What Is a Whole Life Insurance Policy?

Whole life insurance is at the very foundation of America's life insurance industry. Americans on every level have relied on whole life insurance as a part of their financial framework since the mid 1800s.

The fact is that for more than 200 years, life insurance has provided financial security to families, workers, and businesses.

One major life insurance company's annual report—dating back to *1930!*—states, "**In no other way than through life insurance can the average man provide so surely, or so bountifully, or so easily, for his home, his children's education, his parents, his business, or his own retirement or old age. It is the ideal old age pension.**"

While today we would recognize that these benefits are available to both women and men, what was true in 1930 still stands—nearly a century later.

Back in 1900, *half* of all Americans' *savings* was held in life insurance and annuities.[1] And fully one-third of families owned whole life insurance policies in 1950.[2]

But during the last third of the 1900s, glitzy new investment schemes emerged that catered to a thirst for *faster* growth at the expense of secure growth. Average Americans began playing in the Wall Street casino, and whole life insurance was either ignored or maligned by the investment community. "Boring," they called it. "Expensive." "Old-fashioned."

But now, in the new millennium, whole life insurance is poking its head above the rubble and becoming recognized as more powerful than ever. "Boring?" Bank On Yourself policy owners will tell you how *exciting* building wealth predictably, and with ironclad guarantees is. "Expensive?" What's expensive? Watching your wealth grow year by year, or losing in the Wall Street casino? "Old fashioned?" Bank On Yourself-type whole life insurance policies are anything but old fashioned.

In today's volatile economy, Americans in every conceivable occupation and business have come to rely on the power, flexibility, versatility, and *guarantees* of whole life insurance—especially *participating* (dividend-paying) whole life insurance.[3]

The Power Is in the Guarantees

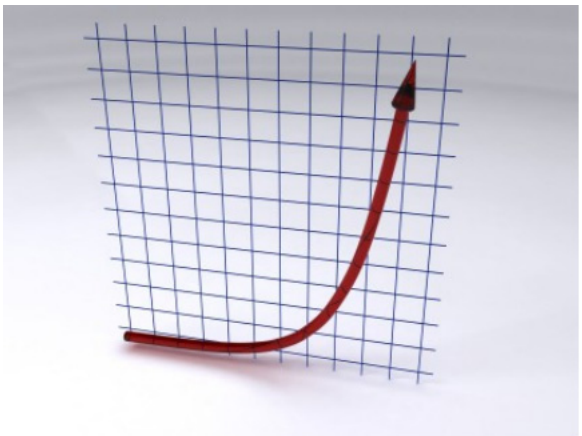
The primary reasons for the resurgence of whole life insurance can be found in the guarantees that are an essential part of every whole life insurance policy. These guarantees can let you:

- Bank on yourself when you need to finance major purchases. This allows you to reduce or eliminate debt to banks, credit card companies, and finance companies.
- Save for retirement and create a secure, predictable income—an income that will be there for you, whether you are working or not.
- Build an emergency fund that can help you weather whatever curveballs life throws at you.
- Create a legacy of wealth and wisdom to pay forward.

Whole life insurance policies give you these advantages and guarantees:

- The premium remains level throughout your lifetime.
- Cash values accumulate in the policy at a guaranteed rate.
- Cash values cannot go down unless the policy owner surrenders them.
- Eighty-five to 90% of the cash value may be quickly and easily accessed by the policy owner at any time and for any purpose.

In addition, mutual insurers that issue participating whole life policies share excess earnings with policy owners, as tax-free dividends. These dividends can be:



- Paid to you in cash
- Left with the insurance company to accumulate in a separate account that grows at a guaranteed interest rate (the interest is taxable)
- Used to purchase extra death benefit (without proving good health), such as:
    - Term insurance
    - Additional paid-up whole life insurance—which in turn accumulates additional guaranteed cash values and dividends—which in turn accumulates additional guaranteed cash values … you get the picture. This is the most common option, and it supercharges your policy, leading to *exponential growth* of your policy's cash value.

Finally, the insurance companies preferred by Bank On Yourself Authorized Advisors offer *riders* that give additional power, flexibility, and versatility to their whole life policies. This combination of power and guarantees is not duplicated in *any* other form of life insurance, whether term, universal, or variable.

When your Bank On Yourself Authorized Advisor properly designs a whole life insurance program, they can confidently assure you that no matter what surprises life delivers, you can access all of the policy's *living* benefits, your cash value is secure, and you can pay forward a legacy of both wealth and wisdom

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[1] Beard, Patricia. *After the Ball*. Xlibris, 2009.

[2] American Council of Life Insurers. *Life Insurers Fact Book 1950*, as reported by ACLI researcher Jiangmei Wang.

[3] Guarantees are based on the claims-paying ability of the insurer. Learn more about the safety of these policies at: www.BankOnYourself.com/safety

The Genius of Good Structure

A typical Bank On Yourself-type policy starts with a dividend-paying whole life policy, issued by a company that is financially very strong and has an unblemished history of paying dividends for 100 years or more. Then we add riders (options) that can grow your cash value up to 40 times fasterthan the whole life policies most financial experts talk about, especially in the early years of the policy. With these riders in place, you have cash value in your policy from the very first month. And you can potentially use that cash value as a powerful financial management tool right from the start.

A key goal of the Bank On Yourself strategy is to *maximize the growth of your cash value without increasing your premium*. The cash value in the policy is the storehouse of money you'll use to bypass banks, credit card and finance companies and become your own source of financing. Use the money in your storehouse wisely, and you might eventually be able to finance your entire lifestyle from it!

We start with a plain-vanilla base policy—a dividend-paying whole life policy issued by a strong company. Then we add a Paid-Up Additions Rider (PUAR) into which you can pour a significant portion of your annual premium. This rider is the most efficient way to build cash value because it channels most of your premium directly into the cash value portion ofthe policy, while purchasing a small death benefit.

We also add a term insurance rider that allows you to fill your policy with more cash value than you otherwise could, without running afoul of the IRS rules that would make your policy a modified endowment contract (MEC), losing a key tax advantage.

Here are the step-by-step results of:

1. Starting with a base policy
2. Adding a Paid-Up Additions Rider
3. Adding a term rider

How Your Premium Is Allocated Is the Key to Growing Your Cash Value

Table A compares three different dividend-paying whole life insurance policies, all created for the same 35-year-old man. The annual premium in each policy is set at $12,000, but *how* the premium is being allocated varies. (Don't get hung up on this specific premium. It's just an example. Your policy is custom-tailored to your personal situation, so you start at whatever level works for you.)

Cash Value Growth*

			Policy 1		Policy 2		Policy 3	
			Designed for Maximum Death Benefit		Designed for Accelerated Cash Value Growth		Designed for Maximum Cash Value Growth	
			All Base		Base + Paid Up Additions		Base + Paid Up Additions + Term	
Policy Year	Age	Net Annual Premium	Annual Cash Value Increase*	Total Cash Value*	Annual Cash Value Increase*	Total Cash Value*	Annual Cash Value Increase*	Total Cash Value*
1	36	$12,000	$1,107	$1,107	$6,745	$6,745	$8,495	$8,495
4	39	$12,000	$10,070	$29,098	$11,869	$40,360	$12,337	$43,608
5	40	$12,000	$10,855	$39,953	$12,572	$52,932	$13,007	$56,616
7	42	$12,000	$12,405	$64,004	$14,016	$80,241	$14,404	$84,719
10	45	$12,000	$14,721	$105,912	$16,287	$126,826	$16,748	$132,688
15	50	$12,000	$19,191	$193,314	$20,741	$221,570	$21,183	$229,535
20	55	$12,000	$23,048	$301,009	$25,390	$339,131	$26,077	$349,956
25	60	$12,000	$26,432	$424,647	$30,366	$479,907	$31,558	$495,901
30	65	$12,000	$30,903	$570,082	$36,331	$649,384	$37,994	$672,718
40	75	$12,000	$42,490	$940,366	$51,546	$1,093,442	$54,351	$1,139,545
50	85	$0	$49,038	$1,377,040	$57,021	$1,601,199	$59,425	$1,668,710
60	95	$0	$59,917	$1,926,446	$69,671	$2,240,039	$72,608	$2,334,486

Table A: Cash Values in three dividend-paying whole life policies on a male, age 35, in good health

Policy 1: All Base

Policy 1 is a traditional dividend-paying whole life insurance policy for a healthy 35-year-old we'll call Martin. In the Policy 1 example, all premium is allocated to the base policy.

See the circled amount on the line for Policy Year 7? This is significant because beginning in this year, the annual cash value increase is more than the premium Martin pays each year. (His $12,405 cash value increase is greater than his $12,000 premium.)

Policy 2: Base Policy + Paid-Up Additions Rider

In Policy 2, only 40% of each year's premium goes toward building the base. The remainder goes into the Paid Up Additions Rider. These additions accelerate the growth of Martin's cash value—which is what he wants—while providing a smaller death benefit. See the circled amount on the line for Policy Year 5? With much of his premium purchasing Paid-Up Additions, Martin's annual cash value growth begins exceeding his annual premium *two years earlier* than in Policy 1.

Well over 90% of every Paid-Up Additions premium dollar goes directly to building cash value, very little goes to the cost of the death benefit, and only a miniscule amount goes to the advisor as a commission. (An advisor who wants to help you build your cash value by adding a significant PUAR *must* be willing to take a huge cut in commissions.)

Note: The premium you pay into your Paid Up Additions Rider is an *optional* premium. You don't need to pay it to keep the policy in force. So in a pinch, you can cut back on it, and some companies will even let you catch up on some or all of it later, as your situation allows. That gives you greater flexibility than a traditional no-frills whole life policy has.

Policy 3: Base Policy + Paid-Up Additions Rider + Term Rider

In Policy 3, only 30% of Martin's premium is used to pay for the base policy. The remainder purchases Paid-Up Additions *and* a term insurance rider.

Why add a term rider to a whole life policy? Isn't term insurance a bad idea? As a *substitute* for permanent life insurance, generally yes. But term coverage has a valuable place as a *rider* to a permanent policy. Here, the term *rider* allows you to purchase more paid up additions, and thus build cash value faster, without running afoul of the MEC guidelines.

Note: It's important to understand that **it's not always possible to structure a policy so that only 30 percent goes toward the base policy**. Every policy is different based on many variables such as age, need for insurance, how soon you plan to take retirement income, etc. But your Bank On Yourself Authorized Advisor will structure your policy to direct the lowest percentage of premium to your base policy that will let you achieve the goals you set for your plan—without turning the policy into a MEC.

Looking at Policy 3, you'll notice several interesting items. First, look at the circled amounts on the line for Policy Year 1. At the end of the very first year, Policy 3 has almost *eight times more cash value* than Policy 1 (the policy with no riders at all). A properly applied Paid-Up Additions Rider and term rider provide that powerful supercharging effect.

What about the circled amount on the line for Year 4? The Paid-Up Additions Rider and the term rider have caused Martin's annual cash value increase to exceed his annual premium beginning in the fourth year—*one year earlier* than Policy 2, and *three years earlier* than Policy 1. (His $12,337 cash value increase is greater than his $12,000 premium.)

Your reward for patience in the early years is the growth curve that gets steeper every year you keep the policy. Go back to the chart and look at the line for Year 20 in Policy 3. Beginning this year, Martin's cash value increases by more than twice the amount of premium he pays ($26,077 cash value increase, compared to $12,000 premium paid). And beginning in year 30, his cash value increases by *more than three times* his premium ($37,994 cash value increase, compared to $12,000 premium paid.)

Even more exciting: Look at the line for Year 40. That's the last year Martin is scheduled to pay any premium at all, and the policy keeps on growing, but without any premium payments. See the line for Policy Year 50? The premium paid was *zero*, but the cash value *grew* by *$59,425*—no luck, skill or guesswork required.

More Death Benefit *Plus* More Cash Value

But what about the death benefits of these policies? If we've kept the premium at $12,000 per year and used much of that premium to grow the cash value faster, are these policies building up much death benefit? Table B (next page) shows you the answer. As you see in that table, all three policies build solid death benefits. But over time, Policy 3 can actually build the *largest* death benefit of them all.

Compare the death benefits in Year 1. In the early years of Policy 1, the cash value was relatively small while the death benefit was relatively large, right? In Year 1, the death benefit in Policy 3 is a little more than half of the death benefit in Policy 1. For Martin, this is a good thing, because the growth of his cash value is very important to him. He's paying for roughly half the death benefit, but he's building almost *eight times more* cash value, with all the financing power, control, and tax benefits that a whole life insurance policy offers him.

Something significant happens in Policy 3 in Year 7. The death benefit drops from $580,440 in Year 7 to $506,010 the following year, because in this example, the term rider is jettisoned in Year 7. (Depending on the policy design, the term rider will be maintained for from 3 to 13 additional years.) But now Martin's policy is positioned for maximum cash value growth and the death benefit in Policy 3 is growing *even faster* than in either Policy 1 or Policy 2. In fact, by Year 24, Martin's death benefit in Policy 3 *exceeds* what he would have had in *either* Policy 1 or Policy 2.

In Year 40 in each of these policies, Martin's premiums will stop, because the policies are designed to be fully paid up at age 75. Both his death benefit *and* his cash value will continue to grow each year. By Policy Year 50, the death benefit in Policy 3 tops $2,000,000, even though he didn't pay any more premiums after Year 40. If Martin passes away at age 75, Policy 3 could allow him to leave a legacy of $1,646,123 for his family or favorite charities. And that gift can pass income tax-free under current tax law, and without going through probate.

Should he live until 85, Martin's legacy can grow to more than $2 million, and should he live to 95, it could grow to more than $2.5 million.

Death Benefit Growth*

			Policy 1 Designed for Maximum Death Benefit	Policy 2 Designed for Accelerated Cash Value Growth	Policy 3 Designed for Maximum Cash Value Growth
			All Base	Base + Paid Up Additions	Base + Paid Up Additions + Term
Policy Year	Age	Net Annual Premium	Death Benefit*	Death Benefit*	Death Benefit*
1	36	$12,000	$692,188	$353,378	$352,704
5	40	$12,000	$726,227	$478,468	$505,915
7	42	$12,000	$751,463	$541,440	$580,440
8	43	$12,000	$765,688	$572,942	$506,010
10	45	$12,000	$796,446	$635,741	$579,227
15	50	$12,000	$881,289	$790,221	$756,297
20	55	$12,000	$968,626	$939,377	$925,454
24	59	$12,000	$1,038,696	$1,057,438	$1,059,008
30	65	$12,000	$1,148,637	$1,239,339	$1,264,082
40	75	$12,000	$1,358,401	$1,579,525	$1,646,123
50	85	$0	$1,673,053	$1,945,398	$2,027,422
60	95	$0	$2,135,300	$2,482,891	$2,587,577

Table B: Death Benefits in three dividend-paying whole life policies on a male, age 35, in good health

* Annual Cash Value Increase, Total Cash Value and Death Benefits are based on the dividend scale as of March 2013. Dividends can change and are not guaranteed, however the companies generally recommended by Bank On Yourself Authorized Advisors have consistently paid dividends every year for more than 100 years. Policies from different companies may vary.

Eight Common Money Sources

If you're like many people, you probably don't have a pile of cash laying around at the end of the month, and you may be wondering where you'll find the money to get started with Bank On Yourself. Your Bank On Yourself Authorized Advisor is a master at helping people restructure their finances to free up seed money to fund a plan to help them reach their goals and dreams—without the risk or volatility of traditional investments.

Here are eight common ways to free up funds for your plan:

1. Restructure Debt

In some situations, strategically reducing debt can free up a significant amount of monthly cash flow to help fund a policy that could help you achieve your goals more quickly.

2. Reduce funding of your 401(k) or other retirement plans

Many people find money to finance their Bank On Yourself policy by reducing the funding of their 401(k) or other retirement accounts. They pay only the amount that their employer matches. **This brings them the guarantees, tax advantages, and flexibility of Bank On Yourself that traditional, government-controlled 401(k)s IRAs and pensions plan do not.**

3. Tap your IRA or 401(k)

You can use a federal rule (called 72(t) after the tax code section that describes it) to **pull money out of your traditional retirement plan** to fund your policy. The 72(t) rule enables you to avoid the 10 percent penalty anyone younger than 59½ would typically be required to pay. You should consult with a qualified advisor and tax professional before considering this option.

4. Make your savings work harder

A policy designed to maximize the power of the *Bank On Yourself* concept also serves as your emergency fund. So you may want to consider moving some of your savings into a Bank On Yourself policy. The return on a Bank On Yourself policy typically beats the interest rates of savings and money market accounts and CDs—*without* increasing your risk.

5. Rethink that tax refund

People love getting a big tax refund check in the mail every year. But that's *your own money* you're getting back. **In essence, you're giving the government an interest-free loan while you're getting a zero rate of return on your money**. It's fast and easy to adjust your withholding on a W-4 form at work. You can change your withholding amount as many times as you want, until you are comfortable with the adjusted amount. By doing this, you may be able to immediately increase your monthly cash flow, perhaps by hundreds of dollars every month, and you can then use those dollars to fund your policy.

6. Make lifestyle changes

An option that could enable you to start a plan sooner is taking small practical steps to reduce spending. One of the easiest ways is holding onto your car a few years longer than you normally would before buying a new one. It's also easy to cut monthly costs through simple changes like eating out less, bundling your internet, cable TV, and phone services, or calling your mobile phone carrier to see how to sensibly reduce your monthly plan. While each individual change in lifestyle habits may be small, the total savings can be significant.

7. Convert existing life insurance policies

Transferring the cash value from an existing policy may be an option, especially in the case of an underperforming variable or universal life policy. In some cases, taking a withdrawal from the old policy and using that to fund a policy that meets the requirements for Bank On Yourself is a good option. A word of caution: Giving up an old insurance policy is not *always* in your best interests. Your Bank On Yourself Advisor can explain the pros and cons and show you the impact of doing this.

8. Manage your home equity wisely

You may find that you can restructure your mortgage or stop making extra payments of principal, and free up more seed money to help fund a policy, so you can move closer to a secure financial future.

Do You *Need* It or Just *Want* It?

Grandma, especially if she grew up during the Depression, was a lot clearer about the difference between *want* and *need*. But then, Grandma only had to deal with the occasional salesman at the door. Today Madison Avenue has got us surrounded! And Madison Avenue is

fully aware that spending is triggered by emotion. They've hypnotized many of us to react to our emotions and go on automatic pilot when it comes to spending.

But we're smart. We know that keeping up with the Joneses is *not* the road to happiness those Mad Men try to tell us it is. And when we take a moment to stop and reflect, we do really know what we *need* versus what is just a momentary flash-in-the-pan, won't-outlast-a-bowl-of-popcorn kind of desire.

Before each purchase, get yourself off emotional auto pilot. Take a deep breath (and a couple of days) to consider whether you really *need* whatever it is. An odd trick to shift your mindset—that really works!—is to clench your fist or bicep when you're considering making a purchase.

And teach your children about the difference between *need* and *want*—not by your lectures, but by your good example.