How whole life helped build Disney and other famous companies

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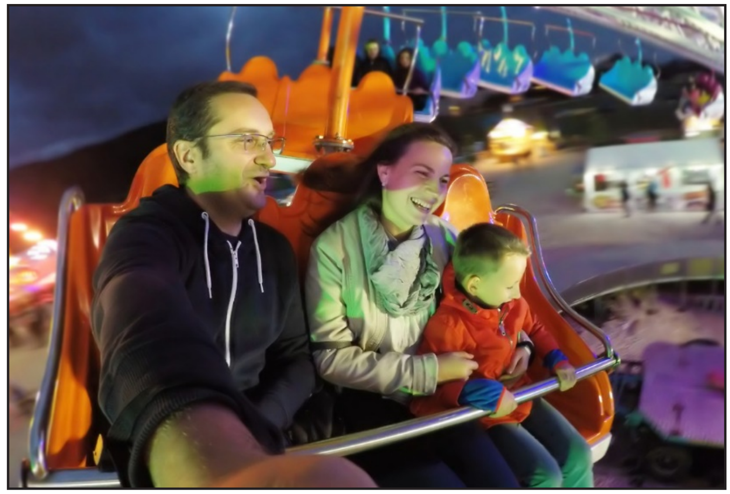
When it comes to success, it isn't necessarily about having the best product or service; rather, it's about having access to capital, also known as cash. Operating capital is just as important to business owners as it is to individuals. Having access to liquid assets is important to fund emergency situations, take advantage of investment opportunities, meet business obligations (rent, payroll, inventory, or debts), as well as invest in one's future. Said a different way, when opportunities intersect with liquidity, conditions for a successful outcome become much more favorable.

Without adequate capital, it's nearly impossible for a business to succeed. One statistic in particular proves this: The number-one reason why 82% of small businesses fail is due to cash flow problems.[1]



Here are just some of the common ways that business owners and individuals seek funding. Although these funding sources have benefits, here's why they may not be an ideal way to access cash:

- **Small Business Administration (SBA) loans:** There can be strict qualification requirements for borrowers seeking this type of loan — such as pre-payment penalties or having to collateralize the personal residence. There may also be restrictions on how the money can be used.
- **Retirement plan assets:** There are limits on how much money can be borrowed from retirement plan accounts. Some plans, such as SEP-IRAs, don't offer loans. Common retirement plan loan provisions have a limit of $50,000 and must be repaid over 60 months (with some exceptions). This can make for high loan repayment amounts, often at a time when it is difficult to afford. It is also worth noting that loan interest paid is non-deductible and goes back into the borrower's account, but that money will be taxed once again when distributions are taken from the account.[2] If employment should terminate before age 59½ and there is an outstanding loan balance, the account holder will likely have to pay a 10% penalty on the loan balance, in addition to ordinary income tax.
- **Investment accounts:** When this funding source is used, the account owners ordinarily have to sell the underlying investment, which means they could be forfeiting any future gains on their liquidated investments, potentially incurring a lost opportunity cost. In addition, they may be subject to capital gains tax. If they have a Margin Account set up, they would have the option to borrow against their account value, but a decrease in account value can trigger a "margin call."
- **Home equity loans:** A decline in home values or income may make this type of money inaccessible. In addition, as many people experienced in 2008, the credit lines can be shut down without notice.[3]

Did you know whole life helped launch these well-known companies?

If you are looking for access to cash, you may be able to tap one often-overlooked asset — whole life.[4] Some very well-known companies have used the cash value of whole life to help them start their company, run their company, or even survive during challenging times:

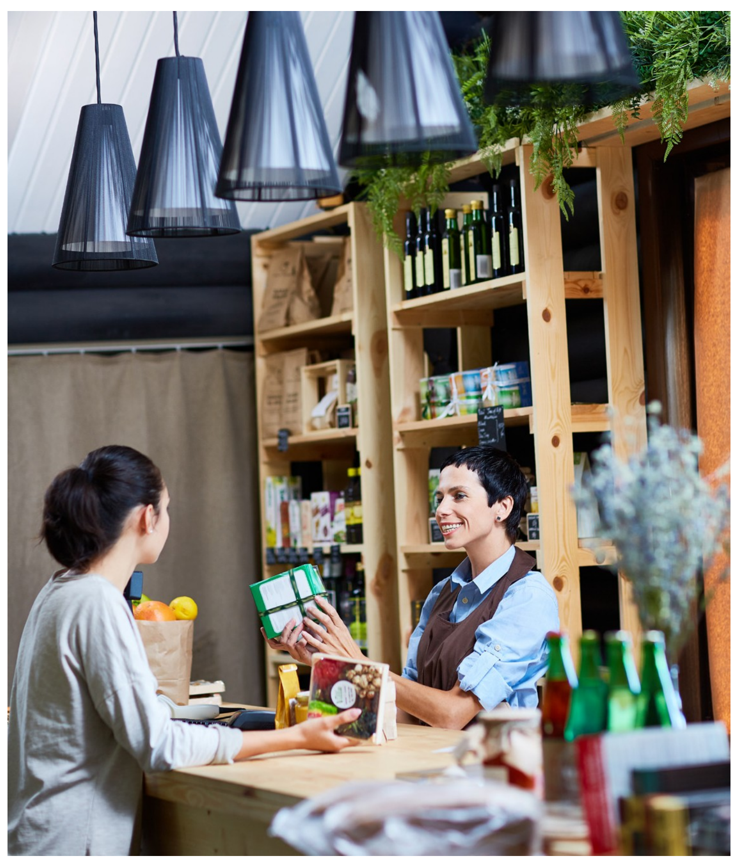
- **Walt Disney:** In the 1950s, Walt Disney had an ambitious plan: to build a family-friendly amusement park featuring innovative rides and attractions with modern amenities. Disney sold his vacation home and emptied his savings, but it wasn't enough to fund his dream, and no bank would lend him the start-up capital he needed.[5] Finally, he used the cash value from his whole life insurance policy to finance his first amusement park. By the end of its first year, Disneyland had hosted more than 3.5 million visitors.[6]

- **McDonald's:** In 1961, when Ray Kroc tried to expand McDonald's, he had to contend with increasing cash flow shortages, steep competition, and a difficult economy. According to publicly available sources, to pay his key employees and launch an advertising campaign focused on the now ubiquitous mascot Ronald McDonald, Kroc borrowed cash value from two whole life insurance policies. The strategy paid off handsomely, ultimately making McDonald's a global brand in over 100 countries.[7]

- **J.C. Penney:** In 1898, James Cash Penney, who worked in a small chain of dry goods stores known as the Golden Rule Store, impressed the owners so much that they offered him a one-third partnership in a new store they were opening in Kemmerer, Wyoming. Penney subsequently helped them open two more stores, and when the original Golden Rule Store owners ended their partnership in 1907, Penney bought them out, purchasing all three stores. In 1913, he moved the company headquarters to Salt Lake City and incorporated it as the J.C. Penney Company. In the wake of the stock market crash of 1929 and the ensuing Great Depression, Penney borrowed against the cash value of his life insurance policies to help the company fund its day-to-day operations, thus keeping J.C. Penney afloat during a financially devastating period that many other companies did not survive.[8]

- **Pampered Chef:** In 1980, stay-at-home mom and entrepreneur Doris Christopher developed the idea for a business through which other homemakers would offer cooking presentations in their homes for friends and neighbors using Christopher's cookware and recipes. For financing, she borrowed $3,000 from the cash value of her whole life insurance policy and launched the Pampered Chef in her Chicago home.[9] The business took off, and Pampered Chef was ultimately acquired, in 2002, by Warren Buffett's Berkshire Hathaway corporation, reportedly for $900 million.[10] Today, the company's 60,000 sales reps sell their products through one million in-home cooking presentations a year.[11]

- **Foster Farms:** In 1939, Max and Verda Foster borrowed $1,000 against their life insurance policy to purchase an 80-acre farm near Modesto, California. They began by raising turkeys, and then expanded to chicken production.[12] Today, this privately owned company is one of the biggest poultry producers on the West Coast.



- **Stanford University:** Pacific Mutual Life (now Pacific Life) issued its first life insurance policy to Leland Stanford, the company's first president, in 1868. After losing his son, Leland Jr., to Typhoid fever in 1884, the former California governor and U.S. senator and his wife, Jane Stanford, founded Stanford University. After Leland Sr.'s death in 1893, the university started facing financial difficulties. Focused on saving the university from an early demise, Jane used her husband's life insurance policy proceeds to help fund Stanford's operational expenses, thus enabling the university to withstand a six-year period of financial uncertainty.[13]

These are just a few examples of companies that have benefited from the cash value of whole life, with the exception of Stanford University, which benefited from the death proceeds. All are amazing success stories, and brands you might never have heard of if it weren't for whole life.

How whole life can help you

Whole life not only provides financial protection to your loved ones or your business associates in the event of your death, but it can also provide you with living benefits. Its guaranteed cash value[14] grows tax-deferred[15] and is accessible via policy loans.[16] You also have the right to withdraw accumulated cash value without tax consequences, up to the cost basis of your policy.

Having access to cash can help you fund your business, purchase a home, provide college tuition, or enhance your retirement strategy. Cash value uses are limited only by one's imagination and opportunities.

Whole life's many advantages include:

- **Cash flow you can count on:** Without access to capital, a business may not be able to operate for long. It's at the heart of everything you do. As an individual, access to cash is equally important.

- **Enhanced liquidity and greater certainty:** With access to cash value from whole life, you can be better prepared for the uncertainties you will undoubtedly face from time to time — and the cash value of your policy can help take the guesswork out of where your funding may come from.

- **The ability to fund large purchases:** If you need to finance a "big-ticket" item, such as equipment or the down payment on a piece of real estate, you may be able to tap into the cash value of your whole life policy for the money you need.

- **Freedom from high-interest loans:** With your ability to access the cash value of your whole life policy, you may be able to avoid the high interest rates that often come with personal, auto, and business loans.

- **Greater control of your money:** No matter what you need cash for, you don't need to ask for a lender's "permission" when you can access the cash value of your whole life policy. This kind of flexibility can help you survive in good times, and bad. And it can give you more financial confidence during challenging times.

- **Protection for those you care about:** Those who are closest to you — your loved ones, or business partners, for example — could suffer great financial loss if something should happen to you. Whole life can help provide them with valuable protection should the unthinkable occur.

- **Inheritance equalization:** With family businesses, it can be particularly difficult to be fair to all the heirs when one child is involved in running the business and the others are not. If your business is left to an actively participating child, your other children will likely be hurt by their smaller inheritance. Life insurance can provide estate equalization among the children — without an inopportune liquidation of other assets, which could include the business itself.

As a business owner, you know that launching, growing, and running a successful business is one of the most challenging things anyone can do. But whether you own a business or not, you probably know that it's critical to protect what you've worked so hard to build. Whole life enables you to help financially protect your loved ones, while enjoying access to the cash that can help you fund your dreams today.

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[1] Source: Sutter, Brian, "The #1 Reason Small Businesses Fail - And How to Avoid It," Wasp Barcode Technologies, June 1, 2019 <https://www.score.org/blog/1-reason-small-businesses-fail-and-how-avoid-it>

[2] Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

[3] Source: Lenders Freezing Some Home Equity Loans, CBS News, Feb. 27, 2008 < https://www.cbsnews.com/news/lenders-freezing-some-home-equity-loans/>

[4] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% tax penalty.

[5] Source: Yellen, Pamela, Famous people who use the Bank On Yourself method, June 30, 2010 < https://www.bankonyourself.com/famous-people-who-use-the-bank-on-yourself-method.html>

[6] Source: "Slideshow: 6 famous brands started or saved by life insurance," Think Advisor, 2012 <https://www.thinkadvisor.com/2012/04/06/slideshow-6-famous-brands-started-or-saved-by-life/?migration=1&slreturn=1507917094>

[7] Ibid

[8] Ibid

[9] Ibid

[10] Source: Yellen, Pamela, Famous people who use the Bank On Yourself method, June 30, 2010 < https://www.bankonyourself.com/famous-people-who-use-the-bank-on-yourself-method.html>

[11] Source: "The Pampered Chef Ltd," Vault, 2017 <https://www.vault.com/company-profiles/retail/the-pampered-chef-ltd>

[12] Source: "Slideshow: 6 famous brands started or saved by life insurance," Think Advisor, 2012 <https://www.thinkadvisor.com/2012/04/06/slideshow-6-famous-brands-started-or-saved-by-life/?migration=1&slreturn=1507917094>

[13] Ibid

[14] All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims-paying ability of the issuing insurance company. Policy loans and withdrawals affect the guarantees by reducing the policy's death benefit and cash values.

[15] Some whole life polices do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

[16] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

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