Using Life Insurance to Fund Your Real Estate Deals

Did you know that you can use a life insurance policy as a funding mechanism for your real estate deals?

And that your policy can serve as a very low interest, or even no interest, source of funds?

And that the money inside your policy grows tax-free?

And is protected from creditors?

And is a phenomenal way to build wealth, not only for yourself, but for your children and grandchildren?

Here's how it works

Suppose you have a sum of money, say $50,000, that you use as seed money for your real estate deals. Traditionally, when you are in between deals, you might put that money in a money market fund, a CD, or just leave it in your checking account. In today's low interest environment, you're likely getting less than 1% interest on your money, and on top of that, you may get a 1099 form at the end of the year reporting the interest income, in which case you have to pay income taxes on your measly couple hundred bucks of interest. Your net after tax return on your money is practically zero!

As an alternative, you could put that $50,000 into a life insurance policy. Naturally, there are costs associated with the insurance—there is no such thing as a free lunch. But over the long run, the policy costs are amortized, and the money inside the policy will grow much faster than if it had been left in a money market fund or just sitting in the bank.

Meanwhile, you can borrow against the money to fund your real estate deals. Typically, you can borrow up to 90% of the cash value, as the remainder is used to keep the policy in effect. When you borrow money, you are charged an interest rate, but at the same time, your policy is credited with interest and dividends as though the money never left the policy. So your effective interest rate is usually under 3%, and over time, can approach 0% (the longer you own a policy, the lower the loan interest rate). Find another source where you can get a loan for under 3%, or interest-free! And the best part is, it's your money, so there are no loan approvals, credit checks, collateral requirements, or forms of any kind. The money is wired to your checking account right away!

But if I leave the money in my bank account in between deals, there are no costs. Why does this make sense?

There's no question that if you have a short term time horizon, no kids, no spouse, no intention of ever getting married or having kids, basically no one to think about other than yourself, then sticking the money in the bank will probably be a better strategy. But for anyone who has loved ones who they care deeply about, and especially if you have a long term investment plan extending 10, 20 or even 30+ years into the future, this is the perfect strategy for you.

Consider a few of the important benefits of the life insurance strategy vs leaving the money in the bank:

- Your family is protected with a death benefit, should something happen to you
- The death benefit is a multiple of what you put into the policy. For example, assuming a $50,000 initial account, with the life insurance strategy, if something happened to you, your family might

get $500,000 or even $1m, depending on your age and health. With the bank strategy, your family would get . . . $50,000

- Death benefit funds are always tax-free
- Over the long run, life insurance money will grow faster than leaving it in the bank
- You can invest your life insurance money in the stock market, if you want to go for potentially greater returns in exchange for greater risk
- Life insurance money grows tax-free (who doesn't like to save money on taxes?)
- There are no 1099 forms at the end of the year, or gains to report to the IRS
- Life insurance money is protected from creditors!
- Life insurance money doesn't have to be declared on financial aid forms when children apply for college
- In certain instances, you can gift a life insurance policy to a child or grandchild, tax-free

Do you currently own a term insurance policy?
Why? You're flushing that money down the drain! Why rent when you can own???

An incredibly flexible financial asset
There are almost as many ways to customize a life insurance policy as there are stars in the universe. Well maybe not quite, but you can get pretty creative.

For example, you can have a policy on yourself, your spouse, your parents, your children. You can have a policy on two people. You can own one policy or many policies. Business partners can have policies on each other, on their employees, or even pool company money and invest on a corporate basis. Why do you think major corporations and banks own billions of dollars of Company Owned Life Insurance (COLI) and Bank Owned Life Insurance (BOLI)? They're no dummies!

You can invest monthly premiums, annual premiums, a single lump sum premium, or any combination in between. Just made a big score on one of your real estate deals, and want to park additional money in your policy? Not a problem! You can even have policies where one person is the insured, and another person provides the funds.

Are you a high income earner?
If you make more than $112,000 in ordinary income as an individual, or $178,000 as a married couple, then life insurance is a no brainer. Why? Because your options for tax-free investing are limited. You can't open a Roth IRA, so you're left with muni bonds or taxable brokerage accounts.

But you could take that same money and put it inside your life insurance policy, where it will grow tax-free. You can use the money to fund your real estate deals, and in the meantime, you'll be saving anywhere from 15-35% in taxes on investment gains. And there are no contribution limits! How sweet a deal is that? Like we said, for high income earners, who are already taxed to the hilt, this is a no brainer!

Interested in learning more? Just call or email. We'd be happy to customize a plan that helps you achieve your financial goals!

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