Life Insurance Mutuals, Stock and Holding Companies: Does it Matter?

By L. Carlos Lara

In approaching this subject I need to admit right now that I am biased. But in order to be equitable with my stance, it is best to evaluate the facts about these institutions against the context of a broader sphere that takes into account historical evidence matched with our current economic, social and moral climate. In the end, it is the head of a household or an entrepreneur heading up a business enterprise who must ultimately make use of these institutions to navigate the uncertain future. If these institutions fail at this basic level of service, then practical consumers will choose neither one and turn to other alternatives.

Readers of the Lara-Murphy Report know that our study and exhortations about the insurance industry go beyond the simple purchase of a policy for life insurance needs. As students and informal specialists of the Federal Reserve and its dangerous fractional reserve banking practices, we were compelled to seek, and have actually found, a more conservative financial strategy utilizing the insurance sector and, in particular, a certain financial product—dividend-paying Whole Life insurance. Austrian scholars of the past such as, Ludwig von Mises, Murray Rothbard and Jesus Huerta de Soto, not only believed in the conservatism of the institution of insurance, but also helped point the way to our own discovery through their writings. Although they did not specifically name this product in their books, the dates of their writings tell us they were speaking of the very same one.

We turned to the insurance sector for a solution when we saw that nothing else in the other financial sectors was working. Shortly after the 2008 financial crisis people everywhere were in genuine pain. Robert Mutphy, as an economist, and I as a workout specialist for firms in financial trouble, came to the same conclusion after much research on how best to advise people with a legitimate economic solution. Intuitively, the average person already knew that big banks and Wall Street were somehow responsible, but many didn’t understand exactly how the commercial banking system had failed us. The case is not that something is inherently wrong with the institution of banking, but rather that our current monetary policy and regulatory framework has corrupted it and turned it against us. Borrowing from commercial banks now only serves to contribute to the problem of inflation, deepening our individual and national economic problems. Many still don’t quite understand this fact, and so obviously the problem persists.

The only final answer to this problem is in returning to the gold standard, returning to privatized banking and closing the central bank altogether. Most Austrians recognize this as the Sound Money Solution—a solution that can only be implemented by a change of public opinion. But think about it—if only the 750,000 licensed financial advisors practicing in the U.S. who daily are speaking to people about their money could come to understand this and see the significance of its implications, the
goal of changing public opinion could be achieved. With the help of an intermediary financial solution, the goal could be reached quite rapidly.

In our book, How Privatized Banking Really Works, Robert and I examined the facts surrounding this unique life insurance product in this broader context. We found that when measured against all other financial strategies, dividend-paying Whole Life insurance functioned as a form of privatized banking. Furthermore, we witnessed that it accomplished every bit of what Nelson Nash talks about in his famous book, Becoming Your Own Banker.

In this article we now turn our focus to the insurance companies that distribute this marvelous instrument. The attempt will be to highlight only some of the more relevant aspects of our subject. A full discussion, of course, is beyond the scope of this brief report and will need to be expanded further in future issues of the LMR. What is most important to understand at the outset is that life insurance, like everything else in our economy, suffers from the stronghold of government intervention. However, there are still some aspects of this one institution that remain untouched and allow us to use it for privatized banking purposes.

Deregulation

The insurance sector, like the banking sector and Wall Street, has been among us since the formation of this country. Deregulation is when government reduces its role and allows industry greater freedom in its operation. Keep in mind, however, that government never fully releases industry so it isn’t exactly the opposite of regulation, which refers to written law and judicial decisions. Up until recently the U.S. legislatively required substantial separation among the major components of the financial services industry—commercial banking, investment banking, and insurance. Much of this separation came from government regulation imposed on many industries back in the early 1900s that totally restricted the entry of certain financial sectors into some markets. But the bulwark of this separation in the financial services sector came amidst the Great Depression. Congress determined that commercial banks had excessively recommended, invested and extended credit for stock market trading, and eventually precipitated the stock market crash of 1929. To resolve this perceived banking abuse, a permanent wall was erected between commercial banks and investment banks, in the form of the Glass-Steagall Act.

As expected, banks began pushing unsuccessfully for the repeal of this Act soon after it was enacted “…contending that such limitations harmed bank competitiveness, profitability and limited consumer choice.” The intensity of that push grew in the 1970s and 1980s. While Congress stood firm on the banking boundaries of the Glass-Steagall Act, by 1990 bank regulators were able to circumvent the law, by regulatory interpretation allowing banks to underwrite securities using bank subsidiaries. This allowed banks to acquire the largest brokerage firms and engage in securities activities whereas the Glass-Steagall Act continued to bar brokerage firms and insurance companies from acquiring banks. If this makes no sense to you or seems unfair - “move to the head of the class.” This type of disparity should come as no surprise, for this type of thing happens often in our overly regulated economy.

It Got Worse

Once commercial banks began moving into the brokerage business via subsidiaries, the financial markets began moving faster than government regulation could keep up with. Manufacturing was no longer the country’s bedrock and the financial services industry was seen as what would replace it. The merger of Citicorp Bank and Travelers Insurance in 1998 is an example of banks continuing to push the issue of what they believed was already a “dead law.” The promoters of this merger felt comfortable that The Glass-Steagall Act would soon change in their favor and it did.

In 1999 the Gramm-Leach-Bliley Act (The Financial Services Modernization Act), repealed crucial parts of the Glass-Steagall Act and legally
took down the wall between commercial banks and investment banks altogether. But it also went further by opening up interactive competition among all financial sectors, including insurance. At the time, I was a securities Principal and owner of a Broker-Dealer firm and member of the NASD, in addition to my business consulting practice. There was a sense that if you didn’t quickly diversify into all areas of the financial services business, to become a sort of “one-stop financial product shopping mart,” you were going to get left behind. To accomplish this you needed huge amounts of capital to expand your operations. The adrenaline felt behind this movement was prevalent everywhere.

Austrian economist Mark Thornton, (interviewed here in the December 2010 issue of the LMR) severely criticized this Act as contributing to the 2008 financial crisis, as did other well-known economists. But notice that Mark is careful to qualify in what way he believes it precipitated the crisis. His statement below explains the crucial difference that separates him from mainstream economists and that we wholeheartedly endorse.

“In a world regulated by a gold standard, 100% reserve banking, and no FDIC deposit insurance the Financial Services Modernization Act would have made perfect sense as a legitimate act of deregulation, but under the present fiat monetary system it amounts to corporate welfare for financial institutions and a moral hazard that will make taxpayers pay dearly.”

—Mark Thornton

This Act opened the door for many changes in the financial services industry. Since it made possible the integration of mixed services from commercial banks, investment banks and insurance companies, it served to spawn countless mergers, acquisitions and IPOs as financial institutions scrambled to tap the capital markets and reposition themselves in the new marketplace. Interesting is the manner in which the insurance sector was impacted by all of these changes, especially when it came to the mutuals. Mutuals have no stock to sell. Stock insurance companies, on the other hand, are not restricted by these changes and can raise capital much more easily—hence, what we witnessed was a sharp rise in demutualization of mutuals and the increase in stock companies.

There was also the issue of banks selling insurance. One of the biggest concerns for insurers is market power. Dominant firms, such as commercial banks, can easily influence the market price of the insurance product through the strength of their banking and brokerage positions. Although banks have not yet gone full throttle since the repeal of this law, it is easy to see why insurers are not anxious to further incite a hornet’s nest of competition.

Amidst this heightened onslaught of so-called deregulation, banking laws to this date still prohibit banks from actually selling the traditional type of insurance products, but it is also true that those regulatory strongholds are constantly being scrutinized and prodded. Several recent court cases such as the Barnett Bank vs. Nelson have served to weaken these boundaries. (Even the McCarren-Furgeson Act of 1945, which exempts the business of insurance from federal regulation, is frequently reviewed by lawmakers.) Yet, there are also plenty of regulatory concerns countering all this integration, and mixed services that have occurred, especially since the 2008 financial crisis. Again, this should come as no surprise in a planned and regulated economy such as ours. The IPOs, mergers and acquisitions of the various financial sectors leading in the formation of giant conglomerates have not necessarily had positive effects for consumers and taxpayers. The recent big bank bailouts are prime examples of this and only serve to underscore Mark Thornton’s ominous predictions.

It is difficult to judge what will ultimately happen in the ensuing years as financial markets continue to heat up under government’s design for the economy. But when it comes to the insurance sector specifically, the net results have been dramatic up to this point. Shifts in its size, configuration of ownership structure, and market share have
Stock vs. Mutual

Most of the life and health insurance in the United States is still issued by commercial life insurance companies. Commercial life insurance companies are of course corporations that are federally taxed in much the same way as all other U.S. corporations with some exceptions. Only fraternal societies, savings banks, and the Veterans Administration which issue life and health policies have a federal tax exemption, but they issue less than 2% of policies in force in the United States. Commercial life insurance companies, which issue the remaining 98% of all life and health policies in the nation, are also taxed by the states. This is because the life insurance industry is a state-regulated industry. The state tax is actually levied on the insurance premium. The state premium tax is 1%-4% depending on the state and whether or not the insurer is out-of-state or domestic.

Commercial life insurance companies are organized as either mutual or stock corporations. But mutuals are special corporations that own no stock. The most distinguishing characteristic of the stock company is that its owners are stockholders. Alternatively, policy owners own a mutual life insurance company. Today, stock insurers outnumber the mutuals by a wide margin. In the past, mutuals were dominant with respect to life insurance policies in force, but their share has declined to less than 40% from 62% in 1960. Irrespective of this statistic, mutual companies are still generally larger than stock companies.

The primary reason for this shift in the increase of stock companies has been the stock company’s ability to respond more advantageously to The Financial Services Modernization Act. Since a stock company can sell shares for its stock in return for capital, the stock company is more agile as either a start-up or in the mergers and acquisitions arena. Additionally, stock insurance companies can be owned by other stock companies whether or not they are in the insurance business. A mutual company, on the other hand, is owned solely by its policy owners and cannot be owned by any other entity. This presents a special problem for mutuals and their ability to access outside capital. Instead, growth must take place either from within or by merging with another mutual. Several mutuals have been enormously successful following this internal growth approach.

We should also mention that the lack of profit incentive also makes starting up a new mutual quite challenging. This is because mutuals are similar to non-profits. But unlike a true cooperative, members do not contribute to the capital of the company by direct investment, but rather derive their rights to profits and votes through their customer relationships. Unfortunately, growing regulation only serves to make the forming of a new mutual even more problematic.

As already stated, a new stock insurance company start-up can meet the state’s requirements of ready capital for expenses and contingency reserves by selling shares of their stock. Under New York State law, a stock company must have a minimum of $2 million capital and a paid-in initial surplus of the greater of $4 million or 200 percent of its capital. The minimum capital requirement after formation is regulated by a formula developed by the NAIC. After it has been fully established and has attained adequate financial stability, a stock insurer can then be converted into a mutual company.

The mutual start-up, because its original intentions are to be a mutual, “must have policy applications in-hand of not less than $1,000 each from 1,000 persons, accompanied by the full amount of one annual premium for an aggregate amount of $25,000, plus an initial surplus of $150,000 in cash.” Obviously, the cash portion of the money can be borrowed, but how does one accomplish getting policy applications from a thousand people, when the company has not even been formed and is not legally able to issue policies? It is for this reason that not a single mutual has been formed in a very long time (world-wide) and no new ones are likely to ever be formed. This makes mutuals unique.

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and prized companies. Their ownership structure is unlike no other corporation.

Before we leave this subject entirely we should clarify one other very important and distinguishing item. As already stated, mutual companies have no stockholders. Consequently, the policy owner is both a customer and at the same time, an owner of the insurer. In a stock company a policy owner is a customer only. But in a mutual company’s assets are held for the benefit and protection of the policy owners in the form of reserves, surplus, or contingency funds. Or, they are distributed as dividends upon the discretion of the mutual’s board of directors. Mutuals primarily issue “participating” policies. Sometimes they will issue non-participating policies, but as is the case for policy owners of a stock company, these are simply customers of the mutual company. Stock companies are organized for the purpose of making a profit for their stockholders and mostly issue “non-participating” policies.8

Today, life insurance company managers that have to contend with these new market forces must be deliberate in structuring an organization that will provide the most efficient means of meeting their goals. Recognizing the supreme value of the mutual organization, the Mutual Holding Company concept has been born and has become a significant factor in determining life insurance ownership structure.

Holding Companies

Holding companies are corporations that own or control one or more insurers, broker-dealer organizations, investment companies, and other financial services corporations. A holding company works differently with a stock company than with a mutual. A holding company formed by a stock company is known as an “upstream holding company” because it sits at the top of the intercorporate structure. The stockholders own it and it in turn owns subsidiaries.

A “downstream holding company” is usually formed by a mutual because it sits in the middle of the intercorporate structure and the subsidiary is beneath it. The mutual sits on top. It is owned either in part or whole by the mutual. Although this can allow the mutual to expand by acquiring subsidiaries, it is still limiting. Statutory accounting and legal investment laws limit the amount an insurer can invest in a subsidiary. Also, mutual life insurance insurers can only offer to pay in cash—a very expensive and impractical way to transact business on the one hand, but also a superb example of what 100% reserves really mean.

In 1995, new state laws were adopted and a different form of holding company was introduced known as the Mutual Insurance Holding Company (MIHC) “…making it possible for a mutual to form a mutual holding company with an active stock company subsidiary. Policy owners become members of the “up-stream” mutual insurance holding company and have their policy relationship with the stock insurer subsidiary of the new holding company. Initial shares of the subsidiary’s capital stock are issued and held by the mutual holding company. Then the mutual holding company, acting through the stock subsidiary, can access the public markets.”9

In evaluating all of this we must never forget that the primary reason mutuals demutualize or form holding companies in the first place is to access equity capital. This is a function that has become increasingly important, as the integration of the financial services industry has accelerated. Money is needed for new equipment, space, sales and distribution capabilities, in essence for growth. Naturally, the question arises as to how these expansive moves will ultimately affect the insurance coverage of persons with participating policies. If we understand the conservative methods used by insurance companies in building their participating policies along with their statutory reserves (as we detailed in last month’s issue of the LMR [June 2012 Issue]) we should be able to reasonably determine that there should be no adverse impact on the insurer’s ability to meet the policy guarantees on its policies, or pay the dividends on the same scale prior to these financial moves. We will look deeper into this subject later here in the LMR in upcoming issues.

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Conclusion

Of course, the importance of insurer selection must not be underestimated. Life insurance involves a long-term guarantee. This guarantee is unlike the guarantee of any other consumer product on the market. Since it is life insurance, the guarantee is the product. There is no value in the paperwork; only the guarantee embodied in the policy has value. Likewise, it is a guarantee that must be there for a very long time. The insurance company is contracting to deliver this guarantee when needed, whether it is right now or fifty years from now. It is imperative, of course, that the insurance companies have the financial strength and integrity to meet this guarantee. This prerequisite applies to both stock and mutual companies alike.

In addition to the issue of financial strength, managers of well-run companies realize that ultimately the consumer is sovereign. What life insurance purchasers have made known is their interest in product value. Efficiently operated insurers will always be in a better position to deliver this product value to their customers. How this efficiency is ultimately achieved has been the continuous struggle of stock and mutual companies in the life insurance industry for nearly two centuries. Their long history shows that they have been successful in meeting this consumer demand quite adequately.

What we also know from historical experience is that life insurance companies in general are very conservatively managed corporations. This can best be seen in the manner they construct their product. Life insurance companies that issue participating policies, in particular, traditionally over-charge policy owners on the front end, not to gouge them, but to fully insure the payment of the guarantee, which coincidently, also serves to insulate the policy owner from market volatility. If this is important to you, take note. Later, the premium is returned to the policy owner in the form of tax-free dividends. The net result is a less expensive product of remarkable quality.

But at the end of the day here is the one question you should be asking yourself as a policy owner. “Do I like the idea of being a source of profit for investors?” For those of us endeavoring to utilize a policy for privatized banking purposes, your answer to this question is ultimately determined by your choice of one company over another. The main difference in using a mutual company over a stock company is that YOU are the owner, whereas in a stock company someone else is. That difference makes all the difference. So, yes, it does matter.

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7. Life and Health Insurance, Chapter 23, page 578.
9. Life and Health Insurance, Chapter 23, Page 579.

Obama’s 'You Didn’t Build It' Canard

by Thomas J. DiLorenzo

Barack Obama recently proved once again that he is indeed a Proud Marxist (as Yuri Maltsev, former advisor to Mikhail Gorbachev, calls him) when he argued that successful American entrepreneurs "didn’t build" their businesses on their own. Government bureaucrats were mostly responsible for their success, the Marxist in the White House
asserted, citing government-run schools, roads, etc. Like all Marxists, Barack Obama is belligerently ignorant of economics and is in denial of much of economic reality.

No successful business person believes that he built his business completely on his own, without help from anyone. Obama’s claim is a straw-man argument. Every business person collaborates day in and day out with suppliers, customers, employees, managers, accountants, marketers, bankers, investors, and many others. As Adam Smith wrote in his famous 1776 treatise, An Inquiry into the Nature and Causes of the Wealth of Nations (1937 Random House edition, p.422):

"In civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons . . . . Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, brewer, or the baker, that we expect our dinner, but from their regard to their own interest . . . . Nobody but a beggar chuses to depend chiefly upon the benevolence of his fellow citizens.

As for the role of government, history proves that it has always been the mortal enemy of free voluntary exchange and the generation of prosperity through the free market. As Ludwig von Mises wrote in his 1956 book, The Anti-Capitalistic Mentality, "A nation is the more prosperous today the less it has tried to put obstacles in the way of the spirit of free enterprise and private initiative. The people of the United States are more prosperous than the inhabitants of all other countries [as of 1956] because their government embarked later than the governments in other parts of the world upon the policy of obstructing business."

Government spending at all levels accounts for some 40 percent of GDP, signifying that the American economy is at least 40 percent socialist. The socialist "public" school system is a disaster in every city with only a relatively few affluent suburban enclaves of success. As such, the American workforce has been dumbed down, year in and year out, to the economic detriment of everyone. The socialist "public" roads are responsible for more than 50,000 highway deaths each year, which is hardly a good record. The welfare state has destroyed the work incentive of millions and caused the break-up of untold numbers of families. (The basic mechanism here is welfare and child support payments that are generous enough to create millions of deadbeat dads who abandon their children without the social stigma of having left them in dire poverty).

Social Security reduces incentives to save for one’s own retirement. Lowered savings rates lead to less capital investment and, consequently, slower economic growth. All other government spending programs enrich the parasitic political class while impoverishing the producer class. The long history of aggressive militarism by the U.S. government has always ratcheted up governmental powers at the expense of liberty and prosperity while enriching the military/industrial/congressional complex. The system of unlimited democracy that Americans now slave under can be defined as follows: Moochers and parasites hiring/electing professional looters to steal from producers.

The Fed has always generated boom-and-bust cycles in the economy, and then blamed the problems it created on the free enterprise system. After the Greenspan Fed created The Great Recession the current Fed "godfather," Ben Bernanke, went on television to arrogantly sneer at the notion that markets and the free enterprise system should or could be the way out of the depression, while arguing for the granting of vast new regulatory powers for the Fed.
Every business in America is now strangled by tens of thousands of pages of regulations in The Federal Register, not to mention reams of state and local government regulations. The pettiest, most selfish, and most ignorant local political hack has the ability to use government regulations to shut down billion dollar construction projects on a whim. A recent example of this is how a single member of the West Palm Beach, Florida city council caused a stoppage of the building of a major outlet shopping center in that city by demanding that the construction company that is building the shopping center hire more "local firms." It is a good bet that the city councilwoman in question has a relative who is a construction contractor. Such acts are nothing more than legalized extortion.

The more a business person must deal with regulations and regulators, the less time he has to devise ways to improve his products, cut his costs and prices, and create new products. Government regulation crowds out entrepreneurship, wealth creation, and job creation while imposing immeasurable costs (in time and money) on private businesses.

There are a few exceptions, but for most of the past 120 years government regulation of business has been a tool used by large corporations to stifle competition from their smaller competitors and to create barriers to competition from potential competitors. The very first federal regulatory agency, the Interstate Commerce Commission, founded in 1887, was used first by the railroad industry to cartelize the industry as a government-controlled price-fixing cartel. It then did the same thing for the trucking industry. The Civil Aeronautics Board was similarly "captured" by the airline industry, which enjoyed a government-enforced cartel price-fixing monopoly for half a century before it was deregulated in the late 1970s. The entire regime of "public utility regulation" has been one big government-run cartel or monopoly scheme since the late nineteenth century. This all goes under the rubric of the "capture theory of regulation" in the discipline of economics. (See Butler Shaffer, Restraint of Trade; and Gabriel Kolko, The Triumph of Conservatism).

Government also deals a death blow to the institution of capitalism with its massive bailouts of failing businesses as an additional form of corporate welfare. Capitalism is a system whereby profits and losses are private. Serving customers well leads to profits; failing to do so leads to losses or bankruptcy. Socializing the losses while keeping profits private encourages reckless risk taking and sloppy business management and causes "private" businesses to operate more like government bureaucracies.

In short, Barack Obama’s ignorant "you didn’t build it" remark did two things: First, it displayed remarkable economic ignorance; and second, it asserted exactly the opposite of the truth with regard to the role of government in the economy. In today’s world American businesses that are successful in the marketplace have become so despite government intervention, not because of it.

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Author Unveils Americans 77.38% Exposure to Stocks in Their Retirement Accounts: Rampant Speculation with No Guarantees

( Hampton, NH August 15, 2012). Author Barry James Dyke, in his most recent book, The Pirates of Manhattan II: Highway to Serfdom www.thepiratesofmanhattan.com documents Main Street Americans horrendous exposure to the stock market in their defined contribution retirement accounts ( IRAs, 401(k) and 403(b) accounts). Using 2010 data from the Investment Company Institute 2011 Fact Book, he found of the $4.68 trillion invested in defined contribution retirement accounts that roughly 77.4%
of Americans invested in volatile stock mutual funds. He found:

- $2.74 trillion or 44.2% of the total was invested in domestic equity mutual funds.
- $675 billion or 14.4% was invested in foreign equity fund
- $878 billion or 18.7% was invested in hybrid securities (commonly known as target-date or life cycle mutual funds which invest in stock and bond funds).
- $710 billion or 15.2% of the total was invested in bond funds.
- $351 billion or 7.5% of the total. was invested in money market instruments

The author found that although most fund companies are seeing major outflows in stock mutual fund holdings, target-date mutual funds, now the premier default investment for 401(k) plans are still drawing in billions of new cash inflows due to lobbying interests of the mutual fund industry. Of the 8000 mutual funds Lipper tracks, 92% suffered losses in 2011. Morningstar, in tracking 8,000 mutual funds, found that the average mutual fund lost 2.9% [while the S&P 500 stock index gained 1.52% in 2011].

European stock managers did even worse, with an average loss of 13.9% in 2011.

The author commented, “Recent new issue go-go stocks sold by Wall Street into mutual fund investors—Facebook, Groupon and Zynga have been investment disasters. Facebook started trading at $38 a share in May, and two and a half months later—it is trading at $20.81, a 45% loss in value. Groupon came out at $20 a share in November 2011; in August 2012 it was trading at $6.15, a 69% loss. Zynga, another hot issue which was hyped to the heavens came out at $9.41 a share and in August trading at $2.95 a share, roughly a 70% loss. Some of largest owners of these stocks are mutual fund companies which get their money from peoples’ 401(k)s. It is another case of rampant speculation brought to you by Wall Street funded by Main Street America’s 401(k)s.”

The author maintains that Americans want guarantees instead of rampant speculation. Dyke has plenty of research to back up his claims.

* According to Chicago Booth/Kellogg School Financial Trust Index released in May 2012, found only 15% of the population trusts the stock market, a slight increase from 13% in 2009.

* A survey done in 2012 by The Hartford Financial Services Group, Inc. found that 95% of workers under age 30 want a guaranteed account. Of those between age 30 and 40, 90% want a guaranteed account. For those over age 60, 77% want guarantees.

* A survey done by Allianz Life in October 2011 found savers are shell-shocked. 51% of 1,000 surveyed are increasingly uncertain about the fate of their 401(k) and 403(b) plans. 27% thought the best to place to put their money was under a mattress.

* In 1999, technology stocks that populated the NASDAQ gave it a composite index of 5,048. Thirteen years later, the NASDAQ is only at 3,028.

Dyke’s research reveals this hypocrisy: certain sectors of society such as highly paid executives, bankers, the Federal Reserve System, and government employees have rich retirement plans anchored by guarantees from the taxpayer, company balance sheets and through frequent use of life insurance and annuity products with contractual guarantees. For additional information, contact the author, Barry James Dyke at castleassetmgmt@comcast.net or 603-929-7891. www.thepiratesofmanhattan.com

**Nelson’s Favorite Quotes**

“The issue which has swept down the centuries and which will have to be fought sooner or later is the people versus the banks.” – Lord Acton

“Most ignorance is vincible ignorance. We don’t know because we don’t want to know.” – Aldous Huxley
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Praise for Building Your Warehouse of Wealth:

In *Building Your Warehouse of Wealth*, Nelson Nash provides another generous helping of his inimitable wit and financial wisdom. Longtime fans will recognize the themes, but will be delighted by new material and insights. This book may be the single best introduction to Nash's worldview, which focuses on the benefits of whole life insurance but is infused with Nelson's faith in God and distrust in politicians! -- Robert P. Murphy, PhD

“Building Your Warehouse of Wealth is an excellent adventure exploring God’s plan for taking dominion in this world. Anyone interested in throwing off the shackles of this world will find in it many useful insights about building and holding wealth in a lost world. Moreover, because the author has thought deeply about the history of Israel, the reader will also gain new insights into the Scriptures. I highly recommend it to you.” -- Paul A. Cleveland, Ph.D. Professor of Economics and Finance Birmingham Southern College

This is a written testament of who you are, Nelson. Reading this was like having you sitting across from me in my living room. In the years I have known you, I have heard you talk about all of this in one form or another. This is because it is not just in your head, it's in your heart. It spells out in clear language the problem and the solution. Everyone will be immensely blessed to read this book. -- Carlos Lara, Nashville, TN Co-Author of *How Privatized Banking Really Works*

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In studying table 1 [on the following page] comparing the results of the two methods – the usual reaction of most people is to ridicule what I’m teaching in the early years and disbelief when they look at the later years in the schedule. “That can’t be true,” they say, “because everyone knows that life insurance is the world’s worst place to put money to work.”

Imagine this scenario: The twin ladies put $5,000 into their respective plans the first year and at the end of the year they have a coffee break to discuss results. C/D Sister says, “I put $5,000 into my plan, and after the IRS stole from me I have $5,200 left over. What do you have, Sis?” Insurance Sister says, “I called my life insurance agent and she says I have $1,933 in cash value.” C/D Sister’s response will probably go something like this: “Sis, please don’t tell me that you put your money into whole life insurance! Don’t you know any better than to do that?”

The following year they had another coffee break and C/D Sister says,

“I made another C/D purchase of $5,000 and now, after taxes, I have $10,608. How is your accumulation plan coming along, Sis?” Insurance Sister responds, “I have put into my plan the same thing you have and my life insurance agent says I now have $6,359 in cash value.” C/D Sister is horrified! “You did the same dumb thing you did last year!! You put more money into whole life insurance? Sis, I’ve got to quit associating with you – after all, we are twins, and whatever you have might be contagious – and I just can’t afford that to risk that!”

As we progress down the schedule, please notice that the reasons for ridicule are disappearing and that there is equilibrium at the end of the 14th year. From that point on Insurance Sister’s cash values accelerate and the difference between the methods become wider with time. That is because C/D Sister is only earning interest – and Insurance Sister is earning interest and dividends.

Remember, whenever you start any new business there is a time lag before profits begin. This time lag is understood and accepted in most every other business venture. What’s more, it is longer and more expensive in most anything else that one might undertake. But, when this same person looks at the schedule of accumulations in a whole life insurance contract, his qualities of reason and logic seem to disappear! I really don’t understand this phenomenon. Maybe it’s because the life insurance industry has never explained these things to him before.

A life insurance contract is a long-term plan and it is engineered to get progressively better with time. It becomes more efficient because the cash value is guaranteed to equal the face amount of the policy at age 100. Therefore, the cost of delivering the promised death benefit is disappearing as time goes by. Furthermore, the earlier you start the contract – and the longer it is in force – the better it gets.

The dividends that I have continually emphasized throughout this course accelerate all of this even more. When one uses the dividends to purchase additional paid-up insurance, the face amount of those additions have a cash value, too, and that cash value is also guaranteed to equal that face amount at age 100. The dividend additions also pay dividends. Now, do you begin to understand why the accelerating cash values in Table 1, Method E,
Does this help in understanding why the cash values are continuing to grow at retirement time, although Insurance Sister is withdrawing $50,000 for retirement income? Please, also, understand that she could withdraw even more than the $50,000 income per year – but if she does, then the death benefit would erode as time goes by. The choice is hers.

My whole point in this exercise is to dramatize how poorly dividend-paying whole life insurance is understood and that commonly accepted other vehicles just don’t measure up when they are studied over a long period of time. Most folks just never look at the performance of the life insurance more than the first ten years or so.

In the next lesson we will look at some test questions to measure your understanding of the principles we have studied so far.

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The Myth of the Greater Good

by Wendy McElroy

In entry-level philosophy class, a professor will often present this scenario that seems to challenge the students' perspective on morality.

The argument runs something as follows: "The entire nation of France will drop dead tomorrow unless you kill your neighbor who has only one day to live. What do you do?"

Or "You could eliminate cancer by pressing a button that also kills one healthy person. Do you do so?"

The purpose is to create a moral dilemma. The questions pit your moral rejection of murder against your moral guilt for not acting to save millions of lives.

In reality, the questions are a sham that cannot be honestly answered. They postulate a parallel world in which the rules of reality, like cause and effect, have been dramatically changed so that pushing a button cures cancer. The postulated world seems to operate more on magic than reality.

Because my moral code is based on the reality of the existing world, I don't know what I would do if those rules no longer operated. I presume my morality would be different, so my actions would be as well.

As absurd as they are, these are considered to be the "tough" moral questions. In grappling with them, some students come to believe that being true to morality requires the violation of morality in a profound manner; after all, there is no greater violation than the deliberate murder of another human being.

But how can the life of one outweigh those of millions in your hands? At this point, morality becomes a numbers game, a matter of cost-benefit analysis, rather than of principle. This is not an expansion of morality, as the professor claims, but the manufacture of a conflict that destroys morality. In its place is left a moral gray zone, a vacuum into which utilitarianism rushes.

Suddenly, it becomes obvious that the good of the many outweighs the murder of the one. The collective outweighs the individual. The majority outranks the minority. Hard "factual" utilitarianism is preferable to gray, inconsistent morality.

The philosophical questions lead directly into politics because murdering a person for the greater good is not merely a moral question, but also one of individual rights. If you accept the morality of doing so, you have also accepted the political propriety of murdering an innocent human being.

Phrased in political terms, nonhypothetical versions of the philosophy question come up often. For example, "Should the rich or businessmen (the few) be heavily taxed to provide national health care (for the many)?" Here, a greater good is pitted against individual rights. But more than this, individual rights of two groups conflict, with the rights of a resisting minority viewed as a barrier to the "rights" or entitlements of the others. Businessmen are deemed to have no right to their earnings if it prevents the majority from having health care.

This politically manufactured conflict is as absurd as the philosophically manufactured one.

The 19th-century British individualist Auberon Herbert addressed the issue of the "good of the greatest number." He stated, "There never was invented a more specious and misleading phrase. The Devil was in his most subtle and ingenious mood when he slipped this phrase into the brains of men. I hold it to be utterly false in essentials." Why is it false? Because the phrase assumes as a given that a higher morality requires the violation of individual rights. Or in Herbert's words, "It assumes that there are two opposed 'goods,' and that the one good is to be sacrificed to the other good -- but in the first place, this is not true, for liberty is the one good, open to all, and requiring no sacrifice of others, and secondly, this false opposition (where no real opposition exists) of two different goods means perpetual war between men." [Emphasis added.]
Herbert is relying on two intimately related theories: first, "the universality of rights"; and, second, "a natural harmony of interests." The universality of rights means that every individual has the same natural rights to an equal degree.

Race, gender, religion or other secondary characteristics do not matter; only the primary characteristic of being human is important. A natural harmony of interests means that the peaceful exercise of one person's individual rights does not harm the similar exercise by any other person.

My freedom of conscience or speech does not negate my neighbor's. The peaceful jurisdiction I claim over my own body does not diminish anyone else's claim of self-ownership. Indeed, the more I assert the principle of self-ownership, the stronger and more secure that principle becomes for everyone.

Only in a world where rights are not universal, where people's peaceful behavior conflicts, does it make sense to accept the need to sacrifice individuals to a greater good. This is not the real world, but one that has been manufactured for political purposes.

Herbert explained a key assumption that underlies this faux world: the acceptance of the "greater good" itself. He asked, "Why are two men to be sacrificed to three men? We all agree that the three men are not to be sacrificed to the two men; but why -- as a matter of moral right -- are we to do what is almost as bad and immoral and shortsighted -- sacrifice the two men to the three men? Why sacrifice any one... when liberty does away with all necessity of sacrifice?"

Herbert denied the validity of "this law of numbers, which... is what we really mean when we speak of State authority...under which three men are made absolutely supreme, and two men are made absolutely dependent." Instead of accepting the law of numbers as an expression of greater good, Herbert viewed it as a convenient social construct, calling it "a purely conventional law, a mere rude, half-savage expedient, which cannot stand the criticism of reason, or be defended... by considerations of universal justice. You can only plead expediency of it."

To whom was the social construct of conflict convenient? Why would a faux world of inherent conflict be created? By solving the manufactured problems, a great deal of power was transferred from individuals to a ruling class.

Herbert wrote, "The tendency of all great complicated machines is to make a ruling class, for they alone understand the machine, and they alone are skilled in the habit of guiding it; and the tendency of a ruling expert class, when once established, is that at critical moments they do pretty nearly what they like with the nation..."

Rather than solve a social problem, the ruling class had a devastating effect on the welfare of common people, who became "a puzzled flock of sheep waiting for the sheepdog to drive us through the gate." Ironically, by claiming the collective was greater, the few were able to assume control over the many. The "greater good" devolved to whatever served the interests of the ruling class.

But the process can be reversed. It requires "individualizing" the collective and the nation so that "will, conscience and judgment" can return to every person.

At that point, society offers people "the noblest present" and the greatest benefit possible -- "their own personal responsibility."

Wendy McElroy is an author, lecturer and freelance writer, and a senior associate of the Laissez Faire Club.
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February 7-8, 2013
Birmingham, Alabama

This is our 9th year hosting the “think tank”
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To support this, we will be introducing our brand new IBC Practitioner Certification Program and provide a course overview and sampling, and offer a one time Think Tank 20% discount on program registration.
Additionally, Nelson will introduce his new book – Building Your Warehouse of Wealth
Plus, we will have presentations on IBC case studies and other subjects of interest to include “The impact of Obama care on IBC Business practitioners.”
Stay tuned for more information next month.