Episode #326 – How to Access Cash Value with a College Funding Policy

Welcome back to another episode of Money Script Monday. My name is Gabriel Lindemann and I'm going to be your host today. It's my honor to be talking about college funding. This is a very important topic. This is a topic on how to use your cash value in your life insurance policy to pay off those college loans. Now with that in mind, let's get started.

A lot of these policies we have been working on, they're great. They're inforced now for four, five, six, seven, to eight years and sometimes even longer. Now we're getting to the time when the kids have graduated from school. Congratulations to all the parents out there. As a parent myself, that's the most rewarding thing we can do, so kudos to all the parents out there who are accessing their policy right now to pay off their student loans. Congratulations. Honestly, mission accomplished. But how do we do it?

There are three different ways to pull money out of your policy. We can use a variable or they call it a participating index loan. Sometimes they have a fixed rate loan, which can be a zero wash no cost loan after 10 years, or a lot of times they use a MEC withdrawal option.

Now let's get into the one that's probably used 90-95% of the time. It's going to be the variable participating index loan and we use this loan for a couple of important features. One, it does not affect your accumulation value. If you have $100,000 in your accumulation value, and you pull $20,000 out of it, that $100,000 is still in the accumulation value, earning a full rate of return, so that's very important for college planning.

When you pull money out, we want to have that money still in there, earning a full rate of return so in the next year, instead of having $80,000, maybe earning 10-15%, you now have $100,000 earning that 10-15%. It makes a huge difference and this is why these policies work. Another important aspect is, that it's most likely in the plan design. This is what we had created for you in the beginning. If you have questions, if you don't remember, always look at your planned design, call your college planner, and then we'll be more likely to help them too if they have any questions.

One of the best, most attractive, best parts is, that the loans are fixed. A lot of them are fixed at 5%, not all of them, but a lot of the ones that we design with your college planner on those college funding designs are 5%. I know the rates have been really high right now, but again you want to be able to pull a loan out of your policy and get all those benefits as it's a variable or participating loan, 6 to 5% is amazing. Probably 95% of the time, this is in your college funding report. We used a variable participating index loan. If you don't remember for any reason, call your college planner to review it, but again, 95% of the time you're going to be safe if you're using a variable or participating loan in your policy.

Now, the second loan option that's popular is gonna be the fixed rate and zero cost loan. Those loan costs are going to be typically lower. If we're just seeing 5%, we're going to be seeing around 2 or 3% fixed rate loan. You might be asking yourself, “Wow Gabe, 5% or 2%.” Naturally, you'd think 2% would be better, but remember the drawback is the accumulation value is depleted.

As I talked about in the first scenario, $100,000 and you pull out 20, you still have $100,000 earning a full rate of return. With this loan feature, you now take out that $100,000 - $20,000. You have $80,000 earning a full rate of return. This is why even though it might be cheaper on paper, it's not designed to work that way with your college funding, especially when you pull out money to pay off the loans and also to supplement your retirement in the future.

A lot of times you'll see that and if you take the wrong loan, it could lapse the policy, so everything else that we've accomplished, the rate of return, making sure it's match funding, making sure it's up to the seven paid guidelines to make sure that it's at lowest cost insurance and fees, we're going to lose a lot of those benefits if you take the wrong loan feature.

This is why it is super important always to call your college planner. Call the company just to make sure we view the illustration or review your plans and make sure you're taking out the wrong loan because, although it might be cheaper on paper on day one, it could hurt your long-term planning. That's why I can comfortably say that 95% of the college funding designs that we have here are going to be using a variable participating index loan.

The last option to access your money is going to be a withdrawal option. There are pros and cons to everything. My honest opinion is that this option should only be used for MEC policies because the MEC policy is not coming out tax-free. Essentially, you have almost like an IRA or a nonqualified annuity. You're going to pay, everything on the gain, you're going to be fully taxable, you're going to pay penalties and everything if you're under 59 ½. But that's okay because a lot of the time with those MEC policies, we put them in there, we just want to borrow against it to pull out if we don't get enough financial aid to pay for college, for the what-if scenario.

These aren't designed to be long-term plays, they're not designed to supplement retirement. They're only designed to pay for college. With that being said, remember, that you take withdrawals on the basis of all MEC policies. Please, whatever you do, if you forget everything I said, never take any form of loan against the MEC policy. Now an MEC policy again, is going to be a policy that's going fully taxable with penalties because it wasn't designed to the seven-page guideline. But that's okay, we designed it that way so that we can get the early cash values out early. It's not for supplemental retirement, it's not for long-term planning. It's typically just the EFC shelter and assets move.

Let’s review what we talked about. The variable participating loan is the most common feature. We're going to use that loan 95% of the time when it comes to college funding. The second popular option, which is not recommended in a lot of cases, is going to be that fixed loan feature. Zero-cost loan after the 10th year. The last option is only for MEC policies, and that's when you use the withdrawal option coming out of your policy.

Today I want to thank you for attending today's lecture we gave on how to access your college funding loans. If you have any questions, again, review your illustration, review your game plan, and call your college planner. Let's make it work. But most importantly, congratulations, your kids are graduating and as a parent, there's nothing more we could ask for. Thank you. God bless. Take care.