EPISODE 1359

[INTRODUCTION]

Clay Hepler (CH): A lot of successful, wealthy families, corporations, banks, and real estate investors store their money in life insurance. Why is life insurance such an attractive place to store your money?

Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. We all are trying to build this thing called wealth. And people have different ways of making that happen. But one common way and I'm hearing more and more about this is this thing like building your own bank. I've been kind of new to that personally but trying to flesh that out. A lot of our investors asked me if I've done this, or asked me questions about it. So, as I interview people that are experts in those, I'm trying to figure these things out for myself also, and for our investors at the same time. Our guest today is an expert on this topic. He's gonna go through the benefits of doing this, of creating your own bank through a life insurance policy and what that looks like. He's gonna walk us through a great example as well, just simplifying it to help you to understand. I guess, some good questions at the end. I know we all have them, many of our investors have had as well about this topic. His name is Clay Hepler. He's a husband, a real estate investor, and Chief Wealth Strategist at Creative Capitalist. He empowers entrepreneurs, executives, and real estate investors to create, protect, and multiply their cash flow and maintain it no matter what happens in the market to get financial freedom and abundance faster. He has used this strategy in his own life and has grown from a negative net worth at 24 to over $3 million in real estate by age 25. So, he's moving fast and he's using this. I like that, so you know, having somebody on this, not just talking about this, but actually use this to build wealth and to buy real estate. So, maybe this is a great option for you. It's something you should definitely consider and learn more about to see if it fits your portfolio and your type of investing. Well, you're gonna learn a lot from Clay today.

[INTERVIEW]

WS: Clay, welcome to the show. I appreciate you sharing today. You and I connected at a conference a while back where I was speaking at and so grateful to have you on now. You'll be able to share with listeners some of the ways that you make things simple. And for many of us to understand that is the best way -- simplicity, to say the least. But you have some ways that you're working on finances, that you think differently about finances that I know are going to help us and our listeners today. Can you tell us a little bit about who you are? Welcome to the show.

CH: Hey, Whitney, super great to be here. I'm glad we were able to finally connect and share this time together. Hopefully, we can add value to your listeners. So, I am a real estate investor but my background is I'm a failed diplomat. I was working for the State Department, you know, US Embassy in Buenos Aires. I wanted to be a diplomat. I worked for the embassy. And what happened was, I got there and realized that all of my preconceived notions of what it would be to be in that position traveling around the world, and working with local government was really not exactly what I was doing; I was stamping passports. So, long story short, I said, hey, 'I really want to take some time off for college', so took some time off for college, and joined the family chocolate company. Now, when I joined the family chocolate company - luxury chocolate, very high end - I started to do sales and marketing and business development. I didn't have any experience with that before I did it, actually. I was very political, sort of political-oriented. I was thinking about poli sci, I was doing very sort of complex theses about US-Latin American bilateral, economic and political relationships.

WS: We all know about all that.

CH: So, long story short, I realized that I had a strong bent toward sales. I love to talk to people. And it was very easy, was a very easy product to sell. So, we scaled that business from two to 42 states in 18 months, and now we're in all 50 states. We have some of the highest recognitions as specialty food in America called the Sophie Awards. We have partnerships with celebrity chefs like Geoffrey Zakarian. We were on QVC and Good Morning America. I'm no longer a part of that business. All that good stuff happened a little bit after I left, actually. And when I left, the reason why I did that is because when I was there, Whitney, I met a guy that was incredibly successful. He's a real estate guy. And he, in his retirement years, basically, built this little specialty food empire in Washington, DC. So, I met him through, you know, parading one of his store managers, and from afar, he started to talk to me about how to build wealth. Because, I was this young guy and I said, hey, you know, I'm in this family business. I want to learn how to grow it. I see that you've grown businesses, and he was a developer. He was an office guy and multifamily guy and he started talking to me about real estate. He started talking to me about equity. He started talking to me about tax strategies and estate...and all these very high-level things that when you're that age, you don't really experience. Even if you read the books firsthand, it really started to change my mindset. And I said, hey, I gotta get out of the family business. I want to join a real estate firm.

So, I joined a real estate firm. And on the side, I started to buy stuff on my own. At that point, I bought a house hack, that was August of 2020. And then bought more properties and I'm up to 17 units now with a luxury Airbnb. I took all the strategies, the tactics, the mindsets of this guy, and I applied them to the firm. My firm, which is called the Creative Capitalist, we help entrepreneurs, real estate investors primarily, build their own bank so that their savings, their money, works harder for them without exposing themselves to more volatility or any risk or really doing anything drastic in their life. So, that's sort of my story, in a nutshell, a failed diplomat that was in the chocolate business and now, a real estate guy and a wealth consultant.

WS: The common path to real estate and wealth, right? The effort, so many times, yeah, the diplomat to chocolate. Of course. Interesting. Appreciate you sharing that. It's interesting, just the parts that are familiar. You know, it's like, if people have to pivot. We think we're gonna go down this path then, you realize, hey, this is not what I expected, not the dream that I thought it was gonna be. So, you were willing to pivot which I think is crucial. You're willing to make that big change. Then you joined the family business, which I think then also is difficult to step out of at times. And so, many family members may be very excited that you're a part of it now, right? When now you're leaving? What? You're gonna do something else? Maybe some disappointment there again. Well, you know, how many times is Clay gonna pivot here? What's Clay gonna do? But you didn't stop there. Thankfully, you've continued to grow. Maybe speak to switching. Before we move on to what that means about helping investors or real estate people that are entrepreneurs to build their own bank. Speak to pivoting from the family business, and now to doing your own thing. And, what was the family's take on that? Maybe you received some pushback? Maybe not?

CH: Yeah, so there was pushback. There was definitely pushback. And the reason why I did that was that I had sort of dropped out of college, and I joined the family business. I felt, even though we were very, very successful when I was there, and I did add a lot of value through sales and marketing efforts and business development, I didn't feel like it was entirely me. I didn't feel like it was my path. I walked into a role that I worked my butt off in the family business. So, we deserved the success that we got, and I wasn't given it. But, there's always that thing in the back of my mind, Whitney, that I said, gotta go out and prove myself. I gotta do this differently. I got it, I gotta do this. And so, I had to have that hard conversation. It was hard. It was hard. I was really making a significant impact with the family business. And no one's ever actually asked me this question. But I had to have that conversation, sit down with my mom and say, hey, Mom, I can't do this anymore. I gotta go out and do my own thing. And after really talking to her about it, and walking her through, she was like, go and do your own thing.

WS: Yeah, it's interesting. You had that conversation with her. And I think, with you being able to come with some weight to it and saying, you know, you've thought through this, this is what you're hoping to do, that maybe you almost painted that vision for her as well.

right? And she could see, it wasn't just you going out to do something random. You thought this through and had somewhat of a plan. Okay, so let's get to, you kind of piqued our interest a little bit earlier. You said you're helping investors build their own bank. What does that mean? And I know you're gonna keep it simple for us. So, even I can understand. So what does that mean?

CH: In America, we're taught a couple of things. We're taught financially to save our money in two places. The number one place that we're taught to save our money is in our Qualified Retirement Plans, government-endorsed plans, a 401K, an IRA or a Keogh. The other place is a savings account. And we're not really shown any other way. Now, when I talk with my mentor, originally, he started to ask me questions about how I view the world financially. One of the biggest things that I realized from him is that wealthy people store their cash in assets. Now, of course, there's a portion of their portfolio that is actually cash, literal cash. But wealthy people are constantly thinking about how can I make each one of my dollars work more efficiently for me? And when I store my money in a certain asset, there are risk profiles to the asset. You and I both know that the stock market is down 21% as of today for this year. It's incredibly volatile. Is that really a good place to store your cash? I don't know about that, I don't know about that. Even the short term if you need it for cash crunch, and there's a lot of other volatility where other entrepreneurs will store their money in real estate but it's kind of illiquid.

So, what my mentor, long story short taught me, and I'll try to keep this simple, is that a lot of successful wealthy families, corporations, banks, and real estate investors stored their money in life insurance. Why is life insurance such an attractive place to store your money? Well, there are incredible tax benefits. As real estate investors, you and I both know that one of the things that actually make it the most attractive for us is the tax benefits. It's not the appreciation, it's not the cash flow. It's really the ability to take losses and write them off against our income. There are so many other tax benefits that you can talk to your accountant about in real estate. Your money, when you put it in here grows tax-free, and where it currently is, it's about four to 6% compounded over your lifetime to have this tax-free growth. Another reason why they put their money in there is it is creditor and asset protected. What does that mean? Well, if you're a successful person, you're a real estate investor and entrepreneur suits come up. You get sued. And this is an ability to save a very large portion of your savings. It's incredibly liquid as well. You can have access to it, within a day of calling the life insurance company. You can pull out a loan as collateral for your savings in this account.

Now, it's very attractive because it's incredibly liquid. But it's also attractive because when you collateralize your cash value, just like real estate, the real estate can continue to go up. But with life insurance, when you collateralize it, there are guarantees that it's never going to go down. And there are also guarantees that you're going to experience an interest increase, a compounding of your interest rate every single year. So, in sum, the reason why the wealthiest families, real estate investors, and entrepreneurs like life insurance as their own bank, is because it's a place that has guarantees with their savings that are going to grow compounded over their lifetime, that they can continue to leverage and leverage again as if it was not even interrupting the compounding of your money in the account.

WS: All right, you've told us many great benefits there. How does it grow then? You know, we put it in this life insurance plan? What's causing it to grow?

CH: That is a really tremendous question. I don't think I've ever been asked that. So, the life insurance companies that we use Whitney, our mutual insurance companies, which if you were to translate that in the banking world, it's a credit union. As an owner of the life insurance policy with a mutual life insurance company, you are a policy owner. You own a portion of the profits of the life insurance company. So when you get your money and you deposit it in the form of premiums to these life insurance companies, what they do is they go out, and they invest it. They invest it in very, very high-quality core real estate assets. They invest it in a very, very conservative set of bonds. They have a portion of their portfolio that's actually in the life insurance loans that they give out. They have a portion in cash, and then there's a delta that they have between death benefits and paying out the death benefits as well. So, a life insurance company is going to take your premium money, and they're going to invest it in very conservative assets. That is why the dividend rate is between 4% to 6% because they have a guaranteed rate. Right now, it sits at about 3%. And then they have the addition, we'll call it the return of your premium, that's your premium being invested in and returning it to you. And last year was five and three-quarters percent of what the company that I currently help entrepreneurs that our policies with.

WS: Okay, so ultimately they're investing this money in low-risk, what they call as low-risk investments, right? So, that's how. You used that scary word earlier - guaranteed - I think.

CH: Yeah, I did, in the context of you have a contract with a life insurance company, and it's contractually guaranteed to grow. Now, again, a contract is only as good as the person with whom you have it. So, if you're a real skeptic, and some people are, you can say, well, if the life insurance companies burned down, there ain't no guarantees, right? Well, that's true. But these life insurance companies have been distributing dividends since the 1860s, mid-1800s. And so, you know, it's a good enough track record for me to say, hey, I really trust these life insurance companies to sort of go through any large storm. But that's good that you called me out there. Again, it's based on a guarantee that one institution makes to us, the policyholder.

WS: Yeah. And it's probably not the first time somebody's asked you about that because I know the listeners are wondering about that as well. But would you just like walk us through - to keep it simple and to help the listener and myself even to think through - using something like this? Can you just walk us through an example? Okay, you know, the listener has, $100,000 or whatever they're looking to invest? How would they use this to their advantage? Walk us through that a little bit, and what they should expect or how to do that?

CH: In terms of, if you had, say, $100,000 to put into a policy like this?

WS: Or any example that you might have?

CH: Sure. I'll give you an example of my personal life. So, I had a six-unit apartment building that - I'm gonna say these numbers and people might be like, oh, my gosh, I can't believe you got - but it's Pittsburgh, guys. It's not like, you know, it's not Denver, Colorado, I got it under contract for $395,000. Okay, the property was under contract for $395,000 and I put about $120,000 into it. After that, it appraised for about $740,000. So, this is a conventional value add. You and I both know, Whitney, you get the property, it's a more distressed asset, you invest the money into it, you increase the value and you increase the rent. Well, it appraised for $740,000. I get a loan for 80% of the loan-to-value on the back end. I just got this one actually. Originally purchased it. I had to come to the closing with 10% of the downpayment. So, I was all in about five... - I mean, you can help me do the math here - $535,000 or $540,000. With all the closing costs, and rehab costs, something like that. And for the 10% down, I use my life insurance policy loan. Okay? So, I called up the life insurance company and say, hey, can you wire this policy loan for closing? Wired into my account, and then I'll come with a cashier's check to give it at closing. So we went in there, I use the hard money to buy the building, put my 10% down, my money still on the side working for me. I guess last year was, like I said, five and three quarters was the gross dividend. I bought the building, and my money was still working for me. I didn't make a single interest payment. And then when I refinanced it, I just put the money right back into my life insurance policy.

WS: Okay, so, it's like, you could take a loan from yourself.

CH: Exactly.

WS: To make a deal happen.

CH: I would hesitate to say, loan from yourself, because you're not really taking a loan from yourself. You're taking a loan from the life insurance company and your policy is serving as collateral. I think that this is incredibly important to make sure when you're talking about life insurance or any of these strategies, it's very important to make sure that you're clear on how you describe things. Because some people make these life insurance policies out to be the best thing since sliced bread, even better than real estate. And I said, no, this is an alternative to your savings account that you should put some of your capital reserves, some of your operating expenses, some of your savings into. It's not going to be your real estate investing. I'm sorry. I mean, if it does, and you're a bad real estate investor.

WS: So you mentioned the money is still working on the side for you. What does that mean exactly?

CH: So, when you take a policy loan out, Whitney, you take a policy loan, and I had to take about a $50,000 policy loan, I forget exactly how much it was. And because I was collateralizing my savings in my life insurance policy, my life insurance policy was still distributing on a pro-rata basis, that's going on basically on a daily basis, distributing the dividends. So my money, my policy was still growing as I had a loan outstanding on the collateralizing the cash value. So my life insurance policy kept working for me, kept compounding for me as if I never took out the policy loan.

WS: Okay, a few more quick questions I want to get to before we run out of time. What about, so I put this money in there, are you automatically approved for this loan based on the amount you have in there, or percentage? Or is it just like, oh, wait a minute Clay, we've got to approve you personally, or check your credit, even though you put $200,000 in there, your credit is just a little bit low. So, we can't help you.

CH: Whitney, let's just do it. Let's go through exactly what you need to do right now. So, your listeners have total transparency on what's going to show up in your account year one, what the process is. I'll keep it quick because I know we're running short on time. So, what you do is you call up someone like myself, who helps people set up these policies. You say, hey, Clay, I'd like to set up a policy for X amount of money. Usually within the first year, if you put money in and we're gonna go through the approval process here in a second, about 70% to 75% of it shows up in the first year. And you might say, wait a second, what do you mean there's 70% and 75%, not 100%? Well, there's a death benefit that's associated with this. This is life insurance and there are expenses to this you got to pay the commission for the agent. Even though we need to dial these death benefits down greatly, and we reduce our commissions in the way we do it at the Creative Capitalist firm, there's still a delta between the amount of money that you put in at the beginning, and the amount of money that shows up in the first year. But if you call me and say, hey, Clayton, you give me your age, you give me where you live in terms of where your state of residence is, and then we go to a life insurance company, we give that information to them, and then they create an illustration.

An illustration is going to show your premium that you have to fund every single year up to a certain age. We can change that up as well, depending on how many years you want to pay this premium in. Okay, then you're gonna have to go through a health exam. Now, depending on your age, the company that I write for, give some variability with it. Sometimes they can do it completely virtual, you don't have to go in and schedule a physical with a doctor. But sometimes you have to. Again, this is life insurance, they want to make sure that if you are healthy, you have a benefit of a lower expense, cost per dollar that you put in. But if you're incredibly unhealthy, then it's gonna be more expensive, obviously, because there's a higher chance that you're gonna die. I hate to say it. And after that, if you're still gung-ho, and you say, hey, Clay, I'd like to continue to move forward. Then we would get your money and we start off. We start to deposit into your life insurance bank. When you put your money into a life insurance bank, you're gonna make sure that whomever you work with, there's a flexibility of funding. So that within the first time you put it in, you have access to that capital within 30 days that you can use to purchase real estate, to hire key employees, to invest in marketing, to buy businesses. But within 30 days after that whole period, usually takes a week, two weeks to do this whole process. Usually, after that two-week period, you can have that money in your account that you can start to leverage right away.

WS: Well, that's helpful to think through a little bit as an investor who's looking at this. So, is it typical, that somebody comes by, I'm gonna buy a million dollars life insurance? Or is it like, however much I'm putting in? How do you do that?

CH: So, the way that we think about it is what's your yearly premium, and then, we sort of work back from there. Because we can we can dial it up in terms of more life insurance premiums versus more cash value. Obviously, for most real estate investors, Whitney, we focus on how do we get stuff more cash value in there in such a way that you're gonna get a lot of early liquidity, but you're not going to give up on the long term growth of your policy. If you have too much cash value early on, what tends to happen is the performance of your policy over a long period of time will lapse behind a policy that has more of the life insurance base premium into it. So what we do is we make sure that we discuss with our clients, what is your optimal scenario. Make sure that they're comfortable with it, and then we move forward.

WS: Alright, so I know listeners wondering, you know, okay, Clay, I've tried this. I just don't like having my money in this. I don't like having to do this. How do I get it out? Or how do I, you know, do I still get to keep the growth? You know, what's mine? How do I stop?

CH: Great question. So, you can withdraw up to your cost basis very similar to a Roth IRA. If you have your money in a Roth IRA, you can take up your cost basis which, put in simple terms, is the amount of money that you've put in. But any anything over that there's a tax, obviously, because money is compounding in a tax-efficient way. If you take the money out, it's like cheating the system. It's like, not paying the government for the growth of your policy. So, there's a way for you to do what is called a 'cash surrender value'. And at some point, you can just surrender your cash. Sometimes that's a taxable event. Sometimes it's not, depends on how much you take out, depending on the growth. There are a lot of variables there. But you do have access to the ability to withdraw, number one, up to the amount of money that you put in and then there's additional, you can do a cash surrender value, surrender your policy.

WS: What happens when you die?

CH: What happens when you die? So, you get a check for your death benefit?

WS: Your family gets it, I guess, right? I just wonder what happens. Or if you have a loan out?

CH: Yeah, oh, yeah, exactly. So if you die, and you have an outstanding policy loan, that's just the policy loan subtract the total death benefit subtracted by the policy loan.

WS: Okay.

CH: If you just die in general, you don't have any outstanding policy loan, you get your death benefit. And that's passed, you can even make a pass to a trust, which sometimes we recommend our clients to do, pass to an individual, pass to a corporation. You can donate it. There are a lot of different ways to pass your death benefit. But long story short, it goes tax-free to your heirs.

WS: Okay, all right. Unfortunately, we got to move to a few final questions but I still want to give you the opportunity. Is there anything else that I've not asked you that you want the listener to need to know, about this opportunity, you know, like, they must know this thing?

CH: Yeah, I think the most important thing here, Whitney, is that there are no magic pills in this world. If anyone's selling you a magic pill, if anyone's saying, hey, this is just, you know, you need to do this, I would run away. I think that you need to work with someone, most importantly, that actually applies this to their own life, that maybe a real estate investor that's actually actively using it. So, you work with a practitioner. I always tell my clients, would you go, if you're skydiving for the first time, would you go with an instructor who's never skydived? I don't think so. So, I think that that's very important to consider when you're working with a professional, a syndicator like Whitney, the guy's been through it a couple of times. He's done a lot of different deals, a lot of different variables. Maybe that's a guy that you want to work with instead of the first syndicator that you've ever seen off the street. So, I would implore the listeners to know that this is not a get-rich, quick scheme. But it is a great way to store your savings and you should work with a practitioner who actually applies it to their life.

WS: All right, Clay, what are the most important metrics that you track? That could be personally or professionally. What are a couple of things that are important for you to track?

CH: So every Sunday, I get down, I do a relationship check-in with my wife. And we talk about hey, you know, how's our relationship temperature, how's our, you know, bedroom temperature, how's our professional temperature? Those are really important metrics for me. Because we're doing all of this, you know, getting on podcasts, promoting our brand, focusing on helping people, serving people. We're doing this with an altruistic posture in mind but we're also doing this so that we can live the life that we want. We're adding value to the world because we know that it's going to come back to us. And to me, the most important thing in my life is my family.

So, I know that I've had a successful week, not only when I've been successful in terms of having new clients, buying a building, getting out there on more podcasts, like great podcasts like this. But I know I've had a successful week when I can sit down with my wife at the end of the week. And she says, wow, you know, our temperatures are really high this week. You know, we had a really great week together. You know, I feel really comfortable about where we are financially. I'm very hopeful about where we are. We had this, you know, Saturday was such a great day. Maybe we should do this next Saturday, right? All those things were super important to me. So that's the biggest thing that I track.

WS: Love that. I've never heard of that before. As far as the every Sunday relationship check-in, that's so valuable. No doubt about it. What are some habits that you are disciplined about that have produced the highest return?

CH: Yes. So this is actually a new habit. I used to be the morning guy. That Tony Robbins, you know, meditation and cold showers and all these things, that journaling and the, you know, the Miracle Morning. And I heard this guy, that's a performance coach, his name is Craig Ballantyne. He has this The Perfect Day Formula. Yeah. Well, you're gonna know exactly what I'll say now. I get up in the morning, and I do work, man. I do the work. I do the most important work that requires a tremendous amount of mental energy. They might have a lot of friction. Jeff Bezos calls it, the overhead. You know, 80% of his work is overhead or 70%, and 30% is actually fun. While I get that overhead done in the morning. And I used to wait to work out, to have my meditation, and by that time, it's nine o'clock. Instead, I just wake up and get after it for an hour and a half, two hours. And then, I know that for the rest of my day, Whitney, I can be successful. I can meet with people, and I can be more present because I know that I put in the work early in the morning to ensure that the biggest tasks that I have to move forward are being moved forward.

WS: Like that. How do you like to give back?

CH: Yeah, so I actually donate a portion of my income every year to people and charities that I'm excited about. So every year is kind of different. I know that you have your own charity and sort of bent towards philanthropy. I can say that I can do better, but I've really made an effort to put up a part of my life, focusing on and orienting around, hey, what's something that's really getting me excited and aligning with that with my actual income. It makes making financial freedom and abundance a lot more giving to yourself because you're focusing on helping other people with the fruits of your labor.

WS: Clay, grateful to have had you on the show. I'm glad that we connected at a conference and now you've been a guest on the show and you've helped listeners think through this model of using life insurance to help them maybe buy a piece of real estate or to promote their business in some way or to have that capital available while also earning on it. I've interviewed numerous people around this topic and it can be complicated at times. Or just think through how we do this. So I appreciate your simplicity and just the example that you use as well. I think it's very helpful. How can the listeners get in touch with you and learn more about you?

CH: Absolutely. So you can reach me, I actually have a webinar that I put together, a video that I put together for your listeners. You can just go right to my homepage, and Creative-Capitalist and you can get it right there. I did it specifically for this podcast and then you can reach out to me if you have any questions, you can text me 4125523029. You can reach me at that number. Don't hesitate to reach out if you have any questions about BRRRR investing or house hacking, or helping you build more wealth by building your own bank.

[END OF INTERVIEW]

[OUTRO]

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