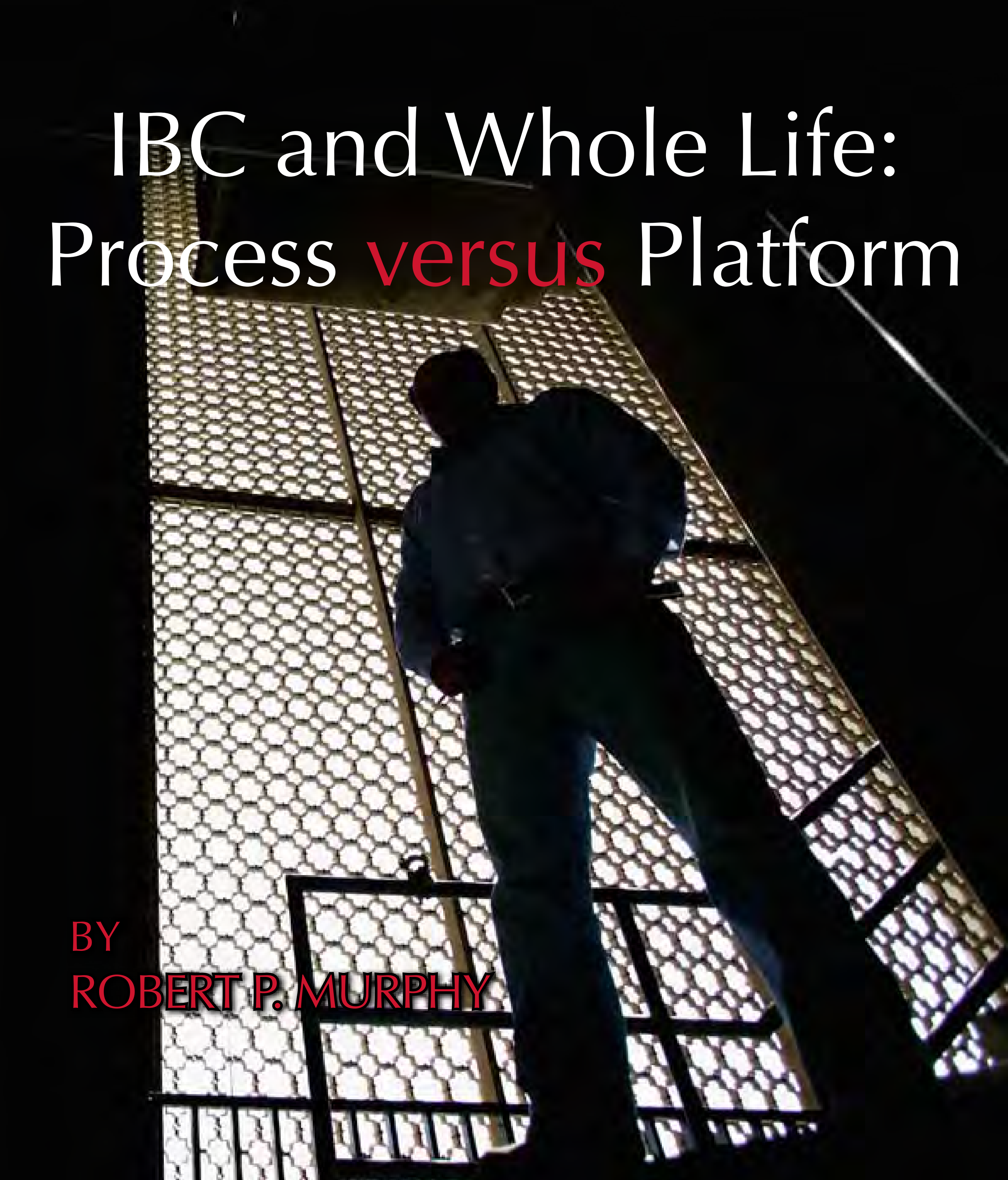
IBC and Whole Life: Process versus Platform



BY
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In early February, Carlos and I were very pleased to participate in the annual Infinite Banking Concept "Think Tank" held in Birmingham, Alabama. Unlike the "Night of Clarity" event that Carlos and I hold each year in Nashville—and by the way, the dates for this year are August 15-16, so mark your calendars!—the Think Tank in Birmingham is closed to the general public. This is because the Think Tank is a forum for the actual *practitioners* of Nelson Nash's Infinite Banking Concept (IBC): people in the financial sector who use IBC when advising their clients.

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At this year's Think Tank, I noticed that the various speakers seemed to fall into two camps. In the first camp, the practitioners stressed their understanding of the "banking" aspect of Nelson's ideas. People in this camp explained how they helped their clients redirect cash flows to allow their clients to "become their own bankers." Not surprisingly, people in this camp relied very heavily on Nelson's best-selling book, *Becoming Your Own Banker,* since their approach with clients followed very closely the approach Nelson uses in his book to address the reader. Typically the people in this camp would reject the conventional framework and terminology of the professional financial industry, saying that only by changing one's mindset and thought process could one escape from the bondage of the bankers.

On the other hand, there was a different camp of speakers at the Think Tank. In their presentations, they explained how they showed their clients that dividend-paying Whole Life insurance was a perfectly respectable asset class, which had its own pros and cons. They then explained quite convincingly that in our current economic and political environment, it made a lot of sense for many clients to shift their portfolio more heavily in favor of this conservative asset, because it was

superior to the more popular selections (stocks, bonds, real estate, etc.) on many dimensions. The practitioners in this camp did not shy from taking on the Dave Ramseys and Suze Ormans of the world on their own terms. You want to talk about rates of return? Sure thing, let's just make sure we're analyzing the assets correctly, including tax considerations and liquidity. The more we study it with an open mind, the more amazing it is that somehow Whole Life insurance has gotten a reputation as an awful financial product.

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As I sat in the audience watching the various speakers giving their presentations, it occurred to me that *they were all correct.* It's just that they were focusing on different angles of the same underlying truth. The people in the first camp were focusing on IBC as a *process,* while the people in the second camp were focusing on Whole Life insurance as the best *platform* on which to implement IBC.

In truth, both elements are necessary for a well-rounded understanding. And to be fair, I'm oversimplifying here in my remarks; in practice everybody in *both* camps probably made remarks that crossed over the imaginary boundary line I had drawn in my head. In any event, for the benefit of *LMR* readers who might be new to Nelson Nash's Infinite Banking Concept (IBC), I thought it would be useful to spell out these two distinct approaches.

IBC as a Process

As Nelson Nash has written and will tell you in person, his IBC is *not about life insurance*. Indeed it is not about a financial product at all. Rather, he is trying to change the way *people think* about their financial decisions. As it is, too many Americans (and presumably people in other Western countries, adjusting for their respective circumstances) follow the gurus when they tell them to put a small sliver of their paycheck into a highly restricted stock market investment program (aka "tax-qualified plans"), so that they can't touch these "savings" until decades later when they retire. In the meantime, when these people need to spend money on big-ticket items, they are counseled to do what "everybody" does: go to outside lenders.

The result—which Nelson describes early in *Becoming Your Own Banker*—is that the typical American is swimming in debt, with a large fraction of his monthly income devoted to paying *interest* to outsiders. What's worse, this life is characterized by enormous *stress:* A job loss or illness, and the attendant interruption in income, can mean that these friendly bankers suddenly appear to kick you out of your house and seize your car. Indeed, the way the typical American structures his life, it's not "his" house or "his" car at all; the bank (or other lender) has a lien against them, and can take physical possession, if the borrower defaults on the loan contract.

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The fundamental change in *thinking* occurs when people flip this arrangement. Rather than giving away our savings to the control of outsiders, so that we must approach outsiders (hat in hand) whenever our expenses exceed our paycheck, we can instead begin to *capitalize our own "bank."* That is, we direct as much cash-flow as possible into building up an asset that we control, so that we turn to it when we have to buy a car, pay for a child's wedding, or (in the limit) even buy a house.

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The IBC process works, whether we start with a middle-aged or older person who has already accumulated significant wealth in other areas, or whether we start with a young person or couple just starting out. The particular financial moves differ from case to case, of course; that is part of the purpose of the IBC Think Tank, for professionals to share their experiences, creativity, and wisdom with each other.

Yet what is common to all of the "case studies" is that introducing clients to IBC has allowed them to instantly retake *control* of their financial situations, and—over time—to find themselves wealthier than they otherwise would have been. For readers who are intrigued, the best place to start is Nelson Nash's book that started it all: *Becoming Your Own Banker.* Then, Carlos and my book, *How Privatized Banking **Really** Works,* will place Nelson's ideas into the broader context of Austrian economics and U.S. history.

As a final bit of advice from Uncle Bob: Even though Nelson's ideas are, one on level, quite

simple, in *practice* it takes a qualified financial professional to tailor them properly to a real-world client's specific circumstances. This is why Nelson, Carlos, David Stearns (who runs the Infinite Banking Institute), and I created the IBC Practitioner's Program. The financial professionals listed at the website https://www.infinitebanking.org/finder/ have all been through our training program, passed an exam that we designed, and have signed a contract to assure the public that these particular professionals can give them a "Nelson Nash" policy when asked.

Whole Life as a Platform

Now that I have spent time describing IBC as a process, we must explain why it is intimately tied to dividend-paying Whole Life insurance. The reason is simple: It just so happens that when we survey the world as it is, this particular financial instrument is (by far) the best *platform* on which to implement Nelson's ideas.

In one respect, this is very unfortunate, because it presents the single biggest hurdle for getting the public to embrace Nelson's message. After all, "everybody knows" that Whole Life is a "terrible investment" and that it makes more sense to "buy term, invest the difference." Indeed, there are all sorts of quick demonstrations allegedly proving that people are throwing away money when they buy a Whole Life policy.

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The present article is not the place for me to address such claims. (Interested readers can look at my September 2012 *LMR* article, "Why Dave Ramsey Is Wrong on Whole Life," and also my June 2013 article, "Does IBC Mix Two Goals Inefficiently?") Rather, I am simply acknowledging why so many professional IBC practitioners feel that it is crucial to explain to their clients the nature of Whole Life insurance. Before even getting into the broader strategies of "banking," some practitioners have found it effective to first defuse the worry that "I'm earning an awful rate of return with this thing!"

In the interest of brevity, let me give one specific example of why it's important to really understand the mechanics of a Whole Life policy, in order to see why it is the best platform on which to implement IBC. Once, I read a critic of IBC who said (and I'm paraphrasing), "The basic idea here is to build up wealth in an asset, and then borrow against it when you need cash. So that has nothing to do with life insurance; you could just build up equity in your house, and then go to the bank for a Home Equity Loan when you want to buy a car or send your kid to college. The fact that these people keep pushing Whole Life insurance—where they conveniently make a big commission—shows this is a big scam."

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Now this critic *did* get something right: As Nelson Nash himself says, IBC *is not about life insurance*. And yes, without further information, we have no reason to prefer "banking" with a Whole Life policy rather than "banking" with real estate.

Ah but wait a second: There actually is an enormous difference, once we get more details. If you go to a commercial bank and ask for a $20,000 Home Equity Loan because you want to buy a new car, they will make you jump through hoops before giving you the money. You'll have to tell them your income, what you plan on doing with the money, and how fast you plan on paying it back. The bank will also check your credit report to see how much other debt you are carrying, and your history of paying it back.

All of the above is so customary that most Americans think it is a "natural" part of applying for a loan, even a collateralized one such as a car loan or a Home Equity Loan. But guess what? *None of that happens* when you call up the life insurance company to request a "policy loan." So long as you have at least $20,000 in your "cash surrender value," they will send you the check right away; the only question they will ask is a verification of the mailing address to make sure

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it goes to the right spot.

How is this possible? Why does the life insurance company grant loans with no payback schedule and so much less interrogation than the commercial bank? The answer is that the nature of the collateral is different. With the commercial bank and the Home Equity Loan, it is your house that is the bank's assurance, in case you default. Yet this is not something that the bank wants to pursue. For one thing, the real estate market might crash after they grant you the loan, so that even a loan that initially appeared to be very over-collateralized turns out to be "upside down." Beyond that, there are definite expenses involved in foreclosing on a stubborn borrower and then selling a house for a good price. Precisely in order to avoid this worst-case scenario, the bank wants to know that you have a good income and credit history, and that you will commit to timely repayments.

In complete contrast, the life insurance company uses the *cash surrender value* (which is

a present-actuarially-discounted-value reflection of the death benefit) as the collateral on its policy loans. There is thus no concern about the quality of the collateral; the insurance company *itself* guarantees the value. And even in the "worst case" scenario where the borrower never sends a single dime of repayment, it just means that the life insurance company nets out the outstanding policy balance (which has been growing exponentially at interest) from whatever death benefit is owed, when the policyholder dies. Instead of the slow and risky process of foreclosure and house sale, the insurance company simply has to *subtract a number* in order to "settle up" with a borrower.

Conclusion

In reality, there is no tension between the two approaches or "camps" that I have described in this article. Yes, it is certainly true that Nelson Nash's Infinite Banking Concept is a *process,* not a product, and as such it is *not about life insurance.* However, in the world as we find it, by far the best *platform* on which to implement IBC happens to be dividend-paying Whole Life insurance. In order to see why—and to refute common objections—it's necessary for practitioners to educate themselves and their clients on the actual mechanics of Whole Life. By the time this education is complete, the student will be surprised to realize that even plain vanilla Whole Life is a pretty nifty asset. Using it in conjunction with Nelson Nash's ideas just makes it that much more productive, and indeed life-changing.

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