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Money: Use It to Grow It

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Editor's note: This is the third and final article in a three-part series on money management (see the June 3 and July 1 issues for part 1 and part 2, respectively).

Former *National Lampoon* managing editor P.J. O'Rourke once wrote, "Money is preferable to politics. It is the difference between being free to be anybody you want and to vote for anybody you want. And money is more effective than politics both in solving problems and in providing individual independence. To rid ourselves of all the trouble in the world, we need to make money. And to make money, we need to be free." Not a bad quote from a fellow who is credited with helping launch the careers of John Belushi, Chevy Chase and Christopher Guest.

But what about your own career? And no, I don't mean your chiropractic career; I mean your career to accumulate wealth. There is no better way to grow wealth than *with* wealth. That doesn't mean you have to have a lot of money to start with. It simply means that you have to think and live outside the box the banks, financial gurus and financial planners like to paint you in. The wealth that freedom divulges is the wealth that you need to succeed. Don't let anyone box you in with their broad brushes and narrow-minded ideas.

So, let's not tiptoe around and try to come in the back door with this one. Instead, think about this bold fact: Banks and other lending institutions make money off you because you deposit (loan) your money with them. They, in turn, lend your money out to others (invest) and keep most of the profit from this little agreement you've made with them.

What if you could do the same thing banks do with your money? Could you make profit from the same banking equation? Would you get wealthy doing this? If you think you could, keep reading. If not, then please re-read the first two articles in this series and come back and ask yourself these same questions again. There's no reason why you can't create wealth the same way banks and financial institutions create wealth.

That being said, there is one little eye-opener you need to be aware of beforehand. Life insurance companies and banks function in a very similar fashion. They both lend the money that you've deposited with them for a promised rate of return. The only difference is that with the former, you can own a contract that guarantees you the right to borrow the money the company has to lend. In fact, if you ask for that money, the company can't lend it to anyone else but you! The only limit as to how much you can borrow is how much you've put in - the same thing that limits how much you can write a check for on your checking account at your local bank.

According to Ludwig von Mises, "A great part of the capital at work in American enterprises is owned by the workers themselves and by other people with modest means. Billions and billions of saving deposits, of bonds, and of insurance policies are operating in these enterprises. On the American money market today it is no longer the banks, it is the insurance companies that are the greatest money lenders. And the money of the insurance company is ... the property of the insured."[1] Armed with this little-understood detail, it becomes very profitable to borrow from your own properly designed life insurance policies and use that money for your own expenditures, be they practice or personal. This process frees up your income (the money you are currently spending) and allows you to use it to replenish the funds borrowed from your policies.

By repeating this process over and over, you create a windfall of money derived from the "velocity" that naturally occurs in the banking equation and that you are now in complete control of. This windfall is called a *dividend*, but unlike dividends in the boxed-in world view of finance, whole life insurance dividends are not taxable. That is because life insurance dividends are really a return of premium and therefore can't be taxed. Furthermore, once they have been declared, they are guaranteed. That means they can't be taken away from you like they are in securities and other risk-prone derivatives and investments.

Controlling the Banking Equation: A Few Real-World Examples

Scenario #1:
A 38-year-old female makes deposits (premium) of $30,000 annually for four years; total premiums paid to date: $120,000. Loans taken against policy face values: $575,115.95.

- Policy loan repayments (determined at a rate and term she has determined and set for herself): $415,189.65 in total repayments to date. $12, 487.66 of this repayment is interest that has gone to the insurance company.
- Another $16,179.72 of this same repayment is interest that has gone to purchase more paid-up insurance and is now attached to her policy. (She is repaying the loan at above-market value.) This is because the velocity of money in the banking equation is now working in her favor instead of in the favor of the banks and financial institutions.
- Dividends (return on what she already paid, which can't be taxed): $4,413.99 earned to date (used to purchase more paid-up insurance).

This living example demonstrates how utilizing participating whole life insurance creates wealth. This lady has spent $120,000 over the past four years on her life insurance premiums, yet she has been able to purchase $575,115.95 worth of goods and services and still has $16,709.45 more than what she would have had if she had simply purchased those goods and services with cash. Plus, she also has $1,157,402 of death benefit that she can leave to anyone or any charity/charities she wishes.

The living benefit of her face values guarantees her the power to continue controlling the banking equation in her own life. She will never have to lose money to the banking equation again as long as she lives. This also provides a way for her to leave a legacy to those she loves and cherishes without having to live like a hobo to accomplish it.

The fact is, the more she uses this policy for cash-value loans for her own living needs, the wealthier she and her beneficiaries become. That's because whole life insurance policies are designed to get more efficient the longer the contract is in effect. It's like the efficiency of a jet; it gets more efficient the longer it's in the air because of the loss of fuel weight that occurs over time.

That's exactly what whole life insurance contracts do when they are written in your favor - not in the favor of some greedy agent or company.[2] You need to be careful! Make sure that the original contract (policy) is written properly or all your hard-earned money will end up going to some agent's commission or to the insurance company's shareholders. That money rightfully belongs to you and your loved ones, so learn to protect it.

Scenario #2:
A 54-year-old woman needs financing for personal needs. Her 47-year-old brother has the ability to

finance, but is concerned due to a lack of collateral. The sister agrees to the brother purchasing a $10,000 annual premium life insurance policy on her life; the brother now owns a policy on his sister's life, held in collateral for the loan he provides her.

- Three years later, the brother has paid $30,000 of premiums and has borrowed $105,093.42 against the policy to purchase goods and services. He has repaid $80,366.05 (again, at a self-determined rate and term) $2,242.49 of this payment has gone to pay the interest to the insurance company and another $2,893.44 has returned to the policy, purchasing more paid-up insurance.
- He has earned $544.11 of dividends (which has also purchased more paid-up insurance).
- He is the beneficiary of $218,820 of face value (death benefit).
- He has been able to enjoy the experience of helping a needy sister.
- He has a current out-of-pocket expense on this endeavor of only $4,515.46 (which will be repaid to him by his sister per their loan agreement).

Can you think of any other way someone could help a needy loved one become the benefactor of over $200,000 and spend only $4,515.46 - and pick up an additional $105,000 worth of goods and services in the process? That is the power that becomes yours when you learn how to control the banking equation in your own life.

Scenario #3:
Then there's the 46-year-old doctor who purchased a policy with an annual premium of $30,000 and borrowed against it to purchase equipment for his practice, paying the policy back with rates and terms that fit his budget. Let's look at where he stands 37 months later:

- He has paid three premiums of $30,000 each ($90,000 total).
- He has borrowed twice from his policy for a total of $42,000 to purchase equipment.
- He has paid back the first policy loan of $12,000 at $390 per month for 36 months.
- He has paid back the second policy loan of $30,000 at $667.33 per month for 26 months.
- He has cash values of $106,564. (Cash values is the amount of money the insurance company says you can borrow against the policy at any given time.) $106,564 in cash values minus $90,000 in premiums paid = $16,564. So, how much has his insurance cost him? (Hint: $0) And how much has his equipment cost him? (Hint: $0)
- He has $812,424 of face value (death benefit).
- He has full ownership of all the equipment he purchased by borrowing from the policy.
- He has the benefit of all the depreciation Uncle Sam provided him for owning said equipment.
- He has all the money back that he paid for the equipment, plus the interest.
- He has the ability to use the money that he's paid back over again (as often as he needs or desires).
- He has earned several hundred dollars in dividends.
- He has been able to deduct the interest the insurance company charged him for the policy loans on his personal taxes.

Take Control of Your Financial Future

Sound to good to be true? It is true, but like I said, you need to be cautious. Financial "experts" are a dime a dozen. Remember when Countrywide collapsed in 2008? Reporters asked Henry Paulson, then-secretary of the treasury and formerly the top man at Goldman Sachs, what would happen next. Paulson "said he could imagine 'no scenario' in which the taxpayer would be called upon to bail out the financial industry."[3] By the end of 2009, the government had committed in excess of $8 trillion of taxpayer money to "supposedly prevent the end of the world."[3]

Doctor, it's past time you took control of your own financial future. No one cares for you like you do yourself, so why would you risk everything to anyone other than yourself? Learn how to become your own banker.

What you finance over the rest of your life (and you "finance everything you purchase regardless if you pay cash or not")[4] will create a small fortune for you and your loved ones. But you need to take the time to master the banking equation in your own life. Once the banking equation is mastered, your money will grow just because you're using it and in control. That's the banking equation and it really is just as simple as that.

References

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3. Bonner B. "An Even Better Trade for the Decade." May 3, 2010.
4. Nash RN. *Becoming Your Own Banker: The Infinite Banking Concept*, page 12.

JULY 2010