The Team

How it Works

Finance Purchases

Most people believe the best way to buy a car is with cash instead of borrowing the money. This way they don't have to pay interest and can save money. But is that really the best way to buy a car?

Interest is — you either spend it or give it up.

The problem with spending your cash on the car is that while you save interest, you also lose all the interest that money could have earned for you.

Assume you've saved $30,000 to buy a car.

You now have two choices, you could buy the car with cash and not pay interest
-or-
you could use your money as collateral, borrowing the $30,000 and pay interest on the loan.

Assume the money you've saved is earning 4% each year and the interests rate at which you could borrow is 6%. Would you rather use your cash to buy the car and give up 4% or would you rather borrow at 6% while earning 4%?

The most common response to this question is that people would use their cash because borrowing at 6% while you are earning 4% is a 2% loss.

It may come as a surprise, but the $30,000 growing at 4% for four years becomes $35,095 and your payments on $30,000 at 6% over four years total $33,818. Borrowing the money means you're better off by $1,277.

Had you paid cash, it would have cost you $5,095 of potential growth of your money. Paying 6% will cost you $3,818 of interest but you will not be giving up the growth of your money.

$30,000 earning 4% interest over four years = $35,095

$30,000 borrowed at 6% interest over four years = $33,818

A difference of $1,277

Earning 4% while paying 6% is the better choice because of the difference created by compounding interest versus a depreciating balance. With compound interest you earn 4% on the original $30,000 plus any previous earnings. At the beginning of year four you are earning 4% on $33,745. With a depreciating balance you are paying 6% on a balance that goes down with each payment. At the beginning of year four you are paying 6% on just $7,522. The volume is much more important than rate.

Looking at the long term, the original $30,000 earning 4% over 30 years will grow to $97,300. So, in an effort to save $3,800 of interest, people that spend cash on a car lose $67,300 for their retirement.

The INC Wealth Strategy is the third option in the $30,000-car scenario. Instead of storing money where you have been, you could have been storing money in a dividend-paying whole life insurance policy. You can borrow against the cash value of your policy to buy the car. This allows you to not give up the growth of your money even though you're using it elsewhere. Then pay back the loan at the same terms you would have paid a bank so that you earn some of the interest they would have earned from you.

Imagine not giving up the $67,300 your money could've earned and of the $3,800 of interest you would have paid to a bank, paying $1,000 to yourself; that's the benefit of buying cars through the INC Wealth Strategy.

Tax-Free Retirement Income

Most people think life insurance is something that cost money. Did you know whole life insurance can generate millions of dollars of tax-free retirement income? We're not talking about for the beneficiary, we're talking about for you.

The exit plan of the INC Wealth Strategy is retirement income. Your policies can provide tax-free retirement income for the rest of your life, no matter how long you live. It is written into the IRS Tax Code.

The following paragraph is from a report from the United States General Accounting Office to the Chairman, Committee on Finance, US Senate, and the Chairman, Committee on Ways and Means, House of Representatives on the Tax Treatment of Life Insurance and Annuities. Sorry for the long title, I didn't name it but it does sound official.

"If a policyholder borrows the inside buildup from his or her life insurance policy, the amount borrowed is considered a transfer of capital, not a realization of income, and, therefore, is not subject to taxation. This reasoning is in accord with tax policy on other types of loans, such as consumer loans or home mortgages. These loans are merely transfers of capital or savings from one person to another through a financial intermediary. The ability to borrow against a life insurance policy means that the interest income that is supposed to be building up to fund death benefits can instead be a source of untaxed current income. If the loans are not repaid, the inside buildup will never be taxed; death benefits will simply be reduced by the amount of the loan. Thus, policyholders have the use of tax-free income for purposes other than insurance at the expense of reduced death benefits for their beneficiaries."

Basically, the growth inside your policy can be accessed as retirement income on a tax-free basis according United States tax law as long as it meets the constraints of being considered a life insurance policy.

With the INC Wealth Strategy, we want to buy as little insurance as possible while building as much cash value as possible and still be considered life insurance. This way the paragraph from the United States General Accounting Office still applies.

We have many examples of how our clients' policies will generate tax-free retirement income for them. Since everyone's outcome is different based on their age, rating and the amount of money they can put into their policies, contact us to see how we can help you plan for tax-free retirement income too.

Why is tax-free retirement income important?

It's important to compare the INC Wealth Strategy to retirement income from other vehicles, such as a 401(k) and IRA.

Retirement income from a 401(k) and IRA work in basically the same fashion as each other because the dollars you put in during your career are pretax dollars. This means you have to pay the taxes at your tax rate when you take the money out of these accounts — your future tax rate. The premise is that you will be in a lower tax bracket when you retire than you are now. For some people this may be true, but not if you plan on being successful during your career.

In addition, most people do not have the same tax deductions at retirement age that they had when they were younger. Some retirees have paid their mortgage off by retirement so they do not have a mortgage expense deduction. Their children are likely grown so they do not have the child tax credit anymore. Considering your current and future success, the lack of future tax deductions and the national debt, where do you see your tax rate in the future?

Assume you are in a 25% tax bracket today and put $10,000 into an IRA. If you are successful you could be in a 40% tax bracket in the future, meaning you would pay an additional 15% in taxes than you could have paid. Imagine if the $10,000 in your IRA actually grows (which is up in the air, as we know from 2007 and 2008) to $100,000 then you will pay $40,000 in taxes! Not only will you be paying at your current rate you will be paying on your current volume. Once again, volume is more important than rate. You could have paid the $2,500 today and put the $7,500 remainder to work for you and have better results.

If you are in a 40% tax bracket at retirement and need $100,000 for retirement income then you would need to pull $167,000 out of your account to net $100,000 after taxes. Imagine every year pulling out $167,000 from your retirement accounts. Will you run out of money eventually? Will you have to reduce your lifestyle? How much money will you need for retirement considering your tax situation? Do you trust your investments to perform like that?

Because your retirement income from your policies is tax-free, if you need $100,000 you borrow $100,000. Not only are you not reducing the amount of money continuing to earn for you by $167,000, you're not reducing the amount of money earning at all. Whereas with a 401(k) or an IRA you would be reducing the amount of money earning by $167,000. If you pull that money out at age 65 and live to be 90 years old, you would be giving up 25 years of growth on that money.

There are also creative ways to generate additional retirement income outside your policies.

As you know, I have two daughters. In 20 years or so they will be likely be considering buying their first house. They could go to a traditional bank like almost all their peers to get a mortgage and pay a tremendous amount of interest over the life of that loan. Instead, I will loan them the money for their house at the same terms a bank would have loaned it to them.

Their mortgage payment will supplement my retirement income and at the end of my life they will receive a death benefit, which will essentially reimburse them every dollar they ever paid for their house.

Not only will this create additional retirement income outside my policy, it will also keep the money in the family.

Yes, I will expect my daughters to pay their mortgage. Part of the INC Wealth Strategy helps teach future generations how money works and that you must pay your loans back. After all — Interest is.

Generational Wealth

What do you want to leave to the next generation? The best thing to leave the next generation is not just money but also the knowledge of how money works.

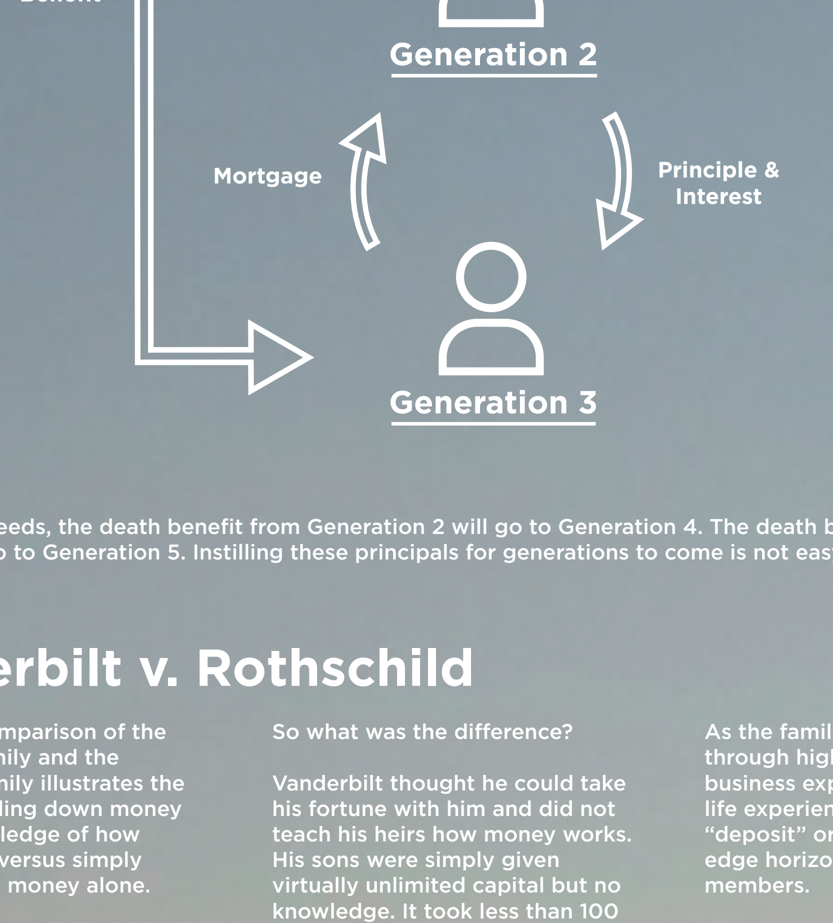
Because the INC Wealth Strategy uses life insurance as a place to store money, an additional benefit that other financial vehicles don't offer is a death benefit. While we are simply using the life insurance policy as a place to store money, a financial tool and a source of tax-free retirement income there is still the death benefit.

When we project our clients' tax-free retirement income into their 90s, their is always still a death benefit left over. In many cases this is well over $1,000,000 and sometimes many millions of dollars.

In the example of creating additional retirement income through my daughters' mortgages and the fact that they have been around this concept from an early age, they do and will know the importance of paying your own loan back to yourself, or to their parents. By instilling these principals from an early age, our kids hopefully won't need the death benefit from our policies.

Hopefully they will have their own policies and will be able to self-finance their own purchases and create their own retirement income. This will also put them in a position to finance their kids' houses creating their own additional retirement income. Because they will not need the death benefit from our policies, that death benefit can help their kids' start their own policies.

The following graphic shows how the NC Wealth Strategy is the ultimate multi-generational wealth building tool.



* As this proceeds, the death benefit from Generation 2 will go to Generation 4. The death benefit from Generation 3 will go to Generation 5. Instilling these principals for generations to come is not easy but has been done.

Vanderbilt v. Rothschild

The classic comparison of the Vanderbilt family and the Rothschild family illustrates the power of handing down money with the knowledge of how money works versus simply handing down money alone.

By 1877, at Cornelius Vanderbilt's death, he had amassed a $105 million fortune. Some have estimated he was worth four times the United States GDP at that time.

In 1973, 120 of Cornelius Vanderbilt's descendants gathered for a Vanderbilt family reunion. There was not one millionaire among them. Their family wealth had dissipated and been squandered.

By 1812, at Amschel Rothschild's death, he had also amassed a fortune but his wealth was not close to that of Vanderbilt's. Some estimates are that his net worth was about 10% of Cornelius Vanderbilt's net worth.

Today, the Rothschild family is valued between $100 and $600 trillion dollars, although no one actually knows for sure.

So what was the difference?

Vanderbilt thought he could take his fortune with him and did not teach his heirs how money works. His sons were simply given virtually unlimited capital but no knowledge. It took less than 100 years for the fortune to be gone.

Ironically, the Biltmore House is a celebrated landmark on the United States' landscape when in reality it is an example of what a family shouldn't do with their money — build a house they can't maintain just because the money is burning a hole in their pocket.

In fact, William K. Vanderbilt, grandson of Cornelius Vanderbilt said, "It [inherited wealth] has left me with nothing to hope for, with nothing definite to seek or strive for. Inherited wealth is a real handicap to happiness."

Rothschild, on the other hand, developed a family banking system with three rules.

Any family member can borrow money from the family bank but must pay it back with interest.

As the family gained knowledge through higher education, business experience and general life experience, they must "deposit" or share that knowledge horizontally with ALL family members.

The family members must meet at least one time per year to discuss the family banking system. If you don't attend, your out of the family bank.

These three simple rules are what led to the tremendous difference in the families' net worth.

If they don't sound familiar then you haven't started the INC Wealth strategy yet.

INC Financial: Wealth...Create it. Grow it. Keep it.

by: Josh Taylor

INC Financial: Wealth...Create it. Grow it. Keep it. details how and why you should be using whole life insurance as a private financing tool, a source of tax-free retirement income and a way to create generational wealth without putting your money at risk in the stock market.

This Book teaches you to finance your own car, home and business through the cash value in your life insurance policy.

BUY HERE

205.914.8568 Josh@incwealth.com 1926 3rd Avenue North Suite 101