A MODERN APPROACH TO THE INFINITE BANKING CONCEPT

THE SELF BANKING BLUEPRINT

A SELF BANKING OVERVIEW FOR INTENTIONAL WEALTH BUILDING

Steve Gibbs, Esq.

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Second Edition

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Steve's mission is to educate and empower individuals in all walks of life through challenging the status quo.

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“One who lacks independent thinking becomes a victim.”

Vernest Hines Likkel

INTRODUCTION: Welcome to the Journey!

> ***"A journey of 1000 miles begins with a single step."***
> *Lao Tzu*

Welcome to the Self Banking Blueprint! I'm honored that you're taking some valuable time to read this book I suppose you can consider me your guide toward some new ways of thinking and I really hope that my story and these pages offers you the kind of shift that I experienced when a friend first shared the concept of infinite banking.

I'll start by sharing some of my journey.

I come from a family of rough and ready business people on my dad's side. Fiercely independent types.

I watched these confident risk takers from young age, but it took me a fair amount of time to figure it out. What do I mean, you may be asking.

I followed the rules, got decent grades and ended up graduating law school with honors. I pursued jobs, clerked in the court system and worked for a law firm. To my credit, during that time I was reading books like "Rich Dad Poor Dad" and they resonated, but it took years for me to sort out my internal conflict.

You see, like many I was trading my freedom for security, my internal direction for marching orders, my desire to create, for a task list.

We'll get back to that.

My uncle was a somewhat flamboyant, very tall, former star athlete with Nordic features…common in my home state of Minnesota. He and I didn't spend that much time together, yet he would give me advice from time to time.

He’d say things like “Steve, there are lots of smart people in the world who are broke…” and “Always be on time” and “Say please and thank you”. After the birth of my first daughter, who is now 15, he and I met and he asked me about my values…? While intrigued, I chalked it up to a life insurance sales pitch…I did purchase a term policy at that time, the term later lapsed.

His journey ended on his Harley many years later, yet his impact and legacy remains and continues to afford his sons…my cousins, great security and opportunity.
My own dad has spent his life in real estate and business brokerage, helping investors and business owners build their legacies. He taught me to aggressively pursue opportunities and that ownership, freedom and risk are travel companions on the journey.

With all these influences, I chose law, mostly because I wanted to get smarter (and learn the rules of “the game”). My individualistic DNA was always running in the back ground.

After years of chasing “career” opportunities, I was ultimately compelled to follow Robert Kiyosaki’s advice to start a business. It wasn’t all that voluntary. Remember 2006, 2007? I was working in real estate development and when my “secure” job ended, I remember the feelings of insecurity, big house, little kids.

So, I started a commercial cleaning company…selling business accounts door to do…hiring workers, etc., and did that for several year. Soon my mind craved something more and I moved back toward law, this time with entrepreneurial aspirations.

The idea of helping people set up trusts for asset protection and estate planning caught my attention. When I hung my own shingle I said to myself, “you’re finally in the game.”

Back to that paycheck thing.

People trade freedom for what appears to be security far too often.

This is lesson #1 on the journey.

Listening to other's "advice" to play it safe and working tirelessly for a paycheck from other people is NOT a prescription for success.

Too often, it is a prescription for the exhaustion of your creativity and drains your vital life force, leaving you hollow.

Relationships suffer. Children are raised without involved parents, often despite best intentions. I've watched many trade a life of freedom and liberty for so-called "security".

What drives all this? Fear? A sense of obligation? Lack of freedom to choose? And what really is security?

I'm here to tell you that there is another way and this is where the I&E journey begins.

We're NOT here to sell you products.

We ARE here to empower you with tools to overcome the system by reconditioning you and reorganizing your focus.

We seek to help you reprogram your mind and return to your original designed intent by your creator.

You see, you are here to create what is uniquely yours to give,

This is Lesson #2 on the journey.

Reprogramming is often required because you've been influenced by a system that is largely broken.

This is Lesson #3 on the journey.

While we love America and our capitalist system, make no mistake, this honest system has often been hijacked by what we believe is:

1. An education system that strips away individuality and supplants a sense of servitude and classification based upon socialization.
2. A financial system that is based upon the casino of Wall Street and the idea that you are best served by giving the control of your money to banks and mutual fund managers.
3. A wrongful perception of money as having its own inherent value and the idea of your worth being connected with your bank account balance, when in fact only people have inherent value.
4. A political system that increasingly tells you that government is your benefactor, and that you should fear them and seek a handout, when in actuality they are your employees.

What I'm telling you right now is what you've always been here to find out…this is why you're here.???

You've been on a journey so the only question is whether you choose to take the **red pill** or **blue pill**.

At I&E, we're here to help you hit the re-set if you're ready. To find the wherewithal and the courage to choose wisely.

To drop the preconceptions.

To change course if you're not satisfied.

Why, because this has been my journey and I, and all of us at I&E, want to share it with you.

What does this entail?

1. Finding your authentic self and what you bring to the world.
2. To be empowered to create value, rather than seek a paycheck.
3. To pass along your authenticity and empower future generations to this same pursuit.

It isn't complicated, yet this is what leaving a legacy really means and it is the greatest gift you'll ever give yourself and your children or other loved ones.
It starts with a paradigm shift and a single step…like every journey, to put yourself in the driver's seat, to take ownership of your course.

To create and follow a plan that puts the control of your resources, your intention, your creativity, your money, back in your hands.

This is a mental shift of cosmic proportions that will have lasting implications for you and future generations.

Let’s get started.

Steve Gibbs, Esq.

Chapter 1. Behind the Banking Curtain

> ***"Pay no attention to that man behind the curtain."***
> *The Wizard of Oz, played by Frank Morgan in the 1939 classic*

Is a bank the safest place to put your money?

We've all heard statements such as, "you can take that to the bank" and "bank on it". After all, its "money in the bank". Without question, these statements reflect a firmly held belief set in the bedrock reliability of the banking industry.

Yet, how do our firmly held beliefs correlate with reality?

Let's start with a quick definition of *banking* before moving on.

Almost any definition of banking defines it something like this:

> **The business activity of protecting money owned by individuals or entities, and then using the money they are protecting to lend to others in order to make a profit.**

So, there are two elements to a typical bank. They take money in (in the form of *deposits*), and they lend money out (in the form of *loans*). It's that simple, at least in theory.

Oh, and of course it needs to be mentioned that the money coming in needs to be protected and available when the depositor wants it.

How do banks really make money?

While we have absolutely no problem with business and industries making money. However, there are deeper realities to understand about the banking system because it is slanted against your best interests.

First, when you give your money to a bank, they can use it as sort of a baseline for their lending activities. This sounds fair, right? Yet the catch is that the lending ratio isn't dollar for dollar or even a 2 to 1 ratio. Banks lend money at a multiple of many times over what consumers have deposited and this is called fractional reserve banking.

The Fractional Reserve Banking System

A good *Fractional reserve banking* definition would be a type of banking used throughout the modern world today that requires the amount of money on *deposit*, to be a *fraction* of the total amount that is on *loan. For example,* if a bank has $100 of deposits, they can loan out more than that amount because they **only have to have a fraction in reserve**.

Reserve in this context means the amount of money that is at the bank set aside and ready for withdrawal at any moment.

And in America, you'll be hard pressed to find any chartered bank that isn't practicing fractional reserve banking.

Full Reserve Banking vs. Fractional Reserve Banking

To get a better understanding, let's take a look at another *type* of banking, ***full reserve* banking**.

Full reserve banking requires that there is $1 in reserve for every $1 that is on deposit.

This type of banking means that it is possible for all depositors to go to the bank at the same time, request all their money and get it.

Note: this desire by all depositors to get their money at the same time doesn't happen all that often and is usually only a sign that the economy is failing and that trust in the financial institutions is plummeting.

But it can happen, and has happened, throughout history, and in countries all around the world. This type of behavior, when all depositors go to the bank at the same time, is called a ***bank run****.* And it's the type of behavior that governments and banks try to avoid at all costs.

So now that you understand *full reserve* banking, you should have a better idea of how ***fractional reserve banking*** works.

In the fractional reserve system, a bank can have loans of $100 for every $50 they have on deposit. Or if the fraction is even greater, the ratio of loans to deposits can be 10 to 1, which would mean a bank could have $100 in loans for every $10 in deposits.

I'll demonstrate this idea with an enjoyable vignette:

Tank Keens was the biggest dude on the block, and there wasn't anybody that was going to mess with Tank.

In fact, he was so big that kids started asking him to watch their lunch money for them in order to keep it safe.

Tank decided this might be profitable, so he started charging kids a small fee (usually their lunch dessert once a week) to protect their money.

This was a good deal for everyone involved. The money was safe. Kids got their food. And Tank made a nice little profit (and got bigger along the way).

This would be an example of full reserve banking. Tank doesn't loan out money he doesn't have on deposit. He still makes money because he charges a fee, but doesn't use the money in his hands to make loans.

In this system if he wanted to make loans and charge interest, he would have to get kids to agree to give him money for a longer period of time - this would be a Certificate of Deposit or a CD.

Tank gets Greedy

But Tank wanted more for himself and realized he could only hold so much lunch money at one time, so **his profits were limited**.

So Tank asked all the kids (depositors) to give him their lunch money for a full week in advance, so he didn't have to deal with meeting every kid each morning.

By doing this, he was also able to have a large stockpile of money that didn't need to be paid back all at once. With this stockpile of money, tank could **start to lend**.

Tank the Lender

So, Tank started giving out short term loans to kids at school. If a kid wanted a loan for a big pizza at the cafeteria, he would loan them the money and charge them interest.

Tank assumed that as long as he collected on the loan within a week, he was good to go. After all, the depositor shouldn't care what happens to the money during the week, as long as they get it when they need it.

Tank started to earn some serious money, and all the kids trusted him more and more each month. But he needed more money in deposits, so he wondered how he could get more people interested in giving him their lunch money.

Tank knew he was making more money on loans than on the protection of the money, so he decided to **drop the protection fee** altogether for any new kid that gave him a deposit. And it worked! New kids came by the dozens.

In fact, they trusted Tank so much so, that they started using these little slips of paper from Tank, as "I Owe You's" (I.O.U.s). In other words, they didn't actually have to have the cash in hand, but just a **slip of paper** from Tank that said they were **owed the money**. These slips of paper became just as good as cash on the school campus.

Tank Turns to Fractional Reserves

But Tank realized before too long, that he always seemed to have much more **money in *reserve*** (in his possession) than he needed.

All this money was **wasted earning potential**! If he could just write an IOU on a slip of paper, give it to anyone and charge them interest, he could seriously expand his business.

So he did just that. In fact, he did it so well, that at one point he figured he had about $25 out in loan for every $1 of lunch money he was given. He was now making 25x more for every $1 deposited than he had been when he first started.

This is fractional reserve banking. The amount in reserve does not fully cover the deposits that are in the bank. In the example of Tank Keens, he had a fraction, or ratio, of 25 to 1.

Unfortunately for Tank, there were a couple math wizards at the school - Jake Milton and Maggie Freeman. Jake and Maggie figured out that the amount of money floating around the schoolyard had increased dramatically in the past few months. And they knew that all the parents hadn't suddenly been super generous with their hard-earned money.

No, something was wrong. Something didn't add up. They figured out that Tank was lending out way more money than he actually had in hand (in reserve). They knew that Tank must only have a *fraction* of his total money in *reserve.* And they started wondering - what if everyone asked for their money back? What would happen? How safe is this system?

Tank Crashes

Sure enough, the word spread, and kids started to **doubt the safety of their money**. But even worse, the slips of paper that were IOU's for cash became worth less and less.

You see, nobody wanted to have any of the slips of paper, so nobody was willing to exchange anything of real value for an IOU from Tank. The system came crashing in on Tank. He was a big guy, and he had a lot of money, but he owed a lot more money than he actually had.

So when all the kids came screaming, **he couldn't give them their money**, and Tank was miserable.

Tank is Bailed Out

Fortunately for Tank, just as everything was crumbling around him, a school administrator named Paul Henryson stepped in and gave him a **massive injection of cash** to cover all his depositors.

That is because the administration was concerned that the collapse of this new and robust school economy would hinder the growth of their school, and more importantly their salaries.

Where did the money come from, you may ask? Well, due to the large school attendance, the school just raised school fees for every student and therefore the cost was spread across all the school.

This is an example of a massive bailout by the federal government in an attempt to avoid systemic failure.

The Bank Collapse of 2007

For you youngsters who may think that our little story sounds cute and yet somewhat far-fetched, the Tank scenario actually happened when the banks collectively imploded in 2007-2008, requiring massive government bailouts.

Lest you think I'm being overly dramatic, I was just starting my law practice during that those years in South Florida, which was deemed "ground zero" for mortgage foreclosures. This all ensued not long after I'd hung out my shingle, and I observed the ongoing chaos, up close and personal, for many years.

When I say "observed", I mean that I represented many clients who were facing foreclosure and associated economic meltdown due to any combination of factors including the economic downturn and/or collapse of the real estate market. Areas like South Florida are especially dependent upon real estate and this made matters much worse at that time.

I felt the impact of peoples' lives being literally destroyed. Years of accumulated wealth swallowed up in courtroom drama, fruits of years of labor vaporized, and fortunes lost to the wind. Assets seized, people kicked out of homes, and tons of legal maneuvering to mitigate the damage. In one memorable case, my client was found having died, I believe from the stress. I bring this up to make the point that this system can kill. The banks, as so aptly put by our now President Trump during the debates, tend to act like "total killers".

Back to Tank

Following the 2008 crash, Tank ended up rebounding and perhaps doing even better than before, but his critics, Jake and Maggie, continued to sound the alarm.

Unfortunately for Jake and Maggie, the system was so entrenched with the kids in school that any alternative seemed like way too much effort and risk. The kids assumed that the system had some flaws, but ultimately it must be the best system out there.

All analogies fail at some point, and I'm sure that this schoolyard story doesn't cover everything. But hopefully you have a better idea of the idea behind fractional reserve banking.

I told the story from the perspective of Tank Keens, the banker, that wants to make as much money as possible. I think that is probably fair for most bankers in reality, but there are some things that I left out, namely **regulation**.

Who is running this fractional reserve system and to whom do they answer?

To some degree, the fractional reserve system of banking is not managed by any single entity in America. Any chartered bank in the United States is regulated by one of the following federal authorities - Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, or the Office of the Comptroller of the Currency.

In addition, there are other agencies that regulate credit unions and of course many banks are also governed by state organizations for any given state in which they operate.

So it may seem as though control and regulation is all across the board. For the details and the minutiae, that is correct. But for the main issues that impact everyday life of depositors around the nation, the Federal Reserve Board (aka **the Fed**) is the location of all the control.

The Federal Reserve Board

The Fed is made up of various board members of 12 districts around the nation, some presidentially appointed members, a group of private US member banks, and advisory councils. The Fed was created by Congress in 1913 via the enactment of the ***Federal Reserve Act*** in response to a series of financial panics that seemed to occur every decade or so.

According to Congress, the Fed was given **three main objectives:**

1. Maximize Employment
2. Stabilize Prices
3. Moderate Long-Term Interest Rates

As time went on the Fed was given more and more responsibility, including bank governance and oversight, government and financial institution lending, and more.

The proponents of the Fed will point out that the Fed has managed to limit the number of banking crises since it was founded to just two - the Great Depression 1930-33, and the Great Recession 2007-09. While those that **criticize** the roll of the Fed will state that it has **far too much power** and is ultimately **not beholden** to the people of a democratic nation.

Ultimately this is where all the big money decisions are made. Do interest rates go up? Do they go down? Do they stay the same? How much money does a bank have to have in reserve? How much money does it cost for a bank to borrow money from another bank? These **questions are answered by the Fed**.

And don't think for a second that the Fed is a non-profit institution. Far from it - in fact, you could safely say that the Fed is the ***most successful*** **for-profit organization** on the planet. In 2015 the Fed reported it had made a record of **$98.7 billion in profits**. Yes, that is *billion* with a *b.*

Having said all that, I'm going to **avoid the Fed debate for this article**, and instead talk about those that profit the most from our current banking system.

Who Profits from the Federal Reserve Banking System?

The main benefit of fractional reserve banking to an economy as a whole, is the velocity of money. In other words, this system helps **keep money moving** from one individual or entity to another. The movement of money (velocity of money) is needed for a healthy and robust economy.

During the most recent financial crises, the Fed **changed** the reserve requirements for member banks, and in so doing, increased the availability of funds. For those that believe in the Fed and this monetary system, they will say that things could have been much worse than they were.

So, in general, we may say that the ***entire economy benefits*** from this system, because it helps keep money moving.

Who Benefits from the Federal Reserve Banking System?

But there are also some specific people that benefit from the fractional reserve system as well. Those that have access to money *first,* or *early,* can profit from this system due to the lag in inflation that happens when money is created.

Voila' Money Out of Thin Air?

Okay, I just threw out some new terms and concepts and we're going to have to step back to unpack them. Stay with me here.

When a bank is able to lend out money that it does not have on deposit, it is essentially ***creating money*** out of thin air.

When money is created, in a typical financial system, ***prices go up*** (inflation) because more people have money to spend and the goods and services have remained steady.

But here is the **catch**, prices don't go up right away, they take time to react to the increased money supply.

So those that have access to the ***new money first*** have more money to spend when the prices are still low (prior to rising).

So, who has first access to this money?

The **BANKS**. It may seem obvious now, but the reality is that <u>the banks are those that benefit from the increased money supply because they have access to the money first.</u>

Who is Most at Risk in the Fractional Reserve System?

We discussed earlier that the banks benefit from fractional reserve banking by being the first to access the new money that is created by their fractional lending. So who loses? Those that are **last to access the money** lose in this system.

In other words, **SAVERS**, i.e. **those that save**.

WINNERS = BANKS

LOSERS = SAVERS

If you do not contribute to the velocity of money, if you hold on to your money and want to see it grow slowly in a savings account, inflation will eat away at your profits year after year.

Think about the above example - money has been created because the bank is now lending out money it did not have on deposit. This increased money supply **contributes to inflation** over time.

If you have money saved, your money will eventually be able to buy less and less goods and services. So savers are penalized in this system because their future dollars are going to be **worth much less** than they are today.

Some may argue that good savers don't actually help the economy because they don't move their money around.

That may be true, but they also typically don't default on their loans, live beyond their means, and ultimately require a bailout to stay solvent.

You may be asking if there are two sides of the argument?

Are there some "upsides" to our banking system?

Admittedly yes when you compare putting your money in box or under your mattress, a bank is a superior choice, when you factor in the risk of theft or natural disasters.

Admittedly the banking system facilitates some important opportunities for vast numbers of people such is the ability to purchase a home or vehicles, which are incidentally a bank lender's favorite activities.

Not so helpful if you're trying to obtain a business loan or purchase an investment property. Usually, banks are looking for massive amounts of liquidity and collateral in order to consider making these "higher risk" types of loans. Why is this you may ask. Perhaps it is because they do NOT need to make these kinds of loans.

Reviewing the risks.

2007-2008 wasn't the first time that the banks have failed so to summarize a few more banking fun facts:

465 banks failed from 2008 to 2012
1,043 out of 3,234 savings and loan organizations failed in the 1980s and 1990s
744 banks failed in 1930

Is there a possible pattern here? Have things really improved or could they be getting worse? Well, a bit more history, after the government bailed out the banks, they simply stopped making loans to 90% of the population for a number of years. In actuality, they were making more money as investors in the bond markets thus really didn't need to, and still don't, really need to be in the business of making loans.

Today they also get to trade mortgage backed securities in the derivatives market. We'll get to this later as well, anybody see "The Big Short", as I believe this kind of market activity further threatens the security of your deposits in the bank.

Of course, banks ARE in the business of of luring you to give them your money so they can use it in any number of multiple ways. We'll also get to that in a bit.

Under the current state of affairs, we are offered a paltry sum ½ to 1% to give the banks our money to use. In comparison they charge exorbitant rates to use it, particularly for unsecured credit which tends to hover around 18 – 27% for most folks.

Future Banking Outlook

The banks in the United States, and around the world, are not going to change from a fractional reserve banking system anytime soon. They are making too much money, and our world economy is too dependent on it to change quickly.

But for those that don't like contributing to the system, or feel like it's fraudulent or immoral, you can fund your purchases without approaching a typical banker. You may still want to use an independent bank for convenience sake, but for those big purchases that require financing, why not **find an alternative** to a big bank?

Is there a viable alternative to traditional banks?

In addition to the risk of another banking meltdown, there are a number of reasons to seek alternatives to traditional banks for saving, growing wealth and pursuing financing. The most common discomforts of this process as follows:

1. It's complicated
2. It's time consuming
3. It's impacts your credit
4. It's risky if your cash flow becomes limited

When you ask this question, it brings up other question about the kinds of qualities that you would want for an alternative institution to hold your money. We will cover that in Chapter 3 after unveiling some of the secrets of the wealthy that form the basis for thinking differently about banks and seeking alternatives.

Chapter 2: Money Secrets of the Wealthy

> ***"Wealth consists not in having great possessions, but in having few wants."***
> *Epictetus*

Money and Wealth Perceptions

I'll admit that it's easy to generalize or even stereotype when referring to money, wealth and especially "the wealthy". So, let's explore this concept further before diving in further.

When referring to the wealthy, for our purposes, I'm referring to a group of people (or segment of the population) with a wealthy or "abundant" relationship with money. Entire books are written about money and one's relationship to it. These books range from the practical, investment type, books on one end.

Practical money books, such as the personal finance genre, are aimed at adopting proper disciplined habits and focus on areas like saving, budgeting and investing. On the other end of the spectrum are the spiritual "money energy" types of books which are aimed at correcting perceptions, hang ups, energy and an overall relationship with money.

Because people are often largely unaware of their conscious and unconscious preconceptions about money and wealth, I offer this list will serve as a starting point to address some basics:

Money is:

1. Neutral and indifferent
2. Of relative value (based upon value to the people involved)
3. A resource or mode of exchange
4. Evidence of value created (unless coerced or manipulated)

Money is Not:

1. Good or evil in itself
2. Inherently valuable (without people)
3. Indicative of success (in itself)
4. The ultimate problem solver

The above points are really just a few highlights and many more “is” and “is nots” could be inserted above.

Whether you think that these lists are self-evident OR shockingly incorrect could tell you something about your current relationship with money.

The point is that money is a neutral modicum of exchange that has no power to change anyone into a good or bad person. It is best said that having lots of money simply amplifies what you already are.

If you are generous, money affords the opportunity to be more generous. If you’re stingy, you’ll have more to grasp and horde, at least while it lasts.

People are valuable and NOT money. People create value which leads to the transfer of money or another mode of exchange like bartering. Certainly, money is needed to provide all kinds of goods and services, yet people are the creators of value and the problems solvers.

Money has no power in itself and thus it is up to the person to direct its use and production.
This doesn’t mean that people do not abuse money or that there aren’t any wealthy people that obtained it though unscrupulous means.

Just like people abuse relationships and other resources such as our environment, they also can abuse money.

This fact does not make money evil. In this discussion, the scripture about the “love of money” being the “root of all evil” tends to come up. To be sure, the love of money is vastly different from money in itself.

We are to ***love people and use money*** and it is easy for those with a scarcity mindset to get this twisted.

So, the presence of money in someone's life is merely an indicator of something. Either that person obtained money through producing something of value for others, or someone gave it to them, or it was obtained through improper means like manipulation, coercion, etc.

With all of the above in mind, we're going to review some common secrets that those who've obtained wealth through production tend to promote and pass down to their children.

5 Money Secrets of the Wealthy

What do those with a wealth and abundance do with money that the vast majority of people do not. This is a clue into the logic that underlays the self-banking strategy to be described in the next chapter.

1. **The Wealthy Buy Assets**

Wealth coach, educator and entrepreneur, *Robert Kiyosaki*, puts it best when he says that the wealthy buy assets while the poor and middle class buy liabilities. Kiyosaki's point isn't hard to understand if you look at the fact that most people's most valuable financial *investment* (and I use the term loosely) is the family home. He makes the point that, because your home doesn't create any cash flow and yet costs you money in terms of expenses, therefore your home is not an asset.

Kiyosaki simplistically (yet brilliantly) defines assets as anything that puts money into your pocket and liabilities as anything that takes money out of your pocket. You may believe that your home is an asset because it offers a tax deduction for mortgage interest AND may appreciate in value.

However, consider that your home takes money out of your pocket, it is subject to foreclosure if you don't pay your mortgage or property taxes, many states homestead laws don't protect your home from creditors, and your equity is essentially "dead" money, trapped in your home and not liquid and easily accessible.

But...*if you consider* what could be accomplished by converting your home into an investment property, leading to financial benefits such as writing off depreciation and expenses and gaining passive income, you may start seeing what an asset looks like.

In contrast, liabilities like the home you live in, vehicles, boats, and other toys only take money out of your pocket.

In Kiyosaki's latest book, Second Chance, For Your Money, Your Life and Our World, Kiyosaki goes further in developing his concept of assets. He distinguishes low value *tertiary assets* with *primary and secondary assets*. Kiyosaki talks about tertiary assets as inferior to primary and secondary assets because tertiary asset wealth is paper wealth, and their value is speculative, based upon market conditions.

As a real estate investor, Kiyosaki heralds the benefits of owning real estate assets, such as: (1) cash flow, (2) income tax advantages, (3) the ability to borrow against it as collateral and (4) long term appreciation.

Whole Life Insurance vs. Real Estate Assets

If we consider whole life insurance and compare it to the benefits of real estate, we find that whole life mirrors most of the advantages of real estate assets.

Whole life offers (1) cash value is liquid, creating cash flow, (2) income tax advantages, (3) the ability to borrow against it as collateral through a life insurance policy loan and (4) the cash value grows exponentially due to true compound interest.

Perhaps you've heard some talking heads rail against life insurance as a terrible place to put money...(Dave Ramsey comes to mind).

To show you the money secrets of the wealthy, I only need to refer you to the balance sheets of major banks and corporations. Check out a major banks balance sheet section titled "life insurance assets".

Major banks are financial powerhouses, ran by those in the know, with virtually unlimited capital and unlimited access to key financial insight, and the banks have determined that ***owning life insurance as an asset is a good investment - even superior to real estate.***

Of course, the wealthy aren't buying from just any insurance company. Banks select top rated companies, such as established **mutual insurance companies** that have a track record of success for 150 to over 200 years.

The best life insurance companies typically have ratings like A+ Strong (Standard & Poor's), A+ Superior (A.M. Best) and Aa3 Excellent (Moody's). Numerous factors are taken into account in generating these ratings such as operating performance, capitalization, strength of risk profile, etc.

The only remaining question is whether you believe that emulating the money secrets of the wealthy by adopting their behaviors is more likely to help you build wealth in contrast to lapping up the spoon fed advice of the financial "gurus" and investing in products designed to enslave the masses.

2. The Wealthy do NOT Gamble with Money

The image of the high stakes gambler is about as realistic in the real world as James Bond's escapades. The house eventually always wins in a casino.

The wealthy DO NOT throw money into a stock on a whim and a prayer hoping that it will take off like many inexperienced investors today.

In his book, *Money, Master the Game*, *Tony Robbins* suggests that it is impossible in today's climate of micro trading for a small investor to out think the professionals in the stock market. He suggests a broad mix of investments as a hedging strategy against market uncertainty.

Which brings us to our second reason why whole life insurance is a good investment. Whole life insurance is a non-correlated asset, which is a fancy way of saying it does not follow the ebbs and flows of the stock market.

Rather, whole life has built in policy guaranteed returns. In addition, the opportunity to earn life insurance dividends is a huge benefit.

Whole Life Insurance vs. the Stock Market

When wealthy individuals invest in the stock market, they do it after extensive research and thorough knowledge of the investment, or of the investment advisor (Bernie Madoff excluded). They typically don't invest in mutual funds. They also do not invest their *safe bucket* in investments where they stand to potentially lose their emergency money.

In the real estate arena, the wealthy know that you make money in real estate when you buy and hold (i.e. not sell) and that it is critical to do your research and ONLY buy when the right opportunity arises. A seasoned investor may look at 100 properties before making an offer on one.

The wealthy also DO NOT spend from their safe investments to purchase speculative or high-risk investments. On the other hand, they may use other assets on their balance sheet as collateral for obtaining funding for other opportune investments.

The message here is that you need to

create an asset base of safe money to provide stability to **capitalize on higher risk, higher return investments when they arise**.

This is particularly important during times of economic crises because the greatest opportunities arise during these times.

I contend that whole life insurance is a perfect place to establish a high rate of return, tax advantages, death benefit and asset protection under many states' laws.

3. The Wealthy AVOID Paying High Interest Rates and Minimize Taxes

The wealthy DO NOT pay interest on credit card balances at 20% interest rates OR finance other purchases at high rates. Simply put, these bad debt rates are a SCAM against the poor and middle class and a major reason financial entertainers like Dave Ramsey and Suze Orman have a platform.

That the wealthy don't have a lot of bad debt probably doesn't surprise you, but would it surprise you to learn that the wealthy often do use financing to get into a lot of good debt?

Think about it from a logical standpoint...when the wealthy buy assets, they need ready reserves of cash or financing to do so. Even when they buy liabilities, they may use financing but choose to do so at highly favorable rates.

This is where building a base of available cash at highly favorable rates (i.e. the infinite banking using whole life insurance) is a key strategy of the rich for building wealth. This strategy can be utilized for both buying assets as well as liabilities without needing to remove your cash from the investment (i.e. whole life insurance using non-direct recognition companies) that is continually working AND compounding to generate a consistent rate of return.

The above paragraph is exactly why a whole life insurance policy is a good investment. You have ready and available cash, that can be borrowed at favorable rates, in a private transaction, regardless of your credit score, to purchase other cash flow producing assets, all the while your money in your policy is still earning interest and dividends!

Now let' expand on this thought and introduce the idea that the wealthy DO NOT pay high taxes on regular income.

Rather, the wealthy focus on limiting their regular income and creating tax advantaged **passive income,** which is taxed at a much lower rate than regular income.

Kiyosaki talks about his tax strategies in detail concerning business ownership and real estate.

Contrasting this with investing in whole life insurance and we have another powerful example of strategizing using the tax code via the ability to grow your cash value through tax free dividends in a whole life insurance policy from a mutual insurance company.

If you're skeptical about tax free dividends, you shouldn't be...top mutual insurance companies have been paying these dividends for 200+ years through all manner of financial crisis. Because the companies are mutual companies, which are owned by the policy holders (in contrast to stock companies), the profits are returned to the policy holders as return of premium in the form of dividends.

There is no gimmick or tax loop hole here. This is simply sound business practices in action to reward the policy holders for placing confidence in a mutual company.

The **poor and middle class**, on the other hand, invest heavily in **401(k) plans and IRAs**. You should ask yourself whether the push to invest in this way is based upon sound business advice, and a concern for your welfare OR the relentless desire of the financial community to **get your money** and offer little in return.

I suggest that the modern 401(k) plan is a scam facilitated by those who financially prey upon the poor and middle class to divest you of your wealth in much the same way as the idea to deduct income taxes from your paycheck.

4. The Wealthy Use Leverage to Double and Triple Profits

If a wealthy person can use money that is already making money to make more money...(*you may need to read that again)*...will they do it?

The simple truth is that the wealthy put their **safe bucket assets** to work for them in investments such as high grade bonds and treasury bills.

The wealthy also use whole life insurance policies as safe investments. With the safe bucket covered and generating passive, tax advantaged income, they then have the freedom to entertain opportunities such as real estate, business start ups, private lending and other lucrative opportunities by borrowing money at favorable rates, often from the mutual insurance companies general account using their policy cash value as collateral, or shopping the rate to other financial institutions to see who is most competitive.

I again submit that the most favorable, easiest and most flexible way to borrow money is from the cash value on a whole life insurance policy.

As we touched on above, this strategy of borrowing from a properly structured whole life insurance policy allows you to continue to accrue cash value, tax free, regardless of the amount borrowed and at reasonable market rates. The cash value can then be utilized to purchase other investment opportunities as they arise.

In the real world , it is easily attainable to get a positive arbitrage on borrowed funds using whole life insurance as an investment. This means one can borrow money from their policy and still earn a return on investment in the policy, then investing the funds in another investment, so that the total return is **multiplied**.

This is an introduction to the concept of leverage to be discussed in chapter 5. Real estate investors use leverage all the time. The advantage to using whole life insurance this way is that it is guaranteed return and thus, will not suddenly lose 20% of its value, as can occur in the real estate market. Many a real estate investor has imploded by being leveraged too thin...and this really isn't a concern when your loan is backed by life insurance instead.

You see, the loan you take out on your cash value does not have a repayment schedule. In fact, **you don't have to pay your loan back**, EVER. Although we would caution against this strategy if your goal is to build your cash value and death benefit over the long term, it is a nice feature of whole life insurance as an investment.

5. The Wealthy Protect Their Families and Loved Ones

Wealthy families first seek to protect their legacy through education, and I'm not talking about that expensive Ivy League education...I believe that may be more of a middle-class philosophy. Rather, I'm talking about giving the kids a solid financial education about money via life insurance for children using infinite banking.

Robert Kiyosaki would contend that this kind of financial education, obtained from his *Rich Dad*, made all the difference for him. Scrolling back to the top of this article, it all goes to the definition of assets and liabilities and the fact that the wealthy teach their kids to focus on buying and creating assets and avoiding overspending on liabilities.

The wealthy prioritize financial education to assure that the kids will be equipped to preserve and protect the family wealth. As we've discussed, even large estates face peril where a family business is concerned and the primary business owner passes away.

Enter the need for life insurance for family business succession planning AND key man insurance to assure that *liquidity* is preserved to cover estate taxes, income taxes and the other costs of settling the estate so that a business may continue to operate uninterrupted.

The **death benefit** in a life insurance investment is the icing on the cake when you look at this powerful financial tool *holistically*.

A properly designed whole life insurance policy will **allow the death benefit to grow** concurrently with the cash value, so that protection of the family business AND estate is always maintained.

In addition, a long-term care rider or chronic illness rider can help provide needed cash in the event of a chronic illness, requiring long-term care services. The influx of cash can protect other less liquid assets from being untimely liquidated.

This protection can keep your legacy from falling apart after you worked a lifetime to build it. This falling apart is not unrealistic. Remember what happened to the Miami Dolphins when the primary owners passed. As much as various products are touted by the pundits, **there is simply no other investment like whole life insurance that provides this kind of protection.**

Chapter 3. Whole Life – The Safe Bucket Alternative

> ***"A bank is a place that will lend you money if you can prove that you don't need it."***
> *Bob Hope*

The Ideal Safe Bucket

As noted in Chapter 2, the wealthy create "safe bucket" assets that offer tax advantaged growth opportunities. Better yet, if you were to design a wish list for the ultimate "safe bucket" to hold your money and replace traditional banks, perhaps it would look like this:

1. Cash value is protected by most state asset protection laws
2. Offers a contractual guaranteed rate of return and a non-correlated asset
3. Offers tax advantaged growth
4. Offers liquidity
5. Offers a death benefit to loved ones without hassles like probate
6. Provides the opportunity for positive arbitrage
7. Offers the potential for your money to be at work in two places at once increasing your velocity of money

In truth, regardless of the ranting from the naysayers, these are ALL characteristics of a properly designed whole life insurance policy.

The Myths and Realities of Whole Life Insurance

We are all bombarded by daily marketing via commercials, tweets, memes, etc. and yet the messages are often incomplete or totally inaccurate. This pattern can lead to mental misconceptions about many things that we take for granted.

For this reason, it is all too common to let misconceptions cloud any meaningful discussion of whole life insurance pros and cons. When we're talking about whole life insurance, it may require some re-thinking what you've been told concerning this powerful asset.

Let's begin with some basic whole life 101.

Defining Whole Life Insurance

Whole Life Insurance Definition: also known as ordinary life insurance, it is a type of permanent life insurance policy that offers a guaranteed death benefit, guaranteed fixed premium, guaranteed cash value and guaranteed access to the policy's cash value through loans and withdrawals.

Certain policies, known as *participating whole life*, also receive an annual dividend. Whole is afforded tax advantages under current laws, including income tax free death benefit and tax free policy loans, as well as tax deferred whole life cash value growth.

Participating vs. Non-Participating Policies

Within the world of whole life insurance are participating whole life policies and non-participating policies.

Non-participating simply means the policy does not receive dividends.

Participating whole life insurance pays dividends to the eligible policyholder. The policyholder shares in the carrier's earnings and thus "participates" in the company's success. Dividends can be used to buy more paid up insurance, earn interest with the insurer, pay policy premiums, or received as a cash payout.

Ordinary Level Premium Whole Life vs. Limited Pay Whole Life

Ordinary level premium whole life insurance has level premium payments for the duration of the policy, typically until age 100. Upon reaching the target age, the whole life cash value equals the target face amount of the policy. No premiums are required upon reaching the target age.

Limited pay whole life insurance has specific target dates in terms of years or to age 65. For example, 10 Pay whole life requires 10 years of premium payments and 20 pay whole life requires premium payments for 20 years. Upon the end of the 10 or 20 year period no premiums are required. However, the death benefit and cash value can continue to grow with participating policies since the dividend can be applied to purchase additional paid-up life insurance coverage.

Is whole life insurance a bad investment?

How about Dave Ramsey's repeated mantra that you should "buy term and invest the difference"?

A related "message" that you will get a better return on your investment (ROI) by putting your money somewhere else?

However, all of these "tips" are offered in a micro and worse tend to misrepresent the "rate of return" in other investments.

Also, these folks are not estate planners and thus completely ignore issues like the importance of state law asset protection for policies.

The significance of maintaining a permanent death benefit is also often ignored. We'll get back to that in a bit.

Bank Owned Life Insurance (BOLI)

I ask you to consider why the top players in the "money business", you know those with access to the top financial experts in the U.S., own literally "billions" of dollars of dividend paying, mutual whole life insurance? There is even a same for it...***BOLI*** (bank owned life insurance) or ***COLI*** (corporation owned life insurance).

The History of Self Banking

In early 2000, a guy named Nelson Nash coined the term "Infinite Banking Concept" (IBC), to describe what he'd discovered was a way to strategically use dividend paying, mutual whole life insurance to essentially create your own private, family banking system. Mr. Nash wrote a book about it called, you guessed it, Becoming Your Own Banker, and I highly recommend it. A few others have followed in Mr. Nash's footsteps...but not many.

Becoming Your Own Banker

It sounds cool, right? Creating your own bank would be great but...you might be asking why you need this or whether it would apply if you have a smaller estate? This is where things can start to get really exciting. However, we need to provide some context so let's start with a bit of time traveling...

Back in the late 1800s, when America was a young country taking great strides and many of her greatest minds were making unprecedented discoveries...i.e. Franklin, Edison and Graham. During this time, one of the first financial tools of the western world was created and its origins dated back to ancient Rome. This tool would become so ingrained in American culture that making changes to it would become nearly impossible. This asset would save countless families from financial ruin and would become the last place truly protected from greedy investors, untamed government and financial collapse.

Further, this financial fortress would empower some of the greatest entrepreneurs in history such as Ray Kroc and Walt Disney, both of whom borrowed against their whole life policies to finance their historic ventures. During the Great Depression, the stock market would suffer an astonishing 32 year setback and lose 90% of its value from its peak in September 1929. During this time, while banks, businesses and government sectors were closing their doors, one sector of the economy stood unaffected. You guessed it, mutual life insurance companies. In fact, whole life insurance is so stable that many were paid dividends from profits every single year during the Great Depression.

So ask yourself honestly,

Why aren't folks being urged by the financial community to park more of their money into this type of cash value life insurance?

And if utilizing dividend paying whole life insurance coverage from a mutual company is so beneficial, why is everyone not raving about it?

First, there are very few life insurance professionals that understand how to utilize dividend paying whole life insurance to establish an effective self banking strategy. This idea, originated by Nelson Nash, cited above, has evolved over time into a powerful wealth building personal banking strategy.

In a nutshell, while most whole life insurance is fixated on maximizing the death benefit of a policy and just allowing cash values to grow over time, *strategic self banking* focuses on maximizing life insurance cash values, so your whole life insurance plan can be used strategically as a ***savings and personal financing vehicle*** for the purpose of ***recapturing*** your cost of capital incurred when having to deal with third party lenders or using your own cash.

Yes, you read that right...

When you spend your own money, do you pay yourself interest on it? If you're like the majority of Americans, I'll guess your answer is no. In fact, I'll guess that you're either paying credit card companies somewhere between 10% and 27% to use their capital, or, if you're abnormally frugal in today's environment, you're saving and paying cash for your purchases.

Consider the fact that, whether you're borrowing money at exorbitant interest rates or paying cash, you're still losing money because when you spend your own cash without paying yourself interest, you're losing the opportunity cost of that capital invested elsewhere.

Economic Value Added (EVA)

American corporations stock increased when they discovered this exact concept years ago as per the theory of "economic value added" or EVA. When this idea "clicks" for you, the benefits of *strategic self banking* become self evident. In a climate with notoriously low interest rates, where can a person put his/her money that will be safe and will allow a ***contractually guaranteed rate of return***? If you're guessing a properly designed dividend paying mutual whole life insurance policy, you would be correct.

You see, when a participating whole life insurance plan is ***properly structured*** to maximize the cash value, the cash value can become available relatively quickly depending upon the amounts deposited and the other details of the policy.

Loans from life insurance can be taken using the cash value as collateral (without penalty) to pay for items that are already monthly expenditures such as vehicles or real estate loans.

Part of the strategy is to work with mutual life insurance companies that allow flexibility in borrowing from the policy and allow the cash value to accrue regardless of outstanding policy loans.

Under current tax laws, dividends paid from these policies are tax free because they are viewed as a return of premiums paid. See 26 US Code section 803.

Cash accrual in the policy is also tax free under IRC 7702, provided the policy is never surrendered and the death benefit is also not subject to income taxation.

One way to think about this strategy is like a Roth IRA without the IRS restrictions.

There are a ***few key guidelines*** for any self banking strategy that are critical to your success:

- As in starting any other business, the cash value may not equal initial deposits for some time, however this will catch up as the policy is funded, with the help of paid-up additions.
- This insurance policy needs to be treated like any other loan, or business asset, and thus it is critical to pay back the policy loans or at least the interest.
- It is highly beneficial to continue paying life insurance premiums even if the insurance policy no longer requires it or it may be paid from the cash value.

Second, there are a few common objections to whole life insurance in general that essentially try to "poison the well" and yet are easily debunked as follows.

1. The rate of return (ROI) on a life insurance financial plan isn't very good and thus this is a "bad Investment" and thus it is better to "buy term and invest the difference".
2. Whole life insurance is only beneficial for the wealthy.
3. Upon the insured's death, the life insurance company "takes your cash value".

These **3 objections** all relate to one another so I'll debunk them together in the context of a solid infinite banking strategy.

The idea of putting your money into an investment with a higher rate of return sounds reasonable, and yet this objection is based upon a flawed assumption and is irrelevant in large part.

First, the flawed assumption is that one can get a higher return in a safer investment and this is hard to justify in today's low interest rate climate. Because we are in an extremely low interest rate climate, a "higher return" will likely require an investment of greater risk. Although the financial talking heads may not agree, you should have a solid, safe "savings bucket" arguably prior to your investment bucket which should be what you can afford to lose.

Also, the common puffery of mutual funds and similar investment fails to account for the fees which are extremely difficult to determine...even for the savvy investor. IRAs and 401k fees and returns are just as speculative and, at the time of this writing, the future for these retirement vehicles for the next ten years, at least, is being scrutinized by many in the financial industry.

Further, this objection is largely irrelevant because utilizing the self banking strategy will not prevent you from pursuing investments that offer a higher ROI. On the contrary, this approach will allow you a reserve to draw from in order to ***pursue such investments***. In fact, taking a policy loan and paying it back to your policy will likely multiply the ROI achieved from the other investment, assuming this was a viable opportunity, because you will also be borrowing from yourself and maximizing your policy return.

Second, if a strategy is deemed universally beneficial to the wealthy, perhaps it is advisable for a less wealthy person to consider it as a way to build wealth. Doesn't it make perfect sense for less wealthy folks to *adopt a strategy* that has been proven protect and grow the wealth of the wealthiest individuals and corporations? This objection is really about who one should model concerning finances...a broke brother or a rich uncle?

Generally, savvy wealthy folks are not interested in losing money and that is the power of whole life insurance and particularly dividend paying mutual whole life insurance. Of course, wealthy people, banks and corporations, benefit from reallocating large sums of capital to these policies and then borrowing against them. However, ask yourself who can better afford to lose money...less wealthy or more wealthy folks?

Are these policies adaptable to an average budget?

The reality is that these policies are so flexible that a person could place $100 per month into one and the same strategy to grow the cash value can be applied to a less wealthy person as to one with greater wealth. These policies are contractually guaranteed to provide a return (often 4-5% in today's financial climate) and also most have paid dividends steadily for the last 100 years.

I've often dealt with this same objection in the world of estate planning documents and the response here is the same...less wealthy folks are arguably more impacted by poor planning (legally or financially) than are the wealthiest individuals. This objection is closely related to the other flawed assumption that "it takes money to make money".

We live in a world that desires instant results, so it is understandable that public opinion doesn't get too revved up about an asset that takes some time to mature. Yet, this is precisely what happens with dividend paying mutual whole life insurance. Give this asset some time and its value will *exponentially increase*...this philosophy goes hand in hand with the idea that anything worth pursuing requires time and patience to flourish.

Third, the suggestion that the life insurance company "takes the cash value" upon the policy holder's death is based upon a misunderstanding of how the policies work. To illustrate, understand that very few "term life policies" ever pay a death benefit because the insurance company has determined that the policy will likely expire before the death benefit is ever paid...and most do. This is why term life policies are very cheap for younger folks and become more expensive as we get older.

On the other hand, whole life policies do not expire if the premiums are paid and thus the death benefit will be paid eventually provided the policy remains in force. If the policy is ever surrendered, the cash value is payable to the policy owner.

The way to understand this is that the cash value of the whole life policy is like the equity in your house and the death benefit of the policy IS the house. The key is that when you maximize the cash value in a strategic self banking strategy, you also maximize the death benefit of the policy...they tend to mirror one another in growth and your estate will be benefiting from either the cash value or the death benefit.

Not only will the policy pay a lump sum death benefit to your beneficiary, but the death benefit can also be accessed early due to terminal illness. Some policies even allow access to the death benefit for chronic illness, with long-term care riders also available.

You can even protect yourself in disability through the use of a waiver of premium rider, which will kick in if you are permanently disabled. The company will essentially waiver your life insurance premiums.

Of course, all of the above entails a sophisticated strategy involving the right approach and utilizing a policy from a preferred dividend paying mutual whole life insurance company.

Chapter 4. Banking Policy Design and Paid Up Additions

> **"There is a very easy way to return with a small fortune from a casino: go with a large one."**
> *Jack Yelton*

Policy Growth by Design

At the heart of the strategic self-banking strategy is designing a whole life policy that supports becoming your own self banker. This is accomplished by maximizing the amount of cash value that grows within the policy as the policy matures.

While there are a number of factors that impact policy growth, such as internal costs, interest and dividend rates and the total policy death benefit, most policies designs rely heavily on a Paid Up Additions Rider (PUAR). Different companies offer varying levels of flexibility concerning these riders, so it is important to know your company. However, the following guidelines should be fairly uniform as a starting point.

The use of a paid up additions rider in a sense flips the traditional life insurance policy design model on its head. Where traditional whole life may seek to provide the maximum amount of death benefit for the lowest cost, a self banking policy seeks to minimize the death benefit and funnel as much cash into the policy as possible.

Paid Up Additions Rider DEFINITION: A rider that allows the owner of the policy to make additional contributions to the life insurance policy, resulting in the addition of paid up life insurance.

The paid-up additions rider in your policy allows you to make purchases of paid-up additional insurance with no proof of insurability while increasing the cash value and death benefit proportionately. The additional paid up life insurance can earn dividends, which compounds the cash value growth inside the policy.

Avoid the MEC

However, it should be noted that you can only put so much money into your policy. An over-funded policy transforms the policy into a modified endowment contract

MEC. If your policy "MECs" you will lose some of the tax advatages of permanent life insurance. The good news is you can avoid MEC'ing your policy by paying attention to correspondence from your insurance provider, as your insurer will provide you ample time to remedy the situation and prevent your policy from changing into a MEC.

Fees

Paid-up additions can be defined as additional insurance that is paid in full at the time of purchase, minus a deducted amount the insurance company charges as a load fee against paid-up additions. The typical load fee varies by insurance company and can range from 4% to 15%, with certain insurers reserving the right to raise fees up to 20%.

For example, if you have a $100,000 life insurance policy, and you purchase an additional $30,000 worth of insurance by paying a lump sum of $10,000. The lump sum of $10,000 includes all fees and expenses required to cover the additional $30,000 worth of death benefit.

The policyholder is not required to pay anything in addition to the lump sum because the coverage has been paid in full, or "*paid up.*" Pretty straightforward if you think about it.

For most policyholders they may actually still be paying premiums on the original policy, but they may suddenly have a need to add coverage (perhaps they had another child and want to add to the death benefit, for example).

The paid up addition rider allows the policyholder to add coverage to an existing policy without having to prove insurability, which means there are no health questions or life insurance medical blood testing required.

For this reason, (no evidence of insurability required), life insurance companies insulate themselves with caps that limit the amount of paid-up additions a policyholder can buy at any particular time.

You see, an insurance company is protecting itself with these caps from a policyowner who is terminally ill trying to get as much death benefit as possible through the use of paid-up additions.

Paid-Up Additions Dividend Option: life insurance dividends allow you to choose different options, such as taking the cash out or buying additional paid up life insurance. Additional paid in full whole life insurance using policy dividends is separate from the paid-up additions rider. We strongly recommend choosing this dividend option if your goal is to maximize cash value growth in your policy.

Exclusive to Whole Life Insurance

Other types of coverage, such as term life insurance and universal life insurance, do not include paid-up additions. Only participating whole life policies offer this feature.

Having said that, other types of coverage, such as IUL insurance policies, have their own inherent ways to build high cash value. That is why it is important to compare whole life vs universal life to make sure you are getting the best policy for your specific needs, goals and objectives.

Benefits of Paid-Up Additions

I mentioned in the example above that a policyholder may desire additional coverage because of the addition of a child. But it's also useful, and indeed a more common use, to purchase paid up additions to increase the cash value of a policy.

You can purchase paid up additions by making an extra premium payment on a set schedule, typically on an annual basis. If you want to add apart from the scheduled times set by the life insurance company you may have to provide evidence of insurabilty.

We've discussed cash value life insurance and the tremendous benefits to policyholders. For the typical whole life policyholder the premium is fixed and the amount of cash value that accrues each year is rather slow and consistent.

You may have heard the phrase, *slow and steady wins the race* referring to the typical whole life strategy for retirement. But what if you want to rapidly accelerate the growth of your cash value? This is where the paid up additions rider comes into play.

A policyholder can continue to add coverage AND cash value by utilizing this rider. And they can do so without going through medical underwriting (which is of tremendous benefit considering most people have health that deteriorates as they get older).

Accruing Interest vs. Paid Up Additions

Should you use your dividends to accrue interest or use your dividends to purchase paid up additional insurance? If you leave your dividends with the insurer to receive interest, the interest will be taxable.

Alternatively, using dividends to purchase additional paid-up life insurance allows you to grow your cash value and death benefit in a tax favored environment under IRC 7702.

You can then use your cash value tax free via a life insurance policy loan.

Since taxes are perhaps the #1 wealth destroyer out there, taking advantage of tax incentives in the IRC is usually the best route to travel.

Mutual Insurance Companies

Many people are insured by dividend paying mutual insurance companies (these are life insurance companies where the policyholders are partial owners of the company - or perhaps I should say "mutual" owners).

A mutual life insurance company will offer annual dividends as a share of the company's net profit (after claims, expenses and investment gains are figured out). These dividends can be taken as cash, used to pay future premiums, or to purchase additional coverage using the paid up additions rider.

This last option, **using dividends to purchase paid up additions**, is typically the default, and most popular, option for policyholders. The reason being that the additional coverage also pays dividends, which in turn purchase more insurance, which then purchases more coverage, which again pay dividends - rinse - repeat. All the while the policy cash value **grows and grows**.

That's why I like to say that paid up additions are the *fast track* for those that have the *slow and steady* strategy. You still have the safety and consistency that comes from a cash value life policy, but you can give it a shot of adrenaline by using the paid up additions rider.

As your cash value grows, you use your cash value life insurance as an asset to purchase other assets. This is a key aspect of the self banking strategy. Then you would use the cash flow from the additional assets to repay your policy loan, with interest.

The paid up additions rider allows you to put more money into your policy then you borrowed out.

By doing this, you are maximizing your policy growth and increasing your capacity to use your policy for your own personal financing.

Purchase Paid Up Additions Rider (PUAR) at Policy Origin

Now it's important to note that you will likely want to add the rider at the same time you purchase the original life insurance policy.

Some companies may allow you to add the rider at a later time, but not all will. And even if they will, there will likely be the hurdle of medical underwriting to go through.

And one huge benefit of paid up additions is you can buy paid up additional insurance without having to go through medical underwriting.

In addition, keep in mind that not all riders are as flexible as others. Some paid up addition riders will allow you to add quite a lot, or very little, each year.

While others will require that you maintain a certain level of contribution each year in order to keep from losing the rider altogether. Just make sure you are aware of the various rider options for adding coverage down the road.

Chapter 5. Conduit Wealth Building: Compound Interest, Leverage and Liquidity

> ***"Anyone who lives within their means suffers from a lack of imagination."***
>
> *Oscar Wilde*

Maximum Safety with Leverage

Behind the curtain, those who really know how to use a cash value life insurance policy for strategic personal banking understand that it is not simply a place to park your money. Rather, this strategy utilizes cash value life insurance as a conduit for your **cash flow assets** in a way that can create maximum financial leverage and exponential growth of your wealth in a safe and highly predictable way.

The **philosophy of money** that underlies the conduit whole life insurance strategy and that of *infinite banking* in general, is that **money needs to move and not stay stagnant**. This is referred to as the velocity of money.

Contrary, to the commonly touted strategy of parking your money in a bank in or financial account, such as the stock market, we contend that your money should be used *presently* for the most advantageous use in order to build wealth for you and your loved ones.

Step 1: Fund a Whole Life Insurance Policy

The first step is to utilize a proper "**safe bucket**" for saving funds, protecting them and gaining the potential for tax advantaged growth and future death benefit.

Clearly, if you haven't taken this step, you're staking your entire nest egg on the whims of the financial markets much to the glee of *stock brokers* and *bankers* across the country. As we've discussed concerning the money secrets of the wealthy, those in the know generally don't risk their safe assets on speculative investments.

Add to this the reality that whole life insurance is a non-correlated asset that is not privy to the rise and fall of the stock market. Having a guaranteed return investment vehicle as your safe bucket will help remove much of the drama and emotion that comes with being fully invested in the stock market.

So, step one of the **conduit whole life insurance strategy** is to begin investing your wealth in a properly funded whole life insurance policy with an advantageous mutual company.
Step one takes care of your safe bucket…offering a guaranteed rate of return (or slow ongoing growth), historically backed tax free life insurance dividends and asset protection under many state laws.

Of course, depending upon your financial circumstances, step one can take some time because, just like purchasing real estate and any other assets, there are some start up costs for properly funding your policy and allowing your cash value to accrue.

Generally, this can take 5-7 years; although, as discussed in Chapter 4, it can be expedited through a paid up additions rider and/or a supplemental term life rider on your policy to make sure that a modified endowment contract (MEC) doesn't occur.

Step 2: Locate Cash Flow Assets in Area of Expertise

Key to step two of the conduit whole life insurance strategy is to **locate an acceptable secondary investment asset** in your area of interest/expertise and use your accrued cash value for this acquisition.

In today's information age, the possibilities for such cash flow assets are wide and expanding every day.

For example, there are web based ways to invest in fractional interests in everything from oil wells, to coffee farms, to hard money lending, real estate and robo advisors.

These investment avenues for cash flow assets are direct, cooperative with other investors and OUTSIDE of the financial markets, and thus often offer the full tax advantages associated (based upon your investment and percentage of ownership) with such investments as if you acquired the coffee farm yourself.

New avenues for such investments are appearing every day and the possibilities are becoming endless.

Your participating cash value whole life insurance policy through a mutual company, properly funded, should be utilized as a conduit for purchasing other cash flow assets that offer a higher rate of return and the proceeds from those investments can be directed back into your cash value policy.

So, as we've discussed in previous articles about the infinite banking concept®, you use the cash value from your policy **to invest in step two** in the form of a **policy loan** and NOT as a withdrawal from the cash value.

The easy, quick, flexible access to cash in the form of inexpensive loans that are secured by the policy is a key feature of any infinite banking kind of policy. For those of you who think a policy loan sounds like a dirty word, this could be compared to taking out equity from a parcel of real property in order to fund a second investment **BUT WITHOUT** the inherent difficulties in doing so, such as a stringent bank approval process and strict repayment terms.

Philosophy of Money

You may now be asking what the advantage is to just saving up the cash AND why a loan verses withdrawing from the cash value.

There is an underlying *philosophy of money* that makes it much more advantageous to borrow money from your cash value policy as opposed to saving cash AND there is also ***sound financial reasons*** for doing so.

The **philosophy of money** that we're talking about, as discussed in Chapter 3, is the concept of **Economic Value Added (EVA)** which in its simplest form means that **your money has value**. So, when you use your own cash, you're giving up the opportunity cost for other uses of that money.

Our country's largest corporations figured this out years ago AND their balance sheets transformed (and stock prices jumped) as a result of this shift in understanding. Thus, there are **sound financial reasons** to value your own money and NOT to leave your cash in a conventional bank, earning less than 1% in today's financial climate, because this is simply giving someone else (a bank) the use of your money while allowing your wealth to **stagnate**.

Your next question may be

Aren't I giving up the use of my cash when investing in cash value life insurance and not investing in step two immediately.

My answer would be yes and no…of course, when you invest in cash value life insurance, you're choosing to invest in whole life insurance and foregoing other immediate investment opportunities that may offer a higher immediate rate of return. However, you're also choosing to invest in your **safe bucket**…and **this is critical for a couple of reasons**:

- **First**, unless you already have a safe bucket, then investing in riskier investments with your nest egg is like trying to build a house without digging the foundation…the house may stand up for awhile but there is a **risk of eventually caving**.

- **Second**, the specific type of safe bucket offered by a properly funded whole life policy provides a way to get **ongoing exponential growth** which may be described as multiple levels of financial leverage, or wealthy compounding upon compounding…this is the idea behind exponential wealth building.

True Compound Interest

You cannot have true compound interest growth with the ebbs and flow of the stock market. True compounding takes place in an environment free from stock market declines and taxes. Each will eat away at your principle and destroy the compounding power of your money.

Continued Policy Growth

When you borrow money from a well designed cash value life insurance policy, your policy growth can continue without interruption. You'll receive an ongoing guaranteed rate of return that never changes, regardless of policy loan amounts AND you also will receive, on high probability based upon over a hundred years of payment history, ongoing dividends at full dividend rates.

You read that right, while your loaned cash value is **working to earn you money in other areas**, you'll continue to receive tax advantaged dividends at the same rates based upon the entire cash value of your policy. Dividends that are considered a return of premiums to policy holders are not taxable under current laws allowing for tax free ongoing growth of your cash value.
It gets better because you also can get a positive arbitrage on your borrowed funds. So, although you're paying a reasonable rate of interest on the borrowed funds (5% in today's market), your dividend rates will exceed the interest (5-7% in today's market), allowing for a positive rate of return on the borrowed funds themselves. Add

in the potential return of your investment you use your policy funds to purchase and your true rate of return may be much higher.

Step 3. Repay Your Policy Loan

Step three of the **conduit whole life insurance strategy** is to return profits from your higher risk, higher return investments to **repay** your cash value life insurance policy.

Think of this as "*completing the circle*" or your own personal *whole life* banking cycle. This idea is **fundamental** to infinite banking AND yet we are emphasizing and clarifying its importance to your overall wealth building strategy.

Bringing the profit from your higher risk investments to **repay** your safe bucket of cash value life insurance, is like **putting gasoline** in the ever working engine that this **asset** represents for a couple of key reasons.

Repaying the cash value in your policy allows it to exponentially grow, allowing more cash value, more guaranteed growth, more tax advantaged dividends, growing death benefit and essentially a **compounding AND EVER EXPANDING SAFE BUCKET** to provide greater means to pursue, higher risk, higher return investments…*and the strategy compounds and grows and grows and compounds*.

There are some things about the mechanics of this strategy that can be tricky to explain AND quantify when you analyze how repaying these types of life insurance policies actually works. As in many aspects of business, the numbers often tell the tale, and infinite banking is no exception.

When you look at a policy illustration AND what happens when you take out policy loans and later repay them with interest, the numbers tend to show that the growth of the policy takes off dramatically for a couple of reasons…

- **First**, and the most obvious reason, is that you're no longer paying interest on the policy loan, which has been been deducted from the policy growth and NOT the cash value, and this repayment allows for faster cash value growth.
- **Second**, when interest is paid back to the policy, it functions much like additional paid up additions, leading to faster increases in cash value and higher dividends.
- **Third**, it appears that the life insurance policy tends to reward **bonus points**, revealed in the non-guaranteed portion of the policy growth over time. My best explanation of this is that these *ever conservative* whole life insurance companies prefer to **under promise and over deliver**.

So, the power of this repayment approach, inherent in infinite banking, is best revealed in an illustration that shows how the policy will exponentially grow upon repayment of loans over time.

Step 4. Increase Your Life Insurance Assets

Step 4 of the *conduit whole life insurance strategy* is to **maximize** your safe bucket assets. In other word, use your profits from your higher risk, higher return investments to, you guessed it, purchase more cash value life insurance.
Your individual circumstances will dictate whether this step should be taken after your initial policy loans have been paid back, or whether it may be more advantageous to start another policy. All of these questions require a close look at assets and liabilities and how the various assets in your different buckets are performing.

The **key** is to use your higher risk, higher return investments to continually fortify your safe bucket of cash value life insurance AND then use your safe bucket to continue to fund higher risk-return investments.

This approach allows **true compounding policy growth** of your **cash account and an ever increasing death benefit** in addition to the rate of return generated by your higher risk-return investments.

So, for example, if you're getting a 2% arbitrage on borrowed funds in your cash value safe bucket, and you're getting 8% cash on cash return on a real estate investment (not even accounting for tax advantages), what is your rate of return? Some may say 10% and, although this is nothing to scoff at, yet this could be short sighted.

First, you won't likely borrow ALL of your cash value, so you're still getting 7% (in our example) on the non-borrowed portion.

Second, your policy gains are tax free and thus better than your average 2% in the market AND your real estate gains are also likely tax advantaged AND we haven't even reached a discussion of depreciation or the deductible expenses of maintaining your real estate investment…*(similar tax advantages can apply to many other asset categories as well)*.

Don't miss the fact that in the above examples, your money is working hard and has **never stopped moving**, i.e. *the velocity of money*…this is the essence of the conduit whole life insurance strategy because your cash value policy has served as

a **natural channel** through which your money moves continually, **growing perpetually** to fund both your safe bucket and higher risk opportunities.
Also, I should mention the fact that repaying your cash value NOT ONLY increases your cash value growth, but also increases the **death benefit**, leaving a powerful legacy to your loved ones.

Step 5. Maximize Your Death Benefit

In the end, by employing the *conduit whole life insurance strategy*, you will have secured as much life insurance on yourself as possible.

For anyone interested in *creating a legacy through life insurance*, I can think of no better way than to continually grow your death benefit as you age. Upon death, not only will your family benefit from the countless cash flow assets you have created during your life, but your family will receive a death benefit that truly represents your human life value.

And if you have taught your children about money by utilizing this amazing concept and they teach their children, the possibilities are infinite.

Step 6. Preserve Your Wealth

Finally, any solid wealth building strategy needs to take into account WEALTH PRESERVATION. Just as important as any of the other steps, wealth preservation needs to take into aging, and the associated costs of living a long, fulfilling life. As you age, the chances of you needing some sort of long-term care service increases exponentially. It is highly likely that you or your spouse will need long-term care services one day. So, how does a proper wealth building strategy deal with long-term care?

The good news is, that apart from your stand alone long term care insurance companies, there are newer hybrid long term care life insurance policies available that provide both lump sum death benefit protection, coupled with long-term care protection. If you are diagnosed with a chronic illness or severe cognitive impairment (Alzheimer's, Dementia), the rider allows you to accelerate a portion of your death benefit to be used either as reimbursement or cash indemnity. The benefit to you is all your hard work to build your wealth and legacy will not be ruined by the need for long-term care later in life.

CONCLUSION: It's Your Oyster So Find the Pearls

> ***"I do not weep at the world, I'm too busy sharpening my oyster knife."***
> *Zora Neale Hurston*

Given the **strategic insight** that you now possess, I submit that if you have NO PLAN, you're all out of excuses.

The *next steps* are yours alone. The challenge is whether you going to take your knowledge and get the information you need to create your own self banking strategy and begin pursuing your life purpose?

This does NOT need to be complicated. Having worked with countless clients for many years in ALL of the areas discussed in this guide, I can tell you that it boils down to a few simple steps which are:

1. **Adopt a growth mindset**
2. **Always be learning**
3. **Get good advice**
4. **Identify your purpose**
5. **Put together a good plan that furthers your purpose.**
6. **Get the right tools to liberate you from the system and support your plan and purpose**
7. **Consider the long game and not just the short one**

Remember, we all become more vulnerable as we age.

In the words of *Pema Chodrin*, *"now is prime time", because it doesn't get easier.*

With that, I wish you *Godspeed* in the journey ahead.