Episode #161: Triple Your Retirement Contributions Without Having to Fund More Money

Video Transcription

Hello. My name is Luke Geller, and welcome to another episode of Money Script Monday. Today, we're going to be talking about how to triple your retirement contributions without actually having to spend more money, which I know sounds too good to be true. Still, we're going to talk about a way to efficiently utilize your retirement contribution dollars to maximize the amount you're getting out of it. And you know, that's extremely important in the environment, in the world that we live in today. In the world that we live in today, there's a lot of craziness going. Between COVID, politics, and everything that's happening in the world, you know, sometimes you lose sight of what's happening with you and you know, I know personally, and I know a lot of people sometimes can't sleep at night. Wake up at three in the morning thinking about your retirement, your job, protecting your family, and your health; there's so much going on. The reason why we all do this is to try and help protect our clients and the people that we work with and make sure that we can try to take away one less stressor that they have.

Going back to how I grew up, I grew up in a household with a single mom and sister. My mom worked 60 hours a week to put a roof over our head, put food in our fridge, make sure that we went to the good, safe schools that she wanted us to go to, and she didn't put herself first. She put her myself and my sister first, which I thank her for so much, but she didn't put her retirement or her future ahead of us. Or not even ahead of us, but she didn't think about it. She just wanted to make sure that we were safe, she protected us, she had a roof over our head, and you know, that resonates with me for why I do this. Why I do these videos, why I try to help as many people as possible with their retirement and protecting their families and protecting their legacies, etc. is because of what my mom did for my sister and I. I want everyone to be able to protect their family but also protect themselves and their future.

And what we're going to talk about today is a way to do that efficiently. I want to make sure you take your retirement dollars and utilize them as efficiently and maximize them. What we're going to talk about is we're going to go into Index Universal Life, which is a vehicle that you can use for retirement. It's not one that's often talked about. We do have a ton of videos, a ton of information on Index Universal Life, so if you do have any more questions, any questions that you want to get in-depth on it, please ask us, reach out, we'll be happy to share them, but today we're just going to go on a high-level view of it.

With Index Universal Life, the reason it's a great vehicle, I mean most people are putting their money in 401ks, 403bs, if you're lucky you have a pension. You might have an IRA, a Roth IRA. Those are great vehicles, but the reason why we would use Index Universal Life is the three that we have listed here. We want to create protection for all the stock market losses in volatility; we want to have tax advantage benefits and want solid rates in return. Well, an IUL can house all those. You know when we're talking about protection from stock market volatility, you're putting your money in an Index Universal Life policy, which is putting your money in an index that mirrors the stock market but isn't actually in the market. So when the market's volatile, right, going up and down, like especially these last six months and the market's been down 30%, up 60%, down 20%, it's a lot of volatility, and you have to worry about it.

In an IUL in that index, there is a zero floor, and you have upside gains too, so you participate in those gains, but you stay away from those losses. Now, you also have tax advantage benefits so you can grow that money, tax-deferred that you put in there, pull it out tax-free in the form of loans, and get competitive rates of return you can earn upwards of 20% we've seen. But again, our primary goal is to avoid those losses, but we do want some gains too. So that's where an IUL can fit. Again, I mentioned that I wanted to make sure you're maximizing and putting your contributions to work as efficiently as possible, so how do we do that?

Well, one of the best ways to do that, especially right now, is by utilizing other people's money and the way you can do that is by borrowing money from a bank to increase those contributions that you're putting in. And so how this would work is you would put in, and again there's no dollar amount here, but let's say you're putting in $30,000 a year in contributions, so each year here, you're putting in $30,000. Well, the bank is going to match that $30,000 for the first 5 years, and then they're going to contribute the full $60,000 years 6-10. Right now, you're taking your funds, and you're tripling the amount you're contributing inside this retirement vehicle in an IUL.

Now you're also getting all these other benefits that we talked about. You're getting the tax-free growth and tax-free distributions in the form of loans; you're getting that protection from stock market volatility. All in this vehicle, you're putting in three times the amount you're utilizing other people's money.

Now you might be thinking, "Well, you know I've heard of this concept, this concept of small case pre-financing before but don't you need to be a millionaire or have 10 million dollars to utilize the strategy?" And the answer is no. The strategy can be used if you qualify for it and really to qualify, if you make over $150-200,000 annually, or have about a 1.5 or 2 million net worth, there's a good chance that you could qualify for this strategy. You would be able to efficiently put in and maximize the contribution dollars you're utilizing inside an IUL. Again, you might be thinking, "Well, how does that work? That doesn't seem like it will work. How am I going to pay off the bank? What's the money going to do in there?" With a positive arbitrage and right now, it's the best time to utilize this strategy because of the environment we're in. Because of the interest rate environment we're in, we have a huge ability to take advantage of those rates. So right now, the current one-year liable rate is 0.42%.

Now, what usually that liable rate is used by banks to determine the percentage of loans or the cost of the loans for the interest rate. Now, the bank is also going to charge an interest rate spread of 1.75 on top of that current one-year liable. What that means is that you are being charged interest of 2.17% on top of the money you're borrowing. Okay? You're being charged 2.17%, but again, we're putting that money into an Index Universal Life policy that has competitive rates of return. Now the average ROR, a rate of return in an IUL, and I'll put an asterisk here because that's going to depend on the index you use, how you split up the money between different index options, but this is based off of what's called the [inaudible] index is 8.56%. Now that's extremely high because when we talk about average, we're talking about 50%. That means 50% of the policies didn't earn 8.56%. Ideally, all we need to average and what we normally would illustrate is 6% between 6 and 7%, closer to 6%. If you average 6% for the life of the policy, that means you're earning a positive arbitrage spread of close to 4% on the money you're borrowing plus all the money you put in yourself too. So you have the gains of the money you put in yourself, the 4% gains on the money that you're borrowing, and then your 15 down the line once you build up enough cash value, you can take a loan out that's tax-free, pay off the bank and then now all that money is yours, still earning interest. It's an amazing strategy.

Now again, we're looking at a 30,000-foot view of this strategy here today. If you want to go deeper into it, actually see what an illustration would look like for your situation, please give us a call, ask us, and be happy to walk you through what that looks like and really get into some of the nitty-gritty details on it. But at the end of the day, what we want to do, what I'm trying to accomplish is I want you to think about, well, actually, I don't want you to think, wake up in the middle of the night, thinking about what are you going to do in retirement, what are you going to do...how are you going to efficiently spend your money to make sure you're doing the best thing possible.

I want to protect your funds, we want to make sure that your retirement is protected, your nest egg is protected, and that your family is protected and this does all that. This strategy helps you in all those aspects so please, I hope you could take something out of today and make sure that you take action and ask about how you qualify for it, and how this can help you in your situation. I hope you have a great day and until next time, we'll see you then.