WHAT WOULD
THE ROCKEFELLERS DO?

How the Wealthy Get and Stay That Way—
and How You Can Too

GARRETT GUNDERSON
MICHAEL ISOM

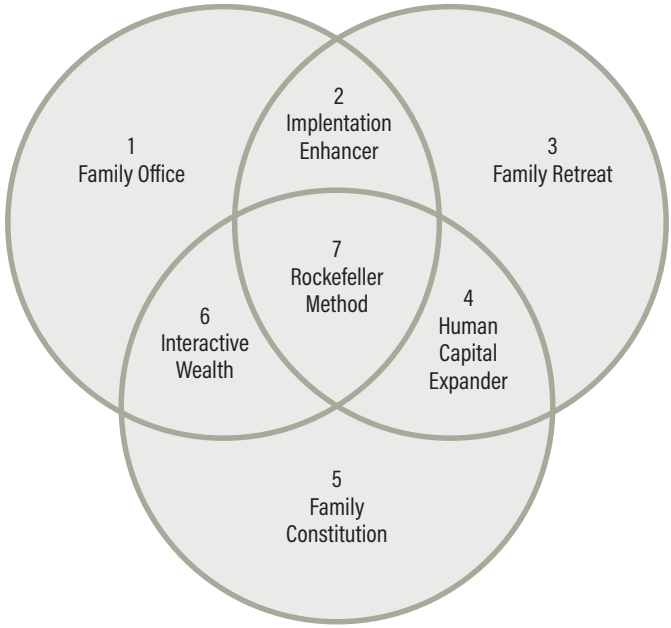
CHAPTER 3

The Family Legacy Rings and the Rockefeller Method

Rockefeller-style planning works regardless of whether you leave $1 million or $100 million behind. If you plan the right way, you can make your financial legacy last in perpetuity. You can pass on more than wealth to the next generation; You can leave them values, opportunities, and empowerment.

The Rockefeller Method is at the center of what we call the "Family Legacy Rings," which are:

1. Family Office
2. Family Retreat
3. Family Constitution



Below we will detail the three Family Rings. For the purposes of this book, we will not cover the Implementation Enhancer, Human Capital Expander, and Interactive Wealth aspects of the Rockefeller Method.

When you utilize this method, you stack the odds in your favor to create a legacy that lasts.

THE FAMILY OFFICE

Steve Jobs, IBM, and many iconic companies attribute their exponential growth and success in business to A-teamers. In finance, the secret sauce is the same. The Rockefellers knew it (six generations strong), but the Vanderbilt family didn't (three generations' money gone). Protecting and perpetuating your wealth requires an integrated A-team.

The Rockefellers had an office of financial professionals—attorneys,

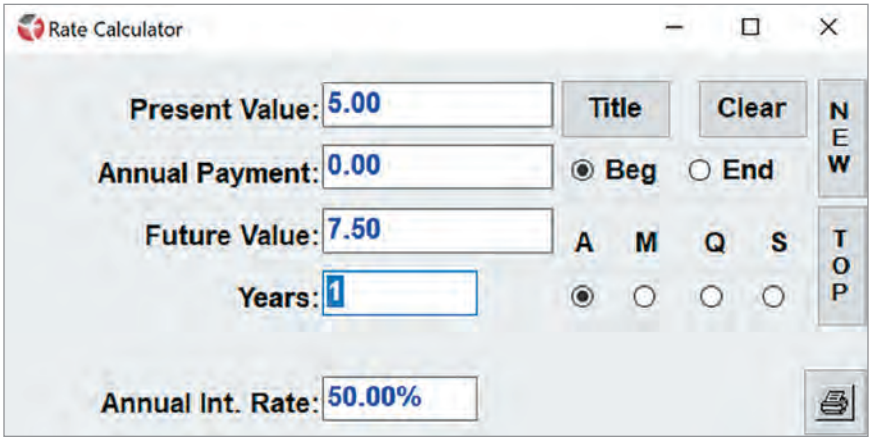
Michael Explains How Clients Leverage Whole Life

One of the most common ways we and our clients leverage the living benefits of whole life insurance is to fund auto loans. In fact, as I write this, my son Kadin is doing it, as is my assistant, Lacey, and multiple clients.

Wendy and I started paying into an optimally funded whole life policy for Kadin when he was young. We've paid $350 per month into it for over twenty years now, and it currently has about $130,000 in cash value. When Kadin bought his new car, he took out a $20,000 loan from his policy. The life insurance company loaned him $20,000 at 5% interest and put a $20,000 lien against his cash value.

When looking to purchase a car, Kadin checked out interest rates with various banks and credit unions and was quoted 7.5–8% interest on auto loans. Instead of getting a loan through them, he took out a loan from his policy, using his cash value as collateral. His cash in the policy continues to grow uninterrupted. He used the current auto loan rate at the local bank, 7.5%, to pay himself back. 5% interest went back to the life insurance company, but he kept the 2.5% spread. His policy continues to grow uninterrupted while he borrows the money.

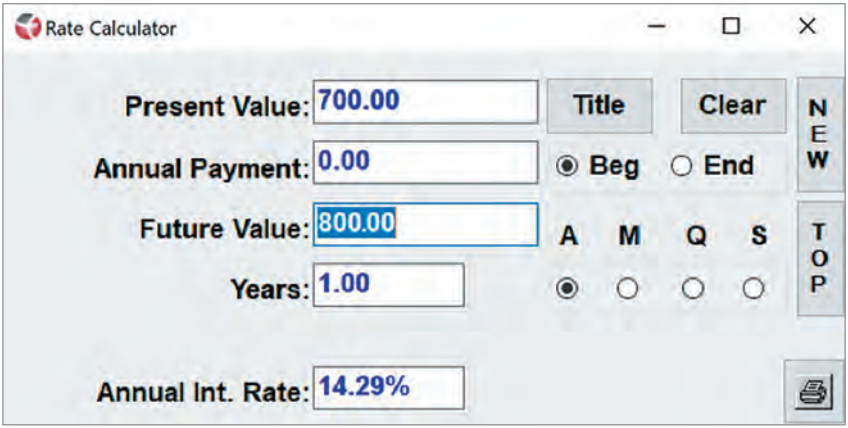
The spread between his cash value loan interest rate and the bank auto loan interest rate is only 2.5%. However, this represents a 50% better return, comparatively!



This example could be used for any investment that yields a positive rate of return on a taxable basis. For example, one of my clients, Troy, does hard money loans. When I met Troy, he was taking cash from his regular bank account and lending it to others. For ease of calculation, I'm going to assume 10% earnings on his money. If Troy took $10,000 cash from his regular bank account, loaned it to someone, and made a 10% return, that would be a $1,000 gain in a year. If he were in a 30% total tax bracket, he would pay $300 in tax, netting him $700.

But what if Troy were to optimally fund a whole life policy and use the cash value, instead of his personal bank account, to lend to borrowers? Let's assume he does the same deal and borrows $10,000 against his cash value, lends it out, and makes a $1,000 profit in interest. However, before he pays taxes on the $1,000, he writes off the $500 he pays the life insurance company to borrow the $10,000 through the policy loan. This leaves him with a net taxable gain of $500.

In his case, it was 5% to borrow the $10,000 from his policy; 5% on $10,000 is $500 in interest paid to the life insurance company. A $1,000 gain minus the $500 paid to borrow the $10,000 is a net taxable



gain of $500. The 30% tax on the $500 gain is $150, and $150 minus the $500 equals a net $350.

But that's not the end of the story. Because he uses his cash value as collateral for the loan, the life insurance company puts a lien against the cash value. The cash value grows tax-free by 4.5%—for a total of $450.

A $350 net gain plus $450 is $800. This is opposed to the $700 net gain Troy would realize if he used a regular bank account for this type of investment. While $700 to $800 is a $100 gain, it also represents a 14.29% profit.

Other clients have used this strategy for equipment loans and leases, and to inject cash surpluses into their businesses.

To dive deeper into the numbers, visit rockefellersbook.com/auto. There, we compare three different ways to buy a car: on credit, with cash, and using cash value loans. We assume that you buy a new car every five years and do the math over a twenty-year period.

If your policy is designed well, optimally funded, and has built up enough cash value, you can take out a loan for 90% or more against the cash value within the first year. Notice that I said

"against," not "from." When you take out a loan from your whole life insurance, you are not borrowing from your policy, but against it. Therefore, your policy continues to grow as if you hadn't taken out a loan at all; you do not actually take any cash out of the policy, but rather use its cash value as collateral.

Your cash value continues to grow with dividends. Moreover, you never have to rush to repay the loan out of your cash flow. In fact, most insurance companies don't care if you miss a payment or several payments—or even if you pay them back at all. If you don't pay them back, all that happens is the balance is deducted when your death benefit is paid out.

Michael Does the Math

In one of the following illustrations, the client pays the interest on the policy loan each year; in the other, they do not. In both cases, the cash value and death benefit continue to grow.

Insured: Valued Client
Male, Age 40, Preferred Plus Non-Tobacco
Contract Premium Mode: Annual
EPPUA Premium Mode: Annual
Policy Payment Period: 60 Years
Initial Premium: $15,000.00

Initial Base Face Amount: $151,149
Initial Flexible Protection Rider Face Amount: $151,148
Initial Total Face Amount: $302,297
Initial Dividend Option: Paid-Up Additions (PUAs)

Supplemental Ledger - Current Dividend Scale

Values
Current Dividend Scale
Refer back to the basic illustration for guaranteed elements and other important information.

Benefits and values are subject to change by Penn Mutual and are not guaranteed, actual results may be more or less favorable.

Values are based on the guarantees in your policy, as well as any non-guaranteed dividends paid at the current scale. This supplemental ledger will also reflect PUA/dividend surrenders and policy loans, if illustrated.

							Non-Guaranteed				
Year	Age	Total Premium	Dividend	Premium Outlay	Cum. Premium Outlay	Income	Total Loan Balance	Total Net Cash Value	Change in Total Net Cash Value	Change in Net CV Less Prem. Outlay	Total Net Death Benefit w/out Div	Total Net Death Benefit
1	41	15,000	301	15,000	15,000	0	0	11,205	11,205	-3,795	334,776	335,077
2	42	15,000	634	15,000	30,000	0	0	23,654	12,449	-2,551	369,207	369,841
3	43	15,000	984	15,000	45,000	0	0	38,074	14,419	-581	403,756	404,741
4	44	15,000	1,427	15,000	60,000	0	0	53,954	15,880	880	438,448	439,875
5	45	15,000	2,130	15,000	75,000	0	0	71,315	17,361	2,361	473,296	475,426
6	46	15,000	2,603	15,000	90,000	0	0	89,235	17,921	2,921	508,333	510,936
7	47	15,000	3,134	15,000	105,000	0	0	108,187	18,952	3,952	543,576	546,710
8	48	15,000	3,661	15,000	120,000	0	0	128,192	20,004	5,004	579,051	582,713
9	49	15,000	4,214	15,000	135,000	0	0	149,306	21,115	6,115	614,779	618,993
10	50	15,000	4,658	16,079	151,079	20,000	20,000	151,448	2,142	-13,937	630,775	635,432
11	51	15,000	5,421	16,079	167,157	0	20,000	174,855	23,407	7,328	666,727	672,148
12	52	15,000	6,093	16,079	183,236	0	20,000	199,534	24,679	8,601	703,319	709,412
13	53	15,000	6,803	16,079	199,314	0	20,000	225,544	26,010	9,932	740,288	747,091
14	54	15,000	7,554	16,079	215,393	0	20,000	252,948	27,403	11,325	777,670	785,224
15	55	15,000	8,358	16,079	231,471	0	20,000	281,820	28,873	12,794	815,502	823,860
16	56	15,000	9,217	16,079	247,550	0	20,000	311,957	30,137	14,058	853,831	863,048
17	57	15,000	10,110	16,079	263,628	0	20,000	343,670	31,713	15,634	892,712	902,823
18	58	15,000	11,055	16,079	279,707	0	20,000	377,029	33,359	17,280	932,163	943,218
19	59	15,000	12,044	16,079	295,785	0	20,000	412,092	35,064	18,985	972,228	984,272
20	60	15,000	13,120	16,079	311,864	0	20,000	448,951	36,858	20,780	1,012,937	1,026,057
21	61	2,917	13,965	3,996	315,859	0	20,000	476,254	27,303	23,308	1,033,527	1,047,492
22	62	2,917	14,901	3,996	319,855	0	20,000	504,964	28,710	24,715	1,054,832	1,069,732
23	63	2,917	15,913	3,996	323,851	0	20,001	535,170	30,205	26,210	1,076,937	1,092,850
24	64	2,917	16,963	3,996	327,846	0	20,001	566,901	31,731	27,735	1,099,905	1,116,868
25	65	2,917	18,040	3,996	331,842	0	20,001	600,193	33,292	29,297	1,123,745	1,141,785

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Male, Age 40, Preferred Plus Non-Tobacco
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4	44	15,000	1,427	15,000	60,000	0	0	53,954	15,880	880	438,448	439,875
5	45	15,000	2,130	15,000	75,000	0	0	71,315	17,361	2,361	473,296	475,426
6	46	15,000	2,803	15,000	90,000	0	0	89,235	17,921	2,921	508,333	510,936
7	47	15,000	3,134	15,000	105,000	0	0	108,187	18,952	3,952	543,576	546,710
8	48	15,000	3,661	15,000	120,000	0	0	128,192	20,004	5,004	579,051	582,713
9	49	15,000	4,214	15,000	135,000	0	0	149,306	21,115	6,115	614,779	618,993
10	50	15,000	4,650	15,000	150,000	20,000	21,140	150,301	994	-14,006	629,635	634,285
11	51	15,000	5,420	15,000	165,000	0	22,345	172,501	22,200	7,200	664,364	669,784
12	52	15,000	6,091	15,000	180,000	0	23,619	195,904	23,404	8,404	699,679	705,769
13	53	15,000	6,800	15,000	195,000	0	24,965	220,565	24,661	9,661	735,297	742,097
14	54	15,000	7,551	15,000	210,000	0	26,388	246,542	25,977	10,977	771,250	778,801
15	55	15,000	8,364	15,000	225,000	0	27,892	273,906	27,364	12,364	807,570	815,924
16	56	15,000	9,212	15,000	240,000	0	29,482	302,447	28,541	13,541	844,300	853,512
17	57	15,000	10,104	15,000	255,000	0	31,162	332,473	30,026	15,026	881,490	891,594
18	58	15,000	11,048	15,000	270,000	0	32,939	364,047	31,574	16,574	919,152	930,200
19	59	15,000	12,036	15,000	285,000	0	34,816	397,224	33,177	18,177	957,325	969,361
20	60	15,000	13,110	15,000	300,000	0	36,801	432,087	34,863	19,863	996,034	1,009,144
21	61	2,917	13,954	2,917	302,917	0	38,898	457,281	25,193	22,276	1,014,508	1,028,462
22	62	2,917	14,888	2,917	305,834	0	41,115	483,760	26,479	23,562	1,033,575	1,048,464
23	63	2,917	15,899	2,917	308,752	0	43,459	511,606	27,846	24,929	1,053,314	1,069,213
24	64	2,917	16,948	2,917	311,669	0	45,936	540,842	29,236	26,318	1,073,781	1,090,729
25	65	2,917	18,023	2,917	314,586	0	48,555	571,496	30,654	27,737	1,094,976	1,112,999

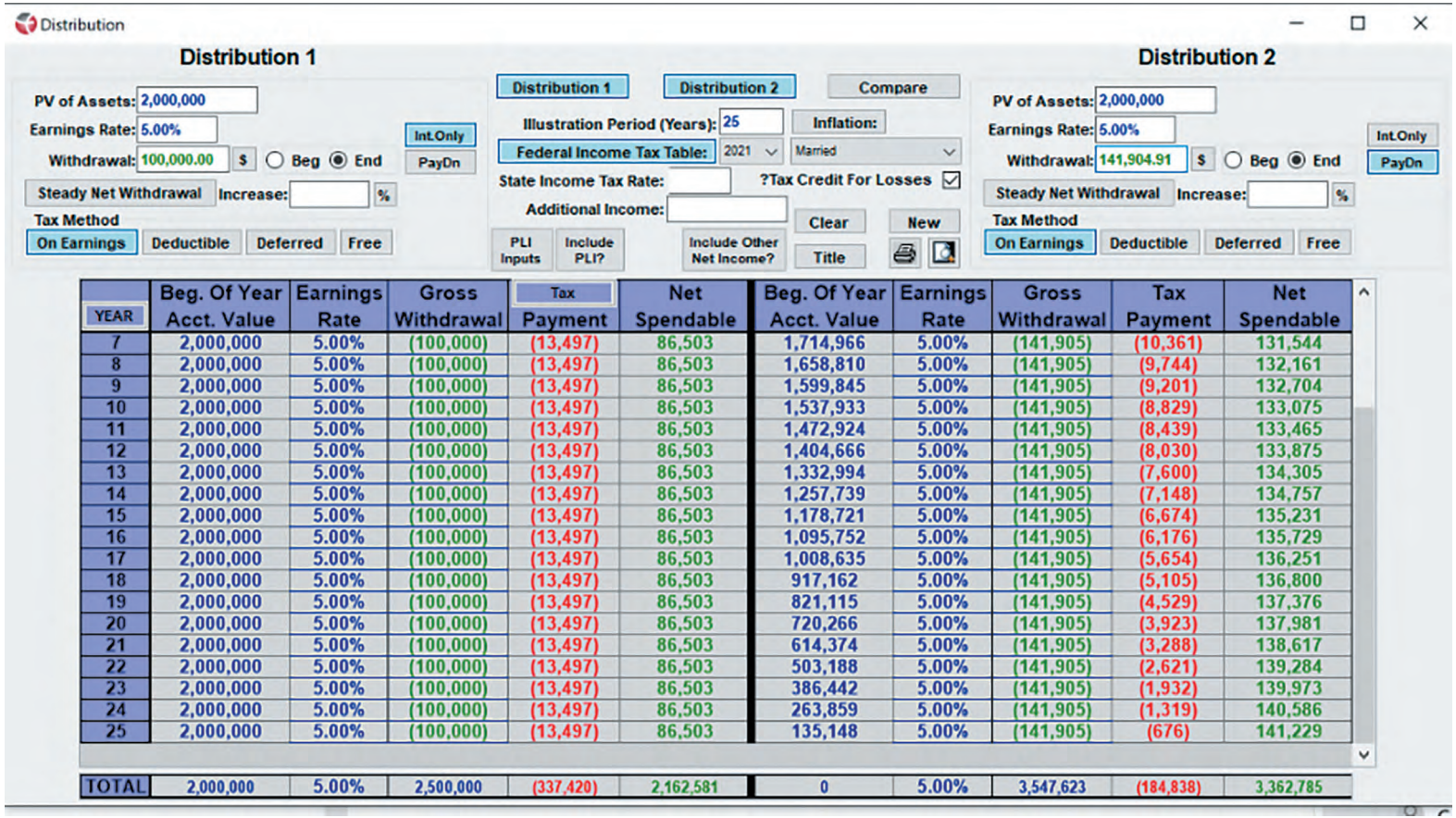
Michael Does the Math

The following chart shows potential retirement income distributions based on two strategies.

In the first strategy, Distribution 1, the client "bought term and invested the difference" and has saved $2 million by retirement. Since the client dropped term insurance and is now "self-insured," they will only live off the interest of their $2 million. At an assumed annual interest rate of 5%, this means the client will withdraw $100,000 per year. Over twenty-five years and after taxes, the net distributions will be $2,162,581.

In the second strategy, Distribution 2, the client bought whole life insurance and accumulated $2 million in cash value by retirement age. But since the client isn't worried about running out of money and disinheriting heirs, they can withdraw much more money over time. Over a twenty-five period, this client can withdraw a total of $3,362,785 for retirement. (This is assuming that the twenty-five-year paydown starts at age sixty-five.)

Again, whole life gives you a permission slip to spend down your assets while you're alive! Without this permission slip, you are relegated to living solely off of interest for the rest of your life.



YEAR	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Tax Payment	Net Spendable	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Tax Payment	Net Spendable
7	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,714,966	5.00%	(141,905)	(10,361)	131,544
8	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,658,810	5.00%	(141,905)	(9,744)	132,161
9	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,599,845	5.00%	(141,905)	(9,201)	132,704
10	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,537,933	5.00%	(141,905)	(8,829)	133,075
11	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,472,924	5.00%	(141,905)	(8,439)	133,465
12	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,404,666	5.00%	(141,905)	(8,030)	133,875
13	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,332,994	5.00%	(141,905)	(7,600)	134,305
14	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,257,739	5.00%	(141,905)	(7,148)	134,757
15	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,178,721	5.00%	(141,905)	(6,674)	135,231
16	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,095,752	5.00%	(141,905)	(6,176)	135,729
17	2,000,000	5.00%	(100,000)	(13,497)	86,503	1,008,635	5.00%	(141,905)	(5,654)	136,251
18	2,000,000	5.00%	(100,000)	(13,497)	86,503	917,162	5.00%	(141,905)	(5,105)	136,800
19	2,000,000	5.00%	(100,000)	(13,497)	86,503	821,115	5.00%	(141,905)	(4,529)	137,376
20	2,000,000	5.00%	(100,000)	(13,497)	86,503	720,266	5.00%	(141,905)	(3,923)	137,981
21	2,000,000	5.00%	(100,000)	(13,497)	86,503	614,374	5.00%	(141,905)	(3,288)	138,617
22	2,000,000	5.00%	(100,000)	(13,497)	86,503	503,188	5.00%	(141,905)	(2,621)	139,284
23	2,000,000	5.00%	(100,000)	(13,497)	86,503	386,442	5.00%	(141,905)	(1,932)	139,973
24	2,000,000	5.00%	(100,000)	(13,497)	86,503	263,859	5.00%	(141,905)	(1,319)	140,586
25	2,000,000	5.00%	(100,000)	(13,497)	86,503	135,148	5.00%	(141,905)	(676)	141,229
TOTAL	2,000,000	5.00%	2,500,000	(337,420)	2,162,581	0	5.00%	3,547,623	(184,838)	3,362,785

Michael Does the Math

Assuming you pay your premiums, whole life is guaranteed to pay out to your beneficiaries and your cash value will grow. But with whole life, you can even stop paying premiums at some point. You can do this using one of two main options: a feature called "reduced paid-up" (RPU), and another called "premium offset."

At any point during the policy contract, you can exercise the reduced paid-up option. This means you reduce the death benefit to the point that it is "paid up." It's best to do this after seven years or more of holding the policy, but it can be done even before that. This option is irreversible, however, so you want to make the decision carefully.

Once you've paid up, the cash value is in the policy and will continue to grow along with the death benefit, and they will equal each other at the end of the term of the whole life policy, age 121. (All whole life policies are designed this way.) Once you opt for an RPU, there is still a small cost to cover in the policy each year. However, the policy more than pays for itself at this point. You have elected to lower the amount of your death benefit, thus lowering your cost of insurance and making it as efficient as possible with the internal rate of return on the cash value.

Premium offset gives you the ability to use the cash value growth year by year, with the dividends paying the base annual premium into the policy. The cash value and death benefit will not grow as quickly because you don't pay into the policy out of pocket. However, it will continue to grow.

This option can be turned on and off during the life of the policy. We like to use this option if a client is not 100%

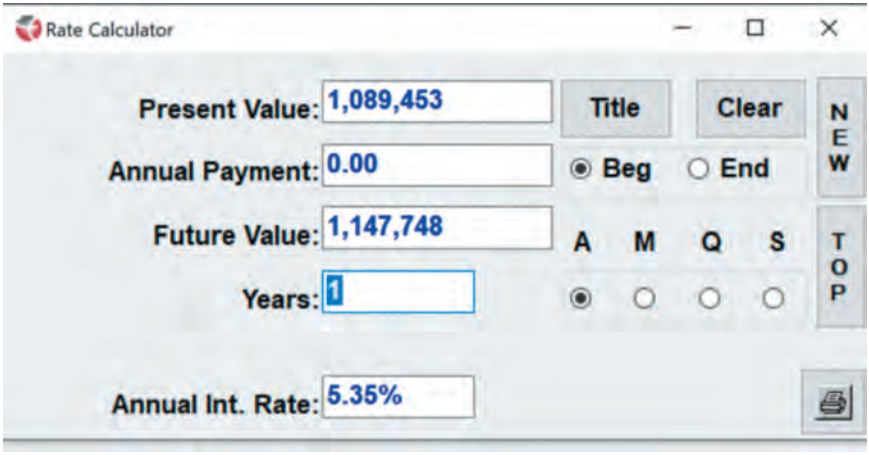
sure they want to stop altogether. For example, what if they still have some investments to liquidate and want a place to save that cash? Having the option to continue to pay into the whole life policy would be valuable.

Saving money in whole life this way keeps your money guaranteed, protected, and liquid.

The following chart shows a client paying $36,000 per year into a whole life policy for twenty years. At the end of this period, the client has $1,089,453 in cash value. At that point, they take the reduced paid-up option and stop making payments. They reduce the death benefit to the point at which the policy is paid up (calculated by the life insurance company upon request).

Year	Age	Total Premium	Dividend	Premium Outlay	Cum. Premium Outlay	Total Cash Value	Change in Total Cash Value	Change in CV Less Prem. Outlay	Total Death Benefit w/out Div	Total Death Benefit
1	30	36,000	357	36,000	36,000	25,682	25,682	-10,318	1,261,826	1,262,183
2	31	36,000	1,042	36,000	72,000	54,221	28,539	-7,461	1,367,184	1,368,226
3	32	36,000	1,786	36,000	108,000	86,373	32,152	-3,848	1,472,440	1,474,226
4	33	36,000	2,579	36,000	144,000	123,490	37,117	1,117	1,577,759	1,580,339
5	34	36,000	4,155	36,000	180,000	164,364	40,874	4,874	1,683,259	1,687,414
6	35	36,000	5,275	36,000	216,000	206,184	41,820	5,820	1,789,074	1,794,348
7	36	36,000	6,480	36,000	252,000	250,362	44,177	8,177	1,895,356	1,901,835
8	37	36,000	7,754	36,000	288,000	296,982	46,620	10,620	2,002,199	2,009,953
9	38	36,000	9,099	36,000	324,000	346,165	49,183	13,183	2,109,768	2,118,867
10	39	36,000	10,505	36,000	360,000	398,017	51,852	15,852	2,218,178	2,228,683
11	40	36,000	12,077	36,000	396,000	452,425	54,408	18,408	2,327,543	2,339,620
12	41	36,000	13,724	36,000	432,000	509,791	57,367	21,367	2,438,003	2,451,727
13	42	36,000	15,441	36,000	468,000	570,266	60,474	24,474	2,549,783	2,565,223
14	43	36,000	17,162	36,000	504,000	633,943	63,677	27,677	2,662,958	2,680,120
15	44	36,000	18,908	36,000	540,000	701,074	67,131	31,131	2,777,453	2,796,362
16	45	36,000	20,760	36,000	576,000	770,860	69,785	33,785	2,893,238	2,913,998
17	46	36,000	22,688	36,000	612,000	844,379	73,519	37,519	3,010,402	3,033,090
18	47	36,000	24,705	36,000	648,000	921,840	77,461	41,461	3,128,991	3,153,696
19	48	36,000	26,806	36,000	684,000	1,003,454	81,614	45,614	3,249,044	3,275,850
20	49	36,000	29,030	36,000	720,000	1,089,453	85,999	49,999	3,370,592	3,399,622
21 [1]	50	0	30,235	0	720,000	1,147,748	58,295	58,295	2,748,662	2,778,897
22	51	0	31,787	0	720,000	1,209,022	61,274	61,274	2,823,029	2,854,816
23	52	0	33,457	0	720,000	1,273,490	64,467	64,467	2,899,256	2,932,713
24	53	0	35,224	0	720,000	1,341,290	67,800	67,800	2,977,481	3,012,704
25	54	0	37,121	0	720,000	1,412,602	71,312	71,312	3,057,781	3,094,902

You'll notice that the client still earns a rate of return within the policy after their premium payments have stopped. The first year after making payments, the cash value jumped from $1,089,453 to $1,147,748—a 5.35% internal rate of return (and on a tax-free basis, let me remind you)!



It's one thing to earn a great tax-free rate of return while we are accumulating wealth. It's quite another to earn it when we are no longer trading time for money! How great to have this amount of money someplace during "retirement" that pays you over 5% a year tax-free. Unheard of. Furthermore, you have the death benefit to leverage against all of your other assets on a paydown, permission-slip basis.

SHOULD YOU "BUY TERM AND INVEST THE DIFFERENCE"?

Ramsey and Orman promote the "buy term and invest the difference" strategy over whole life. Their advice is to buy the lower premium term insurance and invest the difference in a mutual fund or some other investment vehicle.

Fee-based advisors also love this strategy because the premiums on term insurance are so much lower than those on permanent insurance, especially in the early years. They make money on assets under management and may not sell insurance. They may not be educated about insurance, just as many insurance agents don't have the same level of expertise with investments and may therefore only focus on insurance.

If you follow this advice from Ramsey, Orman, and other financial gurus, you will run into more problems. If you live anywhere close to life expectancy, your insurance will not pay out. In many cases, your investments will not be protected from creditors. Your liquid savings will be taxable, and those have grown at anemic rates for most of the last two decades. If you get sued, your mutual funds will likely be up for grabs. You will have to pay taxes on your gains from mutual funds. And even if you protect your money in a 401(k) or traditional IRA, those accounts are subject to future income tax. Plus, they are sitting ducks for the estate tax.

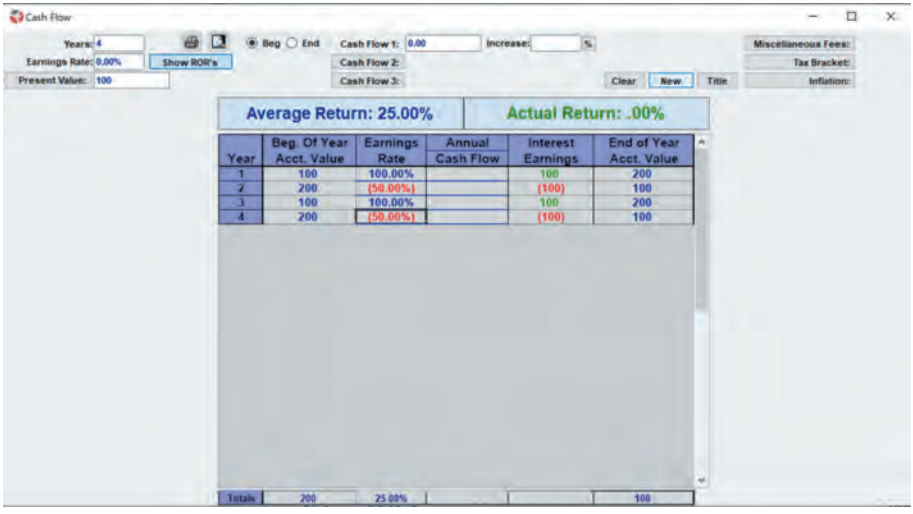
Here's the problem with this shortsighted, binary strategy: Let's say you buy a thirty-year term insurance policy with a $1 million death benefit. Your goal is to maintain this death benefit for thirty years, invest the difference, and then cancel the term insurance. The interest rate you would have to make on your investment to match what you would make using a properly structured, optimally funded whole life policy would be a whopping 9.8%. It is highly unlikely that you will find that percentage when investing, especially considering it would need to be safe, stable, and liquid, and the return would have to be net after fees.

Michael Does the Math

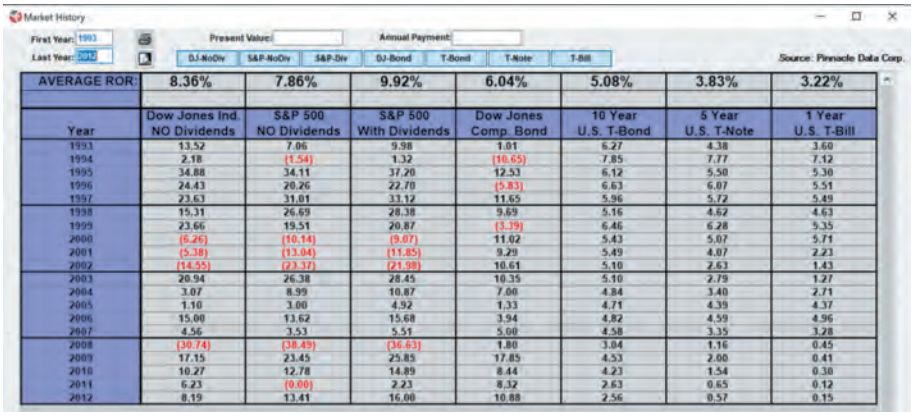
Let's dive deeper into that 9.8% interest rate I mentioned above. First, let's get on the same page with how an average rate of return is calculated. We know that to get that average, we add up the numbers and then divide them by the number of years.

This chart shows an extreme example to make the point. Let's suppose you invest $100, and it gains 100% in the first year. You have a $100 gain for $200 total. However, in the second year, your rate of return is –50%, taking you back down to $100 total. The next year you get a 100% rate of return, followed by another year with a –50% return.

If you add up our four years of returns, 100 – 50 + 100 – 50, then divide by four, you get an average annual return of 25%. But you have actually earned a net 0%. Which is most useful? Average or actual? Actual, obviously.



Between 1993 and 2012, the S&P 500, reinvesting dividends, averaged 9.92%. This is why the 9–10% average rate of return is so commonly cited by money managers.

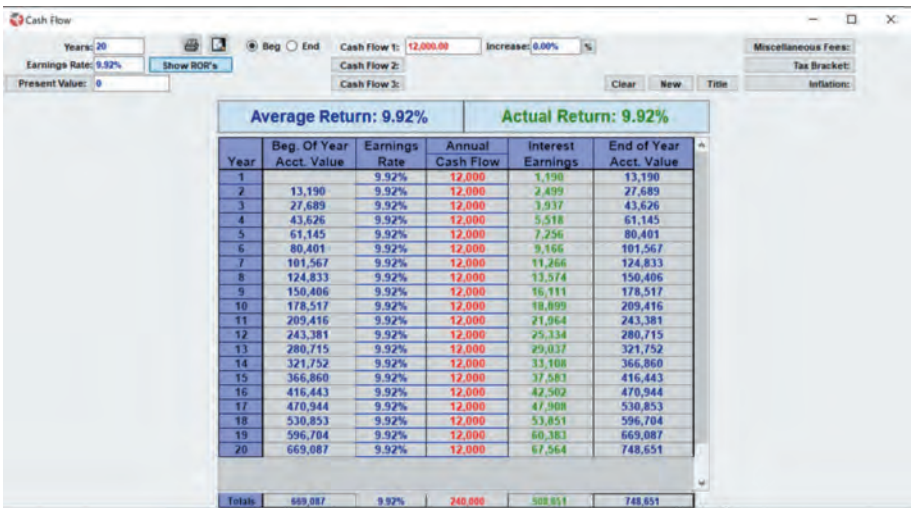


Market History

First Year: 1993 Last Year: 2012 | Present Value: | Annual Payment: | DJ-NoDiv | S&P-NoDiv | S&P-Div | DJ-Bond | T-Bond | T-Note | T-Bill | Source: Pinnacle Data Corp.

AVERAGE ROR:	8.36%	7.86%	9.92%	6.04%	5.08%	3.83%	3.22%
Year	Dow Jones Ind. NO Dividends	S&P 500 NO Dividends	S&P 500 With Dividends	Dow Jones Comp. Bond	10 Year U.S. T-Bond	5 Year U.S. T-Note	1 Year U.S. T-Bill
1993	13.52	7.06	9.98	1.01	6.27	4.38	3.60
1994	2.18	(1.54)	1.32	(10.65)	7.85	7.77	7.12
1995	34.88	34.11	37.20	12.53	6.12	5.50	5.30
1996	24.43	20.26	22.70	(5.83)	6.63	6.07	5.51
1997	23.63	31.01	33.12	11.65	5.96	5.72	5.49
1998	15.31	26.69	28.38	9.69	5.16	4.62	4.63
1999	23.66	19.51	20.87	(3.19)	6.46	6.28	5.35
2000	(6.26)	(10.14)	(9.07)	11.02	5.43	5.07	5.71
2001	(5.38)	(13.04)	(11.85)	9.29	5.49	4.07	2.23
2002	(14.55)	(23.37)	(21.98)	10.61	5.10	2.63	1.43
2003	20.94	26.38	28.45	10.35	5.10	2.79	1.27
2004	3.07	8.99	10.87	7.00	4.84	3.40	2.71
2005	1.10	3.00	4.92	1.33	4.71	4.39	4.37
2006	15.00	13.62	15.68	3.94	4.82	4.59	4.96
2007	4.56	3.53	5.51	5.00	4.58	3.35	3.28
2008	(30.74)	(38.49)	(36.63)	1.80	3.84	1.16	0.45
2009	17.15	23.45	25.85	17.85	4.53	2.00	0.41
2010	10.27	12.78	14.89	8.44	4.23	1.54	0.38
2011	6.23	(0.00)	2.23	8.32	2.63	0.65	0.12
2012	8.19	13.41	16.00	10.88	2.56	0.57	0.15

Let's take that 9.92% average and use it for this next, future value calculation and assume that you add $12,000 a year to an account for twenty years. Assuming you also get a steady 9.92% rate of return every year, your contributions should compound to a total of $748,651.



Cash Flow

Years: 20 | Beg ○ End | Cash Flow 1: 12,000.00 | Increase: 0.00% | Miscellaneous Fees:
Earnings Rate: 9.92% | Show ROR's | Cash Flow 2: | Tax Bracket:
Present Value: 0 | Cash Flow 3: | Clear | New | Title | Inflation:

Average Return: 9.92% | Actual Return: 9.92%

Year	Beg. Of Year Acct. Value	Earnings Rate	Annual Cash Flow	Interest Earnings	End of Year Acct. Value
1		9.92%	12,000	1,190	13,190
2	13,190	9.92%	12,000	2,499	27,689
3	27,689	9.92%	12,000	3,937	43,626
4	43,626	9.92%	12,000	5,518	61,145
5	61,145	9.92%	12,000	7,256	80,401
6	80,401	9.92%	12,000	9,166	101,567
7	101,567	9.92%	12,000	11,266	124,833
8	124,833	9.92%	12,000	13,574	150,406
9	150,406	9.92%	12,000	16,111	178,517
10	178,517	9.92%	12,000	18,899	209,416
11	209,416	9.92%	12,000	21,964	243,381
12	243,381	9.92%	12,000	25,334	280,715
13	280,715	9.92%	12,000	29,037	321,752
14	321,752	9.92%	12,000	33,108	366,860
15	366,860	9.92%	12,000	37,583	416,443
16	416,443	9.92%	12,000	42,502	470,944
17	470,944	9.92%	12,000	47,908	530,853
18	530,853	9.92%	12,000	53,851	596,704
19	596,704	9.92%	12,000	60,383	669,087
20	669,087	9.92%	12,000	67,564	748,651
Totals	669,087	9.92%	240,000	508,651	748,651

However, we know that investments don't work this way. Investments fluctuate over time—an *average* rate of return is not the same as an *actual* rate of return. Unfortunately, far too many advisors project steady, year-after-year rates of return.

We also have to account for fees charged to you on managed money. In his book *Money: Master the Game*, Tony Robbins shows total management fees as high as 3.5–4% of the entire account balance, annually. For our illustration, we'll use a conservative 2% management fee. Calculating for fees, you now have a net 7.72% actual rate of return.


Cash Flow

Years: 20 | Beg | End | Cash Flow 1: 12,000.00 | Increase: 0.00% | Beg | End | Miscellaneous Fees: 2.00%

Earnings Rate: 9.92% | Show ROR's | Cash Flow 2: | Tax Credit For Losses | Tax Bracket: 0.00%

Present Value: 0 | Cash Flow 3: | Clear | New | Title | Inflation:

Average Return: 9.92% | **Actual Return: 7.72%**

Year	Beg. Of Year Acct. Value	Earnings Rate	Annual Cash Flow	Interest Earnings	Tax Payment	Misc. Fees	End of Year Acct. Value
1		9.92%	12,000	1,190		(264)	12,927
2	12,927	9.92%	12,000	2,473		(548)	26,851
3	26,851	9.92%	12,000	3,854		(854)	41,851
4	41,851	9.92%	12,000	5,342		(1,184)	58,009
5	58,009	9.92%	12,000	6,945		(1,539)	75,415
6	75,415	9.92%	12,000	8,672		(1,922)	94,165
7	94,165	9.92%	12,000	10,532		(2,334)	114,363
8	114,363	9.92%	12,000	12,535		(2,778)	136,120
9	136,120	9.92%	12,000	14,694		(3,256)	159,557
10	159,557	9.92%	12,000	17,018		(3,772)	184,804
11	184,804	9.92%	12,000	19,523		(4,327)	212,001
12	212,001	9.92%	12,000	22,221		(4,924)	241,297
13	241,297	9.92%	12,000	25,127		(5,568)	272,856
14	272,856	9.92%	12,000	28,258		(6,262)	306,851
15	306,851	9.92%	12,000	31,630		(7,010)	343,472
16	343,472	9.92%	12,000	35,263		(7,815)	382,920
17	382,920	9.92%	12,000	39,176		(8,682)	425,414
18	425,414	9.92%	12,000	43,391		(9,616)	471,189
19	471,189	9.92%	12,000	47,932		(10,622)	520,499
20	520,499	9.92%	12,000	52,824		(11,706)	573,616
Totals	520,499	9.92%	240,000	428,660		(94,983)	573,616

But now, instead of showing a steady annual 9.92% return, let's use the actual market history. In this case, you're left with an actual rate of return of 4.13%, and you're earning that meager return with a lot of risk and uncertainty.

Year	Beg. Of Year Acct. Value	Earnings Rate	Annual Cash Flow	Interest Earnings	Misc. Fees	End of Year Acct. Value
1		9.98%	12,000	1,197	(264)	12,933
2	12,933	1.32%	12,000	328	(505)	24,756
3	24,756	37.20%	12,000	13,672	(1,009)	49,420
4	49,420	22.70%	12,000	13,948	(1,507)	73,852
5	73,852	33.12%	12,000	28,434	(2,286)	112,000
6	112,000	28.38%	12,000	35,194	(3,184)	156,010
7	156,010	20.87%	12,000	35,069	(4,062)	199,017
8	199,017	(9.07%)	12,000	(19,139)	(3,838)	188,041
9	188,041	(11.85%)	12,000	(23,710)	(3,527)	172,804
10	172,804	(21.98%)	12,000	(40,622)	(2,884)	141,298
11	141,298	28.45%	12,000	43,610	(3,938)	192,970
12	192,970	10.87%	12,000	22,277	(4,545)	222,702
13	222,702	4.92%	12,000	11,540	(4,925)	241,318
14	241,318	15.68%	12,000	39,710	(5,861)	287,167
15	287,167	5.51%	12,000	16,484	(6,313)	309,338
16	309,338	(36.63%)	12,000	(117,711)	(4,073)	199,555
17	199,555	25.85%	12,000	54,685	(5,325)	260,915
18	260,915	14.89%	12,000	40,642	(6,271)	307,286
19	307,286	2.23%	12,000	7,105	(6,528)	319,867
20	319,867	16.00%	12,000	53,113	(7,700)	377,280
Totals	319,867	9.92%	240,000	215,322	(78,541)	377,280

This doesn't even account for human nature, which tells us that people don't stay invested for this long. Typically, they react emotionally to market conditions and get in and out of investments quickly.

Term policies are designed specifically to be dropped, with the assumption that once a person retires, they will have plenty of assets with which to care for themselves; their kids will be grown and financially independent; and they will no longer have any income, so they won't need income replacement coverage. This is what is commonly known as being "self-insured."

To be "self-insured" is a fallacy—a person is either insured or not. Moreover, a person doesn't cease to have human life value just because their employment income stops. Term insurance is focused solely on protecting income rather than human life value. The truth is, the more assets a person creates, the more likely it is that they will want the protection of insurance (just like the Rockefellers). At that point, insurance moves from income replacement to asset and legacy insurance. (For a more detailed explanation of this concept, see my book, *Killing Sacred Cows 2.0*.)

Michael Does the Math

The following charts show a client starting with a twenty-year term life policy at age thirty-one. For the twenty-year term, the premiums are $540 per year for a total of $10,800 over the full term. When the term expires and the client is fifty-one, the premiums skyrocket to $10,200 per year!

That amount increases each year. If the client continues paying term premiums, by age seventy-seven they will have paid more in premiums than the policy is worth. And again, if the client were to drop the policy, all the premium dollars would be wasted.

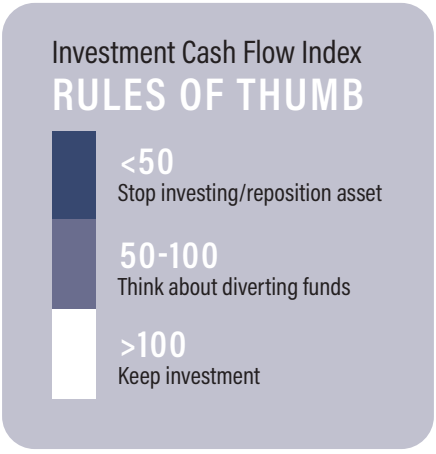
Year	Age	Annualized Contract Premium	Guaranteed Death Benefit
1	31	540	1,000,000
2	32	540	1,000,000
3	33	540	1,000,000
4	34	540	1,000,000
5	35	540	1,000,000
6	36	540	1,000,000
7	37	540	1,000,000
8	38	540	1,000,000
9	39	540	1,000,000
10	40	540	1,000,000
11	41	540	1,000,000
12	42	540	1,000,000
13	43	540	1,000,000
14	44	540	1,000,000
15	45	540	1,000,000
16	46	540	1,000,000
17	47	540	1,000,000
18	48	540	1,000,000
19	49	540	1,000,000
20	50	540	1,000,000
21	51	10,200	1,000,000
22	52	10,960	1,000,000
23	53	11,910	1,000,000
24	54	13,030	1,000,000
25	55	14,200	1,000,000
26	56	15,370	1,000,000
27	57	16,450	1,000,000
28	58	17,490	1,000,000
29	59	18,570	1,000,000
30	60	19,830	1,000,000

Year	Age	Annualized Contract Premium	Guaranteed Death Benefit
36	66	35,890	1,000,000
37	67	39,720	1,000,000
38	68	43,810	1,000,000
39	69	48,360	1,000,000
40	70	53,490	1,000,000
41	71	59,520	1,000,000
42	72	66,210	1,000,000
43	73	74,180	1,000,000
44	74	83,390	1,000,000
45	75	93,830	1,000,000
46	76	105,360	1,000,000
47	77	117,890	1,000,000
48	78	131,550	1,000,000
49	79	146,530	1,000,000
50	80	163,500	1,000,000
51	81	182,980	1,000,000
52	82	205,640	1,000,000
53	83	230,780	1,000,000
54	84	259,860	1,000,000
55	85	293,340	1,000,000
56	86	332,000	1,000,000
57	87	376,430	1,000,000
58	88	427,150	1,000,000
59	89	483,990	1,000,000
60	90	544,950	1,000,000
61	91	609,140	1,000,000
62	92	674,070	1,000,000
63	93	737,870	1,000,000
64	94	799,770	1,000,000

IMPROVE CASH FLOW WITH THE CASH FLOW INDEX

The cash flow index (CFI) is a system for identifying the most effective way to pay off your inefficient loans and free up cash flow.

You can find the CFI of any loan by taking the balance of your loan and dividing it by the minimum payment. If your index is a low number, then the loan is inefficient—a cash hog that requires a high payment relative to the balance. A higher number, on the other hand, indicates a more efficient loan.



As you can see on the chart, any loan with a CFI between zero and fifty is in the danger zone and you may look to restructure or eliminate it as quickly as possible. Any loan with a CFI greater than 100 is in the freedom zone and not a priority to pay off, from a cash flow standpoint.

To make this more concrete, let's consider a few different loans:

LOAN	BALANCE	INTEREST RATE	MONTHLY PAYMENT	CASH FLOW INDEX
Mortgage	$248,000	6.5%	$1,750	141 ($248,000 ÷ $1,750)
Auto	$18,000	5%	$450	40 ($18,000 ÷ $450)
Credit Card 1	$6,000	15%	$125	48 ($6,000 ÷ $125)
Credit Card 2	$14,000	12%	$300	46 ($14,000 ÷ $300)

Using the CFI, this is the order in which we would recommend these loans get paid off:

Most people would advocate paying off Credit Card 1 first, since it has the highest interest rate and the lowest balance. It does make sense to pay

Do you know how much money you would have to invest to find $15,000 a year in cash flow? If your investment earned 5%, you'd have to have $300,000 invested. But you can get the same return simply by optimizing cash flow and recapturing costs.

Let's look at an analysis over a thirty-year period. To make it easy, for this example, let's say you have no assets, no 401(k), and no money set aside. What you have is your greatest asset: your earning power and potential. Suppose your income is $100,000 per year. That means that over the next thirty years, a total of $3 million will flow through your hands. This is assuming that you have no increase in income and no earnings on that investment.

We know that you can increase your earnings over time, so let's add 5% a year. If we calculate the additional 5% over the next thirty years, your $3 million becomes $6.6 million a year you can put into your cash flow.

There's one more assumption at work so far: that you're basically keeping your money under the mattress and it's not working or earning for you at all. So now let's assume that you've learned some optimally funded whole life insurance principles and can make a better return on your money than you would by stashing it under the mattress.

Let's assume that you're earning 5% interest on your money. Now your total income over thirty years increases to a whopping $12.9 million. That $12.9 million is your earning potential. That is how much money will pass through your hands over thirty years, given the variables above.

THREE MAIN ERODERS OF INCOME

The question is, how much of that money are you holding onto, and how much just slips away?

Many factors can erode your income over thirty years. We'll focus on the three most powerful eroding factors: taxes, loan interest, and lifestyle.

Taxes

You know what's funny about taxes? *Nothing*. Taxes suck. They have a huge impact on how much money you hold onto. This includes not only income tax, but at least a dozen other taxes as well. Think about the cumulative effect of state or provincial income tax, property tax, sales tax, estate tax, self-employment tax, luxury tax, and on and on. You have to pay taxes to work, live, drive, eat, buy, sell—hell, even to die. (That is, if you don't use the Rockefeller Method and plan properly.)

A conservative estimate puts the amount of income that goes to taxes each year at .40 cents of every dollar. When we calculate 40% of your income going to taxes over a thirty-year period, that $12.9 million suddenly drops to $7.8 million. That's just after paying taxes, nothing else.

Loan Interest

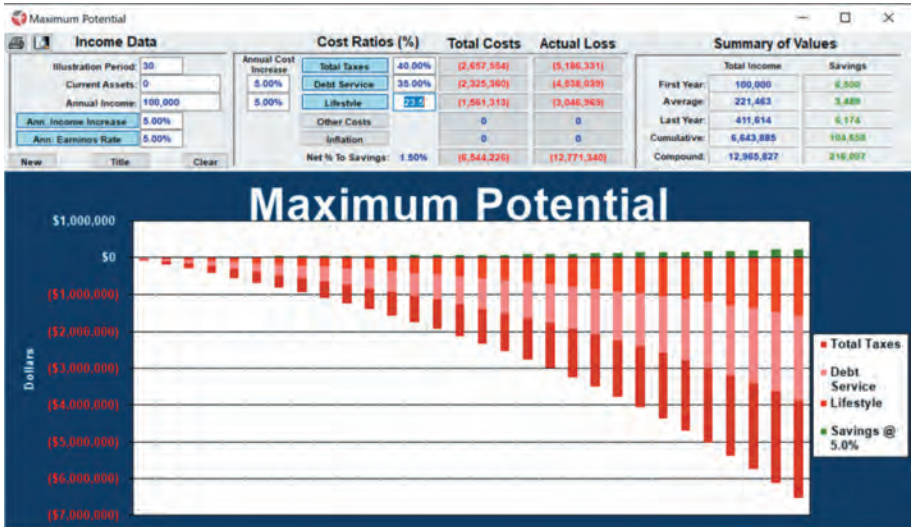
The second major factor is the loans we have and the interest we pay on them. This includes mortgages, car loans, credit cards, student loans, and business loans.

Any money that goes toward loan interest is money leaving your pocket. Americans put an estimated average of 35% of their income toward loans. When we factor that in over thirty years, the $7.8 million becomes $2.9 million.

We've already dropped your earning potential by $9.7 million just by paying taxes and loans. We haven't even factored in the cost of lifestyle, the money you spend living your life.

Lifestyle Expenses

Lifestyle cost for Americans averages 23.5% of income. When we factor that in over thirty years, the amount of money we have left over sinks to $216,097.



Pretty shocking, isn't it? How is someone used to a $100,000 annual income going to survive on a total of less than $200,000 in savings if they stop working? How can you keep more of the money you make without cutting back?

Most fee-based planners will tell you that the solution is to focus on increasing your rate of return. High risk equals high return, they say. However, this can be a very risky proposition considering that risk means a higher chance of losing. There is this idea of taking more risk and tolerating more volatility (lowering certainty along the way).

Let's follow their advice and see how the numbers play out. To make a point in this example, we'll use some magic product that increases your rate of return. (We all know that there is no magic product; this is for the purpose of illustration.) Instead of 5% interest on your earnings, let's increase it to 10%. This increases our total amount left over to $607,700 from $216,097. This is certainly still insufficient for twenty or thirty years of retirement and will not replace the income this person earned during their lifetime.

Increasing your rate of return from 5% to 10% generally indicates volatility. And what if, right before you were to retire, the market dropped 10%, 20%, or even 30%? Risk puts your life savings and legacy in jeopardy!

Simply increasing your rate of return is not the solution. However, it is what is taught by most typical financial planners with the "high risk equals high rate of return" and "low risk equals low rate of return" mindset. Sad, if you ask me.

KEEP MORE MONEY IN YOUR POCKET

What's the solution to keeping more money in your pocket? Minimizing those eroding factors.

First of all, we want to focus more on reducing your taxes and loan interest and less on reducing your lifestyle expenses. We want you to be able to keep your lifestyle and enhance it over time.

Let's isolate taxes and loans and go back to the 5% earnings rate, which brings your total after thirty years to $216,097. Using cash value insurance and some basic tax strategy, you can decrease your tax burden by 10%, meaning 10% of the 40% average, so 4% total. Now you are paying a total of 36% on taxes.

You can reduce those expenses by another half when you use the Cash Flow Index to identify inefficient loans and pay them off with your cash value. But to be conservative, we'll say you have to reduce your loan payments from 35% to 20%. Rather than paying interest, you can use your cash value. Between saving tax on your cash value, capturing dollars otherwise paid to term insurance, as well as renegotiating interest rates, restructuring loans, and paying off higher interest rate loans with lower interest rate earnings, the 15 percent reduction is conservative.

Using your cash value rather than a bank to finance things makes a big difference. Now you've gone from holding onto just $216,097 of

your $12.9 million to keeping just under $2.7 million. That's a pretty dramatic difference.

It's important to note that this was all done at no additional risk to you. You obviously never want to neglect your rate of return. But you should also focus on keeping more of what you make through efficiency and maximizing your earning potential. Efficiency gives you the greatest impact with the least risk.

Chasing a higher rate of return by exposing your money and legacy is not the answer. The answer is to focus on leverage, efficiency, utilization of your money, and decreasing eroding factors. Utilizing whole life insurance, you can minimize your taxes, lower your interest costs, and invest in yourself.

The key is to take the money you free up using these techniques to fund your optimally funded whole life, invest in a skill set, and improve your lifestyle.

The list of benefits includes having more cash and more access to that cash, keeping your money earning while you borrow, protecting your

APPENDIX

How "Buy Term and Invest the Difference" Stacks Up Against Optimally Funded Whole Life

Imagine that you buy term life insurance now and invest the difference in a qualified retirement plan, mutual fund, or anything else. When you retire at some future date, you end up with a certain amount of money to live off.

Let's assume that at age sixty-five, you have $4 million in your retirement account. Thinking that you're now "self-insured," you cancel your term insurance. You can transfer your $4 million net worth to your spouse or other beneficiaries.

Meanwhile, let's say your $4 million is earning 5% interest. Because you want to preserve your wealth for and transfer it to your heirs, or simply because you don't know how long you'll live, you only live off the interest. At 5%, that interest comes to $200,000 per year. However, after taxes of $36,042, you're actually left with $163,958 per year for your retirement income.

This is a generous assumption, because where can you find a secure

investment that pays a steady 5% annually? For the sake of illustration, we'll keep it generous.

Consider the following illustrations, generated by the Truth Concepts calculator created by Todd Langford, which show how this strategy stacks up against whole life.

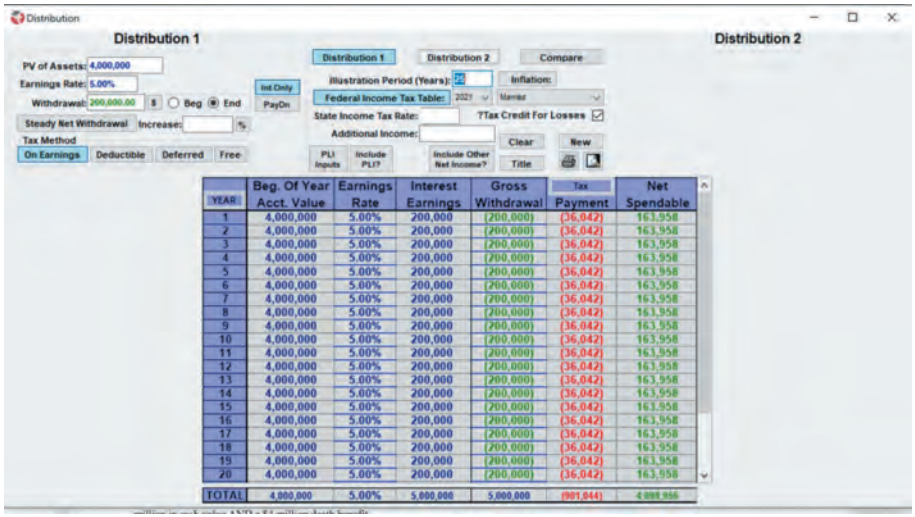


Illustration 1

When you don't have any life insurance in your retirement, your assets become your life insurance. Living on interest only leaves people susceptible to a scarcity mindset. Since the number one fear of retirees is running out of money, you're taught to never touch your $4 million principal. Ultimately, that $4 million goes to your beneficiaries, and you never used any of it.

Moreover, there's another problem with this scenario: Interest rates have been extraordinarily low and volatile investments are even worse. Where do you put your money to safely get that return? Where would Dave Ramsey and Suze Orman say to get it? I certainly don't know of an easy place to do that outside of whole life insurance policy dividends and annuities, which are also life insurance products.

Let's be slightly more realistic and say you buy term and invest the difference, and that leaves you earning 3% interest on your principal. After tax, that puts your yearly income at $102,103. So you're worth $4 million, but only spending $102,103 per year for fear of spending down your principal and running out of money. Does that seem right to you? (See Illustration 2.)

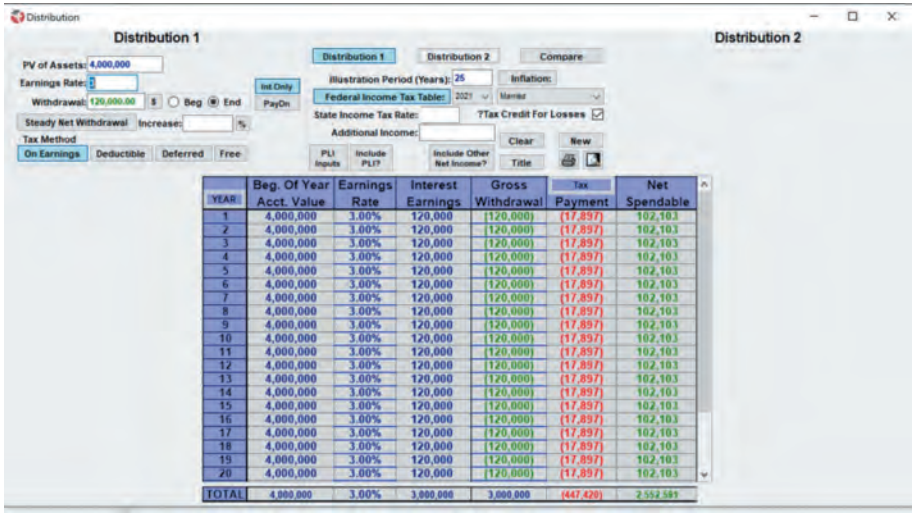


Illustration 2

The truth is, that was the plan for the financial institutions anyway. Remember the four rules of financial institutions? They want your money, as often as possible, hold onto it as long as possible and give you back the least possible. How's that "long-haul" investment plan you were sold decades ago looking now?

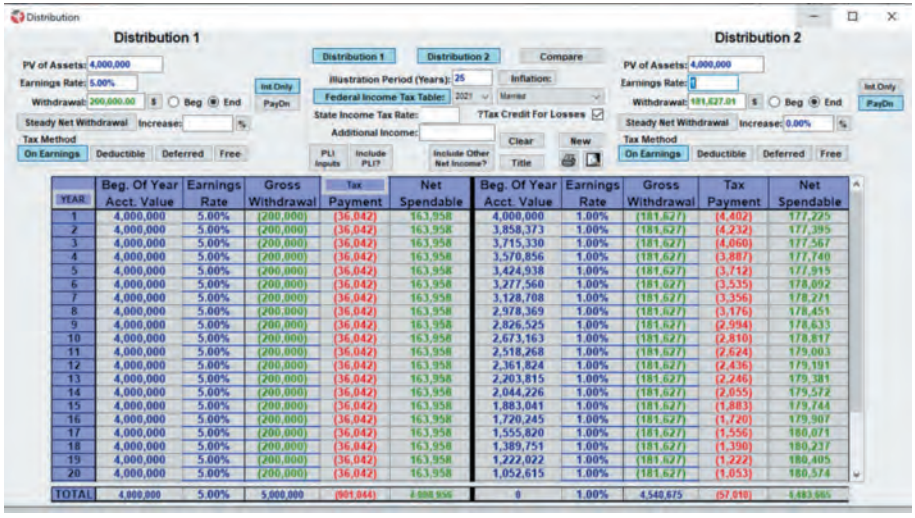
Now let's consider a different scenario using whole life insurance and investing the difference utilizing the cash value. We'll assume that by the age of sixty-five, you end up with the same amount—$4 million—in your cash value for retirement. Except now, you have both the $4 million in cash value *and* a $4 million death benefit.

What does this mean for you? It means you now have a permission slip

to spend your $4 million—because you have a guaranteed $4 million also going to your beneficiaries in the form of a death benefit, no matter what. You are no longer held captive to living off your interest alone. When you die, your death benefit will replace whatever money you've spent while you were alive for your heirs. So now, instead of just spending interest, you get to spend both the interest and the principal in your retirement years. And what if you live past the twenty years we used in these examples? You have a large death benefit that you can use to create more income as we discussed throughout this book.

Let's look at this more closely and do the math. Assuming a 3% interest rate and paying down your principal to zero over twenty-five years, you'll be able to spend $211,815 in the first year. That's over 50% above the $102,103 in the last scenario! (See Example 3.)

Let's take it even further. Let's put Example 1 back at 5% and leave Example 2 at 3% interest. In Example 1, you get $163,958 per year. With whole life, Example 2 still gives you a whole lot more! Even if we take Example 1 down to 2% interest, you still get $195,680 in your first year. And how about 1% interest? That's $177,225. (See Example 4.)



With whole life insurance, you can earn as little as 1% interest on your cash value, but still be in a much better place than you would be if you'd bought term and invested the difference. (Of course, that's only assuming you found a safe investment that earns a steady 5% annually.)

You may currently be in a position where your cash flow isn't strong enough to allocate any extra money to permanent life insurance. If that's the case, there are term policies that can be converted into whole life policies in the future. So if you have to buy term insurance, make sure it's convertible and with a company you would want your properly structured, optimally funded whole life policy with when you convert it.