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# The Policy Design Guide

How to Evaluate Life Insurance for Wealth Building

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The Rockefeller Method

# Important Disclaimer

This guide is for educational purposes only and does not constitute financial, tax, or legal advice. Individual circumstances vary. Consult with qualified professionals before making any financial decisions. Past performance does not guarantee future results.

The examples and scenarios presented are illustrative and may not reflect your specific situation. Policy features, costs, and benefits vary by carrier and product. Always review policy documents carefully with a qualified advisor.

## What This Guide Covers

This guide will help you understand the critical factors that determine whether a permanent life insurance policy will serve as a wealth-building tool or become a financial burden. You will learn:

- Why most permanent life insurance policies fail to perform
- The hidden costs that can erode your policy's value
- How to identify well-designed vs. poorly-designed policies
- Key elements of optimal policy structure
- Questions to ask when evaluating any policy

## Who This Guide Is For

This guide is designed for high-net-worth individuals and business owners who are evaluating permanent life insurance as part of their wealth-building and preservation strategy. Whether you're considering a new policy or reviewing an existing one, this guide provides the framework for making informed decisions.

## Critical Warning

# The 90% Problem

Industry data suggests that the majority of permanent life insurance policies fail to meet their original objectives. This isn't because life insurance is inherently flawed—it's because most policies are poorly designed, improperly funded, or simply the wrong product for the policyholder's needs.

## What "Failure" Looks Like

### Policy Lapse

Rising costs force the policyholder to surrender or let the policy lapse, losing both coverage and accumulated value.

### Phantom Income Tax

Policy loans become taxable income when a policy lapses, creating a tax bill with no cash to pay it.

### Inadequate Cash Value

High fees and costs consume the policy's growth, leaving far less cash value than projected.

Understanding why policies fail is the first step toward ensuring yours doesn't. The following sections will show you exactly what to watch for.

# Understanding M&E Charges

## THE SILENT KILLER OF UNIVERSAL LIFE POLICIES

Mortality and Expense (M&E) charges are the hidden costs that can destroy most Universal Life policies. Unlike whole life insurance with fixed costs, these charges typically increase as you age—sometimes dramatically.

### Illustrative Example: How M&E Charges May Escalate

Consider a \$1 million Universal Life policy:

Age	Illustrative Monthly M&E
45	\$200
65	\$2,000
75	\$10,000+
85	\$30,000+

Note: Actual charges vary by policy and carrier.

## The Death Spiral

These escalating charges can create a destructive cycle:

1. As you age, M&E charges increase
2. Higher charges consume more of your cash value
3. Depleted cash value requires larger premium payments
4. Many policyholders can't sustain increasing payments
5. The policy lapses, potentially triggering tax consequences

# The Phantom Income Tax Trap

One of the most devastating consequences of a poorly designed policy is "phantom income"—taxable income created when a policy with outstanding loans lapses or is surrendered.

## Illustrative Scenario

Consider this illustrative example of how phantom income can occur:

Total premiums paid over 20 years	\$500,000
Cash value at lapse (after fees)	\$50,000
Policy loans taken over the years	\$300,000
Phantom income created	\$300,000
Potential tax at 37% rate	\$111,000
Cash received from lapse	\$0

**Result: A potential six-figure tax bill with no cash to pay it.**

## How This Happens

When you take a loan against your life insurance policy, the IRS doesn't consider it taxable income—as long as the policy remains in force. However, if the policy lapses or is surrendered with outstanding loans, the IRS may treat the loan balance as taxable income.

Without proper design and funding, this trap catches thousands of policyholders every year. The key to avoiding it is understanding your policy's long-term cost structure and ensuring adequate funding.

# Whole Life vs. Universal Life

Understanding the fundamental differences between these two product categories can help you make a more informed decision. This comparison reflects general product characteristics—individual policies vary.

Feature	Whole Life	Universal Life
Premium Costs	Fixed forever	Can increase
Cash Value Growth	Guaranteed	Not guaranteed
M&E Charges	None	Increasing
Lapse Risk	Minimal	High
Tax Risk	Protected	Phantom income
Complexity	Simple	Complex

Note: This comparison reflects general product category characteristics.

Individual policies vary by carrier and design. Always review specific policy documents with a qualified advisor.

# Red Flags to Avoid

When evaluating a policy or advisor, watch for these warning signs. If you encounter three or more, consider seeking a second opinion from an independent advisor.

**1** Illustrations showing unrealistic returns (8%+ annually)

**2** Advisors who can't explain M&E charges clearly

**3** Policies requiring you to "max fund" for 4-5 years only

**4** No discussion of MEC limits and their importance

**5** Promises that you can "stop paying premiums" after a few years

**6** Complex products with multiple moving parts

**7** Advisors who primarily sell one type of policy

**8** No written guarantee of premiums or benefits

# Green Flags to Look For

A well-designed policy and trustworthy advisor will typically exhibit most of these positive characteristics. Use this as a checklist when evaluating your options.

**1** Fixed premiums that never increase

**2** Guaranteed cash value growth tables

**3** Clear explanation of all costs upfront

**4** Discussion of long-term funding strategies

**5** Mutual company with 100+ year history

**6** Advisor discusses multiple design options

**7** Focus on death benefit AND cash value

**8** Written illustrations you can understand

# Key Design Elements

A properly designed whole life policy follows specific principles that can help maximize cash value growth while maintaining death benefit protection. Here are the four key elements to discuss with your advisor.

## 1. Optimal Base Premium

The base premium should be structured to allow maximum Paid-Up Additions (PUAs) while maintaining the death benefit you need. This balance is critical for cash value accumulation.

## 2. Maximum PUA Funding

Fund up to the Modified Endowment Contract (MEC) limit to accelerate cash value growth without triggering adverse tax consequences. Your advisor should explain these limits clearly.

## 3. Flexible Premium Design

Structure the policy to allow varying PUA contributions based on your cash flow, providing maximum flexibility to adapt to changing financial circumstances.

## 4. Early Cash Value Access

Design for high early cash values, potentially 70-90% of premiums available in year one through proper structuring. Ask your advisor to show you the first-year cash value projections.

# Nine Benefits of Whole Life Insurance

When properly structured, whole life insurance can offer these benefits as part of a comprehensive wealth-building strategy.

## 1 Lifetime Coverage

Provides coverage for your entire lifetime, guaranteeing a death benefit will be paid out for your family and legacy.

## 2 Fixed Premiums

Premiums are fixed and do not increase with age, providing predictable costs throughout your lifetime.

## 3 Cash Value Accumulation

Policies accumulate cash value on a tax-deferred basis, growing at a guaranteed rate plus dividends.

## 4 Tax Advantages

Tax-deferred growth with tax-free loans and withdrawals, maximizing your wealth accumulation potential.

## 5 Policy Loans

Borrow against cash value at low rates with no credit checks for emergencies, education, or retirement.

## 6 Dividends

Properly structured policies pay dividends that can purchase additional coverage or be taken as cash.

## 7 Financial Security

Death benefit provides guaranteed support for beneficiaries and unlocks other assets for spending.

## 8 Protected Savings

A protected place to store cash with liability protection and guaranteed access when needed.

## 9 Market Protection

Cash value grows at a guaranteed rate, not subject to market volatility or economic downturns.

# Next Steps

Armed with the knowledge in this guide, you're better prepared to evaluate permanent life insurance options. Here are questions to ask when meeting with an advisor:

## Questions for Your Advisor

- What are all the costs and how might they change over time?
- Can you show me the guaranteed cash value projections?
- What happens if I need to reduce or stop premium payments?
- How does this policy perform relative to MEC limits?
- What is the carrier's financial strength rating and history?
- Can you explain the dividend history and how it works?

## Ready for a Policy Review?

Our Rockefeller Method specialists can review your existing policy or help you design one that aligns with your wealth-building goals.

Visit: [rockefellermethod.com/consultation](http://rockefellermethod.com/consultation)

# Final Disclaimer

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