Episode 285: Spender, Saver, and Wealth Creator

Hi, my name is Sal Mendoza and welcome back to Money Script Monday. Today we're going to be talking about the spender, saver, and wealth creator. Let's get started. Here on this board, the spender represents living below the zero line. And what does that mean? That means me, but you have to go way back when I was 18 years old. When I was 18 years old, because of finances, my best opportunity to go to college was to take my first two years into junior college.

I grew up in Los Angeles, right on the foothills of the Angeles Crest Mountain. I went to a junior college, and I remember my first semester. I can't remember if it was week three or six, but I remember that I was walking through the quad and there were some companies that have set up booths, such as the Marines and a bunch of other ones.

Well, there was one that had credit. They were offering a credit card. So, I'm thinking to myself, "I'm 18 years old, no one's going to give me credit, but I'm going to apply. I went and I applied, and guess what? They gave me a credit card. Three weeks later in the mail, I got my first credit card. I'm 18 years old. I wouldn't say I was responsible and I surely did not really understand money at the time. I'm learning about money.

This is why it's so important to understand that there's three different phases of understanding money. What do I do with that credit card? I went and bought things. I bought some school supplies, I bought some extra clothes, not a lot. I think I put $200 or $300 on it. But I remember when the bill came into the mailbox and I opened it up and I looked at it and I remember I could pay it off, or I could pay the minimum balance.

And I decided I was going to pay the minimum balance. Why? Because it just made sense to me. The interest rate didn't seem like it was high. I didn't totally understand money, and that was my introduction to credit and living as a spender. I soon realized that wasn't really the best way to handle money. And so, I graduated by becoming a saver.

If I used my credit card, I would pay it off, but more importantly, I started putting money away to make a large capital purchase. And my first large capital purchase, probably just like you was my car. And I couldn't afford to purchase a brand-new car. I had to purchase a used car and I knew what kind of car I wanted. I wanted a truck. I worked really hard and I put money away, while I was going to school. I had a part-time job and I put money away. And then eventually, I had enough money to go ahead and deplete my savings account and I got myself a car. That car allowed me to have more opportunities for better jobs and also to be more social and go to the beach. That's why you do things like that, right?

I actually thought this was the way and you start with this and you kind of move over here. This is the way that I would spend money for many, many, many years. I would make a large capital purchase, I would work hard, save, and I would have a second savings account. I would put money in there, and then I would eventually deploy into whatever purchase that was.

Then, I got into the insurance industry about 21 years ago, and I got into something that was called an Index Universal Life. I thought holy smokes, this is the wealth creator.

Really, what is an Index Universal Life? It's real simple. It's a life insurance contract and you pay premiums and it's got two components. It's got a death benefit and a savings account built into it.

Eventually, hopefully, that savings account will continue to grow and grow over years. But, here's the most important part that really separates it from the spender and the saver, is that you're able to take a loan.

If I wanted to buy a car now, with the life insurance contract that's max funded. I've been paying my premiums and I have good cash value in there. Now the difference is that I can take a loan from my life insurance contract and I'm not depleting my savings account. When you take a loan from a life insurance contract, what's really happening, the mechanism behind that, is let's say you want to borrow $10,000. You fill out a form, you send it to the insurance company, the insurance company's going to take a look at your life insurance contract. They're going to make sure that you have ample cash for that $10,000. They're then going to send you $10,000. But it doesn't come from your life insurance contract. It comes from the general portfolio of the life insurance company. And that is why you become a wealth creator.

While that money is still growing in your account, you're now able to purchase a car. And then, you're able to go ahead and pay that off. You can pay off the loan from your insurance contract. It's a very powerful vehicle.

If your insurance agent has said that they think this might be a good retirement strategy, something for large capital purchases, or they’re trying to get you to think like a wealth creator and get out of the saver, and definitely out of the spender mindset, consider what's going on behind the scenes. My name is Sal and thanks for letting me share.