Episode #274: How to Create Your Own Private Reserve Wealth Strategy

Hi, welcome back to this week's episode of Money Script Monday. My name is Laurence Williams and I want to thank you so much for being here today. Today we're going to talk about how you can create your very own private reserve wealth strategy. Now, when you think of the American economy, you think of business owners. They're really the lifeblood of America. Successful business owners really embody three traits. One, they value the importance of protecting their assets. Two, they value the importance of mitigating tax exposure and paying unnecessary taxes. And three, they understand and value the importance of having access to liquidity and capital.

The good news is, is although many of you may not be business owners, the good news is we all have these tools and access to strategies. One just so happens to be properly structured cash-value life insurance. With properly structured cash-value life insurance, when you leverage this tool as your own private reserve cash, it allows you to make major purchases for big events in your life. It allows you to have access to that cash in the event of unexpected events that may happen. And thirdly, it allows you to have access to use it as supplemental retirement income. Now, you may ask, "Well, what's needed for this strategy? And is this a strategy for me?" And the first thing that's needed is you have to have the need for life insurance. The second is that you have to value the importance of financial protection. Whether again, that's for your family, perhaps for your business, or again perhaps for your retirement income.

There's a number of things that you can use your cash-value life insurance or your private reserve cash. We'll take a look at them over here. The first is going to be weddings. Perhaps you want to put a down payment on a house, college tuition, funds to start a business, retirement income, or if you, again, in the event of an emergency need access to cash, you can tap into your policy to have access to that. But what does it look like in action? We're going to take a look at a client here by the name of Tom. And Tom is 35 years old. He's in great health, he's married, and currently, Tom contributes to his Roth IRA, in which he contributes $7,500 because he is married. And then he also contributes up to his employer match and his 401(k), which is 4%.

Tom also understands that 401(k) he really can't touch until he is 59 and 1/2. And there could be times in his life that he needs access to capital right away. So, Tom decides to purchase a properly structured indexed universal life policy. And with a properly structured indexed universal life policy, the contributions that are contributed into the policy grow tax-deferred, you have access to that cash on a tax-free basis. And in the event that you pass away prematurely, you have that tax-free death benefit. So, in this example here, Tom decided to save $10,000 a year into his plan for 30 years. And we're going to take a look at a couple of columns here to show how this plan works in action. So, at the age here, the age is going in 10-year increments. Again, he's putting in $10,000 a year. From 35 to 45, he's now put in $100,000.

He decides to take out a $40,000 loan because he wants to start a small business. After that loan, you can see that the cash value in the policy is still $68,000. 10 years later, at the age of 55, he decides to take out a $50,000 loan because he and his wife decided to purchase a vacation home. And that was going to be a down payment for that. It isn't until 65 that there is enough cash value in this policy that he can turn this on for tax-free retirement all the way to age 100, all while still leaving him a net death benefit at the age of 85 of $436,929. If you focus here on age 85, we use this number not by a guess, this is really life expectancy. So, we look at the age of 85, Tom has contributed $300,000 over the life of this policy.

He's received $842,700 in tax-free benefits. He also has at the age of 85, a death benefit of $436,929. There are some considerations with an indexed universal life. These policies are tied to an index and policy performance is important. And the second thing is it's really important that you work with your trusted advisor to ensure that your policy is on track. There are an infinite amount of ways to fund and structure these policies. We generally recommend in max funding these policies, which means purchasing the minimum amount of death benefit and putting in the most amount of premiums that the policy will allow. And that's what we did here in this example. I'll ask you, if you value family protection, if you value mitigating your tax exposure and paying unnecessary taxes, and you value having access to liquidity and capital, I encourage you to reach out to your trusted advisor to see if a private reserve wealth strategy is a strategy for you. I want to thank you again for watching, and we'll see you next time.