



Creating Your Own Pension Using Whole Life Insurance

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In order to fully understand this post I am going to have to ask you to **put down** your \$19.95 Suze Orman book or **shut off** your podcast of Dave Ramsey – and give me a chance to describe and illustrate how to create your own Pension Using Whole Life Insurance before leaving me comments of hatred of the product.

This post is coming off the heels of the supposed desire to kill off the 401(k) or to proclaim it as dead. There is absolutely no reason to go over the discussion when much better bloggers than me already have:

- [Should we Get Rid of 401\(k\)s by FCN](http://www.fivecentnickel.com/2009/10/21/should-we-get-rid-of-401k-plans/)
(<http://www.fivecentnickel.com/2009/10/21/should-we-get-rid-of-401k-plans/>)
- [More Fear and Loathing in 401\(k\) Land by Frank at Bad Money Advice](http://badmoneyadvice.com/2009/10/more-fear-and-loathing-in-401k-land.html)
(<http://badmoneyadvice.com/2009/10/more-fear-and-loathing-in-401k-land.html>)

To sum up both bloggers – 401(k)s aren't bad. People just want someone to blame, and pensions are never coming back. I am going to show you a real life illustration using an illustration system of a AAA Rated Insurance Company that has been around longer than some of our States! So lets create a pension income!

Using Whole Life to Supplement Retirement Income

Lets choose our Variables:

- 40 Year old Male;
- Non-Smoker; Select Rating (one under the top level);
- For round number purposes, we will use \$1,000/month premium; and
- Person is Going to Pay premiums until Retirement (65) just like with a “real” pension and then start pulling an income stream from 65 to 80.

Any change to any of these variables will drastically alter the calculations, but I would be happy to change it up. So, I put these inputs into the black box that is the insurance software, but Evan – don't you care about expenses? No because I am only worried about my guaranteed income stream? Won't dividends change? Yes, but as with any pension schedule you won't know exactly what you are looking at until you are 2 or so years out from retirement. For instance my brother is one of the brave FDNY Fire Fighters – his pension is a function of his last couple years of work, but how much will he be making in 20 years? He has somewhat of an idea, but it is very uncertain. Evan, Can't the company go out of business? Yup but look at all those GM employees!

So what does \$1,000/month get you for this set up? **This set up will provide \$33,200/yr tax free from ages 65 to 80 while providing a death benefit which starts at \$1.1million at 65 down to \$629K at 80** – Received by your heirs also income tax free (not estate tax but that is a separate issue that most insurance agents don't understand).

(Evan, 2009; <http://www.myjourneytomillions.com/articles/create-your-own-pension-using-whole-life-insurance/>)

Marc & Ed

again prefer Indexed Universal Life, due to its flexibility, for this “personal pension” approach. There is a bit of risk that isn't mentioned in the article, but that is later responded to by it's author... that of the interest rate risk and the risk of the insurance company folding. We would argue that there are millions of investors whose retirement nest eggs are looking more like retirement marbles thanks to the stock market. It's not a perfect plan. That would be too expensive. We do, however, feel like this approach is a great addition to nearly everyone's retirement planning.

