

BANKNOTES

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The Modified Endowment Contract aka The MEC

L. Carlos Lara

For those of us who have read Nelson Nash's book, *Becoming Your Own Banker*, or even for those of us who are just now entertaining the idea of doing so, the resultant understanding after reading it is that the platform used to set up the process for becoming your own banker requires a specially designed insurance contract. To be even more specific, it requires a dividend-paying Whole Life insurance policy with a special codicil known as a *Paid-up Additions Rider*. Of course, if you are not at all familiar with insurance vernacular, it's very possible that these terms may easily confuse you and soon have you scratching your head. Please understand that this is not at all intentional on the part of Nash, actually it's his best attempt of doing just the opposite since he is aware that he is writing to the general public, *not* financial professionals. He keeps his explanations light and uncomplicated for the public's benefit knowing full well that the public is generally unsophisticated in these matters and that the experienced insurance professional will be able to explain the technicalities of all these terms at the proper time.

This same undemanding explanation holds true when he introduces the Modified Endowment Contract (MEC) on page 38 of his book. By simply drawing a spectrum of various life insurance plans with a term policy at one end and a single-premium whole life policy at the other end, he then instructs the reader not to cross the line into the single-premium policy territory. In reality, however, following these instructions can only be accomplished using a life insurance illustration provided by an insurance professional. But here within the context of his book, Nash is providing the reader with facts that are important to his understanding when it comes time to prepare the illustrations. The caution he gives to not cross into the territory of the single-premium policy is because the IRS, by a ruling made in the 1980s, will change the treatment of the policy from a standard insurance contract to an *endowment contract*.

Generally speaking, an endowment, for those that may not be acquainted with its detail, is funds, or property, received from an external donor. Donors usually give these bequests to non-profit organizations for an institution's on going support, with restrictions that the principal of the gift is to be retained in perpetuity. It can be spent only with certain stipulations. These non-profit recipients may include academic institutions, cultural institutions, such as

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NELSON
NASH
INSTITUTE

2957 Old Rocky Ridge Road
Birmingham, Alabama 35243
BankNotes archives:
infinitebanking.org/banknotes

Founder - R. Nelson Nash

Editor - David Stearns

david@infinitebanking.org

museums or libraries, and religious organizations: think of “Harvard’s endowment.” Such institutions we all know are tax-exempt, but here in the explanation Nash is giving in his book the recipient is not always a non-profit and the tax-free withdrawal aspects contained in an insurance contract present certain technical issues that were noted by Congress and quickly addressed. Nash, who is familiar with the tax law, points out that as an endowment contract *“any withdrawal or loan from the plan would be treated as a distribution and would be taxed as from any other accumulation account, i.e., part is capital and part is earnings. The earnings portion is taxed as ordinary income in the year the withdrawal or loan is made. It is not a matter of earth-shaking consequences, but it can be avoided with a little bit of understanding of just what is going on.”*¹

The purpose of this LMR article is to expand our knowledge on this important subject, discuss how this law came about, and hopefully shed some light on what is going on. Once we see what is really happening we realize the power of an IBC policy and what it is capable of doing in the economic climate we find ourselves in.

The 1970s: Inflation and Its Impact on Savings

To better understand how the MEC rule came to be enacted we need to walk through history over the last 40 years and keep our mind’s eye on the bigger picture. You should first realize that prior to 1960 most American households owned a dividend-paying Whole Life insurance policy as one of the best methods to save money, besides the conventional savings account at a commercial bank, or in bonds. A Whole Life policy was well known and understood by the average American. It had taken them safely through the Great Depression at a time when Wall Street and so many of the country’s banks had failed. To that generation a Whole Life policy was as safe as *cash under the mattress*. But something dramatic happened in the 1970s that changed all of that and brought economic ramifications both domestically and globally. In 1971 President Richard Nixon² closed the gold window internationally and shocked the world. This one act unlinked the dollar from the

precious metals, finally ending the last remnants of the classical gold standard. Shortly thereafter, with no restraints to the printing presses, a torrent of inflation was unleashed upon the world.

The results began to be felt in our pocket books before we knew it, but our full understanding of how it all came about and the more severe ramifications yet to come were still in the future. Few could have foreseen the emboldened powers of the Federal Reserve we see today or government’s increasing role over the entire economy. Or even what inflation really is! Most Americans only witnessed the rising prices on everything including stocks and we took note of that. Now with the stock market promising higher rates of returns, Americans moved away from traditional savings plans that now seemed slow and boring and plunged into the speculation markets. With the emergence of the mutual fund, the transition was made easier. Real estate, which had a tax-sheltering component at the time, surged to record highs. By the end of the 1970s and early eighties the correction came with full force and interest rates skyrocketed to 23% on commercial bank loans! Suddenly there was panic on the streets.

The Tax Reform Act of 1986

The Tax Reform Act of 1986,³ which came during Reagan’s term in office, also had enormous ramifications for Americans coming on the heels of an inflationary decade. This tax law was specifically targeted to increase corporate taxes, increase capital gains taxes, and generally broaden the Tax Code; its enactment successfully brought billions into the coffers of the U.S. Treasury, but in so doing virtually eliminated all known tax shelters for the wealthy. Tax havens at the time were tied to real estate in the form of limited liability corporations. The passing of the Tax Reform Act of 1986 set off a nationwide collapse of the commercial and residential real estate markets and a wave of business and personal bankruptcies followed. In fact, it was the worst real estate collapse since the Great Depression. Hundreds of shopping centers literally stopped construction in midstream and were virtually abandoned. Large office buildings and office complexes in major cities lay dormant and

empty as white elephants. It remained this way for several years and people wondered if this was the end to all future real estate investments. These dramatic economic events eventually tipped the scales of the prevailing panicked mood of Americans and set off the great stock market crash of October 19, 1987 famously known as “*Black Monday*,” when \$500 billion was lost in one day. There was a sense that things were getting out of control.

Meanwhile, the wealthy having been thrown out of their tax sanctuaries began pressing their tax attorneys and advisors for a new tax refuge and the answer soon came back with urgency earmarked with these general instructions—“*write one check — a big check— and drop it into a Single-Premium Whole Life Insurance Policy!*” These directives seem almost strange when all we hear today is that Whole Life is the worst place to put your money. Nevertheless, these were the guidelines coming from the top tax advisors in the nation who were on the payroll of America’s richest families. The advice was quickly heeded. But why were the wealthy advised to do this? The answer is simply this—*the tax benefits and the control over one’s money offered to policy owners of a Whole Life contract*. When you look around and discover that nothing else offers such benefits, why not “overfund” one of these policies with the entirety of your wealth? As it came to pass the wealthy took immediate action and the money poured into these policies soon got the attention of the regulators who noticed that they were being used, not merely as insurance policies, but also as a way to shield wealth from taxes. Consequently, in June of 1988 Congress passed the Technical and Miscellaneous Revenue Act (TAMRA) to specifically curb these actions, and the single-premium policy was declared a Modified Endowment Contract (MEC).⁴

Although all of the policies issued prior to this date were grandfathered in (subject to material changes in the policy), and are not subject to the new tax rules, single-premium Whole Life policies written after this date are now all MEC policies. This is a designation that remains to this day.

The following tax rules apply to Modified Endowment Contracts and are listed here as only

general guidelines:

1. Distributions will switch from a First In First Out (FIFO) basis to a Last In Last Out (LIFO) basis. This means that withdrawals will require the policy owner to withdraw taxable gain before withdrawing un-taxable basis.
2. Policy loans will be realized as ordinary income to the policy owner and could be subject to income taxes in the year the loan is made.
3. Distributions (either withdrawals or loans) that go beyond the policy basis will be subject to a 10% penalty tax for policy owners under the age of 59.5 In effect; a MEC insurance policy is now taxed much like an annuity or any other government qualified plan.

The Corridor Rule: Although a single big check can no longer be made to “overfund” a policy and completely pay it up without it being classified a MEC, the IRS’s so-called 7-pay test that came along in conjunction with TAMRA does allow you (provided you follow the rules) to make seven individual checks, one each year, and virtually accomplish the same thing without it being a MEC. It just takes longer.

In a general sense, the corridor rule states that in order for any life insurance policy to avoid being classified as a MEC, there must be a “*corridor*” of difference in dollar value between the death benefit and the cash value of the policy. What is being eliminated or discouraged are premium payments that would make the cash value of the policy higher at any point in the first seven years, compared to a hypothetical policy of comparable death benefit that would be fully paid-up after seven equal premium payments.

Material Changes: Important to all of this is the fact that once an insurance contract becomes a MEC, the status is irrevocable. Of even more noteworthy importance is that the 7-pay test described above must be satisfied not just at the inception of a new policy, but also anytime during the life of the policy if it undergoes a “*material change*.” The legislative history of a MEC defines material changes as those having to do with any increases in future benefits

caused by a policy exchange, such as a 1035 exchange and a conversion from term to permanent insurance as specific examples. Increases in the death benefit or the addition of riders can have a material change on a policy. If a policy undergoes a material change, a new 7-pay premium is calculated using the age of the insured and the policy's death benefit at the time of the material change to determine if it crosses to MEC status.

As you can see, some of this can get pretty technical and just reading the actual language in the tax code itself is difficult for the layman to decipher without the aid of a tax expert. But for those of you who wish to tackle the paragraphs in question they are found in the modified endowment contract rules Section 7702A. Ironically, even the tax experts of the *Necessary Premium Task Force of the Society of Actuaries' Taxation Section* has reported, as recently at 2012, that there are no regulations describing the NPT (the necessary premium test) in the code, "a circumstance not unusual where sections 7702 and 7702A are concerned."⁵ Yet in a private letter ruling by the IRS, dated June 14, 2011 and released to the public on September 16, 2011, the Service not only clarified the ruling but also reached a conclusion that was consistent and logical with the original authors of the TAMRA rules. This most recent IRS ruling has actually helped insurance carriers track the MEC technicalities with even greater precision.

Conclusion

The good news is that today each policy that is issued will have its own MEC premium limit already calculated by the insurance carrier, so that if an owner attempts to make a premium payment that would result in the reclassification of the policy as a MEC, the company can hold the money temporarily and warn the owner before it actually happens. This is a huge advantage and relief for policy owners who have no idea that these IRS guidelines exist, especially when practicing IBC, or for those wishing to do so.

Additionally, now with the *Authorized IBC Practitioner's Program* and the Practitioner Finder at infinitebanking.org, policy owners can have a double

safeguard by being able to consult with a trained IBC financial professional beforehand, or in a case where a premium payment would trigger the MEC status and the company is requesting authorization to proceed or send a refund. For these and other important reasons an Authorized IBC Practitioner should always be consulted for implementing IBC policies.

Finally, we should not lose sight of what is really going on here. The IRS has stepped in here at a crucial time in history for a reason and I have devoted this article to making that reason clear. The notion that Whole Life insurance is the "worst place to put your money" should now appear ridiculous. Prudent and middle-class Americans should take careful note that as long as you stay within the rules, the strategy of the wealthy is still available to you, your household, or your business.

Naturally, each individual's circumstances are unique, requiring a specialized financial plan. No decision should be made without input from a qualified professional. Yet the reader's choices should take into account the material I have presented in this article. In an economic environment filled with chronic inflation, onerous taxation, and erratic market volatility such as we have today, the decision to move your wealth from the volatile Wall Street/commercial bank nexus into the conservative, safe, insurance sector via a specially designed IBC policy carries tremendous advantages.

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Wind Power Is a Disaster in Texas, No Matter What Paul Krugman Says

by Robert P. Murphy

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In the wake of February’s tragic power outages in Texas, during which 4.5 million households suffered service interruptions, partisans on both sides have been quick to interpret the events as confirmation of their preferred energy policies. With news images of helicopters deicing frozen turbines, conservatives lambasted Texas’s increasing reliance on wind power as the villain in the story.

Trying to temper this knee-jerk reaction, Reason.com columnist Ron Bailey argued that “[m]ost of the shortfall in electric power generation during the current cold snap is the result of natural gas and coal powered plants going offline.” And Paul Krugman for his part declared that it was a “malicious falsehood” to blame wind and solar power for what happened in Texas, as it was primarily a failure of natural gas.

In this article I’ll lay out the basic facts of which power sources stepped up to the plate during the crisis. Contrary to what you would have known from reading Ron Bailey (let alone Paul Krugman), when the Texas freeze hit, electricity from natural gas skyrocketed while wind output fell off a cliff. The people arguing that wind wasn’t to blame mean it in the same way Jimmy Olson wasn’t to blame when General Zod took over: wind is so useless nobody serious ever *thought* it might help in a crisis.

Krugman on Texas Electricity

In his February 18 column titled “Texas, Land of Wind and Lies,” Krugman declared that

Republican politicians and right-wing media ... have coalesced around a malicious falsehood instead: the claim that wind and solar power caused the collapse of the Texas power grid, and that radical environmentalists are somehow responsible for the fact that millions of people are freezing in

the dark ...

In contrast to this dirty rotten lie from the right-wingers, Krugman instead explains:

A power grid poorly prepared to deal with extreme cold suffered multiple points of failure. The biggest problems appear to have come in the delivery of natural gas, which normally supplies most of the state’s winter electricity, as wellheads and pipelines froze.

A bit later in the article Krugman admits that wind was involved as well, but minimizes its role in this way:

It’s true that the state generates a lot of electricity from wind, although it’s a small fraction of the total. But that’s not because Texas—Texas!—is run by environmental crazies. It’s because these days wind turbines are a cost-effective energy source wherever there’s a lot of wind, and one thing Texas has is a lot of wind.

It’s also true that extreme cold forced some of the state’s insufficiently winterized wind turbines to shut down, but this was happening to Texas energy sources across the board, with the worst problems involving natural gas.

Incidentally, there are **literally no numbers** in Krugman’s article (except for numerals referring to dates), which is a signal that he’s pulling a fast one on his readers. From his qualitative (not quantitative) description, most people would have assumed that when the unusually cold weather hit Texas last month, electricity generation from various sources was down across the board, but that it *mostly* fell from natural gas, while the drop in wind was insignificant. As I’ll show in the next section, this is utterly false.

What Really Happened During Texas’s Power Crisis

Had I not seen the analysis from my former colleagues at the Institute for Energy Research (see their articles here and here), I might have believed the spin that the Texas crisis was really a failure of fossil fuels rather than renewables. Yet as we’ll see, the actual numbers tell a much different story from what most Americans probably “learned” from the media

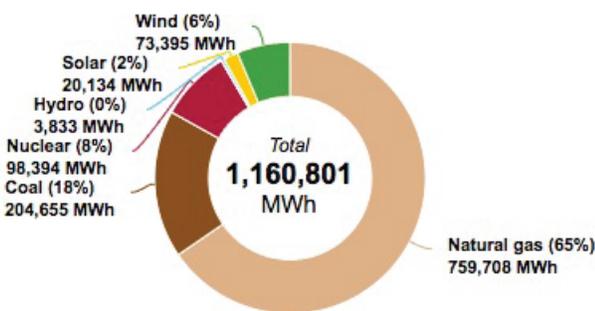
discussion.

The simplest way for me to communicate the relevant information is through three infographics, generated from the Energy Information Administration’s handy tool that shows the source mix for daily energy generation by state.

Before showing the numbers, I need to make an important clarification: the demand for electricity soared to unprecedented levels during the freeze. In particular, on February 14, peak demand on the electric grid surpassed sixty-nine gigawatts, breaking the previous winter record of (almost) sixty-six gigawatts set in 2018. It was in the early hours of the following morning (February 15) that the Electric Reliability Council of Texas (ERCOT) implemented rolling blackouts to prevent the entire grid from collapsing. So to be clear, the issue wasn’t that supply in an absolute sense fell, but rather that demand soared. (Texas typically uses more electricity in the summer to keep things cool, rather than in the winter to keep things warm.)

With that context in place, here are the stats for electricity output from various sources on February 15, 2021:

Texas (TEX) region daily generation mix 2/15/2021, Central Time megawatthours



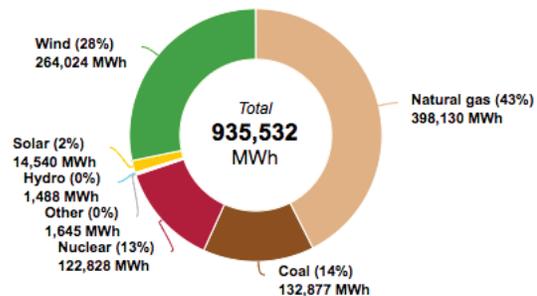
eia Source: U.S. Energy Information Administration

Already we see something interesting. Of the total amount of electricity delivered on this first day of blackouts, 65 percent came from natural gas, while only 6 percent came from wind and 2 percent from solar. But in fairness, maybe what guys like Krugman meant is

that this is much lower than what we normally could expect from natural gas. (Remember Krugman had said that natural gas “normally supplies most of the state’s winter electricity.”)

To test this possibility, we can look at the situation one year prior, on February 15, 2020:

Texas (TEX) region daily generation mix 2/15/2020, Central Time megawatthours



eia Source: U.S. Energy Information Administration

Now, this is interesting. A year earlier, during a normal mid-February day, natural gas “only” supplied 43 percent of the total electricity, whereas wind accounted for 28 percent and solar was the same at 2 percent. Remember how Krugman said wind was only a “small fraction” of Texas generation? Overall for the year 2020, wind produced 22 percent of Texas’s electricity, a higher share than coal.

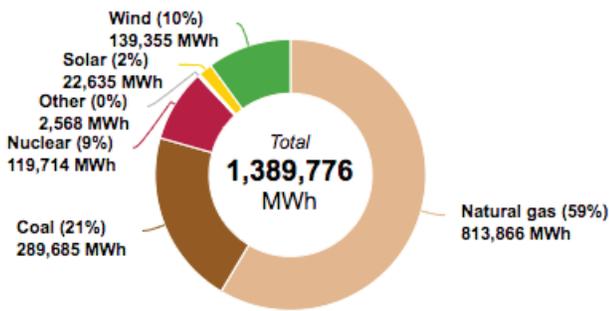
Yet besides the proportions, also look at the absolute quantity of electricity generated: on Feb. 15, 2020, natural gas produced 398,130 megawatt hours (compared to 759,708 MWh during the recent freeze), while wind produced 264,024 MWh (compared to 73,395 MWh during the freeze).

To sum up, compared with the same date a year earlier, during the first day of the blackouts in Texas, electricity from natural gas was 91 percent higher, while electricity from wind was 72 percent lower.

To reiterate the clarification I gave earlier, part of the

confusion here is that electricity demand in February isn't normally as high as it was because of the freeze. So to test whether natural gas is the culprit, we can compare the generation from various sources during the freeze to the situation back during the summer. For example, let's look at how things stood on August 15, 2020:

Texas (TEX) region daily generation mix 8/15/2020, Central Time
megawatthours



Source: U.S. Energy Information Administration

As our date occurred in the dog days of summer, total electric demand was higher in mid-August 2020 than on February 15, 2021. Furthermore, output from every source was lower during the freeze when compared with their performance the prior August 15. However, it seems odd to single out natural gas as the culprit, when it experienced the lowest percentage drop, and (on all dates) was the single biggest source. The following table summarizes electrical output from various sources on the three dates we have analyzed, and shows the change going from the earlier dates to the first day of the recent blackouts:

Texas Electricity Output by Source for Select Days, MWh					
	Feb. 15, 2021	Feb. 15, 2020	Difference	Aug. 15, 2020	Difference
Natural Gas	759,708	398,130	91%	813,866	-7%
Wind	73,395	264,024	-72%	139,355	-47%
Solar	20,134	14,540	38%	22,635	-11%
Coal	204,655	132,877	54%	289,685	-29%
Nuclear	98,394	122,828	-20%	119,714	-18%
TOTAL	1,160,801	935,532	24%	1,389,776	-16%

As the table indicates, on all three dates natural gas was always the leader in electrical generation. During the freeze, it produced 91 percent more than it had the prior year during a more typical winter day. And

although natural gas produced less electricity during the freeze than it had during the peak summer demand, it was only a 7 percent drop. In contrast, wind power during the freeze was down a whopping 72 percent compared to the previous year, and compared to the summer it was down 47 percent.

Among all sources, the percentage difference between either the previous year or the previous summer was highest for natural gas. That is, the surge in natural gas output year over year was the biggest by far (with coal coming in second with a 54 percent surge), and compared with the summer load its drop was the smallest at 7 percent.

Wind, in contrast, was the worst performer in both cases, if we measure in terms of the difference. That is, wind's 72 percent drop in the year-over-year column was the biggest one, and its 47 percent drop in the column for summer to winter was also the biggest.

In light of these statistics, it's a bit odd for commentators to blame the Texas blackouts on natural gas while excusing wind.

What They Mean: Wind Is the Ted Cruz of Electricity

Now, in fairness, what the commentators blaming natural gas have in mind is that ERCOT's emergency planning assumed that natural gas (and the other "thermal" electricity sources, namely coal and nuclear) could be called upon to fill the gap should there be record demand during a winter storm. If we measure in terms of the total capacity that was temporarily knocked out because of the freeze, then the culprits were thermal sources, rather than wind and solar.

As Jesse Jenkins, an assistant professor at Princeton tweeted out, "Main story continues to be the failure of ... natural gas, coal, and nuclear plants ... which ERCOT counts on to be there when needed." He further specified, "Of about 70,000 MW of thermal plants in ERCOT, ~25-30,000 MW have been out since Sunday night. Huge problem."

And so we see what people mean when they say the Texas blackouts are the fault of natural gas, rather than

wind: since no serious official ever *expected* wind to be any help during a crisis, it can hardly be blamed for not showing up when disaster struck. In effect, Krugman is arguing that wind power is the Ted Cruz of electricity.

Conclusion

When assessing blame for a disaster, it's hard to know what the relevant counterfactual should be. Yes, had the (relatively) unregulated Texas power providers done a better job in winterizing their natural gas lines, things would have been better last February.

But by the same token, had the federal government never implemented the wind production tax credit (PTC)—which subsidizes wind so heavily that it sometimes sells for a negative price in the Texas wholesale market—then there would have been more fossil fuel-generated capacity in Texas, which the numbers clearly show did better at providing electricity during the deep freeze. Normally the boosters of renewable energy point with pride to Texas, which has the most wind capacity of any state by far in absolute terms, and even has almost 25 percent of its official generating capacity consisting of wind. Yet when wind collapsed during the deep freeze, suddenly even its biggest fans admit that nobody ever thought it could do the same job as natural gas.

Robert P. Murphy is a Senior Fellow with the Mises Institute. He is the author of many books. His latest is *Contra Krugman: Smashing the Errors of America's Most Famous Keynesian*. His other works include *Chaos Theory*, *Lessons for the Young Economist*, and *Choice: Cooperation, Enterprise, and Human Action* (Independent Institute, 2015) which is a modern distillation of the essentials of Mises's thought for the layperson. Murphy is cohost, with Tom Woods, of the popular podcast *Contra Krugman*, which is a weekly refutation of Paul Krugman's New York Times column. He is also host of *The Bob Murphy Show*.



Twenty Third in a monthly series of Nelson Nash’s personally written Becoming Your Own Banker® lessons. We will continue these lessons until we have gone through the entire book.

PART II Lesson 9 Creating the Entity

To demonstrate what we learned in Lesson 8 about how to design the policy best suited for “banking purposes” consider the table shown below. Here are twin brothers, age 25 and each has decided to put \$2,000 per year into whole life insurance. Twin “A” decides to put it all in Ordinary Life. Refer back to the scale on page 38 [BYOB] and find where this is located.

Twin “B” puts \$1,200 into Ordinary Life and puts \$800 into a Paid-Up Additions rider with the same insurance company as his brother.

Identical Premium Outlay

TWIN “A” Age 25, Male, Preferred \$2,000 Premium, Ordinary Life	TWIN “B” Age 25 Male, Preferred \$1,200 Premium, Ordinary Life \$800 Premium PUA Rider
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Cash Value	Death Benefit	Year	Cash Value	Death Benefit
\$0	\$219,964	1	\$784	\$133,022
\$20,155	\$227,711	10	\$23,831	\$179,503
\$84,777	\$305,556	22	\$97,210	\$303,746
\$626,905	\$939,943	45	\$705,012	\$1,044,404
\$1,981,712	\$2,305,534	61	\$2,235,564	\$2,596,584

Notice the difference in results over the period shown. At the end of the first year there is a difference in death benefit of about \$88,000. “A” has no cash value and “B” has \$784 – all of which is the cash value of the Paid-Up Additions rider.

Question: Refer back to the mortality chart in Les-

son 8 and tell me what the probability of death is for either of them at age 26? Answer: Very slim! If the difference in death benefit is of any concern to anyone, just how much does \$88,000 of Ten-Year Term Insurance cost on a 25-year-old? So little that I don’t know of an insurance company that will write such a small amount! Again, if this is of concern, then Twin “B” should buy \$250,000 of term insurance that is convertible to whole life. It is extremely inexpensive at that age.

Notice that the death benefits are equal at year 22, their age 47. The probability of death is still very remote at this point, but “B” has more cash value for “banking” purposes.

Now, look at the death benefit at year 61 – their age 86. The probability of death has increased significantly. Both twins have paid in the same amount of premiums, but the death benefit is better for twin “B” – and he has had significantly better cash values throughout the entire period. Which had you rather have – the large number or the small number?

Remember, we are solving for “banking” qualities – not death benefit. Twin “B” can have earlier and greater access to money for financing things like automobiles, etc. and can direct the interest that otherwise would be paid to banks and finance companies to his own system. This is the heart of what banking through life insurance is all about.

Refer to the scale on page 38 and you can visualize what has happened when “B” paid \$1,200 to the Ordinary Life policy and added a Paid-Up Additions rider of \$800 to it. This

action moved the resultant policy towards the left on the scale. If he changed the ratio of base policy and the PUA rider to, say \$800 Ordinary Life and \$1,200 PUA rider – then it would move the resultant policy further to the left – and the performance of it would increase even better than what we have illustrated in this exercise.

Now I hope you understand why, for banking purposes, it is best to emphasize cash value accumulations and de-emphasize the death benefit. It provides more cash for banking and, ultimately, will produce more death benefit than any other way.

Before we leave the subject of creating the entity a question will invariably come up, “Can the premiums paid to create this ‘banking system through life insurance’ be a tax-deductible item?” Absolutely not!! You would not want it to be, if you think the matter through. If it were you would have the IRS looking over your shoulder and telling you what you can and can’t do – as well as changing its mind at every turn of events. You want this entity to be yours and you want absolute control.

Remembering that we all operate from a paradigm – there is abundant evidence of a mental paralysis that controls the predominant thought pattern of most Americans today. Everything that involves financial matters seems to invoke the question of tax deductibility. We need to go back to the origin of the IRS to make sense of it all.

Income tax, as we know it today, started in 1913. Before that time there were surpluses in the national budget. And when the average citizen discovered that he could now vote himself a benefit – and send the bill for it to all the other citizens – the mess that we have today is the natural result.

I’m quite sure that no one has ever read the IRS Code – it is simply too voluminous. And if one did, that person would be in a complete stupor afterward. No one understands the monster. Give your tax information to ten IRS employees and ask them to compute your tax and I feel sure that you will get eleven different answers!

But, most everyone in the financial services business is familiar with a publication called Tax Facts. It is a compilation of questions and answers as to how the IRS Code treats certain situations. Pick up a copy of it and try this exercise: At random, pick out ten questions and read the answers to them. You can rest assured that you will come away with the conclusion that the IRS thinks they own everything, but under

certain circumstances they will grant you an exception to their rule. Their game plan is to make a slave out of you, and if you get hooked on their exceptions, you will become one. Your ability to think will have disappeared and you will then believe that your blessings in life come from the IRS of the US Government.

Most of the tax-deductible items that citizens are “hooked” on involve retirement plans or something of that sort. Up until World War II pension plans and retirement plans were pretty much non-existent. The same can be said of health insurance plans. During the war wages were frozen and the “progressive” income-tax rates peaked out, as best I can remember, at 90%.

So, this raises a question: “How can you give an employee a “raise in pay” without giving him “a raise in pay?” Answer: Give him a “benefit.”

This seems to be how the whole mess got started. Corporations gave their employees retirement plans and health insurance plans and Unions started using these as bargaining points. This only applied to employees of corporations.

Sometime later, sole proprietors and partners agitated for “their share of the loot.” Their rationale ran something like this: “You blessed the corporate employees, but what about us? Bless us, too!” And so, they created HR-10 Plans (Keogh Plans) and allowed them to contribute \$2,500 per year into them. The partners and sole proprietors agitated further, and the contribution was raised to \$7,500.

Still later, the every-day person made an observation: “You blessed the corporate folks, and sole proprietors and partners – what about us? Bless us, too!” And so, they created IRAs! Now, everybody was included in the deal. One of the points made to Congress for doing so was that the capital base in America was eroding – people were not saving enough. If we give them a tax-deduction this will give them an incentive to save more. Can you predict what happened to the savings rate? Right!! It went down because “Joe, six-pack” reasoned, “Now, I don’t have to save so much because of the tax deduction, and I can take the difference and make a down payment on a boat!”

When government creates a problem (read: onerous taxation) and then turns around and grants you an exception to the problem they created (read: IRAs, 401-Ks, et al) aren't you just a little bit suspicious that you are being manipulated?

Do yourself a favor – get those folks out of your life. If you play their game, they will make a slave of you and they will steal your money.

In Part III of this course we will look at some practical applications of the concept.

Take control of your financial world by
Becoming Your Own Banker
[Find a Practitioner Near You](#)

The following financial professionals joined or renewed their membership to our **Authorized Infinite Banking Concepts Practitioners** team this month:

- Ernie Brown - Birmingham, Alabama
- Tarisa Shelton - San Tan Valley, Arizona
- Debra Lanford - Greer, South Carolina
- David Moore - Plainfield, Indiana
- Scott Crook - Scottsdale, Arizona
- Howard Silvermintz - Atlanta, Georgia
- David Gribble - Colorado Springs, Colorado
- Kaye Lynn Peterson - Rancho Cordova, California
- Mark Yarbrough - Rogers, Arkansas
- Steve MacLellan - Bedford, Nova Scotia
- David Forbes - Shakopee, Minnesota
- Steve Haroldson Minnich - Coeur D'Alene, Idaho

You can view the entire practitioner listing on our website using the Practitioner Finder.

IBC Practitioner's have completed the *IBC Practitioner's Program* and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding

of Austrian economics and its unique insights into our monetary and banking institutions.

The *IBC Practitioner* has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.

THE FOUNDATIONS OF IBC

We are excited to announce the launch of our online **video series** for the general public.

The videos provide a comprehensive introduction to the *Infinite Banking Concept*.

The first four modules are free, you can view them here: infinitebanking.org/foundations

The remaining eight modules are subscription-based, costing \$49.95 for all eight.

*Or contact an **Authorized IBC Practitioner** and ask for a coupon code that will enable you to watch all twelve modules FREE.*

Module 1: [Introduction to the Nelson Nash Institute](#)

Module 2: [What the Infinite Banking Concept Is](#)

Module 3, Part 1: [How IBC Works](#)

Module 3, Part 2: [Policy Loans & The Nature of Collateral](#)

Module 3, Part 3: [How to Read a Policy Illustration](#)

Module 4: [Why Nelson Calls It The Infinite Banking Concept](#)