Infinite Banking – How it Works

by Gary Van Linde

Basic Concepts

1) The essence of the "Infinite Banking Concept" is to recover the interest that one normally pays to a banking institution through the use of dividend paying life insurance and then lending those funds to others so that the policy owner makes what a banking institution does. Funds may be lent to any party including your-self and earnings grow within the policy tax deferred. Thus you are both reducing your tax burden and capturing monies for yourself that a banking institution normally would receive.
2) A foundational principle of the concept is that anytime you can cut the payment of interest to others and direct that same *market rate* of interest to an entity you own and control, which are subject to minimal taxation then you will have improved your wealth generating potential significantly. (Insurance companies do pay taxes – it is just that dividends in an insurance policy are not taxed – we will talk about this later.)
3) A concept or principle that must be understood before we began is that we are not talking about **investing** here rather we are talking about **financing**. Financing is a *process* not a product. Financing involves both the creation of and maintenance of a pool of money and its use. However we will see that when a financing system is combined with an investment system the combination of the two will always out perform an investment system. When the system combines reduced tax liability with a financing engine and allows complete control over your investments there appears to be no system capable of generating wealth with as much consistency or speed.
4) A second concept or principle we must all agree on is that you finance **everything**. You either finance by:
   a. Paying interest to someone else – a bank, lender, etc.
   b. Or giving up interest you could have earned otherwise.

5) For these reasons when we are discussing investment alternatives we must not only weigh the return we will receive but we must also evaluate what we are forfeiting or giving up. This mind set will become more important as we evaluate the “Infinite Banking Concept”.
6) For all of the reasons mentioned above every person should be fully engaged in two businesses.
    a. Your occupation
    b. Banking
7) Of the two businesses mentioned above, banking appears to be the one that has the greatest potential for helping a person generate long term wealth.
8) If we look at the average American we will find that most Americans spend about $ 0.24 - $.34 of every dollar on **<u>interest expense</u>**. (Home, Car, Boat, Credit Card, etc.) For example if you look at the purchase of a home, approximately 85 % of the monies paid during the first five years of your mortgage are interest payments.
9) Also looking at the average American we find that about $ 0.30 of every dollar is paid in **<u>taxes</u>**.
10) **Summing these quantities we see that the Average American is paying from $ 0.54 to $ 0.64 of every dollar they earn on interest expense and taxes**. If a legal, legitimate method could be developed to simply capture half of this loss the wealth creating ability of the average man would be significantly improved.
11) In short, if these two sources of revenue could be captured then you would be further along in generating wealth for yourself than if you made good investments in the market that were achieving high rates of return.
12) As a note, the methods we are about to discuss are used by Wachovia Bank. To capitalize their banking system, Wachovia has over thirteen billion dollars in cash values of dividend paying life insurance on their top executives. This pool of capital is one of the primary sources of working capital the bank draws on to fuel their banking system.

How Insurance Works

1) In developing an insurance policy several steps must take place. These are as follows:
    a. Actuaries develop a statistical model based on the lives of ten million **selected** people. The model predicts the number of people that will die each year within the selected population. The model covers people from the age of birth until one hundred years of age.
    b. After the actuaries have developed the population model, rate makers will take this information and determine what the company will have to charge in order to pay the death claim promised and make the whole system work.
    c. Lawyers make legal and binding contracts that are offered to the public through a sales force.
    d. An administrative organization made up of executives, clerks, etc. oversees and administers the whole system.
2) So far so good. The contract you sign is unilateral. The insurance company promises to do certain things if you meet the standards of acceptability and make your premium payments.
3) If you will look at your contract closely you will see that **you** are the owner of the contract **not** the insurance company. The owner is the most important person in the play that is unfolding.
4) To make the insurance plan work the owner (you) must make payments into the company (insurance company) and the insurance company must put this money to work in order to produce the benefits promised. This is usually done in conservative financial instruments such as bonds, mortgages, etc. Sometimes an insurance company will invest in speculative investments such as real estate or joint ventures but this is usually a small part of the investment portfolio.
5) Now since you are the owner of the policy and not the insurance company you outrank every potential borrower who wishes to use the money in your policy that is available to be lent.

6) Since you are the owner of the policy and you out rank every other borrower you have absolute control over the equity (cash value) that has accrued in your account.
7) In essence the insurance company can only lend the equity (cash value) in your policy to other places if the policy owner (you) does not exercise his option to use the money at the interest rate agreed.
8) By investing the premiums paid the insurance company creates an ever increasing pool of money to service the policy.
9) Now at the end of the year the directors call in the accounts and ask “How did we do on John Doe’s policy in comparison with the assumptions made by the actuaries and the rate makers?”
10) Based upon this comparison a dividend may be declared.

Why is a dividend not taxable?

1) Let’s look at an example.
2) The rate makers determine that John Doe’s policy will cost him $ 1.00 / year for the insurance he wants.
3) Now the insurance company recognizes that several factors may cause the $ 1.00 / Year estimate to be wrong such as high administrative cost, larger than expected death claims, or lower than expected earnings.
4) As a result they apply a fudge factor and bump the rate to $ 1.10 / year. This extra $ 0.10 is the capital that makes the system viable
5) After a few years the directors call the accounts in and ask “How did we do on John Doe’s policy in comparison with the assumptions made by the actuaries and the rate makers?”
6) The accounts report we have collected $ 1.10 in premium on John Doe’s policy and it has only cost us $ 0.80 to deliver the promised death benefit.
7) As a result the directors now have $ 0.30 to make a decision with.
8) Since the directors are smart people they decide to place $ 025 into a contingency fund and return the remaining $ .275 as a dividend.

9) Since the dividend is not an actual "gain" but is rather a "return of premium" the dividend is not considered a taxable event.
10) Unlike a dividend declared in a security which may lose its value as the stock rises or falls <u>a dividend declared in an insurance policy can never lose any of its value</u>. Once a dividend is declared it is guaranteed - it can never loose its value.
11) If the owner will use the "dividend" to purchase additional Paid Up Insurance (No cost for acquisition or sales commission) the result is an ever increasing, tax differed accumulation of cash values that support an ever increasing death benefit. This pool of money has no real governmental strings attached as to how, when or why it may be used and can be passed on to the next generation with limited or no estate taxes.

But it seems risky

1) A point to consider about an insurance policy is that they are designed to become more efficient over time no matter what happens. How can this be?
2) Insurance policies become more efficient over time because over the life of the policy the cash value is guaranteed to reach the face amount of the policy. As a result the insurance company faces an ever decreasing "net amount of risk".

Possible Uses of the Infinite Banking System

1) Medical Insurance – This system works well for people who are "un-insurable".
2) Car Insurance
3) Life Insurance
4) Buy Sell Agreements
5) Home Mortgages
6) Car, Boat financing
7) Equipment financing
8) Estate planning & Wealth X-fers
9) Charitable trust and giving
10) College savings plan
11) Leasing business
12) Retirement planning
13) Eliminates need for Social Security
14) Can cover multiple generations – good method of teaching and transferring wealth to successive generations.
15) Business financing
16) Others - ?
