

Becoming Your Own BANKER® *Unlock The Infinite Banking Concept®*

R. Nelson Nash



Infinite Banking Concept™, LLC

Birmingham, Alabama

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To Mary, my joy and inspiration.

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Introduction

B

Becoming Your Own Banker—The Infinite Banking Concept is a text for a ten-hour course of instruction about the power of dividend-paying whole life insurance. It is not a sales tool for life insurance agents. It is education that the life insurance industry should have taught during the last 200 years. Unfortunately, the industry has concentrated on the death benefit qualities of the contract and has neglected to adequately describe the financing capabilities that it presents for the policy owners. Ironically, life insurance companies must put premium income to work in various investments in order to pay the death claims.

This book demonstrates that your need for finance, during your lifetime, is much greater than your need for protection. Solve for this need through this instrument and you will end up with more life insurance than the companies will issue on you. Most everyone is familiar with the fact that one can borrow from a whole life policy, but because of how little premiums they pay, there is limited access to money to finance major items needed during a lifetime. Yet, the need for financing for the typical person is extensive. Really, all this book adds to the equation is scale.

The fact that the principles have been there all along and no one taught them to me makes me rather angry! Had I known them, life would have been much simpler and much more profitable. Someone should have recognized them and taught them long ago, but this didn't take place because of the mindset that predominates in the entire financial world.

It is written for the layman, not for financial advisors, but all life agents should be thoroughly knowledgeable of its content and practice. Again, unfortunately, this is not the case. Very few of them

have more than a rudimentary understanding of its qualities.

The whole idea is to recapture the interest that one is paying to banks and finance companies for the major items that we need during a lifetime, such as automobiles, major appliances, education, homes, investment opportunities, business equipment, etc.

This book is not about investments of any kind. It is about how one finances the things of life, which can certainly include investments. It is not about rates of return. As time goes by interest rates are up and interest rates are down—but the process of banking goes on no matter what is happening. It is a well known fact that banks make more money during times of low interest rates than when rates are high.

A word of caution is in order—later in the book you will be looking at illustrations of life insurance policies that show how the concept works as compared with how most folks go about solving their financial affairs. Most of the illustrations were developed in 2000 and represent dividend scales in effect at that time. Presently, interest earnings are lower and, hence, dividend scales are lower. But in comparison with other methods of financing the things of life, the difference in results remains the same.

It is not a procedure to “get rich quickly.” To the contrary, it requires long range planning. I’m educated as a forester, having worked in that field as a consultant for ten years; I tend to think seventy years in the future. I won’t be here—and neither will you—but there is no reason not to behave in this manner. “Plan as if you are going to live forever and live as if you are going to die today” appears to me to be a good thought. One can learn how to plan and act intergenerationally. That’s one of the primary advantages of having been a forester. I learned to think beyond the lifespan of my current generation.

Becoming Your Own Banker is not a tax qualified idea of any sort. The Income Tax Law, as we know it today, has only been around since 1913. Life insurance has been around for over 200 years and is not a creature of any tax code. It is nothing more than like-minded people contracting with one another to solve a financial problem.

There is no such thing as “having too much money in the bank.”

Wealth must reside somewhere. What better place to have it reside than here? From this residence one can do anything that one can conceive. This is an advantage that most folks ignore in their thought process, and therefore, limits their effectiveness.

Let me make it abundantly clear—I am not talking about a bank in the conventional sense of the word. I am demonstrating that one can use dividend paying whole life insurance to solve one's need for finance throughout one's life.

Hopefully, this book will give you a new perspective on the idea of "retirement." I prefer to use the words, "passive income." That is money coming in that you can count on and you don't do anything to earn it at that time. Study the tables carefully and you will see that very high premium, dividend-paying, whole life insurance is the ultimate vehicle to produce such income.

The Infinite Banking Concept is a major paradigm shift for most folks. It will require several thorough readings for a full understanding of its message. The concept is not complicated, it is just different from the way the majority thinks and behaves. In fact, it is the ultimate in simplicity. There is an extensive reading list in the book and you are encouraged to read them all. Education is an on-going process and there is no such thing as having "arrived" in knowledge.

There have been many people that have had a glimpse of what this book is all about but none, to my knowledge has put together a comprehensive rationale such as you will see here. Read it with an open mind and you will discover a whole new financial world.

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

—WILL ROGERS

Acknowledgments

T

o my children-Debby and Jake, Barry and Janel, Kim and Dave—for their belief in me and for being such good practitioners of the banking concept. The same thing goes for the inspiration of Patricia K. Walker.

To Frank Vawter, who in the beginning, raised some key thoughts and questions that led me to look deeper into just what is happening in a dividend paying life insurance policy with a mutual company. Kent Basson, “Buddy” Mann, Roland Nelson, Fred Moss, Billy King, Keith Burton, Vince D’Addona and Rob Colburn were also instrumental in this respect.

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Thanks to you all for your contribution. I am very grateful for your friendship and your help.

Part 1: Becoming Your Own

Banker® S

Someone made the comment that “If some authoritative power distributed all the money in the world equally among all the people in the world, within ten years time 97% of all the money would be under the control of 3% of the people.” I suppose that there is no way ever to measure the validity of such a statement, but I have the feeling that most people would agree that it is probably close to the truth. Even if the proportions were somewhat moderated—say 75% of the money would be under the control of 25% of the people—why do you think that this phenomenon happens? Perhaps some of the answer lies in the fact that most folks know next to nothing about the process of banking and its importance to their lives and their well being. Banking is *the* most important business in the world! Without it, all business comes to a screeching halt. Whenever a business transaction takes place, money must flow from one party to another in a relatively short time or, otherwise, nothing takes place. That flow of money must come from a supply source, a reservoir. That is the essence of what the banking business is all about; someone or some *organization* has control of a pool of money that can (and must) flow, at a cost, to meet some need. There is only one pool of money in the world. The fact that this pool is managed by any number of institutions: banks, insurance companies, corporations, and individuals in various countries with various currency denominations is incidental. To argue otherwise would be the equivalent of someone looking at the globe and observing that the Amazon River in South America flows into the Atlantic Ocean and commenting that “this has nothing to do with the Indian Ocean on the other side of the globe.” Nonsense! It is all part of a system. Observe that about 75% of the Earth’s surface is

covered

by water. The sun heats it up and some of it evaporates into the atmosphere causing wind currents. The currents take the water vapor around the earth and it precipitates out in the form of rain, sleet and snow—and somewhere along the way some of it *flows through you and me*. Without it we die! That makes it of vital importance. Pray tell, where does it end up? Right! Back in the oceans!

The banking business is somewhat like that. Money flows from the pool through our hands to meet our needs—but somewhere in the process it all ends up back into the banking system. It is all a matter of “how much of the banking function do you control as it relates to your needs.” This book is all about how to create your own banking system so that you can control 100% of *your needs*. *Becoming your own banker!* Give it your close attention and it can make a radical improvement in your financial future.

“For I know the plans I have for you” declares the LORD. “plans to prosper you and not to harm you, plans to give you hope and a future.”

—JEREMIAH 29:11

Chapter 1: How the Infinite Banking Concept® Got Started

F

irst, a bit about my background. I was educated as a forester, graduating from the University of Georgia in 1952. A large portion of the root thought of this concept is coming from the study of forest

finance—the fact that you are dealing with compound interest over a long period of time with no taxation on the build-up. The reverse fact is that you must make an investment and *you won't see any result for that same long period!* In the forestry world you must think many years into the future. I worked as a forestry consultant for about 10 years.

Some of it is coming from the life insurance business. I made a good living in life insurance sales for over 30 years. Knowing how dividend paying life insurance works is an essential ingredient to it all. Most people have a minimal understanding of the subject, *including* the home office personnel at life insurance companies! That is strange, but very true.

Lastly, it was strongly influenced by my experience in the real estate business. Timber is a form of real estate as well as the land on which it grows, so I have been around real estate for all my working life and I developed a strong interest in the subject, studying many books on it. If you read these books, the central message is not about real estate at all—it is about the magic of *leverage!* Essentially, they all say, “Buy some real estate, borrow the money to pay for it, (because you are *always* dealing with borrowed money—you either borrow money and pay interest, or you use your own money and give up interest that you could have earned) pay interest for a while, then sell the property. All you have given up is the interest you have paid out. That leverage is *wonderful!*”

That is all true—as long as things are going the way the “financial geniuses” describe it. But they *never* tell you what happens when the *lever goes the other way!* Frankly, I made some money in the late ‘70s doing it the way the “geniuses” explained it (someone remarked that “financial genius is a *rising market*”). There were several successful ventures in a row and it looked like there was no end to this bonanza. I could do no wrong! The ventures got bigger and bigger and I got more and more involved, buying a large number of acres of rural property. And then I got into real estate development. With the profits from one small parcel, my wife and I went to Europe in 1977 and spent a month! Would you believe it—I have *never* seen that property yet? And I did it all according to “the book by the financial geniuses”—leverage—other

people's money. Just have your Realtor find such a deal and attend to all the particulars for you—and then sell it for you! Marvelous!

There was no logical reason not to expand. And so I did. The interest rate (prime) at that time was 8%, but you must pay 1.5% over “prime” (now referred to as *base rate*), because the Bankers are not lending you money because you have real estate—they are doing it because *they think you can make payments!* Why else would they require personal endorsement on the loan? And you must renew the notes every 90 days—at the current interest rate. I got accustomed to paying 9.5% and that was just normal. And then, along came 1981 and 1982. The prime rate rose and “peaked” at 21.5%!! Add 1.5% on top of that and you see my situation—23% interest on \$500,000!! That amounts to \$67,500 of interest per year *that I was not expecting to pay!*

When this happens to you, what do you do? Go ask the “financial geniuses” who recommended that you do this, “What do I do, now?” If you can find them, they may mumble something about “selling the real estate.” But, where do you find a *fool* that will buy it under those circumstances! Of course, everything will sell if you get the price low enough, but losing five times what you paid for it is hardly a good way out.

But, so far, you have heard only a part of my story. The beginning of my “awakening” was in November 1980 when our first grandchild was born. Interest rates had begun to zoom upward. That was Bunker Hunt's heyday— you remember him? Bunker and his brother were going to “corner” the silver market—and as a result silver prices increased higher than anything, relatively speaking. Gold went up to \$800 per oz. And so, “drug junkies” started supporting their drug habit by stealing silver from homes. While my wife was visiting our new granddaughter some 60 miles away for several days, the thieves broke into our home at 3:00 P.M. and “cleaned us out.” Have you ever been burglarized? You won't believe what they can do to a house in just a few minutes. Luckily, I got to clean up the mess. If my wife had seen it I don't believe she would ever feel comfortable in that house again.

Two months later my 52 year-old brother dropped dead from a heart

attack while playing racquetball with a son. Poor selection of ancestors—our father died at age 64 from the same problem.

Five months later our second granddaughter was born out in Hawaii. Five weeks later her parents discovered that *the baby had cancer!* I didn't even know that babies could get cancer. She went on chemotherapy when she was six weeks old. Six months later she went through surgery to remove the tumor on her right adrenal gland. The cancer was a *neuroblastoma*, a very rare kind that attacks children. The lesions had involved her liver and she had to go back on chemotherapy for several more treatments. My story has a good part—she is now 25 years old and is cured!! We have seen a *miracle!*

And now for the bad financial news—it was that summer that interest rates went to 23 percent—and there I stood owing \$500,000 under those circumstances. When a number of bad things like this occur in fairly rapid succession it can increase the quality of your prayer life dramatically! The basic idea revealed in the Infinite Banking Concept was born over a period of many, many months at 3:00 to 4:00 A.M. in the *kneeling position* praying, “Lord, please, show me a way out of this financial nightmare that I have created for myself.” The answer came back about like a baseball bat across the eyes. “You are standing in the midst of everything it takes to get out—but you don't see it because you look at things like everyone else. You can get to money, during these awful times, at 5% to 8% from three different life insurance companies through policies *that you own*. The only thing that limits how much you can get to is the same thing they tell you at the bank when you ask them how big of a check you can write—*how much have you put in?*”

If I had not been accustomed to paying very large premiums it is doubtful that I would have seen the message. Hardship often helps us to see things to which we are normally blind. It was evident to me that I needed to increase my life insurance premiums dramatically to create a pool of cash values from which to borrow to pay off the bankers that I owed. But, I owed \$500,000! How could I do both? Honest introspection revealed that I *could revise my spending pattern*. This was a starting place. When I started teaching others to design their

financial dealings along these lines my income tripled. Practically everyone thought I was crazy—it was opposite to what all the “experts” said. But an objective look at the facts of how life insurance worked, plus reason and logic—and continued sessions of intense prayer for guidance has proved that the system works!!

Maybe you have found yourself in such a financial prison—or maybe you want to develop a system that will keep you *out!* Maybe yours is smaller or greater. Whatever, the principles are the same and they will serve you well. It requires understanding—and it requires discipline to implement the idea, but it can change your life dramatically—even beyond your fondest dreams!

My people are destroyed from lack of knowledge. Because you have rejected knowledge, I also reject you as my priests; because you have ignored the law of your God, I also will ignore your children.

—HOSEA 4:6

Chapter 2: Imagination

T

he Infinite Banking Concept is an exercise in imagination, reason, logic and prophecy. So to start out, let's begin with the part about imagination. To help stimulate your imagination let's go back in time to the late 1700's— the German Schoolmaster was having trouble with his boys that day—they were rowdy 7-year olds. He wanted to quiet them down—and to punish them, so he gave them a problem. “Add up all the numbers—one through one hundred.”

The boys got their slates down and started to work on the problem.

His plan seemed to be working, except for one boy who just sat there staring out the window. Presently he picked up his slate, wrote down a number and turned it in to the Schoolmaster. Since his was the only correct answer, the Schoolmaster took note of the fact and asked the boy how he did it.

The boy said, "I visualized a line with the figure '1' on the left side and the figure '100' on the right side. Then I cut the line at the halfway point, 50, and folded the scale to the left so that there were now two lines that were parallel. 100 was lined up with 1 on the left side and 50 and 51 were lined up on the right side. Adding the two numbers on each end of the scales was easy to do. I noticed that *all the pairs of numbers in between* on the scale added up to 101, too, and that there were 50 pairs of the sets of 101. Multiplying 101 times 50 is simple! The total was 5,050."

Thereafter the young boy received special tutoring and he later became one of the three greatest mathematicians of all time—his name was Karl Gauss!

Young Gauss did not *invent* that fact—he *discovered* what God had done already! He discovered a relationship between numbers that is fixed and *nothing can be done to change it*.

Now that we understand this fact we can take a shortcut in getting the answer. Whenever we are adding anything beginning with one and ending with a multiple such as ten, one hundred, one thousand, etc. you simply pick the mid-point (in the first case cited above, 50) and simply put that same figure alongside it. (5050). So to add all the numbers 1 through 1,000, you simply pick the mid-point, 500 and put 500 alongside it (500,500). Simple! And *accurate*! It is fixed. Try to pass some law to change that fact and you are engaging in an exercise in futility.

Nevertheless, somewhere in the past I have heard that a legislature in some State tried to get the mathematical term, "Pi," *changed from* 3.1416 to 3.00 because it was too *complicated and cumbersome*! These demi-gods could not conceive that they were dealing with a *fixed relationship* that *they could not change* and had no authority over.

But therein lies the story of mankind since time began!

“Imagination is more important than knowledge”

—ALBERT EINSTEIN

Chapter 3: The Grocery

Store **T**

o continue with the imagination exercise, I would like you to examine the process of getting into a business in which you are both a *consumer* and a *seller* of the same thing. (There is a very significant reason for this exercise, so bear with me). A grocery store will easily meet these qualifications— everyone consumes groceries, and someone has to perform the distribution function. You have an unlimited market. Everyone is a potential customer— as well as you and your family and maybe some other “captive customers.”

You start it all by studying what the grocery business is all about, all the things that are necessary to be successful as an entrepreneur in this field. This is going to take some time and expense. When you feel

competent to start the venture you must now find a good location for the business. The real estate folks say there are three important things about real estate—location, location, and location. For such a property you are going to pay dearly. This is not an overnight activity, either. You are going to have to spend some time locating the right place. Then you must construct a very nice looking building on the property. It must have a well arranged interior with attractive equipment and fixtures and display cases. All this is necessary because your competition has been hard at work for years in attracting customers. Customers are going to do business with stores that are convenient, that look good, that have quality merchandise—and low prices! This means that the building, etc., is going to cost you a lot of money.

Now you must stock the store with groceries. The merchandise must be of good quality, attractively displayed, and have competitive prices. Your employees must be attentive to customer needs, courteous, and neat. This is going to cost you a lot of money, too. You open the front door for customers—they come in and load their carts with groceries and take them by the cashier who collects their money at the front of the store. This is going to leave empty spaces in the display of goods. Your “hired help” is busy cruising the aisles, noticing where goods have been sold and quickly going to the storeroom at the back of the store to get more things to fill up those spaces. It is imperative that the store appears “fully stocked” at any given time. The customers demand it. Have you ever been to a grocery store that was only “partially stocked?” Did you continue to patronize that store—or did you take your business to another store that was more conscious of this quality? All this means that you are going to have to restock the storeroom at other intervals to ensure that you have immediate access to a bountiful supply of goods. The objective of the business is to provide you with income and to build a business that you will eventually sell to someone else to provide you with retirement income.

Once you get this all set up and in operation, the difference between the “back door” and the “front door” is a very good living—if you can *turn* the inventory enough times per year. If you sell a can of peas for 60 cents at the front door, you have to replace it at the back

door at a cost of 57 cents. (I have found this to be a shocking revelation to most everyone). Grocery stores operate on a very small margin on such items. The can of peas sitting on the shelf for sale represents inventory. You must turn the inventory 15 times just to break even! There is all that interest you must pay on the huge sums of money you have borrowed to buy the land, the building, the signs, advertising, payroll and fringe benefits, utilities, legal fees, accounting, etc., to name a few. Turn it 17 times and you will be profitable. If you can turn the inventory 20 times per year you can retire early! Something dramatic happens once you get over the hump.

It all reminds me of a phenomenon in physics—take a pail of water to the seaside (I want you at sea level) and heat it to 210 degrees Fahrenheit and all you have is very hot water. But if you heat it up to 212 degrees Fahrenheit you have live steam with unbelievable power. The steam engine changed the world! But it doesn't happen until you get past 212 degrees. Lots of heat goes into the process up to the boiling point but the dramatic power comes suddenly. Thus far, the business looks pretty simple. But now, we complicate the picture. Assuming that you are a male, married, with children, where is your wife going to shop for groceries—your store, or somewhere else? Further assuming that she chooses correctly—your store—she comes into the front door and fills her cart with groceries. Here comes the complicated part. Please pay close attention! This point is critical and requires scrupulous honesty. Out of which door is she likely to take the groceries, front or back?

When delivering lectures, I ask this question and wait for answers. An amazing number will readily admit that, "In all probability, she wants to go out the back door, avoiding the cashier at the front door." This is a very polite description of theft! Probably more businesses have been destroyed or severely limited by this sort of behavior than anything else. It is a feeling among owners and those related to them that, "This is our business and we can do anything we want to!" Unless this misunderstanding is curbed, the business is doomed. Consider this—over an extended period of time, can she go out the back door with her groceries without the "hired help" witnessing her act? I think

not. So, what will the “hired help” do as a result? They are going to steal groceries, too. You can predict it with certainty.

If you are unaware of the prevalence of theft in the retail business, do yourself a favor and make friends with someone who owns or manages a retail business. Then ask about how common is theft by employees. The answer will probably shock you. Question—who pays for all this theft? The customers who go past the cashier with their goods and pay for them, that’s who! It can’t come from anywhere else. Theft is devastating. Just consider, if your wife steals one can of peas, you have to sell 20 to make up for it. There is another thing that makes owners and their family members want to go out the back door. Every business in the United States has a “silent partner”—the Internal Revenue Service. If your wife goes out the front door and pays retail for her groceries just like everyone else, then your store makes more money than if she went out the back door. And the IRS posture is “the more you make—the more we take.”

But, suppose we could have a situation where the profits from the sale of groceries are not subject to income taxes. Now, we have eliminated one of the incentives to go out the back door with goods. The only problem that remains is the human instinct to want to use the back door privilege. This urge must be overcome. Your business is at stake. However, you and your family (plus maybe some others) are captive customers for your store. You all are not going somewhere else to buy groceries. By now, you should realize that if you charge these captive customers wholesale prices, you have defeated the purpose of the business—to provide income for you and to build a business that you will eventually sell and use the proceeds for retirement income. If you charge them retail prices, you are going in the right direction. But, these are captive customers! Why not charge these folks 62 cents for the can of peas? The extra two cents will go directly to additional capital to *buy more cans of peas to sell to the other customers!* Hopefully, you can see what continued use of this practice can do to the profitability of your business. Do this over a long number of years and your record books will show a superior profitability picture.

When you sell your business some years later, you are in competition with someone else who has not obeyed these principles. He and his family members took their groceries out the back door, etc. The record books of this man's business will never look as good as yours. That is, *if* he is still in business! In all probability he has gone out of business long ago. But, even if he is still around, can you guess which business will bring the better price? Yours! And this makes it possible for you to "clip larger coupons" at retirement time. I hope that you have learned this little lesson well. We will re-visit the grocery store later on in the book. If you understand the grocery store, the rest of learning how to be your own banker is "a piece of cake!"

Chapter 4: The Problem

S

everal years ago I did a good bit of study on the spending habits of American families. Since that time I have kept an eye on the figures and the proportion of income allocated to each category. This seems to be the current situation, which doesn't seem to change all that much. I build scenarios around the "All-American family" because I don't want people to think you have to be rich to create a banking system that can handle all your needs for finance. This young man is 29 years old and is making \$28,500 per year after taxes. What does he do with the after-tax income?

Twenty percent is spent on transportation, thirty percent is spent on housing, forty-five percent is spent on "living" (clothes, groceries, contributions to religious and charitable causes, boat payments, casualty insurance on cars, vacations, etc. Many of these items are financed by charge cards or bank notes. The balance is *financed* by paying cash for them—and thus, giving up interest that could be

earned, otherwise). He is saving less than five percent of disposable income. But, to be as generous as possible, let's assume that he is saving *ten percent* and spending only forty percent on living expenses. This is giving him every benefit of the doubt on the matter of savings. Just remember, the real situation is at least twice as bad as what will be depicted!

The problem is that all these items are financed by other banking organizations. An automobile financing package for this hypothetical person is \$10,550 for 48 months with an interest rate of at least 8.5% with payments

of \$260.05 per month. But, if you will check with the sales manager of an automobile agency you will find that 95% of the cars that are traded in *are not paid for!* This means, at the end of 30 months, if the car is traded, 21% of every payment dollar is *interest*. Even if he goes the full four years, the portion of every payment made is still 20%! This means that the interest portion of every dollar spent is perpetual. It never seems to dawn that the *volume of interest* is the real issue, not the *annual percentage rate*. For a real thrill, go to see the sales manager of the high priced cars and ask him what percentage of the cars that leave their car lot are *leased*. The answer will probably be 75%, or more! This is worse than financing a car purchase.

When you go to the Doctor's office to get a shot of some kind, the criteria is not the rate at which the medicine is injected into you—it is the volume! Too little, and it won't do any good—too much and it can kill you!

Now, let's move to the housing situation. This young man can qualify for a 30 year fixed-rate mortgage in the amount of about \$93,000 at a fixed interest rate of 7% APR with payments of \$618.75 and closing costs of some \$2,500. The problem is that within 5 years he will move to another city, across town, or refinance the mortgage. Something happens to a mortgage within 5 years. Including the closing costs and interest paid out during these 60 months he had paid \$39,625, but only \$5,458 has gone to reduce the loan. This means that \$34,167 has gone to interest and closing costs. Divide the amount paid out into the interest and closing costs and you find that *86% of*

every dollar paid out goes to the cost of financing! If he sells the house in less than 5 years, it is worse. This proportion never gets any better because he takes on a new mortgage and starts all over again. He thinks that he is “buying” a house, but all he is really doing is making the wheels of the banking business and the real estate business—in that order—turn.

In the next segment of his spending pattern—the living expenses—you will find that the interest on his boat payments, credit card interest, plus the cost of casualty insurance on the automobiles, etc. will rival in volume the interest he is paying on the two automobiles. (Later on in this book you will learn how to self-insure for comprehensive and collision insurance on automobiles).

Now, add up all the interest he is paying out and you find that 34.5 cents of every disposable dollar paid out is *interest*. For the average All-American male this proportion *never changes*. Let’s assume that he is trying to save 10% of his disposable income, *which is twice the average savings rate in America*. That means that we have a 3.45 to 1 ratio of interest paid out as compared to savings. If you will get this young man together with his peers at a coffee break or some such gathering and have one of them suggest that they discuss financial matters, I can predict what they will talk about—getting a high rate of return on the portion they are saving! Meanwhile, every participant in the conversation is doing the above! What a tragedy! But that is how they have learned to conduct their financial affairs.

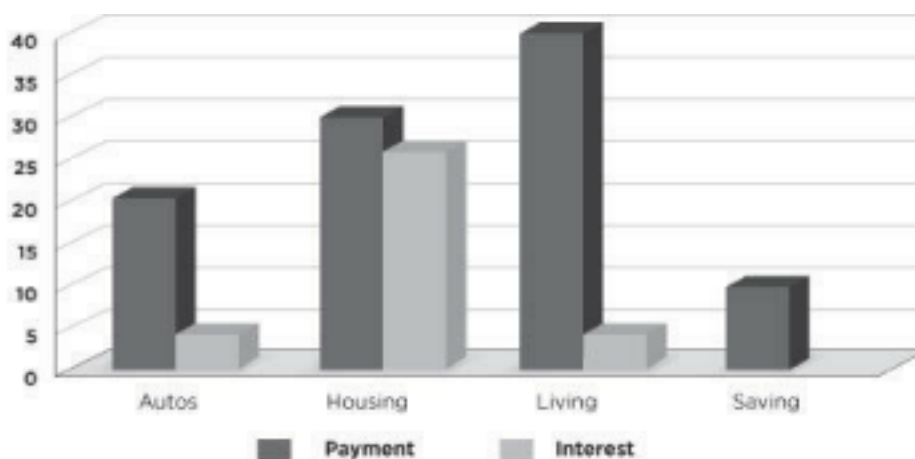


Figure 1. Annual Pattern of Spending Compared with Interest Paid on Each Category

All of this reminds me of a phenomenon in the airplane world. I have been flying, as a pilot, since 1947, and I learned early on that you could not fly an airplane through a vacuum. It must go through an *environment!* We have all seen the weather maps with the “HIGHS” and the “LOWs.” In the Northern Hemisphere the HIGHS turn clockwise. A large one can cover 75% or more of the U.S.. So picture this situation: You are in Birmingham, AL with an airplane that can fly 100 miles per hour and your destination is Chicago. The only problem is that you have a *headwind* of 345 miles per hour! Regardless of what your airspeed indicator says, your airplane is moving toward Miami at 245 miles per hour! If you want to go to Chicago, that’s a very good time to get your airplane on the ground—quickly!

Have some patience and the air mass will move on—they *always do*. When the HIGH gets directly over the top of you there is no headwind. You are now covering the ground at 100 M.P.H.. And now, the “arrival syndrome” comes into play. You conclude that “you just can’t do any better than this. This is the ultimate situation.” Nonsense! Have more patience and the air mass will continue to move on. Now you have a *tailwind of 345 M.P.H.!* Plus your airplane is moving at a speed of 100 M.P.H.. Your *ground speed* is 445 M.P.H.! That is impressive, isn’t it? But, you see, it is much more impressive than most people think. *Everything you do in the financial world is compared with what everyone else is doing!* Ninety-five percent of the American public is doing the equivalent of flying with a 345 M.P.H. headwind. If you have a 345 M.P.H. tailwind, the difference between you and them is *twice the wind!* That is a difference of 690 M.P.H.!

Most people in this situation concentrate all their attention to trying to make the airplane go 105 M.P.H.! They would do well to spend their energy instead on controlling the environment in which they fly. You can’t do that in the airplane world—but *you can* in the financial world.

You can do it by controlling the “banking equation” as it relates to you. That’s what this book is about—creating a perpetual “tailwind” to everything you do in the financial world. (There are many “financial gurus” out there who are praising the matter of “getting out of debt” but they never address this fact). This is the unique message of *The Infinite Banking Concept*.

Somehow or another, it never dawns on most financial gurus that you can control the financial environment in which you operate. Perhaps it is caused by lack of imagination, but whatever the cause, learning to control it is *the most profitable* thing that you can do over a lifetime.

When Jesus saw him lying there and learned that he had been in this condition for a long time, he asked him, “Do you want to get well?”

—JOHN 5:6

Chapter 5: Creating a Bank Like the Ones You Already Know About

If you are going to create a bank like the ones you already know about, there are a number of steps you must go through. Like the grocery business we discussed earlier, you must first study the business so that you have a firm grip on what it is all about and feel that you can run such a business. Without this confidence you are fighting a lost cause. It’s a jungle out there! Next, you must get some Capital—*money*—and it had better be in the order of \$20 million or more. This money must sit in some other bank in a very liquid form, that is, it is earning a very low interest rate.

Then you go to the Banking Commissioner's office and apply for a Bank Charter. Bear in mind that the Commissioner doesn't hand out charters indiscriminately. The chance of your getting one at this point is probably less than 100 to 1. There are a lot of other folks that would like to be bankers. You must wait your turn. Whenever I hear the word, Commissioner, I always think of an iceberg—only 10% appears above the water! There is a lot going on that is unseen. At this point you need to use your imagination. The bottom line is that you are going to spend a lot of time and money in this phase of creating your bank. Years are likely to have passed before you finally win the coveted charter. In the meantime, you have probably gone through the part about a good location and suitable building. This, too, is all at considerable expense.

Now you are finally in business as a bank. You must make your bank known by lots of advertising and inducing people to make deposits to your bank. Why do you think they would deposit their money with your bank when they could easily do business with established banks that have been there for years? Right! You are going to have to pay them something better than they are getting at their current banking connection. Do you notice, thus far, that you have been paying out money for years in getting this business established?

In his book, *Paper Money*, author Adam Smith has this to say:

“A banker cannot make a loan unless he has a deposit. It seems a little silly to state that so baldly, but if three college-educated Americans in ten don't know that we have to import oil, I don't feel so bad about saying something bald. Banks do not lend their money. They lend the money somebody else has left there.”

Later on in the book he goes on to explain:

“When you start up a bank, you have to put in some capital. Then you get some deposits, and then you lend the deposits. In a

proper bank these three items bear a prudent relation to one another. If you are a little country bank with a capital of \$100,000, it would be very imprudent of you to loan Brazil \$50 million. So you want a prudent relationship between the capital and the assets, which is to say the loans on the books, and between the loans and the deposits. In the Western countries the financial agents of the government are there with a definition of prudence.”

Yes, there are financial agents of the government with a definition of prudence, but they still did not preclude massive bank failures in the mid 1980's in America. During this same time the Asian banking community “could do no wrong.” They were hailed as financial geniuses. Now there are bank failures in Asia that are much greater than those that occurred in the U. S. My point is that we are not dealing here with *man-made laws*—they have failed miserably. We are dealing with relations among people, i.e. God-made laws. You disobey them at your peril.

A case comes to mind. In September 1983 the First National Bank of Midland, Texas (the richest city in America per capita at that time) had a loan portfolio of \$1.5 billion. And 26% of those loans were non-performing, i.e. they were not getting the money back.

This is a big “downer” in the banking business. When this sort of thing happens someone has to support the situation, which is normally the function of the stockholders. Because of losses the stockholders' equity lost 87% of its value down to \$12 million. Remember the prudent relationships that Adam Smith outlined above. \$12 million in capital in relation to \$1.5 Billion in loans is a shaky bank!

When the public found out about it, can you predict what happened to bank deposits at First National at this time? Right! They decreased by \$500 million. Remember, this is what banks lend—deposits made by their customers. This accelerated their decline.

This all sounds pretty ominous, but you haven't seen anything yet. You must add the “multiplier effect” of bank lending practices. Practically no one is aware that, when you make a deposit of \$1,000 at your favorite bank, they can now lend out \$10,000 as a result of your deposit. It is called the “fractional reserve lending system,” that is, they

are creating money out of thin air. (My own description of what they are doing is *the world's largest con game*). It is all predicated on the theory that “everyone is not going to withdraw their money at the same time.” For a complete treatise on what is going on in banking I suggest, no, I beg you to read *The Case Against The Fed*, by Murray Rothbard. You can get it at the Ludwig von Mises Institute located in Auburn, AL.

The First National Bank hired a new CEO to come in and “put out the fire,” but it was too late. Two months later they were out of business. A more complete picture of what happened to this bank appeared in the December issue of a drilling magazine. Reading “between the lines” it was pretty evident that a lot of those non-performing loans were made to the members of the board of directors. They were making loans to themselves to invest in the oil business where they were going to “make a killing” and neglecting to repay the loans. There was a big energy crisis just a while before this. When the oil business returned to normal these folks lost both their oil business *and* their banking business. Had they repaid their loans plus interest, their bank would have still been in operation but greed prevailed and “did them in.” All banks that went bankrupt during that period (in record quantities) were just a variation of what happened here.

Does all this sound somewhat like the grocery store example that you read about earlier? If the owner and his family take groceries out the back door without paying for them he will probably go bankrupt. It happens in the banking business, too. Remember this, because in the banking system I am going to tell you about, you can also destroy it by not obeying the basic rules of banking. Loans have to be paid back or you can kill the best business in the world. It's up to you, but don't try to blame others when it happens.

You must admit that getting into the business this way is very costly and time consuming. It will be a long time before you show a profit—probably as much as ten years. But it must be extremely profitable over the long haul for people to go through the gory mess you have just read about. There is a much easier way to accomplish

the creation of your own banking system and the mechanism has been around for over 200 years. It is tried and true. It is called participating (*i.e. dividend-paying*) *whole life insurance*. But the problem is that very few people know how the business works, including the home office folks in the life insurance companies!

At this point, it will help if you understand what is meant by the word “co generation.” It is a term used in the production of electrical power.

As most

everyone knows electrical power is produced in plants using fossil fuels (coal and petroleum products), nuclear fuels or water to turn turbines. But there is another source of electrical power that is significant—the wood-products plants—sawmills and paper mills. Trees are harvested for the wood they contain but the bark on the outside of the tree and the sawdust from sawing lumber has little economic value, but they make a very good fire! This source of heat can do the same thing that fossil fuels do to turn dynamos to produce electricity. Every sawmill of significant size and all paper mills have a “cogeneration plant” to make their own electricity.

Imagine that you own a paper mill and that your co-generation plant can produce 125% of your mill’s need for electrical power. What do you do with the surplus power? Yes, you can sell it. But, do you erect power distribution lines, get a sales force, etc. and ask potential customers if they would like to buy power from you instead of their customary power supplier? Heavens, no! You understand how the power distribution systems all work and simply tie into the established system and sell *them* the power. It is much more efficient than trying to do it any other way. Creating your own banking system through the use of dividend-paying life insurance is much like co-generation. All the ingredients are *already there in place*. All you have to do is understand what is going on in such insurance plans and tap into the system.

Chapter 6: Creating Your Own Banking System Through Dividend-Paying Life Insurance

Banking—The business of a bank, originally restricted to money changing, and now devoted to taking money on deposit subject to check or draft, loaning money and credit and any other associated form of general dealing in money or credit.

—WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY

The very first principle that must be understood is that you *finance* everything that you buy—you either pay interest to someone else or you give up interest you could have earned otherwise. The alternate use of money must always be reckoned with. Some call this “opportunity cost.” But, it is amazing how people give lip-service to this fact but do not put it into practice in their own financial dealings—the equivalent of thinking that the law of gravity applies to everyone else but them.

An excellent article appeared in the September 1993 issue of FORTUNE magazine, entitled “The Real Key To Creating Wealth” by Shawn Tully in which he describes the concept of Economic Value Added (EVA) developed by Stern Stewart & Co. of New York City. Tully says, “Understanding that while EVA is easily today’s leading idea in corporate finance and one of the most talked about in business, it is far from the newest. On the contrary: Earning more than the cost of capital is about the oldest idea in enterprise. But just as Greece’s glories were forgotten in the Dark Ages, to be rediscovered in the Renaissance, so the idea behind EVA has often been lost in ever darker muddles of accounting. Managers and investors who come upon it act as if they have seen a revelation.”

In summary, before being introduced to EVA, corporations were

borrowing capital from banks and paying interest—but they were treating their own capital (equity) *as if it had no cost!* When they were brought face to-face with the error of their ways and conducted their business with this fact included in the equation, then the profitability increased dramatically. EVA's basic premise is—if you know what's really happening, you'll know what to do. The same thing applies to *The Infinite Banking Concept*.

In creating any product, it all begins with engineering. The automobile you drive started out being “lines on a piece of paper.” If the production workers don't do what the engineers designed, you won't have an automobile, but they did, and your car rolls off the assembly line. Suppose that I get the next one and it is “identical” to yours—same color, equipment, features, etc.—they are identical in every way. Can you safely predict that they will both *perform identically* during their lifetimes? Of course not! Because you and I know someone that can get 200 to 300 thousand miles out of car with no trouble. But, we both know some people that can't get 50 thousand miles out of their car before it is “worn out!” How you drive the car and care for it is far more important than anything else. Keep this thought in mind as we look further at the life insurance product.

The engineers in life insurance are known as “actuaries.” They are dealing with a field of 10 million selected lives—persons that have been through a screening process. And they are working with a theoretical life span of 100 years. Then they turn their information over to “rate makers” who determine what the company is going to have to charge its clients in order to be able to pay the death claims and make the whole system work over a long period of time.

Then the whole matter is turned over to lawyers who make legal and binding contracts that are to be offered to potential buyers through a sales force. The glue that holds this all together is comprised of the administrative folks, executives and clerks, etc. The contract is unilateral—that is, the company promises to do certain things if you meet the standards of acceptability and make premium payments. Read the contract and it will tell you very plainly that *you are the owner of the contract—not the company*. The Owner is the most important

character in the scene.

To make the plan work the Owner must make payments into it and the Company (the hired-help) *must put the money to work* in order to produce the benefits that are promised. Those with the investment responsibility will do so in a number of ways—in financial instruments that are fairly conservative, e.g. bonds, mortgages, etc. Look at the investment portfolio of a number of life insurance companies and you will see what I mean. One place that is *speculative* that some companies *do* invest in is in real estate developments and joint-ventures with other private organizations. Some large developments of urban office buildings have been entirely financed by a single insurance company. This can often include shopping centers.

But, upon reading the contract (the policy) you will find it plainly stated that the *Owner outranks every potential borrower in access to the money that must be lent!* And what he can borrow is 100% of his equity in the contract (the amount that the company can lend at any one time). If this is true—

which it is—then what this amounts to is *absolute control* over the investment function of the company as it relates to the owner's policy. In essence, money can be lent to the other places *only if the Owner of the policy* does not exercise his option to use the money (and pay interest) instead.

As a result of the foregoing, there is an ever increasing pool of money. From time to time an insured person dies. It doesn't happen very often—but when it does, the company pays the beneficiary from the pool of money and the cost of doing so is allocated among the policy owners on an equitable basis.

The “hired help,” the administrators, must be paid for their work, too. You just can't run a business without “hired help.” Just try to do it and see what happens. Your competitors that know better will run you out of business. This cost is also prorated among the policy owners, too.

At the end of the year the directors that actually run the company call the accountants in and, in essence, ask them, “How did we do this year on John Doe's policy in comparison with the assumptions made by the actuaries and the rate-makers in designing it?” We must digress

at this point and remember that an actuary is a kind of engineer and that all engineers “overbuild” everything they design. If he doesn’t do so, he won’t be an engineer very long! I think about this every time I get in the cockpit of an airplane. I have never seen an instrument panel that does not include an airspeed indicator with a red mark somewhere on the face of it. It is telling you, “Don’t go past this point or the airplane will come apart on you, resulting in a rapid loss of control and imminent death to all occupants” or something to that effect. That is not true! It won’t come apart until the airspeed is some 20 to 30 percent greater than the red mark. The engineers have put a “fudge factor” into the equation. But, if you operate the airplane just beyond the red line on a regular basis, you are putting stresses on the wings, etc. that are *cumulative* in their effects and one of these days you are going to reap the rewards of your actions. It won’t be a pretty sight!

Furthermore, the policy is engineered to become more efficient every year, no matter what happens (that is, if the Owner does what is called for in premium paying, loan repayments plus interest thereon that are at least equal to or better than the general investment portfolio of the company). That is because the cash value is *guaranteed* to ultimately reach the face amount of the policy by age 100 of the Insured. There is an ever-decreasing “net amount at risk” for the company.

Not too many people are familiar with the concept of “getting better—no matter what,” so let’s look at the airplane world for help. Imagine that we are going to make a very long flight in a Boeing 747, so we load it with all the fuel that it will hold. This makes it capable of flying about 10,000 miles. By the time we fly 8,000 miles the airplane will now be able to do things that we would never attempt at takeoff. This is because we have burned up an enormous quantity of fuel and the airplane weighs that much less—but the engines are capable of producing as much power as when we took off. Therefore, every mile that we fly, the airplane will get more efficient—and you can’t do a thing about it! It gets better—no matter what!

In designing the life insurance policy the ratemakers have taken into consideration the advice of the actuaries that their assumptions are not set in concrete. They include the interest earnings on the premiums paid by policy owners, the death claims expected during a time frame, and the expected cost of administration. Over a long period of time the actuaries can be pretty accurate, but from time to time the results can be better or worse than predicted. There are variations in interest earnings, death claims and expenses of operations and these factors affect the dividend scale declared for the coming year. You can safely say that the real results will *never* exactly match the table provided at the beginning of the life of a policy. But, once a dividend is declared, its value is *guaranteed* from that point on. It can never lose value in the future as can the value of securities. (It has always been a mystery to me, why do they call stocks *securities* when it is possible to lose their value entirely. It all sounds like an oxymoron to me. Maybe it is like Social Security, which has no market value at all?)

A significant period of *lower* than expected earnings of interest, or a period of *more* than expected death claims and/or administrative expenses can result in a “downer” for the company. When this happens in a regular corporation it is the function of the stock-holders to “take up the slack.” But, in this case, the rate-makers are reminded that “*we don’t have any stockholders!*” So, the rate-makers are cautioned by the actuaries that “if we calculate that it would require \$1.00 per year for a given plan, don’t collect \$1.00—collect \$1.10. This *extra* .10 is the *capital* that makes the whole system viable.

Now back to our scene on John Doe’s policy—he has had it for a few years and the Directors have asked the accountants, “How did we do on John Doe’s policy this year?” The accountants report that they had collected \$1.10

but after calculating all the aforementioned factors they found that it took only 80 cents to deliver that promised death benefit in the future. This means the directors can make a decision with 30 cents. If they are “half-way” smart (and most of them are) they will take into consideration that they need to put a part of this into a *contingency*

fund to prepare for unexpected future risks. So, they put .025 into the contingency fund and distribute .275 and call it a “dividend.” Most people have the impression that this is a taxable event. This is not so. Remember that the Income Tax has only been with us since 1913 (the U.S. got along very well without it prior to that time; there were *surpluses* in the budget) and life insurance has been around for over 200 years. The word, *dividend* was used by the insurance industry to describe this dispersal and it stuck with us, but the correct classification is a *return of premium* (or a return of capital) which is not a taxable event in IRS terminology. If the owner uses the dividend to purchase Additional Paid-Up Insurance (no cost for acquisition, sales commissions, etc.) the result is an ever-increasing tax-deferred accumulation of cash values that support an ever-increasing death benefit. And there are no government bureaucrats looking over your shoulder telling you what you can and cannot do. The result is limited only by the imagination of the policy owner.

By the way, these dividends can get pretty significant over a long period of time. I bought a policy from a major insurance company in 1959 and the annual dividend is *over ten times* the annual premium now. They would have been much larger had I not used the annual dividend to *reduce premiums* for the first 15 years. These things are just not adequately explained by life insurance sales folks because of the limited understanding of their home office folks that teach them. A pity!

So far, this is pretty simple stuff. Now for the complicated part. The life insurance sales person calls on my “All-American young man” referred to earlier in this book (the one making \$28,500 after taxes and is 29 years old) and urges him to consider “how much the world is going to miss you in the case of your untimely death.” So he calculates his *human life value* by asking how much he expects to earn per year as an average and multiplies that by the number of years that he expects to work, assuming he lives that long. Assuming that he will get pay raises from time to time, it is reasonable that his average annual income to be something like \$38,000 times 36 years (until his age 65) which will produce \$1,368,000 in income. The

insurance agent points out that he will use up something like 40% of this income stream to support his own needs. This means that \$820,800 in income for his family and the charities he holds dear will vanish if he happens to die in the near future. To arrive at a principal sum (the capital that would be required to produce that income stream) this figure must be discounted at a nominal rate of interest. The agent says, "So, if we were to have to buy a machine that would produce that income to your family we would have to pay about \$400,000 cash for the machine, NOW! That's how valuable you are to them and your charities. Mr. Doe, if you owned such a machine and it was subject to sudden loss of some kind, would you insure it?" Mr. Doe says, "By all means!" The agent asks, "How much would you insure it for?" "Why, \$400,000, of course." To which the agent responds, "Ahh! Now that we have that established, let me show you *how little* you will have to pay *my company* to satisfy that need!"

My word! If you will take an honest look at what this young man is now doing—paying over 35% of every dollar of after-tax income to interest alone—it should be obvious that his *need for finance* is much greater than his *need for life insurance protection*. If he would solve for the need for finance through dividend-paying life insurance, he would automatically have much more life insurance *and recover all the interest he is now paying to someone else*. But this almost never occurs because of the mental block implanted by financial geniuses that "life insurance is a poor place to store money." What a limited outlook of just what is going on in the banking world! Again I remind you, if you know what's really happening, you'll know what to do.

And so, the young man puts \$50 per month into life insurance premiums and feels that he is "insurance poor." He is worth more dead than alive, etc. Then he goes down to a dealer and buys an automobile, paying for it with a loan from a bank or finance company. Remember that there is only *one pool of money* out there in the world. The fact that any number of organizations or individuals are managing a portion of the pool is incidental. But, it can be even more specific when it comes to automobile loans; I have never seen a monthly list of investments from

a dozen of major life insurance companies that did not include *finance companies* as a place where they have loaned blocks of money. The finance company simply buys blocks of money, adds a fee to it and loans it to consumers that buy cars. So, this man pays \$260 per month for a minimum of 48 months for his \$10,550 car loan. He does this throughout life because that's the way all his peers are doing it.

If he would take time out, and stand back far enough to get some perspective, he might notice that he is paying \$50 per month into a pool of money (the life insurance policy) and paying \$260 per month to an intermediary (the finance company that deducts a fee and lives *well* off the activity) which passes the residual sum back to the *same pool* of money! Furthermore, he complains about the premium he pays but thinks nothing of the much larger amount he pays the automobile finance company! Strange, isn't it?

In the above example he is paying a total of \$310 to the pool: \$50 directly and \$260 indirectly. If he could muster up the courage to pay the \$310 *directly to the life insurance company* in the form of premiums for around four years, he could now make a policy loan and pay cash for the automobile!

Here comes the important part again, so pay close attention! The insurance agent now needs to make him *vividly* aware that he must *pay the loan back at an interest rate that is at least equivalent to the going interest rate of an automobile finance company*—not what the policy calls for. In this case it should be at least \$260 per month. If the policyholder does this, then he will effectively make what the finance company would otherwise make and do it all on a tax-free basis. If the agent is really good, and understands the principles of banking, he will encourage the policyholder to pay \$275 per month because the “extra” dollars will go to his policy to increase the capital that can be lent to other parties.

If the policyholder objects that, “it's my own money and I am not going to pay any interest at all”—or maybe, “I'm only going to pay 2.9% as seen in television commercials”—then the agent must remind him of the grocery store at the beginning of this book and explain it to him *one more time!* If he still doesn't understand then the agent needs to

have him revisit the story of the failure of the First National Bank in Midland, Texas. If he still doesn't understand, the agent needs to resign from working with him because he is not teachable, and/ or is a thief! Neither of these characters is a desirable business associate.

You have now had an explanation of all the essential principles of "banking" through the use of dividend-paying life insurance, but to understand the *infinite* qualities of *The Infinite Banking Concept* it requires a deeper look. In the above example of the car financing, the *capitalization* needs to be somewhat greater than just four years. Many college business professors estimate that corporations expect it to take at least seven years to get back a profit on a new investment. This is an understatement in certain undertakings. So, why not capitalize each policy purchased for *at least 7 years*, to the point where dividends will pay all the remaining premiums on the policy. Would you have much of a grocery business if you were the only customer? You must build it to the point where you accommodate the needs of others in order to prosper. The same principle applies to banking.

Furthermore, I am not describing *one life insurance policy*. This is to be *a system of policies*. Have you not noticed that when a grocery store becomes successful in one location, then it tends to establish another store in another location? Have you not noticed that banks have branch offices? There must be a reason for their behavior! Then why not expand your own potential by buying all the life insurance on yourself that the companies will issue? And then on *all* the persons in which you have an insurable interest? At present, does not *all your income* go through the books of some banking institution? Don't the banks lend out the deposits of customers? All they do is *capitalize* the bank (Capital Stock) to make it a safe place for customers to deposit their money and then lend out the money left on deposit. If they don't lend money they will go out of business. It will take the average person *at least 20 to 25*

years to build a banking system through life insurance to accommodate all his own needs for finance—his autos, house, etc. But, once such a system is established, it can be passed on to future generations as long as they can be taught how the system works and

suppress their baser instincts to “go out the back door of the grocery store”—or in a word that is more descriptive—*steal*.

You should have put my money on deposit with the bankers so that when I returned I would have received it back with interest.

—MATTHEW 25:27

Chapter 7: Basic Understandings

YOU “FINANCE” everything you buy. You either pay interest to someone else or you give up interest you could have earned.

CREATE AN ENTITY—A plan—which you control and it makes money on your loans. One such entity can be a life insurance plan. Life insurance companies hire actuaries who design plans of insurance and then market those plans through agents. When someone buys one of these plans, the contract is very specific to point out who *owns* the plan (or policy). It is *not* the insurance company! The company is simply the administrator of the plan and must collect premiums—and *must* lend money out or make investments of one kind or another in order to be able to pay the death claims promised. Money is lent to any number of places and types of borrowers, including the owner of the policy if the owner so desires. The amount of money available to the owner is the entire equity in the policy at the time. In the hierarchy of places where money is lent, the owner ranks *first*. That is absolute CONTROL!

At the end of the year, the Life Insurance company makes an accounting of the experience that year of the death claims paid, the earnings on premiums collected, and the expenses of running the company. A dividend is declared which is actually a return to the policy owner of surplus premium that was collected.

Hence, it is not an earning and, therefore, is not taxable. When that dividend is then used to buy additional paid-up insurance at cost, then the result is continuous compounding of an ever-increasing base. It looks like this:

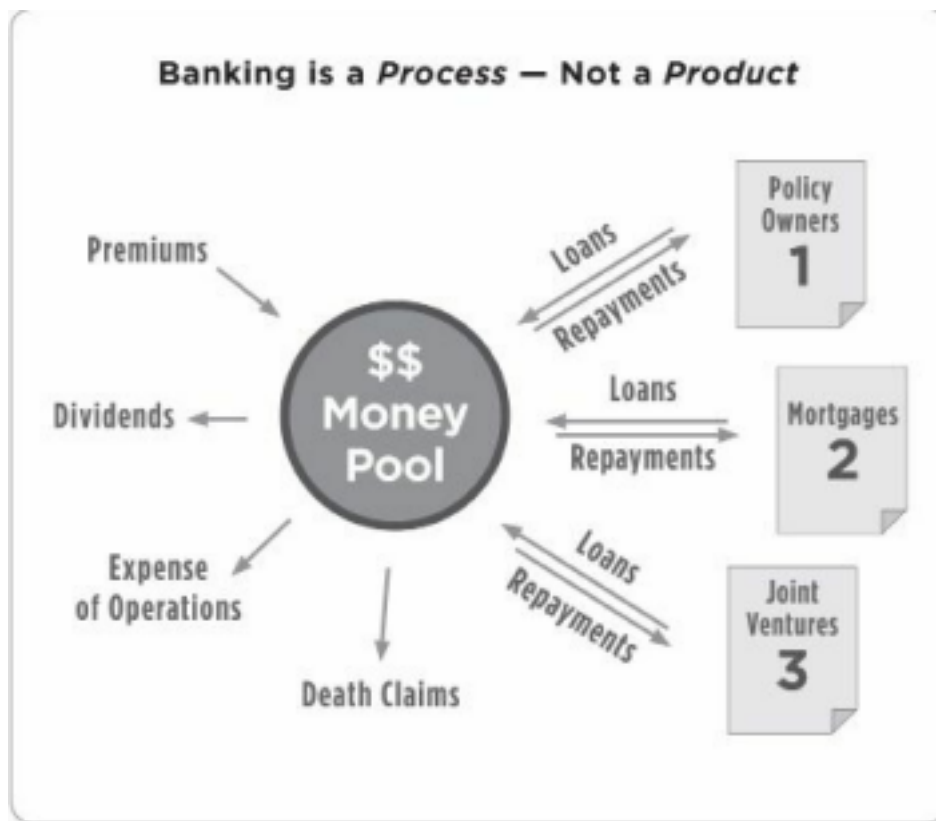


Figure 2. Banking is a Process
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Review – Part I

1. The importance of imagination—it is more

important than knowledge.

Gauss—child prodigy—didn't think like the others and made valuable contributions to the world. Can you add the numbers 1 through 1,000 in your head? (Answer: 500,500).

2. The grocery business. The value of learning how to get into a business in which you are a consumer of the same thing that you sell.

It requires extensive study of the business prior to start-up. It requires very high capitalization. It requires extraordinary management abilities. When you shop for groceries at your store —don't steal, or your business will fail.

3. The money problem.

Only money left over after paying taxes can be spent. For the average person in the U.S., 34.5% of that sum goes to pay interest, alone, to finance car purchases, homes, and various other purchases. This money is gone forever. It is making persons in the banking business wealthy. It can be yours to enrich your life forever—if you get into the banking business.

Learn the importance of the Economic Value Added

concept. 4. Creating a bank like the ones you already know about.

It is much like getting in the grocery business—except much more difficult. It requires much more capital. You have to get a charter from the Commissioner. When you make loans to yourself at your bank—don't steal. You will destroy the best business in the world.

5. How a dividend-paying life insurance policy works.

Review Figure 2 (page 34) and make sure that you

understand the flow of money. In addition, make sure you understand “the characters in the play” (see Glossary in the back of this book).

The policyholder is the principal character in every life insurance policy.

6. The capitalization phase.

It is going to take time and discipline for several years. Don’t expect to get rich overnight. But the rewards, later on, are worth all the effort.

Part II: The Human Problems— Understanding Parkinson’s Law

T

hus far, we have covered only the technical aspects of creating your own banking system through dividend-paying life insurance. Now, we must face *the human problems*.

C. Northcote Parkinson, (1909–1993), was a British essayist, lecturer, and economist who left us with some valuable writings of his observations. One of the best is his little book *Parkinson’s Law*, in which he brilliantly isolates some of the limitations of us all, particularly the behavior of individuals within a group. He makes one painfully aware of the futility of expecting good results from committees! He reminds me of a sign at a church that read, “God so loved the world that *He did not send a committee.*”

In *Parkinson’s Law* he says, “work expands to meet the time envelope allowed.” Check it out—give a person a job to do and give a time limit of three days to complete it. You can bet the grocery money

that it won't get done until *late on the third day!* Now assign *the same job* but allow thirty days for its completion—and you should not be surprised that it is finished *late on the 30th day!*

He also noted that “a luxury, once enjoyed, becomes a necessity.” Can you remember when we did not have air-conditioned automobiles? Would you think of buying one *without air-conditioning*? Not me!

And he said, “expenses rise to equal income.” Is it true? Income is limited for us all, but our wishes far exceed our ability to fund them. When a pay raise comes along it is very quickly absorbed by a *new definition of necessities!!*

It doesn't have to be this way—but it is!! Parkinson's Law must be overcome *daily*. If you cannot do so then just go ahead and give up—you are destined to become a slave! That's the bad news. The good news is—if you *can* whip Parkinson's Law you will *win by default* because your peers can't do it—and everything you do in the financial world is compared with what they are doing. In all our efforts at establishing priorities we should begin with a thorough consideration of the truth of *Parkinson's Law*.

Parkinson once told a story about a British government official who served at the time of World War I. Young civil servants used to bustle into his office waving documents, emphasizing the high priority of this and the top secrecy of that. He would listen patiently and tell each young person to leave his paper on the desk. Then, as the youth reached the door, he would call out: “Oh, one thing.” “Sir?” “Remember Rule Six.” “Yes sir, of course.” The young worker would reach the door and then turn back, having had another thought. “But excuse me, sir. What is Rule Six?”

“Rule Six is as follows: Don't take yourself too seriously.” Once more the youth would be at the door with his hand on the doorknob and would turn again as a new idea struck him. “But sir,” he would ask, “what are the other rules?” “Young man,” would come the reply, “there are no other rules.”

Chapter 8: Willie Sutton's

Law W

e have looked at Parkinson's Law and *if you can* overcome it you will win by default in comparison with your peers because they can't do it! Now you must face Willie Sutton's Law. I remind you that Willie Sutton (1901–1980), was a notorious bank robber in our nation's history. When asked why he continued to rob banks he replied, "That's where they keep the money." So Sutton's Law is formulated thusly—**wherever wealth is accumulated someone will try to steal it**. Willie did not invent this activity; he was just a stellar practitioner of the art as an individual. The phenomenon has been with us since the beginning of time. Theft was the first labor-saving idea—don't produce anything, just steal that which someone else has produced!

Question: Who is the biggest thief in the world? If you answered the Internal Revenue Service you are correct! Most people have this feeling but lack the ability to explain that it is indeed, theft. I explain it this way. Let's go to a shopping mall or some such place where there are lots of people to witness what I am about to do to you. At this point I pull out a gun and place it against your head and direct you to "give

me the contents of your wallet or I will blow your brains out!” I can predict with certainty that those who saw this act will describe it as *theft*—and call for my punishment. But—if you will allow me to gather that same crowd for about an hour before you show up—and let me talk to them about how we are going to divide the contents of your wallet and distribute *among them*—now they will call the act “*democracy in action!*”

Frederic Bastiat (1801–1850), a French economist and statesman who wrote an essay entitled *The Law* in 1850 states it this way:

“The law perverted! And the police powers of the state perverted along with it! The law, I say, not only turned from its proper purpose but made to follow an entirely contrary purpose! The law become the weapon of every kind of greed! Instead of checking crime, the law itself guilty of the evils it is supposed to punish! If this is true, it is a serious fact, and moral duty requires me to call the attention of my fellow-citizens to it.”

What Bastiat saw in France in the mid-1800s, and which we have in super abundance currently in the United States, he correctly identified as *legal plunder*! He goes on to explain, “But how is this legal plunder to be identified? Quite simply: See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.”

As a result of the above bit of history you will find yourself engulfed in confiscatory taxation if you are the least bit effective in producing and accumulating wealth. You can count on it! Willie Sutton’s Law is active! At this point there are many that resort to despair—but there is no need for it. The government lawmakers and bureaucrats who carry out these perversions of law fully understand that they are dealing with a *parasite-host* relationship. Government is not capable of producing

anything—it gets all its sustenance from the productive element of society. Government is a *parasite* and lives off the productive taxpayers, *the host*. It is self-evident that if the parasite takes all the produce of the host, then *both parties die!!* Government officials may be cunning—but they are not stupid! (But immediately I remind myself that the USSR did exactly that! They shot themselves through the heart.)

When taxation becomes onerous to the point where government officials sense rebellion they always resort to *exceptions to the rule*. They invented qualified pension plans, HR-10 plans, 401-K plans, IRAs, etc., ad nauseam. What a classic case of *appointing the fox to guard the chicken house!* How totally absurd! Did you also notice that all these plans were not installed simultaneously? First it was pension plans which “blessed” one select group of citizens, and then HR-10 plans for another group, etc. Finally it came down to IRAs so that everyone has an exception to the rule! Can you believe it! The lawmakers create a problem by spending money that they do not have which results in strangling taxation—and then they create a “solution” in the form of *an exception to the rules they created!* The natural result of such a process is a system in which the government *controls* everything you do— and they *can, and will, change their mind* upon the slightest whim of the times. And they keep changing the rules so that it looks like they are trying to “help you out.” The *real solution* is to quit the government spending for all the “programs” and get out of the lives of the citizens. But at every turn you see “Financial Planners” and writers that label themselves as various kinds of “financial experts” who, without exception, recommend that you should “participate to the fullest extent possible in your tax-sheltered programs.” It is self-evident that these programs would disappear if there were no willing participants.

I remind you that the thing that caused all of this burden is the Income Tax Law which did not exist, as we know it, until 1913. Before then our country had surpluses in the national budget and the world got along very well. But after its adoption the American public now noted that it could “vote itself a benefit through its Representatives in Washington—and send the bill to everyone else.” Such behavior will

naturally lead to the mess that we wrestle with now.

We all need to protect ourselves from the devastating effects of this monstrous idea outlined above. It just can't work. Yet, generation after generation keeps trying the same old nonsense. Economic problems are best solved by people freely contracting with one another and with government limited to the function of enforcing those contracts. And the best way to do so

is through the magnificent idea of *dividend-paying whole life insurance!* It has been around for over 200 years. It has stood the test of time. It is not compulsory. *It is not a government-sponsored idea!* It preceded the income tax idea by a long time. It is *private property!* And only the people who care about others that are dear to them participate in the idea. What a great group of people to be associated with in business!

There are two methods, or means, and only two, whereby man's needs and desires can be satisfied: One is the production and exchange of wealth; this is the economic means. The other is the uncompensated appropriation of wealth produced by others; this is the political means . . . The State is the organization of the political means.

—ALBERT J. NOCK, *OUR ENEMY, THE STATE*

The State is that great fiction whereby everyone tries to live at the expense of everyone else.

—FREDERIC

BASTIAT

Chapter 9: The Golden

Rule T

he Golden Rule—*Those who have the Gold make the rules!* We all have the tendency to chuckle when we see this perversion of a principle that was learned in childhood, one that serves us very well, that we should do unto others as we would have them do unto us! But this corruption is *very true, also!* I think that it is a pity that it is not often looked upon with favor. Perhaps it is because we have almost lost the concept of what capitalism is all about. The common man has become so infatuated with living for today that the importance of saving—of creating capital—is all but a lost value. The American savings rate is miserably low. At the time of this writing it has been *negative!* Last month it was at an all-time low. As a result someone else must provide the capital that is necessary to sustain our way of life. This strategy carries with it a very high cost, and we all suffer the consequences. It all begins with faulty premises. Let me build the case this way. What could be more idyllic than a marriage of Japanese capital and Mexican labor? Here we have one group of people who need employment in the worst way—and there is another group that has more money than you can imagine! If we can only get them together on a project it would be paradise!!

A few years back Panasonic wanted to build a plant in Mexico to solve the obvious equation. But in the *infinite wisdom of the Mexican government* at that time, if you wanted to establish such a business there, they required that *Mexicans should own 51% of the business.* That means that Mexicans control the business.

The typical Japanese strategy runs something like this—you put

money into a business and you should *expect to lose money for five years*. When you start making money you should plow it all back into the business *for five more years*. Only after this time should you expect to take money out of the business. But the typical Mexican outlook on a business venture is *to demand a bonus at the very start*—like a signing bonus for a star athlete, etc.!!

Do I have to tell you what happened? Panasonic pulled out of Mexico and went somewhere else where capital is appreciated and managed with care. Who won and who lost in this story? Panasonic *had the Gold*, and so they *made the rules!!* It can be no other way. Capital is a responsibility and should be treated with great respect. If not, then all parties involved will lose. It is really difficult to write or talk about this fact, perhaps because it is so blatantly obvious!! When you have a large amount of cash on hand all sorts of good opportunities *will appear*, and you can also negotiate very favorable purchase prices. So many of life's problems would disappear if this understanding was generally accepted *and practiced widely* among the population. A word of caution is in order, do not think that *everyone* must conduct his financial affairs in this manner. It is not a numbers game. Individuals can reap the rewards that such discipline yields. In fact, we all need to remind ourselves that *whatever you do in the financial world is compared with what everyone else is doing*.

Then, why is there general despair in our country regarding financial matters? Why are people “paying through the nose” for capital? Why the feelings of helplessness and futility? I say again, it all begins with *faulty premises*.

To further compound the problem, there is this prevailing tendency in the current crop of Americans to look to government solutions to what they think is a problem that is outside themselves. “I don't have any money to buy a home (go to college, buy food, endure an emergency, care for my health, maintain the lifestyle that I desire, etc.) so there should be some sort of government program to provide these things for me. I have a right to them!”

Bureaucrats, elected officials, teachers in government schools, some members of the clergy, political action committees, media

people, and there is no telling how many other such groups I have left out, foster this kind of thinking at every turn. It is a national disease—and to survive in the future this disease must be overcome. You just can't think that way and succeed.

READING TIP

Ayn Rand, in her tremendous novel, *Atlas Shrugged*, isolates the results of this type of thinking perfectly. It is a long book—some 1,100 pages—but it is well worth the reading.

Succumbing to these feelings produces a huge burden on your financial future—the price must be paid. You will always be at the mercy of the ones who have the gold! Further amplification of this factor will be given later in the book in the chapter entitled *The Cost of Acquisition*.

Where successive generations have gone astray

Let me try to explain it this way. I was recently re-reading a piece that Jackson Pemberton wrote back in 1976 entitled, “A New Message on the Constitution.” (I am assuming that there is general agreement that we face monumental problems in our country, at present which, can easily destroy us). Pemberton is writing as if he was one of the “Founding Fathers” involved in construction of the Constitution and is pointing out where successive generations have gone astray.

“—but in spite of all our careful effort, we knew that it was not sufficient to merely launch the ship of state correctly, it needed to be tended by an alert, informed, and jealous citizenry. But history, like nature, travels in cycles; both liberty and oppression contain the seeds of their own destruction. Our success has brought the security which put you to sleep.”

Now, basking in the dimming brilliance of the lights of liberty, you have

been neither vigilant nor informed, and only recently have you begun to realize the correctness of your rising jealousy for your rights. Let those feelings of jealousy well up within you and cause you to alert yourselves to your true condition.

Your executives have taken upon themselves to form foreign alliances and make domestic regulations without proper authority. They have violated your most fundamental law. Your judiciary has ignored the amending process and altered the meaning and intent of the Constitution they were sworn to defend. They have betrayed your most fundamental law. Your Congress has been watchful, yet not of the encroachments of the other two branches, but for opportunity to gain influence *by purchasing your favor with your own money*. They have ignored your most fundamental law. And you—you—seek for a remedy while it stares you in the face! You have lost the vision of your most fundamental law. Let me show you. You call the national charter ‘the Constitution of the United States,’ and that simple phrase contains both the totality of your plight and the seeds of your salvation; for in those six words you reveal your feeling that both you and your law are subject to your government. You are not the slave of government at all, but *because you think so*, you may as well be! Nay! The Constitution is *your* servant and the master of your government. It is not the Constitution of the United States, it is the Constitution *of the people*, and *for* the United States! It is not only the law by which you are governed, it is the law by which *you may govern your government!* It is not the law by which high-handed politicians may impose their collective will upon you, it is for you to impose it upon them! It does not belong to the government, it belongs to you! It is yours! It is yours to enforce upon your government! It is yours to read to those self-wise do-gooders; and if you will hold it high in your hand, they will quail and flee before it like the cowardly knaves they are, while those who are your true friends will rejoice in your new commitment.”

This explains what I mean when I say, “Most people know there is a play going on out in the world—but they don’t understand it. Worse than that, they can’t get the characters in the play straight!” (Recalling that Shakespeare said, “All the world is a stage and the people are the actors thereon”). People just don’t play their proper role in the scheme of things. They have abdicated their opportunity/responsibility as it pertains to the banking function in the economy. They are depending on someone else to perform that job—and that character in the play is *making most of the money!* And rightly so, because of the Golden Rule—*those who have the gold make the rules!* It can be no other way!

Chapter 10: The Arrival

Syndrome N

ow we turn our attention to probably the most devastating matter that we have examined thus far—I call it “The Arrival Syndrome.” This phenomenon probably limited the achievements of mankind more than anything else. When this “thing” infects us, we stop growing, stop learning. We ROT! We turn off or tune out the ability to receive inspiration—because we “already know all there is to know!”

Remember Ed Deming (1900–1993), that wonderful business consultant who was still working at age 93! He was the person who taught the Japanese the idea of quality. Business schools all over our country fell in love with his teachings—*after the Japanese showed the world the results*. But shortly after World War II, Ed started trying to get the attention of American businesses and teach them his ideas. Almost without exception Ed ran into the response, “*But we are already doing that.*” No, they were not *doing that!* They were only taking a superficial look at what Ed was saying and jumping to the conclusion that they already understood all ramifications of Ed’s concept. And so, Ed turned to Japan, with an economy that was

non-existent—they were flat on their backs—and he found a culture that already knew discipline, and was willing to listen and *do what he said*. The rest is history and American manufacturers paid the price for their arrogance. When Ed came back to America much later he was accepted as being a genius. Many business schools in America now sing the praises of Ed Deming.

Daniel Boorstin (1914–2004), the historian, stated it this way, “The greatest obstacle to discovering the shape of the earth, the continents, and the oceans was not ignorance—it was the *illusion of knowledge*.” As practitioners of teaching clients to develop their own Banking Systems this is probably our hardest job—to get people to open up their minds and take an in-depth look at just exactly what is going on in the business world and correctly classify what is seen. A quote from the EVA article in FORTUNE magazine in September 1993 comes to mind, “*If you understand what’s really happening, you’ll know what to do.*”

Disturb us O Lord when we are too well pleased with ourselves, when our dreams have come true because we dreamed too little, when we arrived safely because we sailed too close to the shore.

Disturb us O Lord, when with the abundance of things we possess we have lost our thirst for the waters of life; having fallen in love with life, we have ceased to dream of eternity. And in our efforts to build a new earth, we have allowed our vision of the new Heaven to dim.

Disturb us, O Lord, to dare more boldly, to venture on wider seas where storms will show your mastery; where losing sight of land, we shall find the stars.

We ask you to push back the horizons of our hopes; and to push us in the future in strength, courage, hope and love.

This we ask in the name of our Captain, who is Jesus Christ.

—Sir Francis Drake’s prayer before he set out to be the first man to circumnavigate the world. Portsmouth, England 1577

You may say to yourself, “My power and the strength of my hands have produced this wealth for me.” But remember the LORD our God, for it is he who gives you the ability to produce wealth, and so confirms his covenant, which he swore to your forefathers, as it is today.

—DEUTERONOMY 8:17–18

Chapter 11: Use It Or Lose

It |

In our look at the Basic Understandings as taught by *The Infinite Banking Concept* we come to the last of the human considerations which must be faced if we are to be successful in becoming our own banker. This thought is closely allied to the one we looked at last, “The Arrival Syndrome.” Please note that all the points that we have addressed so far—Parkinson’s Law, Willie Sutton’s Law, The Golden Rule, The Arrival Syndrome, and now, Use It or Lose It—have to do with *overcoming human nature*. All human progress is predicated on this matter. It is not easy to conquer but it is absolutely necessary. It is like recognizing the fact that we must attend to bodily hygiene or face the consequences. Don’t brush your teeth regularly and they will rot!

The Arrival Syndrome produces a “comfort zone” that causes people to lapse into their old way of doing things—a lifetime of

accumulated information that determines how one conducts oneself. The fact that this conclusion may be based on fallacious information is beside the point! I illustrate the point by telling people, “what I’m teaching is equivalent to teaching that the *world is round*—when most folks think that it is *flat*. Technically, that is a very simple thing to explain—but if you are one of those who think it is flat, then it becomes a very difficult problem!” The Infinite Banking Concept is dealing with a totally different paradigm. This amounts to a personal *monetary system*.

In the September 1993 issue of *Fortune* magazine the story of economic value added (EVA) was reported. Many large corporations had achieved phenomenal success when they adopted EVA. All the concept amounts to is the recognition of the fact that your own capital has a cost of money as well as that which has been borrowed from banks. That is the *very first point* made in *The Infinite Banking Concept Basic Understandings*’ page (Chapter 7) in the workbook. Among those corporations featured was Coca Cola, who, by the way, was on the cover of the March 1996 issue of *Fortune* as “the most admired company in America.”

A follow-up story in *Fortune* in May 1995 was titled, “EVA Works—But Not if You Make these Common Mistakes.” The points made looked like this:

- They don’t make it a way of life.
- Most managers try to implement EVA too fast.
- The boss lacks conviction.
- Managers fuss too much.
- Training gets short shrift.

Accepting a totally new point of reference means that one must develop new habits. In talking with members of the Infinite Banking Concept think tank we continue to notice that many are still caught up

in the posture of thinking that the matter is a function of *interest rates*. This is a fatal error. It has to do with recognizing where money is flowing to and the failure of charging interest to yourself for the things that you buy using your own banking system. Anytime that you can cut out the payment of interest to others and direct that *same market rate of interest* to an entity that you own and control, which is subject to minimal taxation (life insurance companies *do pay taxes*), then you have improved your situation.

Just like EVA, to be effective, The Infinite Banking Concept must become a way of life. *You must use it or lose it!*

For he that hath, to him shall be given: and he that hath not, from him shall be taken even that which he hath.

—MARK 4:25

Chapter 12: Creating The

Entity |

n designing Life Insurance policies, the beginning point is the work of actuaries, the engineers of the whole process. They are working with a

mortality table that is constructed from data on ten million *selected* lives— people that have been through a selection process—not the “person off the street.” The purpose of the selection process is to prevent *adverse selection against the company*, that is, to cull out those persons who are facing predictable death in the near future. It would not be a good thing for all the people insured to include persons that have a terminal illness, that are contemplating suicide, etc. Cancer patients and people with heart disease fall in the same category. And they are working with a theoretical life span of 100 years.

The graphical illustration of the 1958 Commissioner ’s Standard Ordinary Mortality Table is illustrated on the following page. There have been later editions of Mortality Tables, but it doesn’t matter all that much *when* the tables were constructed because the final result of the situation is dependent on the earnings of the money invested by the company, the current mortality experience of the company, and the expense of operating the company. All they need is a field of data from which to begin calculations. If mortality experience is better than that indicated by the mortality table, then it will reflect that fact by *better dividends* distributed to the policyholders. In fact, the substantial increase in dividends paid by companies can be attributed mostly to better mortality experience in the past several decades.

Note that only 100 out of the original 1,000 have died by age 45, and out of those remaining, 75% are still alive at age 65! Can you guess what has happened to life expectancy since 1958? Yes, there has been a significant increase in longevity! By the way, do you know where all this business of *retirement at age 65* came from? Franklin D. Roosevelt got it from Bismarck in Germany several years earlier. The whole idea was to “get these old folks out of the work force in order to provide jobs for the younger generation,” as if there are only so many jobs around—a socialist mental hang-up that has no validity at all.

From all that I can determine life expectancy for males in America in 1937 was 61 years. Now the figure is in the mid-70s—*but we are still using age 65 for retirement purposes*. The coming debacle of Social Security is the natural result of operating from a faulty premise. It is not going to work! There is no legitimate reason for using such fallacious

thinking to plan your life. [I once read that John Templeton, creator of *The Templeton Fund* who “retired” at age 80 and is now doing only charitable work (and working harder than ever) made the observation that *all should plan on working to at least age 70* before considering retirement]. The most productive years are being wasted.

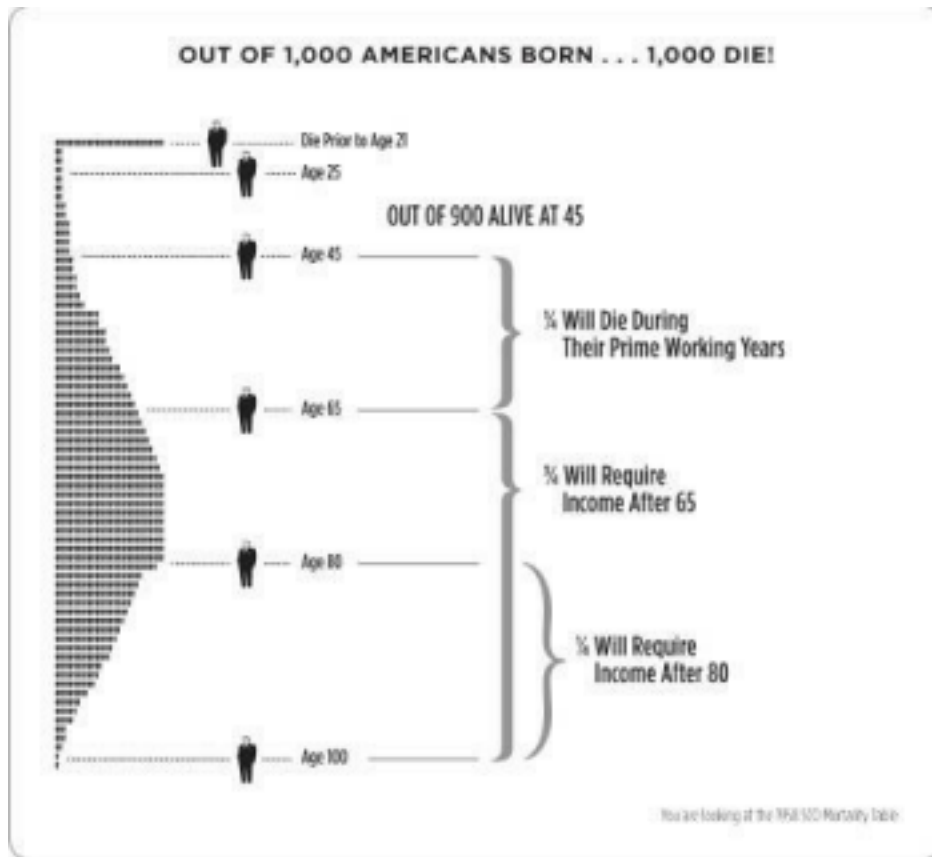


Figure 3. American Mortality

Study the mortality charts and notice where most all of the dying takes place. Out of the 900 alive at age 45, seventy-five percent of them die past age 65. Of course, the situation is much more accentuated toward later deaths now. But in the everyday conversations about the “need” for life insurance, it is all centered on the period of age 21 to age 65. Not many people die during this period.

In creating plans of purchasing life insurance, all calculations by the rate makers begin with the cost, *in a single sum*, of providing a plan of insurance that would cover one for the whole of life. It is called *single premium life insurance*. The insured plunks down the single sum and insurance is guaranteed for the rest of his life. It is possible to buy life

insurance this way, but it is not a common occurrence.

Figure 4 (page 55) is a continuum that depicts all the different purchase plans. On the left end of the scale is single premium insurance. On the extreme right side is *term insurance*. In this plan the insured is *simply renting* the single premium insurance for a limited period of time. When life insurance began (over 200 years ago) it was *all* term insurance! It paid a death benefit if the insured died during the given time frame. So the insured persons paid ever-increasing premiums (because each year they lived it was more probable that they would die in the current year) and finally quit because the premiums became prohibitive—and a few years later, they died!

Perceptive people noticed that this was not like other forms of *insurance*. They buy fire insurance and it pays a benefit *if* a fire occurred during the period covered. They buy accident insurance and it pays a benefit *if* an accident occurred during the period covered. There is a very strong probability that *neither of the above would ever occur!* But death for a person is not an *if*—it is a *when!* Responding to pressures from the market place, life insurance companies created a plan for purchasing the single premium policy with a payment period that began with the current age of the insured and extending to the theoretical life span of 100 years. They called the plan *ordinary life*. I submit that this was a gross misnomer! When you classify something it is based on its major characteristics. The “animal” they created had much more in common with banking than it did with life insurance. When you look at the proportions of the whole activity it is obvious that the *banking qualities* became much greater than the death benefit quality of a policy. A better name would have been “a banking system with a death benefit thrown in for good measure.”

The whole idea of *The Infinite Banking Concept* started with the realization that there is a huge amount of nonsense going on in the market place because of the misclassification of things. This is not new, nor is it unique to the financial world. For instance, take the case of the common potato. In the late 1500's the Conquistadors of Spain were down in South America (in what is now Peru) looking for gold. They didn't find much gold but they did find a plant that they took back

to Europe. It was the potato! But no one in Europe would have anything to do with the plant because the botanists of the time *correctly identified the plant* as one from the plant family, Solanaceae. This family has a large number of poisonous plants in it, such as Deadly Nightshade, Jimson weed, etc. Because of this relationship it was thought that the potato was poisonous, also. (By the way, the *sprouts and the green parts* of the potato plant are poisonous! Don't eat them or you can develop serious gastric disorders.)

From the family *Solanaceae* also comes belladonna, a valuable medicine. It is from the leaves of the belladonna plant that we get atropine. Small quantities do marvelous things for the digestive tract—but in large quantities it can kill you! All medicines are poisonous!

The strange thing is that the Europeans went from a condition of thinking that the potato was *poisonous* to one of large-scale *dependence* on it. Remember that the Irish experienced mass starvation as a result of the potato famine when a blight wiped out the crop repeatedly. Of course, this change of understanding took place over a long period of time. *The world* seems to always behave that way! We pick up some screwball idea that is based on a half-truth and let it grow into a monster that blinds us to what is really happening.

By the way, *the value of one year's crop of potatoes in the world now exceeds the value of all the gold found in the Western Hemisphere!* So the Spaniards *really did find gold* in Peru—but it wasn't in the form that they were expecting!

The tomato plant came to us from Mexico and it, too, suffered from the same misunderstanding. Thomas Jefferson introduced the tomato to the dinner table in America although most everyone considered it to be poisonous. If you have figured out that it also comes from the plant family *Solanaceae* then go to the head of the class!

Returning to the scale of policies above, suppose that the insured was 25 years old—then the *ordinary life* policy would be a 75-pay plan. The payment plan could be shortened by buying a *life paid-up at age 65* (for the same 25 year old, this would be a 40-pay plan). It could be

further shortened

to a 30-pay plan, or a 20-pay plan. *The shorter the payment period the better suited it is for the purposes of the Infinite Banking Concept.*

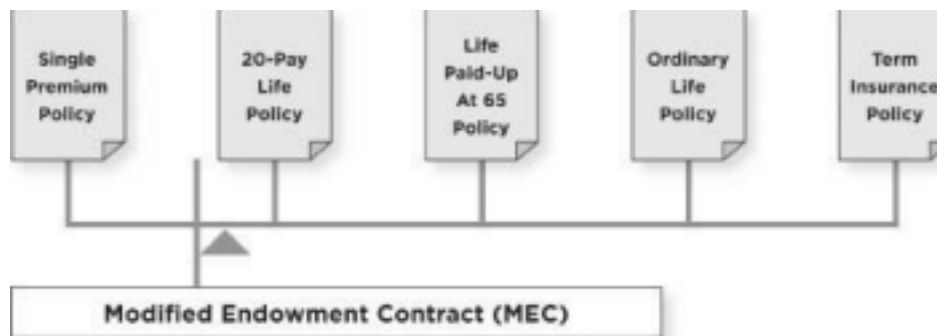


Figure 4. Life Insurance Policy Continuum

Notice the triangle at the bottom of the scale of various plans. Any plan located to the left of this line is classified by the Internal Revenue Service as a Modified Endowment Contract (or MEC). These plans are not treated as life insurance by the IRS, meaning that any *withdrawal or loan* from the plan would be treated as a distribution and would be taxed as from any other accumulation account, i.e., part is capital and part is earnings. The *earnings* portion is taxed as ordinary income in the year the withdrawal or loan is made. It is not a matter of earth-shaking consequences, but it can be avoided with a little bit of understanding of just what is going on. So, why bother with getting on the left side of the MEC line? After all, we are not attempting to accomplish all of the banking needs through the device of *one policy*—we will need a *system of many policies* in order to do the complete job. This is just a description of the design for each policy to best accomplish the system.

When using this type of life insurance to solve your need for banking, it is best to select a plan (the base policy) that is in the middle of the scale (such as ordinary life or a life paid-up at age 65) and add a Paid-Up Additions Rider (PUA) to the plan. By varying the amount allocated to each portion you

can place the resultant policy at any point between the base policy and the MEC line. The whole idea is to “snuggle up to the MEC line”—but don’t cross it! This will de-emphasize the immediate death benefit but accentuate the banking qualities (the cash values). The irony is that doing it this way will result in providing *more* death benefit at the point where death will *probably* occur than any other plan! The base policy will pay dividends and the PUA rider will also pay dividends. These should be used to buy *Additional Paid Up Insurance*, which gives more meaning to the infinite qualities of the system.

In describing this design of a policy, some people have called the process of putting a Paid- Up Additions rider on an ordinary life policy “overfunding” the policy. Maybe that can help in the overall understanding, but the objective should be simply to get *as much money as possible* into a policy with the *least amount of insurance* instead of trying to put as little money in and provide the greatest amount of insurance (initially). It is the exact opposite of what one thinks about when purchasing “insurance.” This is understandable because of the history of how the whole subject developed.

It all reminds me of things such as when Christopher Columbus started his journey Westward from Europe to get to the East; his destination in particular, was India. When his party finally arrived at some islands in the Caribbean they met some people they had never seen before. They called them INDIANS! They *weren’t*—but the name stuck. There are probably thousands of such examples of misclassification that we run into every day but they probably don’t increase the quality of our lives. Instead, they limit our thinking and lead us to wrong conclusions. Words are powerful things!

My Thoughts on Universal Life and Variable Life

Universal Life was invented in the early 1980s by E. F. Hutton, a stock brokerage firm that, in my opinion, knew nothing about life insurance. Remember the television commercial, “When E. F. Hutton speaks, everyone listens.” Have you heard him say anything lately? They don’t exist anymore! UL was nothing more than “one-year term insurance with a side fund of an interest-bearing account.” It was an attempt to “un-bundle” the savings element and the life insurance element of a whole life policy—something that can’t be done, if one understands the concept of whole life insurance.

This happened during a time of high interest rates and it “looked good” in the early years of the policy. When I first saw the policy I ran some illustrations and they kept “falling apart” when the insured attained age 65 to 70. The cost of one-year term became prohibitive at the advanced ages and “ate up the cash fund” from that point forward. Therefore, I never sold one of them when I was in the business—and I surely wouldn’t buy one!

Next came Executive Life out in California. They made a “big splash” in the business and ultimately went broke. I understand that policy owners actually lost money with their policies.

Does the name, Michael Milken, mean anything to you? He did prison time as a result of his financial shenanigans. Would you guess where he was selling all of those “junk bonds?” If you replied, “Executive Life,” then go to the head of the class! Would you like your financial future in the hands of people like that?

Lastly, there came Variable Life, invented by Equitable Life Assurance Society. It was nothing more than one-year term insurance with a side fund of a mutual fund. There are more mutual funds than there are stocks. No mutual fund is any better than its manager. The great preponderance of mutual fund managers had never seen a down-turn in the market until the recent one.

I suggest that you read *The Truth About Mutual Funds*. Then read *The Battle for the Soul of Capitalism* by John Bogle, the originator of The Vanguard Fund. These two books are vital to the understanding of what goes on in that industry. Also read *The Pirates of Manhattan* by Barry Dyke. Upon completion of these three books you should be adequately informed to make an intelligent decision as to whether you should consider Variable Life. I was with Equitable Life when Variable Life came on the scene. I never sold one of those policies—and I would never buy one. I do not recommend its use for the *Infinite Banking Concept*.

The tragedy of our times is that the life companies never spent any time on understanding Dividend-paying Whole Life Insurance and teaching the buying public its characteristics.

Review – Part II

1. Pitfalls of human behavior.

Make sure that you fully understand all five of these factors. They are “bedrock” in building your banking business. For instance, if you can’t whip Parkinson’s Law, then don’t bother to read further. You are wasting your time and you are doomed to slavery.

2. Understand the mortality table, Figure 3 (page 52)

that the actuaries in life insurance companies must work with.

Life expectance has increased dramatically during the last century.

For banking purposes you want the highest cost life insurance that is possible, but avoid it becoming a Modified Endowment Contract. Minimize the death benefit and maximizing the cash value.

3. In a dividend-paying life insurance policy, you earn both guaranteed cash value, (interest) and dividends, which are not guaranteed and are based upon the experience of the company. In a well-managed company, the dividends can become enormous over a long period of time.

Part III: How to Start Building Your Own Banking System

W

hen recalling the mountain of interest that “the All-American Man” is paying as depicted in chapter 3, one tends to look at the huge amount being paid to the mortgage on his house and concludes, “that is where I should start because it is such a significant drain on my situation.”

No, that one is over whelming and would involve such a radical change in lifestyle that it becomes practically impossible. It is much

better to attack an area that

is attainable in a fairly short time—try the one about financing automobiles. There are five legitimate methods of having the use of an automobile over the lifetime of a person. The graph depicted in Figure 5 (page 60) assumes that the car will be replaced at four-year intervals

and that the “financing package” each time will be \$10,550 at 8.5% interest for 48 months and we will be looking at a 44 year time frame in which to compare the results of the methods.

METHOD A—The FIRST, and most expensive method, is to lease the cars each year for 44 years. It is somewhat difficult to calculate the total cost in this case. We must resort to logic and reason and use the second method as a starting point. At the end of each 4 year period the lessee has no equity to show for the expenditure.

METHOD B—The SECOND method is using a commercial bank (or finance company) to do the job. Calculating the cost in this example is simple (\$260 per month for 528 months = \$137,280). At the end of each 4 year period, this person has a 4 year old car to use as a trade-in on the next unit. Reason tells you that the first method *must be more costly* than this one. Otherwise, no one would ever purchase—they would all *lease*. This would be absurd. One must lease from an owner who had to buy the car. Is the *owner* a fool? Is he not going to make some money on the activity? Therefore, let's assign an arbitrary 44 year cost of method one at \$175,000. By the way, the annual equivalent of \$260 per month is \$3,030.

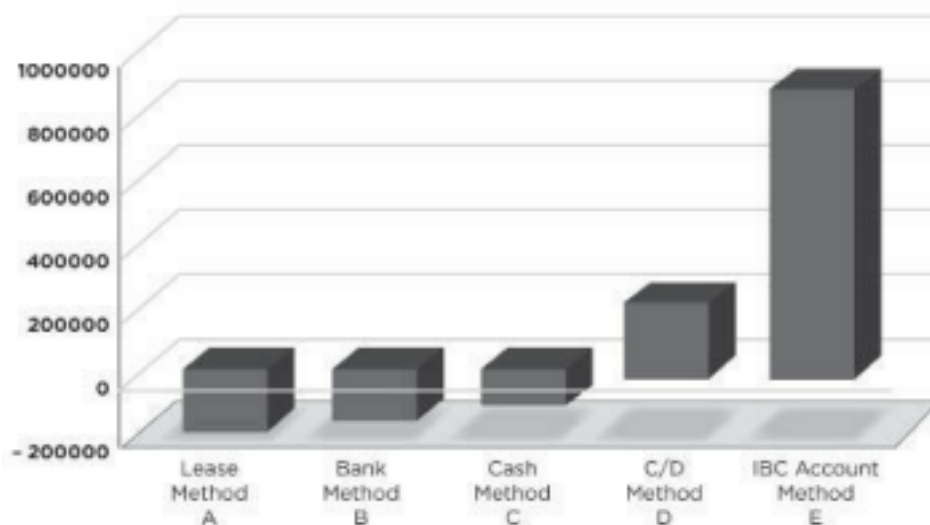


Figure 5.

Five methods of having use of an automobile over a forty-four year period of time

METHOD C—The THIRD method is to pay cash for each new car every four years. This results in a total cost of \$116,050 (\$10,550 for

each trade-in times 11 cars). This person had to *defer* the use of the first new car for four years to achieve this result. He had to save up money for the first four years and immediately start accumulating money again in the same savings account to prepare for the next purchase. This method involves *car payments* just like the first two methods. It is all a matter of where the payments are made—to the leasing company, the commercial bank, or to his savings account. This is the classical *sinking fund* method of financing the ongoing need for something. Notice that there is not much difference between the three methods discussed thus far. Also, be aware that we have probably covered 90% of all the population of the U.S. in the first three methods. It should be noted, too, that we are “going the right way” on the graph as we move to the right on the scale of methods—but mid-stream America is going the other way! Leasing is up 35% in the last few years, according to many radio commercials.

METHOD D—The FOURTH method requires some explanation. The first three methods have not addressed the need for *capitalization*; a pool of money must be accumulated before using it for your own car purchases and it must be large enough to accommodate the needs of some other folks, too. Remember the grocery store described earlier. If the grocery store is only large enough to serve only your own needs, you won’t have much of a successful business. Several years ago Dartmouth Business Professor, James Bryan Quinn, estimates that corporations expect it to take at least seven years to get back a profit on a new investment. Taking a clue from this fact, why not accumulate money over a seven-year period of time and at a somewhat higher annual amount, say \$5,000.

This person accumulates money on a monthly basis in a savings account and buys a Certificate of Deposit (at someone else’s bank) in the amount of \$5,000 with a yield of 5.5% interest. Show me someone that will do this for seven years just to build a banking system and I will show you someone that has conquered Parkinson’s Law. He will win by default in comparison with his peers, because they can’t discipline themselves to do so. This person will also attract the attention of the

Willie Sutton types—the Internal Revenue Service—and they will take 30% of the earnings. The net effect is that he will earn 4% after taxes. Table (1) will show the results of this procedure. The C/D account now has an aftertax amount of \$41,071.13. It is time to start the self-financing of car purchases from the system now. If this person is dull enough to let the car salesman know that he has over \$40,000 in his C/D account the salesman will, most assuredly, say, “Son, you don’t need to be looking at a Taurus—let me show you this BMW!” But this young man has done some studying and concludes that if he jumps through that hoop he will end up with the same results as Method C, except on a grand scale. So he withdraws \$10,550 from the C/D account, takes it plus his trade-in car, and purchases the Taurus.

He continues to fund the monthly savings account and annually withdraws \$3,030 from it to purchase a new C/D each year. He is playing “honest banker” with himself but he is *using someone else’s bank to do it*. The *dividends* of the bank are going to the *stockholders of the bank*. He is earning only the interest that the bank is paying him. There are several “characters in the play” that must be considered.

- The Stockholder or owner of the bank—earns dividends.
- The C/D holder—earns interest.
- Administrators at the bank (hired help)—earn salaries.
- The borrower of money. An absolute necessity in the whole scene. Nothing happens without him. He pays for the whole works above.

Table (1) shows the results of this procedure over the same 44 years as compared with the previous three methods. Figure (5) is the graphical depiction of the data in Table (1). There is a significant difference between the results of Method C and Method D. It is the result of three additional years of accumulation *and* all seven years are at an additional amount (\$5,000). He is taking the necessity of capitalization seriously.

METHOD E—The FIFTH method is using dividend-paying life

insurance as a depository of the necessary capital to create the banking system to finance the automobiles. This person puts the same \$5,000 per year, as in the foregoing method, into very high-premium life insurance with a mutual life insurance company. Recall Figure 4 back on page 55. (There are some exceptions to this requirement. There are *some* stock companies that have dividend-paying policies). After the seven years of capitalization, this person *withdraws dividends in the amount required to pay cash for the car*. This process *does not* involve policy loans. In order to play *honest banker* with himself, he must make premium payments to the policy instead of to a finance company—but in the same amount that he would have to pay to one, in this case, \$3,030 per year—the same as the person using Method D.

Notice that in Table (1) the results favor Method D up through year 14—but from that point on the difference favors Method E in an accelerating fashion. There is a very simple explanation for this effect. Hardly anyone takes into consideration that the Banker in Method D that issued the C/Ds went through a long and costly process of getting a Bank Charter and winning the deposits of customers (whose money he lends to borrowers). It is just like getting the grocery business started as described in the beginning of this book. Every time a person buys a life insurance policy he is *starting a business from scratch*. There is the inevitable delay in results in getting a business started. The life insurance company is nothing more than an *administrator* of the plan the policy owner purchased. If you have seen an Executive Vice-President at a Life Insurance Company and an Executive Vice-President at a Bank, they could change jobs every six months and no one would know the difference! For practical purposes they do the same thing. It is the Stockholder (or Bank Owner) that makes all the difference. This is the party that puts up all the capital to start the business and earns the rewards or suffers the loss.

Both methods, D & E, are all dependent on borrowers to make their business successful and the market sets the rate—not Alan Greenspan at the Federal Reserve Bank. In the Life Insurance method the policy owner is earning *both interest and dividends*. There are no

stockholders! The cost of administration in both cases is a “wash.” Look at year 51 in Table 1 (page 67) and compare the difference between the two methods. The difference is what went to the *stockholders* at the bank in Method D, if it was accumulated on a tax-deferred basis for that period of time ($\$964,638 - \$258,927 = \$705,710$). To make all this money the Banker had to go through that gory mess that was described in Chapter 4. But, hardly anyone takes this into consideration. They all tend to look at the early years of the two methods and conclude, “Life Insurance is a poor place to accumulate wealth.” They couldn’t be more wrong!

Continue studying Table (1) and you will realize that you are just now discovering the *real power* of the life insurance method—the comparison of the retirement income that can be realized from each method. Assuming a withdrawal of \$50,000 per year from each, please notice that the C/D account is out of money in five years and eight months. But the life insurance policy is *still growing* although \$50,000 is being withdrawn from dividends until the cost basis is recovered, and from policy loans from that point on, hence the income is not a taxable event. Assume that the insured dies at the 65th year (Age 85) she has withdrawn \$650,000 on dividend income and then the net death benefit for her beneficiary is \$1,365,057! If she lived longer then the income would continue and the death benefit would never get below \$1,000,000. There is *no real comparison* between the methods.

This is the essence of what *The Infinite Banking Concept* is all about— recovering the interest that one normally pays to some banking institution and then lending it to others so that the policy owner makes what a banking institution does. It is like building an environment in the airplane world where you have a perpetual “tailwind” instead of a perpetual “headwind.” Simple, isn’t it? Controlling the environment is much more productive than trying to make the airplane fly 5 miles per hour faster!

Let’s review the “Characters in the Play” once more--Shakespeare said, “All the world is a stage and all the people are actors thereon.” Acknowledging this thought from him, I say, “When it comes to the

subject of finance, frankly, most folks don't understand the play. Worse than that, they can't get the characters in the play straight!"

So, let's compare the activity and characters in a conventional bank and that of a life insurance contract with a mutual, dividend-paying company. A bank can't operate without "hired help." Neither can a life insurance company. A bank must lend money or it is not in business. So does a life insurance company. (These two items are a "wash.") The stockholder at the bank earns dividends. So does the life policy owner. The C/D holder at a bank earns interest. So does the life policy owner (guaranteed cash value).

The only difference in the two is how earnings are allocated. The life policy owner gets both interest (guaranteed cash value) AND dividends! In Table 1 (page 67), there is a difference in values in the early years up through year 14, though the outlay and car purchases, along with repayments are the same. That's because, when you buy a life policy, you are literally starting a new business from "scratch." There is a "start-up cost" in creating a new business. It takes a life company about 13 years to amortize the "cost of acquisition" of a new policy.

In order to issue a C/D a banker has to create a bank. From the start of the idea until it's "break even" point, it will take the average bank about 15 years. Practically no one seems to recognize this fact.

So, what is the banker's reward for all his efforts? Look at year 51 and compare the results of each method. Subtract the \$258,927 from the \$964,638 and you have isolated what went to the banker, if it has been compounded over that period of years. The death benefit is not a factor in this comparison. It is a bonus to the policy owner.

Addendum

Note that Table 2 (page 68) does not show any policy loans to make the car purchases. The purchases are made by use of dividend withdrawals.

If I were in the life insurance business, I would never suggest that a client do it this way. I would recommend *policy loans* to buy the cars.

There is a simple reason for this procedure. Remember, the earlier one starts a life insurance policy—and the longer it stays in force—the more efficient it gets. When one surrenders Paid-Up Additional Insurance, you are surrendering a small portion of Paid-Up Insurance that has recently been created. Hence, you are killing the growth potential of that