heard of it.

This is a type of permanent insurance that has been sold by most major life insurance companies since the early 1980s when it first entered the marketplace.

HERE'S HOW UNIVERSAL LIFE INSURANCE WORKS.

Just like any life insurance product, you pay a certain premium and receive a certain amount of death benefit.

Traditionally, most agents and companies calculate the minimum premium needed to fund a certain amount of death benefit. This is the manner in which most policies have been sold to the public – the most life insurance for the least amount of money.

This is also the reason why so many life insurance policies were in trouble in recent years.

When a policy is funded at the minimum premium level, there is often not enough money being put into it to keep it alive until maturity, which is usually age 100 or later.

Also, in the 1980s, when agents were illustrating interest-rate-based policies as high as 12%, 13%, or even 14%, the premiums collected were based on projected interest rates. As the following two decades played themselves out, however, interest rates didn't follow those highly projected targets.

The interest rate pendulum swung completely in the other direction, leaving many of these minimally-funded policies gasping for air to stay alive.

(As a side note: if the agents who originally sold these policies had conducted regular insurance reviews with their clients, these policies could have easily been spared an unnecessary death.)

The backlash of these poor sales strategies, along with this interest rate anomaly, has caused the public to dismiss what I believe is one of the most powerful wealth accumulation strategies ever created.

In this situation, the proverbial saying came to pass and most Americans (as well as most financial planners) "threw the baby out with the bath water."

Let me illustrate a couple of different Universal Life funding options, beginning with what the vast majority of all life insurance clients choose to pay – the ***minimum premium***.

If a 40-year-old male wanted to purchase $500,000 in life insurance death benefit and pay the minimum premium allowed by a company, he might expect to pay around $500 per month – give or take. If this 40-year-old male continued to make that $500 per month payment, he could potentially accumulate a cash value in the policy in the neighborhood of $300,000 at age 67.

If we look down the road a little further to age 85, the cash value could have potentially grown to $700,000 or more. And although this is a substantial sum, it is not the best way to utilize the policy… nor is it very exciting.

WHO LIKES BUYING LIFE INSURANCE? WHO ENJOYS FACING THE PROSPECT OF THEIR OWN DEATH?

Let's face it. No one enjoys buying life insurance.

I believe most people, even the responsible ones who willingly purchase this valuable protection for their families, see life insurance as, simply, a necessary evil. In fact, I've had clients use that exact term more times than I can count.

Why do people feel this way about life insurance?

The answer is simple.

All the focus has been on the benefits provided to the family upon death. However, the benefits that Universal Life insurance can provide during a person's lifetime are exponentially more exciting.

As I've mentioned, most financial planners and insurance agents are not fully aware of the power of the available living benefits.

SO LET'S TURN THE TABLE 180 DEGREES AND MAKE THIS FUN – A LOT MORE FUN.

I want you to start by letting go of any previous knowledge you have of life insurance. Clear your mind of those preconceived ideas and get ready for some TRUTH BOMBS.

How would you feel if instead of $500 per month for $500,000 of life insurance you were told it was going to be $1,800 per month?

You might cough and sputter.
You might say that is way too expensive.

You might even laugh, stand up, and walk out the door. (But probably not since you are too polite)

But if you had any of those reactions, it would tell me you are still looking through an old, outdated lens, and that lens would be telling you that $1,800 a month is simply too much to pay for only $500,000 in death benefit. What I would tell you is, "It's time to put on a new lens."

When you put $1,800 into any other savings account, do you say to yourself, "You know, that is just way too much to pay for that savings account?"

Of course not. Why?

Because when you are saving money, it is not a purchase. You are simply putting money away, hopefully, to grow and provide you with a greater benefit in the future.

Of course not. Why?

Because when you are saving money, it is not a purchase. You are simply putting money away, hopefully, to grow and provide you with a greater benefit in the future.

The more you save, the more you hope to have in the future. And the longer you have to let it grow, and the more you can put into your account, the more powerfully Mr. Interest can labor for you.

SO IF A FORTY-YEAR-OLD MALE PUT $1,800 A MONTH INTO A $500,000 LIFE INSURANCE POLICY, LET'S SEE WHAT IT COULD DO FOR HIM.

Depending on variations in policies, his cash value at age 67 could be as high as $1,500,000, with a death benefit of $2,000,000.

Not bad.

And if he kept contributing that same amount to his policy each year, he could potentially have a cash value of $5,000,000 and a death benefit of $5,500,000 at age 85 (his original $500,000 death benefit plus $5,000,000 cash value).

Wow! That’s some pot of money. But you might be saying to yourself, ***“Hold on a minute. If that money is still in the policy, how can it help him while he’s living?”***

Although the money is still in the policy, it is his money to do with as he pleases, similar to any other savings account he might possess.

The most critical single factor in utilizing the power of life insurance comes with the distribution. Accumulation is easy. Anyone can stuff these things full of money yet not fully realize the powerful tax advantages provided to them by Uncle Sam to all Americans.

WOULD YOU LIKE TO HAVE A COMPLETELY TAX-FREE RETIREMENT?

Then read the next pages closely because they hold the secret.

Okay, so this individual has funded his life insurance to the maximum amount, as allowed by the tax laws, and he now has this big pot of money just waiting to be utilized.

How does he get at it?

One option is that he can simply withdraw it. He can call up the company and sign a form letting them know he would like to cancel the policy, and they will send him the proceeds of

But he must hold his excitement.

They also would send a record of that large withdrawal to our friends at the IRS. And guess what? The IRS wants its share of the pie.

In this case he put in $583,200 and drew out $1,500,000, leaving him a net profit of $916,800. That net profit would be taxed just like a distribution from an IRA.

That doesn’t sound like a good option, does it? Indeed it’s not.

At a 39.6% federal tax rate, the slice of the pie the IRS would take would be $363,053. So withdrawing money in that fashion is no better than if he had saved money in a tax-qualified plan.

As a matter of fact, it would be worse because life insurance did not provide him with the tax deferral on his original contributions. Okay, so it’s clear he doesn’t want to go that route.

WHAT OTHER OPTION DOES HE HAVE? A BEAUTIFUL ONE!

Life insurance companies have set up a provision within their policy features that allows the client to take a loan against their cash value. Not from their cash value but against their cash value.

Your initial reaction might be, “Ouch, that doesn’t sound good during my retirement years. I don’t want to be taking loans.”

But what if I told you that this loan charged you little to no interest and never needed to be paid back during your lifetime? Does that change the picture?

You bet it does. Here’s how it works.

Again, using this same example, $583,200 of this individual’s total pot of money consists of his original premium payments into the contract. The tax law regarding life insurance says that as long as a person has stayed under the contribution maximum then the first money withdrawn from their Universal Life insurance policy can come out tax-free, as a withdrawal (not a loan), *up to their total contribution amount.*

So in this case the client could withdraw $583,200 without paying any tax. Why?

Because these dollars have already been taxed prior to being placed into the contract; they are simply a return of that premium. But that still leaves him with $916,800 to contend with.

It's at this point that the loan provision gets employed.

Let's assume that at age 67 the total cash value in the policy of $1,500,000 could provide an annual income to this individual of $80,000, every year of his life until age 100. We know that he contributed $583,200 in premium payments to the policy, so that means that he could take withdrawals of $80,000 a year for seven years tax-free since that would simply represent a return of the life insurance premium he paid over the last twenty-seven years.

DID YOU CATCH THE MAGNITUDE OF WHAT I JUST SAID?

This individual contributed $583,200 into his policy over a 27-year period, yet with an $80,000-a-year withdrawal, he would receive back income equaling his total premium in just seven short years.

THINK ABOUT THAT!

He put money into this policy for 27 years, yet he would be able to receive it all back in income in just seven years. And you know what? In most cases, there would still be virtually the same amount of cash value left in the policy at the end of those seven years as there was on the day he started taking the money out at age 67.

IT IS AT THIS POINT THAT THE LOAN PROVISION BEGINS.

In this example, in the eighth year of withdrawals, the individual would still receive $80,000 a year tax-free from the life insurance company, but it would not come out in the form of a withdrawal from the policy; it would be given in the form of a loan from the insurance company itself.

Are loans taxed by the government? No.

When you borrowed money to buy your car, was the loan taxed? No. The car was taxed but not the loan.

When you borrowed money to buy your house, was the loan taxed? No.

The same is true when a loan is taken from a life insurance company. The individual in this example would receive their $80,000 loan tax-free. Again … zero tax!

Then what happens?

Well, the amount that is borrowed does get charged an interest rate, just like any other loan. For illustration sake let's assume that rate is 4%. So he is now getting charged 4% per year on his loan of $80,000.

But that is only half of the story.

The life insurance company then removes that same exact amount of money out of his cash value and puts it into a separate account that earns 3 ½ to 4%. What’s the net result?

He is paying a net loan interest rate of somewhere between ½% and 0%.

Through this provision, he is able to continue to access his remaining cash value during his lifetime 100% tax-free, with little or no cost to him.

It really doesn’t get any better than that!

Not only that, but since it is distributed as a loan, the withdrawal doesn’t even show up on his annual tax return. As far as the IRS is concerned, it's invisible money that he gets to use throughout his entire lifetime, completely tax-free.

As I said, it's a beautiful thing.

DEATH BENEFIT

The last component you need to understand is how the life insurance death benefit is taxed because it is the death benefit that makes this whole strategy work.

WITHOUT AN INCOME-TAX-FREE DEATH BENEFIT,THIS STRATEGY WOULD NOT EXIST

At death all the proceeds of a life insurance contract are paid to the beneficiary completely income tax free.

Let's say, for this example, that the individual in our illustration lives to the age of 87. He would have withdrawn $80,000 tax-free every year from age 67. During those 20 years of withdrawals, he would have taken out $1,600,000 total in tax-free income.

Even if his net interest rate was ½% on that $1,600,000 in tax-free income during those 20 years, at his death he could have his total loan paid off and, potentially, still have an additional $1 million (depending on the type of policy and options chosen) that would be paid to his named beneficiary – income tax-free!

What does this mean?

First of all, it means that he was able to live all of his retirement years without Uncle Sam seeing one red cent of his hard-earned money. Secondly, it means that at his death the loan would be paid off from a portion of the death benefit.

And thirdly, after the loan was paid off, there would still be a significant amount of the death benefit left to be distributed to his beneficiaries (wife, children, grandchildren, charity, whomever).

In this example, it could easily be in the neighborhood of an additional $1,000,000 in income-tax-free proceeds that his beneficiaries would still receive after his tax-free loan was paid off.

In my world, it just doesn't get any better than that!

Tax-free dollars while you're living and tax-free dollars distributed to whomever you choose upon your death.

WHAT'S THE CATCH?

Right now, you’re likely asking two questions. “Okay, what’s the catch?” And, “If this is so good, why isn’t everyone doing this?”

To the first question, I can only tell you there really is no catch.

Most people need life insurance anyway, so purchasing it in this format is a great way to get the life insurance they need and tax benefits they didn’t know existed.

To the second question, “If this is so good, why isn’t everyone doing this?”
I can say the primary reason is that most people simply haven’t heard about it.

It is for this reason that I have written this book. It has been far too long since this great benefit has been hidden from mainstream America.

Also, this strategy is not for everybody.

GIVE US A CALL! LET’S FIND OUT IF THIS STRATEGY IS RIGHT FOR YOU.

Dawn Levis

GRUENE INSURANCE GROUP

1198 GRUENE RD., SUITE C
NEW BRAUNFELS, TX 78130

(210) 313-0041

The numbers used in the above example (cost, cash value, and death benefit) are fictitious and represent no particular type of policy or any particular company. These numbers are purely intended to introduce a concept and are not to be used for illustration purposes. Any similarities between these numbers and any actual policy are purely coincidental. Actual policy results can and will vary either positively or negatively based on the company, the type of policy, and the features chosen.