Episode 136 -Spending the Death Benefit of Your Life Insurance While You're Still Alive

Episode Transcription

Paul Adams: Welcome back. I'm so glad to have all of you here on our soon-to-be-renamed, yet unannounced new name.

Cory Shepherd: Mysterious podcast.

Paul Adams: Mysterious podcast...

Cory Shepherd: That's not the new name.

Paul Adams: With Cory Shepherd. [chuckle] We look forward to rolling it out to all of you. Today, we've got, I think, a topic that is going to interest many of you, and it's the idea of taking control back from the financial institutions, and putting the power back in your hands, allowing you to actually spend more than just the interest on your money in your old age.

"Now all of you can take back control of your capital."

Cory Shepherd: We're so excited about this one that we don't even think you need to know who we are, except I'm Cory Shepherd, President of Sound Financial Group, Paul Adams, CEO and founder. They all know that already. This episode is gonna have a deep dive at the end because of all of the content that we're packing in. We've talked about this a few times, where we're gonna give a normal kind of discourse on a topic, but then there's gonna be the CPA-friendly, attorney-friendly, super-analytical, detailed part that you can stick around for at the end or send your advisor to. Just know that if you stick around for that, that it's gonna get deep. Paul, I know that you were pumped when you found the article for this week in planning. Do you wanna run with that today?

Paul Adams: Yep. I love this because I think it speaks to the kind of prudence we need to bring to our planning. This week in planning's featured article is from March 31st on Yahoo News. It really touches on the importance of diversification, and what it means to be your own fiduciary, which we talked about in a past episode. What I want you to think about, and you can always search "be your own fiduciary" and find that episode, but something that's key is that when you have a large amount of money given to a charity, that charity has to act with a fiduciary standard with that money. Yet, what a lot of people don't realize is one of the most long-term successful companies, widely diversified in terms of its holdings, is Berkshire Hathaway. That's Warren Buffett's company.

Cory Shepherd: By itself, one of the most diversified mutual funds you could buy in some ways, if you just bought that one stock.

Paul Adams: Bought that one stock. They own a bunch of stuff. In fact, I was just having a nice chat. I was filling up the RV with diesel this weekend and chatting with a gal who's a manager for a pilot station. She's like, "Yeah, Warren Buffett just bought a bunch of our pilot stations," because literally, they have their fingers in a lot of different pies. Yet,

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when that money was given away to Bill Gates' foundation, what did they have to do once the money was given in is they had to sell the stock. Even when Warren Buffett made his own gifting to Bill Gates' charity, one of the first things they had to do is sell the stock. That's right, that even when Warren Buffett gives stock in Berkshire Hathaway away, they have to liquidate that holding and purchase an appropriately diversified portfolio, keeping almost none of it.

Cory Shepherd: His donation came along with a seat on the board. He is one of the people who chose to sell off the very stock that he just gave.

Paul Adams: I want all of us to think about that, that there's two different types of risk: There's systemic risk. Those are the things that can happen across economies, and across all holdings. We saw a systemic risk in 2008. Then there's idiosyncratic risk. That's the individual risks that we take that we can mitigate against, and that's the idiosyncratic risk that they're looking to avoid when investing money for endowments and large charities.

"The problems with running out of money don't occur the day you run out of money. They occur when you see yourself on the glide path of running out of money."

Paul Adams: The trouble is, for most of us as individuals, and this is the thing to be aware of, we don't take as seriously managing money for our own future that somebody managing a large charitable fund would take for their future endeavors, and yet the investing time horizons are quite similar, meaning, you've gotta keep this money around until you and your spouse pass away, which if you're healthy at age 65, when you get there, which nearly all of our clients, that's what they endeavor to do, is be healthier as they age, you're going to be in a position where you could be investing in a way that's inappropriate due to overconcentration.

Paul Adams: I think this especially applies for those of you that own a lot of stock in the company that you currently work for, that you're stuck with the stock to put you in the position that you both have the idiosyncratic risk on your career, and you have the risk, the idiosyncratic risk, in your portfolio that's the same company. This equally applies to our founders and entrepreneurs, where you own one huge stockholding, which is the stock in your primary company. It's not that we need to sell it to diversify, but we need to also put money in other places. That is this week in planning.

Cory Shepherd: The link to that article will be in the show notes, as always, if you wanna read a little bit more.

Paul Adams: Very good. Let's just kick off our conversation today. I promise we'd help people take back more of control from their finances. Again, the deep dive is gonna be at the end, so we're gonna keep all of this philosophical and digestible. It'll be much less digestible when we get to the deep dive. Here's what we all wanna think about, is what's gonna work best for me with my money, for me and my family's money and my long-run solutions. Sometimes when we're thinking about what's gonna work best for us, it's important to also think what's going to be best for the person on the other side of the

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table. In this case of financial institutions, we should ask what's gonna work best for the institution who's attempting to serve us.

Cory Shepherd: The institutions are there to make money. That's not a bad thing [chuckle] because they've gotta be able to make money to be around to continue to serve us, but it is less than ideal when we don't know what their motive is. Number one, they want you to accumulate money throughout your whole working career because the more you have, the more that they can charge fees on for sure; but then they also want you to protect your family with term insurance during that accumulation because the institution gets more money in your 401k, less going to that insurance. They also want you to let the... Go ahead.

"And the truth is, you're always going to leave a legacy. A legacy will be left and most people don't want that legacy to be all their checks were bouncing that they wrote from the last month that they lived."

Paul Adams: I was just gonna mention that, think about all the advertisements pushed to you. All the advertising pushed to you, you can observe the evidence that Cory is talking about, is they want you to put money in a bunch of investments to accumulate capital, and they want you to protect yourself with term life insurance because those are the two things you see pushed toward us all the time in terms of what we should do to accumulate capital.

Cory Shepherd: It's not just the Wall Street-based financial institutions because life insurance companies are big fans of term insurance, and they want you to let that insurance go because it is a big win for them, like a huge liability falls off of their balance sheet the second that that term insurance expires; and they want you to live through that retirement, that's gonna be longer than we all think, letting your money stay in place and slowly dripping out, not getting the benefit from that principal that's sitting there inside of that account, but that they are charging fees on the entire time.

Paul Adams: All of you can take back control of your capital. What we're gonna do to illustrate that is we're gonna go all the way back to 1962 because back in 1962, something significant changed inside of the corporate world in the way they retire their executives, that can be applied to you as a regular old business owner on your personal balance sheet. Have any of you ever wondered why it is that these large institutions are able to give large deferred comp packages to their executives, without shareholders constantly throwing riots? We've talked about executive pay reform in the news and the media. You see that stuff out there all the time. This executive makes X amount more than all of their employees. By the way, I think that conversation about the inequality between the two is a nonstarter when it comes to... In actually trying to improve anybody's lives.

Paul Adams: God bless the CEOs that wanna take that on, but for most of these corporations, they actually have a recovery strategy in place we're gonna tell you about. It all started back in 1962. General Electric worked with a consulting company to ask the question, "How do we give additional comp to our executives without cost to our shareholders?" You see, they wanted to be able to bring in some of the best talent. It's

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one of the things that GE is well-known for. They have their own private university called Crotonville, where they bring in these executives from across their diverse enterprises to educate them more effectively. That's how much they take seriously the growth and education of their executive population, and they don't want to lose them.

Paul Adams: They figured out that what they could do and work with these consulting firms, they could actually tap their reserves to give those executives additional compensation, as long as there was a guaranteed replacement strategy. Here's the simplicity of how it worked. They were able to acquire life insurance on some of their top executives owned by General Electric. That life insurance owned on those executives allowed them to leverage on one of the few absolutely guaranteed events that's gonna happen. Cory, what is the thing that is guaranteed gonna happen to everybody?

"It [whole life insurance] is qualified on the risk pyramid right up there with CDs at a bank or cash holdings because it's guaranteed to not go down in value."

Cory Shepherd: The guaranteed... It's not even taxes anymore because we can get out of some of those, but it is death. We know it's gonna happen eventually.

Paul Adams: On everybody. Like one guy got out of that. Everybody else had to be in a position where they are one day going to pass from this earth. When they do, that is a guaranteed event that can be banked on. I don't wanna say leveraged from because we're not gonna be talking about leverage in its traditional sense; but if you know that something's gonna happen, you could do something differently. Let me give you an easy example. I want you to imagine as a business owner that you have some major client, some major organization that you, your company sells into every year. What they do is they say, "Gosh, you guys have been so amazing. We just appreciate you so much. As the owner of this business, we wanna do something unique for you. We want to give you a lot more money. We're gonna give you an extra half a million dollars guaranteed payment one year from now."

Paul Adams: They bring you in. There's the attorneys there. They're a huge corporation, so there's no concern. As you're there signing all of the paperwork, they literally sign documents that put the money in trust for you so that it's guaranteed to be there one year from now, an extra half a million dollars. The question is: What could you do differently that year? You might decide, "I'm not gonna pay as much in taxes throughout the year because I can just pay the tax bill at year end," giving you additional cash flow right now.

Paul Adams: You might choose to borrow some money from the bank based upon that guaranteed event; or you could spend more of your income the entire year, knowing that what you're gonna do is do all your saving at year end with this guaranteed payment. You see, all those things show up as a result of this guaranteed backstop, in this example of half a million dollars, to fulfill the future that you're after. This is the principle we're gonna be going through, which is a deferred dollar as long as it's guaranteed can be used as a current dollar.

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Cory Shepherd: This idea of GE using this strategy to pay executives deferred comp is something that, whether or not you've heard that story... I'm pretty sure you've heard of it before because Walmart got in trouble for buying life insurance on the janitor kind of situation, which is a long ways down the road from what we're talking about here. There are actually some laws in place now about employees having to acknowledge that their employer is buying life insurance on them, but this has been happening for a really long time because corporations realize they can produce some great math with this.

Cory Shepherd: How does this apply to you? Most people, when they get to retirement, are living out some variation of what we'll call "Plan A for America," which is taking this big pot of money that you've built up over a long period of time and only living off of the interest, not spending down the principal, not risking that the total pot gets lower over time. It's really akin to us becoming hoarders of our own money, gotta keep it close, gotta keep it tight.

Cory Shepherd: If someone's on track to run out of money at age 85, when did they have a problem? This is the crux of the issue because a lot of folks think, "I have until now... Between now and 85 to make this right." No, if we start running out of money, the problem starts when we notice that we're running out of money. When you're 71, and you notice that trend of our assets inching downward, now every single decision is tainted. It's through these glasses of, "Am I speeding up the inevitable? Is every trip to see the grandkids, every gift that we're giving, every lunch out making this happen faster?" That changes retirement forever from there on out.

Paul Adams: Not retirement like cash flow. I wanna think about your lived experience, if you were in that situation. Let's just give an easy example. We've talked before about the 4% distribution, that that is the most that you wanna plan on being able to distribute off of an investment portfolio every year. If you're gonna be spending 4% a year distribution off of say $5 million, that feels pretty good. 4% distribution on 5 million is about $200,000 a year.

Paul Adams: Imagine a husband and wife, and the husband walks in from the garage. He's been working on something. He's got a towel, he's sort of wiping his hands off, some grease or oil, and he comes in and he says, "I have got an idea. I think inflation's kind of been weighing on us. We were making a little bit more money while we were working. We only have $200,000 a year of cash flow, and I would love us to live a better life. We've been saving up and investing our money, and a bunch of it, especially for business owners, a lot of it ends up as non-qualified investment money because you've got your exit."

Paul Adams: Your exit is tax. Now you have a bunch of tax-free principal that's deployed and engaged. In this example, we're gonna use 5 million. Then he shows his wife like, "Look at what we can do. We can spend far more money in our old age. We can take more money out as distributions every single year. The reason that we can do this is

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because we're gonna go ahead and spend in a principal. As we spend into our principal every single year, instead of taking just $200,000 a year, we're gonna be able to take far more. In fact, in this case, we're gonna be able to take out double every single year." That's right, I said double the amount of money every single year. Imagine that after tax every year, you end up with double the amount of money.

Paul Adams: Now you're in a position, instead of having 200,000 that's taxable, maybe leaving you 150,000 or so a year after tax, you're actually able to distribute after tax over $300,000 year. That would sound really good. Then the husband throws in at the very end of the conversation, "By the way, we're gonna be out of money by age 85, but it's okay because I'll be dead by then." That...

Cory Shepherd: Then as the frying pan arcs across the kitchen...

[chuckle]

Paul Adams: That's right, that there's some version of upset about that, and there should be. Much to Cory's example, the problems with running out of money don't occur the day you run out of money. They occur when you see yourself on the glide path of running out of money. It creates stress, misery, upset, etcetera. This is the reason why people have a lot of money that's locked up in sometimes accounts that are invested too conservatively. We'll cover that on a different podcast. On top of that, they are enormously afraid of running out of money, appropriately so because life gets kind of miserable if you run out of money before you run out of breath.

Paul Adams: In fact, even in my simple example of getting a chance to spend twice as much money, there is not a good enough life you can live from 65 to 85, to deal with the misery that comes from living in abject poverty from 85 until death. That is...

Cory Shepherd: Even if that was six months, even if that was a year, it's still too much. Yeah.

Paul Adams: Yeah, that's right. It creates... That's the reason why nobody spends down their principal. I remember first teaching this to a client who had a successful business, he was making a little over a million dollars a year, and when I showed this to him, he says, "Now my dad makes sense to me." I said, "What do you mean?" He said, "I cannot tell you how often I've told my father that he should go ahead and spend his money. I just found out yesterday, he has $300,000 of investments. He's probably not gonna live another 10 years, and yet he refuses to spend down his 300,000 despite the fact that A, the son can back him up, and that he can continue to grow his money." Why? No guaranteed backstop.

Paul Adams: Let's change our story a little. Let's go back to the husband walking in from the garage with his great financial idea. Once again, he's just wiping some dirt off his

hands and he says, "Honey, I've got a great idea of how we could spend our money differently in our old age." She says, "That sounds really interesting. What is it?" He says, "Wait, right before I tell you, I also wanted to mention I was organizing the garage, and those whole life insurance policies we got years ago from those advisors out of Seattle, that we did all of the Zoom meetings with... "

Paul Adams: She goes, "Yeah?" He says, "I put those policies that have guaranteed death benefit of $5 million on my life in the big, orange, rubber-made container on the very top shelf of the garage." At that point, she is gonna be looking at him much like you might be looking at the podcast right now, with a confused look on her face, maybe the slight tilt to the right, and, "Why you even bring this up?" Then he goes through and mentions how they can spend all of their money differently, that there is a guaranteed backstop to rebuild the entire investment portfolio for her, and yet they're gonna get the advantage of spending both the interest and the tax-free principal from those accounts, so that they can spend twice as much money.

Paul Adams: Same strategy General Electric went into years ago, and many corporations still use today. It's so commonly used by corporations, there's an acronym for it called COLI, corporate-owned life insurance, where they want to put billions and billions and billions of dollars more in the life insurance every year than insurance companies will issue because you have to have an insured life, and there's a limit to the amount of insurance you get on everybody. We've talked about that before, we talked about in the last episode with Dick Weber, in the idea that there is a limit to how much you can put in, and still have it be considered life insurance. Corporations are insuring their executives as quickly as they can to make sure they can put as much money as possible into this tool.

Paul Adams: When it comes to it being a guaranteed backstop, not only does it have guaranteed death benefit and guaranteed cash values, but it's one of the few assets that are considered Tier 1 capital on a bank's balance sheet, which is also why there's a large area called bank-owned life insurance or BOLI. What we want to be thinking about is, what can we do? We can actually build our balance sheet to match death benefit to the amount of assets that we have, so that we can actually spend the amount of... Not all assets, but the capital at work assets that we have, we have the choice to spend them down over time.

Cory Shepherd: I think that's a great time to take our commercial break, we're gonna hear a message from Sound Financial Group, and when we come back, wrap this up for what it means for you... Welcome back to spending the death benefit of your life insurance while you're still alive. Paul, you mentioned real briefly that this has to be whole life insurance, as part of this backstop strategy. Why does this only work with whole life?

Paul Adams: It's pretty easy to think about. We gave the example earlier of, what if one

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of your customers of your business gave you a large deferred compensation where they said, "Absolutely guarantee, we'll give you half a million dollars in one year"? The thing is, most of the things that we think we're going to make, we don't tend to make any lifestyle changes today based upon the, "If, maybe this thing's gonna pay off." Why don't we? Because we know that it's at risk, we know it's not a guaranteed payment. We don't just change our lifestyle based upon, we think that we're gonna have a great third quarter. Or if you do, you shouldn't. I don't think our listeners are doing that. [laughter]

Paul Adams: You have the lived experience of knowing what it's like when it's a non-guaranteed payment. Flip side, everybody that's ever gotten a tax refund has not only probably spent the money before it comes back, whereas my mom used to say, most people...

Cory Shepherd: They've mentally spent it. Yeah.

Paul Adams: Yeah. [chuckle] They mentally spent it three or four times before the check gets there. Why are we willing to do that? Because we know it's guaranteed gonna come in unless, of course, it's a California state income tax refund in the year like 2009, when they just sent you an IOU saying, "It's our best intent that we're gonna pay you this back eventually." Other than that, those tax refunds are guaranteed, and you put yourself in the position to actually spend the money, or do something different as a result of that being guaranteed. That's an easy example of how we notice it.

Paul Adams: What you wanna do, if you're gonna go through time and spend down your assets, we gave the $5 million example. We're gonna go granular into the details during our deep dive, but think about this for a moment: If you went from having 5 million, and you're spending down and enjoying it, to now only having 3 million, to then only having 2 million, at some point, if you're one of the people that have said to yourself, "I don't wanna leave my kids an inheritance," I totally understand that. I didn't mean to give that a pejorative voice, but a little, only because my goal is to be just offensive enough to get everybody's attention.

Paul Adams: But you would never say to yourself, "I want the check to the mortician to bounce" because that means that your checks could bounce before you have to write the one to the mortician, and everybody knows that. In fact, I've never seen anybody... We do see people in their 40s and 50s sometimes say, "I'm okay leaving no legacy, no big deal to me," but I've never heard anybody past the age of 60 be willing to hold that same commitment because we don't have the ability to be broke when we get old, at risk that we could still be alive when we're broke.

Cory Shepherd: The truth is, you're always going to leave a legacy, a legacy will be left. Most people don't want that legacy to be, all their checks were bouncing that they wrote from the last month that they lived. That leaves behind a story about you that I don't think that we want.

Paul Adams: Yeah, even if it was a month. Yet, we've seen time and time again, people even get mortality reports for selling their life insurance policies, that are supposed to be dead in two years. There's actual funds you can go invest in, to invest in the potential proceeds of a bunch of people that are selling their life insurance policies, and people regularly outlive the medical reports, where they say, "Yeah, with this cancer, you're definitely gonna be toast in two years, and then the person still kicking eight years later, much to the chagrin of the hedge fund that pulled together all these life insurance policies in the attempt to have it pay off.

Paul Adams: You see, what we have to do is it's not a matter of us spending a life insurance. I wanna be very clear more in the deep dive. We're not touching the life insurance cash values from 65 to 85. We're spending all of the other assets differently as a result of having the guaranteed wealth replacement mechanism of the life insurance death benefit, that will pay in our old age. What else could we do? It's not just a matter of being able to spend down investment assets because the other things we could do are a reverse mortgage. You could be in a position, with a valuable piece of real estate that you're living in, in your old age. Property taxes continue to increase. We've seen countless examples of people now paying more in property tax every year than they originally paid on their monthly payments accumulated annually, for the mortgage.

Paul Adams: Those things continue to take up on people every single year without realizing it. What could you do? If you have a guaranteed wealth replacement strategy in place using whole life insurance, you could actually do a single-life reverse mortgage, meaning, you get more dollars because they don't expect both spouses... Or one spouse to live as long as both spouses do, you can get a reverse mortgage, have an additional tax-free income coming in because reverse mortgages are tax-free. Then when you pass away, your spouse gets the capital. If they wanna stay in the house, they can go ahead and pay it off. If they don't wanna stay in the house, the house is upside down because you lived so long, they can literally drop the keys on the counter, walk out, and go buy a new place with the life insurance death benefit.

Paul Adams: For those of you that like real estate and real estate investing, one of the things that inevitably creeps up on people in their old age is that they have 1035, that's a tax-free exchange from one piece of real estate to another, except your basis is not climbing every year you do that. You might have a portfolio of real estate that has been depreciated to its very nth degree, so you literally have little to no basis left, and now you're thinking of selling that property in your 70s or 80s. It's been great cash flow, but it's time to get rid of the real estate, and people avoid selling it for tax reasons. You know what you could do? You could choose to put the money in a charitable remainder trust, get a huge tax write-off for having done so...

Cory Shepherd: Huge, yeah.

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Paul Adams: And a lifetime of income while producing an identity inside of your chosen cause, that wouldn't have been there otherwise. You could do it to a family foundation, or something as simple as a donor-advised fund, giving your children the extra capacity in society because they are in charge of a large sum of charitable dollars. Think about how much further your career would be right now if somebody had left you in charge of an endowment of two or three or four million dollars, and your job was just to make the distributions each year.

Paul Adams: Why do parents not do that? They don't wanna disinherit their kids. By disinheriting their kids as the risk, they never set up the charitable funds that they might have loved to leave as additional legacy, not to mention the efficiencies in cash flow that can happen in your old age. We have all of these other things that could be done beyond just spending down assets, that are effectively other spend-down or gifting strategies that are now available because we have an ample amount of guaranteed backstop of whole life insurance death benefit amplifying the spending of other dollars by 2X or more. We're gonna talk about this in a few minutes, but I wanna give all of you a short insight into how high the return can be when a whole life policy is used this way.

Paul Adams: When you look at a life insurance policy in its simplest form funded right up against the TEFRA-TAMRA limit, if this was a 40-year-old acquiring the life insurance, if you did this simple rate of return on the cash value only out to age 65, it has a 3.98% rate of return, I want you to go to the show notes, hit this actual episode webpage, and you're gonna get a chance to see all the disclosures, etcetera. Link right in the show notes to that. You'll be able to download any of these, and really see it for yourself.

Paul Adams: Here's the thing, that 3.98% rate of return, much like our last podcast with Dick Weber, is that competitive life insurance as an asset class, taking place of your fixed-income assets, being able to deploy money over your life insurance, so that you're able to acquire the death benefit without additional out-of-pocket cost. Though if we're able to use the death benefit to double the amplitude of our spending, this is no other uses of life insurance where we would have used it as a bond substitute or a cash substitute, which we'll talk about in our next episode on the Stillwater strategy, this is just utilizing the death benefit to spend down other assets, and now the amplification is an 8.8% after-tax rate of return, which is a pre-tax equivalent of, what? 12,13, Cory?

Cory Shepherd: 12, 13, depending on their tax bracket. Yeah.

Paul Adams: We're able to do that with all the risk, as analyzed by large financial institution. You can see it on Google of what kind of risk is whole life insurance, and it's qualified on the risk pyramid right up there with CDs at a bank, or cash holdings because it's guaranteed to not go down in value. You could put yourself in the position to have an 8.8% rate of return returning asset only if, and this is key, only if we have an equal amount of other assets on your balance sheet. Let's just put a button on this part of the podcast before we get to the deep dive. What can you do from here? To start with, one

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of the things you should do, if you've never done so, is analyze whether or not whole life insurance could be, A, an asset class that would make sense in your financial life.

Paul Adams: To consider it, what you're gonna need is a competent advisor that's willing to take something like listening to this episode, and do the math. You see, the problem is, many advisors stay stuck in the way that they've done things, the way they've been working with their clients. They're not willing, or sometimes I would say, they're not able to do the math that we're sketching out here in this episode, and that we're gonna go to in the deep dive. Why? Many of them literally cannot do something as simple as you sending them an Excel spreadsheet of another investment, and simply comment and advise you on it. That is a limitation of the compliance departments with many, many of these big-box financial advising organizations. They're largely... You can tell which ones they are because they are the brands that are out there in front of everybody the most.

Paul Adams: What you can do is say, "Hey, if I were to integrate this into my balance sheet using the technique that they talk about on this episode, would it work for me?" This is your test to see if you have an advisor, coach, or a financial salesperson. Will they do the math, or do they immediately offer you an opinion in return? It's an easy test for your existing advisor. Email them this episode, or text it to them, if they're allowed to text with people, then you can actually get their advice; but if what they come back with is, "Whole life is not a good idea, those guys don't know what they're talking about. You shouldn't consider that. We should put more money in your qualified plan," whatever it is, if it's anything other than doing the math to see if it works for you, and demonstrating the math to you, it's probably time to find another advisor.

Paul Adams: If they won't do the math for you, then email us at info@sfgwa.com, and we will do the math for you. We'll just share with you our entire philosophy in an easy Zoom meeting, no matter where you are in the country. Then you can make the choice whether or not you want to apply to become a client of ours. If any of our strategies work for you, and it will be of significant value, we'll make you an offer. If it's not gonna be of significant value, then we give you financial triage, no cost, where what you can do is see what strategies could work, and we'll do our best to improve your financial life at no cost in 30 minutes or less. The amount of advice we will offer you will only be limited by how quickly you can take notes during that conversation.

Cory Shepherd: As always, we wanna encourage you to leave us an honest review online. It helps us get more people listening to this podcast, more unbiased non-financial institution-sponsored advice. Again, that's info@sfgwa.com. Just take a screenshot of your review, and we will love to send you your choice of Clockwork by Mike Michalowicz, Cape Not Required by me, or Sound Financial Advice by Paul.

Cory Shepherd: Today's featured review is from Entrepreneur Always Learning. They say, "This has been great for me, learning in small pieces during my commute. As I listen, I am already noticing different things about money, and having new conversations with

my friends and family. I just need to work on connecting more of my inner circle to the podcast." That's a great point about connecting the most important people in your life, so you can be in these conversations together. All right, this has been the digestible, high-level version of the show. Stick around, after the exit, for Paul doing the deep dive into spending your life insurance death benefit while you're still alive. As always, we hope that this has been a contribution in helping you design and build a good life.

Paul Adams: Hello and welcome back to The Deep Dive. I'm Paul Adams. I'm gonna be walking you through this deep dive into being able to spend your life insurance. Also, touching on some of the... Just the internal advantages of using life insurance from a tax perspective, and how we built this policy. If you're an attorney, CPA, financial advisor, and you had a client send you this podcast, what we're gonna be doing is just getting to the more analytical piece. You can go right to this episode's page at soundfinancialbites.com, or go to our website, sfgwa.com. Go to the podcast link, and you'll find it.

Paul Adams: You're gonna see the downloads I'm gonna refer to here. If you're wanting to really deep dive this with me, it'll still be interesting to listen to; but feel free to go there, get those documents, and you'll have them.

Paul Adams: The first thing that I wanna point out in the use of the life insurance, and the specific example is we used a $2 million life insurance policy on a healthy 40-year-old male. When you look at acquiring a couple of million dollars on a 40-year-old male, the cash flow required by the insurance company is only $30,000 a year. I say "only" because we're securing $2 million dollars of guaranteed death benefit for somebody's whole life, hence, why they're called "whole life insurance." What we're doing is adding extra money directly into the policy, which bypasses the policy's traditional commission structure, and grows the death benefit significantly and quickly.

Paul Adams: When we grow the life insurance by putting this extra money in, what it's doing is it's buying little tiny pieces of life insurance, if you can imagine this, inside the life insurance policy, that never have to be paid for again. This is the same thing that's occurring any time in a mutual life insurance company. We've advised on the podcast before, you should only be buying life insurance from mutual life insurance companies when you are buying whole life insurance. If you at all qualify to get life insurance from a mutual life insurance company, that would be the way to go.

Paul Adams: You acquire the life insurance, you're getting underwritten by the insurance company, their risk is based upon the death benefit. As we have talked before about the TEFRA-TAMRA corridor, we wanna fund it right up against that limit. What would normally be about a $30,000 premium, the most we can put in is $55,639, if what we wanna do is fund it every single year out to age 65. If the long-term interest rates perform better, the company may actually come back at some point and say, "We are paying more in dividends than originally anticipated. Therefore, in later years, you might

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not be able to put in the full $55,639. But if we put in $56,000 a year, we are definitely going to blow the TEFRA-TAMRA corridor, and the IRS, that's the IRS's limit, says that it's no longer considered life insurance for all the wonderful tax reasons.

Paul Adams: This internal mechanism of paid-up insurance is best understood as if you were able to go up to a booth in Target, where the people give out the samples, etcetera, and you instead have a chance to just buy a little piece of life insurance on your spouse, that never has to be paid for again. You slap down $20, and they say something like, "That'll get you $40 of paid-up insurance." That would not work because it would break the TEFRA-TAMRA corridor to only have one premium payment on the policy, but you kinda get a sense that inside the policy, every year, you're growing this paid-up insurance; and under Section 7702 of the IRS Code, that's what allows all of these accumulations to occur without any 1099s and no taxes during the growth of the contract. As long as you manage the contract well, you pay no taxes ever on its growth.

Paul Adams: Let's take a look at what happens inside this contract in the early years. It's usually what confuses people the most about utilizing whole life insurance on their balance sheet. You see, the first year, if you're pulling this up on your end, what you're gonna wanna grab is the document that says, "Net cash flow... Net gain cash flow summary," which is one of the documents that we've uploaded to the website. There's also a full illustration, where you can read all of the disclosures, on the same website.

Paul Adams: We're putting in $55,638 a year. The first year, the cash value clearly starts at zero. It grows to $25,000. That first year, kind of easy math, it grew by 25, but we put in 55, it cost $30,000 that year. Odds are that it's easy for somebody to get that statement at the end of the first year and go, "What the heck was I thinking?" In fact, nearly every pundit you see out there that says negative things about life insurance are attacking these early years of the whole life insurance policy. You're gonna see why that's the attack, and that that's perfectly fine. It is accurate, it's just incomplete.

Paul Adams: The next year, we put in $55,638. You'll see there, under cash value increase, it goes up by $26,000, so now it's cost $29,000 the second year. But what we want you to bear in mind is that building a contract like this is a little bit like going to get a college degree, or going out and starting a business. Those financial decisions in the short-term were a terrible idea. Your friend that was willing to run a backhoe on a construction site, where you went to this college, that person is running behind you... Running ahead of you for a while.

Paul Adams: You're not earning money, you're in college, you're paying money out. But when you get out of college, years later, you have more income-producing ability. This goes as well for physicians. Or for those of you that are entrepreneurs starting a new little business, yes, you might even have first-year profitability like taxable income, if you have a banner year your first year; but you probably still haven't recovered the blood, sweat and tears you invested, the initial money you had to having capital to start the

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business, or pay back all the loans. That's the difference between the year-over-year profitability, and the overall ROI of any decision.

Paul Adams: Let's go to the next year. We've just been through two years, both of them, this policy ran significantly backward. Let's get on to year three. Year three, we've put in $55,638, and it grows by $50,000. Even if you're frustrated or bothered in the first two years of having a contract like this, by year three, it's like, "Wait, a second. I put in $55,000. I still have a couple of million of life insurance, which has grown from 2 million to now, two-and-a-quarter million; and my cash value grew by $50,000. My cost in that current year of putting in $55,000, in $50,000, $5,000, it's like, "It's getting a little better. Maybe I'm not as upset by year three."

Paul Adams: Then your four comes around, we put in $55,638, and now it grows by 55,000. By year four, it's now costing to the balance sheet, your net worth, because we're moving money from one pocket to another pocket on your balance sheet. It's still in your same set of pants, but the money is moving around your balance sheet. Now we put in $55,000 in the other pocket, there's only 50 there. By year five, we put in $55,638, and it grows by $58,000.

Paul Adams: Let's hold there for a moment. Wait a second, it's now growing by about $2,500 more than what I put in. When that happens at your end, you might go out and check your mailbox around the beginning of the year to wonder where your 1099 is; but there is no 1099, there's no tax form filing because the life insurance, as long as it's still qualified as life insurance, is able to continue to grow tax-free. As long as we keep this tax-exempt environment in place, there's a great deal of work we can do. You could always screw it up and have this become tax-deferred instead; but I think given the way we're gonna teach in the rest of this deep dive, you'll see how to avoid that particular trap.

Paul Adams: As time goes on, we continue to add money every single year, and the cash value is growing faster than we put money in. Let me give you an example of your 10. Your 10, we put in $55,638, and that year grows by $80,500. That is growing by not $2,500 more, like it was in your 5, it's now growing by $25,000 more than what we put in, and still no tax form. This is where people get a little tripped up in the life insurance space because what they would say is, "Paul, Year 10 is the first time where I have more money in this contract than what I put in." That is true. The thing that gets forgotten is all the places we naturally put money. We naturally put money inside of our 401k.

Paul Adams: Now we feel good because I put, say... Between my money and the employer match, I put in $21,000 last year, we'll say. Somebody maxed out their 401k, plus they've got some match, 21,000 goes in that year. You get a statement, it says "21,000." That feels pretty good. Maybe even a little extra interest because of market performance. But how much of that money do we have access to? Zero. Or if you have the ability to take a loan from your employer-based plan, you might have $50,000 that

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you could access. That's to be paid back on a five-year time horizon, all kinds of limitations, but very little access to money.

Paul Adams: Whereas with the life insurance, as soon as there is a cash value to the life insurance, you have access to those dollars. There might be an opportunity you wanna deploy the money into. You might just want to substitute it for your emergency fund, which we're actually gonna circle back to in a future podcast called the Stillwater strategy; but we're gonna focus on utilizing the death benefit, and explaining some of these simple things inside the life insurance policy. It's growing every single year, but if you take away those first three years, just chalk that up to building cost of getting this little vehicle, we can do some additional math.

Paul Adams: What I would have you do is look at the math of this life insurance policy between years 10 and 11. This is gonna take me a second because I'm gonna be calculating this live during the recording, so that I'm moving at a pace that if you wanted to grab a calculator also, you could do the same math. We're gonna look at the growth in year 11, and then see what our return is based upon the cash value at the end of year 10. In year 11, the cash value grows by 86,681. 86,681 in my calculator. What I have to subtract to get some accuracy here is that one year's worth of premium, which as we said before, is $55,638. That gives us growth in the policy, taking out the current year contribution of $31,043.

Paul Adams: We take that $31,043 and divide it by the year end cash value, which you'll see under total cash surrender value, at age 50 on that illustration, or year 10, whichever of those two columns you prefer to reference, and I'm gonna divide it by what the cash value was at the end of the prior year. What this is gonna do is say, "What's the opportunity cost of keeping the life insurance in year 10? Was this a bad idea? Should I keep doing it?" Etcetera.

Paul Adams: We divide 31,000 by 571,000, and what we get is a 5.4% return. That's the same year where people often cite, that year 10 is the first year you have more in cash than what you put in. But here be my question. How many years does it take before your 401k has more money than what you put in, especially if you count your employer dollars? It's harder to see because you don't know what your exiting tax rate is. I don't mean to make this 401k versus whole life insurance. Both of them are important tools that we need to use in the toolbox. I'm only creating the juxtaposition between what people normally just kind of dismiss out of hand on a lot of financial media, being the life insurance; but the same financial media will say just absolutely drive money to your retirement plans, sight unseen, blindly, and with no exit strategy in our old age of how we get that money out without getting slaughtered by taxes.

Paul Adams: As we move forward, we see that this growth continues, and we have built this really great reserve of cash that we could access for whatever reason we want. We'll do that in another deep dive about how that ends up working. I'm gonna fast forward on

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this policy. Remember, a 40-year-old got this policy. This policy was zero cash right at the beginning. They fund it for 25 years at $55,000 a year. What we have in cash value right at age 65 is $2.4 million, almost exactly $2.4 million of cash value, and $5 million of death benefit.

Paul Adams: Let's pause there, and look at just the cash value for a moment. What you'll hear people say a lot is, "What we should do, instead of owning whole life insurance, is buy term and invest the difference. As Dick Weber talked about in one of our prior podcasts, where we really pulled apart life insurance as an asset class, is most people do not invest the difference. They buy term insurance, and then the rest of their money just goes through the budgeting filter, however it happens. It's the exact same cash flow for buy term, invest the difference, is to own whole life insurance, but with some major differences.

Paul Adams: When you own term insurance, say you bought a 20, 25 or 30-year term to cover this 40-year-old, where we would be at age 65, is you would have the exact same amount of death benefit if the term policy is still enforced, and you hopefully have some money on the sidelines. But that money had to grow and overcome the term cost, and we had to put that money in every single year, and hope for a decent rate of return. The question would be, what is the return required to excel beyond the life insurance?

Paul Adams: This life insurance policy at current dividend rates in a low-interest rate environment, I think they're reasonable rates, plus there is a floor that guarantees you can only go up in the contract and not down, meaning, that as you put money in, they'll pay dividends every year that they declare a dividend, which they have. This particular company for many, many, many, many a decade, and through some of the worst financial crises our country has seen, as that dividend continues to pay out, it buys those paid-up pieces of life insurance that grow the death benefits. Now we have $5 million of death benefit, and $2.5 million worth of cash.

Paul Adams: That, in and of itself, what I would call the micro rate of return, is 3.98%. We can just call that 4 among friends. That 4% return, if you are in a 35% tax rate, is quite a bit different. If you wanna know how to do the math of what your pre-tax rate of return is, how you do the math is by dividing the rate of return by the reciprocal of your tax rate. The reciprocal is the other side of the fraction. If you were in a 35% tax rate, what we do is divide this 4% return by 0.65.

Paul Adams: When you do do that, you see it requires a 6.1% taxable equivalent rate of return, and this is the rate of return that's growing inside our balance sheet that is a substitute for cash or fixed income assets, incredibly competitive return on just... If compared to fixed income, that's bonds; or cash assets like money market accounts, savings accounts, CDs. When people are comparing it to 8% rate of return in the stock market, that's an incomplete comparison mainly because that stock market may or may not grow to enough value to replace the term insurance, which is kind of the object. Yet,

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if what we wanted to do was buy term insurance, and let's say the term insurance costs us $2,000 a year on this person, if I took that into account, that if you own term insurance and invested the difference, what rate of return would you have to hit?

Paul Adams: I can do that by putting in a future value calculator, that I only contributed $53,000 to this whole life insurance because I'm correcting for the amount that had to be paid to term insurance, that the other person would have to pay for, that we would not have to pay for in the whole life insurance. It's kind of amazing. It jumps the rate of return to 4.25%. 4.25% divided by that same 0.65 to get a 35% tax rate taxable equivalent yield is now 6.5%. Just cash on cash. This is not shooting the lights out. This is not the thing you write home about, but it is incredible reserve that can decrease the overall volatility of your assets.

Paul Adams: It decreases the overall volatility of your assets because now we have an asset we can pull on that's totally non-correlated, that you can deploy to your balance sheet in any other manner you deem fit. The insurance company does not give you permission to use your money, you can access that cash value when you would like. We know that the policy ran upside-down through year 10. Then if we look at the year-over-year return in year 11, it's at over 5%.

Paul Adams: How we got to that 4.2 is literally it overcame those early years because those early years are part of the reserves that the whole life insurance company is creating to pay the ultimate death benefit at your mortality. That's why the policy cannot get its legs in those first three years because there's costs to the insurance company that require them to deploy it across the entire risk pool, to be able to pay you at the date that you're actuarially likely to die.

Paul Adams: Let's pause here for just a moment because one thing that is a little bit of a misnomer is people talk about the fact that life insurance loses so much value because of the overall performance of the life insurance is hindered because of commissions, because of revenue paid to the advisor, agent or agency that brought up the idea. I think we need to approach and dispel that myth a little bit. You see, every insurance company is required by law in every state in which they do business, that these policies have to perform exactly the same if it's somebody of the same age, and same health that buys them.

Paul Adams: Meaning, imagine it this way, you've got a few different 40-year-olds. One of them buys a life insurance policy from a brand-new agent. Another one buys a life insurance policy from an agent that has been around a long time, and has done a lot of business with whatever the company is. The third person buys the policy directly from the insurance company, called them directly and said, "Hey, I just want this life insurance. I do not want an agent." Every one of those policies has to perform exactly the same, even though there was different compensation paid to the advisor in each of those cases.

Paul Adams: You see, the ability for the whole life insurance to pay the advisor, to take care of the insurance company, to create the reserves, all of that stuff is already packaged under an item called the "cost of goods sold" on the insurance company balance sheet. They have a general amounts of money that's required for distribution, education, etcetera, and that's all baked in. Regardless of what the agent-specific compensation is, your policy by law has to perform the same if you're the same health and age as somebody else who bought a policy at the same time.

Paul Adams: Here's the lesson to take away, is that there is compensation built in. We can't do anything about that. What you can do, and what we did here, as I mentioned earlier, about cranking up the amount of contribution to the life insurance, and getting as close as we can to that IRS corridor, actually reduces the amount of compensation in the contract, regardless of the person's contract. If you have a whole life policy now, and you don't have money going directly to paid-up additions, there may be some additional efficiency that you can build in. But the policies that are funded without the paid-up additions, where it's full compensation to the advisor or agent, those are the policies that are least likely to perform as well as what we've just shown.

Paul Adams: Let's move on. That's a little bit about the cash value all the way out to age 65, a little bit of dispelling the myths of how people look at it; but now let's go a little more global and look at the financial services industry. The industry itself tends to look at every single individual financial decision as if it stands on its own, not as a part of the whole. I'm gonna give you an example. If you looked at buying or putting money into a Roth IRA, the advisor sits there and tells you, "This is all the things that the Roth IRA can do for you." Another podcast, another time, if you want information on it, info@sfgwa.com. Lots of you listening right now who think you make too much money to put dollars into a Roth IRA likely have not been exposed to the backdoor Roth IRA. You can email us, info@sfgwa.com, and we can tell you how you can still put money into a Roth IRA.

Paul Adams: Somebody says, "Put money in the Roth," this is what the Roth is gonna do for you. Then money in your 401k, this is what it's gonna do for you. Money in cash, and your 529 plan. Everything is a tool being sold to accomplish a specific purpose. Here's the problem. Those tools have to work together. You can have the best possible parts, and still put together a terrible car. Transmission from a Ferrari, wheels from a Lamborghini, the seats from a rally car, whatever you want, you could get all the best parts and put them together, and you would not have a super car, you'd have a piece of garbage.

Paul Adams: This is the same thing, that what we're looking to do is not worry so much about the golf club, but rather the overall swing, what's the strategy, and how we're using it. This is how we begin to use the death benefit while we're still alive. You see, for most people, they're going to retire and they're gonna have an interest-only life in their

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old age, where they're gonna take... I'm gonna use the example of $5 million. They have $5 million of assets, they take their distribution every year, taking their 4% off of the account, which we've talked about on the podcast before, the idea that if you take out more than 4%, you significantly increase the chances that you're going to run out of money before you run out of breath.

Paul Adams: So we're taking 4% distributions every year off of $5 million, is $200,000. At $200,000, that's now coming in consistently, that is going to be taxable. I did that at a 30% tax rate, assuming that maybe this isn't all the money somebody has, but a 30% tax rate was used that would allow us to net from our distribution each year a total of $140,000. Sorry, I had to do that one in my head. We have $140,000 of cash flow each year off of our $2 million. Out of our $5 million, we have a total of $140,000 a year of cash flow. That $140,000 a year is going to get whittled away over time. Like if taxes increase, or inflation continues to wear on the dollars.

Paul Adams: What we would hope is that, over time, we slightly outperform the 4% in our old age, and then maybe we're able to take some additional bracketing of more income. Here's the dirty little secret though that they don't wanna tell us. The financial institutions do not wanna teach us how to spend our money down to zero in our old age. You see, with Cory and I being around all these financial events, one of the big movements in the financial services industry is this huge amount of wealth that's going to pass from baby boomers to their children, and that one of the big pushes is that financial advisors build relationships with their client's children because not only do they want you to not spend down any of your money, on top of that, they want you to leave it all intact and leave it to your kids, so they manage it over your lifetime, and over your children's lifetime.

Paul Adams: That's not meant to be a big black helicopter theory, or anything like that. It's really just a matter of, where do their interests lie? They just don't have an interest in you being able to have a strategy that allows you to spend down the assets, but we can spend down the assets because of the certainty of death of one of the spouses. In this case, we insured the man because statistically, as long as health rates are very similar, the man is more likely to die sooner, making it an easier strategy to do the spend down. Now what's changed, is in the interest-only scenario, keep in mind, $200,000 a year for 20 years is only $4 million of distributions because it's taxed at that 30%. In my scenario, we paid 1.2 million of taxes. That's 30% of the $4 million in withdrawals, giving us just $2.8 million of purchasing power.

Paul Adams: Again, I'm hoping that this boggles your mind for a moment that you can just sit with this, is that you would have spent your entire life saving, building, working, grinding, worried at night when the market was upset, drinking Maalox, whatever it took for you to accumulate your $5 million, maybe a huge majority of your $5 million is your exit from your business. Yet, now that money is on your balance sheet, you're taking distributions even if you live a full 20 years in retirement. The financial institution got to

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manage your money the entire time, you only got to take $4 million of distributions, and only got to enjoy $2.8 million. Meaning, you'd have to live nearly 40 years in your old age to just spend the amount of money you worked so hard to build.

Paul Adams: Let's cut over to what could be different. What could be different elsewhere on your balance sheet, outside of the life insurance? This is external, not internal, external rate of return of a particular decision in your financial life, that is that you could begin to spend down your $5 million of invested assets. You could say that your 5 million's with Dimensional funds, or Vanguard, or whoever you've got and invested with. Your $5 million can now be strategically spent down. Why is that meaningful? It's meaningful because you get to take much, much more in income each year. Instead of taking $200,000 a year, you're able to take out $367,000 a year.

Paul Adams: For the sake of my example, I'm assuming that the money in this $5 million investment account is entirely basis, meaning, we had an exit from a business that got taxed, now it's after-tax money being invested. You may have a blend in your old age of some tax-qualified money, some Roth IRA money, and some non-qualified money, which is just the assets. Non-qualified just means it's not qualified under the IRS code, that you own it personally, and you pay the taxes every single year.

Paul Adams: If we have $5 million of tax-free principal, that in the prior scenario, no financial institution taught us how to spend, then we can start taking $367,000 a year. At that same 4% return, we end up bleeding the account out to be zero dollars at age 85. Starting at age 65, we start taking out $367,000 from our investment accounts. Where is your life insurance policy? Your life insurance policy is in the garage, in the big, orange, rubber-made container just doing its thing. In this case, we're not messing with it at all. The life insurance company would love it if you'd start taking distributions at age 65 from the life insurance because it hinders its growth, and prevents it from paying the largest possible death claim when you're actually close to mortality.

Paul Adams: What we're doing is we're really... We're flipping the script, if you will. We are saying, instead of spending down the life insurance first and leaving our assets to accumulate, which is what people are traditionally taught, we're doing the exact opposite. We're leaving the life insurance alone during our old age. For the most part, I'm gonna give you one hint of something called the volatility buffer before we're done.

Paul Adams: We spend down our assets every single year, and let them slowly go to zero. Here's what's happening: Every year, we take out our $367,000. You're gonna see this under the spend-down strategy, also on the same page where you got the insurance illustration. We're able to take $367,000 out every single year. We're paying a lower and lower tax rate every single year, and the total taxes paid are dropping. In fact, even though we're taking out $367,000 a year, which is a total set of withdrawals of $7.3 million dollar, but the tax rate is lower. Even though we took out $7.35 million, that's old taxes paid were only 700,000, as compared to interest only, where it was $1.2 million, so

our purchasing power is much stronger and increasing with inflation.

Paul Adams: Why is it increasing? Every year, we're pulling out the same $367,000 from cash. Each year, that digs a little bit more in the principal every year that's tax-free. By the time we get to the end, that last year's distribution is only a 1.5% effective tax rate because we just have a little bit of growth left in the account that we have now totally utilized. What many people would ask, like, "Okay, Paul, that sounds good. I could probably convince my spouse that we could spend down all of our assets, based upon me being dead at age 85, but what happens if I am still alive?"

Paul Adams: This is a valid question. You just spent down your $5 million of invested assets, you've left your life insurance policy in a big, orange, rubber-made container on the shelf of the garage, and now you find yourself with your investment accounts emptied. What else am I gonna do for income? Now what's happened is you have a life insurance policy that has grown, and now has $5.5 million dollars of cash value, and $6.8 million of death benefit. Even though you might have run out of your $5 million of investable assets that you spent down, we now have a whole new set of options. One, we could now begin taking cash flow directly from the life insurance, and deploy out a couple $100,000 a year with no taxes on it.

Paul Adams: The things that are problematic about taking loans at age 65 are not the same problem at age 85. At age 65, you are a full 30 years away from your mortality. At age 85, you're really closing in, or as I used to tell my dad as he aged, is he's studying for finals. [chuckle] At that point, you're studying for final exams, and you've got a bunch of cash value you could begin to take from the policy tax-free, which is gonna give you the ability to continue to live if you're still alive. As soon as you die, in this case, about $6.8 million shows up in cash for your spouse to give them the ability to build that into a portfolio, and finish their spending throughout their old age. This is all only possible because whole life insurance has this unique financial backstop.

Paul Adams: But let's talk about other ways you could actually use the life insurance beyond age 85. For instance, many of you listening have heard about something called the reverse mortgage. Usually the people that use a reverse mortgage are on their last penny, they're out of money. The only thing they have is their house, and they have ever increasing property taxes, etcetera. It is a strategy that most people relate to being used by those who are impoverished, in their old age, but they still have a house. This is a way to think differently. Imagine you've got your dream home. It's a million, five in value. You've paid it off. Life is good. You don't plan on moving.

Paul Adams: One of the things that you could do at age 85 is go to a bank and get a reverse mortgage, and do so strategically, where you're able to get tax-free income from your home, based upon your lifetime. By a single life, instead of a joint life, the payouts are actually much higher on the reverse mortgage. Let's say you lived another 10 years, you've been taking all these distributions from your reverse mortgage, and you die.

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Something unique happens. One, the bank has the ability to take the house. If we did a reverse mortgage on a single life, your spouse could, literally, if they're done with the house, they wanna move to be closer to grandkids, whatever it is, they can leave the keys on the table and walk out. Even if the house is upside-down, there's no liability to your personal balance sheet on that reverse mortgage.

Paul Adams: The second thing they could do is a whole bunch of cash is gonna show up from the growth of this life insurance. If the life insurance was left alone for another 10 years, it's now got $8.6 million of cash that would be paid at the death of the insured, so you could literally have $8.6 million show up, and the surviving spouse could choose, "Do I wanna stay in the home, or not stay in the home?"

Paul Adams: You could do things like give large gifts to charity. Lots of our clients on a bunch of rental real estate. If you had a bunch of rental real estate massively depreciated, you've done a bunch of tax-free exchanges, you're now going to try to leave those to your children. But instead maybe you wanna make life a little easier, you don't wanna manage the properties anymore, you could put that money into a charitable trust to be left to a charity of your choice, and the death benefit could fill the bucket back up for your heirs once you and your spouse have taken all of the income from what's typically referred to as a charitable remainder annuity trust.

Paul Adams: All these things become possible only because of the certainty of the guaranteed death benefit of a whole life policy being able to back up the spend down of your other assets. I hope you guys enjoyed this deep dive. If you have any questions at all, email us at info@sfgwa.com. Connect with me and Cory on LinkedIn. We look forward to having you on another podcast, and we hope that this has been a contribution to you being able to design and build the good life.

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