The Whole Truth About Whole Life

BY PATRICK DONOHOE

PARADIGM LIFE™

Finding Truth

GETTING TO KNOW CASH VALUE

Some say that buying your home is the biggest financial transaction of your life. But when it comes to protecting, increasing, utilizing and maximizing your wealth, your life insurance policy might be the most important.

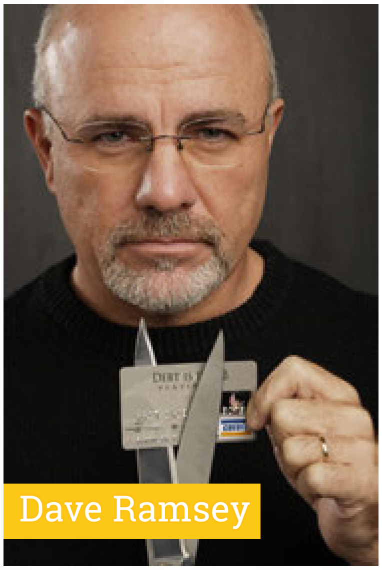
However, life insurance, as with most of your important financial transactions, tends to be complicated. With a multitude of companies, products and advisors, not to mention well-meaning family and friends, all thinking they know what's best for you, it becomes difficult to determine fact from fiction, myth from truth.

Well, that's what I do. So right here, right now, I'd like to offer you some very savvy, yet easy-to-understand, information on one of the most popular and most financially sound life insurance products available to you today, Cash-Value or Permanent Life insurance.

To start, here's a simple summary: A Cash Value or Permanent Life insurance policy pays out benefits upon the death of the policyholder tax free. AND the policy's savings or cash value increases during the policy-holders lifetime. Additional benefits include: the cash value does not incur any income or capital gains tax while it grows; you may borrow against the cash value from the insurance company, as a loan; and, in time, you may use the cash value to pay the policy premiums.

Sounds rather straight-forward, doesn't it? Reasonable. Concise. Pretty impressive, too.

Yet, as noted above, many people, who are not even professionals in the life insurance industry, become self-proclaimed authorities on the intricate ins and outs of the business. Woe to the unsuspecting consumer who gets caught in the confusion.



Dave Ramsey

One such "authority" is Dave Ramsey, who published an article, titled "The Truth About Life Insurance" on his website daveramsey.com in 2009. If you are unfamiliar with Dave Ramsey, he is a popular financial author and radio and television personality who strongly concentrates on reducing or eliminating personal debt.

I, occasionally, listen to the Ramsey Radio Show and agree with his pro-capitalism and some of his financial philosophy. However, he sometimes presents financial scenarios and conclusions, like his personal perspective on life insurance, that, as a life insurance professional and Principal at Paradigm Life, I strongly disagree with. So let's go.

In this article, Ramsey set up the following proposition:

- **Myth:** Cash value life insurance, like whole life, will help me retire wealthy.
- **Truth:** Cash value life insurance is one of the worst financial products available.

THE REAL TRUTH AND NOTHING BUT…

Consider this. From 2009 to 2011, the Wells Fargo Bank increased their Cash Value or Permanent life insurance holdings from $5B to $20B (www.FDIC.gov), which is about 30% of their total liquid assets. High as this increase is, the amount might have been higher if the FDIC didn't regulate how much Cash Value insurance they are allowed to hold as part of their tier 1 (core) capital requirements. It should be noted that the life insurance is typically owned, by the bank, on its employees.

The Wells Fargo Bank example would be interesting even if it was just an anomaly. But with Bank of America, JP Morgan Chase, TD North and other major financial institutions all owning similar permanent cash value life insurance holdings, it's not just "interesting," it's compelling. These companies hold these assets not only to meet their tier 1 capital requirements but also to fund most of the executive pension plans for their core employees.
http://www.investopedia.com/terms/t/tier1capital.asp

And there is still more persuasive evidence of the efficacy of Cash Value insurance: major corporations such as General Electric, Comcast, Walt Disney Co., CBS corp., New York Times, Time Warner Inc., Viacom and others, also hold billions of dollars in Cash Value insurance for similar purposes as banks.

Walmart, the world's second largest public corporation, owns Cash Value life insurance on MOST of their employees, including the door greeters. http://www.freerepublic.com/focus/news/666837/posts

And some of the wealthiest families in the world use life insurance products as part of their holdings.

So, if bank-owned, corporate-owned and wealthy family-owned life insurance strategies, worth trillions of dollars, are so popular, why would Dave Ramsey call them "the worst financial product available?"

On a number of occasions, Ramsey has cited his own personal negative experiences with permanent life insurance and, therefore, concluded that ALL permanent insurance is bad. Unfortunately, for his audience, that may not be the best way to evaluate a financial product or strategy. While Ramsey's conclusions may be sound for his own circumstance and application, for a wider, general audience, wouldn't it be advisable to include such powerhouses as Bank of America, Chase, General Electric, Walmart and on and on, into the evaluation equation?

Additionally, in the above analysis, one of the key words is "application." I have always believed the concept that products, services, strategies and things do not have intrinsic value. They are only valuable based on how they are used or applied.

In its simplest terms, a television only has value if you turn it on! In a more pragmatic form, the value is in the education, training, understanding and skill of the individual operating the thing, tool, product, resource, etc.

For a practical example: for hundreds of years, oil was just an annoyance for the world's farmers. It was a black, slick substance that indiscriminately ruined their crops. But once it was learned what a powerful resource oil could be, it made those farmers, fortunate to find it on their property, incredibly rich. And today, in many ways, oil production, refinement, sale and distribution enjoys the focus and attention of the entire world.

So what is more valuable, the oil or the knowledge of how to use it?

Likewise, when it comes to Cash Value insurance, Ramsey only knows one way of using it: protecting an individual's income loss if they were to die prematurely. And, in that particular case, he makes valuable points with which I do agree. However, if Ramsey was aware of the more sophisticated ways to properly structure a high Cash Value policy, as banks and major corporations do, he might change his opinion.

But, here, Ramsey said, "Sadly, over 70% of the life insurance policies sold today are Cash Value policies. A Cash Value policy is an insurance product that packages insurance and savings together. Do not invest money in life insurance; the returns are horrible. Your insurance person will show you wonderful projections, but none of these policies perform as projected."

To begin, I agree with Dave Ramsey that the way life insurance is typically sold today, it is an extremely conservative way to save money. The insurance policies he describes only offer a 2-3% overall yearly rate of return along with some pretty good tax benefits.

However, most individuals are not informed of how their life insurance policy could be structured as one of the most productive assets they own. So the questions that should be asked are: what type of policies do banks and corporations buy and how are they different than those Ramsey is talking about?

SHARING THE WEALTH

OK, it's time to share the wealth, so to speak; the wealth of information and the additional benefits of a Cash Value life insurance policy that, perhaps, Ramsey is not familiar with.

As I defined, at the beginning of this article, the Cash Value life Insurance accumulates value throughout the holder's lifetime; serves as a "tax-sheltered savings vehicle:" offers borrowing power for big-ticket items through policy loans; and may be used to pay later premiums. It, also, pays out the death benefit tax-free.

But that is just the beginning. At Paradigm Life, while we certainly value life insurance coverage to protect against income loss or what we call "human life value." But our prime focus and target is to structure our policies to maximize cash value to the legal limit imposed by the IRS. This emphasis is much different than what Dave Ramsey analyzes.

For example, we structure our typical policies to allocate a large percentage of the policyholder's premium to a "paid-up additions rider (PUAR)," where the entire policy is paid-up, requiring no further premiums. This PUAR creates an immediate cash or savings value. Structuring your policy this way creates the best accumulation of cash vehicle possible.

For detailed illustrations and technical analyses of a PUAR, please visit www.paradigmlife.net and register for our free eLearning course: INFINITE 101

Additionally, At Paradigm Life, we exclusively use mutual insurance companies. A Mutual Company is one that is owned by those that purchase a Whole Life policy. At the end of the year, when the insurance company calculates their profit, it is paid to the owners of the company. In other words, if you have a Whole Life policy, you are, essentially, an owner of the company and are paid a pro rata share, or dividend, of the profit. https://en.wikipedia.org/wiki/Mutual_insurance.

But somehow, none of these advantages and possibilities were mentioned in Ramsey's report on "The Truth About Life Insurance." Instead, as an example of a Cash Value life insurance policy, Ramsey said, "If a 30-year-old man has $100 per month to spend on life insurance and shops the top five cash value companies, he will find he can purchase an average of $125,000 in insurance for his family. The pitch is to get a policy that will build up savings for retirement, which is what a Cash Value policy does. However, if this same guy purchases 20-year-level term insurance with coverage of $125,000, the cost will be only $7 per month, not $100."

Now, before dissecting Ramsey's example, there is a very important saying that I'd like you to hear, "THERE ARE NO DEALS IN INSURANCE!" This means that all insurance is based on risk and the probability that the insurance company will have to pay an insurance claim. It's a very simple concept: a higher cost premium policy has more risk, to the insurance company, than a lower cost premium. Makes sense, doesn't it?

So, in Ramsey's example of $100 per month for a Cash Value policy vs. $7 for a Term life policy, it simply means there is very little risk, to the insurance company, of ever paying out the Term life claim. In fact, according to a Life Insurance Marketing Association study, less than 1% of Term policies ever pay a claim. That means all your coverage payments will be forfeited. That is why the Term policy (which is in effect for a subscribed number, or term, of years) is so cheap! Remember, there are no deals in insurance!

Conversely, the Whole Life policy is more expensive because it covers you for your lifetime and, eventually, the insurance company knows they will pay out your claim!

And then, to bolster his argument, Ramsey says, "WOW! If he goes with the Cash Value option, the other $93 per month should be in savings, right? Well, not really: you see, there are expenses."

Sorry, Dave, expenses exist in every financial vehicle. Ramsey just assumes that the expenses charged by an insurance company is more than those charged by a comparable financial institution. Does he really think that Fidelity, Goldman Sachs, Morgan Stanley and Charles Schwab have become NON-profit companies?

Ramsey went on to say, "All of the $93 per month disappears in commissions and expenses for the first three years. After that, the return will average 2.6% per year for whole life, 4.2% for universal life, and 7.4% for the new-and-improved variable life policy that includes mutual funds, according to Consumer Federation of America, Kiplinger's Personal Finance and Fortune magazines. The same mutual funds outside of the policy average 12%."

The $100 premium that Ramsey is talking about, from his original example, is BASE whole life coverage. There is typically little to no cash value in the first 2 years or in other words you pay $100 per month for 2 years that is $2400 and you have NO cash value or savings value. The base coverage alone is not an ideal way of accumulating savings. However, this is not the only way to structure a whole life policy.

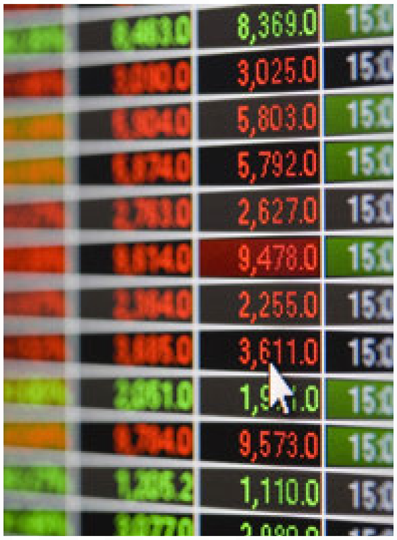
Ramsey insists on referencing studies on returns on insurance not using mutual companies or PUAR, as I explained earlier. It can be set up to accumulate more cash value with the PUAR and use of mutual companies, as I described earlier. He also does not reference the 12% return, in mutual funds, with anything substantial. The bottom line is that Whole Life policies can be structures to accumulate more cash value.

THE BEST COURSE OF ACTION

Now let's talk facts and figures in comparing Ramsey's preferred savings vehicle, the mutual fund, to a properly structured Cash Value life insurance policy, like this one:

If a 30-year old were to pay $833 per month into a properly structured policy for 30 years, the cash value would be $745,616 and the death benefit would be $1,598,032. That is a 5.37% compounded rate of return, on Cash Value and a 9.47% compounded rate of return, per year, on the death benefit. These are the values after all expenses and commissions.

In order for a mutual fund, which Ramsey recommends, to match this, at a 28% tax bracket and a 2% management fee, the fund would have to, consistently, provide a 9.65% rate of return, every single year for 30 years (please see the chart below based on a USA Today report tracking mutual funds).



THAT HAS NEVER HAPPENED in a mutual fund over the course of 30 years. But it has happened in a Whole Life policy. In over 100 years, the mutual insurance companies we use have never missed paying a dividend. And these interest gains can be tax-free.

So, net-net, if you factor in the tax advantages, the gains earned, net of fees, and the fact that you have a permanent death benefit, rather than specific term, you would need about a 9.5% net return, in the market, to match a Whole Life Policy set up this way.

Let's repeat that – the market would have to yield a 9.5% NET compounded over 30 years! The market has NEVER done this. http://www.youtube.com/watch?v=Xtg6Ug8p3Zc&feature=c4-overview&list=UUKmGmR4v96Ia6N494cM1Kgw

By the way, it's important to note that Ramsey chooses to make his comparisons to Whole Life policies without the paid up additions rider and from a NON-MUTUAL insurance company. The Whole Life policies that are purchased by the banks and corporations, we cited earlier, include them. Their objective, along with that of Paradigm Life, is focused on Cash Value.

Now let's explore what Ramsey refers to as "The Hidden Catch." Referring back to his earlier example of a 30-yr. old man who purchases $125,000 in insurance, Ramsey states, "Worse yet, with Whole Life and universal life, the savings you finally build up after being ripped off for years don't go to your family upon your death. The only benefit paid to your family is the face value of the policy, the $125,000 in our example."

But as I illustrated above, the death benefit has about a 9.5% return that goes to beneficiaries, TAX FREE, if death occurred at 30 years. Ramsey recommends the $7 term policy, which has expired by the time 30 years roles around, so the real comparison must be made between the mutual fund accumulation and the Whole Life policy CASH VALUE, which always out-performs.

Finally, in his "Truth About Life Insurance" article, Ramsey offers "A Better Plan."

He states, "If you follow my Total Money Makeover plan, you will begin investing well. Then, when you are 57 years old and the kids are grown and gone, the house is paid for, and you have $700,000 in mutual funds, you'll become self-insured. That means when your 20-year term is up, you shouldn't need life insurance at all – because with no kids to feed, no house payment and $700,000, your spouse will just have to suffer through if you die without insurance."

Mutual Funds, again? Let's put Ramsey's greatest "myth" to rest when he said, "Don't do Cash Value insurance! Buy Term and invest the difference." Let's review the following report, by USA Today, that tracked how much a $100 monthly investment would have increased in the largest stock mutual funds, ranked by assets. http://usatoday30.usatoday.com/money/perfi/funds/2010-07-06-funds06_CV_N.htm

Fund	Total Return (5 years)	Total Return (10 years)
American Funds Growth Fund of America A	$5,806	$14,295
Vanguard Total Stock Market Index Investor	$5,978	$13,346
American Funds EuroPacific Growth A	$6,426	$18,127
Vanguard 500 Index Investor	$5,890	$12,786
American Funds Cap Wlrd Growth & Income A	$6,221	$18,286
American Funds Capital Income Builder Inc A	$5,944	$16,405
SPDR Trust Series 1	$5,891	$12,793
Vanguard Institutional Index Institutional	$5,905	$12,860
American Funds Income of America A	$5,936	$15,545
Fidelity Contrafund	$6,398	$15,872
American Funds Invest Co of America A	$5,724	$13,916
American Funds Washington Mutual Invest A	$5,475	$13,268

Franklin Income A	$6,349	$16,694
American Funds Balanced A	$5,905	$14,810
Vanguard Wellington Investor	$6,663	$16,307
American Funds Fundamental Investors Inc A	$5,911	$15,339
American Funds New Perspective A	$6,353	$16,891
$100 a month Cash	**$6,000**	**$12,000**

AN EVEN BETTER PLAN

Here at Paradigm Life, we are concerned that more and more financial planners really aren't offering their clients financial plans, at all. They are more like glorified salesmen…usually, of mutual funds! To be fair, the same can often be said about life insurance salesmen. In fact, deserved or not, they probably have an even greater stigma, among the general public.

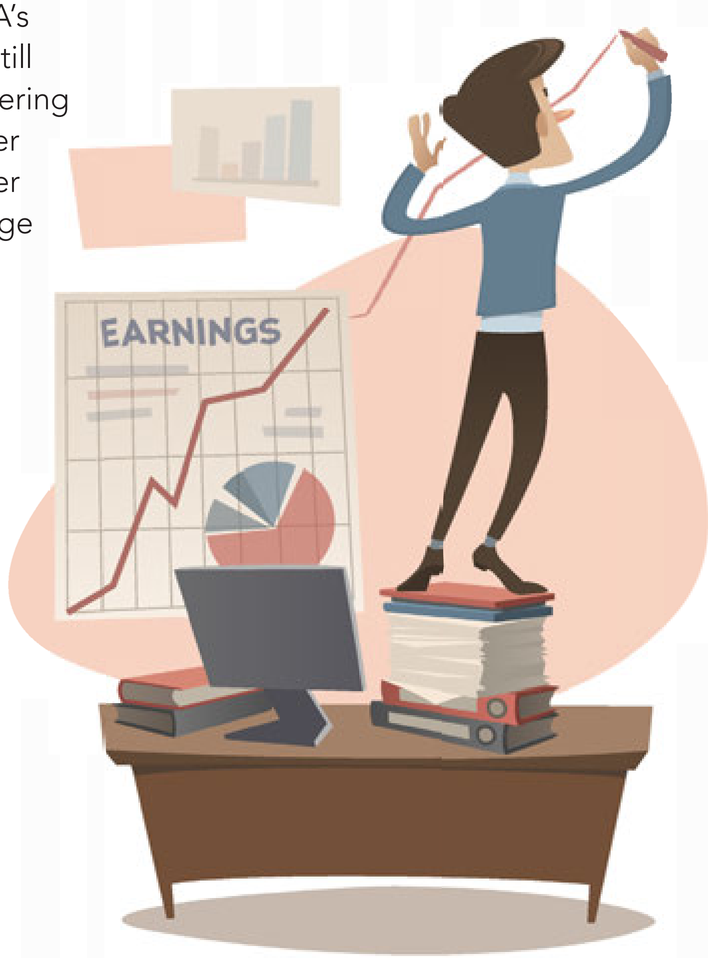
We know that a real financial plan must include such areas as debt management, large expense planning (remember those cars, boats, vacations and other big ticket expenses?) and true Tax planning, not just end-of-the-year tax returns.

Tax planning means examining the math and logic behind paying taxes now and having tax-free retirement income later instead of deferring taxes to a potentially higher tax environment in the future (and there is a mountain of evidence to show that a tax increase may be coming).

Tax planning means analyzing whether the Roth IRA's might be a good solution although the Roth's are still mostly buying those mutual funds. It means considering the Roth liquidity issues, until age 60; the $5,000 per year contribution limit if you make over $100,000 per year; and the fact that the IRS has the right to change the rules on ROTH taxation, which eliminates the certainty of it being tax-free.

Other aspects that should be addressed in a comprehensive financial Plan:

- How much liquid savings should you have outside of the market?
- What are your college planning needs? What are the up and the downsides of the 529 and other qualified plans?
- What should you do with your tax refund?
- Is Real Estate a viable investment for you?



Infinite Banking

THE INFINITE BANKING CONCEPT

www.infinitebanking.org and our website www.paradigmlife.net

Paradigm Life specializes in The infinite Banking Concept. The Infinite Banking Concept is a financial system that focuses on two primary benefits for the policyholder. The first benefit is a Whole Life insurance policy that accumulates a high cash value and is issued by a mutual life insurance company.

The second benefit includes the guaranteed loan provision, that provides the ideal way to finance large purchases without needing 3rd party financing. If an individual adopts the Infinite Banking Concept, as part of their financial plan, they will have ideal accumulation and savings growth and the most viable means to pay for large expenses.

Why would you use the loan provision with the Insurance Company?

1. When you pay cash for something, you give up the interest you could have earned on that money. This loss is measurable and is defined as OPPORTUNITY COST. Consider the cars, boats, vacations, home remodels and furniture that you have already paid cash for or will pay cash for in the future. All of that money is lost to the product or service that you acquired. Fine. But just think, you could still have the car or furniture, etc., perfectly fine, however you will never earn interest on that money again and over the long run that loss equates to 100's of thousands of dollars.

2. Financing. I think the downfall of our economy will be largely due to the over use of credit. When you finance something you don't just give up the interest you might have earned had you invested the payments, but you pay more than the purchase price because of the interest charged by the financing company. On credit cards that are paid off over a long period of time, you could end up paying 2-3 times what the THING initially cost. For example, on a $300,000 30-year mortgage at 6% you end up paying $347,000 in % alone. So a $300,000 house really cost you $647,000 plus the opportunity cost of what those payments could have EARNED in interest.

And there is so much more that Paradigm Life offers you in a free eLearning platform called INFINITE 101. It contains information that will teach you all the details of the Infinite Banking Concept – and without requiring any commitment from you.

At the end of this course, you will know the best financial system that has ever existed. The infinite Banking Concept will significantly reduce your financing costs and help you make better purchases.

We want you to know the best strategies available for you to both protect your family's future and accumulate the greatest wealth possible for you today.

And that's the WHOLE Truth.