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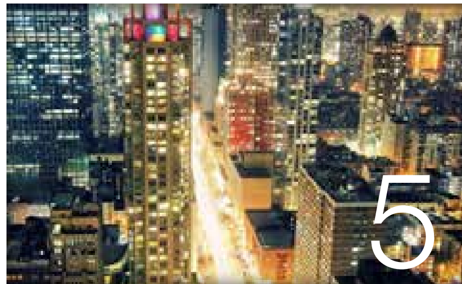

ECONOMIC DEEP END

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ONE MORE THING

EVENTS AND ENGAGEMENTS

Learn more in person from Lara, Murphy, and other Austrian economists, at these upcoming appearances.

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In 2010 he co-authored the highly acclaimed book, *How Privatized Banking Really Works* with economist Robert P. Murphy.

He is a co-creator of the IBC Practitioner Program for financial professionals and sits on the board of the Nelson Nash Institute.

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"Taxing profits is tantamount to taxing success."
—Mises

Entrepreneurs and business owners at some point in their climb to the top income levels realize that the more money they make the more taxes they have to pay. It is so demoralizing that they will spend endless hours trying to circumvent this stranglehold and pay tax experts enormous sums to help them beat this trap.

Some libertarian economists have sketched visions of a purely voluntary society with no coercive taxation. Regardless of how one feels about the viability of such approaches, in today's world governments spend voraciously and levy high taxes accordingly. Most of the wealthy and business owners don't object to taxation per se, but they do chafe under discriminatory taxation that seems targeted specifically at them. Heavy taxes on the rich are described as progressive taxation, but it is really a form of disguised expropriation. The masses, which do not have to pay them, are of course quite happy with high taxes on larger incomes. Politicians know this all too well.

"Progressive taxation of income and profits means that precisely those parts of the income which people would have saved and invested are taxed away." —Mises

So long as this is the state of affairs the government is able to collect the money that it wants to spend, but it does have its limits. Although this is today's egregious public policy, there is a day of reckoning.

For those of us that practice Nelson Nash's Infinite Banking Concept (IBC) there is no need to wait for government policy to change. We can experience the building of our warehouse of wealth in spite of these capital levies, and pay our taxes too.

Yours truly,
Carlos and Bob

PULSE ON THE MARKET

Global Debt Record

GLOBAL DEBT HITS ALL-TIME HIGH

An article from early January at ZeroHedge informs us that *"in the latest report from the Institute for International Finance…total debt as of Q3 2016 once again rose sharply, increasing by $11 trillion in the first 9 months of the year, hitting a new all time high of $217 trillion. As a result, late in 2016, global debt levels are now roughly 325% of the world's gross domestic product."*

Now by itself, the increase in total debt is not cause for alarm; even a well-run company might have a growing amount of outstanding bonds as the enterprise expanded over the years.

However, we do not think the global economy rests on a sound footing at the moment. Central banks have yet to withdraw their extraordinary accommodation, meaning that adding leverage on top of the system is a risky move.

House Flipping Back

"AMERICANS FLIPPING HOUSES LIKE IT'S 2006."

So says the headline of a Jan. 24 Bloomberg article by Patrick Clark. According to the article: *"Home flippers, who buy homes as a speculative bet on short-term price appreciation, accounted for 6.1 percent of U.S. home sales in 2016, according to Trulia, which defines a flip as a property sold twice in a 12-month period in arm's-length transactions. That's the highest share since 2006, when flips accounted for 7.3 percent of sales."*

As with our blurb on global debt, here too the matter is nuanced. By itself, there's nothing horrifying about "house flipping." Some people have a taste and knack for buying a property and fixing it up—solving headaches that most homebuyers don't want to deal with—and then reaping a financial reward in the resale value. There's nothing objectionable about that,

PULSE ON THE MARKET

anymore than we should worry about other lines of "value added" intermediate steps.

However, in the present environment, if the Fed keeps tightening, then mortgage rates are likely to trend upward. (Just before the election, a fixed 30-year mortgage was 3.4 percent, while now it's 4.2 percent.) Since July 2014, the 12-month change in the Case/Schiller Home Price Index (whether national or their 20-city index) has been hovering around 5 percent. Rising mortgage rates could easily knock that growth down significantly, causing speculative home buyers to cut back on their inventory.

One might think it's silly to worry about such things, since surely "the experts in the financial system are aware of these risks and are protecting themselves." Except…that's not what happened a decade ago.

TRUMP TALKS TARRIFFS

WHO WILL PAY FOR THE WALL?

As of this writing, there aren't enough details to back up a comprehensive analysis, but President Trump has suggested that if the Mexican government doesn't literally write a check to cover the construction costs of a border wall, then Mexico will indirectly "pay for" it through taxes on Mexican imports. As critics immediately pointed out, this tax will hurt American consumers by raising prices on the goods they buy, and in that sense Americans will also "pay for" the wall.

Now we should be careful not to exaggerate in the opposite direction and claim that such a tax would fall *entirely* on US consumers. In textbook tax incidence analysis, it doesn't matter whether the government formally levies a tax on the seller or the buyer. What happens is that the price adjusts one way or the other (depending on which party the tax is formally levied upon) to split the burden among both parties. The *proportion* of the burden borne by the seller

vs. the buyer depends on what's called the *elasticities* of the supply and demand curves.

So for example, if the government slaps a $1 tax per packet of cigarettes and levies it on the sellers, this reduces the supply and causes the equilibrium price to rise. Because the demand for cigarettes is relatively inelastic (consumers really want their nicotine fix and don't have good substitutes for it), perhaps the price rises by 80 cents per pack. Thus, even though the seller pays $1 in tax to the government per pack sold, it is charging consumers 80 cents more via a higher price. So on net, the seller only pays 20 cents of the tax, while the consumer—who in theory pays "no tax"—is really shouldering 80 cents of the burden.

On the other hand, if the government levied a $1 per bottle tax on Pepsi (not soda but Pepsi in particular), but put it on the consumers to pay a surcharge at checkout, we would see the opposite result. Because the demand for Pepsi specifically is fairly elastic—consumers can switch to Coke—the buyers will take their business elsewhere. The demand for Pepsi will fall, so that in the new equilibrium maybe the price per bottle is 90 cents lower. Thus even though the consumer is the one legally responsible for paying the $1 in tax every time he or she buys a bottle of Pepsi, in reality the consumers only shoulder 10 cents of the burden, while the sellers eat 90 cents of it.

This is the proper starting point for thinking about tariffs or other border penalties on Mexican goods coming into the United States. It's naïve to think "the Mexicans will pay for it!" just because the government might formally levy a tax on companies, but on the other hand it's also incorrect to say, "Businesses can pass along 100% of a tax hike." In future issues of the *LMR* we'll cover these matters in more depth, once we have solid details.

THE ALLEGED PUTIN TRUMP CONNECTION

by Robert P. Murphy

After the initial shock—and I mean that quite literally, I think some were in shock—of Trump's election, some of his opponents began amplifying claims that Russian President Vladimir Putin was involved behind the scenes in the upset victory. This led to pleas to electors to change their votes in the Electoral College, and eventually became such an established "fact" among progressives that Paul Krugman now casually refers to the current regime as the "Trump-Putin Administration."

You can't prove a negative: There is no way to definitely say that the Russian government was not involved in "hacking" the U.S. presidential election.

Yet how solid is this alleged connection? Well, of course you can't prove a negative: There is no way to definitely say that the Russian government was *not* involved in "hacking" the U.S. presidential election. However, what we *can* do is analyze the evidence made available to the public, including the declassified report from the U.S. intelligence agencies and the dossier ostensibly compiled by a former MI6 agent.

I encourage the reader to investigate these documents for him or herself. You don't need forensics training or the ability to speak Russian to see how unbelievably weak this "evidence" is. We have yet another case of the CIA deciding to attack a hostile regime with a disinformation campaign. It just so happens that the regime is the Trump Administration.

Before diving in, one final caveat: I am not giving my blessing to the Trump Administration. In these pages we will be as critical of violations of economic and civil liberties on the home front, and of military action on the foreign front, as we were during the Obama years. But to understand "how the world works," in line with Carlos' essays on "Who Runs the World?" from August 2013, I thought it important to show just how baseless this latest Red Scare has been.

LURID TALES

I am sorry to be so coarse but the topic leaves me little choice. In early January, CNN reported that intelligence officials had briefed both President Obama and then-President-Elect Trump on the evidence showing his relationship with the Russian government. On January 10, the click-baity

The dossier was ridiculous. It was a string of unverified assertions from a then-anonymous author (who claimed to be former MI6), referring to claims made to him by anonymous Russian sources.

website BuzzFeed ran a story posting the full dossier provided by an alleged former British intelligence officer, which was presumably the meat of the briefing.[1]

As of this writing, the BuzzFeed story has almost 6 million views. When it first broke, it became a social media sensation, primarily because one of its lurid claims was that the Russian government was blackmailing Trump, since it had had video cameras in a Russian hotel room where Trump hired prostitutes to relieve themselves as he watched.

There were other embarrassing (though less provocative) allegations. They made the rounds on the Internet. Trump's foes couldn't believe their good fortune; it was a second Christmas in January.

The only problem is that the dossier was ridiculous. It was a string of unverified assertions from a then-anonymous author (who claimed to be former MI6), referring to claims made to him by anonymous Russian sources. The day after the BuzzFeed story broke, one of the verifiable claims turned out to be false. (Specifically, the dossier claimed that Trump's lawyer, Michael Cohen, had traveled to Prague to meet with Russian officials. The next day CNN reported that apparently it was a different Cohen, not connected with Trump, who had met with the officials.)

Greenwald's article eloquently explains that even if—indeed especially if—one hates Trump, the worst thing to do is mindlessly repeat unverified claims impugning him.

Now the above is bad enough. But let me tell you the backstory; it's far worse. I quote extensively from Glenn Greenwald, whose reporting has been indispensable in this time of partisan rancor. The following excerpt is from a January 11 column—right after the BuzzFeed story broke—and it has the ominous title, "The Deep State Goes to War With President-Elect, Using Unverified Claims, As Democrats Cheer."[2] I should note that Greenwald was a supporter of Bernie Sanders, by the way; he is no right-winger:

> Back in October [2016], **a political operative and former employee of the British intelligence agency MI6 was being paid by Democrats to dig up dirt on Trump (before that, he was paid by anti-Trump Republicans).** He tried to convince countless media outlets to publish a long memo he had written filled with explosive accusations about Trump's treason, business corruption, and sexual escapades, with the overarching theme that Trump was in servitude to Moscow because they were blackmailing and bribing him.
>
> **Despite how many had it, no media**

outlets published it. That was because these were anonymous claims unaccompanied by any evidence at all, and even in this more permissive new media environment, nobody was willing to be journalistically associated with it. As the New York Times' Executive Editor Dean Baquet put it last night, he would not publish these "totally unsubstantiated" allegations because "we, like others, investigated the allegations and haven't corroborated them, and we felt we're not in the business of publishing things we can't stand by."

…All of that changed yesterday. Why?

What changed was the intelligence community's resolution to cause this all to become public and to be viewed as credible. In December, John McCain provided a copy of this report to the FBI and demanded they take it seriously.

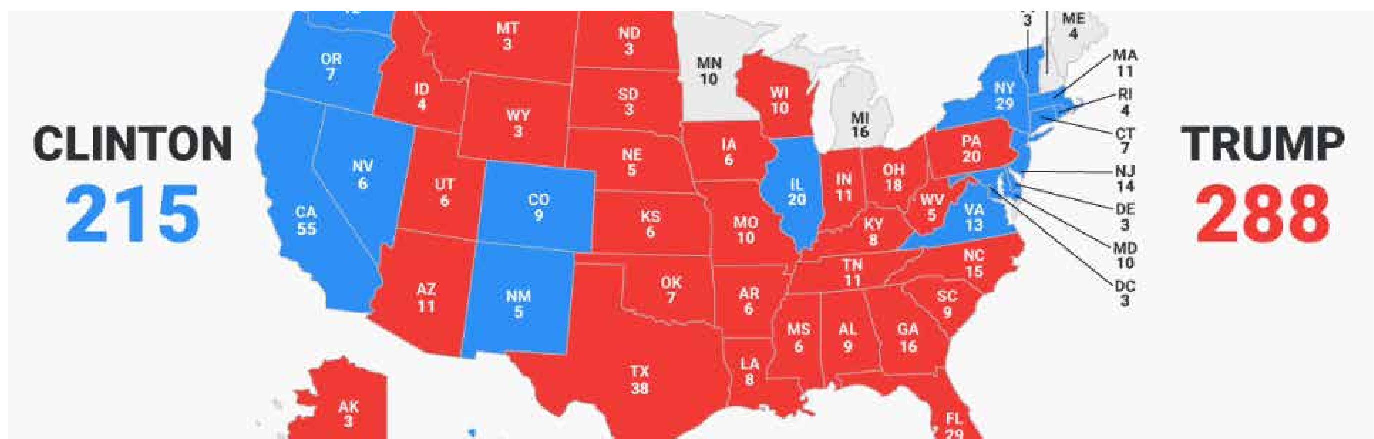
At some point last week, the chiefs of the intelligence agencies decided to declare that this ex-British intelligence operative was "credible" enough that his allegations warranted briefing both Trump and Obama about them, thus stamping some sort of vague, indirect, and deniable official approval on these accusations. Someone — by all appearances, numerous officials — then went to CNN to tell the network they had done this, causing CNN to go on air and, in the gravest of tones, announce the "Breaking News" that "the nation's top intelligence officials" briefed Obama and Trump that Russia had compiled information that "compromised President-elect Trump." [Bold added.]

Space prevents me from quoting more, but Greenwald's article eloquently explains that even if—indeed *especially* if—one hates Trump, the worst thing to do is mindlessly repeat unverified claims impugning him. If and when these claims collapse, Trump will then with justification be able to dismiss future criticism as "fake news." His fans will not take critics seriously even if they do excellent research and uncover actual corruption in his administration, because they have now learned through countless episodes that Trump's foes will stoop to any smear, no matter how baseless, to attempt to thwart him.

THE DECLASSIFIED INTELLIGENCE REPORT

In contrast to a BuzzFeed article, one might hope that the intelligence report, released by on January 6 by the Office of the Director of National Intelligence, and compiling information from the CIA, NSA, and FBI, would have a more solid foundation for the claims that Russia "hacked the election."[3]

Alas, one can read the short document and walk away underwhelmed. Now in fairness, we of course only have access to the *declassified* version of the report. But as we'll see, the report doesn't *claim* much at all, so whether or not its claims are validated (in the classi-



The intelligence report says quite clearly, "We did not make an assessment of the impact that Russian activities had on the outcome of the 2016 election."

fied version), doesn't matter too much in the grand scheme. When Carlos and I read the whole document in preparation for a podcast episode—which is linked in the endnotes[4] for those who want to hear an extended discussion after reading this article—we were both surprised at how weak it was. *This* was the reason we were supposed to question the legitimacy of Trump's election?

WHAT THE INTEL REPORT DOES NOT CLAIM

In particular, the intel report makes *no* claim on whether Russian interference with the US election altered the result. In other words, for Hillary fans who pointed to the report as "all the proof you need" that she had the election stolen, they are not even bothering to read the report. The intelligence report says quite clearly, *"We did not make an assessment of the impact that Russian activities had on the outcome of the 2016 election"* (p. i).

Furthermore, although the whole subject matter of the report was to document Russian interference in the election, it did *not* indicate that there was any evidence that Russian activities had actually altered vote tallies. For example, there was no evidence of tampering with vote counts or forging ballots, nor was there any allegation of Russian bribery of voters.

Finally, the report does *not* claim that it has a hard link between Vladimir Putin and the activities that it claims were carried out on his orders. As the report concedes, *"By their nature, Russian influence campaigns are multifaceted and designed to be deniable because they use a mix of agents of influence, cutouts, front organizations, and false-flag operations"* (p. 2).

SO WHAT DID RUSSIA ALLEGEDLY DO?

The report alleges three main types of interference:

First, it claims that *"Russian military intelligence…used the Guccifer 2.0 persona and DCLeaks.com to release US victim data obtained in cyber operations publicly and in exclusives to media outlets and relayed material to WikiLeaks."*

Second, the report alleges that Russian intelligence penetrated multiple state or local electoral boards.

Third, the report alleges that *"Russia's state-run propaganda machine contributed to the influence campaign by serving as a platform for Kremlin messaging to Russian and international audiences."*

We can handle each of these allegations in turn.

Regarding the first claim—that the ultimate source of the Podesta emails and other embarrassing leaks of hacked data from Democratic operations—there is unfortunately no new evidence presented in the declassified report. In other words, we largely have to take their word for it that they "know" it was the Russians.

The claim has boiled down to saying that the Russians interfered with the US election by showing people how corrupt the Clinton campaign and its media allies were.

Whoa, someone get me my swooning couch! Those Russian bastards had the audacity to tell Americans that their two-party system was a sham?!

This is not my area of expertise, but I have heard responses from other cybersecurity experts who claim that "attribution" in this type of situation is difficult. If someone *wanted to make it look like "Russian" hacking,* they would be able to do so. But if actual Kremlin spies were doing it, they would not leave the telltale "signature" that the US intelligence community is now saying demonstrates that the data hacks were conducted by the Russian government. (Keep in mind that a Russian hacker with no connection to the Russian government could be the culprit.)

However, even if we stipulate for the sake of argument that Putin personally ordered the hacks and then personally gave the green light to release Podesta's emails to WikiLeaks, think about what we're saying. The claim has boiled down to saying that the Russians interfered with the US election by showing people how corrupt the Clinton campaign and its media allies were. (Remember, nobody has demonstrated that any of those leaked emails were fake.) Yes, presumably if there had been leaks of the Trump team's emails, some awkward dirt would have emerged. But there couldn't have been evidence of widespread complicity between the Party establishment, the media, and the Trump team—the way there had been with the Clinton leaks—since they were out to crucify Trump. In contrast, the establishment was in the tank for Hillary, as Podesta's leaked emails demonstrated.

Regarding the second claim—namely, that the Russians gained access to US state and local election boards—that sounds nefarious, to be sure, but remember that the intelligence report doesn't allege any tampering with vote counts. I hate to shock people, but the CIA's spies monitor foreign elections all the time. (And sometimes it plays more than an observer role.)

Third and final, consider the charge that Russian state-run propaganda influenced the election by spreading the Kremlin line. Well, that may be true, but notice it doesn't take lies. For example, the intel report tells us that the Russian network RT *"broadcast, hosted, and advertised third-party candidate debates and ran reporting supportive of the political agenda of these candidates. The RT hosts asserted that the US two-party system does not represent the views of at least one-third of the population and is a 'sham.'"*

Whoa, someone get me my swooning couch! Those Russian bastards had the audacity to tell Americans that their two-party system was a sham?!

I remind readers that this isn't merely funny, but it's also ironic: Democrats who claim that the last US election didn't represent the will of the voters, are citing as proof an intelligence report that notes Russia has the audacity to claim that our elections don't represent the will of the voters.

CONCLUSION

I am quite sure that Vladimir Putin had a strong preference for Donald Trump over Hillary Clinton in the election. Why wouldn't he? Trump was promising to negotiate with Russia, while Hillary was saber-rattling and as Secretary of State had been—wait for it—stirring up Russians, telling them their elections weren't fair.[5]

Even so, the eagerly repeated claims that "Russia hacked the election" rested on very little substance. As Glenn Greenwald—no fan of Trump—argues, even Hillary Clinton supporters should be wary of letting the CIA tell Americans who their president is.

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AN IBC TAX STRATEGY
PART I

BY L. CARLOS LARA

It's been said that people would rather die than think. But I am going to see if I can incentivize you do just that by showing you a way to fund a large Infinite Banking Concept (IBC)-type life insurance policy, while using cashflows that are dedicated to paying your taxes. I should say upfront that this discussion will make sense immediately to business owners, but I hope that salaried individuals see relevance to their households as well. Now in order to provide this intriguing maneuver a fair disclosure, I will need to do it in two parts. In this first part, I will lay the groundwork, and then in next month's article I will provide some numerical illustrations to show exactly what I mean.

Let me be perfectly clear that my discussion *does not reduce your tax liability.* This is not about "finding a tax loophole." Rather, I am pointing out one option that people with large cashflows—such as business owners who annually make a large expenditure to the IRS—have, if they've been convinced that obtaining a well-funded IBC-type policy is a good idea.

As my remarks indicate, this idea isn't really about "paying taxes" per se; it would work for any recurring expenditure that is of a comparable size, year after year. I personally use this strategy for my own taxes, and that's why I'm choosing this particular approach to relay the idea.

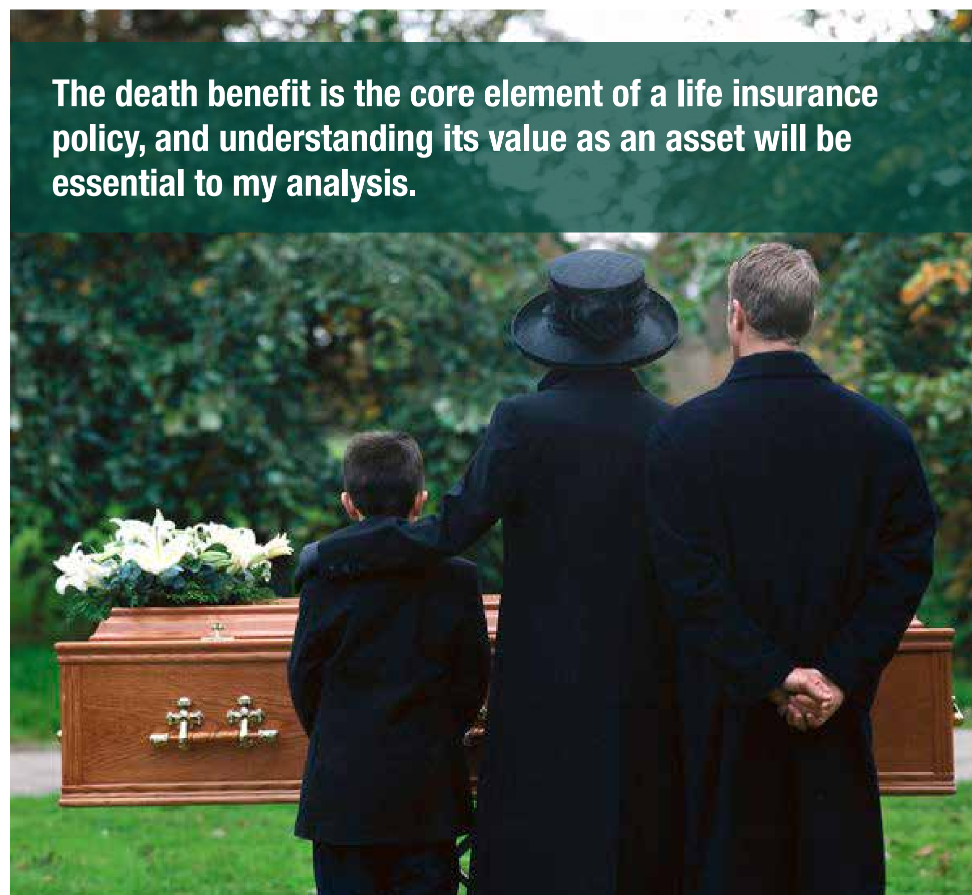
As I said above, my discussion will resonate most with business owners.[1] There is an important reason for this. Business owners have a unique distinction that employees on a fixed income do not have. This main difference is the ability to create "windfalls" through either profits or from the sale of business assets. This can include the selling of the entire business itself as a final exit strategy at some time in the distant future. So if you are a business owner and operate an LLC or a corporation this idea is tailor-

made for you.

Before we go further, let me also stress that this is not to be construed as formal tax or investment advice. The ideas presented here are only thinking exercises. In fact, we recommend that you discuss these ideas with your own personal tax, investment or legal advisor. Who knows, you could be teaching them something they have never heard or thought of before and they might be very grateful to you for having shared it with them.

Finally, this article assumes you are either an owner of a well funded dividend paying Whole Life insurance contract from a mutual or mutual holding company that has been properly designed according to Nelson Nash's *Infinite Banking Concept (IBC),* or at the very least that you have studied the concept and are in discussions with someone from the Practitioner Finder—people who have passed our training course. (They can be found at: www.infinitebanking.org/finder.) This is an absolute requirement. The reason for this is because it is not possible to fully grasp the financial implications discussed here until one has become an owner of such an insurance contract and has been practicing IBC in their own life. So clearly the ideas discussed here are not for the novice.

If you are reading this and do not yet own one of these contracts don't let that disappoint you. You will still benefit from the various points being made in this article. I encourage you to read on and learn. You may well become motivated enough to actually get one of these important insurance policies to practice this strategy for yourself. Either way I will be sure to list several resources in the references section of this article that will help you continue your educational journey.



INSIDE THE IBC SPECIALLY DESIGNED POLICY CONTRACT

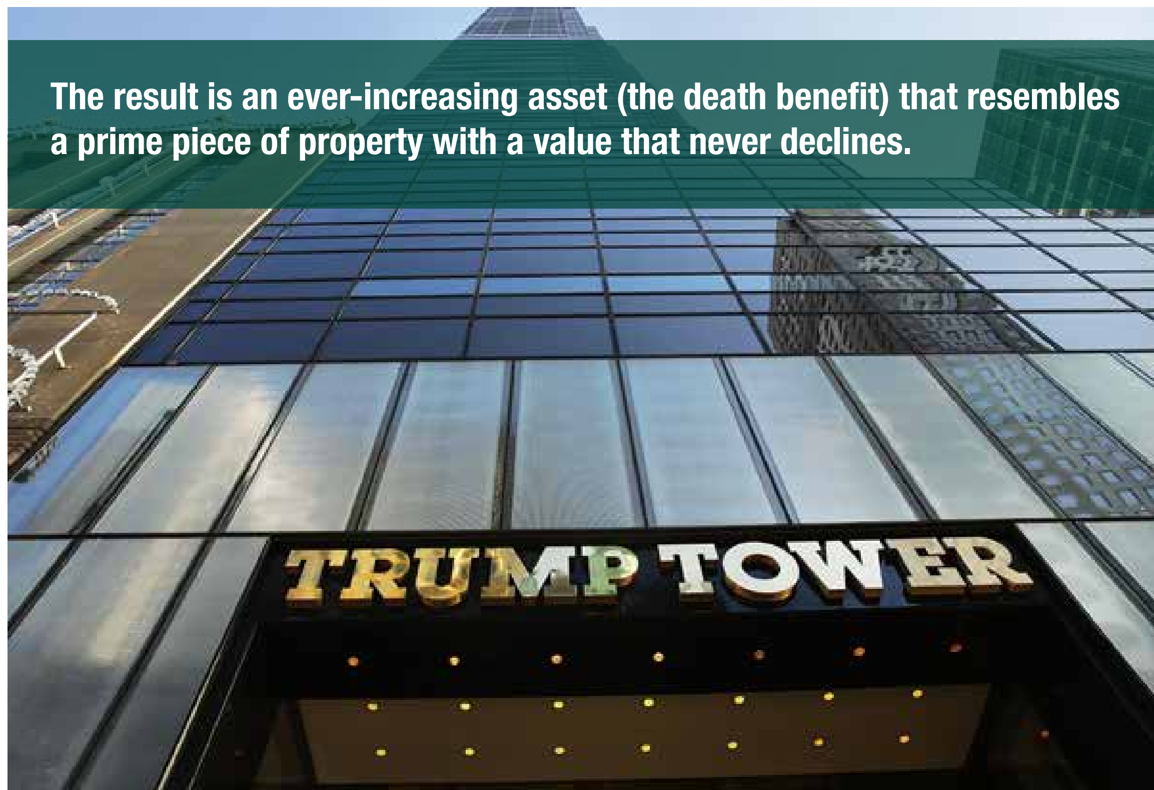
As every practicing owner of an IBC insurance policy knows, these are designed to facilitate use of the "living benefits" available to any policy owner, which allows the policy to be a financing instrument. However the death benefit is the core element of a life insurance policy, and understanding its value as an asset will be essential to my analysis. The financing function is made possible because the owner can take out policy loans with the surrender value of the policy serving as collateral; this is a legal right that is provided to all policy owners and is spelled out in the language of the insurance contract.[2]

If you should obtain such a loan this is what actually happens in layman's terms. The life insurance company is advancing you a loan, at a contractually specified rate of interest. Your policy continues to "grow" on its own strength, however, and in a sense that internal growth partially compensates for the interest on your policy loan. In addition to the guaranteed growth, a payment of an annual dividend is also made into the policy. Although the dividends are not guaranteed you should know that mutual companies have historically paid dividends virtually every year for as long as these companies have

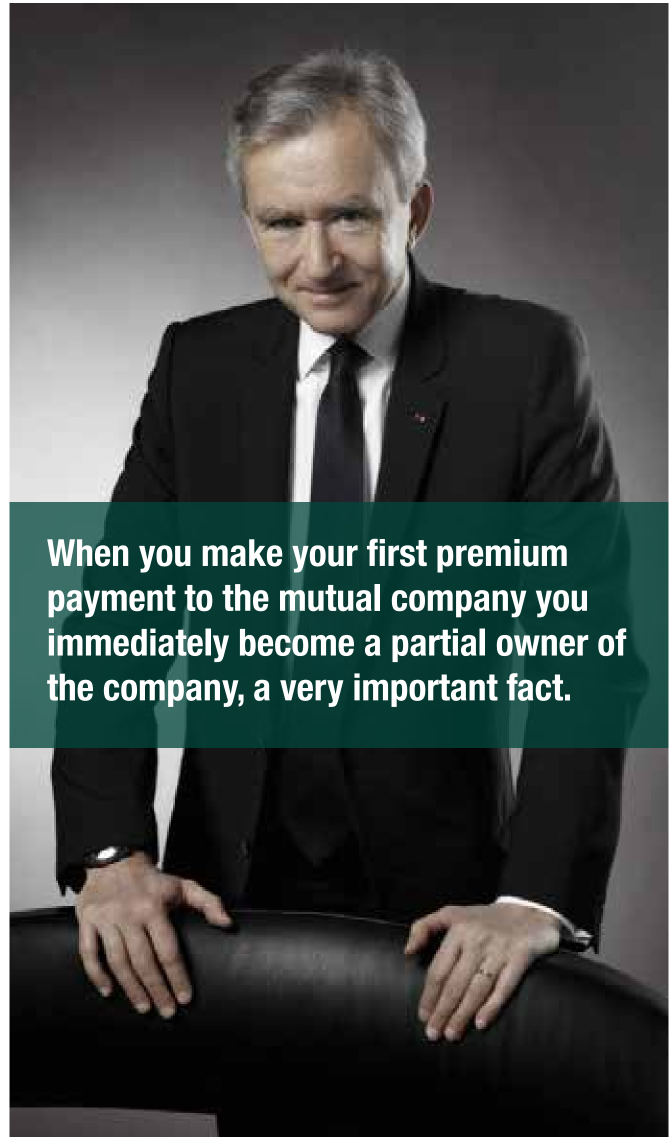
An earned interest rate of 3% inside the policy (without adding the annual dividend) and with no federal or state income tax attributed to it, is equivalent to approximately 1.25% to 2% additional interest earned depending on the policy owner's tax bracket.

been in existence, except on a few isolated occasions. This historical evidence for many of these companies spans a period of over a hundred years, even right through the period of the Great Depression of the 1930s.

So long as the earnings do not exceed the cost basis in these policies the total of these two quantities (the guaranteed growth and dividends paid) are accumulated inside the policy tax-free. Consequently, their tax *equivalent* amounts (depending on the tax bracket of the policy owner) help reflect their true earnings inside the policy. For example, an earned interest rate of 3% inside the policy (without adding the annual dividend) and with no federal or state income tax attributed to it, is equivalent to approximately 1.25% to 2% additional interest earned depending on the policy owner's tax bracket. When you add the tax equivalent dividend to this amount you get an even higher return. A tax equivalent calculator obtained from the Internet can help you analyze this.[3]



But I don't want you to merely look at the growth in the "cash value" of the policy, treating it as if it were a money-market account. No, remember that this is a *life insurance* policy. When these dividends are automatically reinvested they purchase additional, paid-up death benefit coverage. In a sense this is generating equity in the policy as a result of this increase. This is an immensely important component that is immediately noticeable when reviewing a year-end annual re-



When you make your first premium payment to the mutual company you immediately become a partial owner of the company, a very important fact.

port on these policies. A simple comparison of the increased death benefit against the cash values and the policy loans outstanding each year reflect this equity increase. In other words, the result is an ever-increasing asset (the death benefit) that resembles a prime piece of property with a value that never declines. This higher death benefit is critically important at the death of the policy owner, especially in the case where there are numerous loans outstanding.

Interestingly, the increased death benefit each year caused by the reinvestment of the dividends in order to purchase more insurance actually forces the payment of an even larger dividend payment into the policy the following year. This happens on account of the policy's set trajectory to have the cash values ultimately equal the death benefit by the policy owner's 121st year. The beauty of all of this is that all of these moving money parts occur in clockwork precision like gears that shift by themselves. It is literally that mechanical. Yet these self-loading and self-firing actions within the policy produce impressive results.

Meanwhile the lent money to the policy owner is usable for any expenditure on a tax-free basis since it is borrowed money and not income. What the policy owner has given up in exchange for the use of this tax free money (until he repays the loan) is a collateral assignment in the cash values of the policy up to the amount of the indebtedness. When the policy owner repays the loan and the interest charge on it, the collateral held by the company is released and additional borrowing capacity for the policy owner is increased by exactly the same amount.

In a sense, you can think of your policy as

Meanwhile the lent money to the policy owner is usable for any expenditure on a tax- free basis since it is borrowed money and not income.

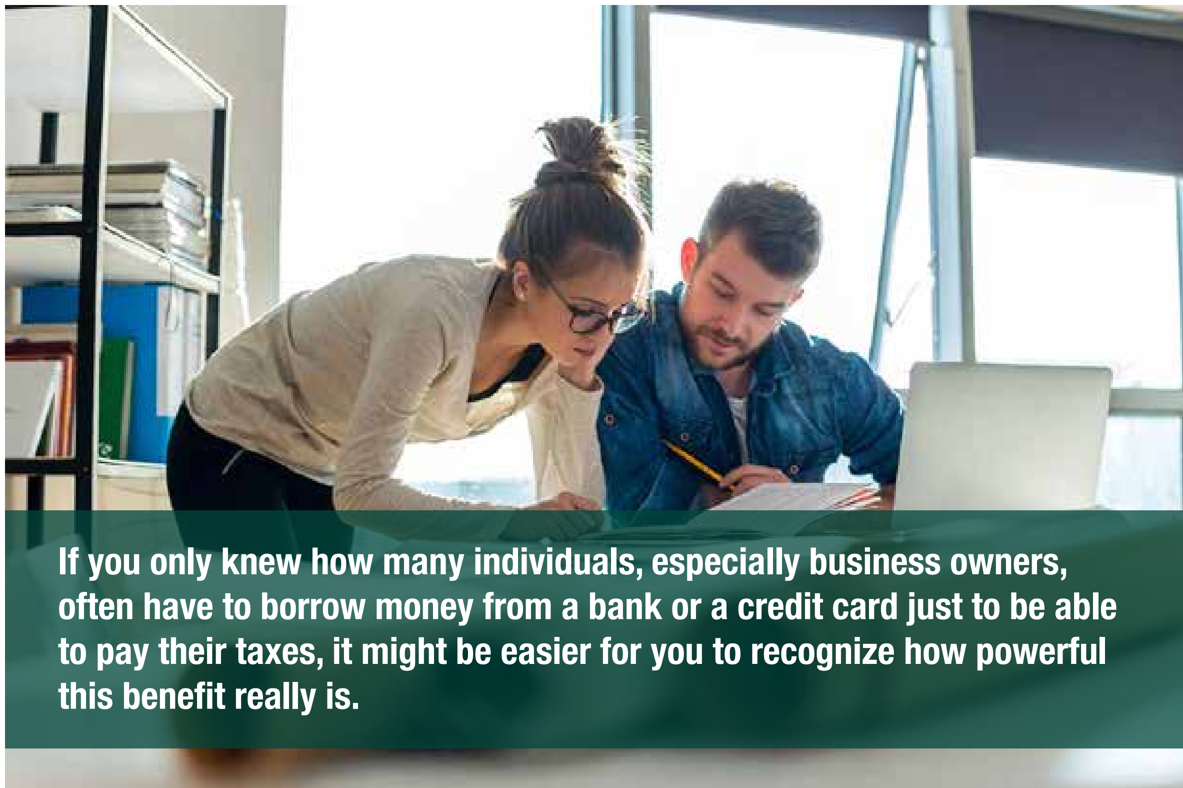
chugging along, doing its own thing, while the life insurance company makes you a loan "on the side," with money it takes out of the general pool, *not* directly "out of your policy." Now to reiterate, they charge you an interest rate on this loan, just as they insist on earning a return on other investments they might make. But it's helpful to know exactly what the mechanics are of policy loans, and how they differ from (say) taking money out of your checking account or selling off a portion of your 401(k) in order to make a large purchase.

THE IDEAL WAREHOUSE FOR OUR WEALTH

One thing we should not overlook is that when you make your first premium payment to the mutual company you immediately become a partial owner of the company, a very important fact. (In contrast, a *stock* insurance company has stockholders, who may not be the same people as its policyholders.) At that exact point the company becomes totally responsible to pay your beneficiary the death benefit in your insurance contract if you should drop dead later that same day. But it also does something else. The insurance company now becomes responsible, and it guarantees this responsibility by the financial strength of the company, to distribute a portion of its profits to you in the form of dividends. This happens so long as you remain an owner of the company by continuing to make your premium payments.

The premium payments you make are always made payable to the insurance company in care of your name and policy number assigned to your contract. Those premiums as well as the millions of dollars in premiums made by other policy owners are invested by the company. It's noteworthy that these investments are mostly in loans to highly reputable institutions like the government and highly rated corporations. These investments earn an interest income that translates into company profits. The investment fund that is earning this interest income is often referred to as the *general pool* or investment portfolio of the company.

This is why so many IBC practitioners feel as though the use of IBC with a dividend paying Whole-Life policy from a mutual company is like owning one's own private cash flow system.



If you only knew how many individuals, especially business owners, often have to borrow money from a bank or a credit card just to be able to pay their taxes, it might be easier for you to recognize how powerful this benefit really is.

All monies sent to the insurance company by policyholders goes into this general pool. Even when you deposit additional money into your PUA Rider,[4] a feature of all specially designed IBC policies, you make your check payable to the company in care of your name and policy number associated with your contract It's exactly the same procedure that is used when making the premium payments, the only difference is that you direct the company as to the placement and posting of this money. In like manner, the same thing happens when you pay back a loan and its interest. This is why so many IBC practitioners feel as though the use of IBC with a dividend paying Whole-Life policy from a mutual company is like owning one's own private cash flow system.

But what should really be coming into focus as you think through this is the idea of a *ledger* with your name on it as well as the policy contract number. Keep in mind that the actual money associated with your ledger is not there but safely housed in the investment portfolio (the general pool) of the company and is working for your benefit as an owner of the company. All this money must keep working if the company is to make a profit.

When you take out a policy loan it is taken out of that general pool of the company earmarked for loan investments. In other words, at your request the company is now making an investment in your loan as opposed to someone else's. As you can see this keeps the money working and is doing so for

the benefit of all the owners of the company including you. But the company is actually granting the policy owner a loan from this general pool. Simultaneously, an assignment in the cash values of the policy owner's particular policy has been taken as collateral by the insurance company.

This action by the company is not only representative of good accounting that keeps the books straight, but at the same time it also allows for the enormous cash flow flexibility afforded the policy owner by having borrowed from his own system. This financing flexibility inherent in these specially designed policies, which we are about to identify, is what makes possible the strategy we are discussing.

THE BIG THREE COMPONENTS THAT MAKE ALL THE DIFFERENCE

The best way to see this important difference is to think comparatively as you study each of these three components carefully. Think about money borrowed from other sources and money paid to other sources that are different from the insurance contract system we are describing. Also think about what you may have to give up in exchange every time you take these actions with those outside sources. Think about commercial banks, finance companies, credit cards and even qualified plans. Think about shopping at your local Costco, the grocery store, the shopping mall and similar places where you don't borrow money at all—you just pay cash.

Now let's first look at these three components in the form of statements and then I will comment on each one where hopefully the impact of what I am revealing will become clear.

Number One—Access and Control Over Your Money: If you have cash value in your policy you have a contractual right to policy loans.

Number Two—Flexibility of Repayment Terms: You can pay back the policy loans on your own terms or even not at all if you wish.

Number Three—Uninterrupted Compounding Of Your Money: Whatever amount you borrow that same amount continues to earn money in the form of interest, dividends, and equity in your policy as long as you live and as long as your policy remains in force.

THE IMPORTANT ANALYSIS

With regards to the Number One Statement, this is a most powerful benefit. I have been a business consultant to corporations for forty years and have observed a noticeable business management pattern when it comes to borrowing money. If you only knew how many individuals, especially business owners, often have to borrow money from a bank or a credit card just to be able to pay their taxes, it might be easier for you

to recognize how powerful this benefit really is. Banks and credit cards are not the best sources for borrowing money, yet needing to pay taxes on time is always a priority. In fact it is a downright necessity and yes, people will go into debt to pay them. This is because the consequences of not paying taxes can be quite severe.

But with a well-funded policy so long as you have unencumbered cash value in the policy the insurance company, by the language in its contract, is willing and ready to grant you a policy loan.[5] Furthermore, there are no credit checks, no extensive forms to fill out, no questions about what you are going to use the money for, or how you plan to pay it back when requesting a policy loan. You just simply ask for the money and it's mailed to you or deposited directly into your account in about 3 to 5 business days, sometimes sooner.

As to why a policy owner has the absolute authority to repay the loan strictly on his own terms, as stated in point Number Two, the answer may surprise you, but it actually makes logical sense. Recall that when insurance companies invest policy owner premiums in very safe fixed income assets such as U.S. Treasuries or investment grade corporate bonds they are actually lending money to these institutions. These investments, as we said earlier, are loans.

But policy loans to a policy owner are a

better (literally *risk free*) investment than bonds as far as the insurance company is concerned. They actually have more control over a policy loan than they do over bonds since they actually control and guarantee the cash value, which is the collateral. Since policy loans never exceed their cash values and unpaid principal amounts may be deducted from cash surrender or policy death proceeds, the safety of principal associated with policy loans is absolute, from the life insurance company's perspective.

There are no credit checks, no extensive forms to fill out, no questions about what you are going to use the money for, or how you plan to pay it back when requesting a policy loan. You just simply ask for the money and it's mailed to you or deposited directly into your account in about 3 to 5 business days.

For this reason the company is not at all worried about the repayment of the loan, even if the policy owner decided not to pay it back at all during his lifetime. If the policy owner cannot generate by his own merits the incentive to repay the loan in order to reopen his credit line for future borrowing, then at the policy owner's death, the company will simply subtract the loan from the death benefit.

This is why we stress that the increasing equity in the policy caused by the reinvestment of the dividends to purchase more death benefit secures the policy owner, as well as the beneficiary, from going in the hole or simply breaking even by having numerous outstanding loans. This is why the reinvestment of the dividends is a standard feature of a Whole-Life policy designed according to Nelson Nash's IBC especially during the borrowing years of a policy

Finally there is point Number Three. You will be more than delighted to learn that when you take out a policy loan the actual amount of the loan never "comes out" of your cash value and so it never stops earning money. You have only given an assignment on that amount of money. Yes, you received the loan money from the company, but the amount received never came out of its tax-free earning capacity inside your policy. This loan money you received to pay your taxes is still earning portfolio interest, annual dividends, and purchasing additional death benefit with them, which continues to increase the equity in your policy. If you really think this through this is quite a remarkable accounting feature. To be sure, this isn't "free money," because you must pay the life insurance company contractual interest on the policy loan. But to repeat, the actual mechanics of the policy loan make it an operation "on the side," while your policy itself continues to chug along. (We are here neglecting the complication of "direct recognition" and "non-direct recognition," which more advanced readers will want to research to fully understand the impact of policy loans upon performance.)

By combining all of these important aspects

of the insurance contract with a business owner's ability to create windfalls for purposes of repaying outstanding loans and you have the makings for an ideal system for creative cash flow strategies and management.

GETTING YOUR POLICY UP AND RUNNING

Suppose you've been following our podcast and reading the materials put out by the Nelson Nash Institute. You're convinced that having a well-funded IBC-type policy is an excellent component of any business or household financial plan. However, you hesitate to act because you think it would take too long to build up a policy that could really affect your situation.

Well, what I do in my own affairs might shed light on a strategy you could use to accelerate the process. Specifically, you can take cashflows that are already earmarked for paying your business taxes, and "detour" them through a correctly designed IBC policy. This would allow you to build up the infrastructure of a policy that has a much larger capacity than you may have thought possible.

In Part II, I will use numerical illustrations to show exactly what I mean. Let me be clear: There is nothing magical going on here. We're not creating money out of nothing. But the special features of policy loan terms will allow you to put time on your side; you will be able to fund your policy with future windfalls in a way more convenient to the vagaries of your cashflow.

Also in Part II I will describe how business owners, using IBC and their corporate entities, can pre-plan their profits using bonuses and sale of assets in such a way that even better results can be achieved. Be sure to look for all of this in the February 2017 issue of the ***LMR***.

References

(For all those interested in learning more about IBC and the types of insurance contracts we are describing we recommend you listen to the many podcasts we have recorded regarding this subject, especially Episode 17, 18 & 19 at https://lara-murphy.com/podcast/ and while there visit the resources section of the website for additional information.)

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TRUMP, THE FED, AND THE INSURANCE MARKET

Interview With

Harvey Sobel

Harvey Sobel is a Principal and Consulting Actuary in the New Jersey office of Conduent, where he consults with health plans, large employers and multi-employer welfare funds regarding their life and health insurance programs. He is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. Prior to Conduent, Harvey held positions at health insurance companies and other actuarial consulting firms. [This interview expresses the opinions of Harvey Sobel and not necessarily those of his employer.]

Lara-Murphy Report: How did you become interested in Austrian economics?

Harvey Sobel: I was always fascinated by the Great Depression and found conventional explanations of its causes to be unsatisfying. It wasn't until I learned about the Austrian School's Business Cycle Theory (through Murray Rothbard and other Austrian economists) that I "discovered" Austrian economics.

LMR: Do you think your knowledge of Austrian economics helps you in your career? How so?

"I was always fascinated by the Great Depression and found conventional explanations of its causes to be unsatisfying."

HS: I'm frequently asked to make long-term projections, and it's helpful to have an understanding of how Federal Reserve actions can have such a profound impact on interest rates and inflation.

LMR: You reached out to one of us (Murphy) regarding the phenomenon of health insurance plans not having "the best" doctors for a particular illness in network. On a podcast, Murphy had repeated a theory he'd heard, whereby the health insurers deliberately exclude "the best" cancer doctors, for example, so that people with cancer don't sign up with them. But can you relay your less sinister explanation?

HS: In my experience, health insurers do not go out of their way to exclude the best cancer doctors or other specialists. In fact, many health insurers have specialized programs to recruit quality doctors; for example, Aetna has Aexcel, Anthem Blue Cross Blue Shield has Blue Precision and United HealthCare has UnitedHealth Premium Program. Each health insurer believes its program gives them a competitive edge – primarily in the marketplace for large, self-funded employers.

The small group and individual health markets are extremely price sensitive. Health insurers competing in these markets are under extreme cost pressures. To help control (or lower) costs, a health insurer will set its fee schedule (or other reimbursement rates) at levels that some providers will consider to be too low. Established specialists will tend to not accept those fees, and the health insurer will be left with newer, less established

"To help control (or lower) costs, a health insurer will set its fee schedule (or other reimbursement rates) at levels that some providers will consider to be too low. Established specialists will tend to not accept those fees."

doctors. Patients may have to travel further for care.

(Historically Blue Shield plans had trouble recruiting obstetricians to deliver babies—primarily due to low fees.)

LMR: One of the big differences between life insurance and health insurance plans is that the former come available in long-term packages, where you can get a policy with a locked-in rate for 30 years, or even for your "whole life" if you buy a permanent life policy. In contrast, consumers typically only get health insurance plans for much shorter intervals. Is this difference due to underlying actuarial realities, or is it a quirk of certain government regulations?

HS: The difference is due to a mix of economics and regulation. Claim costs for health insurance, as with life insurance, increase by age. Some health insurers—generally commercial insurers, as opposed to Blue Cross Blue Shield plans—offered policies that were rated based on the issue age of the insured; rates could not be increased due to aging. But the insurers reserved the right to increase rates for all ages as a result of health care trend (both inflation and utilization). So rates were never truly locked in.

"But the insurers reserved the right to increase rates for all ages as a result of health care trend (both inflation and utilization). So rates were never truly locked in."

"Many states passed laws limiting the ability of health insurers to underwrite applicants and set premium rates using risk characteristics (e.g., age, gender, tobacco usage) freely."

The pre-funding of the increasing claim costs at the older ages caused level premium policies to be initially more expensive than those that funded aging on a pay-as-you-go basis. Plus health insurers and state regulators did not always agree on the magnitude of the reserves needed to cover the cost of pre-funding, thus exacerbating disagreements between the insurers and regulators over what rate increases were needed.

Many states passed laws limiting the ability of health insurers to underwrite applicants and set premium rates using risk characteristics (e.g., age, gender, tobacco usage) freely. A few states outlawed age-based premiums and medical underwriting for new policies altogether. By the time the ACA was passed, issue age rating was rare; attained age rating and community rating were the norm.

The ACA introduced additional rating restrictions—including restricting rates at the highest age to be no more than 3 times the rates at the youngest adult ages—that effectively eliminated issue age rating for all but grandfathered plans.

LMR: Does the Federal Reserve's low interest policy impact the financial footing of health insurance companies? We know that low interest rates pose problems for life insurance and pension plans, but what about health insurance?

HS: Health insurers typically invest some portion of their premium in short term securities to take advantage of the 2-3 month lag between when claims are incurred and when they are paid. However the investment earnings from those funds typically are less than 1-2% of premium. Investment income represents a smaller source of revenue to health insurers than to life insurers or pension plans. The Fed's low interest policy therefore generally has less effect on health insurers than on the others.

That said, some health insurers, such as Aetna, CIGNA and United Healthcare, underwrite products other than medical insur-

ance. Some of those products—life, disability income and long-term care—are interest sensitive, and the Fed's low interest policy contributes to the cost of those products being higher. The low interest policy also contributes to health insurers having to set aside higher statutory reserves to meet their obligations, since the discount rate(s) that insurers are required by state law to use to set their statutory reserves are generally a function of the interest rate environment.

"Investment income represents a smaller source of revenue to health insurers than to life insurers or pension plans."

LMR: As of this interview, President Trump is promising to overhaul the Affordable Care Act (aka "Obamacare") while retaining its feature of universal coverage. Do you think this can work, or do you predict that promise will be dropped?

HS: Very little is known right now about how the President (or Congress) plans on overhauling the Affordable Care Act (ACA). There are limits to what the President can do through Executive Orders, and there is no strong consensus among the Republicans in Congress as to a replacement plan. Nor are there enough Republican votes in the Senate for a total repeal of the ACA without Democrat support.

The President and Congress can more easily repeal some aspects of the ACA (primarily through the budget reconciliation process). However, it will be harder to come to agreement as to a replacement. Furthermore, it will be difficult to retain universal coverage without further subsidizing coverage and retaining a coverage mandate. So President Trump's promise will probably morph over time instead of being dropped.

EVENTS & ENGAGEMENTS

NOTE: MANY OF THESE EVENTS ARE OPEN TO THE PUBLIC. CONTACT US FOR FURTHER DETAILS.

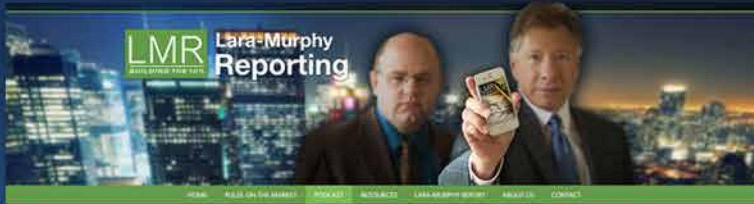
JANUARY 18, 2017
ARLINGTON HEIGHTS, IL

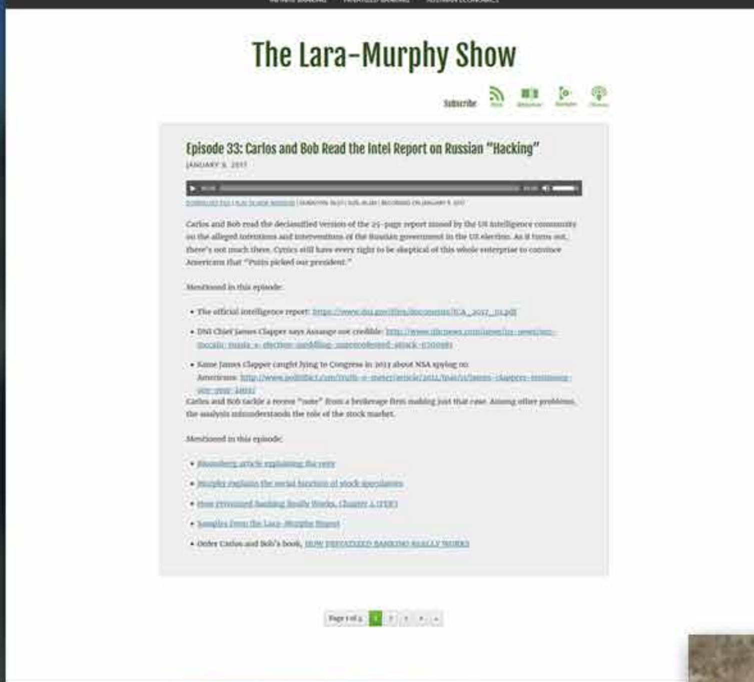
Murphy discusses his book "Choice" for Heartland Institute.

FEBRUARY 11, 2017
BIRMINGHAM, AL

Nash, Lara, Murphy, and Stearns present IBC Seminar for the general public. (Contact us for 50% discount.)

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
FOR MORE INFORMATION: LMREVENTS@USATRUSTONLINE.COM





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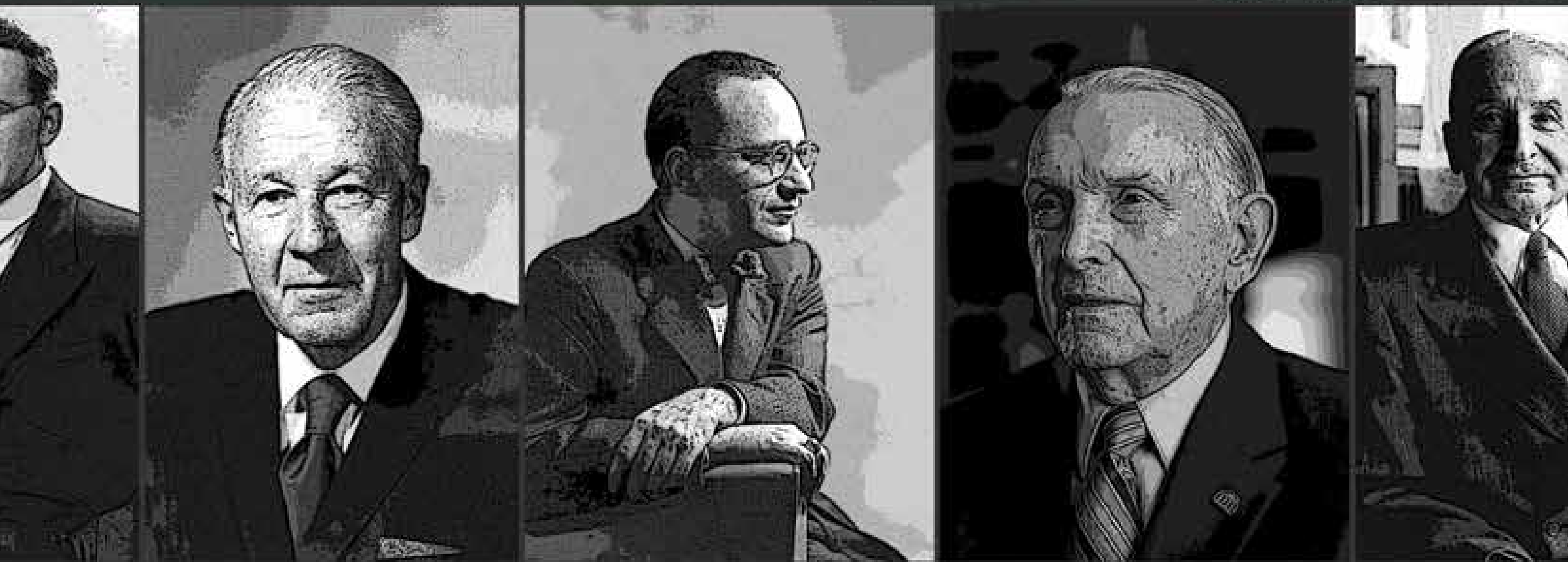

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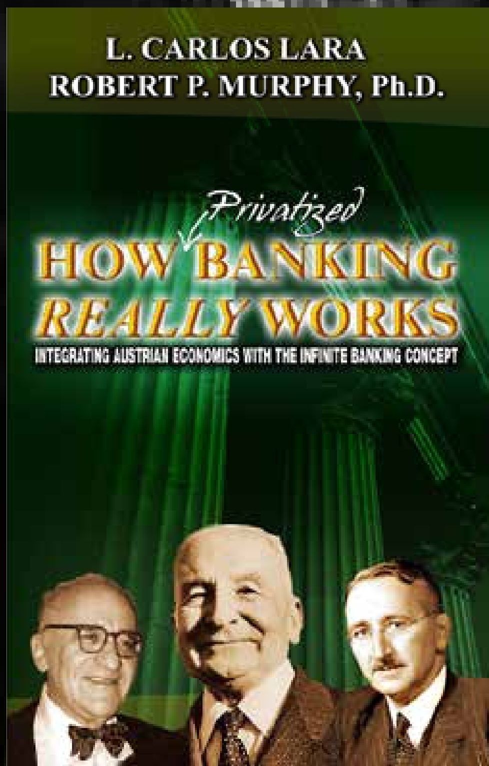

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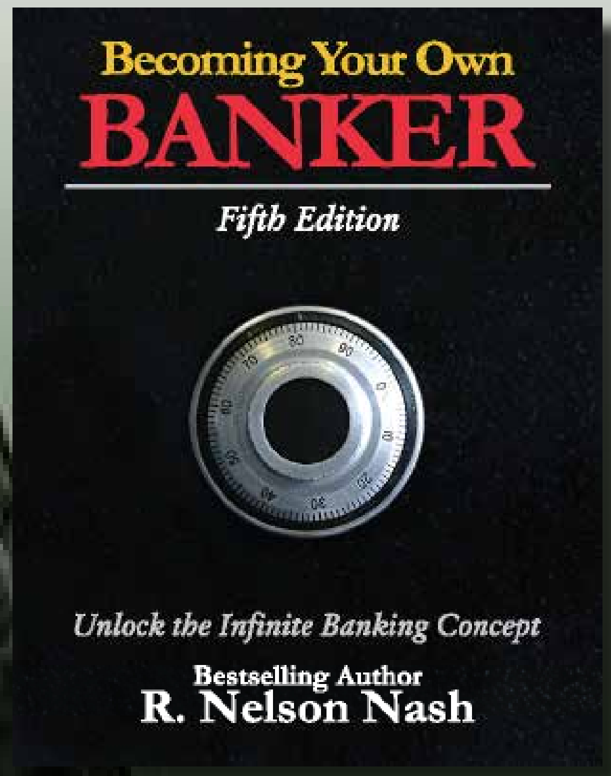

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