Episode #339 - How to Fund an IUL and Get Your Premium Back

Hi, welcome to another episode of Money Script Monday. My name is Brian Manderscheid. Today I want to discuss how to fund an index universal life policy and get all your premiums back. Before I do, I want to talk a little bit about the current environment that we find ourselves in. Post pandemic, there's a lot of inflation and the Fed response to the inflation has been to raise interest rates at one of the fastest pace in history. Well, this has been bad for borrowers who are looking to take out loans, but it's actually been great for savers, people looking to put money aside for the future. Everything from short term savings rates online, online savings, money market CD's have had a boon in interest rates and provide more benefits.

However, we're starting to get into a period of time where we're seeing some weakening pockets of the economy and starting to see the early stages of the disinflation or deflationary. What this basically means is that there is a potential chance for interest rate cuts at the end of 2024. So in this current scenario, we find many people who are rushing to lock in today's high interest rates for longer. Similarly to how three to four years ago, people were rushing to their mortgage brokers to lock in historically low borrowing rates on their mortgages. There's a lot of ways to lock in today's high interest rates, whether it's long term CDs or annuities. Today specifically, we're going to talk about using a premium deposit fund to fund an index universal life policy.

Getting into this topic, it's basically a way where you can fund a one time lump sum premium to the insurance company. They're going to fund the first year premiums payment from your lump sum and put the remaining portion into the premium Deposit Fund, which is essentially a holding tank for the remaining premiums of the policy. That holding tank is currently crediting a 6% rate of return. In all fairness and disclosure, that 6%

rate is non guaranteed. However, in speaking with the actuaries at this specific insurance company who just recently launched this product and raised this rate is that while they acknowledge the fact that this rate is non. Guaranteed is likely the last lever they would pull, meaning that for people who purchased the policy today, that 6% rate could potentially be 6% through the remaining period of the policy.

As mentioned, the client funds a one time lump sum premium and the premium deposit account pays the remaining premiums of the life insurance policy so that by the end of the period you have a paid up life insurance policy to provide benefits for your future. But to understand this concept, grasp it more in depth. I put a sample scenario together.

For this scenario, we have a 50 year old woman. She's in great health. However, she recently lost her husband about a few years ago. Fortunately, he did have life insurance and with the life insurance benefits, she was able to pay off debt, do some home remodels, put some money aside for liquidity purposes, and she didn't want to put the money in the stock market. Knowing that interest rates were high roughly a year ago, she purchased a one year CD for $250,000. That CD is coming due and she's looking at options to basically better achieve her financial goals. Do I do another one year CD or is there a way I can lock in today's high interest rates for longer?

Regarding her financial goals, legacy is a number one goal. She obviously saw the power of life insurance with her husband who passed. She wants to make sure that her kids, her two kids, are taken care of in the event she passes away as well. She's in pretty good shape from a retirement income standpoint. She received her husband's 401K, she also has her own 401K at her employer that she's actively contributing to, but she realizes that she may need income in the future to help supplement her current retirement plan.

Lastly, the only other missing piece of of her retirement plan or her financial picture is she doesn't have a dedicated source or pool for future long term care funds. She doesn't necessarily want an ongoing premium payment to pay for long term care insurance, but likes the idea of having funds dedicated for long term care should that be something that may happen. Again sort of to further grasp this concept of using a premium deposit account to fund an index universal life, let's look at some of the values of this of this plan.

She funded a one time premium payment or contribution of $250,000, which went into that premium deposit. That fund paid premiums of $32,000 for a 10 year time frame. Again, one time contribution of $250,000 and $320,000 in premiums paid for by the insurance company using the premium deposit fund. The way we structured the actual life insurance as those premiums went in, we got the least amount of life insurance that the IRS would allow to minimize the underlying insurance fees and mortality expenses and maximize how much premium is going to go towards cash value growth for future benefits.

The initial death benefit we purchased was just under half a million dollars using an increasing death benefit, and then again, one of her goals was potential for retirement or to supplement income. While this is not set in stone, we illustrated the ability to to take a tax free withdrawal of $250,000 at age 65. Let's walk through this again. She funded a one time contribution of $250,000 and she took a tax free withdrawal of her cost basis of $250,000 at age 65. She's not locked in taking that money, all of it, or any of it at all, but we talked about the various options for your retirement at the time. Maybe it's purchasing the down payment on a rental property, or maybe it's some sort of investment account with diversification of stocks and bonds, or maybe it's even an immediate annuity to provide guaranteed lifetime income. Those options are open, and we'll discuss those once we get there. Now let’s looks like at the remaining values of the life insurance policy.

Again, these are projected and non guaranteed based on a 6% illustrated rate without any bonuses or enhancements, so it's a true 6% illustrated growth rate. At age 65, after taking the $250,000 tax free withdrawal. Again, that's not a loan, doesn't need to pay back it's a pure withdrawal. There's roughly $250,000 in the remaining cash value in the policy. At age 85, that projected cash value is over 3/4 of $1,000,000. Again, that can be used to for a long term care pool, whether she withdraws or remaining cost basis, or takes a tax free, fixed or participating loans to access that cash value.

Lastly, at age 90, assuming the remaining funds are never used for long term care or any other purposes, there's an illustrated death benefit of over $1,000,000 to provide that legacy she's looking to bestow upon her kids in the next generation.

A couple of big, main points here. Number one is we believe interest rates are heading lower at some point, whether it's this year or next, they're very likely to come down, which is going to impact everything from online savings account rates, money market, CD's, annuities and even insurance products as well. Number two is that we believe this is a great way to help lock in today's high interest rates for longer period of time and provide these great benefits that life insurance policies can provide. If you have any questions about the material presented today, please contact the advisor that sent you this video to get started. Thank you very much. We'll see you next time.