To learn more about the wealth building tool discussed in this paper, you can also purchase my new book where I literally go into chapter and verse on how readers can "Retire Without Risk."

RETIRING WITHOUT RISK

WAS CREATED AS THE AUTHORITATIVE GUIDE TO HELP YOU:

- Build wealth for retirement without the fear associated with investing in the stock market.
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- Determine if tax-deferred qualified retirement plans or IRAs are really "tax hostile" or "tax favorable."
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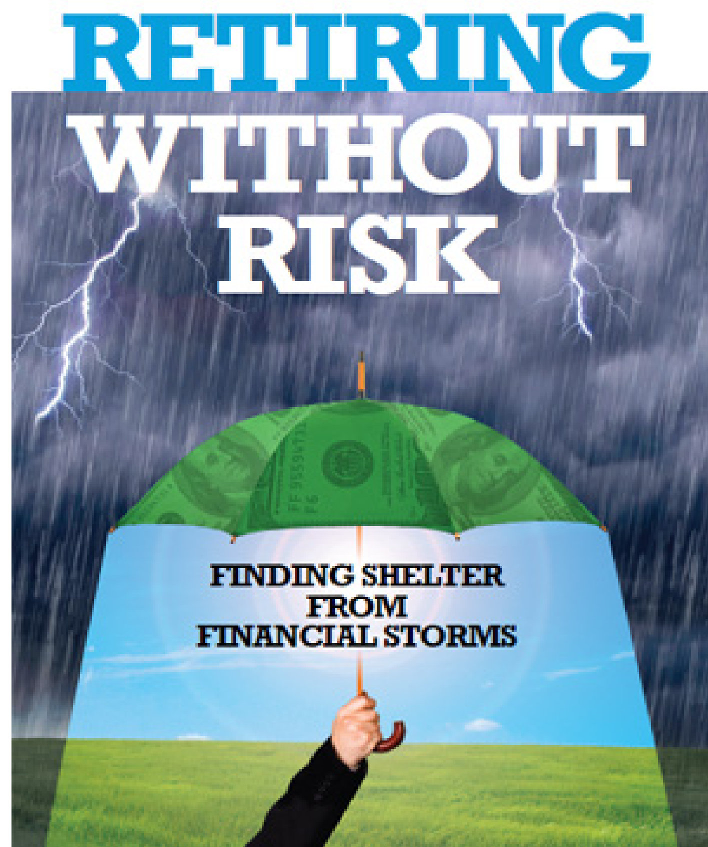

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Retiring Without Risk

FINDING SHELTER FROM FINANCIAL STORMS

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Chapter 4
Funding Qualified Retirement Plans and/or Post-Tax Brokerage Accounts vs. Cash Value Life Insurance

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To date, there has been no "authoritative" writing with **real details** on the two questions which are raised over and over in the life insurance and financial-planning communities.

Question 1: Is it better for you to fund a qualified retirement plan such as a 401(k) plan, or is it better to take your income home, pay tax on it, and fund cash value life insurance as a retirement vehicle?

In this chapter, I will show you with real-world math using different variables how much you can anticipate receiving after tax in retirement from a traditional 401(k) plan vs. after tax from a cash value life insurance policy.

Question 2: Is it better to fund a post-tax brokerage account to grow your wealth or use cash value life insurance?

Again, I will show you with real-world math how much you can anticipate receiving after tax in retirement from a brokerage account vs. after tax from a cash value life insurance policy.

As I alluded to in an earlier part of this book, there is no such thing as a "secret" wealth-building tool. Having said that, there are very few who fully understand the power and protective nature of a properly designed CVL insurance policy.

-Keep in mind the statistics from Chapter 1. The S&P 500 index, even with the nearly 40% decrease in 2008, still averaged **8.35%** from 1988-2008 while the average mutual fund investor earned only **1.85%**.

-Keep in mind that the average mutual fund is held for less than four years and that most American investors **panic sell** when the stock market starts to crash. In other words, the American investor is a professional at "buying high" and "selling low."

-Keep in mind that with an equity indexed life insurance (EIUL) policy, you do not lose money when the stock market goes negative; and your gains are locked in after positive years in the market.

-Keep in mind that with an EIUL policy your money **grows tax free** and can be **removed tax free**.

-Keep in mind that with the right EIUL policy (***Revolutionary Life***) you will receive not only a death benefit to protect the family but also living benefits such as a **FREE long-term care benefit**.

LAYOUT OF THIS CHAPTER

This is not going to be the easiest chapter of a book you've ever read. I usually have a good knack for breaking down complex topics into English for people, and this chapter will challenge that ability. Actually, the subject matter of this chapter is not too bad; but because of the multiple comparisons and charts, it will probably be a bit confusing for some readers.

The good news is that the details that support the conclusions are in this chapter, but I also have summaries with just the conclusions. Therefore, you can read as much as you want and read it over a few times to get all the details; or you can take the conclusions as they are. I recommend learning the details that support the numbers; but the bottom line is that I want you to know the outcome of the math, which will be very interesting and eye opening for most readers.

Like Chapter 3, for the sake of brevity, I did not put into this chapter the numbers on the Roth 401(k) plan. Again, most employees do not have the option of funding a Roth 401(k) plan and; therefore, I did not want to take up space in this book discussing it.

I have, however, run all the numbers on Roth 401(k) Plans in the same manner as you'll read in the following pages on traditional tax-deferred 401(k) plans. If you would like to read this information, simply e-mail roccy@retiringwithoutrisk.com; and I'll e-mail you PDF summary that includes Roth 401(k) plan numbers.

The chapter will be laid out as follows when dealing with a particular client (**Mr. Smith**) who is looking to build wealth for retirement.

The following material:

1) Illustrates how much after-tax retirement income Mr. Smith will have available using a **traditional/deductible 401(k) plan**.

2) Compares what Mr. Smith has available from a **traditional 401(k) plan** to what he could receive if he funded a **cash value life insurance policy**.

3) Illustrates how much after-tax retirement income Mr. Smith will have available when funding a typical **after-tax brokerage account**.

4) Compares what Mr. Smith has available from the **post-tax brokerage account** to what he could receive if he funded a **cash value life insurance policy**.

The material to follow will illustrate the economics for Mr. Smith as if he were in the 40%, 30%, and 15% income tax brackets when funding and removing money from his 401(k) plan and when funding and removing money from a cash value life insurance policy.

For the examples in this chapter:

-Assume the client, Mr. Smith, who is age 45, contributes $15,000 to a traditional tax-deductible 401(k) plan each year for 21 (45-65) years and takes distributions from the plan from ages 66-85 (leaving an account value of zero at age 85).

-Assume that Mr. Smith will fund a post-tax brokerage account with $15,000 every year for 21 years and will remove money from the account from ages 66-85 (leaving an account balance of zero at age 85).

-Assume that Mr. Smith funds $15,000 after tax to a cash value life insurance policy and removes money from the policy from ages 66-85 (leaving enough cash in the policy to keep it in force until death).

Because the contribution is non-deductible to the cash value life insurance policy and the post-tax brokerage account, Mr. Smith will have to pay the following taxes on his contribution to either. The amount of tax depends on his income tax bracket. As stated, I will show you numbers for each tax bracket so you can look at the one that most closely fits your situation:

- 40% tax bracket = $6,000 tax
- 30% tax bracket = $4,500 tax
- 15% tax bracket = $2,250 tax

The examples in this chapter all assume a fairly conservative 7% investment return over the life of plan.

For a comparison example, Mr. Smith will invest an amount of money equal to the taxes he would have saved had a traditional tax-deferred 401(k) plan been implemented (a side account).

In other words, if Mr. Smith funded a traditional tax deductible 401(k) plan, he would NOT have had to pay the additional taxes listed previously when funding a cash value life insurance policy or a post-tax brokerage account.

Therefore, when comparing numbers for Mr. Smith to fund a cash value life insurance policy or a post-tax brokerage account vs. a tax deferred 401(k) plan, he would have to fund into the side fund $6,000 in the 40% tax bracket, $4,500 in the 30% tax bracket, and $2,250 in the 15% tax bracket.

When most advisors discuss a side fund, they are talking about a typical investment account. When you actively invest money in the stock market (after tax), in order to have a "real-world" example, the numbers must reflect capital gains/dividend taxes on the post-tax brokerage account. The following are the assumed annual taxes on the growth in the account:

- 25% for a client in the 40% tax bracket
- 20% for a client in the 30% tax bracket
- 15% for a client in the 15% tax bracket

Also, when people, including Mr. Smith, invest money in a 401(k) plan, they typically will use mutual funds. For the first example, I will assume only a **.6% annual mutual fund expense** on money inside the 401(k) plan. The industry average is in excess of **1.5%** so this first example will not be terribly real world. Additionally, I will assume no "wrap fee" or money management fee even though many plans have these additional fees.

Alright. Now that you have an understanding of some of the variables (and if you don't, don't worry, I'll give you the charts which show you the answers), let's see how Mr. Smith does with retirement planning using these various plans.

1) **How much can Mr. Smith receive in retirement from his traditional tax-deferred 401(k) plan?**

If Mr. Smith funded a regular income-tax-deferred 401(k) plan, the following is how much he could receive from ages 66-85 after tax. Remember that money, when withdrawn from a traditional 401(k) plan, is **fully income taxable** in the year received.

Mr. Smith could remove annually from ages 66-85 the following, depending on his income tax bracket in retirement:

- $33,925 in the 40% tax bracket
- $39,579 in the 30% tax bracket
- $48,060 in the 15% tax bracket

As I like to do, I'd like you to be able to see how money grows for yourself. However, for the sake of brevity, I'll only include a chart with the actual math for how money grows and is withdrawn from a traditional 401(k) plan for Mr. Smith, assuming he is in the 30% income tax bracket.

Age	Start of Year Balance	Annual Contrib.	Withdrawal 401(k)	Growth 6.40%	Year end Balance	Available After-tax
45	$0	$15,000	$0	$960	$15,960	$0
50	$90,689	$15,000	$0	$6,764	$112,453	$0
60	$383,004	$15,000	$0	$25,472	$423,476	$0
65	$612,979	$15,000	$0	$40,191	$668,169	$0
66	$668,169	$0	$56,541	$39,144	$650,772	**$39,579**
70	$591,611	$0	$56,541	$34,244	$569,315	**$39,579**
75	$464,915	$0	$56,541	$26,136	$434,510	**$39,579**
80	$292,144	$0	$56,541	$15,079	$250,681	**$39,579**
85	$56,541	$0	$56,541	$0	$0	**$39,579**

The $39,579 after-tax withdrawal from the traditional 401(k) plan **must be added** to the **side account** Mr. Smith would have funded with the extra dollars he would have had available if he funded an income tax-deductible 401(k) plan instead of a cash value life insurance policy or traditional brokerage account after tax. From the side account, Mr. Smith could receive the following amounts after tax each year from ages 66-85:

- $16,533 in the 40% tax bracket
- $13,206 in the 30% tax bracket
- $7,031 in the 15% tax bracket

Totaling the numbers:

To compare numbers for the various wealth-building options for Mr. Smith, you really just need the total amount he can withdraw after tax from the traditional 401(k) plan and the after-tax side fund. From a regular 401(k) plan **plus** side account, Mr. Smith would receive, after tax, the following from ages 66-85:

- $50,458 in the 40% tax bracket
- $52,785 in the 30% tax bracket
- $55,091 in the 15% tax bracket

The previous numbers are what you need to keep in mind when I illustrate how much could have been taken out after tax from a cash value life insurance policy and a post-tax brokerage account.

2) 401(k) plan funding vs. life insurance

Again, this is one of the "**million-dollar questions**" in the finance-planning field. Is a tax-deferred 401(k) plan tax favorable or tax hostile? And how does funding a tax-deferred 401(k) plan (where money grows tax deferred but comes out and is fully taxable) compare to funding a cash value life insurance policy where it is funded after tax but then the cash in the policy **grows tax free** and **comes out tax free** in retirement.

You may have heard this question before:

Is it better to pay taxes on the "seed" or the "harvest"?

The seed is a contribution to a wealth-building plan, and the withdrawal of money from the plan is the harvest.

If you wonder what the following numbers will tell you, the answer is that it is better or even much better to pay taxes on the seed than the harvest.

Now that we have some 401(k) plan retirement numbers to work with, we can now compare them to repositioning money in a cash value life insurance policy.

When Mr. Smith repositions wealth in a life insurance policy, he will do so after tax.

Therefore, in this life insurance example, Mr. Smith will pay life insurance premiums of $15,000 a year from ages 45-65 and then borrow money "tax free" from his policy from ages 66-85. For illustration purposes, I will actually assume a little less than a 7% rate of return on the cash in the life insurance policy.

If Mr. Smith did, in fact, over-fund a low-expense, non-MEC equity indexed life insurance policy in the amount of $15,000 each year from ages 45-65, how much could he remove tax free from his life insurance policy income from ages 66-85?

$56,568 a year

Skeptical? How can that be? How can a cash value life insurance policy funded with after-tax dollars possibly outperform a traditional 401(k) plan?

If you read any of my other books, any of the hundreds of articles I've had published, or content on any of my web-sites, you should come to the conclusion very quickly that I do not have much tolerance for people who do not give full disclosure and for people who are not truthful when it comes to the math on financial topics.

No one is more of a skeptic than I am. Having said that, skepticism can easily be overcome when you look at the numbers for yourself. That's why I went out of my way to give you real-world math and the actual charts that go with the math.

The following spreadsheet comes right from an insurance company's software. It "is what it is" based on the assumptions (the main one being a 7% rate of return based on the S&P 500 index).

Age	Annual Premium	Cash Account Value	Death Benefit	"Tax-Free" Loans
45	$15,000	$0	$759,503	$0
50	$15,000	$65,289	$759,503	$0
55	$15,000	$169,098	$759,503	$0
60	$15,000	$321,249	$759,503	$0
65	$15,000	$546,163	$759,503	$0
70	$0	$446,393	$565,564	**$56,568**
75	$0	$328,067	$386,284	**$56,568**
80	$0	$191,117	$276,723	**$56,568**
85	$0	$30,145	$155,720	**$56,568**
90	$0	$183,162	$366,332	$0
95	$0	$506,151	$560,025	$0
100	$0	$1,118,146	$1,197,789	$0

Let me summarize the past few pages so I can bring this all together for those who are not quite following me.

Mr. Smith could invest in a traditional tax-deductible 401(k) plan, or he could reposition some of his money into a cash building life insurance policy to build his retirement nest egg.

To make a comparison to a traditional 401(k) plan, I had Mr. Smith tax deduct $15,000 into such a plan AND, depending on his income tax bracket, fund money into a side fund so he has the **same out-of-pocket costs** when funding the various wealth-building tools.

I then created three charts so you could review the outcome for yourself.

I created one chart for Mr. Smith in the 15% income tax bracket, one chart for the 30% income tax bracket, and one chart for the 40% income tax bracket. Remember that Mr. Smith's tax bracket doesn't matter when taking money out of a life insurance policy as there are no income taxes due (unlike when withdrawing money from a tax deferred 401(k) plan).

The following chart summaries the outcome.

	"After-Tax"
	Retirement Income
	Ages 66-85
Regular 401(k) (15% tax bracket)	$55,091
Regular 401(k) (30% tax bracket)	$52,785
Regular 401(k) (40% tax bracket)	$50,458
Cash Value Life Insurance	**$56,568**

I don't know about you, but I find the above chart and supporting math to be fascinating. Who knew that funding a cash value life insurance policy as an after-tax wealth-building tool could possibly work out better than funding the equivalent out–of-pocket amount of money into a tax-deferred 401(k) plan?

-Also keep in mind that Mr. Smith, in my example, also had a sizable initial death benefit ($759,000), which would pay income tax free upon death. The death benefit far exceeds the cash values in the 401(k) plans.

-Also keep in mind that Mr. Smith will have to pay a 10% penalty to remove money from his 401(k) plan before the age of 59.5 (with the exception of the annuitization option which most people will not want to use). There is no such penalty with a life insurance policy loan at any age.

-Also, keep in mind that Mr. Smith did not have to worry about the cash in his life insurance policy going backwards in a down market because of the annual locking feature in the life insurance policy (something that cannot be said of money in a traditional 401(k) plan that would have gone through the stock market crash of 2000-2002 and again in 2007-2009).

MORE REAL-WORLD MATH

Let's make the numbers a bit more real world. My previous numbers were very conservative and really made for example purposes only (since the assumed expenses were far too low to be real world).

Now let's assume that Mr. Smith's money in his traditional and regular 401(k) plan have the typical **1.2% mutual fund expense** and a .6% money management or "wrap" fee on the plans. How does that affect the numbers?

	"After-Tax"
	Retirement Income
	Ages 66-85
Regular 401(k) (15% tax bracket)	$43,761
Regular 401(k) (30% tax bracket)	$41,157
Regular 401(k) (40% tax bracket)	$38,676
Life Insurance Policy	**$56,568**

What's interesting is that the amount Mr. Smith can remove from his life insurance policy **does not change**, and the amount which can be withdrawn every year from the tax-deferred 401(k) plan are reduced quite a bit.

Why? Because I added on typical mutual fund annual expenses and the wrap fee typically associated with a company's 401(k) plan. Such expenses are not a variable in a cash value equity indexed life insurance policy.

I think this set of numbers is the most "real" world, but I did want to give you a few different looks at the numbers based on conservative expenses and typical expenses.

Interestingly, the cash value life policy returned **29% more income** if you are in the 15% income tax bracket, **37% better** if you are in the 30% bracket, and **46% better** if you are in the 40% income tax bracket.

Actually, the previous numbers have nothing to do with the real world. If you remember in the chapter on Traditional Wealth Building, the American public proved that when the S&P 500 returned **8.35%** from 1988-2008, the average investor returned than **1.87%** annually.

Let me throw one more little real-world twist in the equation. Do you remember the discussion in Chapter 3 about the **variable loan** option available in indexed equity life policies?

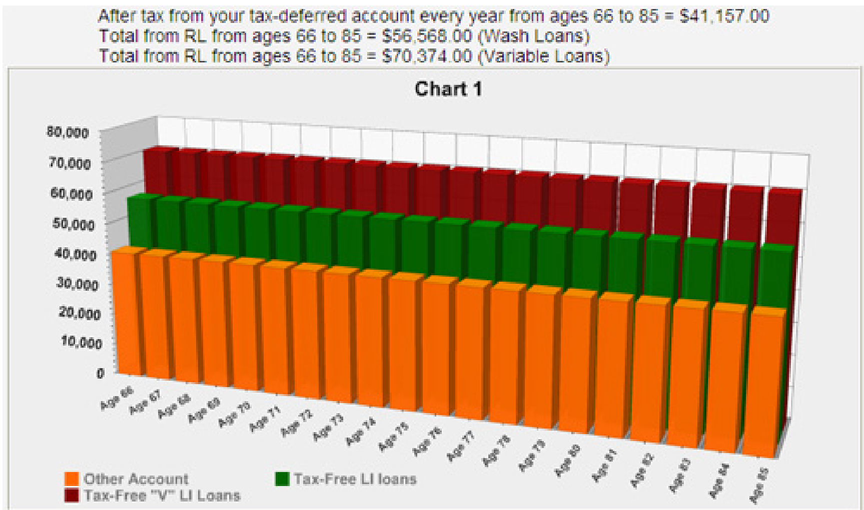
Most "experts" in the industry think that over time there will be a 2% positive spread between what the policies return every year (pegged to the S&P 500) and what the lending rates will be for loans on money borrowed from life insurance policies.

If I use just a 1% positive spread on the lending rate vs. the crediting rate in the life policy example, **how much more cash** could Mr. Smith remove tax free from his equity indexed life insurance policy?

Mr. Smith would be able to remove **$63,258** instead of **$56,568** from his policy from ages 66-85. Wow!

Just because I know your curiosity is getting the better of you, I figured I would give you the numbers for the 2% spread that "experts" think will happen. If the borrowing rate inside the life policy is 2% less than the assumed crediting rate for Mr. Smith, he could remove **$70,373** out of his policy from ages 66-85 instead of **$56,568.**

The following chart illustrates in a visual manner how much more wealth can be removed from cash value life insurance with variable loans (the tallest bars) and with wash loans (the middle set of bars) vs. how much could be removed after tax from a qualified retirement plan.



Very interesting, isn't it? What's interesting to me is that there are "what if" variables with an equity indexed cash value life insurance policy, which can really increase the amount borrowed. These variables are not available in a 401(k) plan.

Also, do NOT forget that the equity indexed life insurance policy has an annual locking feature for the gains; and the investment returns can never go negative due to down years in the stock market.

Let me illustrate one last example how much could be removed from a traditional 401(k) plan that **crashed 59%** **the year before Mr. Smith retired** vs. a EIUL policy that does not have such a problem.

I am going to assume that the market crashed just in that one year and then went back to a 7% gross rate of return for the withdrawal period. I am also using returns with a 1.2% mutual fund expense and a .6% wrap or money management fee in an attempt to create the most real-world numbers possible.

How much could be removed if Mr. Smith started and retired in the 30% income tax bracket? **$28,879**

With the EIUL policy, the built-up cash in the policy would not go backwards in the year when the stock market **crashed 59%**; and, therefore, the retirement income would hardly be affected (although it would be slightly less).

This protection afforded to people who use EUIL insurance is one of the main reasons many will choose to use EUIL to build wealth vs. stocks or mutual funds which provide **NO downside protection**.

3) **Comparing post-tax investing in a brokerage account to funding cash value life insurance**

In the previous material, I've shed some light on the real numbers that can be accumulated in a tax-deferred 401(k) plan and removed after tax in retirement. My guess is that most readers, before reading this book, were of the mind set that it is a very good idea to fund as much money as possible into a tax-deferred 401(k) plan.

If you are one such person after reading this book, you will have something to think about as an alternative (funding a tax-favorable and protective cash value life insurance after tax).

If you were/are of the opinion that funding a 401(k) plan is a good or the best way to build wealth in a tax-favorable manner, what are your thoughts about funding an **after-tax brokerage account** to build wealth?

Most people have some sort of brokerage account, whether the account is with a professional money manager or whether they day trade their own money online at places like E-Trade.

Obviously, you have to pay income taxes on your take-home income before you can invest your money in a brokerage account. Then when you invest in the stock market, you have to deal with mutual fund expenses, money management fees, and dividend and capital gains taxes.

In Chapter 1 on Traditional Wealth Building, I discussed, to my own amusement, how money grows in the stock market and how poorly the average investor did over the last 20 years. If you didn't read that chapter yet, please read it over. I think you'll find it fascinating reading.

Assuming that you've read how money grows in the real world in a brokerage account, let's get back to our Mr. Smith example and see how investing money in the stock market compares to positioning money for growth in a cash value life insurance policy.

Remember that I assumed Mr. Smith could find $15,000 to fund a cash value life insurance policy, which are after-tax investments.

On the next page is a condensed chart I created to show you how much money Mr. Smith could remove from his brokerage account from ages 66-85.

Remember he was 45 years old when he started funding his brokerage account for this example and funded it in the amount of $15,000 with after-tax dollars a year from ages 45-65. You'll also notice that I have different numbers depending on the assumed blended tax rate annually on the investments.

Blended annual tax rate	A	B	C	D	E
15%	$51,793	$46,874	$42,405	$38,346	
20%	$48,367	$44,020	$39,970	$36,442	
25%	$45,159	$41,333	$37,818	$34,592	
Average Investor Returns					**$23,040**

Just to remind you, from the EIUL policy, Mr. Smith could remove **<u>$56,568</u>** a year from ages 66-85 tax free with "wash loans."

The following are the variables used for A-E in the above chart, which as you can see changes the amount of money that can be taken out of Mr. Smith's brokerage account from ages 66-85:

<u>A</u>- NO mutual fund or money management fee

<u>B</u>- A .6% annual mutual fund expense (the industry average is 1.2%)

<u>C</u>-1.2% annual mutual fund expense

<u>D</u>-1.2% annual mutual fund expense AND .6% money management fee

<u>E</u>- NO mutual fund expense or money management fee. E is what the typical mutual fund investor earned with his/her investments invested from 1988-2008 <u>without</u> throwing in mutual fund expenses, money management fees, and taxes.

If you throw in a 1.2% mutual expense for E, the amount of money Mr. Smith could remove from a brokerage account drops down to **<u>$18,062</u>**.

What should first jump out at you is that the amount of money that can be removed from a post-tax brokerage account in any of the columns is **<u>less</u>** than what could be removed from almost all of the traditional 401(k) examples.

Therefore, if you were one of the many who believed that funding a traditional 401(k) plan was a better idea than paying tax on your money and investing post-tax in the stock market, **<u>you were right</u>**.

What should really jump out at you is that none of the columns have an annual withdrawal amount that are anywhere close to what Mr. Smith could remove from his life insurance policy via tax-free policy loans (**<u>$56,568</u>**) using conservative assumptions.

For many, this material will be counter-intuitive. Why? Because the vast majority of readers do not understand how financially viable an over-funded, low-expense, non-MEC cash-

value life insurance policy can be when trying to grow wealth for retirement.

I could spend a lot more time explaining why specifically cash value life insurance outperforms traditional retirement plans and a post-tax brokerage account, but I believe for this type of book (which is not a technical certification course), simply showing you the charts so you can see it with your own eyes should be sufficient.

The bottom line with a comparison between funding an after-tax brokerage account vs. an EIUL policy is that there is no comparison given my real-world assumptions.

WHY HAVE MY CURRENT ADVISORS NOT DISCUSSED USING CASH VALUE LIFE INSURANCE AS A WEALTH-BUILDING TOOL AS AN ALTERNATIVE TO 401(K) PLANS OR POST-TAX BROKERAGE ACCOUNTS?

If you'll remember from the Foreword, I explained some of the problems in the financial services industry. Many Broker Dealers (the entity that most securities licensed advisors use to sell stocks and mutual funds through) **forbid** their licensed advisors from selling Equity Indexed Universal Life (EIUL) insurance policies.

Additionally, Broker Dealers do not like their advisors to use products that take money away from assets under management (which EIUL policies would certainly do if funded instead of 401(k) plans or post-tax brokerage accounts).

Couple the fact that most securities licensed advisors are not educated on EIUL policies with the fact that many Broker Dealers forbid or strongly discourage the use of such products, and it's no wonder that the vast majority of securities licensed advisors do not use EIULs or any kind of cash value life insurance as a protected and tax-favorable wealth-building tool.

This was the flaw in the financial planning area that cost millions of Americans billions of dollars when the stock market crashed in 2007-2009.

QUESTIONS TO PONDER

Question:

If you die before retirement, are you better off with a 401(k) plan or cash value life insurance?

Answer: Cash value life insurance - due to the fact that a large death benefit will be paid out income-tax free to the beneficiary and maybe estate-tax free.

Question: When do you have access to the money in a 401(k) plan or a cash value life insurance policy?

Answer: You have access to the cash in either; but with a tax-deferred 401(k) plan, there are negative tax consequences if the money is removed before age 59½ (although there is an exception for systematic payments paid prior to age 59½).

With a cash value life insurance policy, you have access to the cash immediately in two usable ways:

1) You can "surrender" the policy for the cash surrender value ("CSV"). This can work okay if you use a high early cash value indexed universal life insurance policy.

2) You can access the cash through tax-free loans anytime after you fund the policy (with no 10% penalty prior to age 59½).

For either 1) or 2), if you do not use a high cash value life insurance policy, the amount of cash you'll have access to will be limited in the first 10 years.

WHAT HAPPENS IF YOU ARE NOT HEALTHY OR HAVE MARGINAL HEALTH?

If you or your spouse (if you have one) are not healthy, using life insurance as a wealth-building tool becomes much more problematic. The costs of insurance annually inside the policy will significantly affect how much cash you will build and be able to borrow from in retirement from the policy.

As I try to do with all parts of this book, I like to put real-world numbers with every discussion.

Let's go back to our Mr. Smith. He was 45 years old and in good health. He funded a life insurance policy with $15,000 in annual premiums from 45-65. Then he could borrow **$56,568** a year from his life insurance policy income-tax free for 20 years (using the conservative assumptions). The assumed annual return was based on the S&P 500 index returning slightly less than 7%.

Let's now assume Mr. Smith has average (which in the insurance industry means below average) health. How will that affect the amount he can borrow from his policy?

He would only be able to borrow out **$52,861** a year for 20 years instead of **$56,586**. That's still quite a bit higher than what he would receive after tax from his traditional 401(k) plan and much more than funding an after-tax brokerage account in our previous example.

Let's now assume Mr. Smith is in really bad health. How does that affect the amount he can borrow from his life insurance policy?

If Mr. Smith was "table rated" E, he could expect to be able to borrow **$39,141** from his policy each year tax free from ages 66-85.

The table rating system at many insurance companies uses the alphabet. A is slightly rated, E is much worse, and P is just plain awful.

It is interesting to note that even if Mr. Smith is table E rated, the amount he can borrow from his policy is still higher than a few of the post-tax brokerage account outcomes.

Getting back to the real world, most people who read this book will be rated standard or better. Those who do not receive the top or close to the top table rating can use a spouse's life to help with the process and can even use a 2nd-to-die policy, which can also help lower the expenses.

WHAT IF A DIFFERENT COMPANY'S LIFE INSURANCE POLICY IS USED FOR THE ILLUSTRATION?

Great question.

For this book, I chose to use illustrations from the life insurance company I prefer to use with my favorite policy at that company (***Revolutionary Life***). There are many insurance companies that offer cash value life insurance policies.

As I indicated in the chapter in the book where I explained life insurance, my preference is to use equity indexed life insurance products because I believe over the long term they have the best chance for growth.

I also like the protective features which guard against losing money in the policy due to market forces.

If I used a different insurance company's indexed life policy, I could actually increase or decrease the numbers you'll read in this book. Life insurance is not the easiest wealth-building tool to understand; and at some point, you have to trust the advisor you are working with to put forth the best life insurance policy that will benefit you.

It means it is very important that readers find an advisor who knows "all" the useful cash-building policies and helps you choose one that is in your best interest, not that of the advisor.

Picking someone out of the phone book or from a radio or television ad is no way to find a financial planner who knows what he/she is doing.

If an advisor gave you a copy of this book to read, it's a good indication that he/she at the very least understands the concepts covered in this book (which puts him/her ahead of 95% of the rest of the advisors in the financial services field).

If you can't find an advisor you feel comfortable with, please feel free to e-mail (roccy@retiringwithoutrisk.com) or call me (269-216-9978); and I'd be happy to refer you to an advisor in your local area. I've trained thousands of advisors on the concepts covered in this book, and the chances of me having one in your local area are significant.

CHAPTER SUMMARY

I know that there are a lot of numbers and assumptions and tax brackets that are dealt with in this chapter. Many readers will have a bit of a headache after reading this chapter, and I certainly understand why.

Here are the bullet points that you should learn from this chapter:

-Do not put your blinders on and fund all of the money earmarked for retirement into a traditional 401(k) plan at work.

Once you understand the numbers, it will be in your best interest from a tax and protective point of view to allocate money to a properly designed cash value life insurance policy.

For those of you who understand how a low-expense, over-funded, non-MEC life insurance policy works as a retirement vehicle, you'll prefer to fund such a policy instead of funding your 401(k) plan. It sounds counter-intuitive, I know; but again, the numbers do not lie.

-It is clear that funding the proper cash value life insurance policy is a better idea for many than simply handing money over to a stockbroker or money manager.

The caveat to my previous statement is that the EIUL policies are never going to average returns in excess of 10%. I used examples in this book which are fairly conservative (investment returns of 7% (gross)).

If you have your money actively managed and earn in excess of 12% a year (gross), you will be better off after tax than funding a cash value life policy.

Of course, the caveat to the previous statement is when your money is actively traded in the stock market there are **no guarantees**; and if your money is in the market in a time span like what happened from 2000-2002 (**-46%**) or like what happened in 2007-2009 (**-59%**), you will wish you never had a dollar actively traded in the stock market (and that's the feeling of millions of Americans).

The bottom line is that there is no "right" answer or one perfect tool when it comes to building wealth. You've heard the saying, "Different strokes for different folks." It's that way with how you choose to build your wealth.

If you don't mind **risk**, you will not mind your money in the stock market, a 401(k) plan, or an after-tax brokerage account.

If you are **adverse to risk**, you will prefer the safety of the *appropriate* cash value life insurance policies, which have minimum guarantees and a large death benefit.

If you want to have your cake and eat it too, you will gravitate specifically to an equity indexed life insurance policy, which has tax-free accumulation, no money management fees, tax-free withdrawals, good growth pegged to one of the best measuring index, and principal protection from downturns in the market with a lock feature that never lets the money go backwards due to market declines.

Which option should you use to build your wealth?

I could not say for certain unless I looked at your individual situation; but hopefully after reading this book, you'll be armed with more information and knowledge to be better prepared to make decisions about which way is the best way to grow your wealth.

If you are over the age of 60 generally and, 65 specifically, you will enjoy the material in Chapters 6 and 7 where I explain the use of Fixed Indexed Annuities (FIAs) to grow your wealth. FIAs are not nearly as tax favorable as cash value life insurance; but they have features life insurance policies do not have, i.e., a **guaranteed rate of return of 7%** or more depending on the product (accumulation value) coupled with a **guaranteed income for life** you can never outlive.