YOUNG & FINANCIALLY LIT

SIEDAH GARRETT-GUESS

*The Life Insurance Playbook:*

# 10 Strategies To Build Wealth Using Life Insurance

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## Preface

My name is Siedah Garrett, and I have been helping individuals just like you grow, build, and protect their wealth for almost 10 years! I have sat with thousands of families, individuals, and business owners, all on a quest to help improve their financial position and leave it a little better for those who come behind them. And despite the variety in my clients, a few themes consistently appeared amongst all of them: (1) Financial literacy and education are not taught enough in our homes, in our schools, and in our everyday lives. (2) People genuinely want better for themselves and their families; they just need clear, practical guidance on how to achieve better. (3) Everything that people work for—the WHY behind the hard work—is bigger than them and certainly bigger than money.

As a financial professional, it was hard to understand how people can learn viable information, desire progression, and have a purpose but still end up in financial dissatisfaction. It wasn't until I heard a great person of influence say, "...it's not what you know that's holding you back, it's what you don't know..." That's when the light bulb went off in my head and the mission burned in my heart. As people, we do not know what we do not know. My purpose in these few short pages is to quickly share 10 things that most people do not know that prevent them from building a legacy and passing down generational wealth.

So let me tell you quickly who this book is **NOT** intended for. This is **NOT** for the person who believes they know everything there is to know about money and wealth. This is **NOT** for the person who is ok with being just "ok". And it is certainly **NOT** for the person whose WHY is not bigger than themselves.

Now, if you are still here with me, then I am excited to share with you how you can use life insurance to build wealth. All I ask is that at the end, if you see an area that you need to improve on or learn more about, you take immediate action to fill that void, whether that is booking a call with our team or doing some more work on your own. Remember, this is bigger than us, and we cannot afford to arrive at the end of life financially dissatisfied.

## Introduction

As we pull back the curtain on the conventional understanding of life insurance, I want to help you learn more about what life insurance offers beyond just providing financial security to your loved ones when you pass away. The overarching goal of this eBook, ***"The Life Insurance Playbook: 10 Strategies To Build Wealth Using Life Insurance,"*** is to shift your perspective from viewing life insurance as a mere safety net to acknowledging it as a powerful vehicle for building wealth.

Now, you might be wondering, "How can life insurance, something I pay for, actually make me money?" That's a great question and that's what I'm here to help you understand. My goal is to show you strategies that I have used with my clients to help them build wealth using life insurance . The strategies outlined in this e-book have helped myself, my family, and many of my clients, and they hold the potential to do the same for you. Even if you don't have life insurance yet, don't worry! This book is still going to be useful for you as it will help you make smart choices about which type of policy is right for you.

I'll explain all the different types of life insurance, like term life, whole life, and universal life. I will help you understand how each type has its own benefits, and I'll teach you how to use them to your advantage and start maximizing the benefits you can get from your life insurance policies. I will show you how some life insurance can even act like a savings account, helping you save money while also giving you the usual life insurance benefits.

**"The Life Insurance Playbook: 10 Strategies To Build Wealth Using Life Insurance"** isn't just a book—it's a journey. It's about learning something new and taking control of your money. By the time you finish, you'll see life insurance in a whole new light, and you'll have a solid game plan for growing your wealth.

So let's get started. It's time to discover how life insurance can do more than just protect—it can help you prosper. Here are the 10 strategies to build wealth using life insurance:

## #1 Financial Independence

Life insurance works in two ways:

- Providing a death benefit which is the amount paid to beneficiaries when the insured person dies; and
- Creating a cash value that can be accessed during your lifetime.

When you pay premiums for a cash value life insurance policy, part of that money goes to the death benefit, and part of it goes to an accumulation bucket which builds "cash value." This cash value earns interest over time. The interest grows on a tax-deferred basis, meaning you won't pay taxes on the gains as they accumulate. It's a bit like having a savings account attached to your insurance policy.

The cash value of the policy can be accessed at any time via loans or withdrawals, and the withdrawals are typically tax-free up to the amount of premiums you've paid into the policy. Loans are tax-free as well as long as the policy is not surrendered or lapsed with a loan balance outstanding. This gives you a pool of funds that you can access before the traditional retirement age of 65.

## Funding ROTH IRA

Another way to achieve financial independence with life insurance is to fund a cash value policy and use the tax free gains to fund a Roth IRA. Especially when the stock market is down, because your life insurance will never lose cash value, you can use those funds to purchase more shares of stocks in your Roth IRA at a cheaper rate until the market comes back up.

A **Roth IRA** is a special type of retirement account where you pay taxes on money going into your account, but all future withdrawals are tax-free. The maximum you can contribute to a Roth IRA per year (as of July 2023) is $6,500 if you're under 50, and $7,500 if you're 50 or older. If you've withdrawn money tax-free from your life insurance policy's cash value, you could then contribute that money to a Roth IRA, up to the maximum annual limit.

Once you reach age 59.5, you can begin withdrawing money from your Roth IRA tax-free. Since you've been using tax-free withdrawals from your life insurance policy to fund your Roth IRA, this creates a stream of double tax-free income in retirement. If set up properly and maintained, this strategy can potentially provide a significant portion of your retirement income.

By using a cash value life insurance policy, you are creating a pool of money that grows tax-free, can be borrowed against tax-free prior to retirement age, and can be used to fund other tax-advantageous investment and retirement accounts like a Roth IRA. This strategy gives you more control over your income and taxes, both before and after retirement age that can help you achieve your financial independence.

## #2 Retirement Income

Life insurance can definitely play a part in retirement planning, particularly when it comes to permanent life insurance policies that build cash value. It is a "two-in-one" tool that can provide death benefits for your beneficiaries and a source of supplemental tax-advantaged retirement income for you. You can turn on retirement income as early or as late as you desire, and you don’t have to worry about losing your retirement in a bad market situation.

Whole life and universal life insurance are types of permanent life insurance. Unlike term life insurance, which covers you for a specific period of time, a permanent life insurance policy covers you for your entire life. These types of policies are more expensive than term life insurance, but they have a cash value component.

Over time, the cash value part of your policy grows. This happens in one of two ways:

- For a whole life policy, the insurance company usually guarantees a certain growth rate.
- For a universal life policy, the growth is often tied to a market index or other investments.

The growth of the cash value is tax-deferred, meaning you don't pay taxes on the growth while it's happening. This can be a major advantage, especially for higher earners who are in a high tax bracket.

Once you reach your desired retirement age, you can start accessing the cash value of your policy. You can do this in a couple of ways. You can either:

- Withdraw some of the cash value, up to the total amount of premiums you've paid into the policy. These withdrawals are tax-free; or
- Take out a loan from the policy. The loan is not taxed, and any unpaid loan amount will be subtracted from the death benefit when you pass away.

Even if you're using the tax-free cash value for retirement income, the policy still provides a death benefit. If you pass away, your beneficiaries will receive the death benefit, minus any loans you've taken out from the policy. The death benefit is generally income-tax-free.

## #3 Forced Savings

Many people struggle with savings because it's often seen as optional and it's easy to postpone it, especially when immediate expenses come up. Let's say you get a paycheck. After paying for necessities such as housing, food, and transportation, you might be left with a certain amount of discretionary income. You could either save this money or spend it. Most people, unfortunately, choose to spend it because the pleasure of immediate consumption usually feels more rewarding than the abstract benefit of future savings.

**Forced savings** is the idea of automatically putting money aside regularly, often before it can be spent on other things. Some examples of this are:

- When you take out a mortgage to buy a house wherein each monthly payment helps to build equity in your home; or
- When you buy a car on an installment plan wherein each payment is reducing your debt and increasing your ownership in the car

### 401(k) Plan

A 401(k) plan also works on the principle of forced savings. A portion of your paycheck is automatically contributed before you even see it, and over time, these contributions can grow significantly due to compounding.

Similarly, cash value life insurance can act as a forced saving vehicle. Here's how: When you pay premiums for a cash value life insurance policy, a part of that money goes towards the death benefit (the money that will be given to your beneficiaries when you pass away) and part of it goes towards building up a "cash value." This cash value grows over time and can be borrowed against or even withdrawn from during your lifetime.

By making regular premium payments, you're effectively "forcing" yourself to save. The key point here is that since these payments are mandatory, it creates a discipline of regular saving.

Just like with your house, car, and 401(k), life insurance requires you to contribute money regularly. That's money that you might have spent on non-essential items but instead gets saved and grows over time. This is why cash value life insurance can be considered a form of forced saving.

## #4 No Cap Strategies

IUL policies is another type of permanent life insurance that have a death benefit and a cash value. The cash value of this policy is linked to a stock market index, such as the S&P 500. The insurance company uses a formula to determine the interest credited to the policy based on the performance of the index. Unlike direct investment in the stock market, the policy's cash value will not decrease if the market goes down. This provides downside protection.

## Downside Protection

In the context of Indexed Universal Life (IUL) insurance policies, downside protection refers to the feature that the cash value in the policy does not decrease if the market index to which the policy is linked decreases.

The "no cap" feature refers to the potential for unlimited upside. Some IUL policies do not cap the maximum amount of interest that can be credited in a given year. In a year where the stock market performs exceptionally well, the policyholder could see significant growth in their cash value.

### Let's illustrate this with an example:

Assume that you have a IUL policy with a no-cap strategy, and let's say the S&P 500 (to which your policy is indexed) goes up by 20% in a particular year. Instead of having a cap at, say, 10%, which would limit the interest credited to your cash value, a no-cap policy would allow you to capture the full 20% growth, greatly increasing your cash value.

Now, let's consider a year where the S&P 500 goes down by 15%. With your IUL policy, you won't lose any money because there's a floor that protects your cash value from market downturns. It's typically 0%, which means even if the market goes down, your cash value won't.

That's the potential benefit of a no-cap strategy with an IUL policy—you get the upside of the market without the downside risk.

However, it's important to note that these policies come with costs, including insurance costs, administrative fees, and potentially a cost for the no-cap feature. Also, while the no-cap feature can offer larger gains, it does not guarantee that the gains will always be high. It depends on the performance of the stock market index to which the policy is linked.

## #5 College Savings

Cash value policies can also be a strategic tool for saving money to fund your child's college education. You could potentially pay for 1 year of college and get 3 funded through the cash value growth of your life insurance.

Let's say you have a newborn child, and you purchase a cash value life insurance policy with the intention of saving for their college education. After 18 years of consistent premium payments, the cash value of the policy has grown substantially. You can then access the cash value in the policy through loans or withdrawals to help pay for your child's college expenses. It's important to remember, though, that these could reduce the death benefit, and loans will accrue interest. However, the interest rates for these loans are typically lower than traditional student loans. Plus cash value life insurance policies do not get counted as income against you for financial aid unlike 529 Plans, Savings Accounts, and UTMA accounts.

**What if my child decides not to go to college?**

The great thing about the cash value life insurance is its flexibility. You can still access the cash value for other purposes. Perhaps you want to help your child start a business, buy a home, or fund a wedding. The money can be used for these purposes as well. If you saved in a traditional 529 Plan for college you would be penalized for using the money for non-college purposes.

After college, if there's still cash value left in the policy, there are several options available too. Your first option is to keep it intact as a form of retirement savings. The cash value will continue to grow, providing a potential source of tax-free retirement income. Alternatively, it could be used to help your child pay off student loans or establish their own life insurance coverage.

## #6 Pay Off Student Loans

Ideally, parents start saving for their child's education as soon as they can, usually when the child is born or at a very young age. This allows for a larger amount of money to accumulate over time. However, if you started saving later, you may not have as much time to grow the funds.

If that's your case don't worry you can still use the cash value life insurance strategy. When the time comes for your child to go to college and the savings aren't enough to cover the costs, you can consider taking out student loans to pay for the college expenses. Federal student loans usually do not require repayment while the student is still in school and often have a grace period of six months after graduation before repayment begins.

While your child is in college, let the money you put in the life insurance continue to grow and compound.This can give you an additional 4 years to grow your money! Then use the cash value to pay back the loans while the money is still earning interest.

The advantage is that you're using "insurance money" to pay off the loans, and any remaining cash value continues to earn interest. Even when you borrow from the cash value, the total cash value (including the amount borrowed) continues to earn interest as if the borrowed money was never taken out. So, you're basically allowing your money to work in two places at the same time—it's helping to pay off the loans while also continuing to grow within the insurance policy.

**Please note:** Terms and conditions of life insurance policies and student loans can vary greatly, so it's important to read all the fine print and understand exactly what you're getting into.

## #7 Executive Bonus Plan

An executive bonus plan, also known as a Section 162 plan after the relevant section of the IRS code,  is a compensation strategy where an employer pays for an employee's life insurance policy. The premiums are considered bonuses and are typically deductible as a business expense, making them tax-efficient.

The company can write them off against its taxable income, reducing its overall tax liability. Over time, the cash value in the policy grows, providing a source of tax-advantaged wealth accumulation for the employee. When you're ready to retire, you can either withdraw or take loans from the cash value of your policy, providing a source of retirement income. These loans are tax-free as long as the policy is in force, and you have the flexibility to pay them back on your schedule.

Moreover, the policy is owned by the employee. This means that the cash value growth and death benefit are all controlled by the employee, not the employer.

For business owners and entrepreneurs, this is a great strategy to have your business help retire you, that’s why you started the business in the first place!

Keep in mind that these strategies involve complex tax and legal issues, and you should always consult with a licensed financial professional, tax advisor, and attorney who specializes in these areas before implementing such a plan.

## #8 Buy Sell Agreements

Life insurance can play a crucial role in succession planning for a business, especially in the context of a buy-sell agreement. A buy-sell agreement, also known as a buyout agreement, is a legally binding agreement between co-owners of a business that governs what happens if a co-owner dies or otherwise leaves the business.

Let's say there are two friends, John and Mary, who co-own a successful bakery. They are concerned about what would happen to their business if one of them unexpectedly passes away. To protect their business, they decide to establish a buy-sell agreement.

According to their buy-sell agreement, if either of them dies, the surviving co-owner will purchase the deceased co-owner's share of the business. The question then is, how would the surviving owner fund this purchase? This is where life insurance comes in.

John and Mary each purchase a life insurance policy on the other. The business or each co-owner (depending on the structure of the agreement) pays the premium on the policy. The beneficiary of the policy (which could be the business or the surviving co-owner) will receive the death benefit when the insured co-owner dies.

Suppose John passes away unexpectedly. Mary, or the business, depending on the structure of the agreement, would receive the death benefit from John's life insurance policy. Mary can then use this death benefit to buy John's share of the business from his family, per the terms of their buy-sell agreement.

In this way, the buy-sell agreement, funded by life insurance, ensures that the surviving owner has the necessary funds to buy out the deceased owner's interest. This provides a clear succession plan, minimizes potential disputes with the deceased owner's beneficiaries, and ensures the continuity of the business.

It's worth noting that there are different types of buy-sell agreements, such as cross-purchase agreements and entity-purchase agreements, and the type chosen can affect the structure and tax implications of the plan. It's always a good idea to work with a licensed financial professional, attorney, and tax advisor when setting up these agreements. It's always wise to consult with professionals to make sure you're getting the most up-to-date and accurate advice.

## #9 Tax Free Family Bank

Building a tax-free family bank using life insurance involves utilizing a specially designed, overfunded cash value life insurance policy. The main idea is to create a personal pool of capital that can grow over time and can be used by family members as needed. This strategy can be effective when set up properly, but there are many complexities and potential pitfalls that need to be taken into account.

Here's what you need to do to set up your tax-free family bank:

**Choose a policy.**
Choose a cash value life insurance policy (you can use Whole Life or Universal Life) that builds cash value over time. These policies combine life insurance with a cash accumulation component. Your premium payments first go towards the cost of insurance and fees, and the remaining amount and any additional premiums go towards the cash accumulation within the policy.

**Overfund your policy.**
Overfund your policy by paying extra premiums beyond what's required for the death benefit. These extra funds go into the cash value part of the policy, which grows over time.

The cash value portion of the policy grows on a tax-deferred basis, meaning you won't pay taxes on the growth as long as the money remains in the policy. In whole life policies this growth is typically guaranteed and you may also earn dividends, which can increase the cash value further, although dividends are not guaranteed. In universal life policies, you select if you want the growth to be at a fixed rate like whole life, based on an index like the S&P 500 where you can never lose money but make money as the stock market goes up, or be directly invested into the stock market and vary as the market makes money and loses money.

**Borrow from the policy.**
When you need funds, you can borrow from your policy's cash value instead of going to a traditional bank. The advantage of this is that you set your own repayment terms. Also, you don't have to go through credit checks or loan approvals. Moreover, the loan is tax-free, as you're not actually withdrawing the money, but rather borrowing against your policy.

As you pay back the loan to your policy, the cash value continues to grow and compound, and you're essentially paying interest to yourself rather than a bank. Upon your death, the beneficiaries will receive the death benefit tax-free, as per the U.S. tax laws. In whole life policies the death benefit would be the face value of the policy minus any outstanding policy loans and interest. In universal life policies you can choose to have your family receive just the tax-free death benefit or the tax-free death benefit plus any remaining tax-free cash value inside the policy.

This method essentially allows you to build a pool of funds that you can access throughout your life, and leave a tax-free death benefit to your beneficiaries, all while enjoying the growth and safety of a cash value life insurance policy.

**Please Note:** While this strategy can be advantageous, it requires careful planning, potentially large premium payments, and understanding of the policy's terms. It's important to work with a knowledgeable financial advisor or insurance agent, and it's critical to understand that not all policies or insurance companies offer the same benefits or structures.

## #10 Wealth Transfer & Estate Planning

Life insurance plays a key role in wealth transfer and estate planning. It provides immediate funds to beneficiaries, can cover estate tax costs, helps equalize inheritances, and bypasses the probate process.

**Provide Immediate Cash Availability**
Life insurance policies pay out a death benefit when the policyholder dies. This means that the beneficiaries get access to cash quickly. They can use this money for living expenses, paying off debts, or other financial needs. This is particularly important because settling an estate (that's the process of distributing someone's assets after they die) can sometimes take a long time.

**Cover Estate Taxes**
In the USA, when a person dies, their estate (all the money and property they owned) could be subject to estate tax if it is above a certain value. This tax can be pretty high, sometimes up to 40% of the estate. Life insurance can help cover this cost. The death benefit from a life insurance policy can be used to pay the estate tax, so the beneficiaries don't have to sell off assets or take on debt.

**Equalize Inheritances**
Let's say a person has a business and two children. They want to leave the business to one child who has been involved in it, and they want to leave an equal amount of money to the other child who isn't interested in the business. Life insurance can help here.

The parent can take a life insurance policy and name the second child as the beneficiary. This way, both children receive a fair inheritance.

**Help in Avoiding Probate**
Probate is a legal process that confirms a will and carries out the deceased person's wishes. It can be lengthy and costly. Life insurance policies, however, are not subject to probate. This means the beneficiaries can receive the death benefit without going through this process.

But remember, each person's situation is unique, so it's important to work with a financial advisor or estate planning attorney to make the best decisions.



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