Monty wants to understand arbitrage better and asks for you to explain it.

Monty, arbitrage is making money using someone else’s dollars. It’s a like a banker that gives you 2% for a CD but when you ask for a loan, he charges you 5% because you’re a “special” customer. Yet, he uses YOUR money to loan back to you!!!

With a variable loan with an IUL, the carrier uses YOUR account value to use as collateral to loan you the dollars you need. They charge the current Moody’s bond rate but it’s guaranteed to never go above 5%. **Your account stays in tack, inside the IUL crediting strategy that you picked, working to gain even more dollars!**

**Let’s take a look.**

Something happened in life that you needed a $1,000,000. Luckily, your policy had that amount in it so you decided to take it out. Let’s also assume you had paid in $500,000 over the years. Here is where the value of the rules and laws of life insurance come into play.

You may think the best option is to just take the $1,000,000. Well, anything over your basis of $500,000 is going to be taxed, so that’s not a positive step. Secondly, you use your valuable tax free life protection. Third, you lose the use of the chronic, critical, and terminal care riders.

But perhaps, most importantly, is achieving positive arbitrage.

Monty, let’s go to page 14 of our illustration. It’s the Historical Performance Summary. I’m going to ask you to take this pen and write with me the numbers we’re about to go over so neither one of us misses any details, okay? Now, I need to make clear before we begin that past performance is no guarantee of future performance but it does give us a glance at what the opportunity could be.

Let’s say you are in the Annual point to point crediting strategy. Now, we have to assume an basic interest rate. While today, it’s lower than I have ever seen it at 2.6%, let’s assume an average of 4%.

So, the carrier “loans” you $1,000,000 and charges you 4%. However you make NO payments toward your loan. Plus there is NO tax on the distribution.

Let’s make a couple of columns here – one for interest payments and one for gain or lost in any particular year.

Loan - $1,000,000 Interest Crediting Actual Gain/Loss Acct Vaue

2019 $40,000 13.50 +$95,000 $1,095,000

2018 $40,000 00.25 -$37,003 $1,057,997

2017 $40,000 13.50 +$102,829 $1,200,826

2016 $40,000 10.70 +$88,488 $1,289,314

2015 $40,000 2.70 -$5,189 $1,284,125

2014 $40,000 11.37 +$106,050 $1,390,175

2013 $40,000 13.50 +$147,673 $1,537,848

2012 $40,000 13.50 +$167,609 $1,705,457

2011 $40,000 00.25 -$35,736 $1,669,721

2010 $40,000 11.49 +$151,850 $1,821,571

2009 $40,000 13.50 +$205,911 $2,027,482

In this instance, you would have paid off the loan (if you would have liked) in ten years and had the $1,000,000 **back plus $27,482. You would have NEVER PAID A PENNY on the loan.**

Monty – So, when I took the loan, I had a $1,500,000 death benefit. Did I get to keep that?

No, at death, we would subtract the loan amount. So, when you took the loan, the death benefit would have fallen to $500,000. However, each year it started growing back. Also, expenses for the policy are being paid separate in our example. This is to show you the power of arbitrage.

I’m not sure where else you could achieve that.