IBC Practitioner’s Program

We had an overwhelming positive response to the unveiling of our new IBC Practitioner’s Program at the recently completed IBC Think Tank Symposium. Fully half of those licensed agents in attendance registered for the program and received the first run of the IBC Practitioner Training Manuals - THANK YOU. The on-line program module will go live shortly.

For those of you that are new to IBC or have not had a chance to check out our new web site (same URL: www.infinitebanking.org); we recently posted our IBC Practitioner’s Program FAQs to outline important course information. To help, the FAQs are provided below.

For those of you that regularly buy our products in bulk quantities, the IBC Practitioner’s Program impacts you significantly. Why? I have made the decision to restrict bulk sales of Becoming Your Own Banker titled books, audio CDs and DVDs to IBC Practitioner’s only. Other materials will still be available in bulk quantities to all. Why did I do this? Because the purpose of the Practitioner’s program is to ensure the integrity of IBC. Unless those producers have signed the mandatory program User Agreement, and completed the program, I cannot verify how they will use BYOB titled products.

Thank you for your belief in IBC, your support of Nelson’s important message, and your understanding as to why we implemented the program to fulfill our dream of achieving the 10%.

-- David Stearns

1.0 IBC PRACTITIONER’S PROGRAM OVERVIEW

1.1 Q: What is the IBC Practitioner’s Program?

A: It is an educational program designed for financial professionals who wish to make the Infinite Banking Concept (IBC) part of their client relationships. The IBC Practitioner’s Program consists of online educational videos, a Program Manual, and an Exam. Graduates of the Program can be sure that they will possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions.

1.2 Q: Why did you create this course? Nelson Nash already published two books and gives a 10-hour seminar.

A: Nash’s previous efforts focused on educating the general public. In contrast, this new Program is exclusively designed for financial professionals, including insurance producers but also attorneys, CPAs, financial planners, and anyone else who interacts with clients concerning their money. The purpose of the IBC Practitioner’s Program is to gather and nurture a group of trained and credible financial professionals that the public can trust for their needs related to IBC.

1.3 Q: What is the structure and content of the Program?

A: The Program is divided into three main sections: THE PROBLEM, THE SOLUTION, and THE IMPLEMENTATION. Within each section there are separate lectures, covering topics such an explanation of the housing bubble, an actuarial treatment of the
whole life insurance product, how to read policy illustrations, and an overview of tax considerations in policy design. For a full course syllabus as well as samples of the videos check the end of this article.

1.4 Q: How long will it take me to become an IBC Practitioner?

A: The financial professional who enrolls in the Program must read the Manual (approximately 300 pages) and watch the series of online videos (approximately 12 hours of material), to prepare for an in-depth, online, multiple-choice exam that has a time limit of 2 hours. Once they have been admitted to the Program, enrollees can move through the online videos at their own pace, and can schedule an online exam at any time, but for most enrollees, it will take at least two weeks to absorb the education and adequately prepare for the exam. Upon completion of the exam, the Infinite Banking Institute (IBI) website (if the graduate desires) will be updated to reflect the new IBC Practitioner, typically within one week.

1.5 Q: What are the technical requirements to enroll?

A: The enrollee needs a computer with an adequate internet connection to watch streaming video, and a webcam to allow for proctoring of the Exam, which will be provided by a third-party service.

1.6 Q: How much will it cost me to become an IBC Practitioner?

A: The initial enrollment fee for anyone who enrolls in calendar year 2013 is $1,095. The new enrollee will be provided with the course Manual, and access to the pre-recorded videos as well as any supplemental education that may be provided by the Program administrators. When he or she feels ready to be tested, the enrollee is responsible for paying the fees for the online exam directly to the testing agency (which will be approximately $20 per test, in 2013). After passing the Exam, the enrollee is responsible for a Membership Fee of $495 to become an IBC Practitioner (through calendar year 2013). Annual renewal fees will be required to maintain IBC Practitioner status, with the fee for calendar year 2014 being $495. After this time, the “class of 2013” will then have a guaranteed ceiling on future renewal fees, which will rise according to the Consumer Price Index but with a cap of a 5% increase per year. There will be a similar fee structure for students enrolling in the Practitioner’s Program in future years, but the baseline enrollment and renewal fees (i.e. $1,095 and $495, respectively) may be adjusted upward for them. Once a financial professional becomes an IBC Practitioner, his or her renewal fee structure is locked in place, forever, with no additional payments for other products or services necessary to remain in good standing in the Program.

1.7 Q: Are there group discounts available to agencies who may sponsor/subsidize their insurance agents or other employees to enroll?

A: Yes. Parties interested in group discounts should contact IBI directly.

1.8 Q: Who was involved in the creation of this Program?

A: The initial creation of the IBC Practitioner’s Program was a collaborative effort between the discoverer of IBC Nelson Nash, the creator of the Infinite Banking Institute David Stearns, businessman L. Carlos Lara, and economist Robert P. Murphy. Throughout the process of designing the Program, its four creators sought the advice and review of various insurance actuaries, attorneys, and practicing producers to ensure the integrity and accuracy of the instruction.

1.9 Q: Why do you specifically mention “Austrian economics”? What does Austria have to do with life insurance?!

A: The creators of the Program felt that any professional advising clients on their money must have an adequate grounding in how the economy actually works. For decades, Nelson Nash has been a student of Austrian economics, which is the name for a certain school of thought (whose founders came from Austria) that specializes in the role of money and banking in the economy. Nash has described IBC as “Austrian economics in action.” It was particularly appropriate to incorporate the Austrian perspective in
the IBC Practitioner’s Program, as one of the creators, Robert P. Murphy, has a Ph.D. in economics and has spent years educating the general public in this area.

1.10 Q: What is the relationship between the Infinite Banking Institute, and the IBC Practitioner’s Program?

A: The Infinite Banking Institute (IBI) is an educational institution with the mission of educating the public and financial professions about the Infinite Banking Concept, as developed by Nelson Nash. (The IBI website has the same URL as the previous Infinite Banking Concepts website.) The IBC Practitioner’s Program is simply one aspect of the IBI’s broader mission of consumer and producer education. Nelson Nash was personally involved with the transition from the original IBC online presence to the Infinite Banking Institute, and he was also involved in every aspect of the creation of the IBC Practitioner’s Program. One very important connection between the two entities is that only IBC Practitioners in good standing with the Program will be allowed to attend sessions of the IBC Think Tank, as explained more fully in Section 2.1 below.

2.0 BENEFITS TO THE IBC PRACTITIONER

2.1 Q: How does it benefit me to become an IBC Practitioner?

A: Once passing the Exam, graduates of the Program will be, if they desire, listed at the Infinite Banking Institute (IBI) website as “IBC Practitioner,” and will receive permission to use an official IBI logo on their website to advertise their new status. Not only will this lead to possible referrals from the IBI site itself, but it will also allow the IBC Practitioner to reassure potential clients that he or she has been through a rigorous educational program, designed in collaboration with an outside economist and insurance actuaries, validating the theory and implementation of IBC. Graduates of the Program will also receive customized excerpts of various materials from the course Manual, for use in client education. Furthermore, all graduates of the Program will receive complimentary subscriptions to the Lara-Murphy Report (LMR), which is a monthly financial magazine catering to those with an interest in IBC and Austrian economics. Issues of the LMR will often have articles of general interest to the public, and IBC Practitioners are encouraged to distribute the PDF copies of the magazine to potential clients to start conversations. Finally, in order to ensure that the public trusts the integrity of the IBC brand name, only IBC Practitioners in good standing with the Program will be allowed to attend sessions of the IBC Think Tank (in Birmingham, AL); only IBC Practitioners will be eligible for insurance-based seminars from Nelson Nash, Carlos Lara, and/or Robert P. Murphy; and only IBC Practitioners will be allowed to make bulk purchases of Becoming Your Own Banker and How Privatized Banking Really Works from the IBI, as well as the sought-after Becoming Your Own Banker Seminar ProKit on DVD, featuring actual PowerPoint slides from Nash seminars. (Commercial booksellers will still be eligible for bulk book purchases.)

2.2 Q: What if I’ve been selling IBC policies for years? Am I going to actually learn something in this Program?

A: Yes! It’s true, the purpose of the IBC Practitioner’s Program is to provide a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients. Even so, the old pro will still benefit from the training. Veteran IBC producers already know that IBC works, but after taking the Program they are very likely to have a better understanding of why it works.

2.3 Q: If I join the Program, will I receive specialized computer software to show my clients, and/or other marketing tools to help me promote IBC?

A: No. The purpose of the IBC Practitioner’s Program is to train and educate financial professionals, not to create a “selling system” for IBC. The Program will not directly provide marketing tools, except for the specific items (listing at the website, excerpts from the course Manual intended for the general public, free subscription to the LMR, etc.) described above. The IBI or other entities may provide such IBC-
specific marketing tools, but these will not fall under the umbrella of the IBC Practitioner’s Program, which is strictly educational. However, keep in mind that many of these other “tools” will be available only to IBC Practitioners in good standing with the Program.

2.4 Q: If I become an IBC Practitioner, will I be permitted to train other financial professionals in IBC?

A: No. The IBC Practitioner is someone whom the IBI will publicly recognize as trained to work with the general public in financial matters related to IBC. However, passing the Program’s online Exam is not sufficient to receive permission from IBC LLC to train other financial professionals in IBC. Going forward, the IBI will draw upon the ranks of IBC Practitioners for education of the growing community, including speaking roles at the IBC Think Tank and even contributing materials to the evolving IBC Practitioner’s Program itself. Naturally, being an IBC Practitioner will be a necessary, but not a sufficient, condition for these opportunities.

3.0 RESPONSIBILITIES OF THE IBC PRACTITIONER

3.1 Q: What’s the IBC Practitioner’s Agreement?

A: When enrolling in the Program, the financial professional must sign the IBC Practitioner’s Agreement. This is a legal document between the student and IBC LLC, spelling out the respective commitments of both parties. This FAQ will summarize its essential elements, but for a copy of the actual Agreement, contact.

3.2 Q: What’s the gist of the IBC Practitioner’s Agreement?

A: The Agreement specifies that IBC will provide a course Manual, a series of restricted-access online educational videos, and an Exam to become an IBC Practitioner. The student, in turn, will provide the initial enrollment fee and membership fee (for the first year), and then renewal fees in subsequent years. If the student is a financial professional who wishes to advertise his status as an IBC Practitioner, he acknowledges possession of the proper licensing and other legal requirements to practice in his industry. The student agrees not to reproduce the contents of the videos or the course Manual in any way, save for the customized handouts he will receive upon graduation. Finally, the student agrees for those clients who want an IBC policy, he will design it according to certain characteristics to ensure that these specific clients are getting a “Nelson Nash” policy, as described in his books and seminars.

3.3 Q: What does the Program mean by a client wanting an IBC policy?

A: If an IBC Practitioner is dealing with a client who asks for an “IBC,” “Nelson Nash,” “privatized banking,” or “banking” policy, or if the Practitioner recommends such a policy to the client, and/or if the client has come to the Practitioner by referral from his listing at the IBI website, then and only then the Practitioner must be sure to set this particular client up with a dividend-paying, whole life policy.

3.4 Q: Am I allowed to sell policies other than whole life to my non-IBC clients?

A: Yes! The restriction of a dividend-paying whole life policy applies only to those clients who desire an IBC policy, as described above. It is perfectly acceptable for the IBC Practitioner to provide other types of insurance policies for clients, so long as these clients do not believe they are receiving policies to serve the purposes conceived by Nelson Nash.

3.5 Q: If I join the program, but then eventually decide to stop my renewal fees, can I go back to my old way of doing business—which involved handing out Nelson’s book? By signing the IBC Practitioner’s Agreement, am I somehow restricting my future marketing strategies?

A: By joining the IBC Practitioner’s Program, the financial professional grants no more legal power to IBC over his practices, than what IBC LLC already owns. Specifically, IBC LLC already has the legal power—with or without a signature on the IBC Practitioner Agreement—to stop financial professionals from using its trademarks “The Infinite Banking Concept” and “Becoming Your Own
Banknotes - Nelson Nash’s Monthly Newsletter - February 2013

Banker,” and/or reproducing or creating derivative works of IBC LLC’s copyrighted works without permission. Generally speaking, the “penalty” for an enrollee violating the terms of the IBC Practitioner’s Agreement is merely removal from the ranks of IBC Practitioners. The only additional penalty that could possibly emanate from the IBC Practitioner Agreement per se, would be the case where an enrollee takes material from the course Manual and/or its online videos, and attempts to reproduce it for the general public or other financial professionals, without permission from IBC. But with respect to Becoming Your Own Banker and How Privatized Banking Really Works (two of the texts for the Program), the IBC Practitioner’s Agreement does not grant the copyright owners of these books any legal rights that they don’t already possess.

IBC Practitioner’s Program Course Syllabus

---------------THE PROBLEM---------------

Lecture I: The Typical American’s Problem

Closely following the treatment in Becoming Your Own Banker, in these openings lectures Nash explains that Americans devote a shocking percentage of their monthly income to finance charges of various kinds (credit cards, car payments, mortgage). Yet they brag at the water cooler about the rate of return they are earning on that small sliver of wealth they have invested. Americans focus on the rate of interest and ignore the volume of interest they pay out each month, which for most is a surprising percentage of their monthly income. Nash discusses the various psychological pitfalls plaguing Americans (Parkinson’s Law, Arrival Syndrome, Willie Sutton’s Law, Golden Rule, Use It or Lose It.), which are snares that will impede disciplined saving.

Lecture II: The Causes of the Housing Bubble and Lessons for Today

It is important for IBC Practitioners to know the basics of the current discussions about the economy and government/central bank policy. This lecture outlines the explanations for the housing bubble offered by three major schools of economic thought: The Chicago School, the Keynesian School, and the Austrian School. The focus in on the Austrian explanation, which (if correct) implies that the U.S. economy is in store for another major crash.

Lecture III: Money, Inflation, and Fractional Reserve Banking

Because the “experts” do not understand our modern money and banking system, in these lectures Lara gives a brief historical introduction to these topics. He gives a thorough yet comprehensible explanation of the process by which the Federal Reserve buys assets and creates new reserves in the banking system. The commercial banks may then create new loans on top of the Fed’s injections, leading to a many-fold increase in new money creation. The result is a depreciating dollar (rising prices) and artificially low interest rates. In addition to general financial education, this lecture will also serve to underscore the benefits of financing cash flow needs through life insurance policy loans. In contrast to lending from the commercial banks, policy loans are not inflationary nor do they contribute to the business cycle.

---------------THE SOLUTION---------------

Lecture I: The Economics of Life Insurance

Murphy walks through the nature and operation of life insurance from an economic perspective. This will help IBC Practitioners really understand how a whole life policy works, making it easier to give intuitive explanations to their own clients. Murphy will cover several topics, from both a theoretical level and through an actual policy illustration, including: (a) using mortality data and portfolio returns to compute the “actuarially fair” level premium on a whole life policy, (b) the definition of surrender cash value, and why it grows differently depending on the premium structure, (c) the process by which dividends are distributed, and (d) what actually happens when Paid Up Additions are purchased.

Lecture II: Using Whole Life to Become Your Own “Banker”
The treatment closely follows Nash’s book and seminar. Nash first uses parable of setting up a grocery store, then compares it to setting up a traditional bank. He then shows how this can be achieved through dividend-paying whole life insurance. Explains concepts of “pool of money” and Economic Value Added (EVA), and gives rules for a successful business (“don’t steal the peas”).

In the second part, Murphy walks through the examples of car financing and equipment financing from Nash’s book. Murphy will use the same numbers as in Nash’s book, but will stress that the point is a relative comparison, to see which strategy does better over time. Today’s lower interest rates do not alter the conclusion.

Lecture III: The Sound Money Solution and Its Connection With IBC
Lara outlines the “Sound Money Solution” as discussed in How Privatized Banking Really Works, in which the dollar is tied back to gold (which prevents the government from debasing the dollar) and government returns money and banking to the market. The climax of the lecture will be that insurance policy loans are not inflationary, meaning that each household that embraces IBC can “secede” from the broken system and put the entire economy on a more secure footing. The IBC practitioner realizes that his or her individual efforts to educate clients and make a living, actually promote the general prosperity of the country.

------------THE IMPLEMENTATION------------

Lecture I: Tax Considerations in Policy Design
Overview of the tax rules governing life insurance, including “MEC” limits and the use of PUA and term riders. Explain that PUA buys a “mini policy” that is effectively a single-pay with same structure of base policy.

Lecture II: Choosing the Right Product and Features From a Bewildering Menu
The first lecture covers the nuts-and-bolts of the different product types (UL, VL, IUL, etc.), explaining how they work, to make sure the IBC Practitioner understands the main features of each type. Then Murphy explains why Nelson Nash prefers to “do IBC” solely with Whole Life. The second lecture will will explain direct vs. non-direct recognition, and why insurers adopt different rules. He will explain the impact on a client from these different products and features.

Lecture III: Matching the Policy to the Client
Lara walks through the construction of two actual policy illustrations, tailored to two hypothetical clients. The first is a middle-income, 35-year-old salaried man, while the second is a high-income, 50-year-old business owner.

Lecture IV: Legacy
Nash opens with a discussion of building up a system of policies on one’s children and grandchildren. Perhaps discusses the option of giving child / grandchild an insurance policy with cash value to start a business, rather than a college education. Murphy then explains the nuts and bolts of taking out policies on other people, or for other people. This knowledge will be essential for clients who are uninsurable.

Lecture V: The Importance of Mutuals and a Good Reputation
Lara explains the emphasis that Nelson Nash places on mutual companies, and goes over the stock/holding company/mutual classification. This is a powerful message that will spread not only among households but business owners.

Lecture VI: Building the 10%
The themes of Austrian economics, the Sound Money Solution, and the Infinite Banking Concept all come together when a “tipping point” of the proper segment of the citizenry have been properly informed about the true nature of our financial problem, and the solution. At this point the demand for IBC will exponentially multiply. For this reason, it is critical that IBC Practitioners adopt a strategy of educating the public, using the books, videos, and other materials from the Infinite Banking Institute and other appropriate sources. Lara will explain that this is not a “chore” but in fact is an excellent way to ensure a stream of
interested potential clients who already understand how IBC works and realize its ability to solve their financial problem.

**Equipment Financing With IBC, Part II: Using Policy Loans to Grow Wealth Faster**

Robert P. Murphy, PhD  
August 2012

In last month’s issue, I discussed one of the most important parts of Nelson Nash’s book *Becoming Your Own Banker*, namely Part IV on Equipment Financing. I walked through (what I called) the base case, where a hypothetical individual had a whole life policy and did not take out any policy loans. Nash’s purpose in this portion of his analysis was to establish a baseline so that we could isolate the effects of the *Infinite Banking Concept* (IBC) proper, as opposed to just using whole life insurance the way a textbook would recommend.

In the present article, I will finish the analysis by walking through Nelson’s treatment of the hypothetical individual using his whole life policy to finance purchases of large logging trucks for his business. We will see that our individual grows wealthier even relative to the base case. In other words, we will see that if you use your whole life policy productively, you will hit wealth milestones faster than if you let it sit in the corner and merely make your premium payments on it.

**Refresher: The Base Case**

Because we need the base case to understand the (relative) advantages of using IBC to finance equipment purchases, we reproduce Nelson’s “Equipment Financing Illustration 1,” which appears on page 54 of the Fifth Edition of his book.

Recall the precise context of our story: We are dealing with a man who runs a logging company with four trucks. Initially, the man finances all four trucks through a conventional, outside lender. For each truck, the man must finance $52,600, which he does over a four-year period before turning in the truck and buying a new one. Based on the specific details that existed when Nelson constructed the example, the market rate of interest on this commercial loan was a bit higher than 15%. Since the man (by assumption) turned in the trucks every four years, it worked out that 27 cents of every dollar paid to the finance company was in the form of pure interest.

Illustration 1 depicts a “life paid up at 65” policy with a base premium of $15,000 and an initial death benefit of $1,233,439. (This information appears at the top left of the illustration in Nelson’s book.) This means the owner of the policy is contractually obligated to pay $15,000 per year in premiums until age 65, at which point he no longer owes the insurance company any money.

As I spelled out in detail in last month’s issue, the death benefit on this policy grows over time, because the man reinvests his dividends by paying Paid Up Additions (PUA). In effect each burst of a dividend reinvestment gets him a “mini-policy” configured much like the original policy, except that these mini-policies are 1-pay, meaning the man’s base premium doesn’t change. Each one-shot purchase of additional insurance is fully funded at the moment of purchase, so that the death benefit, cash value, and future dividend earnings increase, but without any additional premium obligation.

Last month, I spent most of the article explaining the ebb and flow of the total death benefit (in the far right column). It fell from Age 34 through 45, because in these years the contractual premium payment of $15,000 was higher than the dividend earnings, and the man was no longer kicking any money into the policy. (In order to build up the cash value early on—which would be necessary in order for this policy to serve as a “bank” that could finance equipment purchases—Nelson had the man front-load the policy in the first four years with $40,000 contributions.)

However, from age 46 through 65, the dividend payment each year is higher than the $15,000 contractual premium. That’s why the death benefit rises annually in this period, because the man is
paying the premium with his dividend earnings, then using what’s left over to buy additional insurance.

From age 66 onward, the man begins drawing out passive income of $92,000 per year, which knocks down the death benefit. (Technically, the man is surrendering some of his additional insurance, in order to suck the cash out. It is the exact opposite of buying PUAs.) But eventually, even with the $92,000 annual withdrawals, the death benefit begins rising again, because the dividends grow so large that they eventually exceed $92,000. Thus, what happens at the end of life is that the man draws out his $92,000 from the dividends, and uses whatever’s left over to buy additional insurance (thus boosting the death benefit).

**Tax Consequences: Why Partial Surrenders Might Be a Bad Idea**

As I alluded to last issue, Nelson does not think our hypothetical man is using his whole life policy in a wise fashion, as depicted in Illustration 1. In particular, Nelson recommends that people pump as much money as possible into their policies, rather than turning them on “autopilot” by letting dividends earnings pay the premiums. There is also the fact that this hypothetical man (in Illustration 1) relies on partial surrenders of insurance, rather than policy loans, whenever he needs to take money out of the policy (on net) in a given year.

So why did Nelson set the table up in this fashion? Why would he walk newcomers through an illustration, that has a man doing things Nelson might not endorse?

The reason is that this Illustration 1 isn’t supposed to teach the reader about funding retirement income (although Nelson doesn’t like that term and prefers “passive income” since he doesn’t let anybody off the hook from working until death!). Rather, Nelson is building up to the equipment financing powers of IBC. So he needs Illustration 1 to be the base case, namely to have a whole life policy that would be capable of providing financing for the first logging truck, but where this capability isn’t exercised by the owner. Since financing the logging truck will involve policy loans, Nelson doesn’t want any policy loans in Illustration 1 at all; their presence would confuse the reader and make it harder to isolate the contribution of IBC per se, over and above the simple strategy of getting a whole life policy at age 30 and hanging onto it until death.

When the man in Illustration 1 takes money out through partial surrenders—this is what makes the death benefit go down in certain years— he is effectively undoing the work he had done earlier, when building the policy up. Since Nelson’s philosophy views the policy as a “bank” that is being capitalized, such behavior is counterproductive. It would be akin to selling off pieces of your business whenever you had cash flow difficulties.

Rather than this strategy, the man in Illustration 1 could have used policy loans. With this technique, the insurance company allocates the needed money to the man—such as $92,000 per year in his later years—but in those years when dividends don’t cover the full amount, the difference is lent by the insurance company itself, with the underlying cash value of the policy serving as collateral on the loan.

To be sure, there is a major downside of borrowing from anybody, including the insurance company: You have to pay interest. The actual, contractual interest payments on a policy loan go directly to the insurance company, not “back into the policy.” (In the next section we’ll see the sense in which a portion of a typical interest payment really does accrue directly to the policy owner, not the insurance company.) Whenever the man carries a loan balance on the insurance company’s books, his net worth grows more slowly than it would, other things equal, because the loan grows with interest.

However, not all things are equal. For starters, since the man wouldn’t have partially surrendered any of his insurance coverage, his death benefit would continue to grow year after year, meaning his annual dividends would continue to grow. Thus the income stream from his insurance would be larger, compared to the situation where he took no loans from the insurance company and instead financed his needs through surrenders. The numerical tradeoff between...
these two forces would depend on many factors, but the important point is that they are both relevant to the man’s overall wealth.

However, there is another major consideration: taxes. When taking dividends as cash or when partially surrendering a policy, the owner can only take up to the historical “cost basis” (how much he has pumped into the policy in premiums, without considering the time-value of money) with no tax event. In Illustration 1, the cost basis is $160,000 by the fourth year (see the second last column, “CUM NET OUTLAY”).

Notice what happens to the cumulative net outlay column once the man begins drawing out $92,000 per year. Not only does the death benefit start dropping (again), but the cumulative net outlay is reduced dollar-for-dollar. When the net outlay goes negative—this happens at age 67, when the $92,000 draw knocks the previous cumulative outlay of $68,000 down to a negative $24,000—the IRS will suddenly become quite interested in the festivities. It will now say to the man, in effect, “At this point, in your 67th year of age, you are finally taking out more money from this policy than you ever put in. Clearly then, this has generated net income for you. Thus, we are going to start taxing it, just like we would tax your investment earnings in other financial assets.”

Yet what if the man at age 67 took out the $92,000 not by a partial surrender, but instead through a $92,000 policy loan? In this case, the IRS would not treat it as taxable income. This is for the simple accounting reality that a loan isn’t really income.

Thus we see that a policy loan, rather than a partial surrender, might be the more sensible way to draw a cash flow out of a whole life policy, especially in later years. Even in the “worst” case, where the policy owner never pays back a cent on the loan—letting it grow exponentially with interest until he dies and the policy loan is extinguished by being paid out of the death benefit proceeds—it’s possible that the savings in income tax more than compensate for the lifetime interest charges on the policy loan. Considering this factor, as well as the higher growth in dividends, the policy loan route might be far wiser than partially surrendering.

Finally: Equipment Financing

Now that we’ve covered the preliminaries, we can finally jump into the heart of the example: We can now analyze what happens when the man uses his whole life policy—at first configured just as it was in Illustration 1—to finance the purchase of a logging truck. The new scenario is laid out in Illustration 2 below, on the following page.

In Illustration 2, the man first has to capitalize his “bank.” That’s why he can’t finance his trucks with it in the first four years, because in this period he is building up his cash value with large contributions over and above his contractually required $15,000 premium. (In other words, he is kicking in an extra $25,000 per year via a Paid Up Additions rider—bringing the total outlay to $40,000—even though he is not obligated to do so, by his insurance contract.)

In Year 5 (Age 34) the fun begins. The man has to borrow $52,600 initially, because that’s the net out-of-pocket expense to him of a new logging truck (after accounting for the trade-in value of his old truck). In other words, back in Illustration 1 when the man wasn’t using his whole life policy to help with his business, he had to finance $52,600 from outsiders whenever he acquired a new truck.

Now, Nelson supposes that the man keeps a given truck for four years before turning it over for a new one. That means his financing strategy must pay off the policy loan after the fourth year. Well, $52,600 divided by 4 equals $13,150, so you might at first think the man has to pay back $13,150 each year to the insurance company to knock out his policy loan by the end of the cycle.

Ah, but there is interest. In Nelson’s example, when the man borrowed the $52,600 from the insurance company as a policy loan, there was a contractual 8% interest rate. Thus the man would actually have to pay more than $13,150 per year, in order to reduce the total outstanding policy loan to $0 by the time he had to turn in his old truck and finance the purchase of a new one. Using an online amortization calculator, I
reckon the man owes the insurance company $1,284 per month, in order to knock out a $52,600 loan at 8% after four years.

Here is the crucial part of the story. Nelson does not recommend that the man merely pay the bare minimum to the insurance company. Instead, Nelson says the man should stick to his original stream of payments on the truck. In other words, even though the man can borrow from the insurance company at 8%, the man should still make monthly payments on the truck as if he had borrowed the $52,600 from the outside finance company, which (Nelson shows) charges him about 15% on the loan.

Back when the man financed using outside lenders, his monthly truck payment was $1,502 (as Nelson reports on page 52). Rather than pay only $1,284—as the arrangement with the insurance company would require, if the man wants to achieve a $0 loan balance after four years—Nelson wants the man to send the insurance company the full $1,502 per month. To repeat, the man's overall household cash flow situation is the same in Illustration 2 as it was in Illustration 1. That is, the man is still able to go to the movies, eat out at restaurants, and take vacations just as he did in the first few decades of Illustration 1.

So what's the magic trick? We can look at the cash value and the death benefit columns in Illustrations 1 versus 2, and clearly in the second case the man is growing wealthier, faster. What precisely is driving this result? What is the source of the “magic” of IBC in this simple example of equipment financing?

To get a hint, look back at the “CUM NET OUTLAY” column in Illustration 1. It grew by $40,000 per year until maxing out at $160,000 in year 4, and then it stayed there until retirement. This underscored the fact that the man didn’t kick another penny into the policy after the fourth year. (To repeat, now we are going to see exactly why Nelson had the man behave this way in Illustration 1, even though in reality Nelson would never recommend that someone do so!)

Now look at the net outlay column in Illustration 2. At first, as the man is capitalizing his “bank,” it rises up to $160,000 by year 4, just as in the base case. But then it drops down, reflecting the net policy loan of $34,600. (This figure results from the gross loan of $52,600, less that year’s loan repayment of $18,000.) Notice that the cumulative net outlay has thus dropped by precisely $34,600, from year 4’s value of $160,000 down to year 5’s value of $125,400.

In years 6 through 8, the man makes $18,000 annual loan repayments, just as he would have done to the outside financing agency in Illustration 1. To repeat, this $18,000 outlay doesn’t represent a new burden to the man; he was already paying it in Illustration 1, it’s just that we couldn’t see it anywhere, since it had nothing to do with his whole life policy. Notice that in each of these years, the “CUM NET OUTLAY” column grows by $18,000 per year. For example, $18,000 + $125,400 = $143,400, which is precisely the cumulative net outlay shown in year 6.

Now notice something interesting: By the end of the 4-year loan cycle—i.e. by year 8, the loan is paid off completely; that’s why the “CUM LOAN” column shows $1, because of rounding. The cumulative net outlay is now $179,400. Notice that this is higher than it ever was in Illustration 1. So now we see what’s going on: In Illustration 2, the man is kicking more money into his policy on net than he ever did in Illustration 1. That’s why the cash value and death benefit are higher in Illustration 2, year by year, compared to Illustration 1.

But where did this extra money come from? How is it possible that the man kicked in more money over the 4-year loan cycle, compared to his behavior in Illustration 1? Didn’t we stress the fact that the man’s household lifestyle was exactly the same in both scenarios?

The answer is that the insurance company was only charging 8% on the policy loan, but the man continued “making payments” as if it were charging him the 15% that the original finance company charged. Remember, the man actually only needed to pay about $1,284 per month to not fall behind with the insurance company. Yet in practice he paid $1,502. Thus in the first month, the man paid an additional
$218 to reduce the principal on his policy loan. Had he been with the original finance company, this $218 would have been consumed in finance charges (i.e. interest on the loan), but at the insurance company’s lower interest rate, that same $218 could be thrown at the overall debt.

Look at the “CUM LOAN” column in year 7. It shows that by this point—after that year’s $18,000 annual loan payment—there is only $14,640 left on the loan. Tacked on top of that principal, there will also be a $1,084 interest charge (shown in the column to the left). That means the next (and final) “loan payment” of $18,000 in year 8, will more than extinguish the policy loan. At this point, more than $2,000 in extra money can be used to buy additional insurance.

To double-check that our treatment here is consistent with Nelson’s understanding of what’s happening, look at footnote 1 on page 58 where he writes: “Actually, this “interest” is not really interest—it is additional premium (capital) that has been paid into the policy, that equals the interest that was being paid to the finance company. That is the reason that it is adding to the cost basis of the policy.”

Once you see how the process works for the first purchase, you can step back and view the 4-year cycle throughout the man’s life. Although the cumulative net outlay drops sharply every 4 years with the purchase of a new truck, it rises steadily as the loan is repaid (and then some). Every fourth year, the cumulative outlay has hit a new peak, showing how the man, over the years, is funneling more and more money into the purchase of additional insurance.

**Conclusion**

By simply redirecting the cash flow that he already was committed to making, our hypothetical logger can build wealth in his whole life policy more rapidly than was possible in Illustration 1. Indeed, by age 66 the man in the second scenario begins drawing out a much larger retirement income, and still keeps his total death benefit at $3.1 million by age 84. In contrast, the man in Illustration 1 drew a smaller retirement income, and was only able to keep his death benefit treading water at a level of $2.4 million.

Nelson’s simple equipment financing example shows the power of using the Infinite Banking Concept to supplement the natural virtues of a standard whole life policy. Every household should consider a policy, but business owners in particular should consider large policies—particularly “front-loaded” ones—that will serve them as an alternative lending facility, freeing them from dependence on commercial lenders.

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**Obama and the Continuing War on the Poor**

By Paul A. Cleveland

A mentor of mine, Clarence Carson, published a book in the 70s titled, *The War on the Poor*. He took his title from Lyndon Johnson’s so called “war on poverty.” Carson noted that actual wars are waged against actual people rather than against circumstances. Thus, if the government were engaged in a war it must be against some identifiable group of people. In his book he identified the poor as that group by analyzing the economic impact of the various policies that Johnson pursued. In each new initiative of the Great Society the effect of those policies was to raise prices on various products and cause the poor in America to suffer for the sake of a few special interests.

Nothing much has changed in America. The only difference between then and now is the degree to which private property is being attacked. Indeed, the entire political process seems to center around such attacks in the name of alleviating our misery which more often than not is caused by some past program. Despite the misery that past policies inflicted upon us, during each election cycle our politicians travel the country telling us how their proposals will fix all that ails us. If they are incumbents they argue that their policies will work if given sufficient time. Moreover, they tell us that they have been hindered in the performance of their promised feats because of their political opponents. Alternatively, challengers...
Adam Smith observed that, "There is no art which one government sooner learns of another, than that of draining money from the pockets of the people."1

The process of looting the public appears to have gained a bit of speed with the newest administration. It has embarked on a full scale assault on the American public aimed not only at ravaging the poor for a few special interests, but vastly increasing the number of people consigned to poverty. Whether we look at Obama and the Democrats’ cap and trade legislation or their health care reform or their pork barrel stimulus bill, in each case they intend to raise prices and increase taxes on us all. While a few corporate interests will benefit grandly from such nonsense, the vast majority of us will be made poorer. What is the saddest part of all of this is that no one seems to care that the economic results will be most heavily felt by the weakest among us. The gross immorality of this oppression and tyranny should be evident to anyone who would but casually look at the situation. However, thus far the mainstream media has given Obama a pass and the general population has chosen to remain blindly ignorant.

I suppose this is not new. In the political game it seems that everyone is hoping to be numbered among the few beneficiaries. Moreover, it seems that people are basically unwilling to face a rather obvious economic truth. In this world there are only a few ways for each of us to obtain the things that we desire. We can produce the things ourselves starting from scratch, produce something valued by others and use that in trade for what we want, take the things from others by force or fraud, or receive them as gifts of charity. Only the first two of these are economic. Theft and charity cannot be universalized because each can only be achieved by the prior production of others. It is this fact that led H. L. Mencken to note in his day that elections in America were nothing more than advanced auctions on stolen property. Or as he quipped, “A good politician is quite as unthinkable as an honest burglar.”

Indeed, government redistribution of property is nothing more than systematic theft whereby the politically well-healed steal from the masses. Whether
it was the financial bailouts orchestrated by the Bush administration or the takeover of two auto makers by the Obama administration, government theft of private property is alive and well. It matters little to these people whether their actions impoverish other people. Rather, they selfishly act upon their own greed and pursue political means to steal what they want from others. In truth, everyone whose hand is out begging for some government favor is participating in this immoral and unjust activity. Government is simply incapable of creating something out of nothing. Regardless of what some newsmen evidently believe, Barack Obama is not the Almighty capable of calling things into existence ex nihilo. It does not matter whether it is Woodrow Wilson, Herbert Hoover, Franklin Roosevelt, Lyndon Johnson, Richard Nixon, Jimmy Carter, either George Bush, Bill Clinton or Barrack Obama. A thief is a thief and all thieves impoverish their victims.


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.

How Business "Recesses" Itself

by Jeffrey Tucker

There's a jewelry store in town with a long tradition, a devoted client list, and a good record of solid profitability. But during the last year, it's moved around like the "oldest established permanently floating crap game" from the musical Guys and Dolls.

It was downtown. Then it was not. It was reestablished on the other side of town, in a low-traffic area where people couldn't find it. Then, 14 months later, it moved back to its old location.

Why? It was all about remodeling and renovation. The original building had been added to and added to until no more substantial changes could be made. The owners decided to "bite the bullet," as they say. They made the choice to level the old building completely and start again with a new design, renovating the whole thing over from the ground up.

I spoke to the owner at length about the decision. He knew it would mean dramatically lower profitability over the course of 14 months. They would be spending vast sums on the new structure. The revenue would collapse. They knew all of this, making their decision a fascinating choice. One reason they chose a temporary location in a low-rent area was precisely to save as much money as possible during the transition. They also stopped adding to the inventory.

It is a tricky calculation, one that is possible only with intimate knowledge of the business, the venue, the expected revenues, the seasonal changes, the permanent costs of the business, the cost of losing some customers in the intervening period, and much more.

Did the gamble pay off? The owner is cautiously optimistic. The new store is gorgeous. It is back at its prime location. There seemed to be a lot of shoppers when I was there (but shoppers are not necessarily buyers). The revenue declined hugely and dramatically during the transition, as expected. But the revenues have been notably impressive since the reopening. However, it could be five or 10 years before they know for sure whether it was the right thing.

What's more, there is no real way to prove cause and effect here. There is no status quo against which to compare the new reality. There are no control groups. You can only imagine counterfactuals and speculate. This is because business is not like natural science. You can't just hold all things still and change one variable, much less repeat the experiment. The flow of life is forward, and an infinite number of things are constantly changing.

But consider what's going on here. The job of business is to make a profit. The company was making a profit. They deliberately decided to set aside current profits in the hope that more profits would emerge
down the line. In other words, you have a business here that set out with deliberation to put itself into a recession. It traded current growth for the hope of future growth down the line.

If you think about it, businesses do this all the time. Next time you are in a hotel with construction work, think about this. The jackhammers, dust, plastic sheets, plywood, hammers, and the rest are extremely annoying to customers. We walk in with a grit in our teeth. The signs saying "Please be patient with us, we are growing" hardly compensate.

I was at a hotel two years ago that had machinery so loud that I had to practically yell at the clerk so that she could hear me, and she had to yell back.

Thoughtless people imagine this is just incompetence. Hardly. a hotel exists to serve its customers. That's the reason they are there. If you aren't happy, they don't make money. Construction is really a catastrophe for a business like this. It is something they undertake only if they are darn sure that the payoff, and then some, will come later.

Again, this is a very tricky calculus, one that requires vast experience in the industry, intimate knowledge of the market, and a solid sense of what the future holds (or might hold). In these cases, too, they are dealing with something pretty amorphous: the extent to which a new design and new decor are going to make the space more attractive to customers than it might otherwise be.

Mistakes are made, to be sure. But they are borne by the business, not society at large. Private property and private decision-making are preconditions for such difficult management decisions.

Imagine if you were somehow appointed as the head of an entire economy. And let's further suppose that you had a strong sense that the most important thing was to economize on resources and you were dedicated to this task. It is very unlikely you would make the decision to redesign, remodel, or reconstruct anything ever. So long as businesses were profiting, more or less, or just functioning well enough, you would be likely to just instruct them to keep doing what they were doing.

Real life is different. Private businesses deliberately put themselves into micro-recessions all the time. They know they must do this in their long-term interest. They trade in profits now, accepting a lower rate of return for the hope of greater profits later.

Another example is Wii, the computer gaming company that was all the rage in the late 2000s and then felt the hot breath of several competitors at its back. It went into hibernation for a year or more in the hopes that a new generation of their hardware would grant a competitive advantage in the future.

Wise individuals do this, too. People forgo current income by going back to school, for example, in the hope that they will add to their personal capital stock and earn more later. If they are smart, they think seriously about the opportunity costs of these kinds of decisions.

Two years of school could cost $40,000. At the end, you are out $40,000, instead of being up, say, $80,000. You have to imagine that you are going to earn that income stream back over the coming years, enough to compensate for the missed income and earn more down the line than you otherwise might have.

Government is constantly urging people to do the opposite. I have a memory from the weeks after Sept. 11, 2001, when President George Bush was nudging, urging, and even demanding that people spend more. He knew that economic hard times were coming, but instead of suggesting that people do what is in their best interest, he demanded that people do the opposite -- on the theory that what might seem bad for you is actually good for society.

Something very similar happened in 2008. The same guy again got on national television and told everyone to go out and spend, spend, spend. It was a very strange thing. For most of American history -- New Deal excepted -- even government officials understood that sometimes you have to go through recession in order to experience greater growth down the line. You have to trade off benefits in the present to get greater benefits in the future.
This didn't happen after 2008. The liquidation has never occurred. Instead, the banking system, the real estate markets, the financial system, and the federal budget have all undergone dramatic change in order to support the theory that every bit of benefit needs to be squeezed out of the current system, rather than ever permit it to pull back a bit pending a better future. The result has been a terrible stagnation, the piling up of ghastly debt, and an utterly broken financial and banking system.

[Ed. Note: Isabel Paterson explores this question in great detail in her work The God of the Machine. When you read it, you'll learn: 1) why only private decision-makers can be truly rational in an economic sense, 2) how public-sector growth comes at the expense of the private sector, and 3) how arrogant public employees push through plans that wreck society. This book is FREE with Club membership.]

Why does government do this? Two reasons stand out. It doesn't really own anything in a real sense. It loots us and passes out the proceeds to friends. Officials bear no personal responsibility for what they do. Second, government has no local knowledge at all to compare the returns of the present to the returns of the future in any plausible sense. All the incentives of government are to extract every bit of blood from today's turnip, regardless of what that means for the future.

This should be a heads-up for individuals. Government doesn't want you to ever enter into a privatized and personal recession. It tries to convince you that what might seem bad for you now is actually -- strangely and through some mystical metamorphosis -- good for everyone, including you, later. Under this assumption, the whole of society, including you, is run into the ground.

The great lesson of the liberal revolution of the Age of Enlightenment is that what's good for individuals is good for society. Politicians and bureaucrats deny that truth every day, but you and I don't have to believe them, much less act on their demands.

Number Thirty-Three in a monthly series of Nelson's lessons, right out of Becoming Your Own Banker® We will continue until we have gone through the entire book.

PART IV, Lesson 33: Equipment Financing continuation

Content: Page 60, Becoming Your Own Banker: The Infinite Banking Concept® Fifth Edition, Sixth Printing

Responding to the question by the logger at the end of our last lesson, “Can I finance two trucks through this policy?” “Yes, by all means,” replies the insurance agent, “Bankers do anything they want to if their bank has the capacity to do so. How much do you need?” Remembering that the amount the logger seems to consistently finance is $52,600 means that, for two trucks, he needs $105,200.

Turn to page 60 and notice that this illustration is the same as the last two during the first four years, and that $157,363 must be loaned somewhere by the life insurance company to make the policy work as promised. He outranks all he other possible borrowers. When he makes the $105,200 policy loan at the beginning of the fifth year, he must immediately start a repayment schedule of $36,000 per year – the same thing that he is still paying the finance company for the other two trucks in his fleet. This shows up in the Net Annual Outlay column in the fifth year as (-$69,200). Again, this is “computerese” for the fact that he borrowed $105,200 and paid back $36,000 in the same year. Make sure that you understand this, because to go further in the study would be a waste of your time.

He repeats the process every four years. Now, look at the cash value at age 65 -- $2,459,578! He has made an additional $471,324 over the results of financing just one truck that we studied in the last example. His
The same principle occurs here with this series of five illustrations of the same policy with the same company. Everything about the policies is identical. But, there is a huge difference in them as we progress through the series. It is all because of how the policy owner behaves.

Continuing to study Illustration 3 on page 62 please note the fact that he has $1,342,420 of life insurance at the beginning, his age 30 – and it continues to grow to nearly $4,000,000 at his age 65! This is a bonus! The death benefit really has nothing to do with this story – except that you can’t get this kind of financing any other way.

Prepare yourself, mentally, for the next example – it gets better!

Cash flow to finance all his equipment has not changed. The only thing that has changed is where that flow is directed. The life insurance company had nothing to do with this improved result. It was the result of his “shopping at home with his banking system” and paying the same thing to it that he was paying the finance company. All those additional earnings were accumulated on a tax-deferred basis.

Let’s check out the effect this has on his retirement income from dividend withdrawals – it has increased to $150,000 per year! This is quite an improvement over the $92,000 in the first example where the insurance company managed it all – and the last example of $125,000 as a result of his financing just one truck through the system.

Again, assuming death at age 85 – add up all that income he has received (you will find that figure at the bottom of the Cumulative Net Outlay column) – and it is $2,379,600 plus everything he has paid into the policy and he still delivered a death benefit of $3,992,624 to his beneficiary. That’s a total of $6,372,224 in benefits – income and death – and he has absolutely nothing invested in the policy! This was all produced by studying how a whole life insurance policy really works and realizing what is going on out in the financial world. That “financial energy” is flowing out there. It is all a matter of recognizing that you can tap into that flow of energy and convert it to your own benefit. But, you have to build a “paddle wheel” to dip into that flowing stream to do so. That is going to require a nominal immediate cost to capitalize the system which you will recoup later.

Remember, back in Part I, we discussed your getting an automobile right off the assembly line at the factory and that I got the next one – same model, same equipment, even the same color – everything about them was identical. But there was an enormous difference in the performance of the cars during their lifetime because of the way you drove and cared for yours and the way that I abused and neglected mine. You got 200,000 miles out of yours with no trouble and I only got 50,000 miles out of mine because of my behavior.

The greatest discovery of my generation is that you can change your circumstances by changing your attitude of mind. – William James

"Governments likely to confiscate wealth are unlikely to find much wealth to confiscate in the long run."
- Thomas Sowell

Our federal tax system is, in short, utterly impossible, utterly unjust and completely counterproductive [it] reeks with injustice and is fundamentally un-American... it has earned a rebellion and it's time we rebelled”.
- President Ronald Reagan May 1983, Williamsburg, VA

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

The Failure of Common Knowledge by Doug French
Brave New World by Aldous Huxley
Antifragile: Things that Gain From Disorder by Nassim Nicholas Taleb
Nelson’s Live Seminars & Events for February / March 2013
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. Typically, 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 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 information.

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