Bob Carlson's
RETIREMENT WATCH

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Hype About "Secret Accounts" — Exposed

Let's begin the year by revealing the facts behind some rather questionable marketing pitches. Have you heard of the Secret 770 Account? The President's Account? What about Banking on Yourself® or Infinite Banking? Becoming Your Own Banker, The Personal Bank, or The Retirement Miracle?

If you read financial publications, especially online, you almost certainly have heard of some of these. You've been told these financial tools are confidential, new, revolutionary, and of course, Wall Street's hidden secret. You're told that only a privileged few of the well-connected have used them, including presidents, major corporations, and the very wealthy. You might be told banks and Wall Street don't want you to know about them.

These marketing pitches used to be a backwater of the financial world, but they've been storming near the forefront lately thanks to aggressive, well-funded promoters and favorable market conditions.

Over the last several years I've discussed these ads with my friend and estate planning expert, David T. Phillips, CEO of Estate Planning Specialists. As marketing, the ads are very good. The hype creates a lot of intrigue and curiosity. But, since David and I know exactly what the ads are referring to, we're concerned they mislead. <u>The over-the-top nature of the promotions also turns off people who could benefit from what actually is a very good estate planning strategy.</u>

So, we decided to cut through the hype, lay things bare, and tell you exactly what all the fuss is about, who can benefit from the strategy, when it should be considered, and how to learn more about it.

The names listed earlier all describe the same thing. The strategy isn't new, secret, or exclusive. It has been and is used by many prominent and well-connected people as well as major businesses. Walt Disney Co. and McDonald's were started with the help of the strategy.

But it's just as readily available to you.

More importantly, recent events made the strategy more attractive then it has ever been. <u>People who wouldn't have considered it in the past should consider the strategy now.</u> It's a good way to build your estate. You earn safe, steady tax-free returns of 5% to 8% on your cash value investment account, and you don't have to worry about market risk. You also have tax-free cash available to you and your family whenever it is needed. In essence, you have a family bank, which is why David calls it **The Family Bank Strategy.**

There are other benefits to the Family Bank Strategy, some of which I'll explain shortly.

The linchpin of this strategy is cash value permanent life insurance. That's right, you reap these benefits from a product that's been around for at least a couple of hundred years, when you structure the strategy correctly and follow the rules.

Cash value life insurance has been maligned over the years, some of which was warranted. But things have changed. Permanent life insurance policies now are more favorable to policyholders. You won't have the opportunity to earn double-digit returns in the cash value account, but you won't be subject to investment losses or limited to the fixed 2% returns of the past. You'll earn those steady, solid returns of 5% to 8% I mentioned on your cash value, and those returns compound tax free. You also don't have market risk. Once you've earned a return, the markets can't take it away.

Taxes are another reason the strategy works for more people these days. Income and capital gains tax rates on higher-income taxpayers were increased in 2012. Many states also increased their taxes in recent years. After-tax wealth is what counts. Both the death

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benefit and the cash value account within a life insurance policy have been totally free of income and capital gains taxes since the passage of The 16th Amendment (income tax) in 1913.

Unlike term insurance, permanent life insurance doesn't expire, and the premiums don't increase as you age. More importantly, with permanent life insurance, you can have a cash value account that earns steady interest, and that interest accumulates and compounds tax free.

You can borrow from the cash value account tax free and interest free. When you need money for an investment or expense, you can borrow from the policy. If a family member needs money, you can make a loan to him or her from the policy. You don't have to charge interest, and you can forgive the loan later if you want.

The loans from the policy can be paid back on your schedule or no schedule at all. When loans aren't repaid, the unpaid loans reduce the death benefit paid to your beneficiaries.

Your loved ones or charity eventually receive the policy's death benefit. They won't owe income taxes on it, and the income that compounded, net of the cost of all the life insurance over the years, avoids income and capital gains taxes.

The foundation of the Family Bank Strategy is the life insurance benefit, which is passed to your beneficiaries tax free. But if you minimize the death benefit, staying within IRS limits, you increase the rate at which the tax free cash value account grows.

The Family Bank Strategy is creditor proof, and you don't take the risk of investing with frauds, cons, and corporate thieves. Your investment and income are backed by an insurance company. Most insurers are over 100 years old. They have survived and thrived through the world's most difficult financial crises.

Life insurance, of course, doesn't have contribution limits and doesn't have required distributions for you or your heirs, as an IRA does.

<u>Who should consider the Family Bank Strategy?</u>

One good candidate is someone who is keeping money in conservative investments as a safety net or in case someone in the family has an unexpected need. It's not money that's designated for regular living expenses. He could transfer some of this money into permanent life insurance and establish a Family Bank.

Another good candidate is someone with a large IRA, either a traditional or a Roth IRA.

The traditional IRA eventually triggers income taxes. You'll also be required to take minimum distributions after age 70½ that are subject to income taxes. Your beneficiaries who inherit what is left will be required to take minimum distributions and pay income taxes.

In this situation, everyone might be better off if money is taken out of the traditional IRA today, the taxes paid, and the after-tax amount put in permanent life insurance. The future earnings on the cash value will accumulate tax-free, and will compound for the rest of your life if you want. If money is needed, it can be taken tax free as loans. Eventually, your beneficiaries inherit the life insurance benefit tax-free.

This strategy is especially good when you convert only enough of your IRA to bring your taxable income up to the maximum of your tax bracket. For example a couple earning $150,000 will be in the 28% federal income tax bracket until their income reaches $226,850. They could transfer another $76,000 annually from the IRA into the Family Bank Strategy before jumping up to the 33% bracket.

<u>The really big advantage is that the life insurance benefit is always going to be worth substantially more than the money you transferred into the policy.</u>

And, unlike an IRA, market changes aren't going to cause the insurance policy's value to decline. If your loved ones inherit a traditional IRA, they'll really inherit only the after-tax balance.

Even a Roth IRA owner might be better off with the Family Bank Strategy. If the Roth IRA exceeds your likely needs and primarily is for loved ones to inherit, consider turning it into a permanent life insurance policy. That way, your beneficiaries will inherit the tax-free policy benefit, which is going to be higher than the Roth IRA balance. There's no investment risk with the insurance policy, and you still have tax-free access to the money through loans.

The Family Bank Strategy also should be considered by someone who still is working and has excess cash flow. The savings need to be invested. The Family Bank Strategy might be the best long-term use for some of that money, especially when the contribution limits already are reached for 401(k)s and IRAs.

Consider this example. Max Profits, age 60, is in good health and he wants to transfer $200,000 into The Family Bank Strategy. Instantly, he increases his estate to $795,890, four times the deposit, because of the life insurance benefit. His cash account at the end of the first year will be $203,195 and will grow to $295,091 in 10 years and $516,768 in 20 years, assuming 7% interest. The formula used in this example to credit the cash value account has an average annual 30-year return of 7.6%.

There are four general types of permanent life insurance, and many variations of each. For the Family Bank Strategy, you only want to consider Participating Whole Life or Indexed Universal Life. There's a vigorous debate among insurance professionals who implement the strategy over which type of policy to use. You need to know the arguments on each side and decide which is best for you.

That's why David Phillips wrote and just published The Family Bank Strategy, a book that does an excellent job of setting the record straight and explaining the options and choices. David explains 17 positive features of The Family Bank Strategy and lists 10 factors that have come together to make it one of the premier safe money strategies today. It's available on Amazon for $19.95, but David is making it available to my readers for $9.95, which includes shipping and handling. Call David's office at 888 892-1102 to order your book.

Don't be turned off by the phony hype about secret strategies or the negative attitudes about permanent life insurance. For many of you, the Family Bank Strategy is a way to lock in the value of your estate for loved ones, earn a solid tax-free return on your cash value, and have tax-free access to the capital when you need it. It can play an important role in increasing your family's after-tax wealth. RW

"Too many people are leaving money on the table when managing their IRAs."