

STEP BY STEP

HOW TO USE A LIFE INSURANCE POLICY TO BUY REAL ESTATE

Maximize Your Real Estate Potential
Using Life Insurance



3 Step Guide to Using a Whole Life Insurance Policy to Buy Real Estate

Real Estate Investor's Guide to Using Whole Life Insurance

Using a Whole Life Insurance Policy to purchase Real Estate is a popular strategy. It is commonly used by investors focusing on short-term flips, syndication deals, and those with 8- and 9-figure real estate portfolios. How does using real estate benefit them?

It allows them to use the cash value inside of a life insurance policy as their “own bank.” As their cash grows, they access it through policy loans. They do this *instead* of working with a bank or paying cash.

If a Whole Life Insurance Policy is purchased for **cash value**, it provides three core benefits.

- **Safety**—The Cash Value grows every year without risk. Regardless of what the Stock Market does, your money keeps growing.
- **Tax Benefits** – We can access our money tax-free if we follow IRS rules.
- **Loan Feature** – You can borrow against your cash value while it keeps compounding. You also have complete control of how and when you repay the loan.

Below are the three steps to getting a Whole Life Insurance Policy that can be used for Real Estate.

1. **Get the MOST Cash Value on day one.**
2. **Policy Loans – What you need to know.**
3. **Know Your Numbers – What's the *actual* cost to borrow?**

Step 1 - Get the MOST Cash Value on day one.

- **What to do:**
- **Choose one of the Four Major Mutual Life Insurance Companies**
- **First Year Cash Value should be 80-90% of what you paid. If you pay \$10,000, it should be \$8,000 - \$9,000.**
 - a. This is the most important piece!
 - b. If the cash value is maximized, using the policy is easy. When I hear stories about people getting ripped off with Whole Life Insurance, it is always because they thought they were getting a high cash value policy but found out it could have been better.
 - c. HOW do I get the most cash value?
 - A. **Choose one of the best life insurance companies.**
 - I always recommend one of the four Major Mutual Companies. These companies are MassMutual, Guardian, New York Life, & Northwestern Mutual.
 - These are the largest Insurance companies in the world.
 - They have the best financial strength and safety ratings
 - Most importantly, **they provide proof of policies that have produced attractive returns.**
 - *How would you feel if you had a Whole Life Insurance Policy and expected it to grow to \$1,000,000, but it only grew to \$600,000? **YOU'D BE UPSET!***
 - We've seen too many cases where Illustrations SHOW attractive cash value growth but under-deliver.
 - B. **Your Cash Value should be 80-90% in the FIRST YEAR.**
 - If you write a check for \$10,000, your first-year cash value should be \$8,000 to \$9,000
 - My Cash Value should be more than what I paid after 3 to 5 years.

Here is a quick example of what to do and what NOT to do.

Don't Do This

Yr	Age	Annual Funding	Total Funding	Cash Value	Death Benefit	
1	40	\$10,000	\$10,000	\$336	\$487,445	1 st Year: You Paid \$10,000 → You Have: \$336 → Result: Loss of \$9,664 ☹️
2	41	\$10,000	\$20,000	\$10,275	\$489,097	
3	42	\$10,000	\$30,000	\$18,991	\$494,216	
4	43	\$10,000	\$40,000	\$28,096	\$499,772	5 th Year: You Paid \$50,000 → You Have: \$37,644 → Result: Loss of \$12,356 ☹️
5	44	\$10,000	\$50,000	\$37,644	\$505,657	
6	45	\$10,000	\$60,000	\$47,655	\$511,948	
7	46	\$10,000	\$70,000	\$58,153	\$518,642	
8	47	\$10,000	\$80,000	\$69,171	\$525,740	
9	48	\$10,000	\$90,000	\$80,768	\$533,291	10 th Year: You Paid \$100,000 → You Have: \$92,978 → Result: Loss of \$7,022 ☹️
10	49	\$10,000	\$100,000	\$92,978	\$541,359	
11	50	\$0	\$100,000	\$97,477	\$245,305	
12	51	\$0	\$100,000	\$102,649	\$248,425	
13	52	\$0	\$100,000	\$108,091	\$254,189	
14	53	\$0	\$100,000	\$113,813	\$260,156	15 th Year: You Paid \$100,000 → You Have: \$119,854 → Result: Gain of \$19,854 😊
15	54	\$0	\$100,000	\$119,854	\$266,352	

Do This

Yr	Age	Annual Funding	Total Funding	Cash Value	Death Benefit	
1	40	\$10,000	\$10,000	\$8,751	\$320,000	1 st Year: You Paid \$10,000 → You Have: \$8,751 → Result: Loss of \$1,249 ☹️
2	41	\$10,000	\$20,000	\$18,868	\$320,000	
3	42	\$10,000	\$30,000	\$29,226	\$320,000	
4	43	\$10,000	\$40,000	\$40,182	\$320,000	5 th Year: You Paid \$50,000 → You Have: \$51,681 → Result: Gain of \$1,681 😊
5	44	\$10,000	\$50,000	\$51,681	\$320,000	
6	45	\$10,000	\$60,000	\$63,762	\$320,000	
7	46	\$10,000	\$70,000	\$76,460	\$320,000	
8	47	\$10,000	\$80,000	\$89,816	\$320,000	
9	48	\$10,000	\$90,000	\$103,885	\$320,000	10 th Year: You Paid \$100,000 → You Have: \$118,715 → Result: Gain of \$18,715 😊
10	49	\$10,000	\$100,000	\$118,715	\$320,000	
11	50	\$0	\$100,000	\$124,403	\$301,216	
12	51	\$0	\$100,000	\$130,402	\$306,803	
13	52	\$0	\$100,000	\$136,715	\$312,635	
14	53	\$0	\$100,000	\$143,354	\$318,704	15 th Year: You Paid \$100,000 → You Have: \$150,359 → Result: Gain of \$50,359 😊
15	54	\$0	\$100,000	\$150,359	\$325,014	

Don't Do This

Yr	Age	Annual Funding	Total Funding	Cash Value	Death Benefit
1	40	\$10,000	\$10,000	\$336	\$487,445
2	41	\$10,000	\$20,000	\$10,275	\$489,097
3	42	\$10,000	\$30,000	\$18,991	\$494,216
4	43	\$10,000	\$40,000	\$28,096	\$499,772
5	44	\$10,000	\$50,000	\$37,644	\$505,657
6	45	\$10,000	\$60,000	\$47,655	\$511,948
7	46	\$10,000	\$70,000	\$58,153	\$518,642
8	47	\$10,000	\$80,000	\$69,171	\$525,740
9	48	\$10,000	\$90,000	\$80,768	\$533,291
10	49	\$10,000	\$100,000	\$92,978	\$541,359
11	50	\$0	\$100,000	\$97,477	\$245,305
12	51	\$0	\$100,000	\$102,649	\$248,425
13	52	\$0	\$100,000	\$108,091	\$254,189
14	53	\$0	\$100,000	\$113,813	\$260,156
15	54	\$0	\$100,000	\$119,854	\$266,352

Do This

Yr	Age	Annual Funding	Total Funding	Cash Value	Death Benefit
1	40	\$10,000	\$10,000	\$8,751	\$320,000
2	41	\$10,000	\$20,000	\$18,868	\$320,000
3	42	\$10,000	\$30,000	\$29,226	\$320,000
4	43	\$10,000	\$40,000	\$40,182	\$320,000
5	44	\$10,000	\$50,000	\$51,681	\$320,000
6	45	\$10,000	\$60,000	\$63,762	\$320,000
7	46	\$10,000	\$70,000	\$76,460	\$320,000
8	47	\$10,000	\$80,000	\$89,816	\$320,000
9	48	\$10,000	\$90,000	\$103,885	\$320,000
10	49	\$10,000	\$100,000	\$118,715	\$320,000
11	50	\$0	\$100,000	\$124,403	\$301,216
12	51	\$0	\$100,000	\$130,402	\$306,803
13	52	\$0	\$100,000	\$136,715	\$312,635
14	53	\$0	\$100,000	\$143,354	\$318,704
15	54	\$0	\$100,000	\$150,359	\$325,014

And Get More \$\$\$

Yr	Cash Value Difference
1	\$8,415
2	\$8,593
3	\$10,235
4	\$12,086
5	\$14,037
6	\$16,107
7	\$18,307
8	\$20,645
9	\$23,117
10	\$25,737
11	\$26,926
12	\$27,753
13	\$28,624
14	\$29,541
15	\$30,505

What's the lesson?

MAKE SURE YOUR POLICY HAS AS MUCH CASH VALUE AS POSSIBLE!

MORE CASH VALUE = MORE OPPORTUNITY.

Step 2 - Policy Loans – What you need to know.

- You can request loans from your policy anytime.
- YOU KEEP EARNING INTEREST ON YOUR MONEY WHEN YOU BORROW IT FROM THE POLICY.
- You control how and when you repay your loan.
 - **Question: How soon can I take loans?**
 - A. Answer: 10 business days after the policy starts. It can be sooner, but you might need to show the Insurance company a bank statement.
 - **Question: How much can I borrow?**
 - A. Answer: The maximum loan you can take is usually 95% of your cash value. For example, if you have \$10,000 in cash value, then you can take a loan up to \$9,500.
 - **Question: How do I get a loan from my policy?**
 - A. Answer: You can take policy loans through your online portal or mobile app, by calling the Insurance company, or by calling your agent.
 - **Question: How do I receive the money?**
 - A. Answer: Direct Deposit. On average, you'll receive your loan within 2 to 5 business days.
 - **Question: How does loan interest work?**
 - A. Answer: Loan interest accrues at annual simple interest. The insurance company will send you a bill for the loan interest 1x per year. This will be on your Policy anniversary date (Your Premium due date).
 - **Question: Do I pay taxes on loans?**
 - A. Answer: In most cases, taxes will not be due on loans. However, loans can be taxed if the policy lapses, you cash it out, or if the policy becomes a MEC. This is rare; your agent will help ensure this does not happen.

- **Question: Do I have to repay my loan?**
 - A. **Answer: No.** You do not have a contractual requirement to pay loans. However, it usually makes sense to repay loans if I am using the policy for Real Estate. In some cases, I may have to pay the loan interest to prevent a policy lapse from occurring.
- **Question: What happens to my policy when I borrow?**
 - A. **Answer: Your Death Benefit is reduced dollar-for-dollar by the amount of the loan.** Your cash value (equity) will be reduced by the amount you borrow. Example:
 - **Your Policy has:**
 - **Cash Value: \$100,000**
 - **Death Benefit: \$500,000**
 - **To take a \$50,000 Loan:**
 - **Cash Value available to borrow: \$50,000**
 - **Death Benefit: \$450,000**

Here's a quick demonstration of using a Policy Loan.

You Paid a Total of \$500,000

Yr	Age	Annual Funding	Total Funding	Cash Value	Death Benefit
1	45	\$100,000	\$100,000	\$92,307	\$1,800,000
2	46	\$100,000	\$200,000	\$189,830	\$1,800,000
3	47	\$100,000	\$300,000	\$291,761	\$1,800,000
4	48	\$100,000	\$400,000	\$399,136	\$1,800,000
5	49	\$100,000	\$500,000	\$512,043	\$1,800,000
6	50	\$0	\$500,000	\$534,944	\$1,800,000
7	51	\$0	\$500,000	\$558,831	\$1,800,000
8	52	\$0	\$500,000	\$583,728	\$1,800,000
9	53	\$0	\$500,000	\$609,653	\$1,800,000
10	54	\$0	\$500,000	\$636,667	\$1,800,000
11	55	\$0	\$500,000	\$663,707	\$1,800,000
12	56	\$0	\$500,000	\$692,422	\$1,800,000
13	57	\$0	\$500,000	\$722,877	\$1,800,000
14	58	\$0	\$500,000	\$754,823	\$1,800,000
15	59	\$0	\$500,000	\$788,276	\$1,800,000

Age 50 → **Cash Value: \$534,944**
 Age 50 → **Death Benefit: \$1,800,000**

Age 58 → **Cash Value: \$754,823**
 Age 58 → **Death Benefit: \$1,800,000**

Same Policy With Loan

Yr	Age	Annual Funding	Annual Loan	Loan Payment	Payment Applied to Principal	Payment Applied to Interest	Loan Balance	Cash Value	Death Benefit
1	45	\$100,000	\$0	\$0			\$0	\$92,307	\$1,800,000
2	46	\$100,000	\$0	\$0			\$0	\$189,830	\$1,800,000
3	47	\$100,000	\$0	\$0			\$0	\$291,761	\$1,800,000
4	48	\$100,000	\$0	\$0			\$0	\$399,136	\$1,800,000
5	49	\$100,000	\$0	\$0			\$0	\$512,043	\$1,800,000
6	50	\$0	\$300,000	\$0		\$0	\$300,000	\$218,264	\$1,500,000
7	51	\$0	\$0	\$50,000	\$33,320	\$16,680	\$266,680	\$277,323	\$1,533,320
8	52	\$0	\$0	\$50,000	\$35,173	\$14,827	\$231,507	\$339,348	\$1,568,493
9	53	\$0	\$0	\$50,000	\$37,128	\$12,872	\$194,379	\$404,466	\$1,605,621
10	54	\$0	\$0	\$50,000	\$39,193	\$10,807	\$155,187	\$472,852	\$1,644,813
11	55	\$0	\$0	\$50,000	\$41,372	\$8,628	\$113,815	\$543,564	\$1,686,185
12	56	\$0	\$0	\$50,000	\$43,672	\$6,328	\$70,143	\$618,379	\$1,729,857
13	57	\$0	\$0	\$50,000	\$46,100	\$3,900	\$24,043	\$697,497	\$1,775,957
14	58	\$0	\$0	\$25,380	\$24,043	\$1,337	\$0	\$754,823	\$1,800,000
15	59	\$0	\$0	\$0	\$0	\$0	\$0	\$788,276	\$1,800,000

Age 50 → Policy Loan: \$300,000

Age 50 → Cash Value: \$218,264

Age 50 → Death Benefit: \$1,500,000

Age 51 Through Age 58 → Loan Paid

Age 58 → Cash Value: \$754,823

Age 50 → Death Benefit: \$1,800,000

How Policy Loans Work

No Loans						Loans									
Yr	Age	Annual Funding	<u>Total Funding</u>	Cash Value	Death Benefit	Yr	Age	Annual Funding	Annual Loan	Loan Payment	Payment Applied to Principal	Payment Applied to Interest	Loan Balance	Cash Value	Death Benefit
1	45	\$100,000	\$100,000	\$92,307	\$1,800,000	1	45	\$100,000	\$0	\$0			\$0	\$92,307	\$1,800,000
2	46	\$100,000	\$200,000	\$189,830	\$1,800,000	2	46	\$100,000	\$0	\$0			\$0	\$189,830	\$1,800,000
3	47	\$100,000	\$300,000	\$291,761	\$1,800,000	3	47	\$100,000	\$0	\$0			\$0	\$291,761	\$1,800,000
4	48	\$100,000	\$400,000	\$399,136	\$1,800,000	4	48	\$100,000	\$0	\$0			\$0	\$399,136	\$1,800,000
5	49	\$100,000	\$500,000	\$512,043	\$1,800,000	5	49	\$100,000	\$0	\$0			\$0	\$512,043	\$1,800,000
6	50	\$0	\$500,000	\$534,944	\$1,800,000	6	50	\$0	\$300,000	\$0		\$0	\$300,000	\$218,264	\$1,500,000
7	51	\$0	\$500,000	\$558,831	\$1,800,000	7	51	\$0	\$0	\$50,000	\$33,320	\$16,680	\$266,680	\$277,323	\$1,533,320
8	52	\$0	\$500,000	\$583,728	\$1,800,000	8	52	\$0	\$0	\$50,000	\$35,173	\$14,827	\$231,507	\$339,348	\$1,568,493
9	53	\$0	\$500,000	\$609,653	\$1,800,000	9	53	\$0	\$0	\$50,000	\$37,128	\$12,872	\$194,379	\$404,466	\$1,605,621
10	54	\$0	\$500,000	\$636,667	\$1,800,000	10	54	\$0	\$0	\$50,000	\$39,193	\$10,807	\$155,187	\$472,852	\$1,644,813
11	55	\$0	\$500,000	\$663,707	\$1,800,000	11	55	\$0	\$0	\$50,000	\$41,372	\$8,628	\$113,815	\$543,564	\$1,686,185
12	56	\$0	\$500,000	\$692,422	\$1,800,000	12	56	\$0	\$0	\$50,000	\$43,672	\$6,328	\$70,143	\$618,379	\$1,729,857
13	57	\$0	\$500,000	\$722,877	\$1,800,000	13	57	\$0	\$0	\$50,000	\$46,100	\$3,900	\$24,043	\$697,497	\$1,775,957
14	58	\$0	\$500,000	\$754,823	\$1,800,000	14	58	\$0	\$0	\$25,380	\$24,043	\$1,337	\$0	\$754,823	\$1,800,000
15	59	\$0	\$500,000	\$788,276	\$1,800,000	15	59	\$0	\$0	\$0	\$0	\$0	\$0		\$1,800,000

YOUR CASH VALUE IS THE SAME!!!

You Earn A Return In Your Policy AND You Use The Money For Real Estate At The Same Time

Step 3 - Know Your Numbers – What's my *actual* cost to borrow?

- Look at your NET Return in dollars.
- Look at your NET cost to borrow in dollars.
- Then ask this question. Am I earning more in interest or paying more in interest?
 - a. A clear understanding of how your money grows and how much you are paying in interest is important.
 - b. Too many people have been baited into buying big whole life insurance policies with the phrase, "You can earn a 6.00% dividend on your money and pay a 5.00% loan interest rate. That's a 1.00% spread."
 - c. THIS IS FALSE!!!
 - d. What's true? We pay 5.00% loan interest
 - e. What's not true? Our money grows by the Dividend Rate (6.00%)
 - f. How it works:
 - g. You have a Whole Life Policy with a **6.00% Dividend Rate**
 - h. **You have \$100,000 in cash value**
 - i. **How much money do you expect to receive in one year?**
 - j. **Common sense would say \$6,000**
 - k. Here's the thing... **Your money does not grow by the Dividend Rate.** It's a Gross Rate.
 - l. What is my money growing by?
 - A. **To see your yearly return, ask for the Annual Rate of Return**
 - B. **To see your average return, ask for the Internal Rate of Return**
 - C. **If you want it simplified, just look at the growth in Dollars instead of Percentages.**
 - m. What to look for when using a policy for Real Estate.
 - A. How much did your cash value grow last year?
 - B. How much did you pay in loan interest last year?
 - C. **We want to ensure the policy's growth is more than what we are paying in loan interest.**

Yearly Cash Value Growth = How Much Money You Receive from The Insurance Company Every Year.

Yr	Age	Annual Funding	Total Funding	Cash Value	Death Benefit	Yearly Cash Value Growth
1	45	\$100,000	\$100,000	\$92,307	\$1,800,000	-\$7,693
2	46	\$100,000	\$200,000	\$189,830	\$1,800,000	-\$2,477
3	47	\$100,000	\$300,000	\$291,761	\$1,800,000	\$1,931
4	48	\$100,000	\$400,000	\$399,136	\$1,800,000	\$7,375
5	49	\$100,000	\$500,000	\$512,043	\$1,800,000	\$12,907
6	50	\$0	\$500,000	\$534,944	\$1,800,000	\$22,902
7	51	\$0	\$500,000	\$558,831	\$1,800,000	\$23,886
8	52	\$0	\$500,000	\$583,728	\$1,800,000	\$24,897
9	53	\$0	\$500,000	\$609,653	\$1,800,000	\$25,925
10	54	\$0	\$500,000	\$636,667	\$1,800,000	\$27,015
11	55	\$0	\$500,000	\$663,707	\$1,800,000	\$27,040
12	56	\$0	\$500,000	\$692,422	\$1,800,000	\$28,715
13	57	\$0	\$500,000	\$722,877	\$1,800,000	\$30,454
14	58	\$0	\$500,000	\$754,823	\$1,800,000	\$31,947
15	59	\$0	\$500,000	\$788,276	\$1,800,000	\$33,453

Yearly Interest = How Much Money You Pay The Insurance Company Every Year.

Yr	Age	Annual Funding	Annual Loan	Loan Payment	Payment Applied to Principal	Payment Applied to Interest	Loan Balance	Cash Value	Death Benefit	Yearly Interest Paid
1	45	\$100,000	\$0	\$0			\$0	\$92,307	\$1,800,000	\$0
2	46	\$100,000	\$0	\$0			\$0	\$189,830	\$1,800,000	\$0
3	47	\$100,000	\$0	\$0			\$0	\$291,761	\$1,800,000	\$0
4	48	\$100,000	\$0	\$0			\$0	\$399,136	\$1,800,000	\$0
5	49	\$100,000	\$0	\$0			\$0	\$512,043	\$1,800,000	\$0
6	50	\$0	\$300,000	\$0		\$0	\$300,000	\$218,264	\$1,500,000	\$0
7	51	\$0	\$0	\$50,000	\$33,320	\$16,680	\$266,680	\$277,323	\$1,533,320	\$16,680
8	52	\$0	\$0	\$50,000	\$35,173	\$14,827	\$231,507	\$339,348	\$1,568,493	\$14,827
9	53	\$0	\$0	\$50,000	\$37,128	\$12,872	\$194,379	\$404,466	\$1,605,621	\$12,872
10	54	\$0	\$0	\$50,000	\$39,193	\$10,807	\$155,187	\$472,852	\$1,644,813	\$10,807
11	55	\$0	\$0	\$50,000	\$41,372	\$8,628	\$113,815	\$543,564	\$1,686,185	\$8,628
12	56	\$0	\$0	\$50,000	\$43,672	\$6,328	\$70,143	\$618,379	\$1,729,857	\$6,328
13	57	\$0	\$0	\$50,000	\$46,100	\$3,900	\$24,043	\$697,497	\$1,775,957	\$3,900
14	58	\$0	\$0	\$25,380	\$24,043	\$1,337	\$0	\$754,823	\$1,800,000	\$1,337
15	59	\$0	\$0	\$0	\$0	\$0	\$0	\$788,276	\$1,800,000	\$0

Yearly Growth vs. Yearly Interest

Yr	Age	Yearly Cash Value Growth	Yearly Interest Paid
1	45	-\$7,693	\$0
2	46	-\$2,477	\$0
3	47	\$1,931	\$0
4	48	\$7,375	\$0
5	49	\$12,907	\$0
6	50	\$22,902	\$0
7	51	\$23,886	\$16,680
8	52	\$24,897	\$14,827
9	53	\$25,925	\$12,872
10	54	\$27,015	\$10,807
11	55	\$27,040	\$8,628
12	56	\$28,715	\$6,328
13	57	\$30,454	\$3,900
14	58	\$31,947	\$1,337
15	59	\$33,453	\$0

In The 7th Year...

You Received \$23,886

You Paid \$16,680

Net Result → \$7,206

Total Growth vs. Total Interest			
Yr	Age	Total Cash Value Growth	Total Interest Paid
1	45	-\$7,693	\$0
2	46	-\$10,170	\$0
3	47	-\$8,239	\$0
4	48	-\$864	\$0
5	49	\$12,043	\$0
6	50	\$34,944	\$0
7	51	\$58,831	\$16,680
8	52	\$83,728	\$31,507
9	53	\$109,653	\$44,379
10	54	\$136,667	\$55,187
11	55	\$163,707	\$63,815
12	56	\$192,422	\$70,143
13	57	\$222,877	\$74,043
14	58	\$254,823	\$75,380
15	59	\$288,276	\$75,380

By the 15th Year...

You Received **\$288,276.**

You Paid **\$75,380.**

Net Result→ **\$212,896.**

THESE GAINS DO NOT INCLUDE THE RETURNS YOU EARN IN YOUR REAL ESTATE

The Lesson:

Look at the numbers in dollars instead of the rates.

It lets us know if we are making more money than what we are paying.

If you'd like more information or wish to discuss this further, please feel free to reach out. I hope the information was helpful! 😊

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