Episode #273: Using Hybrid Leveraging to Multiply Your Tax-Free Retirement

Hello and welcome to another episode of Money Script Monday. My name is Luke Geller, and today we're going to be talking about how to use hybrid leveraging to multiply your tax-free retirement. And I want you to key in on that word tax-free retirement because we're going to start focusing on what is the benefit and what are the benefits of tax-free retirement. So up here we have three different buckets. Okay. We have a taxable bucket, a tax-deferred bucket, and a tax-free or a tax-exempt bucket.

In this taxable account, this is where you would have things like your checking, your savings accounts, really your liquid assets that you have there, and the tax-deferred account, it's going to be like your 401(k), 403(b)s, IRAs and that's money that you're not paying taxes on yet. And then the tax-free account is going to be like Roth IRAs, Roth 401(k)s, maybe 529 plans for educational use, and then cash-value life insurance. Okay.

If we look at the pros and cons of each of these buckets, in this taxable bucket, what you're doing is you're earning an income. You're paying taxes on that money, and then you're putting it in this taxable bucket and you can put it into your checking, your savings or even managed accounts. If you put it in this taxable bucket, as that money grows every single year, you pay taxes on any of the gains in there. You're paying basically taxes twice on that money. Not super efficient.

In this tax deferred bucket, you are earning an income and you're not paying any taxes on that money before you put it into this bucket, okay? But you'll notice there's still a couple of leaky holes in that bucket. And that's because as that money grows, whenever you take that money out, you will pay taxes on it. Well, that doesn't seem like that bad of a deal. However, if you think about it, right, any amount that you put in this

bucket to start is going to be the smallest that money will ever be unless you plan on losing it. But say you put $100,000 in that bucket and 20 years later it grows to $600,000. Well, instead of paying taxes on just a $100,000, now you're paying taxes on all 600,000 of it when you decide to take that money out. Oh, and you can't touch that money until you're 59.5. If you don't want to touch that money, you are forced to take that money out at 72 with required minimum distributions. And why would they want you to take that money out or force you to? It's because they want to make sure that Uncle Sam does get that money that you owe them for taxes. They know exactly how much that grew to. Say you want to pass that off to your beneficiaries. If it's still in this tax-deferred account, they have to pay taxes on it when they get that money or within the next 10 years that they get that money. The taxes will be paid and again, not the most efficient manner.

In this tax-free bucket, which is a great bucket, what you have is you're paying taxes on the money that as you earn it in income and you're putting it into an investment account in here. As that money grows, it grows tax free. As you pull it out, it's tax free as well. If I were to ask my clients where most of their money is, they're going to say in this tax-deferred bucket. But if I ask them where they want most of their money, they're going to say in this tax-free bucket because it's the most efficient way to diversify your tax portfolio is to have most of your money in this tax-free account.

How can we really maximize that and how can we really utilize a tool like cash-value life insurance? The reason we'll use cash-value life insurance is because you don't really have a limit on what you can put in there to grow tax free, and you also are protected from that market volatility as well. So it's a great tool to use. Well, one way we can maximize that is by using hybrid leveraging. So what's hybrid leveraging? It's utilizing cash-value life insurance where you're putting in $1 of your own money and the hybrid leveraging strategy, or the bank is matching that dollar with $3 of their own. So if you put $150,000 of your own money over a 5-

year, 10-year period, the bank's going to match that with $450,000 of their own. So now, you have $600,000 of buying power of tax-free growing power within this cash-value life insurance using this hybrid leverage strategy, which means you have more cash value in there. You have a higher death benefit than you would've if it was just your money. And then when you do end up taking income and taking loans from that policy, those are going to be much higher as well.

How does that work? What you do is you put your money in the account and let that grow. And as the bank matches, you let that grow for 15 years, and at year 15 you pay back the bank with the growth within this account. Now, you have much more spending power. You had much more spending power because your $1 turned into $4, and that grew over time and then you paid back the bank and now you have this large amount to utilize in your tax-free account.

And you might say, well, why would you go to a bank to borrow money in this interest rate environment? First is, this is a long-term option. It's 15-year strategy. So, yes, we do have high interest rates, especially considering just a couple of years ago we were in one of the best interest rate environments for this type of plan of all time. It was 2.5%, 3.5% rates. Well, we're still at about a 5.5% rate in some cases and in most cases actually. And that leaves you plenty of room to grow your money, and outgrow, and outpace whatever that interest rate is.

Two, the reason they can keep those interest rates low is because, yes, 3 to 1 on your money is great, but a lot of those large premium finance cases or large premium finance policies, they're leveraged 5 to 1, 10 to 1, and those interest rates are much higher because of that. The more out-of-pocket you have, the better interest rate and the safer that plan is. And that's why these hybrid leveraging strategy, and that's why we're calling it a hybrid strategy works so well. And so with that hybrid strategy, you're doing, again, two things. You're really taking advantage of this tax-free account, of this tax-free bucket that is so important especially in your tax portfolio, in your retirement portfolio. You're

multiplying and taking advantage to the best of your ability of growing your retirement accounts tax free.

I hope you had a great and educational experience today, and we look forward to having you to our next Money Script Monday. Again, my name is Luke Geller and thank you.