Episode #231: How Should You Fund an IUL, With Your Money or Theirs?

Video Transcription

Hello, and welcome to another episode of "Money Script Monday." My name is Luke Geller.

Today we're going to be talking about “How should you fund your IUL, with your money or theirs?” Really what that means is if you're looking to purchase an IUL, you already know exactly what you're looking to buy, then how should you pay for it?

Well, you can pay for it with your out-of-pocket premiums, with premiums out of your own pocket or your own bank account, or you can add to that and utilize bank financing to increase that spending power that you have.

Think about it this way, my fiancée and I are looking to purchase a vehicle. We know exactly what vehicle we want. We want a 2022 RAV4 XLE Hybrid vehicle, it's a pretty expensive car, right? We could pay for that entire car out of pocket, but should we? We could also finance that vehicle through a bank.

We can pay maybe $10,000 down, out of pocket, and finance the rest over a five or six-year period with the bank or we could even lease that vehicle through the dealership. There are three different options we have and what we're going to do is we're going to sit down, look and see what we qualify for and what the pros and cons are of each.

Today, we're going to do that exact same thing. But instead of a vehicle, we're going to look at an IUL policy. First, what we're going to talk about is we're going to see if you qualify to finance a portion of your IUL premiums?

Two, we're going to look at the pros and cons. Finally, we're going to take a look at a case design of finance versus a non-finance indexed universal life policy.

So can you finance premiums? Well, there are a couple of things you need to think about. Basically, it's your net worth and your income.

Where that starts is if you make over $100,000, but not quite $200,000, then you need to have a net worth of at least a million dollars. If, say, you make $200,000, or between two and $400,000, you need at least a half-million-dollar net worth in order to qualify for the bank to also put a portion of premium dollars into your IUL policy. Finally, if you make over $400,000, then you don't need to have a net worth qualification.

What we're looking at is you need to make a decent amount of money and you need to have some kind of net worth in order to qualify for this.

The reason is the bank and the insurance carrier want to make sure that they aren't putting you in a bad position, and, having you spend too much of your money or maybe have you spending too much of your money that you're earning on premiums to fund an IUL. It's just looking out for your benefit and your safety.

Now that we know, "Hey, I do qualify," let's take a look at some pros and cons. First, we're going to look at the pros. The big one is you're getting three to one leverage on your money. What that means is if you put $50,000 in premium out of your own pocket, the bank's going to match that premium and then even add more onto it.

You're getting three to one leverage on your money. Also, what that means is that's going to increase the death benefit to the policy, it's going to increase the cash value, and it's going to give you higher potential tax-free loans out of the policy for retirement. That's huge.

You're increasing your death benefit, the cash value, and the money coming out. Sound amazing, right? There are some cons and we want to take a look at that, make sure you know exactly what you're getting into.

The first one is, you're losing control of your money for at least 15 years. Ideally, think about the example I gave you earlier. I'm purchasing a car, but I'm using bank financing. I put $10,000 down on a $40,000 car. The bank also put $30,000 of their money into that car. Well, I can't just go sell that car and pocket all 40 grand, no, $30,000 of that is the bank's money.

So, the same thing here; as you put in premiums and the bank matches those premiums, the bank needs to be made whole. You can't just go into that policy, pull out cash value as you want until you pay that bank back, which is usually in that 15th year.

Now on top of that, you're adding additional risk. What that means is you're adding an additional lever to then if you were to just pay the premiums yourself. There's a whole loan component with an interest rate, and a bank involved. Then once you do pay that loan off, now, you don't have the loan to the bank, but you have the loan inside your policy.

If you have multiple zero years or you don't earn any interest inside that policy for multiple years, that could put a strain on the policy. It could potentially lapse, and I don't think it would, but you have a higher risk of that happening if you leverage that money and borrow that money from a bank and have a loan on the policy than if you just pay it completely out of pocket.

Then finally there's a longer application process. A normal IUL would usually take about a month or two months, to get through underwriting and get in force. If you're adding financing and a bank into the equation, banks do not move fast, basically about the same speed as insurance companies.

So you're looking at another two months on top of the timeline there. Probably about three to four to five months, just to get your policy in force and make sure you're protected. Keep that in mind as well.

We looked at, "Hey, do I qualify for this?" Talked about the pros and cons. Now let's take a look at an actual case study and keep in mind, this concept we're talking about today is more focused on the smaller case premium financing platform.

We're not talking about $10, $20, $30 million death benefits. We're looking really between $1 and $3 million death benefits. In this case, we have a 50-year-old male, preferred non-tobacco.

He's going to put $76,550 of his own money out of pocket for five years. So he is putting just short of $400,000 into the policy. He gets a one million dollar death benefit at age 66.

He funds the policy for five years, lets it grow for another 10. Then at his age, 66, he's pulling out tax-free loans of $55,417. That's not bad, right? If he lives to life expectancy for preferred non-tobacco, age fifties, probably around 85, that's about 20 years of tax-free loans. So you're getting about a million dollars for a $400,000 investment, not bad at all.

Well, let's take a look at the financed option. This client's putting that same $76,550 out of his own pocket, but what else is happening is that the bank is matching that premium and then adding or matching that premium for the first five years and then paying the entire premium for year 6 through 10.

So, they're putting in $76,550 on top of yours for the first five years and then basically paying $150,000 year 6 through 10. Now instead of just $400,000 going into the policy, you have over $1.5 million in premium going into this policy.

You're borrowing about $1.1 million from the bank that allows you to have a death benefit, year one of $2 million. Then once you pay that loan back at year 15, you're taking out $103,000 of tax-free loans at age 66. What that means is, hey, same out of pocket, double death benefit almost doubled your tax-free loans.

So it's pretty lucrative, right? It is beneficial to do that. There is huge benefits, huge income benefits, increase your money, you're utilizing your money so efficiently that you're able to put the same out of pocket, but double your benefits.

Now that we've looked at the case study, again, you have some huge benefits that you can get, you can double your death benefit. You can double, almost double the tax-free retirement premiums you have coming out from the policy.

But again, there are risks, there are concerns. And that's why it's so important to talk to your financial professional about this strategy. If you're going to do this, you want to sit down with your tax professional, with your family, make sure it's right for you, and that you're looking at all the things that can be benefits for yourself.

I hope that you were able to take one or two things from today's lesson, be able to incorporate it into your decision and your decision-making process.

Again, thank you for watching "Money Script Monday."