Episode 133 - Beyond Tax Deferred: The TEFRA TAMRA Corridor

Episode Transcription

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Paul Adams: Life insurance goes through the same stages, you might see three to four years in, if you had to... I'm just gonna use again just large numbers to make it make sense, but if you were putting $300,000 a year into a whole life policy, the first year is gonna not have that much cash growth. The next year will be like maybe you end up with $200,000 of cash growth, but by year three, four, five, it's now starting to grow as fast as you put money in.

[music]

Speaker 2: "Welcome to Sound Financial Bites where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host, Paul Adams, now brings directly to you.

Paul Adams: Hello and welcome. I'm Paul Adams your host, and founder, CEO of Sound Financial Report, Cory Shepherd is with us. How are you, Cory?

Cory Shepherd: I'm doing great. I'm feeling that two cups coffee I had this morning, I only had the normal one but I'm just feeling ready to go.

Paul Adams: Oh, very good. Well, we're excited to be able to share with all of you something that we've talked with our clients a fair amount about and it takes a very different slant at planning that a lot of people think, meaning that we take a look at one particular financial tool that is almost heretical in some financial circles to take this tool seriously.

Cory Shepherd: Let's not downplay that, I think almost it's heretical in some financial circles, playing black me.

Paul Adams: Yeah, Just, just listen to some of the major popular radio shows, call in and say, "I'm thinking about doing this thing." And they'll tell you that your husband needs to grow a spine or your wife needs to stop spending money and...

Cory Shepherd: You should have taken Math in school.

Paul Adams: Yeah, which one of the things I do, whether it's a political or financial discussion, the second somebody becomes zealous or condescending, I immediately go, "Oh wait a second, I should probably do that math for myself because oftentimes the zealotry or the condescension is trying to distract us from just learning the information on our own." So we're gonna talk today about being beyond tax deferred and how to utilize the TEFRA TAMRA corridor from a high level. Now, this weekend planning, Cory, tell maybe you could share with everybody what we discovered just before recording.

Cory Shepherd: Yeah, it's funny how these coincidences happen. I think it's not actually a coincidence. Our brain gets primed to find these things. So there are lots of articles out there around this tool that we're gonna be talking about. And can we go ahead and spill the beans, is it time?

Paul Adams: Oh yeah, go ahead.

Cory Shepherd: Okay, so the article is on whole life insurance and specifically why it's bad, which is just right there. The article from the start, and it tells the end of the story, so we can tell that you can tell if someone's set out to do an assessment or if they already had the answer and were trying to fill in the gaps of the answer that they already wanted to have. And so this is one of the most popular articles out there from a website called Mom and Dad Money about why whole-life insurance is a bad investment. Now, Paul, is whole life insurance a bad investment?

Paul Adams: Yep, [chuckle] It, because it's...

"You don't buy life insurance with money. You buy it with your health

Cory Shepherd: Yep. Wait. Oh the record scratch just happened like wait, wait, wait everyone's lost right now? Wait.

Paul Adams: I think so. Well, here's what everybody may not know, is whenever somebody, whether it's an article, a radio personality, some video online says, "Whole life insurance is a bad investment." Yeah, like by law, it cannot be called an investment, but just because some things are bad investment doesn't mean it wouldn't be a good idea to potentially have. Now we're gonna give you one small slice of that today. But for instance, how many people all agree that your primary residence is a bad investment? We would agree with that. Math bears that out. Nobody argues that, but people still buy a home, and there are other reasons to own a home like lower cost way to provide shelter for you and your family across your lifetime than renting.

Cory Shepherd: Like super better deal than renting for almost anyone who can pull it off for sure, but not an investment like the rest of your assets are.

Paul Adams: Exactly... So we found so much meat in that article of things that were incorrect or incomplete that we're actually gonna give that its own episode. We're gonna do that in episode 134 and we're gonna go through these eight major points that they make, and just kinda uncover the like dusting off the edge of the plate of an umpire. Is that there's lots of things said in the article, and we're gonna leave some things to just open new interpretations that the article itself doesn't bring across. So that you guys will have that, and you'll be able to think it through. One last thing we wanted to mention to you though today, is that we are re-branding the podcast, we are going to go from being Sound Financial Bites to... Simply because for...

Cory Shepherd: Wait. Hold on, let's cut. I didn't wanna announce the name I just wanted

"It should always be that way when you're working with a planning professional is that they're helping you understand the consequences of different decisions. You and your spouse get to choose which decision you make"

to tell them that the name is coming, 'cause we haven't had the meeting with the guys. Yeah, we're pretty sure but let's build the suspense so we can have the...

Paul Adams: You wanna edit that out or just let people... [laughter]

Cory Shepherd: You know what we should do? Let's just beep the name.

Paul Adams: Oh, that's perfect.

Cory Shepherd: Let's evolve it in and we'll just beep the name.

Paul Adams: Okay, good all right well.

Cory Shepherd: Everybody you just heard you just heard Sound Financial Bites, AKA something else, in action, this is how the sauce is made, none of this is getting edited out.

Paul Adams: Very good. Oh, I like that. We'll just do a beep like I said some... They're all gonna think that it's gonna be a curse word. That's gonna be wonderful. [laughter] Very good.

Cory Shepherd: Not saying it's not [chuckle]

Paul Adams: So let's kick off today's topic on the idea that there is an issue that we all have is that, for most of you listening, the reason you started buying some assets of any kind, whether that was an insurance, a stock, ownership in the piece of real estate... Most people listening only because most Americans, period, do not have an overall philosophy of how they're engaging their money, most people as they accumulate assets, and when I say most, I mean over 95% from our own experience of the people that are confident enough in their finances, to apply to become a client of ours, that when we see those most of the time, folks don't even know how much capital at work is going to be required for them to be financially independent. That will be a little bit like heading to church in the morning not knowing what church you're gonna go to on Sunday morning.

Paul Adams: Like in the car, I have some equipment, I have the family and off we go till we run into something that we hope will work out for us, that is what we see all the time. So there's this way that you accumulate some surplus and then somebody comes and pitches you a product and when they pitch you a product, "Oh that sounds good. Oh, that doesn't sound good." So we're gonna be analyzing this strategy or this tactic, called Whole Life insurance, a product that can be held in your financial life, from a different viewpoint today.

Cory Shepherd: And life insurance we've seen has been one of the most often

"The key component is that you can actually have both the money deployed somewhere else while it's still growing inside the contract."

haphazardly acquired products. Like, I can't tell you how many clients I've seen that have some of this on their balance sheet. And they acquired it for whatever reason, they acquired it and they still have it, but they don't even know 10-15 years later, all the things they could be doing with it or how to use it effectively on their balance sheet. And I think that's where all the negative articles come from. Folks just don't even know what they're doing or how to use it.

Paul Adams: Well, and I would say that 90 plus percent at least of the life insurance people that we just bump into, 'cause they've already been working with a client of ours etcetera, do not know some of the things we're gonna teach you today and over the next few episodes, and it's simply because we're gonna have this incredible academic by the name of Dick Webber on an upcoming episode here. And he wrote one of the seminal papers on life insurance, that was voted White Paper of the Year in 2011 for the Financial Services Industry Professional Association.

Cory Shepherd: American Academy of Financial Services, yeah.

Paul Adams: Yeah, yeah, I got that acronym.

Cory Shepherd: The Oscars for financial white papers. It's not even on C-Span, but it's a thriller. [laughter]

Paul Adams: Yeah I bet. That is what we're gonna do is pull some of this apart because many of them have never even heard of his writings and why we've talked about it before, the financial services industry largely anchored in a sales philosophy instead of a planning philosophy. So we're gonna walk you through a couple three key ideas for you to apply to assessing life insurance at all. It's a little bit like we're talking about one of the clubs in your bag, we're just gonna talk about the club. We don't know how it would apply to you or not, but if you had deeper interest and wanted to have a conversation with us or you were like, "Hey I'm thinking about engaging an advisor. He just told me it's a terrible idea after you told me what to do with my advisor," we'd be happy to give you a different look, at taking a different philosophy for dealing with your planning. So let's start off with how life insurance used to work. Cory if we just could wind back the clock to the tax code and financial circumstances of say like 1980...

Cory Shepherd: Yep.

Paul Adams: What could we do if we wanted to go acquire a whole life policy?

Cory Shepherd: So back then, a lot of smart wealthy folks figured out that you could... Let's say you had a million dollars cash, you were trying to put somewhere, you could give that million dollars to a life insurance company, and it would show up, you would transfer it into the cash value of a whole life policy and they give you a, let's say a million and $50,000 life insurance policy.

Paul Adams: Little tiny bit of risk on top of that cash.

Cory Shepherd: A little bit. Almost, almost none, and then that would grow tax free at its own little clip, let's say 4% a year, tax-free year in and year out, it would never go down and you would also have the tax-free payout, well income tax-free pay out on death of the life insurance money or you get to use the money along the way as a bond like asset. It was pretty good. So Paul, if that was today, not back then, just as a comparison, if we could still do that, do you think you'd see a lot of people buying CDs in any great amount?

Paul Adams: No, well, especially given that the life insurance is also totally liquid, they could just take the money out. Creditor protected. I think currently it's in 42 different states that's 100% creditor protector with some creditor protection in the other eight states. So you're right. Like I would have no reason to want to do a CD or US Treasuries, or taxable corporate bonds, or munies because all of the bond assets also have market volatility, when interest rates change.

Cory Shepherd: And even a stock market investment which is very, very likely to get more than that 4% over time. Let's just call it 6 to 8 for a really well-diversified portfolio, depending on how risk you wanna be, back in the pre early '80s and earlier than that, there were lots of folks who just said, "Well, I don't really like the risk for, I mean, some of my money will be there for a lot of my money, I just as soon have that real regular 4% tax free," which gets you up to, depending on your tax bracket 5-6% pre-tax anyway, pre-tax equivalent. So Wall Street, Wall Street was actually losing a lot of money to life insurance companies back then.

Paul Adams: Somebody said there ought to be a law against this.

Cory Shepherd: There ought to be a law. And the people that said that were likely the lobbyists for Wall Street [chuckle] in Washington. Now, the law's changed, and they wanted to change the scenario of basically having an unlimited permanent tax shelter that people could put money into, so they wanted to limit some of these benefits, but they didn't wanna just remove them all right away, 'cause the reason that they were there in the first place was that life insurance does a public good, if a family owns life insurance, and then loses their breadwinner, well, they're not as dependent on Social Security payments, welfare, the community as a whole. So that is why we got those tax breaks, those tax incentives. If you just look at any tax break we get is not the government giving us something out of the goodness of their heart, they're trying to incentivize a certain action. So Paul, what did they do to... I think it's pretty genius. What did they do to limit the use of this tax shelter?

Paul Adams: Well, one of the things it had to do so differently, versus say, we'd be familiar with IRAs, 401Ks all have kind of a flat amount you can put in, and people have similar limits on those accounts regardless of the amount of income they make. Well, the trouble with life insurance is that I could, say, get more life insurance just because of my income because I own a business. Then let's say somebody who is working inside of a large corporation as a junior associate accountant as an example. That difference meant they couldn't put a flat limit on how much you could put in life insurance because the Paul Adams or the, for that matter, let's just go way, way bigger call it the Warren Buffet's and the Bill Gates. They have to own a different amount of life insurance than we do.

Cory Shepherd: So the one-size-fits-all 401k IRA limit doesn't work?

Paul Adams: Exactly right.

Cory Shepherd: Can't just cap it like that. Okay.

Paul Adams: So what they did is they said we, their problem was it was the insurance companies that needed to help solve the problem. So what the IRS did is they said, "We are going to limit, we're gonna put an actuarial rule in place that is going to say that the cash cannot grow too quickly as it relates to the death benefit." Now, the actuarial test is called the 7-pay test, you can actually put in less than seven payments, and still follow the 7-pay test. But picture that in your mind, that there's if you can picture the distance between cash value of a life insurance policy and the death benefit of a life insurance policy. You can let it ramp up, but it can't invade the gap between the cash and the death benefit any faster than allowed by the 7-pay test.

Cory Shepherd: It gives us a nice look in a corridor between the two of those doesn't it?

Paul Adams: Indeed. And then we call that 1982 to 1987 set of legislation the TEFRA TAMRA legislature with two major tax plans, and so we call that gap, the TEFRA TAMRA Corridor. But it kinda leads us on to our next point which is, it is the IRS that limits the amount of money that we can put into a life insurance policy, not the life insurance company. Now, kind of a full stop there. Cory, do you know the IRS to be a particular taxpayer advocacy group for a company like Cons...

Cory Shepherd: Benevolent organization [laughter]

Paul Adams: Yeah, consumer reports of financial tools like why you shouldn't use this or that?

Cory Shepherd: In general... Well, I'll put it this way, in general, if I see the IRS trying to limit my access to something in a certain amount, I'm pretty sure that the more that I have it, the better it is for me and the less of what they want is happening when I get it.

Paul Adams: Yes. [chuckle] Well put, and that is the point is that they've have limited how much we can put in and that comes down to death benefit, age and health. So it's our role, if what we wanna do is even explore this tool, is to do the math. So what does it take to do the math? Well I'll give you a couple of quick tips if you're considering something like this. Number one, it should be with a Mutual Life Insurance Company, because when you own a decision like whole life insurance you're likely gonna have this on the books on your balance sheet for a very long time, and if it's gonna be on your books for a very long time we need to make sure the people that are in charge of all the major decisions, the fiduciary responsibility to you, and your money inside the contract, should be people who care about you and your outcomes. The opposite would be a stock company. If you were with a stock company that board of directors is responsible for representing the shareholders, not the policy holders. At a mutual company, the board of directors must represent the policy holders, that is you. And since this is a very long-term decision, it makes a lot more sense to have somebody who's thinking decades in advance, not just the next quarterly announcement to their shareholders.

Cory Shepherd: Yeah, it's... The whole set of legislation that happened is such a brilliant move on the part of the IRS and the lobbyists that helped start this sea change because they didn't make a law that tells anybody they can't have it. They really, they didn't do anything like that, they just made these subtle changes. So now it's a factor of time that allows anybody to take advantage of this. Well, one, you have to be healthy, you have to... You don't buy life insurance with money, you buy it with your health. So they got the insurance companies on the same side as the agenda that the IRS had just by forcing them to have that leverage, and then they said, You can't have all the money available day one, which means that anybody living paycheck to paycheck, immediately cannot even consider this strategy.

Paul Adams: Well and beyond pay check to pay check, how many people are really able to make decisions that are going to help them in let's just say three to four years? And we're gonna... I think we will talk about that after the commercial break. But the idea is the money is not all there immediately, not even on a statement. And that just causes a lot of people, 'cause we don't make a lot of long-term decisions, financially, as Americans... So it leaves less opportunity for us to be prudent with our money 'cause we'll miss opportunities like the appropriate and strategic use of whole life insurance. Now, that TEFRA TAMRA Corridor is just how quickly we can add money. Now nearly never have I met somebody who has owned a life insurance policy where it was ever disclosed to them what that policy might look like if it was maximally funded. Now it maybe, let's just pull the curtain back here a little bit, Cory. Can you just kind of share with everybody what it is you and I talk about behind the scenes about why many insurance folks don't actually properly construct these policies in a way that's best for the policy holder?

Cory Shepherd: Well, there's a few things, one is insurance companies themselves, are... If we go way back to the '70s, when the life insurance industries' focus changed to a sales track and needs-based selling that let a very inexperienced salesforce be quickly trained up to accumulate policy holders. They don't spend the time educating their life insurance agents or professionals about all the different ways that this can be used 'cause that's complicated and nuanced and they're helping them get people to put money into policies as quickly as possible, so it's a much different conversation, a much thinner surface-level kind of conversation.

Paul Adams: And coupled with that, what also occurs is that they talk about buying a life insurance policy and there's two different distinctions here. When we talk about funding a life insurance policy right up against this corridor, and if you've ever gone through a coaching conversation with us where this has even been explored, the thing that you'll notice is there might be $5 million worth of life insurance, but the amount of money going in... 'Cause we'll oftentimes just use kind of a larger... A larger contribution just to make it ridiculous so that you can see the amount of money, but let's say the most somebody could put in is $353,712.18. The reason it's always this oddball number is that is as close as we could get before we violate the TEFRA TAMRA Corridor, and it's no longer considered life insurance. But when the advisors drive more money directly to the cash right up along that corridor, that same amount of premium flow does not compensate the advisor as much as what's called the base premium.

Paul Adams: And that's kind of the little soft underbelly, if you will, of the industry. The people that really understand whole life insurance and say, "Hey, this could be a good tool," don't necessarily wanna talk about how some of their contemporaries are not teaching people the right way to use life insurance. That is what we see most often is that people have collected permanent life insurance and the other thing we see is lots of people think that they own a whole life, they don't have whole life. They have some other version of what I would refer to as over-funded term insurance. So I'd encourage you guys, if any of this is confusing to you or you feel like there might be more, go back and check out episodes 81 and 82. That's, what we do is explain the basics of life insurance between term and a whole life and that we explain universal life or as I like to call it over-funded term insurance.

Paul Adams: So, just know what you're looking to do is get as close to that corridor as you could possibly get. Ideally, you work with an advisor who you have paid a fee to so that them getting you to buy life insurance policy is not the compensation methodology that they depend on, and puts you in the position you can actually assess, Is this a tool that could potentially work on my financial picture or not, so that you're making the assessment. It should always be that way when you're working with a planning professional, is that they're helping you understand the consequences of different decisions. You and your spouse get to choose which decision you make.

Cory Shepherd: And with that, it's the perfect time for a commercial break from Sound Financial Group. Stay with us.

Cory Shepherd: At Sound Financial Group, we are committed to continuing to bring you

Sound Financial Bites. Hello, my name is Cory Shepherd, president of Sound Financial Group. If you were finding value in these weekly podcasts, and they are making a difference in the way you think about money, then think about what kind of a difference could be made if you engaged one of our advisors to help you look at your personal finances. So what would the next step be? Send an email to info@sfgwa.com with philosophy in the subject line, and we will coordinate with you to have a conversation with Paul, myself, or one of our other advisors to share with you our philosophy of money. No one is going to close you on that call. No one is going to make you an offer to become a client.

Cory Shepherd: The only thing we allow our advisors to do in that call is teach, and the only thing we allow you to do is ask for an application. While we don't accept everyone who applies to work with us, we are committed that any Sound Financial Bites listener who wants to go deeper, has the chance to expand their thinking and walk away with new education and resources around money. So even if we find out we aren't right to work together, our team will absolutely take care of you in that call, and make sure that you have access to resources that might be of help to you.

Paul Adams: Welcome back now we're gonna touch on one of the points that is too often just not discussed about whole life insurance. And that is, it's because the people that are just out there selling life insurance tend not to wanna talk about it and they just say, "Oh no, it's just a long-term asset, and it's all that anybody else wants to talk about it. And I would almost say that people tend to lay a set of expectations on using a tool like an over-funded whole-life insurance contract. And we're gonna get into the actual applications in a couple of the next episodes, 'cause this is not a small topic, and it's not a tool that can be using just one place. So on our upcoming episodes we're gonna be really be touching on how it could be deployed. But what people will oftentimes say is, "Well, yeah, but the guaranteed rates of return are lower." This is an example of not holding the same standard to two different goals.

Cory Shepherd: "Yeah, but," there are a lot of "Yeah, buts" too, which is kind of fun. Maybe that's a different topic. [chuckle] I just noticed that.

Paul Adams: So you say life insurance does have guarantees on its cash value, meaning it could go up, but it can't go down to any kind of market volatility. It could grow faster, or grow slower, but it cannot decrease in value. And somebody will say, "Well, but that guaranteed rate of return is really low." It's like yeah, but what's the rate of return that's guaranteed on my S&P 500 Index? What's the rate of return that's guaranteed on my rental real estate? What's the rate of return that's guaranteed... By the way, I'm not anti any of these other things, but the question is, if we're going to lay the template on life insurance, that guarantee isn't as good as I might like, well, let's compare it to the guarantee on other tools, and that's one that comes up a lot. And the second one that comes up, and if you get a chance to see one of these TEFRA TAMRA policies just kind of philosophically demonstrated, we hope to put some of that up on YouTube in the next month, but you'll see that it takes a few years of putting in money before it starts growing as quickly as you're adding money.

Paul Adams: So, you takes about three to five years, depending on your age and your health and how much overfunding can be done, but if that overfunding is which you put in above the base premium all the way up to the IRS TEFRA TAMRA Corridor limit.

Cory Shepherd: You know, for all of our business owners out there, I really like the metaphor of starting your business because that first year, you're putting money in, you're not necessarily expecting to take a profit. And there's two profit points. There's the, at what point am I getting as much money back out or more as I'm putting it in, like the year-to-year cash flow positive, and then, what point down the line am I net positive on having started this business, like catching up on all of the startup costs.

Paul Adams: Yeah, the initial capital, the money borrowed from the bank, the blood, sweat and tears, the money that could have been earned working for somebody else, that takes a lot longer than the "profitable business." Life insurance goes through the same stages. You might see three to four years in, if you had to just... I'm just gonna use again just large numbers to make it make sense, but if you were putting $300,000 a year into a whole life policy, the first year is gonna not have that much cash growth. The next year will be like maybe you end up with $200,000 of cash growth, but by year three, four, five, it's now starting to grow as fast as you put money in. And when it grows faster than you put money in, it does not send you a tax form. But let's now use the same way of assessing other financial decisions as we use on the life insurance.

Paul Adams: To say, "Well it takes several years before it starts growing fast enough or as fast as you put money in." Well, let's start with, Cory, the 401K. What's the 401K like when we add money this year? This is not disparaging any of these tools, we're just wanting to put them on level ground because these are all tools you'll probably have to use to build your financial future.

Cory Shepherd: So the 401K, there's two answers to that question. You have a statement that says, "Here's the money that you have in your 401K, and here's how it's growing." But I'll ask folks what's your real accessible rate of return in your 401K this year, you max-fund your 401K this year, $18-19,000, depending on the year that you're listening. What's your real rate of return? Zero 'cause you can't get any... Theoretically maybe you can do a 401K loan, but that's not always a great idea anyway. So let's just say for all intents and purposes, zero.

Paul Adams: Zero at least until we take it out.

Cory Shepherd: Right. So most folks think of a 401K like it really could be just a black box between the day you put it in and when you turn 65, you... Nothing, and as long as you have the money that you want at the back end, there's no problem, like no one talked about that being a negative in the 401K.

Paul Adams: And to challenge you a little bit, it's not even that the guarantee is, or rate of return is zero. The rate of return on the 401K on my contribution this year... And now we're having this conversation not counting match here for a moment. But when I put in money, if I quit, had to take the money out next year, folded up my business, whatever happened, I'm actually guaranteed a 10% loss, at least in my first year, maybe more, if there's lots of other money that'll push me in a higher tax rates.

Cory Shepherd: Right.

Paul Adams: So we actually have a guaranteed loss before any market volatility, at least until we get to older ages. How about rental real estate? Similar? You put in... So let's just say you bought a $400,000 rental property, which means you need to put down at least 20%. That's $80,000 and you might be very pleased if that rental property now cash flowed $200 a month, positive cash flow. Well $80,000 deployed into an investment where we're recovering a couple of thousand dollars a year, it takes a long, long, long, long... I wanna just keep going and seeing if people like start skipping, in the podcast. But it takes forever to regain back that down payment. And so, what you're banking on is, I hope it appreciates enough. But just real estate sales costs, if that property will grow at 4% per year, once you take into account taxes, and you take into account real estate transaction costs, it's three years of growth at 3 to 4% a year, to just compensate for the fact that we're gonna have taxes on that growth plus, we're gonna have to pay the real estate agent to help us sell it.

Paul Adams: So if you can hold that in your mind for a moment that we have, and by the way real estate can be a wonderful idea. Is it a great idea in the short run? No. Not usually, neither is the 401K, neither is speculative investment into single securities, neither is choosing an index, licking our finger, pointing at the wind and hoping that it works out okay. The thing is that not one of those tools by themselves is effective, but Cory, let's say somebody has put money into the life insurance, they've been doing it five or six years, they're starting to creep up on recovering the amount of... Now they're creeping up on the amount of money they have put in total there. How much of that can they access and why?

Cory Shepherd: So they can access well, whatever shows up as cash in their policy, they can access nearly 100% of it at any time and that's becoming available to them from the dividends that are paying into the policy and the guaranteed interest that's growing. And so, sorry, what was the rest of your question?

[chuckle]

Paul Adams: And why? What are the reasons they could choose to take the money out? Like...

Cory Shepherd: Oh. Why. Why...

[overlapping conversation]

Paul Adams: Tell me all the limitations of why they can't take the money.

Cory Shepherd: Yep.

Paul Adams: That's it, right?

Cory Shepherd: That's it. So you wanna get a new car, and make a loan to yourself versus getting a loan from the bank, you want to pay for education for your kids, you want to go on vacation. Any of those things you could do with that cash without any penalty.

Paul Adams: When you take the cash out of a life insurance policy, there's nowhere on... I haven't looked at those forms in a long time but to my knowledge there's zero spot on the form that says, "Why do you want this money?"

Cory Shepherd: Why. Nope.

Paul Adams: And it's simply because there's a mechanism at work that a large company is out there, and they're doing their best to deploy all of the reserves of that insurance company out the marketplace. They buy everything from commercial mortgages to large commercial buildings, to lots and lots of bonds on the marketplace, and even a little bit of publicly traded securities, but a very small amount. Now when they are diversifying and deploying their money everywhere, all they're doing is saying, "The first place we're willing to deploy some of our reserves is back to you as the policy holder, and you can just pay an interest rate back to the policy." Yet, the money inside the policy is still growing, even though you have the money out elsewhere. And we'll go deeper into that in another podcast, and we've touched on that a bit in the past, but the key component is that you can actually have both, the money deployed somewhere else while it's still growing inside the contract.

Cory Shepherd: Now, Paul, the only... Something strikes me, which is 401K, rental real estate, starting a business, none of these are immediately profitable decisions and actually promise to be immediately non-profitable for some amount of time until they become favorable. The only thing I can think of the top of my head that is immediately favorable and profitable is something like a savings account. Put money into a savings account. You have all of it, you even get some amount of immediate interest, there is no lag to your access and that is the lowest returning account we possibly can have, and no one talks about that as a bad thing, and rightly so.

Paul Adams: It's just a different type of thing, which is what we're gonna pick up on our next podcast. So let's just kind of wrap this here. Number one, we have to know how these tools worked before to understand how they might work for us now. Knowing that the IRS is who decided there had to be a limit to how much money you could put in life insurance. It was not the insurance company saying you had to limit how much you put in, but the IRS. So now the question is, how do we design in a way those policies so they can take maximum use of it? You shouldn't acquire a whole life policy of any stripe unless that agent or salesperson or advisor that you're working with has actually generated an illustration that shows you what's the most that I could put in? So, you could analyze it from that perspective.

Paul Adams: And last but not least, we need to think about it as a long-term decision just like everything else that you put money into, that you need to be able to put money in, have that money grow, have it be in a position that it's accessible and then compare it to the other things that you could put money into, with the background of it being, we need to see if it's the place that we can put the most money. Well, since we went a little long today, we're not gonna get to a feature review, but we do wanna remind all of you to review this on iTunes, SoundCloud, Overcast, wherever you listen to your podcasts, and be sure to subscribe and do that review 'cause it really helps us with the rankings. And why it's important for the rankings is we're trying to bring people unbiased un-advertised un-financial institution supported content so that they can make good financial decisions. And when you like, when you review us and give us an honest review, you're actually helping more people get this message without even having to pay to be clients of our firm.

Paul Adams: And we want you to be able to get a copy of either Mike Michalowicz's book "Clockwork", my book "Sound Financial Advice," Cory's book "Cape Not Required," just send us a screenshot of the review that you did to info@sfgwa.com. We're gonna get you out that book. Send us your contact information, mailing address, and we'll be sure that you have a chance to be rewarded just for giving us an honest review. We're so glad you guys could be here and we hope that this has been a contribution to you being able to design and build a good life.

[music]

Speaker 2: I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances and your future to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn. If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, soundfinancialbites.com or email us at info@sfgwa.com. Be sure to check out the show notes for links to any resources that were covered in each episode. For our full disclosure, please check the description of this episode, the description of this podcast series or you can visit our website. Make it a great day.

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