Do Life Insurers Keep Cash Values After Death?

By Robert P. Murphy


Back in the September 2012 issue of the Lara-Murphy Report, I tackled an older blog post by financial guru Dave Ramsey where he strongly attacked the idea of using permanent life insurance as a savings vehicle. 1 Predictably, Ramsey urged his readers to “buy term and invest the difference,” and sought to show how much wiser that course of action would be. If you trusted that Ramsey was indeed doing an apples-to-apples comparison, it sure looked like only an idiot would buy a permanent life insurance policy.

Now there were plenty of things wrong with Ramsey’s analysis; I encourage the interested reader to go look up the September 2012 LMR article where I walk through them. [Republished in the January 2015 BankNotes] (And let us know if you are a subscriber and don’t know how to access old issues!) But in the present article I want to focus on just one of his claims, because (a) it is a common objection against permanent life insurance and (b) my own response thus far has been inadequate.

Specifically, Ramsey claimed that with a “buy term and invest the difference” strategy, if you happen to die (while the term policy is still in force, of course!) then your beneficiary gets the death benefit check and your estate keeps the side fund. In contrast, if all along you had been plunking your savings into a whole life insurance policy, then in the event of your death your beneficiary would only get the death benefit check—the insurance company would “keep your cash value.”

I have been explaining for years why this is a silly objection, but last summer an Infinite Banking Concept (IBC) Practitioner convinced me that I was actually giving Ramsey too much credit in my stock response. When we are thinking in terms of how Nelson Nash tells people to use whole life for “banking” purposes, then Dave Ramsey’s objection is particularly nonsensical, showing that his comparison is totally inappropriate and that he doesn’t really understand what Nelson Nash is saying.

SETTING UP RAMSEY’S COMPARISON

To be fair, let’s extensively quote from Ramsey’s blog post to make sure the reader understands where he’s coming from. Here is Ramsey comparing the
use of permanent life insurance as a savings vehicle (in order to build up “cash value” in the policy), versus Ramsey’s preferred method of buying term and investing the difference in a side mutual fund:

**Example of Cash Value**

If a 30-year-old man has $100 per month to spend on life insurance and shops the top five cash value companies, he will find he can purchase an average of $125,000 in insurance for his family. The pitch is to get a policy that will build up savings for retirement, which is what a cash value policy does. However, if this same guy purchases 20-year-level term insurance with coverage of $125,000, the cost will be only **$7 per month**, not $100.

WOW! If he goes with the cash value option, the other $93 per month should be in savings, right? Well, not really; you see, there are expenses.

Expenses? How much?

**All of the $93 per month disappears in commissions and expenses for the first three years.** After that, the return will average 2.6% per year for whole life, 4.2% for universal life, and 7.4% for the new-and-improved variable life policy that includes mutual funds, according to *Consumer Federation of America, Kiplinger’s Personal Finance and Fortune* magazines. The same mutual funds outside of the policy average 12%.

**The Hidden Catch**

Worse yet, with whole life and universal life, the savings you finally build up after being ripped off for years don’t go to your family upon your death. **The only benefit paid to your family is the face value of the policy,** the $125,000 in our example.

The truth is that you would be better off to get the $7 term policy and…put the extra $93 in a cookie jar! At least after three years you would have $3,000, and when you died your family would get your savings.

**A Better Plan**

If you follow my Total Money Makeover plan, you will begin investing well. Then, when you are 57 years old and the kids are grown and gone, the house is paid for, and you have $700,000 in mutual funds, **you’ll become self-insured.** That means when your 20-year term is up, you shouldn’t need life insurance at all—because with no kids to feed, no house payment and $700,000, your spouse will just have to suffer through if you die without insurance.

Don’t do cash value insurance! **Buy term and invest the difference.** [Bold and italics in original.]

As I alluded to before, there are all sorts of factual mistakes and misleading statements in the above analysis. (For example, Ramsey is ignoring the riskiness of the underlying returns, and he is cavalierly dismissing the option-value of keeping the permanent insurance policy in force when the term policy expires after 20 years.) But for our purposes in the present article, I want to focus specifically on Ramsey’s claim that the life insurance company keeps your savings when you die, and only sends the death benefit check, in contrast to the buy-term-and-invest-the-difference-strategy, in which your estate gets both the side fund and the death benefit.

**THE MODEST REPLY: CASH VALUE IS ANTICIPATION OF FUTURE DEATH BENEFIT**

First, let me reproduce the standard way I used to deal with this particular objection that those sinister life insurance companies would “keep your cash value” when you died. Here goes:

Dave Ramsey is correct to tell his readers and listeners that when the insured dies, the insurance company just sends a check for the death benefit. It’s important to emphasize this point, because sometimes in discussions of “banking policies” that focus on the cash value, with the death benefit described as a “bonus” or “icing on the cake,” the newcomer might be misled into thinking that the life insurance company does indeed send both. So, to be crystal clear: When you die, the life insurance company **only** sends the death benefit check; there is no extra “accumulated cash value” check owed to
you.

But there is nothing sinister going on here; this procedure follows from what the cash surrender value is. The formal definition is that the cash surrender value reflects the present discounted market value of the actuarially expected death benefit payment minus the present value of the flow of actuarially expected remaining future premium payments. If the reader studies this definition, it should be clear that as time passes, the cash value increases, because the actuarially “expected time of death” gets closer and closer, while there are fewer and fewer remaining premium payments to offset this growing liability to the insurance company. Now if and when the insured actually does die, then those actuarial projections are collapsed into the immediate payment of the full death benefit. The rising cash value was merely the (actuarially discounted) anticipation of the eventual death benefit payment, offset by the necessary premium out-flows to keep the policy in force. The cash value isn’t something laid on top of the death benefit.

When newcomers think about permanent life insurance, it often helps to use a home mortgage analogy (where term life insurance, in contrast, is like renting an apartment): When making monthly mortgage payments on a house, the homeowner “gains equity” by knocking down the remaining principal on the loan. When the mortgage is finally cleared, the homeowner receives the deed free and clear from the bank. He wouldn’t expect the bank to then give him “all of my equity in the house” on top of the deed! That would obviously be misconstruing what “equity in the house” means.

So it’s a similar pattern with permanent life insurance. With each premium payment, the policyowner “builds equity” in the policy, reflected by the rising cash value. Yet the fundamental, underlying asset is still the death benefit check that is contractually owed to the beneficiary upon death of the insured (or maturity of the policy); the rising cash value isn’t a separate asset laid on top of the death benefit. That would obviously be misconstruing what “cash value available in the policy” means.

Thus we see that there is nothing sinister or duplicitous about a life insurance company “keeping your cash value when you die.”

**THE STRONGER REPLY: THERE IS A SENSE IN WHICH YOU DO “KEEP THE CASH VALUE”**

To repeat, the arguments I made in the previous section were how I had been handling this particular objection for years. It served as a good way for me to teach people about the inner workings of whole life insurance (which is the plain vanilla form of permanent life insurance that Nelson Nash recommends when implementing his Infinite Banking Concept). However, after I presented this type of response last summer at our annual Night of Clarity event in downtown Nashville, an IBC Practitioner pulled me aside and began a series of conversations that eventually made me agree that I had been giving Dave Ramsey way too much credit.

The fundamental problem with Ramsey’s objection is that the death benefit will be higher in the “cash value” policy than in the 20-year-term policy. So he’s not really comparing apples to apples, even though he leads the reader to believe that the two strategies give the same death benefit coverage for the first 20 years.

Even with a plain vanilla whole life policy configured in the standard way for maximum death benefit and long-term accumulation (i.e. not the Nelson Nash “banking” way for maximum cash value and near-term utilization), the person using it as a savings vehicle will obviously elect to have its dividends reinvested into the policy, buying paid-up additions of more life insurance. These one-shot, fully paid up “mini” life insurance policies boost the death benefit. So with Ramsey’s numbers, even if the cash value policy and the term policy both started at Year 1 with $125,000 in death benefit, over time the cash value policy’s death benefit would begin growing, and eventually it would grow quite substantially from year to year. In contrast, by its very construction the term policy would be stuck at $125,000 in face death benefit the entire 20 years.
So yes, it’s technically true that at any point in this 20-year interval, that if the person with the cash value insurance strategy dies, he’ll “only” get the death benefit, whereas the person who opted for the Dave Ramsey strategy will get the $125,000 term death benefit plus the accumulated value of the side mutual fund. But the cash value insurance strategy’s death benefit will be more than $125,000, so Ramsey’s glib analysis is obviously wrong.

Moreover, if a person configures his or her whole life insurance policy the way Nelson Nash recommends—with a sizable fraction of the actual out-of-pocket cashflow into the policy constituting “paid up additions” rather than base premium—then the death benefit starts low and rises quickly over time with each contribution. So if a person is considering what to do with, say, a $10,000 windfall, and isn’t sure whether to put it into a whole life policy versus a mutual fund, doing the former will boost the death benefit as well as the available cash value. Yes, it’s still true that when the person dies, he will “only” get the death benefit, but the death benefit will be that much higher precisely because of that earlier contribution of the $10,000 windfall into the whole life policy.

To get a specific numerical example, consider the following, which is an actual illustration from January 2013 of a whole life policy with a $4,860 contractual base premium carrying a death benefit of $373,761, but which assumes that the policyowner actually contributes $15,000 total each year—with $10,000 going toward the purchase of additional paid-up insurance. The extra $140 in premium each year funds a term policy with a death benefit of $110,000, which is necessary because of IRS rules regarding the funding of life insurance policies. Thus the initial death benefit when the contract is first signed is $373,761 + $110,000 = $483,761. Yet the table below shows, the actual death benefit—even on the guaranteed side of the illustration, which we are showing—is higher than that, and just keeps growing.

Specifically, what is happening in the above table is that each year, the owner of the policy is paying $5,000 to keep the basic policies in force (optional contributions that buy fully paid-up insurance. This “overfunding” of the policy results in large jumps in both the cash value and death benefit. For example, going from Year 4 to Year 5, the cash value jumps by more than $16,000, while the death benefit jumps by almost $39,000. So yes, it’s technically true that if this person dies in Year 5, then he “only” gets $692,705 and “forfeits” the $67,995 in accumulated cash value that he’s been sweating to build for five years, but that hardly means his optional $10,000 contribution from the year before is flushed down the toilet. The death benefit check from the insurance company would have been much less than $692,705 had he not dumped that windfall into the policy. And remember—the above are the guaranteed values in this real-world illustration; the non-guaranteed side would have dividends that could be reinvested, too.

Before leaving the example, let’s try one more angle. Look again at the table above, and ask yourself: With these numbers, how would Dave Ramsey set up his rival strategy of “buy term and invest the difference”? In particular, what would Dave Ramsey pick as the death benefit on “the same” 20-year term policy? Would he set it to $483,761? Maybe $692,705? Some number in between? Once we realize that the death benefit on a “Nelson Nash-configured” whole life policy rises very quickly, it becomes apparent that we can’t even set up the head-to-head comparison that Dave Ramsey so glibly zoomed through in his short discussion.
CONCLUSION

In this article, I’ve picked on Dave Ramsey, but only because he is a prominent figure and because he is so scathing in his denunciations of permanent life insurance. The strategy of “buy term and invest the difference” is certainly not unique to Ramsey. Also, I should be clear that for some people, buying a term policy might make a lot of sense, particularly if they are breadwinners just starting their careers and who have young children to take care of; it might not be possible to obtain adequate death benefit coverage with a whole life policy right away.

However, the people who typically tout “buy term and invest the difference” aren’t making the modest point that it might be good for young married couples with children. No, the fans of “buy term and invest the difference” typically present an apparent head-to-head demonstration that seems to blow cash value insurance policies out of the water, thus “proving” that only an idiot would consider buying whole life insurance. As I’ve shown both in the September 2012 LMR and now in this article, their comparisons are totally inapt; these people typically don’t even understand how something like whole life insurance works.

In my 2012 article, I quickly dealt with some of the major problems in their analysis. For example, they overstate the returns on mutual funds, they ignore risk (equity-based mutual funds can crash, as happened in 2008, whereas a whole life policy’s cash value can never go down), and they blithely disregard the option-value of keeping a permanent life insurance policy in force.

In the present article, I focused on a more subtle problem, brought to my attention by an IBC Practitioner: When trying to set up “the same” term policy, these analysts must obviously pick a death benefit. Yet on a cash value policy—especially if it is designed the way Nelson Nash recommends—the death benefit of the policy will rise quickly over time. Therefore, it is a complete non sequitur—and shows just how unserious the analyst is—if he complains (as Ramsey does) that the life insurance company “keeps your cash value and just sends the death benefit.” A whole life policy may not be appropriate for everyone, but when discussing options with a financial professional, make sure he or she actually understands how these things work. Naturally, Carlos Lara and I strongly recommend that the interested reader consult an Authorized IBC Practitioner at the website: https://www.infinitebanking.org/finder/

References

3. The IBC Practitioner was Jonathan Webster, founder of MPG Wealth.

Rejoice, the Earth Is Becoming Greener

by Matt Ridley

Amid all the talk of an imminent planetary catastrophe caused by emissions of carbon dioxide, another fact is often ignored: global greening is happening faster than climate change. The amount of vegetation growing on the earth has been increasing every year for at least 30 years. The evidence comes from the growth rate of plants and from satellite data.

CO2 Is Plant Food

In 2016, a paper was published by 32 authors from 24 institutions in eight countries that analyzed satellite data and concluded that there had been a roughly 14 percent increase in green vegetation over 30 years. The study attributed 70 percent of this increase to the extra carbon dioxide in the atmosphere. The lead author on the study, Zaichun
Zhu of Beijing University, says this is equivalent to adding a new continent of green vegetation twice the size of the mainland United States.

Global greening has affected all ecosystems—from arctic tundra to coral reefs to plankton to tropical rain forests—but shows up most strongly in arid places like the Sahel region of Africa, where desertification has largely now reversed. This is because plants lose less water in the process of absorbing carbon dioxide if the concentration of carbon dioxide is higher. Ecosystems and farms will be less water-stressed at the end of this century than they are today during periods of low rainfall.

There should have been no surprise about this news. Thousands of experiments have been conducted over many years in which levels of CO2 had been increased over crops or wild ecosystems and boosted their growth. The owners of commercial greenhouses usually pump CO2 into the air to speed up the growth of plants. CO2 is plant food.

This greening is good news. It means more food for insects and deer, for elephants and mice, for fish and whales. It means higher yields for farmers; indeed, the effect has probably added about $3 trillion to farm incomes over the last 30 years. So less land is needed to feed the human population and more can be spared for wildlife instead.

Yet this never gets mentioned. In their desperation to keep the fearmongering on track, the activists who make a living off the climate change scare do their best to ignore this inconvenient truth. When they cannot avoid the subject, they say that greening is a temporary phenomenon that will reverse in the latter part of this century. The evidence for this claim comes from a few models fed with extreme assumptions, so it cannot be trusted.

Ice Ages and Dust Storms

This biological phenomenon can also help to explain the coming and going of ice ages. It has always been a puzzle that ice ages grow gradually colder for tens of thousands of years, then suddenly warmer again in the space of a few thousand years, at which point the huge ice caps of Eurasia and North America collapse and the world enters a warmer interlude, such as the one we have been enjoying for 10,000 years.

Attempts to explain this cyclical pattern have mostly failed so far. Carbon dioxide levels track the change, but these rise after the world starts to warm and fall after the world starts to cool, so they are not the cause. Changes in the shape of the earth’s orbit play a role, with ice sheets collapsing when the northern summers are especially warm, but only some of these so-called “great summers” result in deglaciation.

Recent ice cores from the Antarctic appear to have fingered the culprit at last: it’s all about plants. During ice ages, the level of carbon dioxide in the atmosphere steadily drops, because colder oceans absorb more of the gas. Eventually, it reaches such a low level—about 0.018 percent at the peak of the last ice age—that plants struggle to grow at all, especially in dry areas or at high altitudes.

As a result, gigantic dust storms blanket the entire planet, reaching even Antarctica, where the amount of dust in the ice spikes dramatically upward. These dust storms blacken the northern ice sheets, in particular, making them highly vulnerable to rapid melting when the next great summer arrives. The ice age was a horrible time to be alive even in the tropics: cold, dry, dusty, and far less plant life than today.

As Svante Arrhenius, the Swede who first measured the greenhouse effect, said:

By the influence of the increasing percentage of carbonic acid in the atmosphere, we may hope to enjoy ages with more equable and better climates. Enjoy the lush greenery of the current world and enjoy the fact that green vegetation is changing faster than global average temperatures.

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Non-Profit Hospitals Are Making a Killing

by Richard Menger

The annual cost of health care for the average American family hovers around $20,000. Premiums increase yearly, and this is a primary driver of why real wages for average Americans don’t seem to improve. Meanwhile, the CEO of non-profit Banner Health, based out of Arizona, raked in $21.6 million last year. Nearly half of the CEOs of America’s leading non-profit health systems made more than $2.5 million. Only eight of the 82 executives of non-profit companies earned less than $1 million.

These sorts of salaries amid the backdrop of struggling families would make even the most loyal believers in the free market pause—except this isn’t capitalism. This isn’t the market at work. It’s crony capitalism with the exploitation of market-related inefficiencies and rent-seeking behavior.

The problem is moral hazard in an administrative state.

Opening the Books

A recently published OpenTheBooks report shows just how the puppets are pulled by the strings of non-profit health systems. The report investigated the leading 82 non-profit hospitals in the United States. The hospitals investigated in the report had combined net assets of $203.1 billion. The average net asset growth over the last year was 23.6 percent. This was the average. Non-profit Ascension Health in St. Louis increased their net assets by 1,211 percent in one year.

As a point of reference, the most highly compensated executive in the for-profit corporations studied in the report was at $6.3 million (CEO of Tenet Healthcare Corporation). For-profit hospitals averaged only a 1.5 percent growth rate over the same time period. Additionally, roughly $2 billion flowed into non-profit health entities from federal agencies via grants. They also received charitable contributions of nearly $5.2 billion.

I don’t perform Internal Revenue Service surgery, but something is telling me the tax incentives for non-profits are working out pretty well for non-profit hospitals. But is it working out for everyone else?

Health care takes up nearly 20 percent of our gross domestic product. In 1970, that figure was 7 percent.

Let’s shine the spotlight on Partners Healthcare, the conglomerate health care entity that delivers care among Harvard hospitals in Massachusetts. The health care system does not disclose its government-related payments, specifically those from Medicare and Medicaid. It received $25.3 million from the state and $907 million in total federal payments. The CEO of Partners raked in $4.7 million in 2016. Again, this is a non-profit company. The stated goal of Partners Healthcare is patient care, research, teaching, and service to the local community. The hospitals within the system treat approximately one-third of the patients in Boston.

While the Partners system discloses charges, it does not disclose the actual real prices paid by patients. In fact, only 14 of 82 (17 percent) of hospitals in the series disclosed the amount of revenue they derived from Medicare or Medicaid. None disclosed the actual costs. Direct, reproducible actual cost pricing is not ubiquitously available.

There is limited to no price transparency.

Who Pays?

None of this would be tolerated if there were less distance between those who pay for health care, those who deliver it, and those who consume it. Moral hazard drives up health care costs. The provider is not incentivized to display costs. The consumer is not incentivized to become cost-conscious. The insurer is left in the middle. The leaders of non-profit systems understand this.

Putting it plainly, people alter behavior when they don’t have to pay for something. Say you are going to dinner. Your company, for which you have been a
good employee, is paying the bill, and the restaurant knows it. Of course you’ll try the new wine.

At face value, there is nothing wrong with a highly competent individual leading a private company and earning a high salary by implementing a vision and taking on risks. But non-profit healthcare systems have further exploited the “market” by using administrative tax incentives to their benefit. The non-profit designation means these systems generally don’t have to pay federal, sales, or property taxes.

Moral hazard and the administrative state guide health care at the macro level because it’s happening at the patient level. Here’s how it plays out, as I and two co-authors explained in the textbook Business, Policy, and Economics of Neurosurgery.

It is not uncommon for the following scenario to unfold in clinical practice: A patient presents to their neurosurgeon with isolated lower back pain. The patient is overweight with high blood pressure and Type 2 diabetes. The patient tries physical therapy with minimal effort, and it makes his or her pain worse. The patient has some mild arthritis on their back, but it’s nothing obvious that could be causing pain. The patient’s x-rays otherwise look normal. The patient has Medicare, which is the government’s health insurance, generally for the elderly.

Surgeon A sees the patient and is hesitant to offer immediate surgery, so he or she recommends a second opinion and suggests weight loss and conservative therapy. The patient “wants something done” and understandably can’t lose weight because his or her back hurts. Surgeon B offers the second opinion and feels the same reluctance to perform surgery. However, the patient is in considerable pain and still “wants something done.” Pain management physicians do not have an available appointment for months, and the recent government crackdown on opioids have made prescribing pain medication more challenging.

The patient continues to call the physician’s office frequently, and he or she continues to visit both physicians after more conservative therapy fails. The patient (the consumer) is going to obtain the product (surgery). Surgeon A (the supplier), providing neurosurgery in a competitive marketplace, begins to understand that the patient will obtain surgery either from him- or herself or from someone else. Rather than lose income, Surgeon A honestly tells the patient there is a 50:50 chance of improvement and offers surgery. The information is clear and fully discussed to the patient.

Since Medicare is a passive insurance carrier (in most circumstances), it approves payment for the surgery as long as certain benchmarks are met. The patient understands and accepts the risk, hoping for anything that will make his or her back pain better. The surgeon stands to gain the financial benefit of performing surgery regardless of the outcome outside of some gross error or complication. The patient does not feel the true financial risk of surgery because he or she is not the absolute payer for surgery. Moral hazard is at play.

Medicare designates a large Medicare Severity Diagnosis Related Group (MS-DRG) payment is generated for the non-profit hospital. For a complex lower back fusion, the non-profit hospital charges, on average, $94,812 and receives, on average, $23,189.

**Bad Incentives**

This volume-driven component continues to enhance a fee-for-service model where the physicians and the hospital simply gain more money as more procedures are done. However, it remains unclear as to whether this patient has truly been helped. In time, in theory, market forces in the community would equilibrate, and surgeons or associated groups of surgeons who overly perform surgery without clear outcomes would see their referral patterns shrink as their reputations shift.

However, the non-profit hospitals in Surgeon A’s local area are consolidating and purchasing primary care groups. They are intentionally doing that to increase their income. The hospital, which now owns the marketplace of insured patients, mandates self-referral inside its own network. The hospital system indirectly or directly looks to provide care but also places these patients into their own lucrative
long-term care facilities. Even more so, physicians employed in the new hospital conglomerate are further incentivized by a system that rewards a higher volume of surgeries performed without much care for more than a baseline level of outcome.

The cycle repeats, and the tax breaks of what were otherwise well-intentioned people alter the system even further.

A great debt of gratitude is owed for the ongoing mission of OpenTheBooks. At the time of this writing, the organization has analyzed $4 billion worth of government spending records. This has led to a variety of disruptive findings from the VA system, pension system, and lobbying apparatus.

Taxpayers have a right to understand why these non-profit systems are structured as charities.

I sincerely pose the question: Are these non-profits truly working for patients, or are they navigating and molding the system’s rules to ensure their greatest possible piece of the health care pie?

In 2018, the American Hospital Association lobbying arm donated $23,937,842 in political contributions. I sincerely doubt that was to advance their healing mission.

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Economics Reveals the Hidden Order All Around You

By Dan Sanchez

Do you ever feel... lost? You’re stepping into adulthood. The “real world” is calling. You want to answer the call, but the real world is a real mess.

College is absurdly expensive. And after you graduate, then what? You’d like to start “adulting.” But the cost of living is high, especially with student loan payments to keep up with. You need a good, steady income, job security, and health care. But in this economy, even with a degree, it seems really hard to find a job that offers all that. And a job that also involves doing work you love? That seems next to impossible.

How do you wade through this mess? You worry if maybe you can’t. So how do we clean the mess up? That’s a massive task: too big for any one person. This looks like a job for policy.

Good Intentions Do Not Equal Good Results

Maybe we should have universal free college, or at least student loan forgiveness. And how about universal health care, or even a universal basic income? Maybe with the basics covered, adulting would be manageable. Just think of all the potential that would unlock. Wouldn’t we flourish more as a society if we had a system based on people caring for and helping each other?

You’ve heard good-hearted people offer solutions like these, and they seem hopeful. But one doubt keeps nagging at you: will it work? Well-intentioned policies have failed before. How can we know if these policies will actually succeed and not make things worse?

Economics Is a Toolbox and a Superpower

This question is hard, but not impossible. To solve any problem, it helps to have the right tools. And for over two hundred years, deep thinkers have been developing a set of mental tools for thinking clearly about these problems. That mental toolbox is called economics.

Economics is a superpower. Understanding it is like having enhanced vision. When you look at the world around you—full of human beings working, studying, fighting, falling in love, and just living—economics helps you see things that are invisible to most people.

And economics is within your reach: much more so than you might think. The best way to learn economics isn’t memorizing equations or staring at charts, but considering stories. Often thinking carefully about a story (even a fictional one!) about
humans making choices is all it takes to gain a mind-
blowing economic insight that radically clarifies the
way you see society.

And seeing things clearly is the first step to dealing
with any mess: both for finding a path through it and
for cleaning it up. Economics can help you navigate
the real world, and it's absolutely necessary for
choosing policies to make it a better world.

And, for me, the most wonderful thing that
economics helps you see is that some “messes”
are illusions: that beneath the seeming chaos lies a
hidden order that is beautiful and awe-inspiring to
behold.

Sometimes the economy looks chaotic and cruel: a
wild jungle of arbitrary buying and selling, hiring
and firing, making and taking. Who wouldn’t want
to civilize such a wilderness with caring and rational
plans like all the “universal” policies mentioned
above?

But seen through the lens of economics, the world
of commerce actually makes sense. More than
that, it is revealed to be amazingly coordinated and
wonderfully benevolent.

The Global Market Dance

The global market economy is like a vast improvised
dance in which billions of complete strangers help
each other out. The dancers constantly change
partners. With every subtle movement, every
exchange, partners communicate to each other how
best to address each other’s needs. Not only that,
but each gesture sends a signal to millions of other
dancers, offering guidance on how they can best
contribute.

But without economics, you can’t see the dance. The
market may look to you like a mad scramble, or even
worse, a war of all against all. That’s why policy
solutions can be so attractive. The situation seems to
call for some choreography. So you want to delegate
power to economic choreographers to prescribe and
correct the dancers’ moves.

But a dance of billions is too complex to
choreograph. Efforts to do so only cause the dancers
to stumble over each other. Distracted by the
choreographer’s commands, they lose touch with the
delicate give-and-take of the dance floor.

Then things get even worse. The choreographers
respond to each stumble by meddling even more,
causing even more missteps. Eventually, the dance
devolves into either a lockstep march or a riot:
exactly the state of affairs you wanted to avoid.

What is especially tragic about this, is that the
dance—the unseen order of the market economy—is
how humanity has reached its greatest achievements.
And we have achieved much, especially recently.

Higher Quality of Life Thanks to Markets

Indeed, making a living is hard. But it’s not nearly
as hard as it used to be. For most of history, the vast
majority of humanity lived in crushing poverty. But
today, for people living in market economies, basics
like food, clothing, shelter, and household items
are vastly easier to come by—and in much greater
quality and variety—than they were two hundred
years ago.

And what “living” is has been radically enhanced
in many ways. We have gadgets and services that
only decades ago were the stuff of science fiction.
In video games, we can explore vast photorealistic
fantasy worlds. We carry supercomputers in our
pockets that connect us to the Internet, which is
a global forum and marketplace of over 3 billion
people and gives us free, instant access to a
storehouse of knowledge equivalent to millions of
libraries. By tapping on our personal supercomputer
a few times, we can summon to our doorstep, within
a matter of days or even minutes, anything from
a vast selection of products and services: from
gourmet sushi, to robot vacuum cleaners, to a ride to
tonight's concert.

As economics can help you see, all of these
wondrous experiences were made possible by the
invisible order of the market. When you learn to see
that, the economy transforms from something to
be feared, resented, and fought into something that
inspires awe and gratitude. And that is a much more
uplifting mindset to have. It is also a more empowering one. Economics can help you see the market for what it really is. Not a battlefield. Not a dog-eat-dog jungle of predatory exploitation. Not a heartless system built to chew up and spit out your hopes and dreams.

As economics can help you see, the market economy is a universe of opportunities to help others and be helped in return. When you learn to see it that way, the "real world" of work and enterprise will look a lot more engaging and meaningful. And you will see “adulting” as a lot more doable, interesting, and exciting.

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Central Banks are Making "Conservative Investments" Riskier. This Could Be Disastrous for Pensions.

by Daniel Lacalle

There are many misconceptions about the collateral damages of financial repression. The first one is to believe that Central Banks monitor or react to financial risk accumulation. Policymakers tend to allow excessive risk-taking as a lesser evil side effect in their quest for inflation at any cost (read my paper). If asset valuations are somehow elevated, they expect a moderate correction to solve it. Another misconception is to believe that risks accumulated during periods of monetary expansion can be easily absorbed and mitigated with macroprudential measures and regulation (Steiner et al). The evidence also shows that risk happens fast and the impact across assets and the real economy far exceeds the maximum impact estimated by commercial, investment, and central banks. The failure of stress tests and the inability to see financial bubbles or predict a crisis are a testimony to the mistakes in consensus complacent views of risk.

One of the biggest problems right now is that the most conservative and prudent investments are increasingly adding extraordinary risks for lower yields.

Take one of the flagships of conservative investment, the Norwegian pension fund. In its annual report, it shows that the fund has delivered a net real return of 3.27% and -7.74% in 2018, good relative returns, but what seems most interesting is that the overall performance has suffered just as equity investments rose from 20% to 69.32%. The increase in overall risk imposed by central bank financial repression has made global pension funds reduce bond holdings in favor of riskier and illiquid alternatives (Hentow et al, How do Public Pension Funds invest? From Local to Global Assets).

Not only are pension funds diversifying to riskier countries and assets, but they are also searching for yield in increasingly complex products and issuers with weaker solvency and liquidity quality (OECD Survey Of Investment Regulation Of pensions Funds, 2018).

Making the lowest risk assets -sovereign bonds in OECD) extremely expensive through liquidity injections, asset purchase programs and cutting rates, is the equivalent of inflating a real estate bubble. An asset that is perceived to be safe and with stable qualities is inflated through demand-side policies and monetary support, and the risk accumulation spreads to other less-reliable and volatile assets.

Some concerning facts:

- Currently, there are only 60 basis points that separate “junk” corporate bonds from the highest quality high-yield ones, according to Morgan Stanley Wealth Management’s global investment committee.

- The amount of negative yielding debt has reached a historic high of $12.5 trillion.

- The number of negative yielding junk bonds in Europe has soared from zero to fourteen in a few months.
Albert Einstein said, “Imagination is more important than knowledge.” Coming from such a knowledgeable mind as his, this observation should have a lot of meaning to us.

The Infinite Banking Concept is an exercise in imagination, reason, logic and prophecy. We will re-visit this thought many times during this course. To help stimulate your imagination let’s go back in time to 1785 – the German schoolmaster was having trouble with his boys that day – they were rowdy. He wanted to quiet them down and to punish them, so he gave them a problem. “Add up all the numbers – one through one hundred.”

The boys got their slates down and started to work on the problem. The schoolmaster’s plan seemed to be working! But one little boy was not participating – he just sat there staring out the window. Shortly he picked up his slate, wrote down a number and turned it in. Would you believe, he was the only boy with the right answer? All the rest had wrong answers. The schoolmaster took note of this fact and asked the boy how he did it.

The boy said, “I visualized a line with the figure
1 on the left side and the number 100 on the right. In the middle was the number 50. I cut the line at that point and folded the right end of the scale over to where it was parallel to the other line. Now, I had 1 lined up with 100 and 50 was lined up with 51. Adding 1 and 100 produced the answer 101. I noticed that adding 50 and 51 produced the same answer. Further, when I imagined all the series of numbers between these extremes I always got the same answer, 101. Then, I saw that I had 50 sets of 101’s. Multiplying 50 times 101 produced the answer 5,050.

Thereafter the boy received special tutoring and he became one of the three greatest mathematicians of all time – his name was Karl Gauss. Look his name up on the internet.

Young Gauss did not invent that fact. He discovered what God had done already. He discovered a relationship between numbers that is fixed and nothing can be done to change it.

Now that we understand this fact we can take a shortcut in getting the answer. Whenever we are adding anything beginning with 1 and ending with a multiple such as ten, one hundred, one thousand, etc. you simply pick the mid-point and put that same figure beside it. In the case we just cited the midpoint was 50, so putting 50 beside it we get the answer 5,050.

So, to add up the numbers 1 through 1,000 you simply pick the mid-point, 500, and put 500 alongside it -- 500,500; ridiculously simple -- and absolutely accurate. It is fixed! Try to pass some law to change that fact and you are engaging in an exercise in futility.

Nevertheless, somewhere in the past I have heard that a legislature in some state tried to get the mathematical term, “Pi” changed from 3.1416 to 3.00 because it was too complicated and cumbersome! These demigods could not conceive that they were dealing with a fixed relationship that they could not change and had no authority over. But, therein lays the story of mankind since time began.

Karl Gauss was able to see what others could not see because he used his imagination. In the next lesson we will continue to use our imagination in a very practical way. I’ll see you then!

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

- Braden Galloway - Anchorage, Alaska
- John Moriarty - Saint Louis, Missouri
- Jason Breit - Melville, New York
- Jayson Lowe - Edmonton, Alberta
- Thomas Young - Beaver, Pennsylvania
- George Roth - Edmonton, Alberta
- Tommy Ruff - Harrison, Arkansas
- Scott Plamondon - Laguna Hills, California
- Mike Sidhu - Victoria & Vancouver, British Columbia
- Brandon Jenkins - Jacksonville, Florida
- Brian Heyer - Greenville, Wisconsin

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

IBC Practitioner’s have completed the IBC Practitioner’s Program and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions. The IBC Practitioner has a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients.
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