

FROM THE AUTHOR OF *The Tax-Free Pivot*, *The Protected Pivot* & *The Wealth Pivot*

The Private Bank Pivot

*Be Your Own Banker with Fixed Index Universal Life –
Tax-Free Income, Funding for College, Business,
Real Estate, Retirement & Legacy*



BE YOUR OWN BANKER

Protect your family. Grow your cash value. Borrow it tax-free.

The life-insurance companion to your tax-free retirement plan

Suba Narla

Founder, Wealth Strategies USA

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DEDICATION

To my wife of more than forty years — my constant, in everything.

*To our two daughters, whose dedication carried them through
Harvard and Stanford Medical Schools, and whose work makes us
endlessly proud.*

*And above all, to our two grandchildren, who bring us more joy than
we knew a life could hold.*

*For every family that wants to protect the people it loves
and keep more of what it has worked so hard to build.*

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BEFORE YOU BEGIN**A Note Before You Begin**

Few financial products are sold with more enthusiasm, or criticized with more heat, than Fixed Index Universal Life insurance. At a seminar it is "the rich man's Roth." On a consumer-advocacy blog it is "the worst product in finance." After years of sitting across the table from families at every stage of life, I have come to believe both descriptions are wrong, and that the truth is more useful than either one.

A Fixed Index Universal Life policy (called IUL or FIUL; this book uses the two interchangeably) is permanent life insurance with a cash account that earns interest linked to a stock market index, protected by a floor that keeps market declines from reducing it. Designed well, funded well, and held long enough, it can protect a family, build a pool of tax-advantaged money, and later deliver income the IRS does not tax. Designed poorly, underfunded, or sold to the wrong person, it can quietly consume itself in fees and collapse in the policyholder's seventies, sometimes with a tax bill attached.

That is why I titled this book *The Private Bank Pivot*. A properly designed policy can become something few families ever have: a private bank of their own, one that protects the people they love, grows without market losses, and lends to them on their own terms. It is the fourth book in the Pivot series. *The Tax-Free Pivot* explains when to move money out of the tax-deferred bucket and into the tax-free one. *The Protected Pivot* explains how to protect and grow savings along the way. *The Wealth Pivot* shows how the whole plan changes as a household climbs from \$250,000 to \$100 million and beyond. This book covers the one tax-free bucket that also carries a death benefit and shows how to use it and how to avoid misusing it.

You will find passages from those three books quoted throughout this one, set apart like this:

True tax flexibility requires money in all three buckets.

— Suba Narla, *The Wealth Pivot*

They are there because the life insurance decision and the tax decision are really the same decision viewed from two sides. The policy decides how a dollar is protected, grows, and pays out; the tax plan decides which bucket that dollar lives in and when, if ever, the IRS gets its share.

Part I opens with a short tour of the whole life insurance family, from term to whole life to variable universal life, so you can see where IUL fits. It then explains the machinery in more depth than most IUL books attempt, with three chapters on how the policy actually earns and protects money: the arbitrage spreads inside every policy, the power of tax-deferred growth, and each of the tax-free benefits and the rules behind them. Part III opens with the idea that draws many people to cash-value life insurance in the first place: **Be Your Own Banker**, the practice of financing your own cars, tuition, business equipment, and investments from your policy and paying yourself back. That idea runs through every application chapter that follows. Part III also compares a properly designed IUL with two popular alternatives: the mega backdoor Roth and stand-alone long-term-care insurance. Part IV includes a full chapter on estate preservation, estate enhancement, and paying estate taxes at death, and another on less familiar uses, from pension maximization to special-needs planning. More than twenty composite case examples, set apart in the same format used in my other books, show how real families might apply each idea.

This book takes the criticisms of IUL seriously. Chapter 10 covers the pitfalls, Chapter 11 covers the ways these policies are wrongly sold and wrongly used, and every chapter on applications carries its own "watch out for" guidance. The goal is not to sell you a policy. It is to help you recognize when one genuinely solves a problem you have, how it should be designed if it does, and what questions to ask before you sign anything.

Author disclosure: I am an independent insurance broker affiliated with several insurance companies, including American Equity, Annexus, Athene, Nationwide, North American, Allianz, Securian and Symetra, and I may receive compensation when clients purchase life

insurance or annuity products. Companies are mentioned in this book only to explain concepts and history, not as recommendations. I did not seek permission from any company named in this book to mention it, and none sponsored, reviewed, or endorsed this book. All client names and case examples are composites created for illustration. They do not describe real individuals. Product features, caps, rates, and tax figures reflect publicly available information as of 2026 and change frequently; confirm current terms with the issuing carrier and a qualified professional before acting.

PART I

Foundations



CHAPTER 1

Introduction — What Is IUL, Really?

Retirement is not the end of the financial project — it is a transition from accumulation to decumulation, from saver to cash-flow manager.

— Suba Narla, *The Wealth Pivot*

At its simplest, a Fixed Index Universal Life policy is a contract between you and a life insurance company with two parts. The first part is a death benefit: a sum of money, often many times what you have paid in, that the insurer promises to pay your beneficiaries when you die, generally free of federal income tax. The second part is a cash account, called the cash value or accumulated value, that you fund with premiums, that the insurer credits with interest, and that you can use while you are alive.

What makes the policy "indexed" is how that cash value earns interest. Instead of paying a fixed declared rate, as traditional universal life does, or investing directly in stock and bond subaccounts, as variable universal life does, an IUL credits interest based on the movement of a market index such as the S&P 500. When the index rises, the policy is credited with a share of that rise, up to a limit. When the index falls, the policy is credited zero. The cash value is never directly invested in the market, so a market decline does not reduce it.

That combination explains both the appeal and the controversy. The appeal is obvious: market-linked growth with a 0% floor, a death benefit, and a path to income that does not appear on a tax return. The controversy is equally real: the policy carries insurance charges and fees that are deducted every month whether the index rises or not, the upside is capped, the mechanics are complex, and the product has a long history of being sold with optimistic illustrations to people it did not fit.

Why "Universal"?

Universal life, introduced at the end of the 1970s, broke the rigid structure of traditional whole life. Whole life requires a fixed premium on a fixed schedule and bundles the insurance cost, the savings, and the insurer's expenses into one number. Universal life "unbundles" them. You can see the cost of insurance, the administrative charges, and the interest credited as separate lines. And you can vary your premium: pay more in a good year, less in a lean one, or pause entirely, as long as the cash value is large enough to cover the monthly charges.

That flexibility is a double-edged sword. It lets a disciplined owner shape the policy around real life. It also lets an undisciplined owner (or an agent chasing a lower quoted premium) underfund the policy until the monthly charges eat through the cash value and the policy lapses. Much of this book is about staying on the right side of that edge.

The Tax Chassis

The reason wealthy families, business owners, and increasingly middle-income savers pay attention to IUL is not the index crediting. It is the tax treatment that federal law gives to any contract that qualifies as life insurance. Three features matter most:

- ◆ **Tax-deferred growth.** Interest credited to the cash value is not taxed each year.
- ◆ **Tax-free access, if done correctly.** You can withdraw up to what you have paid in (your basis) without tax, and you can borrow against the cash value with loans that are not treated as income, as long as the policy is not a Modified Endowment Contract (MEC) and stays in force until death.
- ◆ **An income-tax-free death benefit.** Under Internal Revenue Code Section 101(a), life insurance proceeds paid because of the insured's death are generally excluded from the beneficiary's income.

Put those together and a properly structured IUL behaves, in retirement, a little like a Roth IRA with a death benefit attached. There

are no IRS limits on how much you may contribute in dollars (the limits come from the policy's own insurance math instead), no income ceiling that stops high earners from participating, no required minimum distributions, and no age-59½ rule. It is also not a Roth IRA and treating it like one without understanding the differences is the root of most IUL disappointments.

To build an efficient retirement tax strategy, stop looking at net worth as a single number and start looking at it as three distinct buckets, each with its own tax treatment.

— Suba Narla, *The Wealth Pivot*

Be Your Own Banker

Many people first hear about cash-value life insurance through a simple, powerful idea: instead of borrowing from banks and paying them interest for a lifetime, build your own pool of capital, borrow from it, and pay yourself back. That idea, popularized as the Infinite Banking Concept and often summarized as "Be Your Own Banker," is traditionally built on whole life insurance, but a properly designed IUL can serve the same purpose. Chapter 14 explains how it works, where it shines, and where its promoters overpromise. Throughout this book, you will see the banking idea at work in college funding, business financing, real estate, and family lending.

Who This Book Is For

This book is written for three kinds of readers. The first is anyone who has been shown an IUL illustration and wants to understand what they are really looking at. The second is anyone who already owns a policy and wants to know whether it is healthy and how to use it well. The third is anyone building a tax-diversified plan (the three-bucket approach at the heart of *The Wealth Pivot* and *The Tax-Free Pivot*) who wants to know whether a life insurance bucket belongs in it.

CHAPTER 2

The History of Universal and Indexed Life

From Whole Life to Universal Life

For most of the twentieth century, permanent life insurance in America meant whole life. Premiums were level and fixed, cash values grew according to a guaranteed schedule plus dividends, and the policyholder had little visibility into how the insurer priced the contract. Whole life was stable and conservative, and in a world of modest interest rates it was a reasonable place to park savings.

The inflation of the late 1970s broke that model. Money market funds were paying double-digit yields while whole life cash values crept along at rates set years earlier. Policyholders began borrowing against their whole life policies at low contractual loan rates and moving the money elsewhere. The industry needed a product that could pass current interest rates through to the policyholder.

Universal life was the answer. Its introduction in 1979 is generally credited to Life Insurance Company of California, a subsidiary of the brokerage firm E.F. Hutton. The design unbundled the policy into transparent parts (cost of insurance, expenses, and interest credited at a current declared rate) and allowed flexible premiums. With interest rates at historic highs in the early 1980s, universal life illustrated beautifully, and it spread across the industry within a few years.

Congress Defines "Life Insurance"

The new flexibility created a problem for the Treasury. If a policy could hold any amount of cash relative to its death benefit, it could be used as a tax-sheltered investment account wearing a thin insurance costume. Congress responded in stages.

- ◆ **1982 — TEFRA.** Temporary guidelines under Section 101(f) set limits for flexible-premium contracts.
- ◆ **1984 — DEFRA.** The Deficit Reduction Act created Internal Revenue Code Section 7702, which still defines what counts as life

insurance for tax purposes. A policy must pass either the Cash Value Accumulation Test or the Guideline Premium and Cash Value Corridor tests, which limit how much cash value a policy may hold relative to its death benefit.

- ◆ **1988 — TAMRA.** After single-premium policies were marketed heavily as tax shelters, the Technical and Miscellaneous Revenue Act added Section 7702A, the "seven-pay test." A policy funded faster than seven level annual premiums would allow becomes a Modified Endowment Contract (MEC). A MEC still passes an income-tax-free death benefit, but loans and withdrawals are taxed gain-first and may carry a 10% penalty before age 59½.

Those three statutes, and especially the 1988 MEC rules, are the reason every well-designed IUL today is built around one central calculation: how much money can go in, how fast, without crossing the MEC line.

The Birth of Indexed Universal Life

Through the 1990s, policyholders had two universal life flavors: fixed UL, which credited a declared rate that fell as interest rates fell, and variable UL, which invested directly in market subaccounts and passed along both gains and losses. The long bull market made variable products popular; falling interest rates made fixed UL less so.

Indexed universal life, a middle path, arrived in 1997, generally credited to Transamerica. Borrowing the design that had appeared in fixed indexed annuities a few years earlier (Keyport Life is widely credited with the first indexed annuity in 1995, as described in *The Protected Pivot*), the insurer invested the policy's backing assets mainly in bonds and used a small portion of the yield to buy index options. If the index rose, the options paid off and the policy was credited with a capped share of the gain. If the index fell, the options expired worthless and the policy was credited zero, but the cash value itself did not decline because of the market.

The timing proved fortunate. The bear market of 2000–2002, followed by the financial crisis of 2008, made a 0% floor enormously attractive to people who had watched their 401(k)s fall by a third or more. IUL sales grew steadily through the 2000s and 2010s.

The Illustration Wars

An IUL is sold with an illustration: a multi-decade projection of premiums, charges, cash values, loans, and death benefits, built on an assumed crediting rate. Because the future index credits are unknown, the assumed rate drives everything, and a one-percentage-point difference compounded over forty years can double or halve the projected retirement income. Regulators have spent more than a decade trying to keep those assumptions honest.

- ◆ **1995 — NAIC Model Regulation 582.** The Life Insurance Illustrations Model Regulation set general standards for all life illustrations: a guaranteed column, a non-guaranteed column, and required disclosures.
- ◆ **2015 — Actuarial Guideline 49 (AG 49).** The first IUL-specific rule. It capped the maximum illustrated rate based on a 25-year look-back of a benchmark S&P 500 account using the policy's current cap and limited how much "loan arbitrage" (the spread between the illustrated crediting rate and the policy loan rate) could be shown.
- ◆ **2020 — AG 49-A.** Effective for policies illustrated on or after December 14, 2020, it stopped carriers from using bonuses and multipliers to illustrate higher returns than the benchmark and tightened the illustrated loan spread.
- ◆ **2021 — Section 7702 modernized.** The Consolidated Appropriations Act of 2021 replaced the old fixed interest assumptions (4% and 6%) in the 7702 tests with floating rates that started at 2%. In practical terms, a policy can now accept more premium per dollar of death benefit, which lets accumulation-focused designs carry proportionally less insurance.
- ◆ **2023 — AG 49-B.** Effective May 1, 2023, it closed the loophole that let uncapped volatility-controlled indexes with fixed bonuses illustrate more favorably than the benchmark.
- ◆ **2026 — Consumer-protection revisions.** The NAIC describes 2026 revisions to AG 49-A as enhancing consumer-protection disclosures. According to industry summaries, illustrations may show hypothetical historical index returns only for indexes with

at least ten years of actual history and must summarize them as a single average annualized return over the index's full history or 25 years, whichever is shorter. This is meant to curb the use of back-tested data for newer proprietary indexes.

None of these rules changed how a policy actually performs. They changed what a policy is allowed to *promise on paper*. That distinction is the single most important lesson of IUL's history: an illustration is not a forecast, and the product has always performed differently from the projections used to sell it.

A legitimate recommendation should hold up under a cooling-off period, a second opinion, and a careful, unhurried read of the actual contract — not just the illustration.

— Suba Narla, *The Protected Pivot*

Where IUL Stands Today

Despite, or perhaps because of, the regulatory attention, IUL has become one of the largest segments of American life insurance. According to LIMRA, IUL new premium reached a record \$4.5 billion in 2025, up 17% from 2024, and represented about a quarter of all U.S. individual life insurance new premium. The product that began as a niche middle path is now, for many carriers, the flagship permanent policy.

CHAPTER 3

The Life Insurance Family: Where IUL Fits

Annuities sit at an uncomfortable intersection of insurance and investing, and that hybrid nature is the source of both their value and most of the confusion and criticism that surrounds them.

— Suba Narla, *The Protected Pivot*

The same is true of life insurance. Before looking closely at IUL, it helps to see the whole family of policies it belongs to. Every life insurance policy answers two questions: how long will the coverage last, and will the policy build cash value you can use while you are alive? The answers sort the market into a handful of types.

Term Life

Term insurance covers you for a set period, typically 10, 20, or 30 years, and builds no cash value. It is the least expensive way to buy a large death benefit, which makes it the right first policy for most young families. Most term policies simply end when the term is over, and the great majority never pay a claim. Many can be **converted** to a permanent policy, often an IUL, without new medical underwriting, a valuable option if health changes. Variations include annual renewable term (cheap at first, rising every year) and return-of-premium term (more expensive, refunds premiums if you outlive it).

Whole Life

Whole life is the traditional permanent policy: a fixed premium, a guaranteed death benefit, and a guaranteed cash value that grows on a set schedule. Policies from mutual insurers are usually "participating," meaning they may pay annual dividends, which can buy **paid-up additions** that increase both the cash value and the death benefit. Whole life offers the most guarantees and the least flexibility, and it is the policy most often used in the classic "Be Your Own Banker" approach described in Chapter 14.

Universal Life (Current Assumption)

Universal life, introduced in 1979, unbundled the policy and made premiums flexible. Cash value earns a declared interest rate set by the insurer, subject to a guaranteed minimum. Its performance depends heavily on interest rates, and many policies sold in the high-rate 1980s later struggled as rates fell.

Guaranteed Universal Life (GUL)

Guaranteed universal life strips universal life down to a lifetime death benefit with a no-lapse guarantee, often to age 90, 100, or beyond, as long as the scheduled premium is paid on time. It builds little cash value, but it is often the least expensive way to buy permanent coverage for estate planning or legacy goals.

Indexed Universal Life (IUL)

The subject of this book: a flexible-premium universal life policy whose cash value earns interest linked to a market index, with a floor (usually 0%) and a cap or participation rate. It offers more upside than fixed universal life and more guarantees against loss than variable universal life, with a wide range of design choices from protection-focused to accumulation-focused.

Variable Universal Life (VUL)

Variable universal life invests cash value directly in stock and bond subaccounts, similar to mutual funds. It offers uncapped upside, and real downside: cash value can fall with the markets, and a poorly timed decline can threaten a policy with loans. Because it is a security, it is sold by prospectus and regulated by the SEC and FINRA as well as state insurance departments.

Specialty Policies

- ◆ **Survivorship (second-to-die)** policies insure two people and pay at the second death, usually for estate planning.
- ◆ **Final expense** or **guaranteed issue** policies provide small death benefits, often \$5,000 to \$50,000, with simplified or no medical underwriting.

- ◆ **Hybrid life and long-term-care** policies combine a death benefit with a long-term-care benefit pool, usually funded with a single premium or a few premiums.
- ◆ **Group life** through an employer is inexpensive and convenient, but coverage is usually limited and typically ends or becomes expensive when you leave the job.

Life Insurance Products Compared

Type	Coverage Period	Cash Value Growth	Market Risk	Premium	Best For
Term	10–30 years	None	None	Lowest	Income protection while children are young
Whole life	Lifetime	Guaranteed plus possible dividends	None	Highest, fixed	Guarantees; classic banking strategies
Universal life	Lifetime, if funded	Declared interest rate	None directly; rate risk	Flexible	Flexible permanent coverage
Guaranteed UL	Lifetime (to guaranteed age)	Minimal	None	Low for permanent	Estate liquidity at lowest cost
Indexed UL	Lifetime, if funded	Index-linked, capped, 0% floor	No index losses; charges apply	Flexible	Tax-free income; banking; flexible legacy
Variable UL	Lifetime, if funded	Market subaccounts	Full market risk	Flexible	Long horizon, high risk tolerance

Retirement wealth isn't one pool of money — it's three, each governed by a different set of tax rules, and the mix between them determines how much control you keep.

— Suba Narla, *The Wealth Pivot*

No type is best for everyone. Many families own more than one: term to protect young children, an IUL or whole life policy for tax-advantaged accumulation and banking, and a guaranteed policy for estate liquidity. The right question is always which job each policy is meant to do.

CHAPTER 4

How IUL Actually Works

Every IUL, whatever its brand name, runs on the same monthly cycle. Understanding that cycle is the key to reading any illustration or annual statement.

The Monthly Cycle

- ◆ **Premium comes in.** You pay whatever amount you choose, within the policy's minimum and maximum limits.
- ◆ **A premium load comes off.** Most policies deduct a percentage of each premium (often in the mid-single digits) to cover sales costs and premium taxes.
- ◆ **Monthly charges come off.** The insurer deducts the cost of insurance (COI), a per-policy administrative fee, and often a charge based on the face amount, which is typically heavier in the early years.
- ◆ **Interest is credited.** Money in the fixed account earns a declared rate. Money in index accounts earns index credits at the end of each segment term, usually one year.
- ◆ **What remains is the cash value.** Subtract any surrender charge still in effect and you have the cash surrender value: what you could actually walk away with.

The Cost of Insurance

The cost of insurance is the price of the death benefit that exceeds your cash value, called the net amount at risk. The insurer charges a rate per \$1,000 of net amount at risk that rises every year as you age. At 40, it is small. At 80, it is large. This is why a policy can look healthy for decades and then deteriorate quickly late in life if the cash value has not grown enough to shrink the amount at risk.

Most contracts also allow the insurer to raise COI rates, up to a guaranteed maximum, if its expectations about mortality, expenses, or investment returns change. Several large carriers raised COI rates on older universal life blocks in the 2010s and faced litigation as a

result. The guaranteed maximum column in your illustration shows what the insurer *could* charge, and it is worth reading.

How Index Credits Are Calculated

Each year, you allocate your cash value among the available strategies. The most common is an annual point-to-point S&P 500 strategy with a cap. Here is how it works:

- ◆ On the start date of the segment, the index value is recorded.
- ◆ One year later, the index value is recorded again.
- ◆ If the index rises, you are credited the percentage gain up to the cap. If the cap is 10% and the index rises 7%, you get 7%. If it rises 25%, you get 10%.
- ◆ If the index fell, you are credited 0%. Your cash value is not reduced by the market decline, though monthly charges are still deducted.

Other levers include **participation rates** (you receive a set percentage of the index gain, sometimes above 100% on uncapped strategies), **spreads** (a fixed percentage is subtracted from the gain), and **floors** (usually 0%, occasionally 1%). Most IUL index credits exclude dividends, because they are based on the price index rather than total return.

Illustrative Index Crediting — 10% Cap, 0% Floor

S&P 500 Price Change	Policy Credit	Why
+24%	10%	Capped at 10%
+7%	7%	Full gain under the cap
-18%	0%	Floor protects cash value from the loss
+2%	2%	Full gain under the cap
-5%	0%	Floor protects cash value from the loss

The insurer can pay these credits because it holds the policy's backing assets mostly in investment-grade bonds and uses a portion of the bond yield, the "option budget," to buy index call options. When interest rates are high, the option budget is larger and caps tend to rise; when rates are low, caps shrink. Caps and participation rates are non-guaranteed and are reset by the insurer, usually annually, subject to a guaranteed minimum in the contract that is often only a few percent.

Death Benefit Options

- ◆ **Option A (Level).** The death benefit stays level. As the cash value grows, the net amount at risk shrinks, so insurance charges fall. This option is favored during the income phase.
- ◆ **Option B (Increasing).** The death benefit equals the face amount plus the cash value. The amount at risk stays constant, so charges are higher, but the family receives the cash value on top of the face amount. Accumulation designs often use Option B during the funding years, then switch to Option A.
- ◆ **Option C (Return of premium).** Offered by some carriers, it adds cumulative premiums paid to the face amount.

Target Premium, Minimum Premium, and the MEC Limit

Three premium numbers appear in almost every IUL proposal and confusing them is a common source of trouble.

- ◆ **Minimum premium** is the least you can pay in the early years to keep the policy in force. It is not a funding plan. A policy paid at the minimum is essentially expensive term insurance.
- ◆ **Target premium** is a figure the insurer uses mainly to calculate agent commissions and some charges. It is not a recommendation.
- ◆ **The MEC limit** (the seven-pay premium) is the most you can pay in the first seven years without the policy becoming a Modified Endowment Contract. Accumulation-focused designs aim to pay close to this limit, because the less each dollar that goes to insurance, the more goes to cash value.

THE PRIVATE BANK PIVOT PRINCIPLE

An IUL has two dials: how much death benefit you buy, and how much premium you pour in. For protection, you want the most death benefit for the least premium. For accumulation, you want the most premium for the least death benefit the tax law allows. Most IUL disappointments come from a policy designed with one dial and sold as the other.

Riders

Most modern IULs include or offer riders that change what the policy can do:

- ◆ **Accelerated death benefit riders** for terminal, chronic, or critical illness, which allow part of the death benefit to be paid early if the insured qualifies. Many carriers include these at no upfront cost, with a charge or discount applied only if used.
- ◆ **Overloan protection riders**, which can stop a heavily borrowed policy from lapsing late in life (the source of the "tax bomb" discussed in Chapter 10).
- ◆ **Waiver of premium or charges** if the insured becomes disabled.
- ◆ **Term riders** on the insured or family members, and **guaranteed insurability** options to buy more coverage later without new underwriting.
- ◆ **No-lapse guarantee riders**, which keep the death benefit in force for a period if a specified premium is paid, even if the cash value runs out.

CASE EXAMPLE 1 — CHAPTER 4

Sam, 50 — Reading His First Annual Statement

Sam bought an accumulation IUL at 47 and was alarmed when his third-year statement showed a cash surrender value below the premiums he had paid. His advisor walked him through the monthly cycle: premium loads, the cost of insurance, the per-policy fee, and a face-amount charge that runs for the first ten years had all been deducted, and a surrender charge still applied. One year had been credited with 0%.

The advisor ran an in-force illustration at a conservative rate. It showed the policy on track, with the front-loaded charges declining after year ten. Sam now reviews his statement each year against that illustration, rather than against the total premiums he has paid.

Starting point	Early cash surrender value below premiums paid
Strategy	Understand the monthly cycle; compare to an in-force illustration
Result	Confidence the policy is on track; an annual review habit

CHAPTER 5

Inside the Engine: Arbitrage, the Floor, and the Annual Reset

In the years that matter most near retirement, predictability is often worth more than maximum upside.

— Suba Narla, *The Protected Pivot*

The word "arbitrage" appears in almost every IUL presentation, usually without explanation. In finance, arbitrage means earning a return from the difference between two rates. An IUL contains several of these spreads. Some work for the insurer, some work for the policyholder, and one of them can work against you. Understanding all of them is the difference between reading an illustration and being sold by one.

Arbitrage #1: The Insurer's Spread — How Index Credits Are Paid For

When you pay a premium into an index account, the insurer does not buy the S&P 500. It places the money in its general account, which is invested mostly in investment-grade bonds and mortgages. Suppose the general account earns about 5%. The insurer keeps a portion of that yield to cover its expenses and profit, and spends the rest, often around 3% to 4% of the account value, to buy one-year call options on the index. That amount is the option budget.

If the index rises, the options pay off and fund your credit, up to the cap. If the index falls, the options expire worthless, you are credited zero, and your cash value is unaffected by the decline because the bonds underneath never left the general account. The cap is simply the highest upside the insurer can afford to buy with its option budget. That is why caps rise when interest rates rise and fall when rates fall, and why a carrier's investment strength matters as much as its marketing.

How an Option Budget Becomes a Cap (Illustrative)

Step	What Happens	Illustrative Figure
General account yield	Bonds and mortgages earn interest	≈ 5.0%
Insurer's spread	Kept for expenses, capital, and profit	≈ 1.0%–1.5%
Option budget	Spent on one-year S&P 500 call options	≈ 3.5%–4.0%
Resulting cap	Highest gain the options can deliver	Varies; often high single digits to low teens

Arbitrage #2: The Floor — Avoiding the Math of Losses

Losses are harder to recover from than they look. A 30% decline requires a 43% gain just to break even; a 50% decline requires 100%. The 0% floor removes negative years from the index account's compounding sequence entirely. Over a long period, capped growth with no negative years can be competitive with uncapped growth that includes deep losses, particularly for money being withdrawn, where losses do the most damage.

Draining one bucket at a time feels tidy. It is also how undisciplined savers back themselves into the highest tax bracket of their lives at 73.

— Suba Narla, *The Wealth Pivot*

Arbitrage #3: The Annual Reset — Locking In Gains

Most IUL strategies measure the index from each segment's start date to its end date, then start fresh. Gains credited in one year are locked into the cash value and cannot be lost in a later market decline. After a crash, the next segment starts from the lower index level, so the policy participates in the recovery from the bottom rather than waiting to climb back to the old high. This "reset" feature is one of the least appreciated advantages of indexed crediting.

A Crash and Recovery: Direct Index vs. IUL Strategy (Illustrative, 10% Cap)

Year	Index Change	\$100 in Index (No Fees)	IUL Credit	\$100 in IUL Strategy (Before Charges)
1	-35%	\$65.00	0%	\$100.00
2	+25%	\$81.25	10%	\$110.00
3	+18%	\$95.88	10%	\$121.00
4	+9%	\$104.51	9%	\$131.89

The table shows the floor and the reset at their best. In a long, uninterrupted bull market, the capped strategy will trail the index, and in every year the policy's charges reduce the numbers in the last column. The point is not that one always wins, but that they produce very different paths, and the IUL path has no deep holes.

Arbitrage #4: Loan Arbitrage — The Policyholder's Spread

The arbitrage most often shown on illustrations is between the policy's index credits and its loan interest rate. Under a participating (indexed) loan, the full cash value keeps earning index credits while the loan accrues interest separately. If the credit exceeds the loan rate, the difference works in your favor. If the credit falls short, you lose the difference.

Loan Arbitrage on a \$100,000 Participating Loan at a 5% Loan Rate

Index Credit That Year	Credit on Borrowed Value	Loan Interest	Net Arbitrage
10%	\$10,000	\$5,000	+\$5,000
7%	\$7,000	\$5,000	+\$2,000
4%	\$4,000	\$5,000	-\$1,000

Index Credit That Year	Credit on Borrowed Value	Loan Interest	Net Arbitrage
0%	\$0	\$5,000	-\$5,000

Over time, positive and negative years may net out to a modest gain, or a modest loss. Because the outcome is uncertain, regulators now limit how much positive loan arbitrage an illustration can show: AG 49 limited the illustrated spread when it was introduced in 2015, and AG 49-A tightened that limit further in 2020. A design that depends on large, reliable loan arbitrage to work is a design that should be questioned.

Arbitrage #5: Premium-Financing Arbitrage

When a bank lends the money to pay premiums, the family is betting that the policy's growth will outpace the loan's interest cost. When short-term rates are low and caps are generous, the spread can be attractive. When rates rise, as they did in 2022 and 2023, the spread can turn sharply negative. Chapter 21 explains when this strategy is appropriate.

THE THREE QUESTIONS TO ASK ABOUT ANY "ARBITRAGE"

- ◆ What are the two rates being compared, and which one is guaranteed?
- ◆ What happens in a year when the favorable rate is zero?
- ◆ Does the plan still work if the spread is zero, or negative, for five years?

CASE EXAMPLE 2 — CHAPTER 5

Carmen and Ray, Both 66 — Two Loan Types, Two Experiences

Carmen and her brother Ray each began taking \$30,000 a year of policy income at 66 from similar IULs. Carmen chose participating loans; Ray chose standard loans. In their first three years, the index credited 10%, 0%, and 0%.

Carmen enjoyed strong positive arbitrage in the first year, then two years of negative arbitrage as her loan interest compounded with no offsetting credit. Ray's results were steady and unremarkable. After the second zero year, Carmen's advisor switched her to standard loans until her loan-to-cash-value ratio returned to her target. Both policies remain healthy, but Carmen now knows why her path was bumpier.

Starting point	Similar policies; \$30,000/year of loans each
Strategy	Participating loans (Carmen) vs. standard loans (Ray)
Result	Arbitrage cuts both ways; loan type can be changed when conditions change

CHAPTER 6

Tax-Deferred Growth: Compounding Without the Annual Tax Drag

Money in those accounts is tax-deferred, not tax-free — you owe on it eventually, you just don't know the rate, because tomorrow's tax law hasn't been written.

— Suba Narla, *The Tax-Free Pivot*

Inside a life insurance policy that meets the definition of Section 7702, interest and index credits are not taxed as they are earned. That single feature, tax deferral, is one of the oldest advantages of permanent life insurance, and it compounds quietly for decades.

What Tax Drag Costs

In a taxable brokerage or savings account, interest is taxed every year, and dividends and realized gains are taxed as they occur. Each tax payment removes money that would otherwise have kept compounding. Over a long horizon, that "tax drag" can cost more than the tax itself, because the lost dollars would have kept earning returns of their own.

Consider an illustrative saver who sets aside \$25,000 a year for 20 years and then lets the money grow for another 10 years. The comparison below uses round, hypotheticalal rates and is not a projection of any product.

Illustrative Effect of Tax Deferral — \$25,000 a Year for 20 Years, Then 10 Years of Growth

Scenario	Assumed Net Growth	Value After 20 Years	Value After 30 Years
Taxable account, 6% return taxed yearly at a combined 30%	4.2% after tax	≈ \$792,000	≈ \$1,195,000

Scenario	Assumed Net Growth	Value After 20 Years	Value After 30 Years
Tax-deferred, 6% gross, less assumed 1% average policy costs	5.0%	≈ \$868,000	≈ \$1,414,000
Tax-deferred, 6% with no costs (for reference)	6.0%	≈ \$975,000	≈ \$1,746,000

Two lessons stand out. First, the gap between taxed and tax-deferred compounding widens with time; the longer the horizon, the more deferral is worth. Second, costs matter as much as taxes. IUL's insurance charges are front-loaded and vary by age, health, design, and funding level, so the "assumed 1%" above is a simplification. A poorly designed or underfunded policy can have costs that consume the entire benefit of deferral. A well-designed, heavily funded policy held for decades gives deferral the room it needs to win.

Deferred Growth, Tax-Free Exit

Tax deferral is common: 401(k)s, IRAs, and annuities all have it. What makes a life insurance policy unusual is the exit. Money leaving a 401(k), a Traditional IRA, or a non-qualified annuity is taxed as ordinary income. Money leaving a non-MEC life insurance policy through withdrawals to basis and policy loans, and at death through the death benefit, can leave without income tax. In effect, the policy combines the deferral of a Traditional account with the tax-free exit of a Roth.

Growth and Exit Across Common Vehicles

Vehicle	Growth	Exit During Life	Exit at Death
Taxable brokerage	Taxed yearly on income and realized gains	Capital gains on sales	Step-up in basis for heirs

Vehicle	Growth	Exit During Life	Exit at Death
Traditional 401(k) / IRA	Tax-deferred	Ordinary income; RMDs apply	Heirs pay ordinary income, generally within 10 years
Non-qualified annuity	Tax-deferred	Gains taxed as ordinary income first	Beneficiaries pay tax on gains
Roth IRA	Tax-free	Tax-free if qualified	Tax-free; heirs generally must empty within 10 years
Non-MEC IUL	Tax-deferred	Tax-free via basis withdrawals and loans	Death benefit generally income-tax-free

Protecting the Deferral

Tax deferral is not automatic. It depends on the policy continuing to meet Section 7702 and on avoiding MEC status if you plan to access money during life. Material changes to the policy, such as large reductions in the death benefit during the first seven years or a big increase in funding, can trigger new testing. Your carrier monitors these limits, but you and your advisor should understand them before making changes.

Every dollar converted during the fifties and sixties is a dollar that will never generate a mandatory RMD later and never force this stacked-tax-bill problem in the first place.

— Suba Narla, *The Tax-Free Pivot*

CHAPTER 7

The Tax-Free Benefits of Life Insurance

Retirement tax planning is not about illegal evasion; it is about strategic avoidance — understanding the tax code well enough to choose when, how, and from which bucket you draw income, so you keep the maximum amount possible.

— Suba Narla, *The Wealth Pivot*

"Tax-free" is the phrase that sells more IULs than any other. It is accurate when the policy is designed and managed correctly, and misleading when it is not. This chapter sets out each tax-free pathway, the rule behind it, and the conditions that must be met.

1. The Death Benefit: IRC Section 101(a)

Death benefits paid to a beneficiary because of the insured's death are generally excluded from the beneficiary's gross income. A \$1 million death benefit arrives as \$1 million, not as \$1 million minus income tax.

Two exceptions deserve attention. The **transfer-for-value rule** can make part of the death benefit taxable if a policy is sold or transferred for value, unless an exception applies (such as a transfer to the insured, a partner of the insured, or a corporation in which the insured is an officer or shareholder). And the **employer-owned life insurance rules** of Section 101(j), described in Chapter 19, require notice and consent for company-owned policies. Note also that "income-tax-free" is not "estate-tax-free": a policy you own is included in your taxable estate, which is the subject of Chapter 22.

2. Withdrawals Up to Basis: IRC Section 72(e)

For a policy that is not a MEC, withdrawals are treated as a return of premiums first. Until your withdrawals exceed your total premiums paid, they are not taxable. Withdrawals above basis are taxed as ordinary income.

3. Policy Loans

A loan is not income, because you are borrowing against the policy, not taking money out of it. For a non-MEC policy that stays in force until death, loans are never taxed; the outstanding balance is simply repaid from the death benefit. The two conditions matter: if the policy is a MEC, loans are taxed gain-first, and if the policy lapses or is surrendered with a loan outstanding, any gain becomes taxable in that year.

4. Accelerated Death Benefits: IRC Section 101(g)

Amounts received under an accelerated benefit rider can be excluded from income when the insured is terminally ill, generally meaning death is expected within 24 months. Benefits paid because the insured is chronically ill can also be excluded when they qualify, subject to IRS rules and, for per-diem-style payments, an annual daily limit. Critical-illness riders may be treated differently, so the tax treatment of each rider should be confirmed with the carrier and a tax professional.

5. Tax-Free Exchanges: IRC Section 1035

You can exchange one life insurance policy for another, or a life insurance policy for an annuity, without recognizing the gain, provided the exchange is done directly between insurers and the owner and insured are the same. This allows an outdated policy to be moved into a better one without triggering tax (though surrender charges and new costs must still be weighed).

6. Tax-Free Buildup and No RMDs

As described in the previous chapter, growth inside the policy is not taxed each year, and there are no required minimum distributions. You are never forced to take income, or taxes, on the government's schedule.

7. The Ripple Effects

Because tax-free policy distributions do not appear as income on your tax return, they do not:

- ◆ Increase the portion of your Social Security benefits subject to tax.
- ◆ Raise your MAGI for Medicare IRMAA surcharges.
- ◆ Push you into a higher bracket in a year you are doing Roth conversions.
- ◆ Appear as income on the tax return used for most college financial aid formulas.
- ◆ Reduce ACA premium tax credits for early retirees who buy health insurance on the marketplace, since loans and basis withdrawals are not part of MAGI.

The Tax-Free Pathways at a Glance

Pathway	Rule	Key Condition
Death benefit	IRC §101(a)	Watch transfer-for-value and §101(j) rules
Withdrawals to basis	IRC §72(e)	Policy must not be a MEC
Policy loans	Loans are not income	Non-MEC; policy must stay in force until death
Accelerated benefits	IRC §101(g)	Qualifying terminal or chronic illness; limits apply
Policy exchange	IRC §1035	Direct exchange; same owner and insured
Inside buildup	IRC §7702	Policy must meet the definition of life insurance

WHAT "TAX-FREE" DOES NOT MEAN

- ◆ It does not mean estate-tax-free, unless the policy is owned outside your estate, typically by an ILIT.
- ◆ It does not mean free: loans accrue interest and policies carry charges.
- ◆ It does not survive a lapse: a lapse with a large loan can create a large taxable gain.
- ◆ It does not apply to a MEC in the same way: MEC loans and withdrawals are taxable gain-first.

CASE EXAMPLE 3 — CHAPTER 7

Harold, 74 — When the Living Benefit Mattered Most

Harold bought an IUL at 61 mainly for legacy purposes, with a chronic-illness rider included at no upfront cost. At 74, after a stroke, he could no longer bathe or dress without help. His physician certified that he was chronically ill, and Harold began receiving monthly accelerated benefits to pay for in-home care.

Because the benefits qualified under Section 101(g) and stayed within the applicable limits, they were received income-tax-free. The payments reduced the eventual death benefit, but they let Harold stay at home and preserved his other savings for his wife.

Starting point	Legacy policy with a chronic-illness rider; no long-term-care insurance
Strategy	Accelerated benefits after a qualifying chronic illness
Result	Tax-free care funding; savings preserved for his spouse

CHAPTER 8**How IUL Has Changed Over the Years**

The IUL sold today is not the IUL sold in 1997, or even in 2015. Six changes stand out.

1. Caps Moved with Interest Rates

Because caps are funded by the insurer's bond yield, they follow interest rates. When IUL launched in a higher-rate world, and through the mid-2000s, caps in the low-to-mid teens on annual S&P 500 strategies were common. As interest rates fell after 2008 and stayed low through 2021, caps drifted down. When rates rose sharply in 2022 and 2023, option budgets grew and many carriers improved their crediting. The lesson for a policyholder is that the cap in your illustration is a snapshot, not a promise, and that a policy should be designed to work at caps lower than today's.

2. The Menu of Indexes Grew

Early IULs offered one or two strategies tied to the S&P 500. Today's policies may offer a dozen: the S&P 500 and Nasdaq-100, international indexes, uncapped strategies with participation rates, multi-year point-to-point strategies, and proprietary "volatility-controlled" indexes built by banks. Volatility-controlled indexes shift between stocks and cash to keep volatility near a target, which makes their options cheaper and allows higher participation rates. They also have short live track records, and much of their historical performance is back-tested.

Volatility-controlled indices can be difficult to evaluate because they may have limited track records and complex internal mechanics.

— Suba Narla, *The Protected Pivot*

3. Bonuses and Multipliers Came, and Regulators Responded

In the late 2010s, carriers competed by adding interest bonuses and "multipliers" that magnified index credits, often in exchange for an

extra annual charge. On an illustration, a multiplier could make a policy look dramatically better. In practice, the charge is deducted in every year, including zero-credit years, and the benefit depends entirely on the index performing. AG 49-A (2020) and AG 49-B (2023) largely stopped these features from illustrating more favorably than the plain benchmark, but the features themselves still exist in some products. They are not inherently bad, but they increase the range of outcomes in both directions.

4. Loan Options Became More Sophisticated

Early policies offered only a standard (fixed) loan, in which borrowed cash value was moved to a collateral account earning a fixed rate. Most modern IULs also offer a participating or "indexed" loan, where the full cash value stays in the index strategies while the loan accrues interest at a separate rate. That creates the possibility of positive arbitrage, and the risk of negative arbitrage. Chapter 13 covers loans in detail.

5. Living Benefits Became Standard

A generation ago, life insurance paid only at death. Today most IULs include accelerated benefit riders that let a policyholder access part of the death benefit for a terminal, chronic, or critical illness. For many middle-income families, these riders are now as important as the death benefit or the cash value, because they provide a measure of long-term-care protection without a separate long-term-care policy.

6. Tax Math Became More Favorable

The 2021 update to Section 7702 lowered the interest rates used in the definition-of-life-insurance tests. In plain English, a policy can now accept more premium relative to its death benefit before it fails the tests. For accumulation-focused buyers, this means less insurance cost dragging on the cash value, which is one reason IUL sales have accelerated since.

IUL Then and Now — A Snapshot

Feature	Early IUL (late 1990s–2000s)	Modern IUL (2020s)
Index menu	S&P 500, one or two strategies	Many indexes, including proprietary volatility-controlled indexes
Caps	Often low-to-mid teens	Varies with rates; often high single digits to low teens on S&P 500 annual strategies
Illustration limits	Model Regulation 582 only	AG 49, 49-A, 49-B, and 2026 disclosure revisions
Loans	Standard fixed loans	Fixed, indexed, and variable-rate loan options
Living benefits	Rare	Chronic, critical, and terminal illness riders common
7702 interest assumptions	Fixed 4% / 6%	Floating, starting at 2% in 2021

PART II

Benefits, Pitfalls, and Proper Design

CHAPTER 9**The Benefits of IUL**

The truth about annuities is not found in a blanket endorsement or blanket dismissal — it is found in matching the right (usually simple) annuity structure to the right problem, for the right person, at the right price.

— Suba Narla, *The Protected Pivot*

The same principle applies to life insurance. An IUL is not a miracle, and it is not a scam. It is a tool with a specific set of strengths. When those strengths match a real need, it can be one of the most effective instruments in a financial plan.

1. A Death Benefit That Protects the Plan

The death benefit is the only part of an IUL that no investment account can replicate. For a young family, it replaces income. For a business, it funds a buy-sell agreement or replaces a key person. For a wealthy family, it creates liquidity to pay estate taxes without a forced sale. And because it is generally income-tax-free under Section 101(a), every dollar goes to the people it was meant for.

2. A 0% Floor on Market Declines

Index credits can be zero, but they are never negative. In years like 2008 or 2022, when the S&P 500 fell sharply, IUL's index accounts were credited zero while the owner's cash value was protected from the market decline. That floor matters most in the years just before and during retirement, when a large loss is hardest to recover from. (Charges are still deducted in a zero year, so the cash value can decline modestly. The floor applies to the credit, not to the account after fees.)

3. Tax-Deferred Growth Without Contribution Limits Set by the IRS

Unlike a 401(k) or IRA, there are no IRS-set dollar contribution limits and no income limits. The only limits come from the policy's own Section 7702 and MEC calculations, which scale with the death benefit. For high earners who are phased out of Roth IRA

contributions, or who have already maximized every qualified plan, that makes IUL one of the few remaining tax-advantaged places to put additional after-tax savings.

4. Tax-Free Access During Life

Withdrawals up to your basis and properly managed policy loans are not taxable income. That has three ripple effects that retirees in particular should understand:

- ◆ Policy loans do not count towards the "provisional income" that determines how much of your Social Security is taxed.
- ◆ They do not raise the modified adjusted gross income used to set Medicare IRMAA surcharges.
- ◆ They do not push you into a higher tax bracket or disturb a carefully planned Roth conversion year.

Medicare premiums are not flat. They are a strict, cliff-edged tax on income you may have earned two years before the bill arrives.

— Suba Narla, *The Wealth Pivot*

5. No Required Minimum Distributions and No Age Gates

There is no age-59½ penalty on accessing a non-MEC policy and no required minimum distributions at 73 or 75. You decide when, and whether, to take money out.

6. Liquidity and Control

After the early years, cash value is accessible without a loan application, credit check, or explanation to a lender. That makes the policy useful as an opportunity fund for a business owner, a real estate investor, or a family facing tuition bills. It is the foundation of the "Be Your Own Banker" approach described in Chapter 14.

7. Living Benefits

Accelerated benefit riders can make part of the death benefit available if the insured becomes terminally, chronically, or critically ill. For

families who cannot afford, or cannot qualify for, traditional long-term-care insurance, this can be a meaningful safety net.

8. Privacy and Probate Avoidance

The death benefit passes by beneficiary designation, outside probate, and typically within weeks of a claim. In many states, life insurance cash values and death benefits also enjoy some protection from creditors, though the level of protection varies widely by state.

Where IUL Fits Among the Three Tax Buckets

Feature	Tax-Deferred (401(k)/IRA)	Roth IRA	Properly Designed IUL
Upfront deduction	Yes	No	No
Growth	Tax-deferred	Tax-free	Tax-deferred; accessible tax-free
IRS contribution limit	Yes	Yes, plus income limits	No IRS dollar limit; 7702/MEC limits apply
Market-loss risk	Depends on investments	Depends on investments	0% floor on index credits
RMDs for owner	Yes	No	No
Early-access penalty	Before 59½, generally	On earnings, generally	None if non-MEC
Death benefit	Account value only	Account value only	Death benefit, often a multiple of premiums
Ongoing costs	Fund expenses	Fund expenses	Insurance charges and fees, higher early

CASE EXAMPLE 4 — CHAPTER 9

Gail, 63 — Retiring into a Bear Market

Gail retired in 2008 with most of her savings in a 401(k) and a heavily funded IUL she had built over fifteen years. Her 401(k) fell by more than a third that year. Her IUL was credited 0%, and its cash value, after charges, was essentially unchanged.

Rather than selling stocks at the bottom to fund living expenses, Gail drew her first two years of income from policy withdrawals up to her basis. Her 401(k) was left alone to recover. The floor did not make her policy the best performer of the decade, but it gave her a place to draw from while everything else was down.

Starting point	Retirement coincided with a major market decline
Strategy	Draw from the IUL while the 401(k) recovers
Result	Avoided selling investments at the bottom; sequence risk reduced

CHAPTER 10**The Pitfalls of IUL**

The goal has never been to sell you an annuity. It is to help you recognize when one genuinely solves a problem you have, which kind solves it best, and what questions to ask before you sign anything.

— Suba Narla, *The Protected Pivot*

Every benefit in the previous chapter has a matching risk. A policy owner who understands these pitfalls can design around most of them. A policy owner who does not may never see them coming.

1. The Costs Are Real, and They Are Front-Loaded

Premium loads, per-policy fees, face-amount charges, and the cost of insurance can consume a large share of the premiums in the first several years. It is common for the cash surrender value in years one through five to be well below the total premiums paid. An IUL is a long-term contract, and anyone who might need the money back within ten years should generally not buy one.

2. Surrender Charges

Most IULs impose surrender charges for roughly the first ten to fifteen years (some longer). Surrendering or sharply reducing the policy in that window can forfeit a significant portion of the cash value.

3. Capped Upside and No Dividends

In a year when the S&P 500 rises 25%, a policy with a 10% cap earns 10%. Over long periods, capped, dividend-excluded crediting will usually trail a low-cost index fund held directly. The trade-off for the floor is real, and an honest illustration should not suggest otherwise.

4. Non-Guaranteed Elements Can Move Against You

The insurer can lower caps and participation rates (down to the contract minimums) and raise the cost of insurance (up to the guaranteed maximums). A policy designed on today's caps with no margin for error is fragile.

5. Zero Years Still Cost Money

In a year of 0% credits, the monthly charges are still deducted. Several zero years in a row, especially later in life when the cost of insurance is high, can erode the cash value faster than expected.

6. Underfunding

The most common way an IUL fails is simply that not enough money goes in. A policy illustrated to be funded at the target or minimum premium, and then sold as a retirement savings plan, may never build enough cash value to support itself as the insured ages.

7. Aggressive Illustrations

Even under AG 49, an illustration may show a crediting rate in the six-to-seven percent range for decades, with every year identical. Real index credits arrive unevenly: a run of capped years, then a zero, then a middling year. Sequence matters inside a policy just as it does in a retirement portfolio, especially once loans begin.

8. Loan Risk and the "Tax Bomb"

This is the most serious pitfall of all. If a policy with a large outstanding loan lapses or is surrendered, the IRS treats the loan balance as money you received. Any amount above your basis becomes taxable ordinary income, in a year when you may have no cash to pay the tax, because the cash went to repay the loan. Retirees who borrow heavily, ignore their annual statements, and let loan interest compound can find themselves in exactly that position in their eighties.

CASE EXAMPLE 5 — CHAPTER 10

Frank, 79 — The Policy That Ran Out of Room

Frank bought an IUL at 52, funded it well for twelve years, and began taking \$40,000 a year in indexed loans at 65. The illustration assumed a steady 6.5% credit every year. Actual credits were lumpier, including two zero years early in his income phase, and his loan interest compounded faster than projected.

By 79, his loan balance had grown to nearly all of his cash value. His carrier sent a notice that the policy would lapse unless he paid a substantial premium. Because his loans far exceeded what he had paid in, a lapse would have created a six-figure taxable gain. His advisor stopped further loans, exercised the policy's overloan protection rider, and converted the remaining value to a paid-up death benefit, avoiding the lapse and the tax bill.

Starting point	Heavy loans, no annual review, loan balance near cash value
Risk	Lapse would create a large taxable gain with no cash to pay it
Result	Overloan protection rider preserved the policy; loans stopped

9. The MEC Trap

Paying too much, too quickly, or reducing the death benefit in the early years, can turn the policy into a Modified Endowment Contract. Once a MEC, always a MEC. Loans and withdrawals are then taxed gain-first, with a possible 10% penalty before 59½. A good carrier will warn you, but a careless funding change can still trigger it.

10. Complexity and Opaque Commissions

IUL commissions are typically based on the target premium and can be very large in the first year, sometimes in the range of the full first-year target premium or more. That is not inherently wrong (the work of a good design and ongoing service is real), but it creates an incentive to sell larger face amounts and more premium than a family needs.

Complexity makes it harder for a buyer to tell a good design from a profitable one.

11. Carrier Risk

All guarantees depend on the financial strength and claims-paying ability of the insurer. State guaranty associations provide a backstop, but coverage limits vary and are modest compared to many policies. Carrier ratings, and a carrier's track record on in-force policyholders, deserve attention.

CHAPTER 11**How IULs Are Wrongly Used**

A good plan responds to the year you're having, not the year you originally projected on a spreadsheet three years ago.

— Suba Narla, *The Tax-Free Pivot*

Many of the loudest criticisms of IUL are really criticisms of how it is sold and used. Here are the patterns I see most often.

Sold as an Investment "With No Downside"

"You get the market's upside with none of the downside" is the most common IUL sales line, and it is misleading. You get a portion of the upside, minus charges, with protection from index losses but not from fees, cap reductions, or COI increases. A buyer who expects stock-market returns without risk will be disappointed.

Used Instead of the Employer Match

A family that skips a 401(k) match to fund an IUL is giving up an immediate, guaranteed 50% or 100% return on those dollars. The match comes first, almost always.

Bought Without an Emergency Fund

An IUL's cash value is not an emergency fund in the early years, because surrender charges and front-loaded costs make it expensive to tap. Families should have three to six months of expenses in cash before committing to a long-term policy.

Designed for Commission, Not for Accumulation

A policy sold as a retirement vehicle but built with a large death benefit and low premium will carry heavy insurance charges and build little cash value. The illustration may still show impressive numbers at an aggressive rate. Ask to see the same policy designed at the minimum non-MEC death benefit for your premium and compare.

Funded for Two Years, Then Abandoned

Many IULs lapse in the first few years because the owner could not keep up the premium. A policy should be sized to a premium you can comfortably sustain for at least the funding period, not to the most you can squeeze into this year's budget.

Sold to Seniors for Short-Term Goals

An 80-year-old buying an accumulation-focused IUL faces high insurance costs, long surrender periods, and little time to benefit from growth. At older ages, IUL can make sense for a specific death-benefit or estate goal, but rarely as a savings plan.

Replacing a Good Existing Policy

An older whole life or universal life policy with favorable guarantees is sometimes replaced with a new IUL mostly because the new illustration looks better. Replacement restarts surrender charges and the contestability period and may lose valuable guarantees. A Section 1035 exchange avoids tax on the swap, but not these costs. Replacements deserve a written side-by-side comparison.

Sold as "Infinite Banking" With Impossible Promises

The Be Your Own Banker concept is sound when it is designed and practiced with discipline. It is misused when it is sold as a way to "earn interest on your own money," to "get rich like the banks," or to borrow freely with no need to repay. A banking policy with a large death benefit and a small cash value cannot lend much for years. And a policy whose loans are never repaid is not a bank; it is a slow lapse. Chapter 14 explains how the concept works in practice.

Borrowing Without Watching

Treating policy loans as "free money" and never reading the annual statement is how retirement-income policies end in the tax bomb described in Chapter 10.

Premium Financing the Wrong Client

Premium financing, where a bank lends the money to pay premiums, is a legitimate tool for very wealthy families with liquid collateral. Sold to a household without substantial assets outside the policy, it can create a debt that grows faster than the policy and a collateral call they cannot meet. Chapter 21 explains how it is supposed to work.

RED FLAGS WHEN YOU ARE BEING SHOWN AN IUL

- ◆ The illustration shows only the maximum illustrated rate, with no lower-rate or guaranteed scenario.
- ◆ The agent describes it as "just like a Roth" or "better than a 401(k)" without discussing costs.
- ◆ You are told to stop your 401(k) match, cash out retirement accounts, or take a home-equity loan to fund premiums.
- ◆ The premium would strain your budget if your income fell.
- ◆ Nobody can explain, in plain English, the charges, the surrender schedule, and what happens if the index credits zero for three years.
- ◆ You feel rushed.

CASE EXAMPLE 6 — CHAPTER 11

Tony, 38 — Redesigning a Policy Sold the Wrong Way

Tony, a firefighter, was sold an IUL at a workplace seminar as a "tax-free retirement plan." He had stopped his 457(b) contributions to afford the \$700 monthly premium, had no emergency fund, and the policy carried a \$1.5 million death benefit designed around the target premium.

A second-opinion review found that most of his early premiums were going to insurance charges. Tony used the free-look period to cancel, restarted his 457(b), built a cash reserve, bought a low-cost term policy for his family, and later added a smaller IUL designed for accumulation, at a premium he can sustain.

Starting point	Retirement plan contributions stopped; high-face, low-cash-value design
Strategy	Free-look cancellation; plan contributions first; right-sized IUL later
Result	Protection, savings, and a policy that fits his goal

CHAPTER 12**The Best Way to Design and Use IUL**

Every year you let that valley sit unused is a year of cheap tax brackets you'll never get back.

— Suba Narla, *The Tax-Free Pivot*

Good IUL outcomes are designed at the start. These are the principles I use.

1. Decide the Job Before the Product

If you intend to use the policy as your own bank, say so at the start. A banking design needs strong early cash value, a loan structure you understand, and a funding level you can sustain, which is very different from a policy built mainly for death benefit.

Start with the question, not the policy. Is the primary job protection (a death benefit that must be there), accumulation (tax-advantaged savings with a death benefit attached), or a specific planning goal (estate liquidity, buy-sell funding, key-person coverage)? A protection policy and an accumulation policy can use the same product but should be built very differently.

2. For Accumulation, Minimize the Death Benefit

For a savings-oriented policy, choose the smallest death benefit that keeps the planned premium within the non-MEC limits. Less insurance means lower cost of insurance and more of each dollar working in the cash value. Many designs use an increasing (Option B) death benefit during the funding years and switch to a level (Option A) death benefit, sometimes with reductions, when income begins.

3. Front-Load the Funding

Cash value compounds on what is there. Funding heavily in the early years, often over five to ten years, up to the MEC limit gives the policy the best chance to outgrow its costs. A policy funded lightly over thirty years usually spends much of its life paying for insurance.

4. Illustrate Conservatively and Stress-Test

Ask for illustrations at more than one rate, for example at the maximum illustrated rate, at a middle rate around 5%, and at a lower rate. Ask how the policy would have performed if it had started income in 2000 or 2008. If the plan only works at the maximum rate, it does not work.

5. Give It Time

A realistic timeline for an accumulation policy is ten to fifteen years of funding and growth before meaningful income. Buyers in their thirties and forties have the longest runway; buyers in their fifties can still benefit if they can fund heavily and wait.

6. Choose the Carrier, Not Just the Illustration

Look at financial strength ratings, the carrier's history of adjusting caps on in-force policies compared with new sales, its record on COI increases, and the quality of its service. Two policies with identical illustrations can behave very differently over twenty years.

7. Diversify the Index Allocation

Rather than putting everything in the strategy that illustrates best, many owners spread cash value across a capped S&P 500 strategy, an uncapped participation strategy, and the fixed account. This smooths the range of outcomes.

8. Plan the Income Phase in Advance

Decide early how you will access money: withdrawals to basis first, then loans; which loan type; and a ceiling on how much of the cash value you will allow the loan to reach. Many advisors aim to keep the loan balance comfortably below the cash value (for example, with a margin that keeps the policy in force to age 100 or beyond under conservative assumptions) and to leave a reserve for the late-life cost of insurance.

9. Review Every Year

Request an in-force illustration annually. Compare actual credits, charges, and loan balances with the plan. Adjust premiums, allocations, or loan amounts early, while small changes still have a large effect.

THE ANNUAL POLICY CHECKUP

- ◆ What were my index credits this year, and how do they compare with the assumed rate?
- ◆ Have caps, participation rates, or COI rates changed?
- ◆ What does an in-force illustration at a conservative rate show for my policy at ages 85, 95, and 100?
- ◆ If I have loans, what is my loan-to-cash-value ratio, and is it rising?
- ◆ Is my death benefit option still right for this phase?
- ◆ Is the policy still well within non-MEC limits?

CASE EXAMPLE 7 — CHAPTER 12

Bernard and Lucy, 41 and 43 — Two Designs, One Budget

Bernard and Lucy, both physicians, could set aside \$50,000 a year after maximizing their 401(k)s and backdoor Roth contributions. They were shown an IUL with a \$3 million death benefit and a \$50,000 premium. A second advisor redesigned the policy with the minimum non-MEC death benefit for that premium, an increasing death benefit during funding, and a planned switch to level at retirement.

With the same premium, the second design showed materially higher cash value in every year of an illustration run at a conservative 5.5% rate, because less of each premium went to insurance charges. They kept a separate 20-year term policy for their children's income-replacement needs.

Starting point	\$50,000/year of after-tax savings beyond qualified plans
Strategy	Minimum non-MEC death benefit, Option B then Option A, term for protection
Result	More cash value per dollar; protection handled by low-cost term

CHAPTER 13

Borrowing Against Your Policy: Loans Explained

Here's something nobody puts in a brochure: the government is a silent partner in every Traditional IRA and 401(k) you own, and it hasn't told you yet, what its cut will be.

— Suba Narla, *The Tax-Free Pivot*

Policy loans are the engine of tax-free income from an IUL, and the part of the product most often misunderstood. When you borrow, you are not taking money out of the policy. You are borrowing from the insurer, using your cash value as collateral. The cash value stays in the policy (in whole or in part, depending on loan type) and continues to earn credits. Because a loan is not income, it is not taxed, provided the policy is not a MEC and does not lapse or get surrendered before death. At death, the loan balance is repaid from the death benefit, and the remainder goes to your beneficiaries.

Withdrawals First, Then Loans

In a non-MEC policy, withdrawals come out basis-first under Section 72(e): up to the total premiums you paid, withdrawals are a tax-free return of your own money. Many income plans take withdrawals up to basis and then switch to loans. Withdrawals reduce the cash value and usually the death benefit permanently, and there is no loan interest to manage. Once basis is exhausted, loans take over.

Two Ways to Take Income: Withdrawals to Basis Then Loans, or Loans from Day One

When the time comes to draw income, there are two main approaches, and the choice affects taxes, cost, and the long-term health of the policy.

Approach 1: Withdrawals to basis first, then loans. You take partial withdrawals (sometimes called partial surrenders) until the total equals what you have paid in premiums. Because a non-MEC policy is taxed basis-first, those withdrawals are a tax-free return of

your own money. Only after your basis is used up do you switch to policy loans.

Approach 2: Loans from the beginning. You leave your basis untouched and take every dollar of income as a policy loan from the first year. The full cash value stays in the policy as collateral and continues to earn credits, while the loan balance and its interest grow alongside it.

Withdrawals-First vs. Loans-First at a Glance

Question	Withdrawals to Basis, Then Loans	Loans from the Beginning
Interest cost	None on withdrawals; loan interest starts only after basis is used	Loan interest accrues from the first dollar and compounds
Effect on cash value	Cash value is permanently reduced by each withdrawal	Cash value stays intact as collateral; loan is a separate balance
Effect on death benefit	Death benefit usually drops dollar for dollar right away	Death benefit is reduced only at death, by the loan balance
Can it be put back?	Only as new premium, subject to MEC and 7702 limits	Loans can be repaid at any time, restoring the net value
Growth on the money used	The withdrawn money stops earning credits	Full cash value keeps earning credits (participating loans)
Lapse risk later	Lower; no loan balance compounding in the early income years	Higher; a growing loan must be monitored every year
Tax if the policy ever lapses	Basis is already used, so more of any later gain can be taxable	Basis is preserved, which reduces the taxable gain on a lapse or surrender
Complexity	Simpler to understand and monitor	Requires discipline, annual reviews, and a loan-to-value ceiling

Advantages and Disadvantages of Withdrawals First

- ◆ **Advantage — no interest.** Every dollar of basis you withdraw is yours, tax-free, with no loan interest compounding against it.
- ◆ **Advantage — lower long-term risk.** Delaying loans shortens the years a loan balance has to grow, which generally lowers the risk of a late-life lapse.
- ◆ **Advantage — simplicity.** Many owners find withdrawals easier to track than a loan balance and a loan rate.
- ◆ **Disadvantage — permanent reduction.** Withdrawals shrink the cash value and usually the death benefit immediately, and they can only be "replaced" by paying new premium.
- ◆ **Disadvantage — lost compounding.** Money withdrawn no longer earns index credits.
- ◆ **Disadvantage — early-year traps.** Withdrawals during the surrender period may trigger surrender charges, and withdrawals combined with death benefit reductions in the first 15 policy years can create taxable income under a special recapture rule in Section 7702. Check with the carrier before withdrawing in the early years.

Advantages and Disadvantages of Loans from the Beginning

- ◆ **Advantage — full compounding.** Under a participating loan, the entire cash value keeps earning credits, which can produce positive arbitrage when credits exceed the loan rate.
- ◆ **Advantage — flexibility.** Loans can be repaid at any time, in full or in part, restoring the policy after a windfall or a home sale.
- ◆ **Advantage — basis held in reserve.** Your basis remains available for tax-free withdrawals later and reduces the taxable gain if the policy is ever surrendered.
- ◆ **Disadvantage — interest from day one.** The loan balance grows every year when you do not pay the interest, and it grows faster in zero-credit years.

- ◆ **Disadvantage — higher monitoring burden.** Loans-first plans depend on conservative borrowing, a written loan-to-value ceiling, and an annual in-force illustration.

WHICH APPROACH IS RIGHT?

Neither approach is always better. Withdrawals first tends to suit owners who prize simplicity and certainty, whose policies are past the surrender period and the first 15 years, and who want to keep loan balances small. Loans first tends to suit owners with large, well-funded policies, long time horizons, and the discipline to review the policy every year. Many advisors use a blend: withdrawals to basis in years when credits are weak or loan rates are high, and loans when conditions favor them. Ask for in-force illustrations of both approaches before you begin taking income.

The Three Types of Loans

- ◆ **Standard (fixed) loans.** The borrowed amount is moved from the index strategies into a collateral account that earns a fixed rate close to the loan rate. The net cost is small and predictable, but the borrowed portion no longer participates in index credits.
- ◆ **Participating (indexed or alternate) loans.** The full cash value stays in the index strategies, and the loan accrues interest separately, at a fixed or variable rate. If index credits exceed the loan rate, the policy benefits from positive arbitrage. If they fall short, especially in a zero year, the loan interest still compounds and the gap widens.
- ◆ **Wash or zero-cost loans.** Some policies, after a certain year, credit the collateral at the same rate charged on the loan, so the net cost is zero or near zero. These are typically standard loans that appear in later policy years.

Standard vs. Participating Loans at a Glance

Question	Standard (Fixed) Loan	Participating (Indexed) Loan
Does the borrowed amount earn index credits?	No; it earns a fixed collateral rate	Yes; the full cash value stays indexed
Cost in a 0% index year	Small, predictable spread	Full loan interest with no offsetting credit
Upside potential	Limited	Positive arbitrage when credits exceed the loan rate
Best suited for	Owners who prize predictability	Owners with long horizons, cushions, and discipline

Loan Interest and the Compounding Problem

Loan interest that is not paid in cash is added to the loan. Over twenty years of retirement income, unpaid interest can grow the loan balance to far more than the sum of the loans actually taken. This is not a flaw; it is the cost of tax-free access. But it must be modeled honestly and monitored every year.

Borrowing Wisely

- ◆ Borrow a sustainable amount based on conservative credits, not the maximum an illustration shows.
- ◆ Keep a meaningful cushion between the loan balance and the cash value.
- ◆ Consider switching from participating to standard loans, or pausing loans, after zero-credit years.
- ◆ Understand and, where appropriate, elect the overloan protection rider before you need it.
- ◆ Remember that you may repay loans at any time, fully or partially, which is a useful option after a windfall or a home sale.

Think of that outside cash as a second, informal retirement contribution.

— Suba Narla, *The Tax-Free Pivot*

Borrowing from your policy can also serve needs long before retirement: a car, tuition, a business opportunity, a real estate down payment. Used with a written repayment plan, that is the essence of being your own banker, the subject that opens Part III in Chapter 14.

CASE EXAMPLE 8 — CHAPTER 13

Bob & Debbie, 67 and 65 — A Disciplined Borrowing Plan

Bob and Debbie funded an IUL for fifteen years before retiring. They took withdrawals up to their basis first, then switched to loans, with three rules: borrow an amount supported by an illustration at 5%, never let the loan exceed 70% of the cash value, and review an in-force illustration every January.

In two years of weak credits, they reduced their loans and drew more from their Roth IRAs instead. Their policy remains on track to stay in force past age 100, with a meaningful death benefit for their children.

Starting point	Well-funded policy; retirement income need
Strategy	Basis withdrawals, then loans with a written ceiling and annual review
Result	Sustainable tax-free income; policy protected from lapse

PART III

Putting the Policy to Work



CHAPTER 14

Be Your Own Banker: The Infinite Banking Concept with an IUL

Control — who decides how this capital is used — today, at incapacity, and after death — and how cleanly can that intent be enforced?

— Suba Narla, *The Wealth Pivot*

Most families spend their lives paying interest to someone else: on cars, homes, credit cards, student loans, and business equipment. Over a lifetime, that interest can add up to a staggering sum, and every dollar of it leaves the family forever. "Be Your Own Banker" is the idea of reversing that flow: building your own pool of capital, financing your major purchases from it, and paying yourself back, so that the money you would have sent to lenders goes back into a system you control.

Where the Idea Came From

The modern concept was popularized by R. Nelson Nash (1931–2019), a forestry graduate who spent more than three decades as a life insurance agent in Birmingham, Alabama, in his book *Becoming Your Own Banker*, published in 2000. Nash called it the Infinite Banking Concept. His insight was that a well-funded, dividend-paying whole life policy could act as a personal bank: you capitalize it with premiums, borrow against its cash value when you need money, and repay the loans on your own terms. The policy's cash value keeps compounding throughout, and the death benefit completes the plan for the next generation. Since then, the approach has been adapted to IUL, and "be your own banker," "infinite banking," and "private family banking" have become widely discussed ideas in personal finance.

How It Works: Four Steps

- ◆ **Capitalize.** Fund a permanent policy designed for maximum early cash value, usually with the minimum non-MEC death

benefit for the premium. This takes time; most plans allow three to seven years before significant borrowing.

- ◆ **Borrow.** When you need money for a car, equipment, tuition, a down payment, or an investment, take a policy loan instead of going to the bank. There is no application, no credit check, and no fixed repayment schedule.
- ◆ **Repay.** Pay the loan back on schedule, ideally at the same payment you would have made to an outside lender. Any amount above the loan balance and interest goes back into the policy as additional capital, within MEC limits.
- ◆ **Repeat.** As the cash value grows, the "bank" can finance larger and more frequent needs, for you and eventually for your family.

Why Life Insurance Makes a Good "Bank"

- ◆ **Uninterrupted compounding.** When you pay cash for a purchase, that money stops growing. When you borrow against a policy, the cash value remains in the policy. Under a participating loan, the full cash value keeps earning index credits; under a standard loan, the collateral earns a fixed rate.
- ◆ **Guaranteed access.** The insurer must lend against your cash value according to the contract. The carrier cannot say no, call the loan, or change the terms because the economy has turned.
- ◆ **Flexible repayment.** You set the schedule. In a hard year, you can pause payments, although interest continues to accrue.
- ◆ **Tax advantages.** Growth is tax-deferred, loans are not income, and the death benefit is generally income-tax-free.
- ◆ **Privacy and credit.** Policy loans do not appear on credit reports or require disclosure of your purpose.
- ◆ **A legacy built in.** When you die, the death benefit repays any outstanding loans and passes the rest to your heirs, often recapitalizing the family's "bank" for the next generation.

The Math, Honestly

Consider a \$40,000 car. Three ways to pay for it:

Financing a \$40,000 Car Three Ways (Illustrative)

Method	What You Pay	Where the Interest Goes	What Happens to Your Capital
Bank loan, 7% for 60 months	\$792/month; ≈ \$7,500 total interest	To the lender	Your savings keep growing, but you pay the bank's interest
Pay cash from savings	\$40,000 up front	No interest	That \$40,000 stops earning anything, permanently
Policy loan at 5%, repaid at \$792/month	Loan repaid in about 57 months; ≈ \$5,000 interest to the insurer; last payments ≈ \$2,200 go back into the policy	To the insurance company	Full cash value stays in the policy and keeps compounding

Two honest points belong next to that table. First, the interest you pay on a policy loan goes to the insurance company, not to you. Some promoters imply that you "earn the interest you pay yourself." You do not, except to the extent that paying a banker's rate adds extra capital to your policy. The real advantage comes from keeping your cash value compounding while you use it as collateral, and from the discipline of paying yourself back. Second, the system only works if you actually repay. An unpaid policy loan is not a bank loan you have escaped; it is a growing claim against your own policy and your family's death benefit.

None of the individual questions are complicated — the discipline is in asking all seven, every year, rather than acting on instinct in the moment.

— Suba Narla, *The Tax-Free Pivot*

Whole Life or IUL for Banking?

Traditional infinite-banking practitioners prefer dividend-paying whole life from mutual insurers, and there are good reasons for that

preference. IUL offers different advantages. Many families use one or the other; some use both.

Whole Life vs. IUL as a Personal "Bank"

Feature	Dividend-Paying Whole Life	Accumulation-Designed IUL
Cash value growth	Guaranteed schedule plus non-guaranteed dividends	Index-linked credits with a 0% floor and cap
Guarantees	Strongest	Floor on credits; charges can change within limits
Premium flexibility	Fixed base premium; paid-up additions riders flexible	Highly flexible within 7702/MEC limits
Early cash value	Strong when designed with large paid-up additions	Strong when designed at minimum non-MEC death benefit
Loan treatment	Direct or non-direct recognition of loans in dividends	Standard, participating, or fixed/variable loan options
Upside potential	Moderate, steady	Higher potential, with more variability
Best fit	Savers who prize certainty and predictability	Savers who want market-linked growth and flexibility

With whole life, ask whether the insurer uses **direct recognition** (dividends on borrowed cash may be adjusted) or **non-direct recognition** (dividends are generally unaffected by loans). With IUL, the key decisions are the loan type, the loan rate structure, and how much cushion you keep between the loan balance and the cash value.

The Banker's Rules

- ◆ **Capitalize before you borrow.** A bank without deposits cannot lend. Give the policy time.
- ◆ **Borrow for things that produce value or replace a payment you would make anyway.** Cars, equipment, rental property,

tuition, and business inventory fit. Vacations and consumer spending generally do not.

- ◆ **Pay yourself back like a banker would insist.** Set a written repayment schedule at a market-like rate and keep it.
- ◆ **Keep a cushion.** Set a maximum loan-to-cash-value ratio and never let the policy drift toward lapse.
- ◆ **Watch the MEC line.** Extra repayments above the loan balance are new premium; make sure they fit within the policy's limits.
- ◆ **Keep a separate emergency fund.** The policy is your bank, not your only source of liquidity.
- ◆ **Review annually.** Your "bank" needs a balance sheet: cash value, loan balance, credits, and charges, reviewed every year.

CASE EXAMPLE 9 — CHAPTER 14

The Nguyen Family — Banking Their Cars

Tuan and Linh Nguyen funded an IUL with \$1,500 a month for five years before using it as their family bank. When they needed a new minivan, they borrowed \$38,000 against the policy and repaid it at \$750 a month, the same payment their dealer had quoted at 7%. The loan was retired in less than five years, and the final months' payments went into the policy as new capital.

They have since financed a second vehicle and their daughter's first-year tuition the same way. Each time, their cash value continued compounding while the money was in use, and their credit report never showed a new loan.

Starting point	Five years of capitalization; recurring vehicle purchases
Strategy	Policy loans repaid at a bank-equivalent payment
Result	Car interest recycled into the family's system; capital keeps compounding

CASE EXAMPLE 10 — CHAPTER 14

Dr. Alvarez, 46 — A Dental Practice That Finances Itself

Dr. Sofia Alvarez needed \$85,000 for new imaging equipment. Instead of a five-year equipment lease, she borrowed against the IUL she had funded for eight years and repaid it from the practice's cash flow over four years, as the lease payment she would have made. She keeps her loan below 50% of her cash value and has a separate practice line of credit for true emergencies.

Starting point	Mature IUL; practice equipment needs
Strategy	Policy loan in place of an equipment lease, repaid on schedule
Result	Equipment financed on her terms; policy capital preserved

Watch Out For

- ◆ Promoters who promise you will "earn interest on your own money" or that banking makes a policy risk-free.
- ◆ Borrowing before the policy is capitalized, which can strain it in the early years.
- ◆ Treating loans as permanent withdrawals. The banking concept depends on repayment.
- ◆ Policies designed with large death benefits and high commissions sold under the "banking" label. A banking policy must be designed for early cash value.

CHAPTER 15

Tax-Free Retirement Income

The years between your last paycheck and your first RMD are often the lowest tax-bracket years of your entire life. This chapter is about not wasting them.

— Suba Narla, *The Wealth Pivot*

Retirement income is the most common reason people fund an IUL heavily, and the use that most rewards careful design. The idea is straightforward: fund the policy during working years, let it grow for a decade or more, then draw tax-free income through withdrawals to basis and policy loans.

Why a Tax-Free Bucket Matters

Most American retirement savings sit in the tax-deferred bucket: 401(k)s, 403(b)s, and Traditional IRAs. Every dollar that comes out is taxed as ordinary income, and required minimum distributions eventually force money out on the government's schedule.

A \$1.5 million traditional 401(k) at 73 generates a first RMD of roughly \$56,600, stacked automatically on top of investment income, Social Security and any pension income.

— Suba Narla, *The Wealth Pivot*

A tax-free bucket gives you a lever. In a year when you need extra income (a new roof, a medical expense, a gift to a child), you can draw from the tax-free bucket without raising your bracket, increasing the taxable portion of your Social Security, or tripping an IRMAA surcharge two years later. Roth IRAs and Roth 401(k)s are the first tools for this bucket. A properly designed IUL is a second, and for high earners who cannot contribute to a Roth IRA directly, it may be the most flexible.

IUL and Roth: Complements, Not Competitors

Roth IRA vs. IUL for Retirement Income

Feature	Roth IRA	Accumulation IUL
Tax on qualified access	None	None, via withdrawals to basis and loans, if non-MEC and held to death
Annual contribution limit	IRS limit, reduced or eliminated at higher incomes	None set by the IRS; policy 7702/MEC limits
Costs	Low (fund expenses)	Higher (insurance charges, especially early)
Market losses	Possible	0% floor on credits; charges still apply
Death benefit	Account value	Often a large multiple of cash value
Access before 59½	Contributions yes; earnings generally no	Yes, if non-MEC
Best role	First tax-free dollars	Additional tax-free dollars plus protection

In most plans I build, the order of priority is: capture the full employer match; fund Roth accounts (directly, through a backdoor Roth, or through a Roth 401(k)); execute Roth conversions in low-bracket years, as described in *The Tax-Free Pivot*; and then, for families with the capacity and the need for a death benefit, add an IUL as an additional tax-free bucket.

A Roth conversion is how you buy out that silent partner today, at a price you can see on paper, instead of leaving an open bar tab for your future self, or worse, for your kids.

— Suba Narla, *The Tax-Free Pivot*

Coordinating IUL Income with Roth Conversions

One of the most useful and least discussed roles for IUL income is funding living expenses during a multi-year Roth conversion window. If you live on tax-free policy loans in your early sixties, your taxable income can stay low, leaving room in the 12%, 22%, or 24% brackets to convert Traditional IRA dollars to Roth at a known, modest tax cost. The policy carries the spending; the IRA carries the conversions.

A Sample Income Sequence

A Sample Lifetime Funding and Income Sequence

Ages	What Happens
25–35	Start early. Protect the family with term insurance, capture the full 401(k) match, fund a Roth IRA, and begin a modest accumulation IUL while insurance costs are at their lowest.
35–45	Raise IUL funding as income grows, toward the non-MEC limit. Use policy loans for "be your own banker" needs such as cars, tuition, or a down payment, and repay them on schedule.
45–55	Fund the IUL heavily, near the non-MEC limit, alongside 401(k) and Roth contributions.
55–65	Let the policy grow. Keep funding if cash flow allows or reduce to a level that keeps the policy healthy.
62–72	Use IUL withdrawals and loans for part of living expenses while converting IRA dollars to Roth and delaying Social Security to increase the benefit.
72 onward	Blend Social Security, smaller RMDs (because of the conversions), Roth withdrawals, and moderate IUL loans, keeping a cushion in the policy for late-life insurance costs.
At death	The remaining death benefit, net of loans, passes income-tax-free to heirs.

CASE EXAMPLE 11 — CHAPTER 15

Marcus and Elena, 48 and 46 — Building the Third Bucket

Marcus, a sales executive, and Elena, a small-business owner, had \$1.4 million, almost all in tax-deferred accounts. Their income was too high for direct Roth IRA contributions. They began funding an accumulation IUL with \$36,000 a year for twelve years, designed at the minimum non-MEC death benefit.

Their plan calls for living partly on IUL withdrawals and loans from 62 to 70 while converting their IRAs to Roth in the 22% and 24% brackets and delaying Social Security to 70. An illustration at a conservative 5% rate supports a modest, sustainable annual loan while keeping the policy in force to age 100, with a death benefit remaining for their heirs.

Starting point	\$1.4 million, nearly all tax-deferred; above Roth IRA income limits
Strategy	12 years of IUL funding; IUL income bridges a Roth conversion window
Result	Three funded buckets; smaller future RMDs; tax-free legacy

CASE EXAMPLE 12 — CHAPTER 15

Grace, 55 — A Late Start, Funded Hard

Grace, a divorced sales manager, had little saved outside a 401(k) when she turned 55, but her income had risen sharply. She could commit \$60,000 a year for seven years. Her advisor designed an IUL at the minimum non-MEC death benefit, funded close to the seven-pay limit, with income planned to start no earlier than 67.

Because her runway is shorter, her plan uses a conservative illustrated rate and standard loans in retirement. The policy will supplement her Social Security and 401(k) withdrawals with tax-free income in years when she wants to stay under an IRMAA threshold.

Starting point	Age 55; high income; limited tax-free savings
Strategy	Seven years of heavy funding; income deferred to 67; conservative assumptions
Result	A tax-free bucket built late but built deliberately

Watch Out For

- ◆ Starting with income too early, before the cash value has outgrown the charges.
- ◆ Borrowing at the illustrated maximum instead of a sustainable amount.
- ◆ Forgetting that the policy must remain in force until death for loans to stay tax-free.

CHAPTER 16

The Mega Backdoor Roth vs. a Properly Designed IUL

True tax flexibility requires money in all three buckets.

— Suba Narla, *The Wealth Pivot*

High earners who have maximized their regular 401(k) deferrals and cannot contribute directly to a Roth IRA often ask which is better for their next tax-free dollar: a "mega backdoor Roth" or a properly designed and funded IUL. The honest answer is that the two work best together, but they are very different tools.

How the Mega Backdoor Roth Works

Federal law limits the total that can go into a 401(k) each year, counting employee deferrals, employer contributions, and after-tax contributions. In 2026, that total "annual additions" limit is \$72,000 (plus catch-up contributions for those 50 and older), while the employee deferral limit is \$24,500. If your plan allows it, you can fill some or all of the gap with **after-tax (non-Roth) contributions**, then quickly convert them to Roth, either through an in-plan Roth conversion or an in-service distribution to a Roth IRA. The result is a much larger Roth contribution than the \$7,500 IRA limit allows.

For example, an employee under 50 who defers \$24,500 and receives \$10,000 in employer contributions may have room for up to \$37,500 in after-tax contributions in 2026, all of which can move to Roth.

Three conditions must line up: the plan must accept after-tax contributions, it must allow in-plan Roth conversions or in-service withdrawals, and nondiscrimination testing must not limit what highly compensated employees can contribute. Many plans, especially at smaller companies, do not offer the feature.

How It Compares With an IUL

Mega Backdoor Roth vs. Properly Designed IUL

Feature	Mega Backdoor Roth	Properly Designed IUL
Availability	Only if your employer's plan allows it	Anyone who is insurable and can fund it
Annual limit	Up to the 2026 \$72,000 total-additions cap, less other contributions	No IRS dollar cap; limited by 7702 and MEC rules
Costs	Low; fund expenses only	Insurance charges and fees, highest in early years
Market risk	Full market risk and full market upside	0% floor on credits; capped upside; charges still apply
Access before 59½	Converted amounts have 5-year rules; earnings generally locked until 59½	Basis withdrawals and loans available at any age if non-MEC
Tax on qualified access	None	None, if non-MEC and held until death
RMDs for the owner	None for Roth IRAs or Roth 401(k)s	None
Effect on Social Security tax and IRMAA	None for qualified distributions	None for basis withdrawals and loans
Death benefit	Account value only	Death benefit, often a multiple of cash value
Heirs	Inherited Roth generally emptied within 10 years	Lump-sum death benefit, generally income-tax-free
Creditor protection	Strong in ERISA plans; varies once rolled to an IRA	Varies by state law
Leaves with your job?	The strategy depends on each employer's plan	Policy is portable and stays with you
Legislative risk	Congress has proposed ending it	Life insurance tax rules have also changed over time

Which Comes First?

For most families, the order of priority is: capture the full employer match, maximize deferrals, use the mega backdoor Roth if the plan allows it, and then add a properly designed IUL for additional tax-free dollars and protection. The mega backdoor Roth is cheaper and fully invested; the IUL adds a death benefit, a 0% floor, access before 59½ without penalties, living benefits, and portability. Where a plan does not offer the mega backdoor feature, a well-designed IUL may be one of the few remaining places to build a large tax-free bucket.

A Roth conversion is how you buy out that silent partner today, at a price you can see on paper, instead of leaving an open bar tab for your future self, or worse, for your kids.

— Suba Narla, *The Tax-Free Pivot*

CASE EXAMPLE 13 — CHAPTER 16

Jordan and Rita, 42 and 40 — Using Both Tax-Free Tools

Jordan, an engineer at a large technology company, maximizes his \$24,500 401(k) deferral and receives about \$12,000 in employer contributions. His plan allows after-tax contributions with automatic in-plan Roth conversion, so he adds roughly \$35,500 a year through the mega backdoor Roth. His wife, Rita, owns a consulting practice whose simple plan has no such feature.

They fund a properly designed IUL on Rita's life at \$30,000 a year, at the minimum non-MEC death benefit. The Roth builds low-cost, market-invested tax-free wealth; the IUL adds protection, a 0% floor, and a source of tax-free money they can reach before 59½ for their children's college or a business opportunity.

Starting point	High income; above Roth IRA limits; one spouse with a mega backdoor option
Strategy	Mega backdoor Roth through the employer plan, plus a minimum non-MEC IUL
Result	Two tax-free buckets with different strengths and access rules

CHAPTER 17

Stand-Alone Long-Term Care Insurance vs. IUL Living Benefits

Retirement is not the end of the financial project — it is a transition from accumulation to decumulation, from saver to cash-flow manager.

— Suba Narla, *The Wealth Pivot*

One of the largest financial risks of a long life is the cost of care. According to the CareScout 2025 Cost of Care Survey, the national median cost was about \$80,080 a year for a home health aide, \$74,400 for assisted living, and \$129,575 for a private room in a nursing home. A few years of care can consume a large share of a retirement portfolio. Families have two main insurance tools for this risk: a stand-alone long-term-care (LTC) policy, and the living benefit riders built into many IULs.

How Stand-Alone LTC Insurance Works

A traditional LTC policy pays a daily or monthly benefit, up to a total benefit pool, when the insured needs help with at least two of six activities of daily living (bathing, dressing, eating, toileting, transferring, and continence) or has a severe cognitive impairment. Most policies have a waiting (elimination) period, often 90 days, and many offer inflation protection that increases the benefit each year. Premiums are paid for life or until a claim, and they are not guaranteed: many carriers have raised premiums on older blocks of policies, sometimes sharply. If you never need care, the premiums are generally not returned.

What Stand-Alone LTC Costs at Different Ages

Premiums rise with the age at which you buy, and health underwriting becomes stricter each year. The American Association for Long-Term Care Insurance (AALTCI) 2026 Price Index reports average annual premiums for a policy with an initial \$165,000 benefit pool. Many families want more protection than that: a \$500,000 benefit pool would pay for nearly four years of a private nursing-home

room at the 2025 national median. The table below therefore also shows an estimated premium for a \$500,000 benefit pool, calculated by scaling the AALTCI averages proportionally (about three times). Actual quotes for larger pools vary by carrier, some carriers cap the benefits they will issue, and larger pools may earn modest volume discounts, so treat these figures as a planning estimate rather than a quote.

Stand-Alone LTC Premiums by Age of Purchase: \$500,000 Benefit Pool (Estimated)

Age at Purchase	Who	Benefit Growth	AALTCI 2026 Average (\$165,000 Pool)	Estimated Annual Premium (\$500,000 Pool)
45–50	Singles and couples	Varies	Lower than at 55	Lower than at 55, but paid for more years and exposed to future rate increases
55	Single man	3% per year	\$2,200 (\$950 with no growth)	≈ \$6,700 (≈ \$2,900 with no growth)
55	Single woman	3% per year	\$3,750 (\$1,500 with no growth)	≈ \$11,400 (≈ \$4,500 with no growth)
55	Couple, combined (\$500,000 each)	3% per year	\$5,050 (\$2,080 with no growth)	≈ \$15,300 (≈ \$6,300 with no growth)
60	Single woman	3% per year	\$4,450	≈ \$13,500
65	Couple, combined (\$500,000 each)	3% per year	\$7,030	≈ \$21,300
70 and older	Singles and couples	Varies	Substantially higher	Substantially higher, and more applicants are declined for health reasons

Premiums vary widely by carrier, often by 29% to 80% for the same coverage, according to the same study, so shopping matters. Women pay more than men because they are more likely to need care, and for longer.

How IUL Living Benefits Work

Many IULs include accelerated death benefit riders, often at no upfront cost, that allow part of the death benefit to be paid while the insured is alive if he or she becomes chronically, critically, or terminally ill. A chronic-illness rider generally uses the same test as LTC insurance: help with two of six activities of daily living or a severe cognitive impairment. Benefits are paid as an advance against the death benefit, often limited to a percentage of the death benefit each year, and the carrier may apply a discount or a lien when benefits are paid.

Side by Side

Stand-Alone LTC vs. IUL Living Benefit Riders

Feature	Stand-Alone LTC Policy	IUL Chronic-Illness Rider
Primary purpose	Paying for care	Death benefit, cash value, and tax-free income, with care as a backup
Cost	Separate premium for LTC only	Often no upfront rider cost; charge or discount applies only if used
Premium increases	Possible, and common on older policies	No LTC rate increases; IUL charges can change within contract limits
If care is never needed	Premiums generally lost ("use it or lose it")	Full death benefit goes to heirs, and cash value remains available
Benefit size	Defined benefit pool, often with inflation growth	Portion of the death benefit; usually no inflation growth

Feature	Stand-Alone LTC Policy	IUL Chronic-Illness Rider
Qualifying for benefits	Two of six ADLs or cognitive impairment; elimination period	Similar test; some riders require the condition to be permanent
Effect on death benefit	None	Each dollar received reduces the death benefit
Tax treatment	Qualifying benefits generally tax-free	Qualifying benefits generally tax-free under IRC §101(g), within limits
Underwriting	LTC-specific health underwriting	Life insurance underwriting
Best fit	Those who want the most care coverage per premium dollar	Those who want care protection without paying for a policy they may never use

How to Choose by Age

- ◆ **Ages 45–55:** Stand-alone LTC premiums are at their lowest and health is usually best, but premiums may be paid for decades and can rise. This is also the ideal age to buy an IUL with living benefit riders; many families choose the IUL and add a stand-alone policy only if they want larger, inflation-protected care benefits.
- ◆ **Ages 55–65:** The most common window for LTC decisions. Compare a stand-alone policy, a hybrid life/LTC policy, and an IUL with chronic-illness riders side by side and look closely at inflation protection.
- ◆ **Ages 65 and older:** Stand-alone premiums become steep and declines more common. An existing IUL's living benefit riders may be the most practical protection available, and it is important to understand exactly how much of the death benefit can be accelerated and how.

WATCH OUT FOR

- ◆ Some IUL riders require the chronic illness to be **permanent** before paying; many LTC-based riders do not.
- ◆ Annual limits on how much of the death benefit can be accelerated, which may be less than the actual cost of care.
- ◆ Loans against the policy, which reduce the death benefit available for living benefits.
- ◆ Stand-alone LTC policies bought without inflation protection, whose benefits may be worth far less decades later.

CASE EXAMPLE 14 — CHAPTER 17

Elaine and Victor, 58 and 60 — Deciding How to Cover Care

Elaine and Victor were quoted about \$16,500 a year for \$500,000 of stand-alone LTC coverage each with 3% inflation growth, with no guarantee against future increases. They already owned IULs funded for tax-free retirement income, each with a chronic-illness rider that could accelerate a portion of the death benefit each year.

After comparing both, they kept the IULs as their primary protection and bought a smaller stand-alone LTC policy on Elaine, who has a family history of long-lived relatives. If neither needs care, their IUL death benefits pass to their children income-tax-free; if one does, the riders and the smaller LTC policy work together.

Starting point	Existing IULs with living benefit riders; LTC quote about \$16,500 a year
Strategy	IUL riders as primary care protection, plus a targeted stand-alone policy
Result	Care protection without paying for full coverage they may never use

CHAPTER 18

College Funding with an IUL

Parents are often told that an IUL is "better than a 529." That comparison is usually misleading, because the two tools do different jobs. But for some families, an IUL can play a useful supporting role in paying for college.

How It Works

Parents (or grandparents) fund a policy on the parent's life starting when a child is young. By the time the child reaches college age, the policy may have built enough cash value to support withdrawals to basis or loans for tuition. Because the parent is the insured, the death benefit also protects the college plan: if the parent dies, the policy pays out.

Potential Advantages

- ◆ **Banking tuition.** Families who practice the Be Your Own Banker approach treat tuition as a policy loan and repay it after graduation at the payment a student loan would have required, restoring the capital for the next child.
- ◆ **Flexibility of use.** Money in a 529 must be used for qualified education expenses to avoid tax and a 10% penalty on earnings (with limited exceptions, including a lifetime rollover to the beneficiary's Roth IRA under SECURE 2.0). IUL cash value can be used for tuition, a gap year, a first home, a business, or retirement, with no penalty.
- ◆ **Financial aid treatment.** FAFSA does not ask families to report the cash value of life insurance as an asset. By comparison, a parent-owned 529 is reported as a parent asset. Policy loans also do not appear as income on the tax return that the FAFSA draws from. Private colleges that use the CSS Profile may ask about more assets, and aid rules change, so confirm with each school's financial aid office.
- ◆ **Built-in protection.** The death benefit funds the goal even if the parent does not live to fund it.

- ◆ **Market floor.** A downturn in the year a child enrolls does not reduce the cash value.

The Limitations

- ◆ **Time.** A policy funded for only five or six years before college will likely not have outgrown its early costs. An IUL for college works best when started when the child is an infant or toddler.
- ◆ **Cost.** A 529's investments are generally cheaper than insurance charges. For a family whose only goal is paying tuition, a 529 funded early is usually more efficient, but do compare the returns, net of charges, for both strategies.
- ◆ **No state tax deduction.** Many states give a deduction for 529 contributions. IUL premiums get none.

A PRACTICAL APPROACH

For many families, the best answer is both: a 529 for the tuition dollars you are confident will be spent on education, and an IUL for flexible dollars that can help with college if needed and move into retirement savings if not. The IUL's value in this plan is that it never locks money into a single purpose.

CASE EXAMPLE 15 — CHAPTER 18

The Okafors — A Policy That Paid for Two Degrees and Then Retirement

When their first child was born, James and Ruth Okafor, both teachers, began funding an IUL on James's life at \$600 a month, alongside a small 529. Eighteen years later, they used withdrawals up to their basis and modest loans over eight years to cover the gap between their children's scholarships, 529 balances, and the cost of two state-university degrees.

After graduation they resumed premiums, repaid part of the loans, and now plan to use the remaining cash value as a tax-free supplement to their pensions.

Starting point	Two teachers; modest budget; children aged 0 and 2
Strategy	\$600/month IUL on the primary earner plus a small 529
Result	College gaps filled; policy repurposed for retirement income

CASE EXAMPLE 16 — CHAPTER 18

The Delgado Grandparents — Helping Without Hurting Aid

Frank and Rosa Delgado, both retired, wanted to help their three grandchildren with college. Rather than open 529 accounts in their own names, they funded an IUL on Frank's life through a trust for the grandchildren, using annual exclusion gifts. If Frank lives, the trust can use policy loans to help with tuition or first homes; if he dies, the death benefit funds the trust.

They also contribute modestly to their children's 529 plans for the tuition dollars they are confident will be spent on education.

Starting point	Grandparents wanting to help three grandchildren
Strategy	Trust-owned IUL funded with annual exclusion gifts, plus modest 529s
Result	Flexible support for education or other goals; a legacy either way

CHAPTER 19

Business Funding and Business Planning

Business owners use IUL in two broad ways: to protect the business, and to finance it.

Protecting the Business

- ◆ **Key-person insurance.** A company owns and is the beneficiary of a policy on an owner or essential employee. If that person dies, the death benefit helps the business survive the loss of revenue, relationships, or expertise. Over time, the cash value becomes a company asset.
- ◆ **Buy-sell agreements.** Co-owners agree that, if one dies, the others (or the company) will buy the deceased owner's share at an agreed price. Life insurance funds the purchase so the surviving owners do not need to borrow, and the family receives fair value. IUL's cash value can also help fund a lifetime buyout for retirement.
- ◆ **Employer-owned policy rules.** Under Section 101(j), a death benefit on an employer-owned policy may be partly taxable unless the employee received written notice and gave consent before the policy was issued, and the company files an annual Form 8925. Every business-owned policy should be checked for compliance.

Rewarding and Retaining Key People

- ◆ **Executive bonus (Section 162) plans.** The company pays a bonus that the executive uses to fund a personally owned IUL. The bonus is generally deductible to the business and taxable to the executive; some companies "double bonus" to cover the tax. A restricted version (sometimes called REBA) adds a vesting schedule to encourage the executive to stay.
- ◆ **Split-dollar arrangements.** The company and the executive share the premium, cash value, and death benefit under a written agreement taxed under either the economic-benefit regime or the loan regime.

- ◆ **Informally funded deferred compensation.** A company-owned IUL can be used to build a pool of assets that informally backs a non-qualified deferred compensation promise to key employees.

Financing the Business

After the early years, an IUL's cash value can act as a private line of credit, the business version of being your own banker (Chapter 14). A business owner can borrow against the policy to cover payroll through a slow season, buy equipment, or seize an opportunity, without a loan application, and repay on their own schedule. Banks will also generally accept a collateral assignment of a policy's cash value to secure a commercial loan, and many lenders, including SBA lenders, require life insurance on key owners as a loan condition.

Lead time is the scarcest resource at every level.
— Suba Narla, *The Wealth Pivot*

CASE EXAMPLE 17 — CHAPTER 19

Luis and Tom, 51 and 54 — Funding a Buy-Sell and an Opportunity Fund

Luis and Tom co-own an HVAC company valued at about \$4 million. Their buy-sell agreement required each to buy the other's half if one died, but neither had \$2 million on hand. Each bought an IUL on the other's life under a cross-purchase agreement, with face amounts matching the agreed value, which they update every two years.

Because the policies were funded above the minimum, both built cash value. When a competitor retired and offered to sell his customer list, the partners borrowed against their policies for the down payment and repaid the loans within three years from the added revenue.

Starting point	Two owners; \$4 million business; unfunded buy-sell agreement
Strategy	Cross-owned IULs sized to the agreement; cash value used for an acquisition
Result	Buyout funded; acquisition financed without a bank

CASE EXAMPLE 18 — CHAPTER 19

Brightline Software — Keeping a Key Executive

Brightline, a 60-employee software company, feared losing its chief financial officer, Anita, to a larger competitor. It set up a restricted executive bonus arrangement: the company pays an annual bonus that Anita uses to fund an IUL she owns, plus an extra amount to cover her income tax on the bonus. If she leaves within five years, she must repay part of the bonus.

The company deducts the bonuses as compensation. Anita builds a personally owned, tax-advantaged policy with a death benefit for her family, and a strong reason to stay.

Starting point	Retention risk for a key executive
Strategy	Section 162 restricted executive bonus funding an executive-owned IUL
Result	Deductible to the company; a valuable benefit for the executive

Watch Out For

- ◆ Using a policy's cash value as the company's only source of liquidity in the early years before it is meaningful.
- ◆ Letting the buy-sell value and the policy face amounts drift apart.
- ◆ Missing Section 101(j) notice-and-consent requirements.

CHAPTER 20

Real Estate Investing with Policy Loans

Real estate investors use IUL cash value as a source of capital that sits outside the banking system. It is the Be Your Own Banker concept from Chapter 14 applied to property: the policy becomes the investor's private lender, and each repaid loan restores capital for the next deal.

Basic Strategy

The investor funds an IUL heavily for several years. Once the cash value is substantial, the investor borrows against it to fund a down payment, a renovation, or a short-term bridge. When the property is refinanced, sold, or produces cash flow, the investor repays the policy loan. The cash value, which remained in the index strategies under a participating loan or earned a fixed collateral rate under a standard loan, continues to grow.

Why Investors Like It

- ◆ **Speed.** A policy loan can often be funded within days, with no underwriting.
- ◆ **Flexible repayment.** There is no required repayment schedule, which helps during renovation or a vacancy.
- ◆ **No effect on credit.** Policy loans do not appear on credit reports.
- ◆ **Compounding stays intact.** The cash value keeps earning credits while the money is working in real estate (depending on loan type).
- ◆ **Protection.** The death benefit protects the investor's family and can repay property debt if the investor dies.

The Risks

- ◆ **Leverage on leverage.** A policy loan used for a down payment, combined with a mortgage, magnifies both gains and losses. If the property underperforms and the loan is not repaid, the policy loan keeps compounding.
- ◆ **Negative arbitrage.** Under a participating loan, a zero-credit year means the loan interest grows with no offsetting credit.

- ◆ **Opportunity cost of funding.** The years it takes to build cash value are years that money is not in real estate. For investors with a short horizon, other financing may be cheaper.

CASE EXAMPLE 19 — CHAPTER 20

Nina, 44 — The BRRRR Investor's Bridge

Nina, a nurse who invests in small rental properties, funded an IUL at \$2,000 a month for seven years. When a distressed duplex came up for sale, she borrowed \$60,000 against her policy for the down payment and repairs. Nine months later, after renovating and renting both units, she refinanced the property and used the cash-out proceeds to repay the policy loan in full.

She now repeats the cycle about every eighteen months, with a rule that she will never borrow more than half of her cash value and will repay each loan within a year.

Starting point	Seven years of funding; cash value available as a bridge
Strategy	Policy loan for purchase and rehab; refinance to repay
Result	Recycled capital; policy intact; strict borrowing limits

Rules of Thumb for Investors

- ◆ Borrow only for deals with a clear repayment path.
- ◆ Set a maximum loan-to-cash-value ratio and keep it.
- ◆ Consider a standard loan when you expect a long hold, and a participating loan only when you can tolerate a zero year.
- ◆ Keep an emergency reserve outside the policy; do not use the policy to cover every vacancy.

PART IV

From Main Street to the Family Office

CHAPTER 21

How the Rich and Ultra-Rich Use IUL

They use FIAs as tools — narrow, specific instruments chosen for one job on a very large balance sheet.

— Suba Narla, *The Protected Pivot*

That sentence from *The Protected Pivot* applies equally to life insurance. Very wealthy families rarely buy an IUL because they need income replacement or because they are afraid of the stock market. They buy it because life insurance solves specific tax, liquidity, and transfer problems more efficiently than almost anything else.

The \$60 million family is managing tax efficiency, generational transfer, control, and governance — running out of money is no longer realistic.

— Suba Narla, *The Wealth Pivot*

1. Estate Tax Liquidity

In 2026, the federal estate and gift tax exemption is roughly \$15 million per individual, effectively double for a married couple. Above that, estates face a top federal rate of 40%. A family whose wealth is concentrated in a business, farmland, or real estate may owe millions in estate tax within nine months of death, without the cash to pay it. A survivorship ("second-to-die") IUL on both spouses, which pays at the second death when the estate tax is due, provides that liquidity at a lower cost than two single-life policies.

2. Irrevocable Life Insurance Trusts

Life insurance proceeds are income-tax-free but included in the taxable estate if the insured owns the policy. An ILIT owns the policy instead, keeping the death benefit outside the estate.

— Suba Narla, *The Wealth Pivot*

The ILIT is the standard wrapper for large policies. The grantor makes annual gifts to the trust, the trustee pays premiums, and beneficiaries receive "Crummey" withdrawal notices so the gifts qualify for the

annual gift-tax exclusion. At death, the trust receives the death benefit free of income and estate tax and can lend to or buy assets from the estate to provide liquidity. If an existing policy is transferred into an ILIT, the insured must generally survive three years for the proceeds to be excluded from the estate.

3. Premium Financing

Some high-net-worth buyers do not pay premiums out of cash. Instead, a bank lends the premiums, secured by the policy's cash value plus additional collateral. The family keeps its capital invested elsewhere, pays only loan interest (or accrues it), and repays the loan later from the policy's cash value, from other assets, or from the death benefit.

Premium financing can work well for families with substantial liquid net worth, stable collateral, and a clear exit strategy. It is dangerous for anyone else. When short-term interest rates rose sharply in 2022 and 2023, many financed policies faced loan costs far above their index credits, and some owners faced collateral calls. A proper premium-financing plan is stress-tested at higher interest rates and lower crediting rates and has a defined exit.

4. Split-Dollar and Intergenerational Planning

Wealthy families and their businesses use split-dollar arrangements to shift the cost of large policies. In a private split-dollar arrangement, a parent or family entity funds premiums on a policy owned by a trust for the next generation, in exchange for the right to be repaid later. These structures can move significant value at low gift-tax cost, but they are technical and closely watched by the IRS, and they require experienced tax counsel.

5. Tax-Free Buckets Without Limits

High earners are phased out of direct Roth IRA contributions and limited by 401(k) caps. A professional earning \$800,000 a year may be able to shelter only a small fraction of it in qualified plans. A large, accumulation-focused IUL (sometimes several policies) lets such a

family build a tax-free bucket far larger than a Roth could hold, with a death benefit that folds into the estate plan.

6. Buy, Borrow, Die

The wealthiest families rarely sell appreciated assets; they borrow against them and hold them until death, when heirs receive a step-up in basis. Life insurance fits naturally into this approach: the family borrows against the policy rather than selling investments, and the death benefit repays the borrowing and funds the estate tax.

7. The Cousin: Private Placement Life Insurance

At the very top, some families use Private Placement Life Insurance (PPLI), an institutionally priced variable policy that can hold hedge funds and other alternative investments. PPLI is not an IUL, but it relies on the same Section 7702 tax chassis and shows how central life insurance is to ultra-high-net-worth planning. It is generally available only to accredited investors and qualified purchasers.

CASE EXAMPLE 20 — CHAPTER 21

The Whitfields, 55 and 53 — Premium Financing With an Exit Plan

The Whitfields, with about \$40 million in liquid and business assets, wanted \$25 million of survivorship coverage in an ILIT but preferred not to pull capital from their business. Their bank lent the premiums for ten years, secured by the policy and a pledged investment account.

Their advisors stress-tested the plan at loan rates three percentage points higher and index credits two points lower than current assumptions and defined an exit: repay the loan in year ten from a combination of policy cash value and a planned partial business sale. When rates rose, they paid interest in cash rather than letting it accrue, and the plan stayed on course.

Starting point	\$40 million net worth; capital tied up in business
Strategy	Bank-financed premiums with stress testing and a defined exit
Result	Large estate-liquidity policy without liquidating assets

CASE EXAMPLE 21 — CHAPTER 21

The Castellano Family, 68 and 66 — Funding the Estate Tax Without Selling the Farm

The Castellanos own a family agricultural business and land worth about \$70 million, with relatively little cash. Their estate attorney projected a substantial federal estate tax at the second death, and their children did not want to sell land to pay it.

Their ILIT purchased a survivorship IUL sized to the projected tax. Premiums are funded through annual exclusion gifts and a portion of their lifetime exemption, with a no-lapse guarantee covering the death benefit to age 100. At the second death, the trust will lend cash to the estate to pay the tax, and the land will stay in the family.

Starting point	\$70 million, mostly illiquid land and operating business
Strategy	ILIT-owned survivorship IUL sized to the projected estate tax
Result	Estate tax liquidity outside the estate; no forced sale

CHAPTER 22

Estate Preservation, Enhancement, and Paying Estate Taxes at Death

A traditional IRA is not a private vault. The government has a firm deadline.

— Suba Narla, *The Wealth Pivot*

An estate plan has three jobs. The first is to **preserve** what a family has built, so that taxes, forced sales, and probate do not erode it. The second is to **enhance** it, so that heirs receive more than they otherwise would. The third is to **pay the bills that death creates**, above all the estate tax, on time and without chaos. Life insurance is one of the few tools that can do all three at once, because it creates a large, income-tax-free sum of cash at exactly the moment it is needed.

How the Estate Tax Works

The federal estate tax applies to the value of everything a person owns or controls at death, including life insurance they own, above an exemption amount. In 2026, that exemption is \$15 million per person, indexed for inflation, and a surviving spouse can generally add the unused exemption of the first spouse to die (called portability) if a timely estate tax return is filed. Amounts above the exemption are taxed at rates that reach 40%.

The tax is generally due nine months after death. Extensions are available in limited circumstances, and estates made up largely of a closely held business may qualify to pay in installments, but interest accrues and the burden remains. Meanwhile, about a dozen states and the District of Columbia impose their own estate taxes, some with exemptions far lower than the federal amount, and a handful of states levy inheritance taxes on heirs. A family can owe state estate tax even when it owes no federal tax.

The Liquidity Problem

Most large estates are not held in cash. They are held in operating businesses, farmland, commercial real estate, and concentrated stock

positions. When a 40% tax bill arrives nine months after death, the family faces hard choices: sell a business at a discount, sell land that has been in the family for generations, liquidate investments in a down market, or borrow. Each of those options can cost far more than the tax itself.

Life insurance solves the liquidity problem directly. A survivorship policy on a married couple pays at the second death, which is exactly when the estate tax is usually due, because the unlimited marital deduction typically defers tax at the first death. The death benefit arrives in cash, generally within weeks, and income-tax-free.

Four Ways to Pay a \$4 Million Estate Tax Bill (Illustrative)

Method	Approximate True Cost	Drawback
Sell assets quickly	\$4 million plus any discount from a forced sale	Loss of business, land, or investment
Borrow	\$4 million plus years of interest	Debt burden on heirs
Pay from savings	\$4 million of accumulated capital	Shrinks the inheritance dollar for dollar
Life insurance in an ILIT	Premiums paid over time, often a fraction of the tax	Requires planning, health, and funding in advance

Preservation: Keeping the Death Benefit Out of the Estate

If you own a policy on your own life, its death benefit is included in your taxable estate under Section 2042. A \$10 million policy could therefore increase the tax it was meant to pay. The solution, introduced in Chapter 21, is an Irrevocable Life Insurance Trust.

- ◆ The ILIT applies for and owns the policy from the start. (If an existing policy is transferred into the trust, the insured must generally survive three years for it to be excluded from the estate.)
- ◆ The grantor makes gifts to the trust to cover premiums. With properly administered "Crummey" withdrawal notices, each gift can qualify for the annual gift tax exclusion, which is \$19,000 per

recipient in 2026. Larger premiums can use part of the lifetime exemption.

- ◆ At death, the trust collects the death benefit outside the estate. It can then lend money to the estate or buy assets from it, providing liquidity to pay the tax without the proceeds themselves being taxed.
- ◆ If the trust is designed to last for multiple generations and the grantor allocates generation-skipping transfer (GST) exemption to it, the death benefit can remain outside the estate tax system for children and grandchildren alike.

Life insurance proceeds are income-tax-free but included in the taxable estate if the insured owns the policy.

— Suba Narla, *The Wealth Pivot*

Enhancement: Turning Taxable Dollars Into Tax-Free Dollars

Estate enhancement means repositioning assets so heirs receive more after all taxes. Life insurance is the most common tool, because it can convert a stream of taxable or low-yielding money into a much larger, income-tax-free death benefit.

- ◆ **The RMD-to-legacy strategy.** Many retirees do not need all of their required minimum distributions to live on. They take the RMD, pay the income tax, and use the after-tax amount to fund a survivorship or single-life policy, often inside an ILIT. Instead of leaving an IRA that heirs must empty, and pay ordinary income tax on, generally within ten years, they leave a death benefit that arrives income-tax-free.
- ◆ **Repositioning low-yield assets.** A portion of a bond portfolio, CDs, or cash that the family never expects to spend can fund premiums. The death benefit is often a multiple of the premiums paid, especially when started earlier in life.
- ◆ **Leveraging the annual exclusion.** Annual exclusion gifts of \$19,000 per recipient can be multiplied through a trust-owned policy into a death benefit many times larger, with no gift or estate tax.

- ◆ **Wealth replacement for charitable giving.** A family that donates a highly appreciated asset to a charitable remainder trust receives an income stream and a charitable deduction, and avoids immediate capital gains tax, but the asset ultimately goes to charity. Some of the income can fund a life insurance policy in an ILIT that replaces the donated value for the children.

An inherited Roth IRA is subject to the same 10-year emptying rule, but because the money comes out tax-free, the 10-year window is just a distribution schedule, not a tax event.

— Suba Narla, *The Tax-Free Pivot*

Paying the Taxes That Follow Death

Beyond the estate tax itself, death can trigger other costs that insurance can cover:

- ◆ **Income tax on inherited retirement accounts.** Most non-spouse beneficiaries must empty an inherited IRA or 401(k) within ten years, paying ordinary income tax, often in their own peak-earning years. A death benefit can offset that tax, or fund Roth conversions during life that reduce it.
- ◆ **State estate and inheritance taxes,** which may apply at much lower thresholds than the federal exemption.
- ◆ **Final expenses, debts, and business obligations,** which otherwise must be paid from the estate before heirs receive anything.

CASE EXAMPLE 22 — CHAPTER 22**Robert and Linda, 72 and 70 — Turning RMDs Into a Tax-Free Legacy**

Robert and Linda have a comfortable pension and Social Security income. Their \$1.5 million in Traditional IRAs generates RMDs they do not need. Their two children are both in high tax brackets and would owe substantial income tax on an inherited IRA, which they would have to empty within ten years.

The couple continued partial Roth conversions in the 22% and 24% brackets and, with their after-tax RMDs, funded a survivorship IUL owned by an ILIT, designed with a guaranteed death benefit to age 100. Illustratively, about \$40,000 a year of after-tax RMD money supports roughly \$1.5 million of coverage, depending on health and carrier. At the second death, the trust will receive the death benefit free of income and estate tax, more than replacing the tax the children will pay on the remaining IRA.

Starting point	Unneeded RMDs; heirs in high brackets; 10-year rule for inherited IRAs
Strategy	After-tax RMDs fund an ILIT-owned survivorship IUL; ongoing Roth conversions
Result	Taxable IRA dollars converted into a larger, tax-free legacy

Watch Out For

- ◆ Owning a large policy personally when your estate is near or above the exemption.
- ◆ Missing Crummey notices or trust formalities, which can undo the gift tax treatment.
- ◆ Designing an estate policy for cash value rather than for guaranteed death benefit. For estate liquidity, the death benefit is the point; guarantees matter more than illustrated growth.
- ◆ Forgetting that exemptions change with legislation. Plans should be reviewed every few years with an estate attorney.

CHAPTER 23

How Moderate- and Lower-Income Families Can Use IUL

The \$600,000 household is managing longevity risk and sequence-of-returns risk against a hard ceiling. If you run out of money, there is no second pool of capital behind it.

— Suba Narla, *The Wealth Pivot*

IUL is often described as a product for the wealthy. The large, heavily funded designs described in the last chapter are. But the same product, sized properly, can also serve working families, provided they have the basics in place first.

First Things First

Before any family with a modest income buys a cash-value policy, three things should already be true:

- ◆ They have an emergency fund or are building one.
- ◆ They are capturing any employer retirement match.
- ◆ They have enough death benefit, whether through term or permanent insurance, to protect their children if an earner dies.

If the budget allows only one of these, adequate term insurance usually comes first. It provides the most protection per dollar.

Where IUL Can Help a Working Family

- ◆ **Permanent protection on a small budget.** Some families want coverage that will not expire at 65 when a term policy ends, for example to leave something to children, pay final expenses, or equalize an inheritance. A modestly funded IUL can provide that.
- ◆ **Living benefits.** For families who cannot afford long-term-care insurance, accelerated benefit riders can make part of the death benefit available if the insured becomes chronically or critically ill.
- ◆ **Forced, protected savings.** A small monthly premium, automatically drafted, builds a pool of money protected from

market losses. For a family that has struggled to save, the structure itself has value.

- ◆ **A tax-free supplement.** Over twenty or thirty years, even \$200 to \$400 a month can build meaningful cash value to supplement Social Security with tax-free loans that do not increase the taxable portion of benefits.
- ◆ **Term conversion.** Many term policies can be converted to a permanent policy, often an IUL, without new medical underwriting. A family can buy affordable term now and convert part of it later, when income rises or health declines.

A Blended Approach

A practical design for many young families is a blend: a larger term policy for the years when the children are young and the mortgage is large, plus a smaller IUL that will stay in force for life and slowly build cash value. As income grows, the IUL premium can increase, within MEC limits.

Watch Out For

- ◆ Policies with premiums the family cannot sustain in a hard year.
- ◆ Designs that put almost all of the premium into death benefit when the stated goal is savings, or vice versa.
- ◆ Children's IULs sold instead of adequate coverage on the parents. The breadwinners should be insured first.

CASE EXAMPLE 23 — CHAPTER 23

Carlos and Rosa, 36 and 34 — Converting Term into Permanent Coverage

Carlos, an electrician, and Rosa, a dental hygienist, bought 30-year term policies when their first child was born. Ten years later, their income had grown, and Carlos had been diagnosed with a condition that would make new coverage expensive. His term policy allowed conversion without new medical underwriting.

They converted \$250,000 of Carlos's term coverage into an IUL at standard rates, funding it at \$300 a month, and kept the rest as term. The converted policy will stay in force for life and slowly build tax-advantaged cash value.

Starting point	Term coverage; a new health condition
Strategy	Convert part of the term policy to an IUL without new underwriting
Result	Lifetime coverage locked in at standard rates; growing cash value

CASE EXAMPLE 24 — CHAPTER 23

Keisha, 34 — Starting Small

Keisha, a single mother and medical assistant, earns about \$48,000 a year. She had a small group life policy through work and a 401(k) with a 4% match. Her advisor first increased her 401(k) contribution to capture the full match, added a \$500,000 20-year term policy for about \$25 a month, and helped her build a small emergency fund.

A year later, she added an IUL at \$150 a month with chronic and critical illness riders and a guaranteed insurability option. She plans to raise the premium as her income grows and, eventually, to use the cash value as a tax-free supplement in retirement.

Starting point	\$48,000 income; one child; minimal savings
Strategy	Match first, term for protection, then a small IUL with living benefits
Result	Protected family; lifelong coverage; a growing tax-free bucket

CHAPTER 24

Other Unique Uses for an IUL

They use FIAs as tools — narrow, specific instruments chosen for one job on a very large balance sheet.

— Suba Narla, *The Protected Pivot*

Beyond retirement, college, business, real estate, and estate taxes, a well-designed IUL can solve problems that few other financial tools can. Each use below comes with its own design considerations and cautions.

1. Pension Maximization

Retirees with a defined-benefit pension usually must choose between a single-life payout, which is higher but stops at the retiree's death, and a joint-and-survivor payout, which is lower but continues for a spouse. Pension maximization means choosing the higher single-life payout and using part of the difference to fund life insurance on the retiree. If the retiree dies first, the death benefit replaces the lost pension for the survivor; if the spouse dies first, the retiree has kept the higher pension and can often use or reduce the policy.

The strategy works only if the retiree is insurable at a reasonable cost, the policy is purchased and in force before the pension election is final, and the death benefit is large enough to replace the survivor income. It should never be implemented without a side-by-side analysis; the pension's survivor option is guaranteed, and the insurance must be at least as dependable.

CASE EXAMPLE 25 — CHAPTER 24

Walter and June, 62 and 60 — Maximizing a Pension

Walter, a retiring utility engineer, could take a \$5,200 monthly single-life pension or \$4,500 a month as a 100% joint-and-survivor benefit. In good health, he qualified for preferred rates. Before retirement, he bought an IUL with a death benefit large enough to produce roughly the same survivor income for June, funded by part of the \$700 monthly difference, and elected the single-life pension.

The policy has also built cash value that the couple can use in an emergency. If June dies first, Walter keeps the higher pension and can reduce the policy.

Starting point	Single-life pension \$5,200/month vs. joint-and-survivor \$4,500/month
Strategy	Insure first, then elect single-life; fund premium from the difference
Result	Higher lifetime income; survivor protection; added flexibility

2. Paying the Tax on Roth Conversions

The Tax-Free Pivot recommends paying Roth conversion taxes with money from outside the retirement account, so the full converted amount keeps growing tax-free.

Pay the resulting tax bill with money from outside the retirement system — a high-yield savings account, a taxable brokerage account, whatever's sitting on the sidelines.

— Suba Narla, *The Tax-Free Pivot*

For some families, a mature IUL is that outside source. Basis withdrawals or modest loans can pay the conversion tax in a year when other cash is scarce. Because loans are not income, borrowing to pay the tax does not raise the conversion year's taxable income. The trade-off is loan interest and a smaller policy, so this works best as one of several sources, used deliberately.

3. Estate Equalization

A parent with a family business or farm may want to leave it to the one child who works in it, while treating the other children fairly. Dividing the business can destroy it. A life insurance policy sized to the business's value lets the business pass to one child and the death benefit to the others, keeping the peace and the enterprise intact.

4. Special-Needs Planning

Parents of a child with a disability often worry about who will provide for that child after they are gone. Leaving assets directly to the child can disqualify him or her from means-tested benefits such as SSI and Medicaid. A common solution is to name a properly drafted special-needs trust as the beneficiary of a permanent policy. Because the need lasts a lifetime, permanent coverage with strong guarantees is usually preferred, and survivorship coverage on both parents can reduce the cost.

5. Blended Families

In a second marriage, a spouse may leave most of the estate to the surviving spouse, only to have it pass to that spouse's children, not his or her own. A life insurance policy payable to the children from the first marriage, often through a trust, guarantees them an inheritance while the rest of the estate supports the surviving spouse.

6. Divorce Settlements

Child support and alimony stop if the paying spouse dies. Divorce agreements often require that spouse maintain life insurance, sometimes owned by or payable to the receiving spouse or a trust for the children, to secure those obligations. A permanent policy can also become an asset that is valued and divided in a settlement.

7. A Long-Term-Care Safety Net

Traditional long-term-care insurance has become expensive, and premiums on many older policies have risen sharply. An IUL with chronic-illness and critical-illness riders provides a measure of protection: if the insured cannot perform two of six activities of daily

living or has severe cognitive impairment, part of the death benefit can be accelerated. It is not a complete substitute for dedicated long-term-care coverage, since benefits reduce the death benefit and payouts may be discounted, but for many families it provides meaningful protection they would otherwise lack.

8. A Legacy for Grandchildren

Grandparents can fund a policy on their own lives, owned by a trust for grandchildren, using annual exclusion gifts. The death benefit can later fund education, a first home, or a trust that lasts for decades. Alternatively, a grandparent can own a policy on a young adult grandchild, with the grandparent's consent and the grandchild's, and later transfer it; the long runway and low insurance costs make cash value accumulation especially efficient, though gift and ownership rules should be reviewed.

9. A Multigenerational Family Bank

This is the Be Your Own Banker concept (Chapter 14) extended across generations. Some families use a large, mature policy as an internal source of capital, borrowing to help a child buy a home or start a business, then documenting repayment back to the policy. Done carefully, it keeps interest within the family rather than paying it to outside lenders. Done carelessly, it becomes an unmanaged loan that shrinks the policy. Written agreements and a disciplined repayment plan are essential.

10. Asset Protection

In many states, life insurance cash values and death benefits are partly or fully protected from the owner's creditors. For physicians, business owners, and others with liability exposure, this can be a secondary benefit of accumulating money in a policy. The level of protection varies widely by state, and transfers made to avoid existing creditors can be undone, so this should be reviewed with an attorney.

CASE EXAMPLE 26 — CHAPTER 24

Maya and Chris, 45 and 47 — Planning for a Son with Special Needs

Maya and Chris's son Eli, 12, has a developmental disability and will likely need support for life. Their wills already created a special-needs trust, but it had no funding. They added a survivorship IUL with a guaranteed death benefit, payable to the trust, and named Maya's sister as successor trustee.

The trust will provide for Eli's care without disqualifying him from government benefits. Because survivorship coverage pays only at the second death, the couple also kept individual term policies to protect the family's income while they are both working.

Starting point	Lifetime care need; unfunded special-needs trust
Strategy	Survivorship IUL payable to the trust, plus term for income protection
Result	A funded lifetime plan for Eli without jeopardizing benefits

CASE EXAMPLE 27 — CHAPTER 24

Diane, 58 — Protecting Children in a Second Marriage

Diane, a widow with two adult children, remarried at 55. She and her husband Paul agreed that each would leave the home and retirement accounts to the survivor. To make sure her children would inherit regardless, Diane bought an IUL payable to a trust for her children, funded with a portion of her income over ten years. The policy's cash value also serves as a reserve she controls.

Starting point	Blended family; estate passing to surviving spouse
Strategy	IUL payable to a trust for her children
Result	Guaranteed inheritance for her children; harmony at home

CHAPTER 25

Putting It Together: Choosing the Right Use for Your Stage

Retirement planning is often taught as one discipline with one set of rules — and taxes are treated as an afterthought. In practice, the discipline forks sharply as liquid assets grow, and the tax code is not a footnote to the plan. It is the plan.

— Suba Narla, *The Wealth Pivot*

The same IUL chassis plays very different roles depending on age, income, and wealth. This table summarizes the patterns described in this book.

IUL Roles by Stage and Wealth Level

Household	Typical IUL Role	Design Emphasis	Caution Level
Young family, modest income	Lifetime coverage, living benefits, small savings	Blend with term; sustainable premium	High — protect first
Mid-career professional	Third tax bucket; college flexibility	Minimum non-MEC death benefit; front-load funding	Moderate — needs 10+ years
Family practicing Be Your Own Banker	Private financing for cars, tuition, and investments	Strong early cash value; written repayment rules	Moderate — requires discipline
Business owner	Buy-sell, key person, opportunity fund	Match face amount to agreements; build cash value	Moderate — check 101(j)
Real estate investor	Capital bridge, protection	Strong early funding; strict loan limits	Moderate — leverage risk
Pre-retiree, 50s	Tax-free income; Roth conversion bridge	Heavy funding; conservative illustrations	Moderate — time is shorter

Household	Typical IUL Role	Design Emphasis	Caution Level
\$10M+ estate	Estate liquidity, ILIT, premium finance	Survivorship; guarantees; trust ownership	Lower need — purpose-driven

Ages and Timelines

- ◆ **In your 20s and 30s:** Low insurance costs and a long runway make this the most efficient time to start an accumulation policy, if the basics are covered.
- ◆ **In your 40s:** Often the peak years for IUL funding, alongside 401(k)s and Roth accounts, with retirement income 15 to 20 years away.
- ◆ **In your 50s:** Still workable, especially for heavy funders, but the design must be more conservative, and the policy needs at least ten years before income.
- ◆ **In your 60s and beyond:** IUL is primarily a death-benefit and estate tool, not a savings plan. Guaranteed designs often make more sense.

CHAPTER 26

A Due-Diligence Checklist Before You Buy

If these cannot be explained simply, that is itself useful information.

— Suba Narla, *The Protected Pivot*

Take this list to any meeting where an IUL is proposed. A good advisor will welcome it.

Purpose

- ◆ What is the primary job of this policy: protection, accumulation, or a specific planning goal?
- ◆ Why is IUL better for that job than term insurance plus investing, a Roth, a 529, or guaranteed universal life?

Design

- ◆ Is the death benefit the minimum non-MEC amount for my premium? If not, why not?
- ◆ Which death benefit option is used, and when will it change?
- ◆ How many years must I fund the policy, and what happens if I stop early?

Costs

- ◆ What are all of the charges: premium load, per-policy fee, face-amount charge, cost of insurance, and any strategy or multiplier charges?
- ◆ What is the surrender charge schedule, year by year?
- ◆ What will my cash surrender value be in years 1, 5, and 10, compared with what I will have paid in?

Illustrations

- ◆ Show me the illustration at the maximum rate, at about 5%, and at a lower rate.
- ◆ Show me the guaranteed column. When does the policy lapse on guarantees alone?

- ◆ What happens if the index credits zero for three years in a row, just as income begins?

Loans and Income

- ◆ Which loan types are available, at what rates, and can I switch?
- ◆ Is there an overloan protection rider, and what are its conditions?
- ◆ How much can I sustainably borrow each year at a conservative rate while keeping the policy in force to age 100?

Carrier and Advisor

- ◆ What are the carrier's financial strength ratings?
- ◆ How has this carrier treated caps and COI on its older in-force policies?
- ◆ How is the advisor compensated, and will they provide annual in-force reviews?

If You Plan to Be Your Own Banker

- ◆ How many years will it take before the policy has enough cash value to lend meaningfully?
- ◆ What loan types and rates are available, and how do loans affect index credits?
- ◆ What is my written repayment plan, and what loan-to-cash-value ceiling will I keep?
- ◆ Will extra repayments fit within the policy's MEC limits?

Before Signing

- ◆ Is this replacing an existing policy? If so, where is the side-by-side comparison?
- ◆ Do I understand the free-look period in my state, and will I use it to read the contract?

CHAPTER 27

Conclusion: The Private Bank Pivot

None of the strategies in this book are complicated in isolation.

— Suba Narla, *The Tax-Free Pivot*

A Fixed Index Universal Life policy is neither the rich man's Roth nor the worst product in finance. It is a flexible, tax-advantaged insurance contract that does a few things exceptionally well: it protects a family with an income-tax-free death benefit, shields savings from market losses, allows tax-free access during life, and carries no RMDs, age gates, or IRS contribution limits. It also carries real costs, capped growth, non-guaranteed elements, and loan risks that punish neglect.

The families who succeed with IUL tend to share a few habits. They decide the job before choosing the product. They design for accumulation or protection, not both at once by accident. They fund early and heavily enough to outgrow the costs. They illustrate conservatively. They borrow deliberately. And they review the policy every year, as seriously as they review their investment accounts.

The buckets he had built years earlier, not a single clever maneuver in the moment, were what made the down year a non-event.

— Suba Narla, *The Wealth Pivot*

That is the idea behind the whole Pivot series. *The Tax-Free Pivot* moves money from the bucket the IRS will tax into the bucket it will not. *The Protected Pivot* keeps that money growing without exposing it to a loss you cannot recover from. *The Wealth Pivot* shows how the plan changes as wealth grows. *The Private Bank Pivot* adds the one bucket that pays your family even if the plan is interrupted, and that can serve as your family's own private bank along the way. Used well, it makes the rest of the plan stronger; the difference is design, funding, and attention, all within your control.

Protect it. Grow it. Convert it to tax-free.

— Suba Narla, *The Protected Pivot*

APPENDIX A

Glossary of IUL Terms

Accelerated death benefit rider — A rider that pays part of the death benefit early if the insured has a qualifying terminal, chronic, or critical illness.

Annual reset — The feature of most index strategies that locks in each segment's credit and restarts measurement from the current index level.

Arbitrage (loan) — The difference between the index credit earned on borrowed cash value and the loan interest rate; it can be positive or negative.

Be Your Own Banker (Infinite Banking Concept) — Using a well-funded cash-value policy as a personal source of financing, borrowing against it and repaying the loans on your own schedule.

Basis — Generally, the total premiums paid, less any tax-free amounts previously withdrawn. Withdrawals up to basis from a non-MEC policy are not taxed.

Cap — The maximum index credit for a segment term, such as 10% per year.

Capitalization period — The early years of funding before a policy has enough cash value to support meaningful loans.

Cash surrender value — The cash value minus any surrender charges and outstanding loans; what you would receive if you surrendered the policy.

Cash value (accumulated value) — The policy's account balance after premiums, charges, and credits.

Cost of insurance (COI) — The monthly charge for the net amount at risk, which rises with age.

Crummey notice — A notice to ILIT beneficiaries of their temporary right to withdraw a gift, which allows the gift to qualify for the annual exclusion.

Death benefit Option A / B — Level death benefit (A) or face amount plus cash value (B).

Direct / non-direct recognition — Whole life dividend practices: direct recognition may adjust dividends on borrowed cash value; non-direct recognition generally does not.

Estate enhancement — Repositioning assets, often into life insurance, so that heirs receive more after all taxes.

Floor — The minimum index credit, usually 0%.

Guideline Premium Test / Cash Value Accumulation Test — The two Section 7702 tests that determine whether a contract qualifies as life insurance.

ILIT — Irrevocable Life Insurance Trust, used to keep life insurance proceeds out of the taxable estate.

Illustration — A projection of policy values under stated assumptions. Non-guaranteed values are not forecasts.

In-force illustration — An updated illustration of an existing policy, based on its actual values.

Loan (standard, participating, wash) — Borrowing from the insurer using cash value as collateral; the types differ in whether borrowed value keeps earning index credits.

MEC (Modified Endowment Contract) — A policy funded faster than the seven-pay test allows; loans and withdrawals become taxable gain-first, with a possible 10% penalty before 59½.

Mega backdoor Roth — After-tax contributions to a 401(k), up to the plan's total annual additions limit, that are converted to Roth through an in-plan conversion or in-service distribution.

Net amount at risk — The difference between the death benefit and the cash value; the amount the insurer is actually insuring.

No-lapse guarantee — A rider or feature that keeps the death benefit in force for a period if specified premiums are paid.

Option budget — The portion of the insurer's yield used to buy index options, which determines caps and participation rates.

Overloan protection rider — A rider that can prevent a heavily loaned policy from lapsing, avoiding a taxable event.

Paid-up additions (PUA) — Small blocks of fully paid whole life insurance, bought with dividends or extra premium, that increase cash value and death benefit.

Partial withdrawal (partial surrender) — Taking cash out of a policy directly rather than borrowing; tax-free up to basis in a non-MEC policy, but it permanently reduces cash value and usually the death benefit.

Participation rate — The percentage of the index gain credited to the policy.

Pension maximization — Electing a single-life pension and using life insurance to protect the surviving spouse.

Portability — A surviving spouse's ability to use the deceased spouse's unused federal estate tax exemption, if a timely estate tax return is filed.

Premium financing — Using a third-party loan to pay life insurance premiums.

Section 1035 exchange — A tax-free exchange of one life insurance policy for another (or for an annuity).

Section 7702 — The Internal Revenue Code section that defines life insurance for tax purposes.

Section 101(g) — The rule that allows qualifying accelerated death benefits for terminal or chronic illness to be received income-tax-free.

Seven-pay test — The Section 7702A test that determines MEC status.

Special-needs trust — A trust that holds assets for a person with a disability without disqualifying him or her from means-tested benefits.

Stand-alone long-term-care insurance — A policy that pays only for care costs when the insured needs help with daily activities or has a cognitive impairment; premiums are not guaranteed.

Surrender charge — A charge for surrendering or reducing the policy during the early years.

Term conversion — The right to exchange a term policy for a permanent policy without new medical underwriting.

Target premium — A premium figure used mainly to calculate commissions and some charges; not a funding recommendation.

Volatility-controlled index — An index that shifts between assets to target a stable level of volatility.

APPENDIX B

Quick-Reference Tables

B.1 — Key IUL Regulatory Milestones

Year	Milestone	What It Did
1979	Universal life introduced	Unbundled, flexible-premium permanent insurance
1984	DEFRA — IRC §7702	Defined life insurance for tax purposes
1988	TAMRA — IRC §7702A	Created the seven-pay test and MEC rules
1995	NAIC Model Regulation 582	Set general life illustration standards
1997	First IUL	Index-linked crediting with a 0% floor
2015	AG 49	Capped IUL illustrated rates and loan spreads
2020	AG 49-A	Limited bonuses and multipliers in illustrations
2021	§7702 interest rates updated	More premium allowed per dollar of death benefit
2023	AG 49-B	Limited volatility-controlled index illustrations
2026	AG 49-A disclosure revisions	Tightened historical index return disclosures

B.2 — How Money Comes Out of a Non-MEC IUL

Method	Tax Treatment	Effect on Policy
Withdrawal up to basis	Not taxable	Reduces cash value and usually death benefit

Method	Tax Treatment	Effect on Policy
Withdrawal above basis	Taxable as ordinary income	Reduces cash value and death benefit
Policy loan	Not taxable while policy stays in force	Loan accrues interest; repaid from death benefit
Surrender or lapse with a loan	Gain above basis taxable	Policy ends; possible tax with no cash
Death benefit	Generally income-tax-free	Loans repaid first; remainder to beneficiaries

B.3 — Protection Design vs. Accumulation Design

Feature	Protection Design	Accumulation Design
Goal	Most death benefit per premium dollar	Most cash value per premium dollar
Death benefit	As high as the budget allows	Minimum non-MEC for the planned premium
Premium	Near minimum or guaranteed level	Near the MEC limit, front-loaded
Death benefit option	Level (A)	Increasing (B), then level (A)
Typical buyer	Family protection; estate liquidity	Tax-free income; college; business capital

APPENDIX C

Selected Passages from the Author's Other Books

The following passages are drawn from *The Tax-Free Pivot*, *The Wealth Pivot*, and *The Protected Pivot*. They are included here because each one bears directly on how life insurance fits into a tax-efficient financial plan.

From The Tax-Free Pivot

This book is about the 25-year stretch between age 50 and 75 — probably the single most consequential tax-planning window most people will ever have. It is not a "do one big conversion and move on" strategy. It's a multi-year decision tree, and the right move at 52 can be the wrong move at 68.

In this valley, your taxable income might drop to near zero or be limited to modest dividends and interest. That's not a problem to solve — it's an opportunity to exploit. Every year you let that valley sit unused is a year of cheap tax brackets you'll never get back.

How do you know when to stop filling a bucket? Use the Break-Even Tax Rate, or BETR: convert up to the point where your current conversion tax rate equals — or beats — your projected future tax rate once RMDs, Social Security, and everything else layers on top.

A conversion is simply moving money from the first bucket to the second and paying the toll on the way across the bridge. The entire game is picking the years when the toll is cheapest.

From The Wealth Pivot

For forty years, the goal was simple: one metric, the balance at the bottom of the statement. You saved, you watched compound interest do its work, and you crossed the finish line believing the hard part was over. But retirement is not the end of the financial project — it is a transition from accumulation to decumulation, from saver to cash-flow manager.

True tax flexibility requires money in all three buckets. A household entering retirement with \$2 million sitting entirely inside a traditional 401(k) has zero flexibility — it is completely at the mercy of future tax-rate increases and legislative shifts, with no lower-taxed dollars to draw on in a high-income year.

Draining one bucket at a time feels tidy. It is also how undisciplined savers back themselves into the highest tax bracket of their lives at 73.

Retirement tax planning is not about illegal evasion; it is about strategic avoidance — understanding the tax code well enough to choose when, how, and from which bucket you draw income, so you keep the maximum amount possible.

From The Protected Pivot

They are there because the annuity decision and the tax decision are really the same decision viewed from two sides. An annuity decides how a dollar grows and pays out; the tax plan decides which bucket that dollar lives in and when the IRS gets its share.

For money that must be there on a specific date — the first decade of retirement income, the funds earmarked for Roth conversion taxes, the portion of a rollover that you simply cannot afford to see fall by a third — the FIA's outcome range is narrower and far more predictable, and in the years that matter most near retirement, predictability is often worth more than maximum upside.

Red flag: An illustration showing only "best case" or historical average index performance, without clearly showing worst-case (0% credit years) scenarios.

End of book.

ABOUT THE AUTHOR



Suba Narla

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Suba Narla is a Financial Advisor, Wealth Strategist, and Founder of Wealth Strategies USA, as well as a writer and educator focused on retirement income and tax strategies across the full spectrum of household wealth. His work centers on a simple premise: the mechanics of a good retirement plan — how withdrawals are sequenced, when Roth conversions make sense, how guaranteed income is built, how estate structures are designed — are the same regardless of net worth, even as the tools available and the risks that dominate change dramatically as assets grow. He especially enjoys converting clients' tax-deferred incomes to tax-free incomes.

The Private Bank Pivot brings together two of his core areas of focus — the insurance-based products that can protect a family while building tax-advantaged cash value, and the tax mechanics that determine how much of a family's income it actually keeps. This book connects the two directly: how Fixed Index Universal Life policies work, how they have changed, how to design and borrow from them wisely, how to use them to become your own banker, and how families at every income level — from working households to the ultra-wealthy — use them for tax-free income and to fund college, business, real estate, retirement, and legacy.

He is an independent insurance broker affiliated with several insurance companies, including American Equity, Annexus, Athene, Nationwide, North American, Allianz, Securian and Symetra. The information in this book is provided to explain concepts and how indexed life insurance is evolving, not to recommend any company or product.

He lives and writes in the United States and continues to research and publish on retirement income, tax-efficient wealth transfer, and family financial governance.

Also by Suba Narla

The Tax-Free Pivot — Your Plain-English Playbook for Roth Conversions, Ages 50 to 75. "The single most consequential tax-planning window for most people."

The Protected Pivot — Annuities, IRA & 401(k) Rollovers, Roth Conversions and Tax-Smart Retirement Strategies for Ages 50 to 85. "Protect it. Grow it. Convert it to tax-free."

The Wealth Pivot — Retirement Tax Strategies and Wealth Design for Financial Freedom, From \$250,000 to \$100 Million and Beyond. "Six wealth tiers. Seven tax strategies. One playbook."

www.WealthStrategiesUSA.com

Be your own banker. Protect your family. Borrow it tax-free.

Be Your Own Banker with Fixed Index Universal Life – Tax-Free Income, Funding for College, Business, Real Estate, Retirement & Legacy

Few financial products are sold with more enthusiasm, or criticized with more heat, than Fixed Index Universal Life insurance. **The Private Bank Pivot** cuts through both, explaining in plain English how an IUL really works, when it belongs in a plan, how to design it so it lasts, how to use it to become your own banker, and how families at every income level use it for tax-free income and funding for college, business, real estate, retirement, and legacy.

Inside, you'll learn:

- ◆ How to Be Your Own Banker: finance cars, tuition, and investments from your policy
- ◆ How term, whole life, UL, IUL, and VUL compare
- ◆ Index crediting, the 0% floor, and loan arbitrage, explained
- ◆ Tax-deferred growth and tax-free benefits, and the rules behind them
- ◆ Funding college, business, real estate, and retirement tax-free
- ◆ IUL vs. the mega backdoor Roth and stand-alone long-term care
- ◆ Withdrawals to basis vs. loans: two ways to take tax-free income
- ◆ Estate preservation, enhancement, and paying estate taxes at death
- ◆ Pitfalls and red flags, plus 27 case studies and a due-diligence checklist

"True tax flexibility requires money in all three buckets."

— from *The Wealth Pivot*



Suba Narla is a Financial Advisor, Wealth Strategist, and Founder of Wealth Strategies USA. He is the author of all six books in *The Pivot Series*.

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