

# The Investment Optimizer

By Rod Zabriskie

## Executive Summary

The Investment Optimizer is a unique strategy that allows us to create the following benefits for cash flow investors:

- Create tax-free growth
- Preserve liquidity
- Protect capital
- Enhance cash-flow investing
- Create value in multiple places with the same dollars

## The Problem

When it comes to cash flow investing, the easy place to flow our money through is a basic savings account, or a money market account. And, people go this route because of the easy access and safety inherent with these types of accounts. The problem is that they don't provide the kinds of growth and tax benefits that are available through another type of account. In fact, what we call The Investment Optimizer is a strategy created to solve for the inefficiencies that exist with using these basic accounts for our opportunity fund.

First, let's introduce the vehicle that we use, and then we'll walk through the strategy itself. We'll peel back the layers to reveal not only the benefits, but the way we create those benefits.

## The Vehicle

We use maximum overfunded dividend-paying whole life insurance. Now, before we go any further, let's be clear about what we mean here. The type of whole life policies we're setting up are very different than what people are typically familiar with. They're carefully structured to minimize cost and maximize the cash growth inside the policy. By doing this, we're able to take advantage of the many benefits that exist within cash value life insurance to enhance cash flow investing.

Below is a quick summary of those benefits:

- **Net 5–6% return**—After factoring in all costs on the one hand, plus interest and dividends earned on the other, we can expect to see a 5–6% net return, even in the low interest rate environment we've been experiencing over the last decade plus.
- **Tax-free growth**—Because the IRS gives cash value life insurance preferential treatment, all of the growth can be accessed tax-free. This includes access for investing, retirement income and even the death benefit.
- **Safe / Predictable**—The companies that offer these policies are financially strong, A-rated companies with an amazing track record of paying dividends. The cash value is also creditor protected against lawsuits and other predators of wealth.\*
- **Liquid**—Once funds go into the policy, they're accessible within a few weeks for investing in cash flow investments.

- **Special loan provision**—Because of the way we access the funds, we’re able to capture some unique efficiencies by taking loans against the cash value for investing. The bulk of this whitepaper will focus on these efficiencies.
- **Death Benefit / LTC**—Although we’re focusing the bulk of our attention on the “living benefits” of these policies, it of course provides a level of life insurance benefit that we don’t have to pay for in any other way. And, through chronic illness riders, we also have access to a portion of the death benefit while living toward long-term care types of expenses.

## The Strategy: Part I

The first thing we’re going to do is capitalize the opportunity fund. We do this in the form of premiums going into the life insurance policy. To be clear, in this use of the word, premiums do NOT equal costs. In insurance terms, it refers to all dollars going into the policy. Because it is specifically designed to grow cash value, the actual costs are very low in comparison with the traditional whole life policy.

Once the money is in the policy, it begins to grow through 2 engines:

1. Guaranteed 4% interest
2. Dividend



First, let’s hit on the guaranteed interest. We’re often asked why an insurance company can offer 4% guaranteed interest when banks are paying next to

nothing. It comes from the nature of the companies themselves. These are highly capitalized companies that have to make sure they’re ready to pay out large life insurance claims whether the insured dies next year or in 50 years. So, they invest in long-term places like bonds, notes and real estate. Because of this, they are able to even out the extremes unlike an individual or a bank could.

Now for the dividend. Because we use Mutual Life Insurance Companies, we become shareholders in the company by having a policy with the company. So, at the end of the year, when they declare a dividend, we take our portion and put it right back into the policy to create even more compounding growth. Depending on the company, as of 2020 the total combined interest and dividend is right around 5.5%–6%.

So, when we factor in costs, combined with the interest and dividend growth, when measured over a long period of time we end up with around a 5% net return on every dollar we put in—tax free. To be clear, it isn’t that our end goal is to generate the return inside the policy, because ultimately we want to use those funds to create much larger returns in real estate, businesses, notes, etc. Having said that, depending on our tax bracket we would have to generate a 7–9% return in a taxable account to match the 5% tax-free return.

This compounded growth continues uninterrupted, even if we decide to take a loan against the cash value for investing. Let’s address how this works next.

## The Strategy: Part II

Now that we've capitalized the opportunity fund, we're ready to start loaning against the cash value to use in our cash flow investing. This gives us access to the general account of the insurance company—a separate bucket of money. In other words, when we take a loan against our



cash value the money that comes as a result is NOT coming out of our own funds, but from the funds of the insurance company. This means that our bucket continues to grow and compound even while we're using the loan to invest.

As we generate cash flow from the investment, we're going to funnel that back toward the loan. This effectively replenishes our opportunity fund, and we go back out and do it again. We effectually use the strategy for the same investments we would do anyway; we just enhance that investing with the benefits created here. By flowing the money in and out of the policy, the same way we would do with our savings account, we are capturing benefits through leverage that we don't get with the savings account. Specifically, the following 3 benefits:

1. Tax-free growth in the account
2. Value in multiple places at the same time
3. Arbitrage—earning compound interest versus paying simple interest

We've already gone into detail on the first 2 benefits. Let's expand on the third, because we're able to do something here that we can't duplicate in the savings account.

After we've taken the loan, and as we are investing those funds, we do pay interest on the loan. The amazing thing that happens, though, is that we pay simple interest on the loan, while enjoying compounding interest in the cash value of the policy. It's probably fair to say that most people are familiar with the difference between simple

and compound interest. However, when we put actual numbers to it, we can really bring it to life.

Let's take a hypothetical example showing how impactful this difference between simple and compound is, based on the following assumptions:

- \$100,000 loan
- 5% interest due annually on the loan
- 20-yr amortized loan payback
- 5% compounding growth on the \$100,000 in the cash value

As you can see in the chart below, when we play out this loan scenario, the total interest paid by the end of the 20 years is \$60,485.

Year	BOY Loan Balance	Interest Charged	Principal Payment	EOY Loan Payment	EOY Loan Balance
1	100,000	5,000	3,024	8,024	96,976
2	96,976	4,849	3,175	8,024	93,800
3	93,800	4,690	3,334	8,024	90,466
4	90,466	4,523	3,501	8,024	86,965
5	86,965	4,348	3,676	8,024	83,289
6	83,289	4,164	3,860	8,024	79,429
7	79,429	3,971	4,053	8,024	75,376
8	75,376	3,769	4,255	8,024	71,121
9	71,121	3,556	4,468	8,024	66,653
10	66,653	3,333	4,692	8,024	61,961
11	61,961	3,098	4,926	8,024	57,035
12	57,035	2,852	5,173	8,024	51,862
13	51,862	2,593	5,431	8,024	46,431
14	46,431	2,322	5,703	8,024	40,729
15	40,729	2,036	5,988	8,024	34,741
16	34,741	1,737	6,287	8,024	28,454
17	28,454	1,423	6,602	8,024	21,852
18	21,852	1,093	6,932	8,024	14,920
19	14,920	746	7,278	8,024	7,642
20	7,642	382	7,642	8,024	(0)
<b>TOTALS</b>		<b>60,485</b>	<b>100,000</b>	<b>160,485</b>	<b>(0)</b>

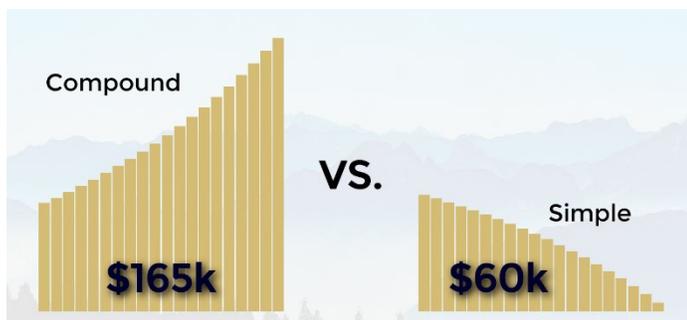
### Simple Interest on the Loan

Now, let's look at the \$100,000 that is compounding inside of the policy over the same 20-year period. By the time the 20 years has passed, the total compounded interest earned is \$165,330.

Year	BOY Acct Value	Earnings Rate	Interest Earnings	EOY Acct Value
1	100,000	5.00%	5,000	105,000
2	105,000	5.00%	5,250	110,250
3	110,250	5.00%	5,513	115,763
4	115,763	5.00%	5,788	121,551
5	121,551	5.00%	6,078	127,628
6	127,628	5.00%	6,381	134,010
7	134,010	5.00%	6,700	140,710
8	140,710	5.00%	7,036	147,746
9	147,746	5.00%	7,387	155,133
10	155,133	5.00%	7,757	162,889
11	162,889	5.00%	8,144	171,034
12	171,034	5.00%	8,552	179,586
13	179,586	5.00%	8,979	188,565
14	188,565	5.00%	9,428	197,993
15	197,993	5.00%	9,900	207,893
16	207,893	5.00%	10,395	218,287
17	218,287	5.00%	10,914	229,202
18	229,202	5.00%	11,460	240,662
19	240,662	5.00%	12,033	252,695
20	252,695	5.00%	12,635	265,330
<b>TOTALS</b>			<b>165,330</b>	<b>265,330</b>

### Compound Interest in the Policy

This is further summarized in the visual below. On the left-hand side, we have the prototypical compound curve. On the right-hand side, we have something even better than the typical simple interest scenario. In this case, because we're paying down the loan, the interest paid is actually on a decreasing value, which makes it all the more powerful.



Before we go further, let's hit on another powerful benefit from the way the loan provision works. Because the cash value of the policy with the insurance company is acting as collateral against the loan, payback of the loan

is completely up to the policyholder. In the example above, we showed a level 20-year amortized payback. Having said that, the payback of the loan could have been on whatever schedule the investor prefers. It could be interest only, followed by a balloon payoff. It could be level periodic payments, or varied random payments. Ultimately, we recommend setting up the payback based on the cashflow from the investment. Remember, the idea is to replenish the opportunity fund as soon as possible so that we can go back out and do it again.

### Beyond Investing

When the individual gets to the point where they're no longer creating new investments, and move to a "retirement" phase of life, in addition to the cash flow investments, this policy that we've created is a great source for tax-free income in retirement. From a tax standpoint, it acts a lot like a Roth (without all of the age- and income-based restrictions). In other words, all of the funds going into the policy were after-tax. The account then grew and compounded on a tax-deferred basis, and then the funds come out of the policy tax-free. This is true whether we're using the funds as loans for investing, income in retirement, or ultimately as the death benefit when the person passes away.

### Summary

Let's summarize the key points of The Investment Optimizer:

1. Enhance cash flow investing
2. Tax-free growth
3. Safe, predictable vehicle
4. Creditor protection
5. Phase II: Retirement income

**For more information on The Investment Optimizer, including an informative webinar, feel free to visit our website at [www.moneyinsights.net](http://www.moneyinsights.net).**