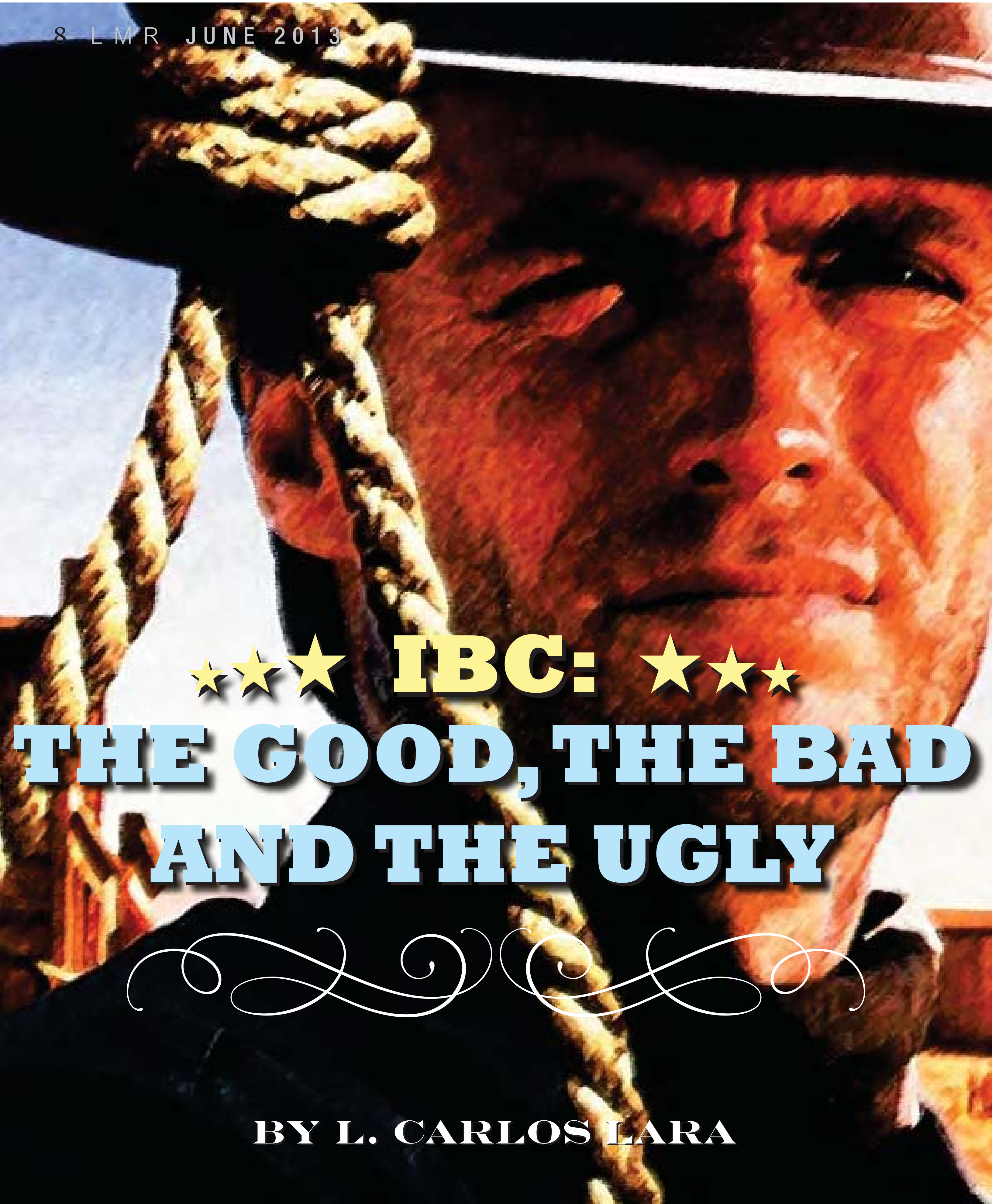
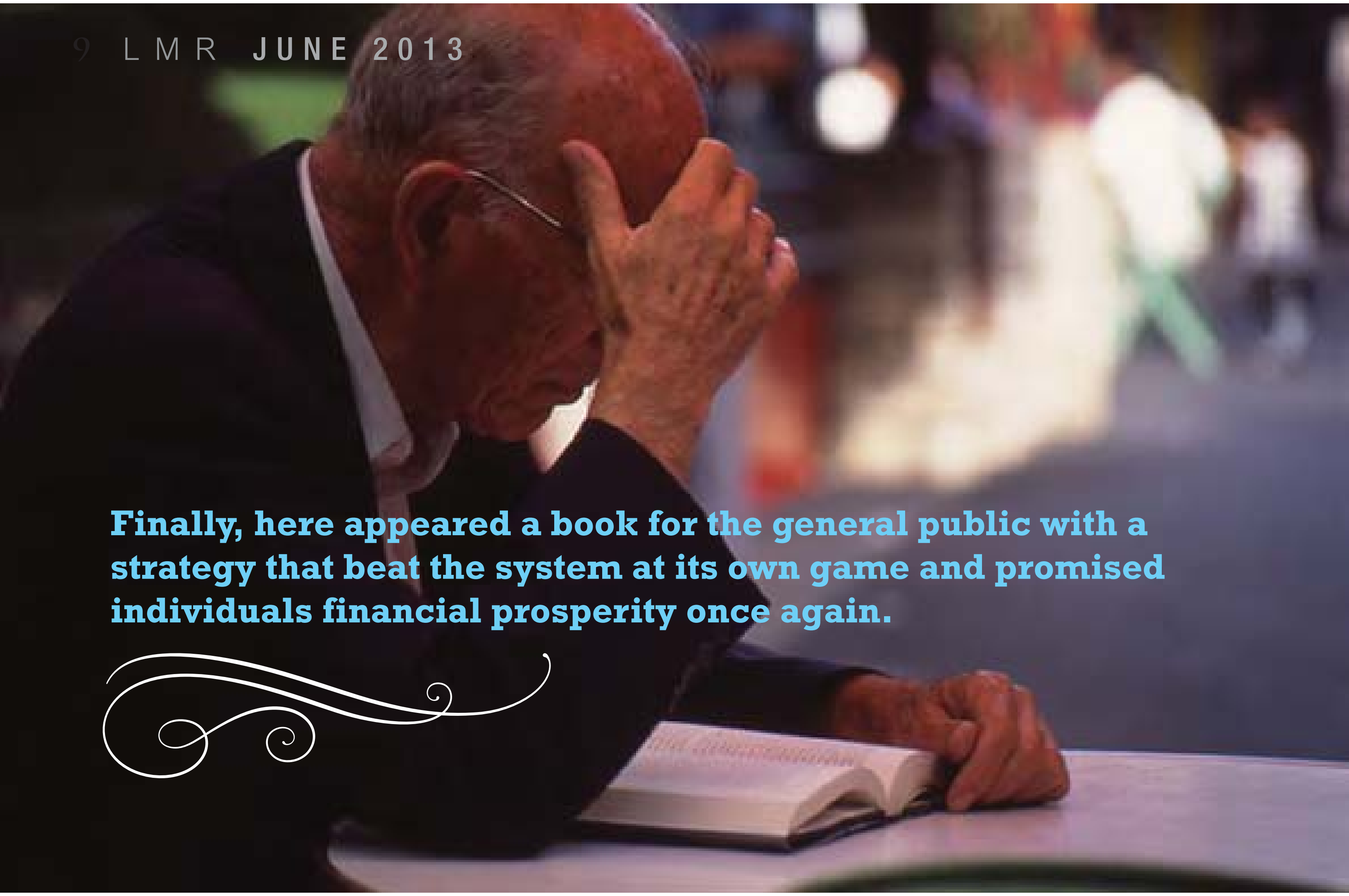


IBC: THE GOOD, THE BAD AND THE UGLY

BY L. CARLOS LARA



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SIMPLICITY is elusive.

Nothing in recent years has convinced me more of this fact than attempting to explain the *Infinite Banking Concept (IBC)* to others. When I consider the number of years it took me to finally understand it, I wonder if its simplicity is not perhaps the real source of its difficulty. *It is so simple it makes no sense!* But, of course, that's not it at all, there is much more to it than that. IBC involves matters having to do with money, credit and how it ***flows*** in the entirety of our economy. Those particular elements have never been simple for anybody.

Nelson Nash, originator of the concept and author of the book that started it all, has made it very clear that he did not write his book for the financial professional, but instead for the *average* American—*the middle class.* What is important to realize is that this sector of the economy for the most part is in a state of utter confusion when it comes to matters of money and finance. In the past thirty years this group in particular has suffered through some of the worst periods of chronic inflation and economic upheavals this country has ever experienced. This progress of inflation, coupled with onerous taxation and erratic market volatility has served to deprive these masses of their savings and made them desperate. Therefore, it is not surprising that Nelson's book should surge in popularity at this crucial time in American history. Finally, here appeared a book for the general public with a strategy that beat the system at its own game and promised individuals financial prosperity once again. By the time the 2008 financial crisis hit, life insurance companies began reporting dramatic increases in the sale of dividend-paying whole life insurance not seen in decades, while banks and Wall Street were in the tank. A 200 year-old product was suddenly back in the limelight, but it was not a coincidence. This just so happens to be the one financial product that is at the heart of Nelson Nash's concept. Obviously, the IBC book, *Becoming Your Own Banker,* and Nash's seminars had gotten the public's attention and made them take action.

INSURANCE

One very important detail that should not be overlooked is that Nash is an expert in life insurance. His kind of professional has long since retired from the business or they are not even on the planet anymore. They are deceased! At 82, he has spent enough time in the industry to experience personally how the public's view of insurance has changed and knows exactly why those changes occurred. Prior to 1960 whole life insurance was the very best place to put your money, along with bonds and savings accounts. This is because Whole Life's multi-dimensional benefits made it superior to any other financial product on the market at that time and virtually every household in America owned a policy. Whole Life, the workhorse of the insurance sector, had take Americans safely through the Great Depression of the 1930s, so it was a well-known financial product. The growth on these policies admittedly was slow, but it was steady and most importantly, secure—*like cash underneath your mattress!* But then the stock market reemerged. Driven by government inflationary policy, the need and desire to speculate changed everything. The nation soon turned away from traditional *savings* to wildcat *investing* as the primary method to build wealth. Fifty-three years later an entire generation of conservative savers who understood the value of dividend-paying whole life

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insurance and how it worked died out, as did knowledgeable insurance agents. Left behind is today's venturing generation who understand only one thing, ***"buy term insurance and invest the difference."***

The mind for saving money the old-fashioned way closed. Even today the fact that IBC involves insurance at all is still its single most persistent impediment to its understanding. People simply cannot clear their heads enough from the distractions of investing and an extreme focus on interest rates of return to view it with an open mind. Yet, Nash realizing this problem did something very ingenious in the way he wrote his insurance book, in a manner which only an ardent student of Austrian economics could have done (let's not forget that he is an expert in both). He dared to compare dividend-paying whole life insurance to that of one's own *private bank* and because he did that his concept cannot be easily dismissed. One is drawn into the study of the two institutions, banking and insurance, simultaneously. Even the great Austrian giant, Ludwig von Mises, had once stated, "*in America the insurance companies were the biggest moneylenders*." So in effect, in reading Nash's book we are forced to see not a product, but a process—*a process of money flow*. The more one learns about the banking system and how it works the clearer his IBC concept becomes.

Every financial advisor, attorney, or certified public accountant should be keenly aware that monetary policy dramatically affects our taxes, savings, and investments. In light of this knowledge the whole life product should be the most logical choice to headquarter one's money, but the reason the experts do not consider it is that very few experts know anything about it. Most of the 2,000 or more life companies do not even carry the product so even life insurance agents who should be the first to know are in the dark. In this sense, Nelson's book in the hands of the general public or untrained agents can lead to potential problems. This is the only ugly side of IBC. We must realize that the product Nash describes is of a certain kind, with a special design. Without these prerequisites it doesn't work in the manner he prescribes. Further, life insurance companies do not train agents as they once did. It has become cost prohibitive. When the stock market and investing came into vogue, insurance companies out of necessity in order to meet consumer demand launched several insurance products tied to the stock market just to maintain their competitiveness in the financial services industry. According to Nash these types of insurance products will not work as vehicles to implement IBC. How, then, do you control the co-mingling of such insurance products with IBC? It is for this very reason that Nelson Nash, David Stearns (CEO of the IBC organization), economist Robert Murphy, and I created the Authorized IBC Practitioner's Program. Among other things it is specifically designed to protect the general public and the integrity of the IBC concept from such abuses. Financial Advisors wishing to use IBC in their practice must sign a contract with the Infinite Banking Concepts organization specifically to prevent these types of problems from arising. Further, Advisors are required to study the IBC Practitioner's Manual and pass a proctored exam on not only IBC's theory, but also the fundamentals of Austrian economics. This sets this program completely apart from other course curricula and makes it unique. As a result, the general public wanting an IBC policy can find qualified and authorized IBC Practitioners by simply going to the Infinite Banking Institute's Agent Finder at https://www.infinitebanking.org/finder/.

MONEY AT RISK

As a spokesman of the concept I am often asked questions concerning IBC that cover the gamut. Does IBC make sense? Am I too old to be insured? Is it affordable? Should I liquidate my securities or qualified plan to fund an IBC policy? How many loans are appropriate? Is there a case of too many loans that lead to a taxable event? The list of questions can be varied and extensive. IBC is spreading throughout the country and people genuinely want to know what it is all about. Unfortunately it can be difficult to explain for the reasons already cited. Permanent life insurance is not easy to understand and coupled with the IBC component, it can all get immensely confusing. So, before answering it's important to remind myself of this and respond in a way that first gives the inquirer the broadest explanation of whole life's multi-faceted benefits. By doing so I stand a better chance of being understood. If you are reading this per-

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haps this article will be helpful.

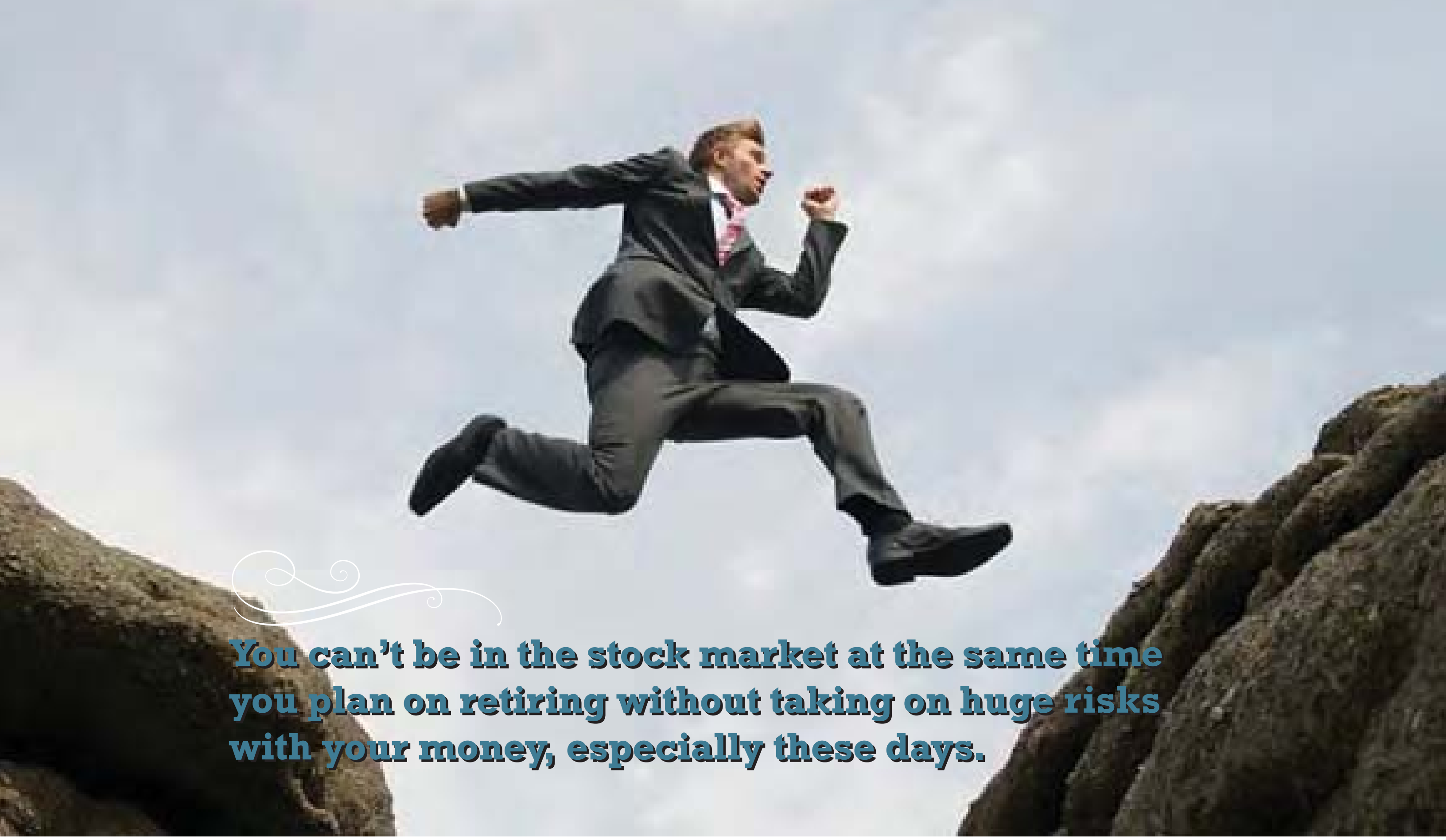
For example: Recently I had the opportunity to visit with a couple, friends that I have known for some time, to talk over their future. Their wills and estate documents were all in order. She is already retired and he wants to retire this year, but does not know if he can. They have over $1.5 Million accumulated and parked in several places, no mortgage payment; there is some pension income for each of them in retirement, plus their Social Security checks. Each has a $500,000 whole life policy covering each other's life, but no heirs. After careful study of their entire financial situation three problems clearly stood out.

1. First of all, their current expenses exceed their pension and estimated Social Security income. This deficit is expected to rise due to inflation. In other words, already before they retire they have a cash flow problem.

2. Secondly, their $1.5 million accumulated assets are not providing enough income to cover the cash flow shortfall. Believe it or not, this is a common story of many Americans today. They have assets, but not enough income.

3. The biggest problem is that over $500,000 of the total assets accumulated is in mutual funds with half of that number in qualified funds tied to the stock market. Consequently, if the stock market were to crash today, or in the near future, their hopes of retirement are wiped out in one fell swoop. Already I have witnessed this sort of thing countless times so I cannot help seeing this money ***at risk.*** There is no other expression for it. You can't be in the stock market at the same time you plan on retiring without taking on huge risks with your money, especially these days.

There is a solution, of course, but without



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getting into that specifically, the bright spot in their financial plan are those insurance policies. I found that there was $200,000 in cash value inside them; that money resides in a tax beneficial environment that can be accessed in the form of loans without tax consequences. All that is necessary is a simple request to the insurance company. The money is contractually guaranteed by the financial strength of the insurance company and the ratings on the company are solid. It is creditor protected. It is liquid and free of market volatility. The rising death benefit acts as an inflation hedge while the premiums are contracted to stay the same as time marches on. The policies are transferable and easy to manage. They earn annual dividends that calculate to a reasonable and competitive annual rate of return. They are free from penalties and fees. The product is reputable and private—my friends have never received a 1099 since they've had these policies. Above all, those death benefits are huge assets and represent a form of permission for this couple to spend down $500,000 of their assets in retirement ***if*** they have to. ***And, all of this isn't even IBC!*** This is merely the *infrastructure* of IBC. It is dividend-paying whole life insurance.

YOU CAN'T DO THIS WITH A SAVINGS ACCOUNT!

IBC is more like a cash flow system inside a bulletproof environment—a financial bunker for scary times. But even under normal circumstances it is an excellent form of *privatized banking.* Here is another real life anecdote involving my wife, Anne, which may help to explain what I mean. Anne and I keep separate bank accounts and she is in charge of paying most of our household expenses. Recently she didn't have the cash

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to pay our $6,500 in property taxes, which were due. Knowing that she owns a whole life policy on my life that has a substantial amount of cash value in it, I suggested she borrow the money from her own bank. *"How do I do that?"* she asked. *"Just call up the insurance company and tell them you want your money,"* I replied.

You see, even though Anne has known about IBC for years she had never really worked the process herself and she needed that experience to fully understand it. She happily reported that she had filled out only one form, very conveniently on-line, and had the $6,500 in 3 days. The insurance company used $6,500 of her cash value as collateral and lent her the money at 5% interest. If she had used her credit card she certainly could have had the money faster, but she knew better than to go into debt that way. This method suddenly started to make a lot more sense to her. She had a legitimate emergency and her money was available to her when she needed it. Would she pay it back? — of course! It made perfect sense to do so. This tax bill would come around next year and she had already planned on doing this again so she set up a payment schedule to pay the principal and interest back to the insurance company in one year.

Many skeptics might easily dismiss this as nothing more than a silly exercise claiming that you could easily do this with a savings account. They would see it as nothing more than forced savings by those that are financially inept. But wait a minute; you would be more foolish trying to do this sort of thing with a savings account at a local bank. If what happened in Cyprus recently has not convinced us not to stockpile substantial amounts of money in commercial banks, then simply consider a scenario whereupon making her second savings deposit, Anne were to drop over dead of a heart attack. How much money would be in her bank's savings account then? The answer is two deposits of roughly $1,000 while with the IBC strategy the entire death benefit of $500,000 would be paid over to me, income tax free. Since I have a policy on her life, if I were in her shoes in this example, the reverse would happen and she would be paid the benefit. Forget term insurance to come bail us out, Anne is 65, and her term policies expired long ago (as have mine). What she did and how she did it makes perfect sense and ***no, you can't always do that with a savings account.*** You see, this is the main point, in our attempt to understand IBC we must always keep in mind the permanency of the whole life product in

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conjunction with all of its wonderful benefits as being the platform of privatized banking.

CONCLUSION

Try as you may, attempting to figure out how to be your own banker using other means, such as 401k's, IRA's, or any other similar structures including bank accounts, is a useless exercise once you understand how dividend paying whole life insurance works. You realize why Nelson Nash endorses this, and only this product for IBC. Furthermore you will see why Nelson Nash strictly instructs his followers that all policy loans should be repaid and insists that you grow wealthier if you pay back more. This coincides with his admonition that IBC policies should be taken out from mutual insurance companies wherever possible where the policyholders are the owners of the mutual. In this sense, you are sure to be paying it back to your own system. But, even if you didn't, and only paid back the loan and its interest in the simple way my wife did, your policy's cash value still grows. This happens because dividend-paying whole life insurance is actuarially designed to reach a known dollar destination during the life of the policy, therefore, no matter what happens economically on the outside, inside the policy it can only move forward toward that known target—*never backward.* With all of its attributes as elaborated here in this article, and this one special growth caveat, dividend-paying whole life is the perfect warehouse for one's money.

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