Becoming Your Own BANKER

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# Money Velocity

By L. Carlos Lara

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*Becoming Your Own Banker*®, by author R. Nelson Nash is an extraordinary book. And yet, it's not actually a book as much as it is a book-*let*. A mere one hundred and seven pages in its entirety, it dispenses wisdom and logic of a kind that only an individual who has been educated in the Austrian School tradition could have written. Neither the brevity of its treatment nor its plain language takes away from the fact that it contains information of great intellectual and financial depth. What has become apparent since its initial writing is that the power of its message motivates its readers to read it not just once, but over and over again. With each reading, new insights are ascertained. Readers are moved to share its wisdom. Over 200,00 copies have sold, advertised predominantly by word of mouth. With the advent of the Internet there is no way to estimate the range or speed with which the information contained in this book will eventually spread. What is certain is that wherever it goes it brings *good news*.

In this article, I want to take up the subject of one such nugget of wisdom contained in this book. If I am successful in explaining it correctly it may be helpful in unlocking the mysteries of the Infinite Banking Concept for you. In my opinion, I believe it is the key to its understanding. In fact, Nelson himself says that if you understand this one piece, the rest of learning how to be your own banker is *"a piece of cake."* [1]

The priceless information I am alluding to is found on pages 17 and 18 under the chapter heading, *The Grocery Store*. We are all familiar with what it says, but it may be fruitful to read it once more either before, or after, you examine this explanation.

Nelson begins this chapter by helping us to imagine ourselves in a business where we are both a *consumer* and a *seller* and points us to the grocery business. Here is an enterprise that most of us are familiar with and believe we understand perfectly. I suspect that if you are anything like me, you were all ready to skim over this material quickly and get to the bottom line. Fortunately, Nelson very early on in this explanation admonishes us to bear with him as he walks us through the fundamentals of this business. He underscores that *"there is a significant reason for this exercise."* [2]

As Nelson continues his explanation you will next notice that he begins emphasizing the set-up cost of such a business. Obviously, it will require a considerable amount of capital that is to be invested at great risk because the competition in the grocery business is enormous. He moves from there to the *objective of the business*, which is to provide us income and to build it so that it is eventually sold and can provide us retirement income. So far so good and everything explained up to this point makes perfect sense. But then here come the moving parts that if we do not understand them here may keep us going in circles forever as we keep reading. Fortunately, Nelson sends us back to these two pages if we discover that we are failing to get the message. One such recommendation is found on page 22 and another is made on page 63. He is very clear about this and it is indicative of the fact that the concept explained here could be difficult to grasp.

*"If you have trouble understanding this, go back to the grocery store on page 17. If you still don't understand, then call me!"*[3]

What is it about the components mentioned in these two pages that make them among the most central, if not the central components, of the entire book? To answer this question we really do have to have some basic knowledge of how the retail business works. After all, he is talking about a grocery store. Here again, this is a subject most people think they fully understand since all of us are food consumers and purchase this product everyday of our lives. But there is much more to retail than meets the eye and it centers squarely on *"inventory control."* Please believe me when I say this because I make my living as a consultant to businesses in financial crisis and I happen to have cut my teeth in the retail industry. Here, at least, I do know what I am talking about. What I can tell you for certain is that in the retail industry, the inventory is the *lifeblood* of the business. Without a continuous flow of fresh inventory retail businesses will die. This is why retailers focus so much of their attention on this *flow* and refer to it as *"inventory turnover."* Noticeably, so does Nelson. The idea is simply this: The higher the inventory turnover the more profitable is your retail business. What we see here, in the opening pages of his book, is Nelson's methodical approach to drawing a correlation between the turnover of cans of peas and the dynamics and fluidity of money inside of an insurance policy. We begin to see what actually happens when a policy owner takes out a loan, pays it back and repeats these procedures over and over again. This turnover rate as it applies to the interest of policy loans is more specifically depicted in the chapter, Equipment Financing on page 59 of his book. It is this concept; or rather the importance of the rate of turnover that we must fully comprehend.

At our *Night of Clarity* event just this past week Nelson walked us through a picture diagram of the grocery store complete with a cashier at the front door, an inventory storeroom near the back door and shopping bins and aisles in the center. He then goes on to explain *margin*. Using a can of peas as an illustration he showed that the difference between the can's full retail price of 60 cents and its replacement cost of 57 cents represents an incredibly low dollar margin of only 3 cents. He then announces, that in the pea selling business, *"You must turn the inventory 15 times just to break even!"* [4] Here is what he means:

| | | |
|---|---|---|
| Total Retail Sales: | 60 cents x 15 turns = | $9.00 |
| Total Cost of Goods: | 57 cents x 15 turns = | $8.55 |
| Gross Profit: | | $0.45 |
| Minus expenses: | | $0.45 |
| Break-even: | | $0.00 |

Please notice that Nelson does not quantify the expenses in his written illustration. The reader must assume that the entirety of the categories listed in the book, such as the *"interest you must pay on the huge sums of money you have borrowed to buy the land, the building, the signs, advertising, payroll and fringe benefits, utilities, legal fees, accounting, etc.,"*[5] all amount to the 45 cents in the above calculation. You must also assume that these expenses remain constant as the turns in inventory increase thereby moving your business toward profitability.

Now we begin to see why Nelson's rule, *"Don't steal the peas!"*[6] makes absolute sense, especially when you have to sell 20 cans of peas to make up for one stolen one. This of course parallels his insistence that all policy loans must be repaid. Not to do so is equivalent to stealing from yourself. Furthermore, when he argues that the family should actually be paying extra, that is paying 62 cents on each can of peas instead of 60, the margin for profitability will increase that much more. The extra 2 cents is representative of more capital being poured back into the business. This equates to his admonishment, in the Equipment Financing chapter, to always pay more interest on policy loans than is actually due.

In the seminar, but not in the book, Nelson compares inventory turnover to *"money velocity."* Money velocity, however, is more often associated with economics and money supply than as an accounting for inventory management. Is there a connection? Let's look and see.

Wikipedia offers probably one of the best and more easily understood definitions of money velocity, with a simple illustration for purposes of clarification:

*"The velocity of money (also called the velocity of circulation) is the average frequency with which a unit of money is spent in a specific period of time. Velocity associates the amount of economic activity associated with a given money supply. If, for example, in a very small economy, a farmer and a mechanic, with just $50 between them, buy goods and services from each other in just three transactions over the course of a year*

- *Farmer spends $50 on tractor repair from mechanic*
- *Mechanic buys $40 of corn from farmer.*
- *Mechanic spends $10 on barn cats from farmer*

*Then $100 changed hands in the course of a year, even though there is only $50 in this little economy. That $100 level is possible because each dollar was spent an average of twice a year which is to say that velocity was 2/yr"*[6]

In this example of a small economy, what we see is that with each additional transaction—from 3 to 4 to 5 and so on, the total amount of *revenues* or *gross income* in the economy will certainly increase, but the initial money supply will remain the same. There is no need to increase the money supply because money, remember, is used for exchange purposes only. Today's money is not consumable as in the days when gold was *commodity money* and was used for both jewelry and money. More money in the economy only reduces its value. On the other hand, more canned peas in the economy is good for all of us. We have more to eat, and because of its abundance, the price of each can of peas will come down. Our money will buy more of them.

But let's not deviate too far away from the main point Nelson is trying to get across. The bottom line of his message is that the velocity of money and/or the turnover of money, increases the *wealth* of the businessowner!

Alternatively, *inventory turnover* is so similar to the definition of money velocity that Nelson calls it the same thing. Specifically, however, inventory turnover is more often associated with consumable products as in the types of products found in grocery stores. Although it is true that a bank's inventory is money, fiat money is not consumable, and unfortunately for us, banks do increase the quantity of money through loans. This is why borrowing from your policy, rather than a bank, actually works at strengthening the dollar. The quantity of money is not increased.

In the retail business, a high inventory turnover, or high velocity, indicates efficient management of inventory. The more frequently the inventory turns, the less amount of money is required to finance the inventory. Once again, this is the bottom line of Nelson's message. Retailers learn to re-stock fast selling products while cutting back on slow turning items. The goal is to achieve a high rate of turnover for the entire inventory of product lines. Profitability is achieved when high margins are maintained and operating expenses are kept low.

In essence the crux of pages 17 and 18 represent the groundwork to prepare the reader for the more difficult applications that are to be used beginning on page 59 in the chapter titled Equipment Financing. Once having fully understood the principles of paying off your loans, and the concept of paying in more interest than is actually required on your policy loans, starts to make complete sense. That extra interest and its turnover rate will over time produce more wealth as it accumulates within the infrastructure of the policy that is consistently compounding. The power of compounding is extremely important especially when it is consistent, safe from tax and inflation as I wrote about last month in the article titled *The Perfect Investment*. Only dividend paying whole-life is able to accomplish this. When you factor in the tax benefits and the expense write-offs when implemented alongside a corporate entity, the results do seem magical. But actually, it is nothing more than astute money management utilizing a financial product that practically does it all— *so long as you combine it with*

*Nelson's advice and insight.* As he recently stated to me:

> *"Think like a Forester—long range*
> *Don't be afraid to capitalize*
> *Don't steal the peas*

*Maybe I should add another—DON'T DO BUSINESS WITH BANKS"* [7]

*Bibliography*

*1. R. Nelson Nash, Becoming Your Own Banker, Fifth Edition, Copyright 2003, Infinite Banking Concepts, Birmingham, Al. Part I, The Grocery Store, page 18*
*2. R. Nelson Nash, Becoming Your Own Banker, page 17*
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## There's No Such Thing as a Free Lunch

By Paul A. Cleveland

The study of economics begins with a deductive conclusion that necessarily follows from a self-evident fact. Consider first the obvious fact of our individual lives. If you are reading this you know that you are reading it. That is, you are immediately aware of your own existence. It requires no proof on your part since it is a self-evident truth. It is called self-evident because any attempt on your part to deny it must affirm the proposition itself. Only someone aware of himself can make the attempt to deny it. Thus, any attempt at denial of the proposition is hopelessly irrational. Moreover, since you are aware of yourself you are also aware of your own unachieved ends, purposes and desires. The reason why you have been unable to achieve all of your ends is that you lack sufficient means. This leads us to the necessary conclusion which is there is no free lunch. That is, you must choose how to allocate your means to the achievement of your ends and every choice carries a cost. Economists often refer to this cost as opportunity cost.

Our ends can be as mundane as what will eat for lunch or as important as what kind of medical care we will pursue when facing some illness. But, whatever the nature of the decision, all of them bare an economic cost. We live in a world where we simply cannot accomplish everything we might like to accomplish. Still, we can all imagine a better future in which we can accomplish more of what we want and we all know that to get to this future we must accumulate more means if we are to achieve more ends. The question is, how can we best work to most effectively do this?

One of the nice things about the IBC method of finance is that it forces you to recognize this fact in your own financial affairs. Whenever you buy something using credit, you must pay the lender interest on the money he lends to you. In doing so he recognizes the first principle of economics by realizing the opportunity cost of forgoing his own desires to lend you something of his economic wherewithal. Thus, when you pay back the loan at interest you are merely realizing this economic truth, but you are also subjugating yourself and your future to the lender

At this point you are tempted to conclude that the best practice would be to pay cash for all those things that you wish to purchase. While this might be better than borrowing, it also shows that you are ignoring the first principle of economics. When you spend your cash without realizing the fact that you are giving up interest you are essentially depleting your own capital resources.

By employing the IBC method, you can accurately and truthfully realize the opportunity cost of financing the things you want to buy in a way that pays yourself back with interest. In this way you are living in conformity with the first principle of economics. In addition, you are continuously expanding your own capital resources as you go about the business of living your life in this world. This requires a discipline that most people have not shown in their lives. However, if you embrace it you will enhance your own financial future.

## The Pagan View

by Henry Grady Weaver

The pagan has a fatalistic outlook on life. He believes that the individual is helpless; that he is wholly at the mercy of relentless forces outside of himself; that there's nothing he can do to improve his lot.

The vast majority of people have always been pagans. Most of them are still pagans. The superstition is deep-seated. It had its beginning back in prehistoric times.

Mythology tells how special gods were in charge of everything affecting human life. Some gods controlled thunder; some controlled lightning; some controlled rain. Others controlled the seasons, the bounty of the harvest, the multiplication of the flocks, and the birth of children.

There were sun-gods, love-gods, gods of jealousy, gods of hatred, and gods of war. Whimsical and prankish gods looked after everything. All that man could do was to keep peace with them by making such sacrifices, human and otherwise, as were dictated by tribal custom.

In ancient times, the pagan gods and goddesses were known by various names — Zeus, Isis, Osiris, Eros, Jupiter, Juno, Apollo, Venus, Mercury, Diana, Neptune, Pluto, Mars. In modern times, they are given more modern names, but the underlying idea is the same.

From the pagan viewpoint, man is not self-controlling, not responsible for his own acts. The pagan universe is timeless, changeless, static. There is no such thing as progress. Any apparent change is merely a human illusion. Man is passive. His place is fixed. He has no freedom of will. His fate is decreed. If he tries to resist, his efforts will be futile.

The pagan belief is similar to that of a very young child. The newborn babe has not yet learned how to control himself. He must be spanked before he can even breathe, and for a long time he will kick himself in the eye when he tries to taste his toes. He cannot get food; he is fed. He is uncomfortable, and he is turned over. Warmth, comfort, cleanliness — all are given to him by some power outside himself, enormously stronger than he. This power controls the *conditions* of his life, but it does not control *him*. Did you ever try to stop a baby's squalling when he merely wanted to squall?

If babies were able to think and speak, no doubt any baby — all babies — would contend that some great power controls the lives of babies. But babies grow up, and in time the normal baby becomes a self-controlling human being. Yet, throughout all history, down to and including modern times, few adult persons have ever discovered that they are really free.

**An Ancient Superstition**

Most human beings cling to the ancient superstition that they are not self-controlling and not responsible for their own acts. For thousands of years, the majority has always believed that men are passive objects controlled by some superhuman or superindividual authority — and for thousands of years, people have gone hungry.

One of the oldest, if not *the* oldest, form of pagan worship is based on the idea that human destiny is controlled by the over-all will-of-the-tribe, rather than by the initiative and free will of the individual persons who make up the tribe. It is true that human beings must exchange mutual aid with each other on this inhospitable and dangerous planet. Perhaps from a dim sense of this natural kinship — the brotherhood of man — savages in prehistoric times came to believe that they were governed by the spirit of Demos, a superindividual will of the "mass," endowed with omnipotent power and authority.

The welfare of this mystic being is called "the common good," which is supposed to be more important than the good of the individual — just as the health of a human body is more important than the life of any cell in it. It is in this concept that we find the origin of human sacrifice to the pagan gods. No one hesitates to destroy the cells of the hair on his head nor of the nails on his fingers or toes. They are not important in themselves. Their only value is their use to the body as a whole. Thus, for that "common good" they are sacrificed without a moment's thought or pity.

It was precisely in that spirit that the ancient Aztec priest thrust a knife into the human victim on the altar and, with holy incantations, tore out the bleeding heart. In that same spirit, the Cretans sacrificed their loveliest daughters to the Minoan bull, and the Carthaginians burned their living babies to placate the great god, Moloch.

Some insects actually do seem to be controlled by an authority outside themselves. The honeybee, for example, appears to be wholly lacking in self-faith and individual initiative. A will-of-the-swarm seems to control it. The bee's life is exhausted in selfless, changeless toil for the common good. The swarm itself seems to be the living creature. If the queen is taken away, a hundred thousand bees die, just as a headless body dies.

**Man versus Bee**

The collectivists, ancient and modern, contend that human society should be set up like the beehive. In a way, it is an appealing concept — at least to the theorists, including the majority of professional writers. It is much simpler to assume that human beings "stay put" or that there should be some overriding authority that would make them stay put. But to think that way is to think like a bee — if a bee really thinks.

The plain fact of the matter is that human beings, with their hopes and aspirations and the faculty for reasoning, are very different from bees. Man combines conscious curiosity with the lessons of experience and, when permitted to do so, makes the combination pay continuous dividends. In contrast to the lower animals, he includes himself and his social affairs within the scope of his curiosity.

Bees, down through the ages, continue to act like automatons and keep on building the same little cells of wax. But human society is made up of unpredictable relationships between individual persons. It is boy meeting girl, Mrs. Jones telephoning Mrs. Smith, Robinson buying a cigar, the motorist stopping for gas, the minister making his round of calls, the postman delivering mail, the lobbyist tipping the bellboy and meeting a congressman, the school child bargaining for bubble gum, the dentist saying, "Wider, please!" Society is the innumerable relationships of persons in their infinite variety in space and in time.

**The Purpose of Society**

And what is the one constant element in all these relationships? Why does one person want to meet another person? What is the human purpose in society?

It is to exchange one good for another good more desired. Putting it on a personal basis, it is a matter of benefiting yourself by getting something you desire from another person who, at the same time, benefits himself by getting something that he desires from you. The object of such contacts is the peaceful exchange of benefits, mutual aid, co-operation — for each person's gain. The incalculable sum of all these meetings is human society, which is simply all the individual human actions that express the brotherhood of man.

To discuss the welfare and responsibilities of society as an abstract whole, as if it were like a bee swarm, is an oversimplification and a fantasy. The real human world is made by persons, not by societies. The only human development is the self-development of the individual person. There is no shortcut!

But even today, many civilized persons — nice people, cultured, gentle, and kind, our friends and our neighbors, almost all of us at some time or another — have harbored the pagan belief that the sacrifice of the individual person serves a higher good. The superstition lingers in the false ideal of selflessness — which emphasizes conformity to the will-of-the-mass — as against the Christian virtues of self-reliance, self-improvement, self-faith, self-respect, self-discipline, and a recognition of one's *duties* as well as *one's* rights.

Such thinking is promoted under the banner of social reform, but it gives rise to the tyrants of "do-goodism" — the führers, the dictators, the overlords — who slaughter their own subjects, the very people who look to them for the more abundant life and for protection against harm.

Today such killings are called "liquidation," "blood purge," "social engineering"; but they are defended on the basis of pagan barbarism — a sacrifice of the individual under the alibi of what is claimed to be the "common good."

**The Humanitarian with the Guillotine**

In her discerning book, *The God of the Machine,* Isabel Paterson draws important distinctions between Christian kindliness directed toward the relief of distress, and the misguided efforts of those who would make it a vehicle for self-aggrandizement.

She points out that most of the major ills of the world have been caused by well-meaning people who ignored the principle of individual freedom, except as applied to themselves, and who were obsessed with fanatical zeal to improve the lot of mankind-in-the-mass through some pet formula of their own. "It is at this point," she says, "that the humanitarian sets up the guillotine."[1]

Although prompted by good intentions, such a program is usually the outgrowth of egomania fanned by self-hypnotism. As stated before, it is based on this idea: "I am right. Those who disagree are wrong. If they can't be forced into line, they must be destroyed."

Egoism, a natural human trait, is constructive when kept within bounds. But it is highly presumptuous of any mortal man to assume that he is endowed with such fantastic ability that he can run the affairs of all his fellowmen better than they, as individuals, can run their own personal affairs.

As Miss Paterson observes, the harm done by ordinary criminals, murderers, gangsters, and thieves is negligible in comparison with the agony inflicted upon human beings by the professional "do-gooders," who attempt to set themselves up as gods on earth and who would ruthlessly force their views on all others — with the abiding assurance that the end justifies the means.

But it is a mistake to assume that the do-gooders are insincere. The danger lies in the fact that their faith is just as devout and just as ardent as that of the ancient Aztec priest.

Henry Grady Weaver (1889–1949) worked as a mechanic, salesman, and draftsman before becoming director of customer research for General Motors. It was for that work that he was placed on the cover of the November 14, 1938 issue of *Time* magazine. He is best known for his work *The Mainspring of Human Progress*. This article is excerpted from *The Mainspring of Human Progress* (1943), chapter 4, "The Pagan View".

Have an interesting article or quote related to IBC? We gladly accept article submissions as long as premission to reprint is provided. Send submissions for review and possible inclusion in BankNotes to david@infinitebanking.org.

# IBC in Canada?

The following information was provided by McGuire Financial, www.mcguirefinancial.ca, successful practitioners of *The Infinite Banking Concept* in Canada since 2009.

**Can *The Infinite Banking Concept* be practiced in Canada?** *Yes.*

**Recommended Steps:**

1. Read Nelson Nash's book, *Becoming Your Own Banker.*

*Agents purchase bulk copies of the book. Read it cover to cover and get copies into the hands of your prospective clients. [the book was written for the consumer, not the insurance agent!]*

2. Attend a Nelson Nash Event - live seminar or Think Tank. The trip will be worth the investment and the relationships that you will develop are immeasurable in value.

*Agents, attend an authorized IBC Agent Training Course.*

3. Find an experienced practitioner who can assist you with proper implementation of the Infinite Banking Concept.

*Agents do the same; your credibility will be measured by how you use IBC in your own life's circumstances and with your Canadian Clients.*

4. Learn all that you can about *Infinite Banking Concepts* and then spread the word. The more Families, Businesses and Individuals that discover and implement IBC, the better.

**FAQ:**

**Are there Life Insurance Carriers in Canada that have ideal participating dividend paying whole life products?** *Yes, there are at least three Canadian insurance companies that work, (but only one true mutual). Contact the Canadian agents listed in our agent finder for more information.*

**Do these Canadian life carriers provide policies with contractual guarantees, i.e. guaranteed cash accumulation, and guaranteed premiums, eligible for dividends?** *Yes. There are a variety of participating product options with each carrier. You can add items such as paid-up additions riders, term riders, offset options, accelerated deposit options (overfunding), dividend options, and more. Proper policy design is a critical step in optimizing the living benefits.*

**Can we access policy loans with ease and repay them on our own terms?** *Yes. With all three life carriers, you can access between 90 – 100% of available total cash values in their policies by way of policy loans. The process is either a phone call or fax to the life carrier. And, policy loans can be repaid on the client's own terms.*

**Are there experienced Canadian practitioners that I can work with to implement Infinite Banking Concepts in my own life and in my marketplace?** *Yes. McGuire Financial agents are experienced as are other Canadian producers listed in our Website Agent Finder. For an extended listing of practicing agents please contact us.*

*David Stearns*

**Nelson's Newly Added Book Recommendations**
**http://infinitebanking.org/reading-list/**

*Pirates of Manhattan II: Highway to Serfdom* by Barry James Dyke

*Essentials of Economics* by Faustino Ballvé

*Novus Ordo Seclorum -The Intellectual Origins of the Constitution* by Forrest McDonald

*What Right Looks Like*
**2012 IBC Think Tank**
*Symposium*
**9-10 February 2012**

*"Thanks for a stellar experience."*

*"...tremendous job this year on the content, speakers and format of the Think Tank."*

*"I thoroughly enjoyed the Think Tank."*

*"I just wanted to say Thank You for a great week last week. The Think Tank was awesome. The speakers, presentations, information, venue, food.... all wonderful."*

*"Wanted to let you know the facilities were 5 star and I thought the theme and content of this Think Tank made it one of the best so far!"*

*"I think this Think Tank was one of the best ever. The spirit of sharing and the presentations were all spot on."*

Of course I'm bias, but I have to agree with the above comments. A sincere *thank you* to all our speakers and attendees who made the Think Tank Symposium a huge success.

This year's theme *"What Right Looks Like"* was needed to "clear the air" with all the variations of IBC popping up around the continent - I say *continent* because we had a sizable Canadian contingent present. They are great folks and I look forward to working with them to develop the IBC presence in

Canada.

I presented our ***IBC Bankers' Creed*** *to the group, they got a kick out of it, so I thought I'd share it:*

1. *The policy owner's behavior is more critical than the behavior of the insurance company*
2. *Think Long range*
3. *Don't be afraid to capitalize*
4. *Don't steal the peas!*
5. *Think in terms of multiple policies, or in a system of policies*
6. *Avoid doing anything that diminishes the growth of a policy*
7. *If you can't afford to pay back a conventional loan, then you probably can't afford to take a policy loan*
8. *Don't take a policy loan just because you can*
9. *It's about making loans an asset rather than a liability*
10. *Don't do business with banks!*

Thank you general session speakers: Dwayne Burnell author of *A Path to Financial Peace of Mind,* Rick Bueter, author of *The Great Wall Street Retirement Scam*, Todd Langford of *Truth Concepts*, James Neathery, Tom McFie, Mike Everett, Joe Kane, Mary Lyons, Justin Craft, Russ Morgan, Carlos Lara, and Robert Murphy.

Special thanks to Paul Cleveland for his very funny after-dinner presentation.

Thank you breakout session presenters: Barry Dyke, author *Pirates of Manhattan II: Highway to Serfdom,* John McFie the creator of *Loan Manager* Software, Jeff Mendenhall author of *Your Economic Destiny.* Mark Creighton of *Mutual Trust Life*, and George Kozol of *Security Mutual Life of New York.*

We are in the process of finalizing the take-home DVD sets; I will notify attendees as I mail them. The DVDs will also be available for sale in our website store.
*David Stearns*


*Number Twenty-Two in a monthly series of Nelson's lessons, right out of* *<u>Becoming Your Own Banker</u>®. We will continue until we have gone through the entire book.*

Lesson 22: Creating The Entity (con't)

Content: Page 38-39, *Becoming Your Own Banker – The Infinite Banking Concept®* Fifth Edition, Fifth Printing.

In studying the mortality chart in the previous lesson [lesson 21 in the February *BankNotes*], notice that out of the 900 living at age 45, seventy-five percent of them were still alive at age 65. This clearly shows that most all of the dying in a population group occurs past age 65. In fact, that bulge in the graph has shifted dramatically downward in recent years to the point where most all of the dying occurs past age 75. There are many reports of the potential for living 100 to 120 years! But in the everyday conversations about the "need" for life insurance, it is all concentrated on the period of age 21 to about age 50. Not many people die during this period.

In creating plans of life insurance, all calculations by the rate makers begin with the cost, in a *single sum*, of providing a plan that would cover one for the whole of life. It is called <u>single premium life insurance</u>. It is possible to buy life insurance this way, but it is not a common occurrence.

The diagram on page 38 of my book is a continuum that depicts *all* the different purchase plans. On the left end of the scale is the aforementioned single premium policy. The balance of the plans consists of nothing more than time-payment plans for purchasing the single premium one. On the extreme right is *term insurance*. In this plan you are simply *renting* the single premium insurance for a limited period of time with an option to a time-purchase plan.

If one goes the route of term insurance it must be remembered that, with time, the price is going to get prohibitive, not to mention the fact of becoming uninsurable. Please, also remember that this is the way life insurance started out and the buying public accurately observed that this – in the long run – was a rip-off! If this doesn't register in your own mind, then go back and review lesson 20 one more time. If it still doesn't register, then you need to consider terminating your study of this course – you may be wasting your time!

Looking at the plans between the extremes of single premium insurance and term insurance, consider the Ordinary life Policy. This is a purchase plan with premiums designed to be paid over the theoretical life span of 100 years. So, if the insured is 25 years old, then this would be a 75-pay plan.

The payment period could be shortened by buying a Life Paid-up at age 65 plan. For this same 25-year old that would be a 40-pay plan. It could be further shortened to a 30-pay plan or a 20-pay plan. *The shorter the payment period the better suited it is for the purposes of the Infinite Banking Concept.*

Now, notice the vertical line between the Single Premium policy and the 20-pay Life policy with the triangle at the bottom of the scale. Any plan located to the left of this line is classified as a *Modified Endowment Contract* (or MEC). Those plans are not treated as life insurance by the IRS, meaning that any withdrawal or loan from the plan would be treated as a distribution and would be taxed as from any other accumulation account, i.e. part is capital and part is earnings. The *earnings* portion is taxed as ordinary income in the year the withdrawal or loan is made.

This is not an earth-shaking matter, but it can be avoided with a little bit of understanding of just what is going on. So, why bother with getting on the left side of the MEC line. After all, we are not attempting to accomplish all of the banking needs through the device on one policy – we will need a system of many policies in order to do the complete job.

This is just a description of the design for each policy to best accomplish the system.

When using this type of life insurance to solve your need for banking, it is best to select a plan (the base policy) that is in the middle of the scale (such as *ordinary life* or a *life paid-up at age 65*) and then add a *Paid-Up Additions Rider* (PUA) to the plan. By varying the amount allocated to each portion you can place the resultant policy at any point between the base policy and the MEC line. The whole idea is to "snuggle up to the MEC line – but don't cross it!" This will de-emphasize the initial death benefit, but accentuate the banking qualities (the cash values).

The irony is that doing it this way will result in providing more death benefit at the point where death will probably occur than any other plan. The base policy will pay dividends and the Paid-Up Additions Rider will also pay dividends. These all should be used to buy *Additional Paid-Up Insurance,* which gives more meaning to the infinite qualities of the system.

In understanding this lesson one must be aware that the home offices of life insurance companies come up with cute little names for their policies, but all of them fall somewhere on the scale that we studied here. I don't know why they do this but if one can cut through all that stuff and realize what is happening, it really simplifies life!

In the next lesson we will look at a couple of cases that dramatize what we have learned in this one.

## Nelson's Favorite Quotes

*The very best we can give each other is our love not our advice, and certainly not our judgment.*

*Forgetting and laughing are better than remembering and being sad.*

*The most important human right is the right to dream.*

*The problem in America isn't so much what people don't know; the problem is what people think they know that just ain't so.* - Will Rogers

## Nelson's Live Seminars for February and March 2012 http://infinitebanking.org/seminars/

Our comprehensive *Becoming Your Own Banker®* seminar is organized into a five-part, ten-hour consumer-oriented study of *The Infinite Banking Concept®* and uses our book *Becoming Your Own Banker®* as the guide. Nelson covers the concept's fundamentals in a two-hour introductory block the first day. He then covers the "how to" over an eight-hour block the final day. These seminars are sponsored by IBC Think Tank Members, therefore attendance is dictated by the seminar sponsor. If you are interested in attending one of these events, please call or email the contact person listed with the seminar.

*Nelson Live in Lancaster County, PA*, Friday-Saturday, 2-3 March, contact Jo Scheidt 717-626-4072, jo@familywealthandwisdom.com

*Nelson Live in San Diego, CA,* Friday-Saturday, 20-21 April, contact Michele McFie, 503-363-5433, michele@life-benefits.com

*Nelson Live in Boerne, TX,* Thursday-Friday, 29-27 April, contact Janet Sims 830-331-9805, janet_sims@financialprocessgroup.com

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