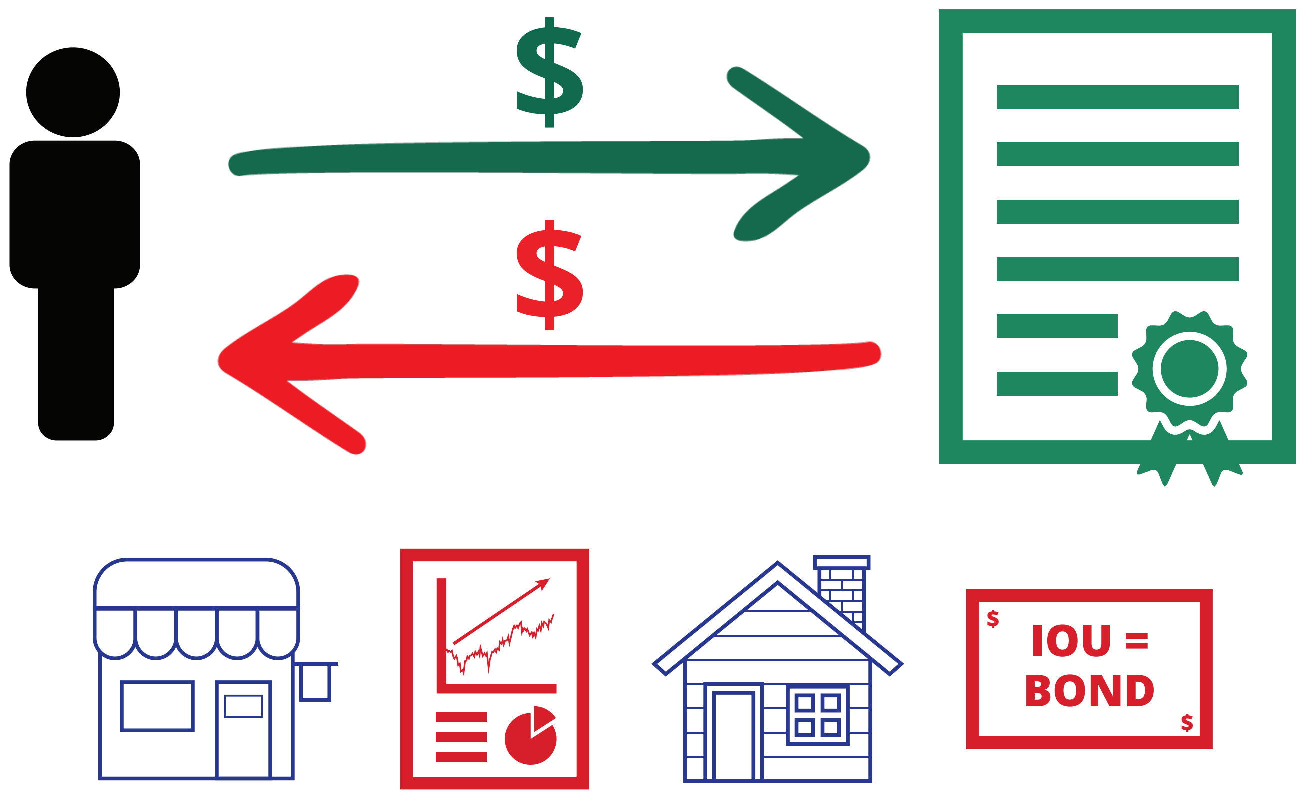
Everything You Ever Wanted To Know About Infinite Banking

John "Hutch" Hutchinson



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Is This Infinite Banking Strategy for Me?

So you want to know if this whole "be your own bank with life insurance" thing is for real or if it's just a big scam. I get it. You're skeptical, and you have reason to be.

Why? Because we're talking about two financial things that people probably hate the most. One is permanent life insurance, and the other one is pairing it with debt, borrowing against it. So you're thinking, "I've heard both of these things are bad, and now you're telling me to do both."

This sounds crazy. I understand. In fact, it may even sounds ridiculous.

But it actually works! In fact, banks, major corporations, iconic entrepreneurs, and famous people in the sports world are all doing this on a very large scale.

Did they all get scammed by some really slick insurance agents?

Or may there be something to using life insurance as a Tier 1 reserve asset?

And you might say, "Well, they're all bigger and richer than me, so this probably doesn't apply to my situation."

Guess what? They're doing it for the same reasons you would want to do it.

The main reason is they all want a safe and predictable yield while still maintaining liquidity on those safe assets they have reserved for emergencies, upcoming investment opportunities, or any major expenditures they have planned.

Additionally, there are some tax benefits since life insurance provides a social good for widows and orphans as well as critical employees of business using key person insurance. The IRS actually affords you some really nice and unique tax advantages.

And of course there are protection benefits such as a death benefit and possibly some sort of chronic illness rider where you can potentially tap into the death benefit even if you aren’t dead, but too sick or hurt to keep working. However, the compounding cash value is often way more important to those exploring the infinite banking concept.

So those reasons why would be interested in using whole life insurance as your own private banking or retirement vehicle.

Let's talk about why you wouldn't, or at least why you've heard you shouldn't touch it with a ten-foot pole…

You've probably heard things like,

"I've always heard that whole life is bad or expensive.”
“Aren’t those recommending it just doing so because of really big commissions?”
“I've heard you should buy term because you won't need life insurance when you retire. So just buy term because it's cheaper and invest the difference.”
“Insurance should be insurance and investments should be investments."

Chances are that's what you've heard, and it’s enough to keep you from researching further or even verifying if it’s true or not.

What most people call research isn’t actually really research. They do something I call "polling opinions," where they’re curious about a really niche topic like this. So they just start asking around.

But who are they asking?
Are they asking experts in this field?
Are they asking people who have special knowledge?

No, they're asking people who have been in the same echo chambers as they have, parroting all those things I just mentioned without really grounding any of those opinions with facts (which we’ll be discussing in this book later on).

So, who should you be asking? Well, what I can tell you is that if you actually go through this knowledge, which won't take very long, you'll know at the end of this book whether or not you want to even proceed, maybe by the end of this chapter.

If you do finish the book, you'll probably know more than everyone you're pulling opinions from. In fact, you'll probably even know more than a lot of agents out there selling it.

That's part of the other reason why life insurance has such a bad rap. The insurance industry has done a terrible job training people. Their attrition rate is around ninety-five percent, meaning more than ninety-five percent of people who enter the life insurance industry fail and leave the business completely. They don't really know what they're doing when they're selling. They go out and sell to their friends and families, and insurance companies hope that some of this business sticks with little to no servicing after they leave the business. Not a very good look for the industry.

Conversely, the Wall Street stock jocks of the world have done a great job. And why do I say that? Because there have been multiple times, even in the last couple of decades, where stocks have lost twenty, thirty, even fifty percent of their value in very short periods of time. That derailed a lot of people's retirement or major financial goals like saving for a house.

But yet, people defend the stock market so blindly. Like, "Well, it averages eight percent." Well, that's fine. I call that the "flaw of averages." If you go ahead and put one foot in a bucket of boiling hot water and another foot in freezing cold water, on average, you feel just fine. But that doesn't mean that the average is going to happen to you, especially on the timeframe you want it to coincide with your retirement.

The other thing is, "It'll always come back. Sure, it has to at this point," but that's mainly because we've pumped trillions upon trillions of stimulus into the systems. What happens when we run out of Band-Aids. At some point, we're going to have to feel some pain.

If I ask most of you, "Do you think our economy is out of the woods yet? Do does the stock market deserve to be at record highs. Most of you are pretty intelligent people, and you're going to say no.

Yet where you have most of your money. The reason why you is that you don't have a better way. There's no place to run, no place to hide. And so you more of less feel like you’re gambling on a timely outcome with your fingers crossed.

this is where I say the life insurance industry has done a crappy job because there are products where you can earn safe and predictable growth on your liquid reserves. So if, for some reason, it doesn't work out, you can access ninety-five percent of your wealth and put it into something that is safe, whether precious metals, cash, real estate, or whatever opportunity comes your way. But at least in between those projects, you can put your money in a place that is safe, liquid, growing, and tax-efficient, not to mention it has other benefits.

Remember all the random people you’re polling for guidance on this subject?

Let's take a look at some real life examples that will leave you thinking “Something good is happening here. The people I've been asking probably aren't knowledgeable enough to give me a truly educated opinion. So even though I can find a bunch of negative opinions, I should spend more of my time looking deeper into the handful of cases where this appears to be working very well.

The Simple Science Behind The Banking Concept

Banks profit exponentially off almost everyone in America.

Either they’re lending you money to buy cars, real estate, business inventory or equipment:

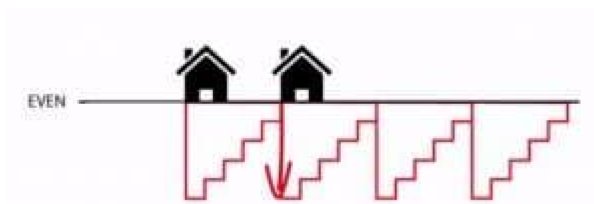
Or you’re parking your cash safely inside their holding tanks so that hopefully you won’t ever need any of their loans. Meanwhile, they’re loaning out every single dollar of your savings multiple different times for a handsome profit while they give you peanuts for the use of your capital:

Either way, they win.

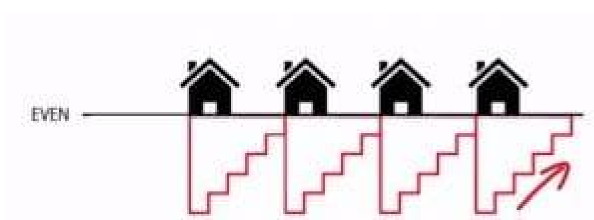
This video will show you how to profitably run those exact same cash flows through your own private banking unit to build two assets at once and to get your money wearing multiple hats. Now in order to explain how to do this for yourself, we’re going to dissect both of the ways that banks profit using the example of a real estate investor.

Keep in mind though that this exact same model can be used by business owners investing in their business or by fiscally responsible consumers with their major purchases in life.

Let’s first look at traditional bank financing for ongoing real estate investments. You essentially borrow against the property itself to qualify for the bulk of the capital necessary to acquire it.



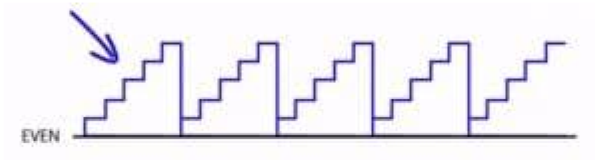
You then must make ongoing structure principal and interest payments to pay off that loan and get yourself back to even. Eventually though, you’ll want to invest in yet another property, so you again have to prove not only your own credit-worthiness, but also the feasibility of the project you want the money for. So long as you continue to be steady and diligent about paying back the bank according to their terms, you should be able to hopefully continue financing your real estate empire.



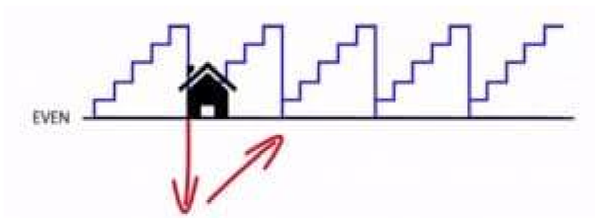
But be very clear about the fact that there is no guarantee that banks will continue to make this liquidity available to you. If it’s a soft economy, or if for whatever reason the bank doesn’t share the same vision for your project, they can just pull the plug on your financing.

This is all the more reason to save up your own cash, so you don’t need to rely on bank loans. Let’s face it. Some people simply hate the concept of borrowing, even if it helps them exponentially acquire more assets. They would just feel better paying cash for every single property they buy and not being on the hook to anyone.

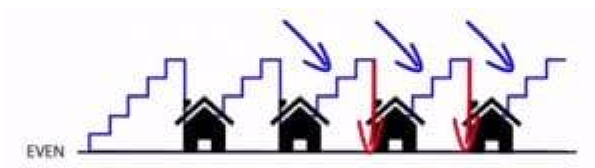
Well in order to do so, you first have to save up enough capital in a bank account that earns very little or no interest.



Then once you acquire that first property, you own it free and clear, and you don't owe anybody anything.



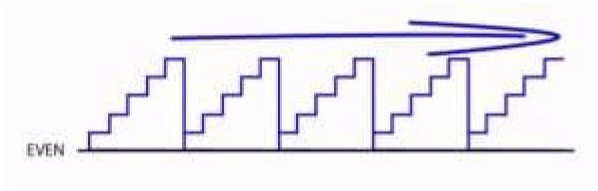
Even though you don't need to pay any debt service to banks for the use of their money, if you want to buy a property in the future, you still have to continue making ongoing payments into one of their accounts earning very little or no interest. That way you will have enough cash in the future to purchase that next property free and clear.



Because of this, the payment structure you have is nearly identical whether you pay cash outright for every single property or you finance them 100% using bank loans.

Now some of you may be saying, "Wait, when I pay with my own cash, at least I don't need to pay interest for the use of the bank's money."

True, but remember that you are passing up earning a reasonable interest rate on your own capital by keeping it safe and accessible inside their coffers. In fact, you're voluntarily not gaining any ground whatsoever on this very large block of liquid assets in between every single property purchase.



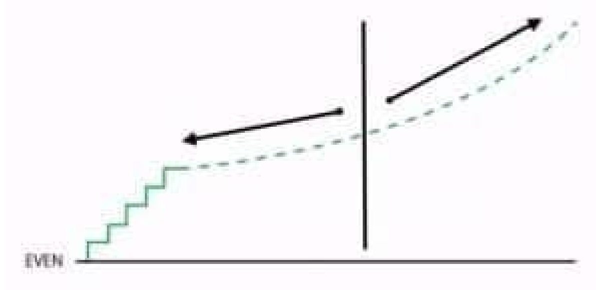
Even if interest rates go up considerably in the future, you wouldn't be able to take full advantage of it because as soon as you get your account to the point of critical mass, you kill your compound curve every time you withdraw that cash to buy another property.

And it doesn't need to be that way.

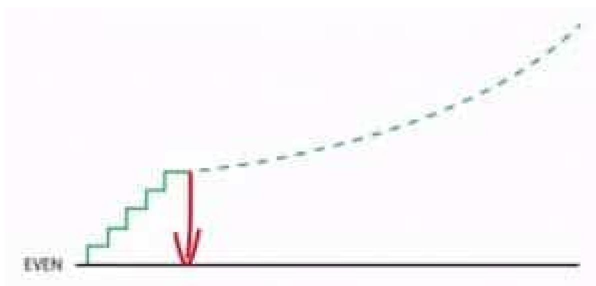
For the rest of this video, I'm going to show you how to create a money multiplier effect with your own bank by keeping your liquid reserves safely and continuously compounding for you, even though you have them doing double duty elsewhere.

You see, in a perfect world, you'd save up assets one time and they'd go ahead and compound into the future. What's so powerful about compounding is you not only earn interest on your principal, but pretty soon you earn interest on the interest through principals already earned. It creates this wonderful snowballing effect.

That's why the curve on the right is a lot steeper than on the left. In fact when I ask clients, "Which side of this curve would you rather have?" Everybody wants the steeper side on the right, but you don't get that without putting in your time on the early part of the curve. You see, it's just time value of money. Keeping assets continually compounding over time is the key.



Unfortunately though, these purchases do need to be made. Every time they are, it just resets our compound curve to the very beginning, killing our chances of ever getting to the far right-hand side of that curve.



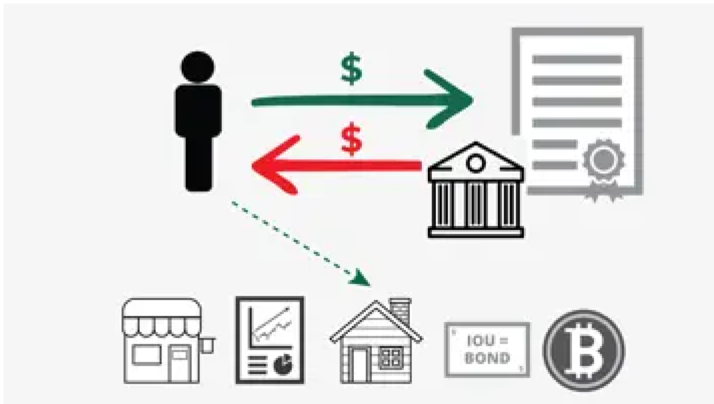
That is unless there is a way to contractually borrow against our assets at any time for any reason. You can see when we do, that red line comes down, indicating there’s a lean against our asset base, but notice that the entire asset base continues to compound up that green curve. As we pay down the lean against the assets, we actually end up at a higher place in line each and every time.

That’s really the biggest component of this strategy. The fact that your entire asset base continues to compound in your favor in spite of having used some of it to make those purchases.

Now it helps too that the asset class we've chosen also happens to grow each and every year at a very favorable rate of return: a return that does not start with a dot. It's also immune to market losses and immune from taxes as well. All these things work in its favor.

Now keep in mind that the cash flow and payment structure we're using is an apples to apples comparison with somebody paying cash. The fact that you don't have your entire asset base compounding for you when you withdraw cash from an account to make a purchase, you'd need such an astronomical rate of return to make this work and to overcome any taxes due that it simply just pales in comparison to how effective the banking strategy can be.

5 Steps to Be Your Own Bank with Whole Life Insurance



Becoming your own banker may seem like smoke & mirrors, but when this private family banking concept is implemented correctly, you actually can recoup cash flows that would normally be lost forever while safely channel a massive amount of compounding in your favor.

The most popular private banking bestsellers (in bullets below) echo this bold claim, but they don't really elaborate in detail on the necessary steps to become your own banker:

- Becoming Your Own Banker – The Infinite Banking Concept * by Nelson Nash
- Bank on Yourself ** by Pamela Yellen

Upon first hearing that you can "be your own bank" you may have thought that you'd be starting a local bank branch in your neighborhood.

By now though you probably realize these books discuss borrowing against some sort of magical life insurance policy to double dip on growth when becoming your own banker.

Now you're probably left wondering if this whole "be your own bank" concept is a scam or legit, right?

I can personally attest to the fact that when executed correctly, borrowing against a properly-structured life insurance policy as your own bank can produce vastly more liquid wealth than if you saved and paid cash for everything in your life simply because of a very powerful mathematical force called compounding.

Wait… What?

Here are the most common ways people access whole life loans to become your own banker:

- Cars & Trucks
- College Tuition
- Real Estate (personal or investment)
- Business Inventory
- Business Equipment
- Major household expenses

Yes, there is actually merit to the underlying mechanics of this so-called "private family banking strategy" at the heart of these wordy books promoting "The Infinite Banking Concept®" * and "Bank on Yourself®." **

However, I will boil down this private family banking concept much more succinctly in 5 simple steps below.

Step 1 – Start a Whole Life Policy to Be Your Own Private Family Bank

Quite simply, the strategy requires that you take out a whole life insurance policy on yourself if you can qualify medically for it. If not, you can purchase a policy on someone close to you to be your own bank.

Warning: Insurance companies hate STOLI (stranger-owned-life-insurance) and so does the IRS.

However, here are the types of relationships insurance companies will sometimes issue a whole life policy on for you to own and control as your own bank:

- Spouse
- Child
- Business Partner
- Key employee
- People you have loaned significant amounts of money to

Note: With proper documentation, other scenarios may be possible to become your own banker using other people as the insured for your infinite banking life insurance.

Once you have identified who to buy insurance on, what's the next step?

Step 2 – Whole Life Policy Design Necessities and Add-ons to Become Your Own Banker

Now you shouldn't get any type of life insurance policy as your private family bank.

Nelson Nash's book "The Infinite Banking Concept – Becoming Your Own Banker" and Pamela Yellen's "Bank on Yourself" books insist that it must be a Participating Whole Life Insurance Policy from a mutual insurance company.

Although we are big fans of using certain Whole Life insurance policies for the infinite banking concept, we also recognize that certain Indexed Universal Life insurance (IUL policies) may also work if structured properly. However, since there is additional risk associated with these types of policies, we recommend that you fully understand all the pros and cons of Indexed Universal Life before using IUL to be your own bank.

Getting back to using the time-tested & true Whole Life insurance to become your own banker, we fully agree that it's of utmost importance to get your policy from a Mutual Life Insurance Company (as opposed to a stock insurance company). This is critical since mutual companies are owned by policyholders and share their profits with Whole Life policyholders in the form of dividends. It's what makes Whole Life insurance cash value a true non-correlated asset with solid steady growth rates, unlike "high-yield" savings accounts or CDs.

In order to maximize cash value growth and early access to the equity inside your own bank, you also will need to make sure your Whole Life policy includes these 2 key riders:

1. Paid-Up Additions (PUA) Rider: this is how to turbo-charge your "banking engine." (more on this below)
2. Term Insurance Rider: this would be like the titanium frame that holds the turbo-charged engine in place.

FAQ: "But wait, a term insurance rider? I thought you needed Whole Life for IBC banking?"

Answer: When becoming your own banker, you do need Whole Life. However, blending it with this additional term rider can substantially bring down the overall cost of the total death benefit needed to support overfunding. It also increases the amount of Paid-Up Additions you can buy in the early years, which is like the turbocharger that will greatly accelerate ongoing growth inside the whole life policy as your own bank.

To become your own bank, Whole Life requires certain design techniques and riders

Now that you know who to buy insurance on, where to buy it from, and which features you want to add, what's the next step to be your own bank?

Step 3 – Properly Funding Your Policy So You Can Become Your Own Banker

Now I realize that it seems completely counterintuitive to pay any more than you absolutely need to pay when it comes to insurance. So, prepare to have your paradigm shifted and your mind blown!

The way to outrun the internal costs of a Whole Life policy is to pay additional premium over and above the amount required for the basic coverage. In fact, you will want to pay substantially more when becoming your own banker… as much premium as the IRS will let you.

Becoming your own bank with life insurance offers special tax advantages with the IRS

[Hint: When the IRS regulates anything, doesn't that usually mean that they're trying to limit something good going on there?]

Here are the 4 reasons you want to pay the maximum amount of Whole Life insurance premium to be your own bank:

1. The commission paid to the agent for the additional overfunding payments is peanuts
2. 90-95% of this additional premium goes straight to your cash surrender value (in other words these overfunding payments become immediately accessible inside your private family bank)
3. The other 5%-10% of this extra payment which doesn't go toward building immediate equity goes to buying a little slice of extra permanent death benefit (called a Paid-Up Addition or PUA). What's nice is that no further premiums will be due on PUAs since it is contractually paid-up with this one-time payment, hence the term Paid-Up Addition. PUAs immediately increase your Whole Life policy's guaranteed cash value as well as entitle you to a bigger cut of future dividend pools from your mutual insurance company.
4. These Paid-Up Additions get stacked onto your cash value which contractually starts growing at a favorable guaranteed rate of return (even if no dividends were ever paid again).

Now that you've got your banking engine in place, you've filled it with fuel, and the engine is humming, now what…?

Step 4 – Use Cash Value to Be Your Own Bank and Fund Expenditures and Fuel Outside Investments

Using our car analogy, it's time to take your infinite banking life insurance policy for a ride. Most people don't want to accumulate wealth simply just to have an impressive set of ink dots on an annual statement. You want to become your own banker to buy things, build wealth, and invest for your retirement and legacy.

Now you can utilize the equity inside your own bank to do these things at any time for any reason using one of these 4 methods:

1. Withdraw your cash surrender value or…
2. Borrow against your cash surrender value using the guaranteed policy loan feature for maximum flexibility
3. Increase your total borrowing capacity by using outside financing without even having to pledge your policy (i.e.: 1.9% Auto Loan)
4. Pledge the policy as collateral to a Cash Value Line of Credit (CVLOC) program when you can often get a better rate than a policy loan (or for convenience when you own multiple policies).

Now I know that most of you just cringe and see RED when you hear the words BORROW and LOAN.

That said, even though you are technically borrowing funds when becoming your own banker, your entire cash value balance continues growing within your Whole Life insurance policy, including the amount you borrowed.

Hmmmm…

You see, some people mistakenly think they are "borrowing out" the cash value from the policy and "paying themselves back with interest." That's not true at all and is often used as a deceptive sales pitch.

Your cash value never actually leaves your Whole Life policy even when you take a loan and "borrow against" it. You see, the mutual insurance company is happy to give you a loan out of their general account because they're always holding your cash value as collateral and it's guaranteed to grow every year no matter what!

That's why it seems like you pay yourself back the interest.

Again, this is important:

None of your cash value ever leaves your Whole Life policy when you borrow! Your entire cash value balance continues to grow inside your banking life insurance policy INCLUDING the amount you borrowed.

Question: "What if I don't ever want to pay back the darn loan?"

Answer: "You don't have to, but you may want to. And you have the ultimate flexibility in how you do that."

Step 5 – Pay Down the Loan ON YOUR TERMS with your Own Private Family Bank

Thankfully, a Whole Life policy loan is a private loan between you and the insurance company, so it doesn't show up on any credit report. Also, since the mutual company is holding your growing cash value as collateral, there's no stringent payment structure in place with your own bank. Here are your options for repayment:

- Pay principal and interest on whatever schedule you want
- Make interest-only payments
- Pay nothing until you can make a balloon payment for the entire balance

- Pay nothing (hoping the cash value growth keeps pace with the loan interest that's rolling up into the loan balance) then eventually have the Whole Life death benefit pay off the loan when the insured passes.

Needless to say, there's no other institution (or even a mafia loan shark) that offers this kind of flexibility to be your own bank with. Obviously, you should schedule some sort of regular loan maintenance, but it's certainly not required by the insurance company.

In fact, I have contractor clients who bid on jobs and have to come out of pocket for materials and labor costs. They float a Whole Life policy loan for close to a year and then pay it off in one fell swoop when they get paid for the entire job. We encourage them to pay whatever minimum interest maintenance is needed to maintain simple interest on a flat loan balance while earning compound interest on an increasing cash value balance. However, when a banking life insurance policy is performing well as your own bank, the minimum required loan payment may be nothing at all.

A lot of people hear about how paying interest on the loan works and think, "Ah see, I knew there was a catch! I knew it was too good to be true."

But think about it – even if you just kept your cash in a bank account and made a withdrawal for every single purchase, don't you start making deposits shortly thereafter to true up the account for the next purchase?

So if you apply the exact same "save-spend-replenish" routine but instead funnel the exact same cash flows through a properly designed Whole Life insurance policy as your own private family bank, you will often see that the difference in net wealth is staggering when practicing what they call the infinite banking concept.

Here are the 3 reasons why becoming your own banker using life insurance works:

1. Your cash value usually earns a much better growth rate than any bank account, CD, or even safe bonds (with minimal fluctuating values)
2. The growth, as well as any lifetime distributions, are immune from income tax as long as some small amount of whole life insurance death benefit stays in place until the insured passes away.
3. When you borrow rather than make a withdrawal, your full cash value continues growing inside the policy despite any loans you have against the policy with the insurance company.

That's it! And that third factor is huge. Believe it or not, the combination of these 3 factors can contribute to vastly more wealth for the policyholder if this banking strategy is employed properly.

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