<u>Becoming Your Own Banker</u>

By R. Nelson Nash

Commentary provided by Leo Schreven, all credits to Nelson Nash

This month I have decided to take on a more difficult book, but certainly a book whose time has come. This is going to be the kind of book you will have to listen to several times, and read the script several times to understand.

Many of you have purchased the book, "80 Proven Ways to Become a Millionaire," by Paul Damazo. Paul's book also teaches the concept I will teach this month, only now we are going to get specific.

Nelson Nash is a world authority on this subject, and he calls it, "The Infinite Banking Concept." It is basically about the power of Dividend Paying Whole Life Insurance. That is the first sentence you need to memorize, "Dividend Paying Whole Life Insurance." Most of us when we hear this have been taught to concentrate on the <u>*death benefits*</u> of such insurance. But few people are aware of the financing capabilities of Whole Life Insurance. That is what this month's book is all about.

I think everyone knows that you can borrow money from a Whole Life Insurance Policy. But how you can leverage this, is something very few people know, and believe it or not, very few insurance agents know. In the simplest language, here is what you are going to learn to do. <u>***You are going to recapture the interest that you are paying to banks and finance companies for all the major items that you will need during your lifetime, such as automobiles, major appliances, education, your home, business equipment, etc.***</u> Again you may want to memorize those few words.

So this book is not about investing, but rather the most profitable way to finance the things you need in life. You can use Dividend Paying Whole Life Insurance for all your financial needs for your entire life. In order to do this you will need to make a paradigm shift in your mind. The concept is not complicated, it is just different from the way the majority thinks and behaves.

Most people know next to nothing about the process of banking and how the banking system works. So let's get educated in this area. Whenever a business transaction takes place, money must flow from one person to another. The money comes from a supply source—some organization that has control of a pool of money. That organization is the banking system. All the money always ends up back in the banking system. In this month's book we want to show ***you*** how to be that banking system.

Let's take the average American family: 20% of our annual budget is spent on transportation, 30% is spent on housing, and 45% is spent on living expenses such as clothes, groceries, insurance, cars, vacations, etc. The challenge the family faces is that most of these items are financed by other banking organizations. For example, an automobile is financed for 48 months with an interest rate of 8% by one financial company. The house is a 30-year fixed-rate mortgage at 7% interest by another company. In the first five years less than 15% of the money paid has gone to the principal, 85% has just been interest. For the average American home right now, about 34 cents of every dollar paid out each year is on interest. Remember that figure.

It is like flying an airplane. If my airplane flies at 100 miles per hour, and I want to go from Miami to Chicago, 1000 miles away, I estimate my arrival in 10 hours. But if I am facing a head wind of 340 miles an hour, then no matter how hard I try, I am losing ground. Most people concentrate on this problem and try to make the airplane go faster. But the key to this problem is not to make the airplane go faster, but to change the environment in which it's flying. The key is to fly with a tail wind of 340 miles an hour. Then not only will you arrive at your destination, you will arrive in a little over two hours.

Believe it or not you can control the banking and financial environment in which you operate in a similar way. Let's look at a simple fact. A bank cannot make a loan unless it has a deposit. In other words, banks do not lend their money. *They lend the money somebody else put in their bank.* So in the simplest terms, banks lend the deposits made by their customers. But there is a little secret here you may not know about.

When you make a deposit of $1,000 at your bank, the banking laws say that they can now lend out $10,000. That is based on the theory that not everyone is going to withdraw their money at the same time.

So rather than go through all this, you can actually create your own banking system by using Dividend Paying Whole Life Insurance. To understand this more easily let me explain another word—**"Co-generation."** Typically this word is used in the production of electrical power. A sawmill is a good example of this. It produces lumber, but also produces a lot of sawdust and wood chips. The sawdust and wood chips are used for a co-generation plant to make electricity. Now imagine that you own a lumber mill, and your electrical plant can produce 500% of your mill's need for energy. What do you do with the surplus power? You sell it. You don't have to build electrical lines to supply customers, you simply sell it back to the supplier and make a profit. Creating your own banking system through the use of Dividend Paying Life Insurance is exactly like that. ***Everything is already in place.*** All you have to do is understand what is going on and tap into the system.

It must also be understood that you finance nearly everything you buy. *You either pay interest to someone else, or you give up interest you could collect.* The oldest and most simple form of creating wealth is to ***earn more than the cost of the capital you are borrowing.***

The people that create life insurance are known as actuaries. They deal with the millions of people like you and me who need life insurance on an estimated lifespan of 100 years. They then turn their information over to rate makers. These are the ones who determine what the insurance company is going to have to charge its clients in order to be able to pay the death claims and still make a profit over time. The third step is to turn all this information over to a lawyer who creates legal and binding contracts that are offered to you and me and sold to us. *Every insurance contract tells you clearly and plainly that* ***you*** *are the owner of the contract,* not the company. This is extremely important to understand.

You are the owner of the contract, not the company.

To make the plan work, you as the owner must make payments into it, and the company must put the money to work in order to produce the benefits that are promised. The insurance company usually takes this money and invests it in conservative investments such as bonds, mortgages, etc.

But here is what you might not know. If you read the policy you will find it plainly states that ***<u>the owner out-ranks every potential borrower to access the money that must be invested.</u>*** You are number one on the list. And you can borrow 100% of the equity in the contract or policy. In other words, you have absolute control over the investment, and can, in effect, "tell the insurance company exactly what it can or cannot do with your money." In fact, the money can be loaned to other places only if the owner of the policy does not exercise his option to use the money. Obviously 99% of you reading this never knew this. They don't tell you. Because most people don't know this, there is an ever increasing pool of money available.

One of the simplest illustrations of this is to imagine we are all going to take a flight from Los Angeles to Australia in a Boeing 747 that can hold enough fuel to fly 15,000 miles. The weight of the fuel makes it so we cannot go as fast at the beginning. But by the time we are half-way there the airplane weighs much less and yet the engines are still producing the same power as when we took off. Therefore, every mile we fly the airplane gets more efficient. It gets better no matter what. I watch this all the time on international flights. When we reach cruising altitude, the monitor shows an air speed of around 520 mph. But an hour before arrival we are going nearly 700 MPH!

In a similar way those that design life insurance policies design the policy to get more efficient as time goes on. There are variations such as interest earnings, death claims, operation expense, that can affect the outcome. But, they can calculate this quite accurately. This is why they can produce a dividend once the policy is signed.

Built into every policy is a large margin of error, anticipating a worst-case scenario. The worst-case scenario does not take place very often so these policies become profitable. The average return is between 25% and 30% profit. That profit is called the dividend—pretty simple. But there is something else here you need to know. The dividends from these premiums are not taxable. Let me repeat that, ***<u>you do not pay tax on these dividends.</u>*** The tax code has only been with us since 1913, but life insurance has been around for over 200 years. So if you decide to use the dividend and purchase more insurance, the result is an ever increasing tax-deferred accumulation of cash value with an ever-growing death benefit. The government or IRS has nothing to do with this money whatsoever. ***That is very powerful***. These dividends can get pretty significant over time.

Now, let's go a bit deeper. Read and listen carefully because it may seem a little complicated at first, but it is really worth your time. Let's say you go to your life insurance agent. He calculates your human life value on this basis: How much you expect to earn each year, including pay raises, multiplied by the number of years you expect to work.

Let's say your salary is $40,000 a year times 30 years. That equals $1.2 million income. You are going to use about 40% of that ($480,000) to support your needs, leaving you with 60% or $720,000. That $720,000 is for your family. To get the capital that would be required to produce $720,000 you would need to lay out a huge sum of money. So, let's say that money is an insurance policy. And look at that policy like it is an expensive machine. It is worth hundreds of thousands of dollars. What would you do to protect it? Insure it! That's when the insurance agent will say to you—"Let me show you how little you will have to pay my company to insure it!"

You see, what we have to focus on is ***<u>the need for finance—which is greater than the need for life insurance protection</u>***. You can solve the need for finance through Dividend Paying Life Insurance and at the same time ***<u>automatically have more life insurance and recover all the interest</u>*** that you are paying out to someone else.

Remember again, there is only one pool of money out there in the world. You can go to the car dealer and buy a car and pay for the loan from the bank or finance company. That is foolish. Why not make those car payments of $300 a month directly to the life insurance company in premiums for about four years and take out a policy loan and pay cash for the automobile! If you do this, you will make what the finance company would have made on you, and all the money you make is tax-free. Hello? Did you get that?

So the point of all this is to put capital into a policy rather than paying off a loan. The average time is about four to seven years you need to pay in to have the capitalization you need. But remember, you're not going to have just one life insurance policy. You want to have a **<u>system of policies.</u>**

It's just like a grocery store. When it becomes successful in one location, it opens up another location. That's why banks also have different branch offices. So you want to buy all the life insurance on yourself that the companies will issue, and then buy insurance on all the persons in your family, and maximize all you can. By doing this, it will take the average person about 20 to 25 years to build a strong banking system through life insurance to accommodate all their own needs for finance. But once such a system is established, you can pass it on to other generations and it lives forever.

Let's get some more basic understandings. Again you finance nearly everything you buy. You either pay interest to someone else, or you give up interest you could have earned. By following this method, you literally become your own banker. Life insurance companies design plans and market them to their agents. Remember, when you buy one of those plans, ***<u>you own the policy</u>***. The insurance company does not. The insurance company is simply the *<u>administrator</u>* of the plan. It does two things:

1. It collects premiums.
2. It must lend the money out and invest it with any number of places, or borrowers, including to you, the owner of a policy if you so desire. <u>The amount of money available to you is the entire equity in the policy at any given time.</u> In a hierarchy of places where the money is loaned, the owner is number one. That's absolute control for you!

At the end of each year a life insurance company figures out the profits. That is called the dividend. This dividend is returned to the policy owner—you, and ***<u>since it is a dividend and not earned income it is not taxable.</u>*** If you invest that dividend to buy additional insurance, you have a continuous growing base of money. Think how powerful this is!

The author next deals with something very important. We can see how the technical part of this works. But we have to face the biggest challenge and that is the human mind. He discusses **<u>Parkinson's Law</u>** (one example: “work expands to fit the time available.”) If you have never studied this, it is very fascinating. Parkinson's Law says if you give a person a job to do and tell them it has to be done in three days, you can bet it will be done late on the third day. You can assign the same job to another person and allow 30 days for its completion, and it will take 30 days. Another example of Parkinson’s Law is, "expenses rise to equal income." In other words, when a pay raise comes along, it is quickly absorbed by a new definition of necessities. And the money is absorbed.

To be successful financially, you have to beat Parkinson's Law.

Then there is another law. It is called **Willie Sutton's Law**. Willie Sutton was a notorious bank robber. When he was asked why he continued to rob banks, he said, "Because that is where they keep the money!" So Willie Sutton's Law is, ***"Wherever wealth is accumulated, someone will try to steal it."***

So the next question is, "Who is the biggest thief in the world?" It is the IRS. If I went to the shopping mall and found you there, and put a gun to your head and told you to give me the contents of your wallet or I would kill you, I am pretty sure you would report that as a crime of stealing. But let's say an hour before I stole your wallet, I gathered a crowd around me at the mall and I told them that I was going to take some money from a wallet I had stolen and that I would distribute it among them. What would you call that? That is the IRS. If the law takes from some persons what belongs to them and gives it to other persons to whom it does not belong, or if the law benefits one citizen at the expense of another citizen we would normally call that a crime!

Remember the government is not capable of producing anything. Everything it has it has stolen from you. Government is like a parasite and it sucks off you! Using Dividend Paying Life Insurance can end that Government parasite forever!

Let's take a little side moment here. Remember that a large part of financial freedom is changing the mindset. Especially with a book like this, we have to keep coming back to some fundamental truths. There is something called the Golden Rule: **Whoever has the gold makes the rules!**

So create this picture in your mind. You have a country like Mexico which is very poor and struggling financially. You have another country like Japan that is cash rich. So Japan with all of its capital goes to Mexico to a group of people that desperately need employment, and offers to do a venture with them. If this were to take place, both sides would win.

This simple understanding, if it were practiced, would make all the difference in your financial world. Believe it or not, this is how the

Constitution of the United States is written. But in our current culture this has completely been forgotten. The Constitution is *your* servant and a master of *your* government. It is the Constitution of the people. It is the law by which you may govern your government! It is not the law by which high-handed politicians may impose their 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!

The problem we have is the prevailing tendency of Americans to look to the government for solutions. From everything to buying a home, going to college, buying food, healthcare, etc., people believe there should be some sort of government program to provide these things. People think they have a right to these things. If you follow this mentality it will put a huge burden on your financial future. You will always be at the mercy of the ones who have the gold, which is the government. The crazy thing is, the government got the gold from you! Can you see why so many countries are crumbling financially and people are struggling? Take a few minutes to think about these things.

If you are going to develop your own banking system as you are being taught in this book, you will have to radically change your mind set. What we are really dealing with here is overcoming human nature. Breaking out of a comfort zone, which is simply a lifetime of accumulated programming. What you think determines how you conduct yourself. So changing this is critical if you're going to be successful. Accepting a new point of reference like this banking system means that you have to develop new habits. It is going to be a hard job to open up your mind and be willing to think differently.

Okay, now that we've dealt with some of the human challenges, let's get back to the nitty-gritty. As life insurance companies develop their policies, they work with what is called the mortality table. Believe it or not, mortality tables were created when people died much younger. But now they are living longer so it results in better dividends paid back to you. Currently, 75% of people in life insurance policies die after age 65. From age 21 to age 65 very few people die, as you well know. A death benefit is paid if the insured person dies during this time-frame.

This is what makes term life insurance different. For example, if I buy fire insurance, that is only good if a fire takes place. If I buy liability insurance on my car, it is only good if I have a car accident. But death for a person is not an “if.” It is a question of when? So life insurance companies created a plan based on a theoretical lifespan of 100 years. You often hear this referred to as “ordinary life insurance.” Let's say that you are 25 years old. Then the ordinary life policy would be a 75-payment plan (once a year.) However, you could shorten it to 40 years, 30 years or 20 years. Remember, ***the shorter the payment, the better it is for your personal banking.***

Whatever path you choose, just remember this one rule: ***Get as much money as possible into a policy in the shortest amount of time, with the least amount of insurance.***

Now notice, that is the exact opposite of what most people think when they purchase insurance. I don't have time to go into all the reasons why technically, but just accept the fact that this is true. There are different kinds of insurance, such as Universal Life, **Variable** life, etc. But remember that Dividend Paying Life Insurance is the one that works best for the banking system. In Dividend Paying Life Insurance you earn both guaranteed cash value (the interest) and dividends (the profits) which can become enormous over a long period of time. Once a dividend is paid, **it, too, is guaranteed. The insurance company cannot recall a dividend.**

Okay, let's make this more practical—

Scenario 1: Let's say you're going to buy a car, and you're going to buy it on payments like most people do. There is an obvious need for capitalization which you don't have, so you get it from a bank or finance company. You are going to lose a ton of money in interest payments with a 4 or 5 year loan and end up paying double what the car costs. This is the dumbest thing you can do, yet most Americans do it.

Scenario 2: A person saves his money at somebody else's bank. He puts it into a safe CD at 5.5% interest and after 5 years has enough money to buy the car. The problem is, he has made a very low interest on his money, plus he'll have to pay 30% of it back to the government in tax. He is being a banker, **but using someone else's bank to do it**. The dividends of the bank are going to the stockholders of the bank, not him. He is only earning the interest that the bank is paying him.

Scenario 3: The person is going to use Dividend Life Insurance and make the payments into this bank. He puts the same amount in that he would have in the above two scenarios. He puts it into a very high premium life insurance with a Mutual Life Insurance Company. After doing this for five years he withdraws the dividends in the amount required to pay cash for the car. That makes a lot more sense.

I like to look at it this way. Every time a person buys a life insurance policy he is starting a business from scratch. Yes, there is a delay in getting the business started as it were, but after a few years it starts paying you back very handsomely because you are earning both interest and dividends.

This is the essence of what the banking concept is all about. ***<u>You</u>*** recover the interest that you would normally pay to some banking institution. ***<u>You</u>*** get both the interest which is the guaranteed cash value, and the dividends! There are some very helpful graphs that you can study on pages 45 to 47 in the book that really show the dramatic differences this makes. I encourage you to study them carefully—even if it is a little bit difficult it is well worth your time.

A basic fact is that now your money goes through somebody else's bank. While it is in the bank, the banker lends your money to someone else, and he makes good money doing it! So learning to become your own banker requires you to change a pattern of thinking, because your paradigm is fixed. Fixed paradigms are the most difficult to change, so think about it this way. When you build a banking system through life insurance, you make loans to yourself. Let's go back to the automobile. After making the loan to yourself you pay back to the policy the same payment you would have had to pay a banking institution. Only ***<u>you</u>*** now make the profit that the banking institution would have made off you. And it is all done on a tax-deferred basis. The interest that you pay never leaves your account or control. Fix that in your mind. And remember, you can create as many policies as you want, and finance anything you want.

Now I know this sounds good so far, but it gets even sweeter. If you buy a car, you also have to insure the car for comprehensive and collision coverage. Now notice that I did not say liability coverage. Comprehensive and collision coverage is for damage done to your car in case of an accident. This is required coverage if the car is financed, but if you are using your own banking system you can make your own decision. Why not do it through life insurance policies again?

Think about it, the auto insurance company has to put their premiums to work in the same place the life insurance company has to. They also have the claims to pay and administrative costs, just like the life insurance company. And they also pay dividends to whoever owns the company, just like a life insurance company. So once you get enough money in your life insurance policy, you have all the elements of an automobile insurance company, except you don't have to pay them for it. All you have to do to self-insure is to find out how much money you need in a life policy to assume that risk. That is easy to do. Just call and get a quote from any auto insurer on your make and model of car. Let's say the quote is $750 a year for a $500 deductible. If you are smart, you will pay them $1000 for a zero deductible. You can do the same thing on your house mortgage or anything else. Remember, what your next door neighbor would have to do for a loan, or a mortgage, you simply do yourself at your own banking system. The money will go to your policies which are being managed by the life insurance company.

But now, the big picture gets even sweeter! This is a little more technical, but watch the numbers carefully and you will understand. Let's say we have a 30-year-old man who owns a trucking company. He puts $40,000 of capital per year into his Dividend Paying Life Insurance Bank. Let's say the policy he is using is a Life Paid Up at age 65 with a premium of $15,000 per year, and a Paid Up Insurance Rider Premium in the amount of $25,000. That's a very common basic scenario.

Let's say he does this for four years. There are two things he wants to see at this point. His total cash outlay has been $160,000 through those four years. The total cash value of the policy will be very close to this, at about $157,000. The yearly dividend (profit) will be about $6,300 at this point. This combined with the surrender of the paid up insurance itself will pay the base premium which is about $15,000 a year. The death benefit at the end of the fourth year will be around $1,684,000. These numbers are very real and accurate for this illustration.

Okay, the life insurance company administrators have loaned this money to different places, they have expenses of operation and a few death claims, but 35 years later when the man retires, the death benefit will be approximately

2.4 million tax-free. Now he retires. He can begin to withdraw $92,000 per year in dividends from that point on, no matter how long he lives. Let's say he dies at age 85. Through those 20 years of retirement he has been able to withdraw $92,000 a year and when he dies he still has $2.4 million to benefit his beneficiary. That's pretty nice. But do you want to see something even more amazing?

Let's say at age 34 he decides he wants to buy a new truck for his trucking industry. So he calls his insurance agent and asks, "Can I borrow $52,000 from my policy to finance a new truck?" His agent says, "Sure, you've got $157,000 you can borrow if you want!" So the man borrows the $52,000 he needs, and makes payments on that money back to the policy in that same amount that he would have paid the finance company for the truck. Let's say the payment is $1,500 a month and the truck is paid off in four years. Because he was making these payments to himself into his policy, he is actually creating more capital long term. You're not going to believe this, but by financing just one truck as I have just described, when he hits age 65, the cash value in his policy will be $1,988,000! Remember, when the insurance company put the cash values to work elsewhere, it was only $1,517,000. He ***made*** $417,000 (tax free) by financing just one truck in his life with his insurance policy! But it gets even better. His retirement income also has gone up to $125,000 a year compared to $92,000 a year! But wait, it still gets better! He ends up with $3,119,000 to his beneficiary! That's over $700,000 more than before!

So let me ask you, what if he financed two trucks? Now the cash value is $2,459, 000, his retirement income is $150,000 a year and his death benefit at age 85 is $3.9 million! He can also take out insurance for comprehensive and collision coverage, and do the same thing with that policy. He can open as many policies as he wants and keep doing the same thing.

I think you can begin to see and understand the power of creating your own banking system and life insurance. These figures can be more or less, but in general are very accurate.

Even though the infinite banking system is probably the greatest way to build wealth, most people don't consider it because it requires a long-term vision. It is true that there is a delay in the first few years while you get your banking system established. But it is also true that this is only a one time event. So you have to look at this like you are starting a new business, and it will take a little time to become profitable. When you buy a life insurance policy, you **<u>are</u>** starting a new business, from scratch, and there is **<u>always</u>** a start-up cost.

As you well know I am not against higher education. But we also teach very strongly at All Power that a traditional education will only give you a traditional job. At $20,000 a year for college, you are in debt $80,000 before you even begin life. As people pay ever-increasing college tuition to get a degree, we also see the degree is less and less valuable. So let's just do a comparison. Instead of spending $80,000 over four years on a college education, let's put the money in a dividend paying whole life insurance. We are going to put away $20,000 a year for four years.

A typical scenario would be to put $6,500 into a Base Life Paid Up at 65-years-old policy, plus $13,500 into a Paid Up Additions Writer on an 18-year-old child. We are going to assume the child retires at age 70. At this point the cash value of the policy would be $2,698,000. A child could withdraw $150,000 a year for retirement indefinitely. Let's say the child lived until age 85. In those 15 years he would have withdrawn $2,297,000 out, and when he dies at age 85 the death benefit would still be $3,848,000. Now doesn't that make more sense than graduating from college with $80,000 in debt that takes forever to pay off?

But remember it gets even better because if that child was taught to finance his automobile purchases through the policy, and he began to do that in the fifth year when he was 23 years old, and financed a car for $21,000 every four years, and paid the money to the policy that he would have paid a financial company otherwise, then he would end up with nearly double the money!

I think you can now see the possibilities of using this infinite banking system to your advantage. It is one of the top secrets of the wealthy people. One of the books we carry at All Power is called, “80 Proven Ways to Become a Millionaire” by Paul Damazo. Paul is a man that has donated over a half-billion to the church. He also uses this strategy over and over. If you have not purchased this book, I encourage you to go to a website and get a copy of it. It is worth its weight in gold. In practical ways, Paul shows many other strategies of how you can use this concept.

Last of all, I would encourage you to go to the website. www.infinitebanking.org, or contact my friend, Tom McFie at: tomas@life-benefits.com. Tom is a Christian and an expert in this area. I am hoping to have him on our teleconference when we do this Book-of-the-Month.

Till next month be well, and enjoy life to the full!

Leo