Episode #212: What 10+ Years as an IUL Owner Can Do For You

Video Transcription

Hi. Welcome to another episode of "Money Script Monday." My name is Brian Manderscheid. I'm very excited for today's presentation as I'm going to share with you what the last 10 years of being an IUL owner has taught me.

Now, you may be currently working with a financial professional or may have been pitched indexed universal life in the past. The goal of this presentation is to share with you my honest feedback and experience of what this policy has done for me in hopes that I'm able to give you enough information so you can make an educated decision on if this is the right policy for you.

So today, what I want to do is focus on the actual return experience that I've achieved in my policy and talk about liquidity, leverage, and arbitrage. And lastly, finish up with what matters most.

So when I bought this policy, this is the first of two IUL policies I purchased, it was over 10 years ago. I was 28 years old and the purpose of this was to supplement my retirement accounts and other investment accounts and provide this tax-free income down the road when I decided to retire. Now originally, when I looked at the projections, there was a 7% illustrated rate; that's sort of what I expected, but the actual returns that I've experienced are about 8%, over the last 10-plus years.

Now we've had, obviously, a good bull market along the way, but we've also had some turbulence. And to be able to experience a competitive 8% rate of return, without having any of the stock market losses, has really been a big surprise along the way. I've also been able to over that 10-plus years accumulate over $24,000 of interest earned. By the way, I haven't paid any taxes on those gains as the life insurance policy does grow tax-deferred while also giving you access to access cash value tax-free.

So even though we've had some bumps along the way, we had a good bull run in the market and experienced rates of return greater than my expectations. Recently, I celebrated my 10th-year anniversary with this policy, I want to share with you some numbers from my annual statement.

So this policy, the smaller of the two, I'm paying $450 a month — so $5,400 per year. Even though at the beginning of this policy year we had COVID, the lockdown and a big stock market drop, I was still able to accumulate almost $4,000 of interest — by the way, not paying any taxes on it. The cost of the policy was under $1,000, which basically allowed me to carry $320,000 of permanent insurance for my family.

Currently, I'm in policy year 11, so outside the surrender charge period; I got through the front-loaded policy costs. At this point, there's just a small admin fee and some cost of insurance. So, my expenses are less, and hopefully, I'll continue to receive high rates of return throughout the policy.

So that's the actual returns that I've experienced. Let's next move into liquidity, leverage, and arbitrage. Now I mentioned that the purpose of this policy was to just accumulate money and down the road when I decide to retire, have this stream of tax-free income. But what I realized is that life happens and that there are dangers that may come your way, but also opportunities; access to capital is key.

You may have heard the expression, "Cash is king." I really think the expression should be, "Liquidity is key," or, "Access to capital is key." There's a smorgasbord of reasons why I've accessed my policy. Again, I'm not taking withdrawals from my policy, I'm merely loaning from the insurance company with my life insurance cash value and death benefit as collateral. By the way, this is an unstructured loan, meaning that there are no credit checks, there are no requirements, there are no prepayment penalties and no required payback periods.

I merely just go onto the computer or the app, put how much I want, and in three business days, the money's wired in my account. By the way, it doesn't show up in my tax returns; there are no income taxes, and I could decide to pay the loan back if I want to, or at my own convenience, or not pay it off and let the loan balance continue to accrue.

Now, a few years after I bought the policy, I was able to buy a home. It was a fixer-upper, I had to buy it with an FHA mortgage. I used the policy to help me with the down payment. Along the way, I've also renovated the home and just recently did a loft addition to add much-needed space for the family, all using the insurance company money.

Before the renovations, I was in an FHA mortgage and I wanted to get out of it. I did a refinance to a conventional mortgage. However, the appraisal, excuse me, wasn't enough for me to be able to get the new mortgage. What I had to do is pay down the FHA mortgage, but I didn't have the capital. Again, I turned to the policy, borrowed from the policy. I was able to pay down the FHA mortgage, refinance the conventional mortgage, save $300 to $400 a month, and use that cash flow to pay back the loan from the insurance company.

I also had student loans that I paid off, which were not mine. Just a word of advice, never co-sign on someone else's student loans. I learned that advice the hard way.

I had cash crunches, my income, my wife's income, they're both variable. We've had some lean months and we've had high expenses; I've used the policy to help bridge the gap, when cash flow increases, pay back the loan back to the insurance company.

My favorite is buying the dips. Now in addition to owning an IUL, I am an avid investor and, the stock market is volatile, and it goes up and down. When there are big dips in the market, some people panic sell and lose money; other people see that as an opportunity. My favorite example of this was back in March 2020, the COVID lockdown happened and the pandemic. There was about a 35% drop in the S&P 500 over the course of about three to four weeks.

While most people were scared and panic sold, I was able to — again, using access to capital — borrow from the life insurance company with my cash value and death benefits as collateral and buy high-quality stocks at a discount, which happened to double in roughly six months. So not only did I earn the competitive rate of return on the policy because the loan balance continues to earn uninterrupted compounded returns, I was also able to get the returns on these other capital purchases, the home and the investments, I've been able to accumulate along the way.

Now, there is a cost to access capital. For my policy, the current loan rate is 4.2%. It's a variable rate, it's average of between 4% and 5%. By the way, I think of it as even though it cost me money to borrow from the insurance company, those borrowed funds continue to earn index returns in the contract; index returns have been almost double that of the opportunity cost of the loan that I borrowed. Essentially, the gains of the policy have covered the loan interest.

So, we talked about the return experience, liquidity, leverage, and arbitrage. Next, I want to finish up with what matters most. Now, why I bought this policy for a supplemental tax-free income stream is because my life's changed since I originally bought it. I got married, had two beautiful daughters. What I've realized is it's not just about the rates of return or the liquidity, it's about the protection, and that's what matters most.

For me, having the peace of mind to know that no matter what, what happens is my wife and daughters will always be taken care of. It's my last gift of love to them. Even if they're going through a tough time, they'll know that they'll be able to stay in the home that we've been able to raise our kids in, go to the same schools, go to college and live their lives knowing that their dad loved them and would do anything for them.

That peace of mind has been greater than all these other benefits that I've experienced in the policy. Likewise, taxes; I hate paying taxes and I'm sure you do too. The benefit of having this policy for me is that I've been able to avoid taxes on the growth, access capital without any income taxes, and down the road when I pass away, there'll be an income-tax-free death benefit for my family.

Last, safety. I mentioned I'm an avid investor, but, there are times when the stock market drops. The average investor tends to buy high and sell low; they panic sell when the stock market drops. For me, having this safe asset that doesn't drop in the stock market drops allows me to take risks in the stock market and even acquire new positions and shares when the stock market drops rather than panic-selling because I know I have a safe asset to rely back on.

So that's my experience as an IUL owner for the last 10 years. My question to you is, are these things that you're looking for in your financial plan? Are you looking for competitive rates of return without the stock market drops? Are you looking for access to capital, leverage, liquidity, and arbitrage? Are you looking for protection?

Is there someone who matters most to you that you want to make sure no matter what, they're taken care of if you're gone? Do you hate paying taxes, and are you looking for a safe vehicle to grow your money?

If the answer is yes and if those are the things you're looking for, please contact the advisor who sent you this video. They can talk to you more about indexed universal life and how it may fit into your complete holistic financial plan.

Thank you very much. We'll see you next time.