

I'm going to start by talking about the cash value, which is valuable, but not any more valuable **while you're alive** than the death benefit.

The Cash Value

What people see as the only tangible benefit to whole life, for the most part, is the cash value of the policy. The cash value of life insurance is the very best tool for liquid, guaranteed, long-term savings, for many reasons. Here are some of the reasons: The cash value earns a guaranteed interest rate of at least 4%. The cash value is accessible by the policy-holder at any time for any reason, without penalty (the only tax deferred product that exists where that statement can be made). The cash value is not taxable (as long as the policy is not a MEC and the policy has not been surrendered/cancelled). The cash value is not attachable in a lawsuit. The cash value also earns dividends, which are added to the interest accrued each year, tax free if placed back into the policy (in the form of PUA's).

Even though the cash value of life insurance is playing catch up for the first ten years of the policy, due to the first year premium being used to pay commissions and administrative costs, it **eventually exceeds what all other savings vehicles are capable of doing**. You must also consider the fact that regular/traditional savings methods are taxable, every year, and some even have penalties for early withdrawal or excessive use (CD's and Money Market Accounts).

Strictly from a perspective of being cash building tool, whole life is nearly impossible to beat over a lifetime. Let me add one more important benefit that a person gets by building cash in whole life versus a regular savings tool. The disability Waiver of Premium (for those that qualify healthwise). No other product in the world offers this benefit. No other product or institution in the world will continue to save for you, in the event of a disability. Whole life does.

Calculations: If a 35 year old were to save \$10,000/yr into a regular savings (even the ING Orange account, which is the highest regular savings I know of) at 2.4% for 30 years, that person would have a total savings of \$450,000 (see "cmpd tax savings"). However, the interest on that account would have been **taxed every year**, regardless of whether or not the money was used for any other purpose. The total tax paid on that account, at a 25% tax bracket, would have been \$37,501. Then, in addition to that, the **opportunity cost** would have added another \$35,945 (at a 6% opportunity cost on the tax). So, the net result, or the bottom line is, the taxable savings account would have generated a net amount of \$376,554. When you look at it in this more realistic light the taxable savings account only gains \$76,554 over the entire 30 years. The **real rate of return is only 1.43%** (see "int rate calc 1").

If that same person saved \$10,000 per year into whole life instead, for the next 30 years, here's what would happen. First, the cash value in the account would have grown to \$547,070. So, even though the first year premium does not build cash value, the account more than makes up for it, simply from higher compounded interest rates. Second, the cash value is not taxable (no 1099's). So, the taxes that this person would have paid, as in

the previously mentioned method, now get to be saved. Also, the opportunity cost that would have been lost, is now recovered. That means **you get to add back in the tax + lost opportunity cost into the total cash** at the end of the 30 year period. Therefore, the bottom line, the cash at the end of the day using the whole life method, is \$620,516. So, even though the first year premium is \$10,000, and is supposedly "lost", the efficiency of the life insurance policy brings in \$170,516 more than the regular savings method, which supposedly does not lose the first year contribution!

The Death Benefit

After seeing that, I'm not sure you need any more explanation about why whole life is the best place to systematically save money. But, I'm going to give you a little more about why the death benefit is so valuable while you're alive. It's a little harder to calculate because it's based on the idea of having certainty in your plan (so, it's a little less tangible and calculable). However, I'm going to give it a shot.

I've met with a lot of retirees and they all seem to have something in common prior to working with me. The thing that they have in common is that they **actually try not to spend their money**. Reason: they don't want to outlive their money, and they don't want to leave their surviving spouse without enough to maintain their desired lifestyle. So, the only way they know of doing that is not to spend their money/assets.

Enter a new way: What if a retiree had a mechanism in place which basically guaranteed that upon the first death of one of the spouses, the entire amount of assets that they had accumulated over their lifetimes would suddenly be replenished? How would that fact adjust the way they viewed and used their assets while they were both alive? I propose that it would make a major difference. I propose that their goals would change quite a bit. Not that they would go crazy and spend everything they had as quickly as they could. But, they would not be nearly as hesitant to use their money in whatever manner they desired throughout their lives, knowing that all of it would be replaced as soon as one of them died, **which is certain to happen** at some point along the way.

Calculations: If a couple had built \$2 million over their lifetimes and had no means of guaranteed replacement of the assets upon their deaths, the couple would "try not to spend it", and therefore would only take the earnings from the asset base. Again, at the ING Orange savings rate, that would equate to a before tax income of \$48,000/yr.

Contrary to that, if the couple knew that the assets would be fully replaced upon one of their deaths, they could enjoy/use their assets over one of their lifetimes (I would suggest the man's because generally he'll die first). If they did that, their income, from the same \$2,000,000 asset base, and the same Orange interest rate, would be \$122,360/yr before tax. That's about **155% more income per year** than the more traditional method. I don't know for sure what rate of return that makes the death benefit worth to the client, but I do know that **the client using the traditional method of accumulation would have to build over \$5 million in assets to accomplish the same level of income!**