Does IBC Work for Older People? Part 2 of 2

by Robert P. Murphy

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Last month, I began this series, which tackles the question: Does IBC “work” for people who are older and/or in poor health? Many people are concerned that the “pure cost of insurance” will be so high in such cases, that practicing IBC will be too expensive, or will have “too much drag,” to be sensible.

In order to explore this important question, I presented a table showing theoretical calculations of the Cash Surrender Value for whole life insurance policies for individuals who were either very healthy or very sick. I concluded that anybody can “do IBC,” and that the admittedly lower internal rate of growth on the cash value for a sick person was exactly counterbalanced by a sooner expected payout from the death benefit. (We’ll review the specific results below.)

However, to keep things simple for that opening article, I assumed the whole life policies in question were “single premium” or “one-pay” policies, meaning that the owners of the policies simply wrote one big check to the insurance company at the start, and then the policies would run on autopilot. In the real world, for various reasons, actual IBC policies usually feature a combination of repeating premium payments and what we might call “upfront loading” of extra contributions from the policyholder.

Consequently, in this follow-up article I will extend my analysis from last month, in order to show the (theoretical) values of various whole life policies for individuals with different mortality rates, when the policies involve recurring annual premium payments (rather than one large upfront payment). But because the concepts are complex, I will devote a large portion of the current article summarizing and elaborating on what I presented last month.

NOTE: The material in this article is advanced. There are many listeners to the Lara-Murphy Show—which is a free podcast available to the public—who email us with very intricate questions, but which would be too technical or difficult to discuss verbally on the show. For those who subscribe to the Lara-Murphy Report (i.e. the present publication you are now reading), I want to occasionally do a “deep dive” into some advanced topics because this is the only forum for such explorations. In addition, we sometimes learn
of doubts about IBC coming from CPAs or other conventional financial advisors, and so I want our readers to feel confident that IBC is rigorous and can withstand even a microscopic inspection of its inner parts.

Having said all this, if you find the present article to be over your head, don’t worry—you don’t need to understand how your engine works in order to use a car. Likewise, you can still benefit from practicing IBC even if you don’t need to master all the intricacies in the present article.

Remember: You Can Take Out a Whole Life Policy On Someone Else

Before reviewing the results from last month’s article, let me stress something that is critical for this topic: Even people who are literally uninsurable (because of a medical condition) can still practice IBC. They just need to take out a properly structured whole life policy on someone else (in whom they have an insurable interest). You can still own a whole life insurance policy, reaping its advantages as a cashflow management vehicle, even if your own life is not the one being insured.

Consequently, even if I fail to convince you that “IBC still works even if you’re older,” you can still comfortably practice IBC, just using policies taken out on other individuals. So we see, the purpose of this two-part article series isn’t to convince a skeptic to do IBC, but rather to give a framework to help readers think about IBC at a deeper level of understanding. Even if it were true that it’s “wasteful” to take out life insurance on older people—which it’s not! —that still wouldn’t be a valid reason for an older person to ignore Nelson Nash’s brilliant insights.

The last caveat I’ll give is that Nelson Nash always says: IBC isn’t about interest rates. The reason I’m focusing so much on them in the present article, is to reassure readers that they aren’t being suckers, and also to provide general education on how whole life policies tick.

A Review of Single-Pay Whole Life Policies

First, let’s review my main result from last month’s article. Obviously, if you missed it, you should go read that article first, as the current article builds upon its foundation.

Just to be clear, all of the calculations in this article are done in a simple Excel worksheet. This is to keep things relatively simple, to isolate the specific “moving parts” we are discussing, but also so that the reader can reproduce the analysis at home, and tweak things if desired.

The key to understanding the tables in this article is to work backwards. At the start of Year 121, the whole life policies mature or endow, and the owner gets the $1 million “death” benefit whether or not he is still alive. Therefore, the Cash Surrender Value (CSV for short) is obviously $1 million when the owner turns 121.

At the start of Year 120, we assume that there is “dice roll” to determine if the individual dies. If he does, his estate immediately gets the full death benefit of $1 million. If he lives, his whole life policy is now a financial asset that we know will be worth $1 million in one year’s time. Because we
assume a 5% discount rate, that prospect of being worth $1 million a year from now, right now is only worth $1 million / 1.05 = $952,381.

As we just saw, the CSV of a whole life policy at the start of Year 120 (right before the “dice roll”) is partly dependent on the likelihood of death. In Table 1, we see that Sickly Sam has a 50% chance of dying each year. Consequently, his CSV at the start of Year 120 is (50% x $1,000,000) + (50% x $952,381) = $976,190 (with rounding).

In contrast, Healthy Hank only has a 10% chance of dying each year. As Table 1 indicates, at the start of Year 120 the whole life policy’s theoretical market value will be (10% x $1,000,000) + (90% x $952,381) = $957,143

Using a similar procedure, the reader can “work backwards” through the earlier years, filling in each of the theoretical Cash Surrender Values of these respective whole life policies. If either Sickly Sam or Healthy Hank wanted to actually take out a policy in any particular year, he would have to pay—as an upfront, single premium—the Cash Surrender Value of that year. For example, Sickly Sam would need to hand over $955,658 as the single premium payment to have a fully paid-up whole life policy (with a million-dollar death benefit) if he wanted to take out such a policy at age 116.

In contrast, Healthy Hank would only need to hand over $838,799 for “the same” whole life policy at age 116. This is what people have in mind when they worry that IBC is “too expensive” or has “too much drag” for older and/or sicker individuals. Indeed, just to formally express this worry, I’ve included in Table 1 calculations of the “internal rate of return” (IRR) on the Cash Surrender Value for these policies. I also included the IRR of a zero-coupon bond that pays out $1 million when the individuals would turn 121 (if they are still alive).

When we put things like this, it sure looks like a whole life policy is a “terrible investment” for Sickly Sam, doesn’t it? Isn’t Table 1 showing us that Sickly Sam gets a much worse rate of return than he could get from putting his money in a bond? And though the situation is better for Hank, here again some of the growth in his policy’s cash value seems to be “eaten up” by the pure cost of insurance, doesn’t it?

I deliberately included the rate of return calculations in Table 1, just so readers would trust me that I’m not hiding anything from them. Yes, those figures are what they are, and this is definitely what’s behind the layperson’s vague worry that “IBC is too expensive for older people.”

Yet hold on. Everything in my analysis last month and this month, assumes frictionless markets where the insurance companies charge actuarially fair premiums, with no premium payment being devoted to overhead, agent commissions, or other miscellaneous items. So, it can’t be that the insurance company is “ripping off” the customer, or that the policyholder is buying a “bad product.” The theoretical market values in Table 1 reflect the fundamentals.

What the doubters are overlooking is that a person who is older and/or in poor health is more likely to get the death benefit sooner rather than later. After all, that’s why the CSVs in Table 1 grow more slowly for Sickly Sam.

Let me show you what I mean. Suppose that Sickly Sam is currently age 120 and is deciding how to allocate his wealth. He can either plunk down $952,381 in a zero-coupon one-year bond that has a face value of $1 million. Or, he can plunk down $976,190 in a whole life policy with a $1 million death benefit.

If Sickly Sam survives another year, then there is a sense in which he would have regretted buying the life insurance policy. He will effectively only earn a 2.44% return on the single premium he paid to take out the policy, whereas he could have earned a 5% return had he invested in the bond instead.

However, we can turn the tables. Suppose Sickly Sam dies right after taking out his whole life policy. Then the executor of his estate would have $1 million that he could invest in bonds that matured into a value of $1,050,000 at the start of year 121.
That means Sam’s estate would have earned a return of ($1,050,000 / $976,190) – 1 = 7.6% return (with rounding). So if Sam had instead invested in the bond originally, and then died at the start of Year 120, the executor of his estate would be kicking the now dead Sam, thinking, “If only you would have had the foresight to buy life insurance, I’d have more money to give to your heirs right now.”

Now notice something interesting about those two numbers: If Sickly Sam takes out a whole life policy at age 120, there’s a 50% chance his estate earns a 2.4% return that year, and a 50% chance that his estate earns a 7.6% return. In other words, when we weight the outcomes by their likelihood of happening, then the expected rate of return is... drumroll please...exactly 5%, which is what Sam would earn if he instead invested in bonds.

This isn’t a coincidence, but instead pops out of the assumptions we built into the analysis underlying Table 1. To keep things apples to apples, we assume the life insurance company invests in the same assets available to others, so everyone is using the same benchmark of a “safe return” (or discount rate). Since the life insurance charges the actuarially fair premiums, given our assumed mortality rates, neither party to a transaction is taking advantage of the other. So, it’s not a surprise that—all things considered, including the possibility of dying—putting money into a life insurance policy has the exact same expected financial rate of return as putting money into a bond fund.

And here ends the extended review of last month’s material. In the remainder of the article, let me extend the above analysis by making the premium payments and mortality rates more realistic.

Keepin’ It Real: Annual Premiums, Earlier Start Date, Actual Mortality Rates

There were many features of last month’s analysis—which we summarized in Table 1 above—that were very unrealistic. So let’s make three changes in this section:

1. We will switch from a one-pay policy to one with a fixed, recurring annual premium.

2. We will have the individual take out the policy at the more relevant age of 50, rather than the extremely old 116.

3. We will now use actual mortality rates, which increase over time, rather than the unrealistic fixed rates of death that we used in Table 1.

With these three changes in mind, consider Table 2. Because we are now showing more years, note that we’ve switched the view from horizontal to vertical. But the logic of the calculations is still the same

Although understanding Table 2 is more difficult than Table 1, the principles are the same, and to calculate the Cash Surrender Values, we once again start at the end and work backwards.

There are just two complications: First, the probability of death isn’t a constant number as it was for Sickly Sam or Healthy Hank, but instead are the actual real-world annual mortality rates for a U.S. male (2015) as published by the Social Security Administration. Because of space constraints we haven’t included the numbers in the table, but they start out at 0.32% at age 50, reach 1.07% by age 66, and by age 109 have reached 52.2%—a little worse than Sickly Sam.

The other complication is that at the beginning of each year, a constant premium must be paid to keep the policy in force. This obviously reduces the Cash Surrender Value at any given point, compared to a paid-up policy, because it’s not as valuable to the policyholder to be holding an asset (i.e. a life insurance policy) that requires an influx of future dollars to keep it operational.

We can illustrate what happens by walking through the Year 120 calculation. The annual mortality rate this year is a whopping 94.98%. However, on the small chance that the insured survives, next year he will have to pay the premium of $14,859 to keep the policy in force, in order to then have access to the face value of $1 million. Therefore, in the event that the individual survives, the net value of the policy to
Table 2. Theoretical Cash Surrender Values for Whole Life Policy With Lifetime Annual Premiums and $1 Million Death Benefit, Using Official Mortality Rates for U.S. Males in 2015 (boy = “beginning of year”)
him in Year 120 is \((1,000,000 - 14,859) / 1.05 = 938,230\). Therefore, taking the weighted average of the two possible scenarios (i.e. die or live in Year 120), the value of the policy at the start of Year 120 is \((94.98\% \times 1 \text{ million}) + (5.02\% \times 938,230) = 996,900\) (with rounding), which is the value shown for Year 120 in Table 2.

As the reader can see in Table 2, the implied “internal rate of return (IRR)” on the Cash Surrender Value starts out negative and then rises. Note that these are annual figures and not cumulative ones. I have marked in green the year when the Cash Surrender Value finally overtakes the cumulative premiums paid in; it’s at that moment when the cumulative return on the policy is positive.

Jumping down to the last few rows of Table 2, we see that the annual (not cumulative) internal rates of return eventually go negative again, which reflects the very high mortality rates for individuals who reach these ages. If a person were to find himself still alive at age 121, he would calculate that since the start of his policy at age 50, he paid in more in premiums than the current value of the policy, i.e. $1 million.

I am showing these results for two reasons. First, I want to remind the reader of what we went through in the previous section, based on Table 1’s values. The calculation of “rate of return” was extremely misleading. From a purely financial viewpoint, in the world described in Table 1, buying life insurance was no better or worse than buying bonds.

There is a similar lesson here, though I will omit the formal calculations. The negative “annual IRR” for the very late years doesn’t show that someone would be foolish to own life insurance at this point. Think of it this way: What are the chances that someone who is still alive at age 115 is still going to be around in six more years? If 10,000 people were alive at age 115, then—according to the SSA’s official mortality rates—only one guy from that group would still be left alive by age 120. And then that guy would only have about a 6% chance of surviving one more year to reach the finish line.

My point here is that it would be extremely unlikely for an individual to actually experience the “Annual IRR” numbers shown at the bottom of Table 2. The vast majority of people would’ve died and gotten their full million-dollar death benefit, much earlier. And when you take this into account, the overall expected financial rate of return on this life insurance policy is…5%, just as before.

The second reason I wanted to show the reader the numbers in Table 2 is that they should reassure doubters that real-world life insurance policy illustrations aren’t merely reflecting agent commissions or other “front-loaded” expenses. The typical whole life policy illustration has a pattern similar to that shown in Table 2, where the internal rate of return on the CSV is very bad early on, but gently rises over time. Since Table 2 does the same thing, even though we have no commissions or other real-world expenses in the calculation, it should reassure us that there are legitimate reasons based on “fundamentals” for the patterns in real-world illustrations.

Front-Loading a Policy Rather Than Relying on Perpetual Premiums

Finally, in this last section I’ll show the theoretical values for a seven-pay whole life policy, in other words a policy where the owner only makes seven premium payments before it is fully funded. As we’ll see, this approach changes the IRR numbers significantly.

This article is already long, so let me just point out the obvious: When a policy is front-loaded, the implied annual (and cumulative, though that’s not shown) internal rate of return is much higher. This doesn’t mean one structure is a “better deal” than another, but I’m just pointing out that the funding approach affects these types of calculations.

These facts are relevant especially for IBC, where the typical policy will combine a contractual base premium for the entire length of the policy, along with a significant amount of Paid-Up Additions early in the policy. To be clear, it’s not the same thing as a contractual 7-pay policy, but real-world IBC policies
typically blend both features of what we’ve shown in Tables 2 and 3.

**Conclusion**

The calculations in last month and this month’s articles were theoretical, meaning that I derived them in Excel using simplifying assumptions. The purpose of this exercise was to shed light on how whole life policies actually work, and also to demonstrate that IBC still “works” even for older people or those in poor health.

As we saw, even for those with a high mortality rate, life insurance is still a legitimate “investment” because the higher annual premium is matched by a greater likelihood of getting the death benefit sooner. I also remind the reader that Nelson Nash isn’t telling people to “invest in life insurance,” rather he recommends using life insurance policies as a vehicle to “become your own banker,” i.e. to manage cashflows. Still, I thought it worthwhile to show why the cynics are wrong when they smugly declare that “whole life insurance is a terrible investment.”

Naturally, no reader should make financial decisions based merely on hypothetical tables. The examples I used in these last two articles were intended to teach principles, to help the reader make sense of real-world illustrations. There are many other complicating factors, such as the excellent tax
advantages from a properly structured IBC policy, that my simplistic analysis had to ignore.

Anyone who wants to actually apply the theory of IBC to his or her real-life household or business should consult with a graduate from the IBC Practitioner Program that Carlos Lara, Nelson Nash, David Stearns, and I designed. These graduates can be found at: www.InfiniteBanking.org/finder.

References
1. The mortality rates underlying Tables 2 and 3 were taken from the Social Security Administration’s Actuarial Life Table 2015, available at: https://www.ssa.gov/oact/STATS/table4c6.html.
2. Strictly speaking, the SSA mortality figures didn’t include an estimate for age 120, but we took the average mortality rates for ages 119 and 121 to reach the figure cited in the text.
3. The mortality rates underlying Tables 2 and 3 were taken from the Social Security Administration’s Actuarial Life Table 2015, available at: https://www.ssa.gov/oact/STATS/table4c6.html.

Austrian Economics is No Longer the Unheard Music

Jeff Deist

Readers of a certain generation will remember the seminal 1980s rock band X, featured in Penelope Spheeris's great documentary The Decline of Western Civilization.

Punk and alternative bands in the Tipper Gore era struggled to get record deals, radio airplay, or even hire venues for gigs at their own expense. "The Unheard Music," a song from X's 1980 album Los Angeles, captures this struggle with the lyrics "We're locked out/of the public eye/no hard chords/on the car radio."

So a DIY ("do it yourself") ethic emerged among bands like X and Black Flag. They bought dilapidated old vans and booked their own tours on the fly, using word of mouth and sleeping where they could. They bypassed radio station executives and snuck their cassette demos into late night rotation through sympathetic disc jockeys like Rodney on the ROQ. They built their own PA boxes and printed their own T shirts. They even created record labels like Dischord, SST, and Alternative Tentacles which would go on challenge the major studios.

Ultimately, over time, they earned grudging respect from the music industry. They paved the way for countless local garage bands and aspiring YouTube musicians to work outside of traditional institutions and channels.

There is a tortured analogy here. Austrian school economists in the US once faced similar obstacles, and similarly persevered to make their mark on a sclerotic profession badly in need of a shakeup.

Largely shut out of university economics departments after the Keynesian revolution of the 30s and 40s, brilliant Austrians like Mises and Hayek had to find audiences and funding where they could. Organizations like the Volker Fund and businessmen like Leonard Read made it possible for Mises and Rothbard to survive financially while producing books we cannot imagine not having today. Benefactors like Henry Hazlitt brought Austrian ideas to the public in the pages of The New York Times and Newsweek. Popular authors like Ayn Rand provided an intellectual defense of capitalism and publicly praised Mises's Human Action.

DIY Austrians worked their way into the edges of academia, started and published their own journals, and did end runs around the gatekeepers to reach wider audiences. And slowly, over time, they succeeded.

In the mid-twentieth century, the Austrian school reasserted itself in its new American home and planted a flag. Mises became a US citizen. Rothbard published Man, Economy, and State in 1962, the first wholesale Austrian treatise in decades. The South Royalton conference in 1974 created a coalescence of scholars who were prepared to think of themselves as a resurgent Austrian school, including Hayek, Rothbard, Israel Kirzner, Ludwig Lachmann, and Hazlitt. The Thatcher and Reagan years brought
about the rhetoric, though not the reality, of market liberalism.

Progress since then, particularly in publishing and academic employment for Austrians, has been steady. But the digital age accelerated everything, making the great Austrian books and articles available free to anyone around the world with an internet connection. Austrians today have institutional and financial support. And Austrian PhDs work in academia, business, banking, finance, and investment houses in numbers unthinkable just a few decades ago.

Of course the Paul Krugmans and Noah Smiths and Gregory Mankiws still dominate the profession. Bad ideas still dominate university economics departments. But signs of the end of that dominance are everywhere, even if those signs manifest in illiberal populist ways economists don't much like.

Austrians today are right to ask: is supposedly mainstream economics doing any good? Does it benefit society, beyond providing sinecures for academics? Does it accurately predict anything? Does it help us discover truth, or become more prosperous?

Mainstream economists remain mired in mathematics and statistics, yet unlike mathematicians they fail to tell us much about the world. They view human action only in aggregates. They attempt to express economics in mathematical equations. They criticize Mises as a "literary economist." They force backward-looking data into forward-looking models. Yet perversely all of this data and empirical testing never seem to explain the booms or time the busts.

The dismal science is in trouble, and it deserves to be in trouble. Economic axioms cannot be flouted without consequences—which means the central insights of the Austrian school will prove correct over the coming decades.

• Political money will unravel; commodity money will reassert itself. Central bankers will force depositors into the bizarro-world of negative interest rates, destroying capital and dramatically hurting savers. Central bankers similarly will do everything they can to avoid a stock market crash. They will once again buy assets and prop up equities, while telling us their fiat currencies are healthy—even as they quietly buy more gold than they have in decades.

• Governments, businesses, investors, and individuals will respond to loose monetary policy rationally, by borrowing and spending instead of saving and investing. M&A, stock buybacks, and other forms of financial engineering will attempt to extract tiny amounts of value from moribund companies and industries.

• Federal Reserve officials will disavow outright monetization of government spending (i.e. Modern Monetary Theory), even as they partially practice it with an increasingly debt-financed federal budget. All of this new money and credit will not be neutral, but will primarily benefit political and economic elites.

• This monetary alchemy (h/t Nomi Prins) will not work. Consumption will not magically substitute for production. Demand-side stimulus, whether fiscal or monetary, will produce only ersatz and short-lived economic growth. Underlying incentives will continue to matter.

• Political movements in the US toward greater degrees of socialism and bigger entitlements (e.g. single payer government health care) will encourage the gross misallocation of resources, just as Austrians warn.

• Bureaucrats, far more powerful than presidents or Congress, will steer the economy based on political expediency and without regard to market signals.

• "Capitalism" will be blamed for any economic crises, whether in jobs, housing, energy, stocks, or consumer prices.

• Positivist economists will explain everything after the fact, with no acknowledgement of their own complicity and lack of foresight.

Nobody wants, or hopes for, a severe economic contraction. Nobody wants to see people suffer
from bad political and economic policies. But debt and entitlements are unsustainable. The Fed's swollen balance sheet is unsustainable. Moving toward socialism is unsustainable. Austrians will be vindicated, but will they be heard?

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**ECONOMICS IS THE MOST IMPORTANT SCIENCE FOR THE LAYMAN**

By Gor Mkrtchian

Of all the natural and social sciences, economics is the most crucial for the intelligent laity. This is because economic understanding among the public makes the difference between barbarism and a healthy society. While the other sciences are important, they only require a small minority of specialists with a deep understanding of those topics for the fruits of those disciplines to spread throughout society. But good public policy frequently depends on a sound understanding of economics, and thus depends on the public's understanding of it.

When passengers are sitting in coach, flying from the Bahamas to New York, it doesn’t matter whether any of them understand the laws of aerodynamics, or anything about the mechanical engineering of the plane they’re flying in. The successful operation of the plane goes on, so long as a small, specialized group of people understand. When millions of people take their medicine every night, it doesn’t matter whether they understand the chemistry underlying their pills and syrups, so long as a relatively small number of chemists who produced the medicine knew what they were doing. A cruise ship does not get lost at sea on the way to, say, Alaska, based upon the sailing expertise of those playing laser tag on its deck, if the captain and his crew know what they’re doing. A country, on the other hand, is a boat that only floats if those inside it understand how to operate it successfully.

**Even a Non-Voting Majority Affects Policy**

Accepting the key role of the economic system on a society’s wellbeing, it’s straightforward why representative republics or other forms of democratic government with populations that favor free markets have free markets, and those with populations that favor interventionism have interventionism. Politicians seek election, and if voters en masse really demand certain policies, politicians will pursue those policies. But why should non-democratic states care at all what their populations think? Doesn’t the dictatorship have all of the guns? Can’t they let the people pointlessly pass around their issues of *The Austrian* while the overlords continue about their business, undisturbed behind their battalions? As Mises stated in *Human Action*:

> In the end the philosophy of the majority prevails. In the long run there cannot be any such thing as an unpopular system of government. The difference between democracy and despotism does not affect the final outcome. It refers only to the method by which the adjustment of the system of government to the ideology held by public opinion is brought about. Unpopular autocrats can only be dethroned by revolutionary upheavals, while unpopular democratic rulers are peacefully ousted in the next election.2

Emphasizing the strength of public opinion in the face of the state’s military might, Dr. Robert Murphy explains:

> And if you think that’s naïve, well then if you were right, that means the most totalitarian states where the leader can just have somebody disappeared at night . . . then there they should have free and open internet access, they can let the schools teach whatever they want . . . if anyone gets out of line they just kill them. But no, it’s precisely in those totalitarian societies where they can just kill people at will where they want the most strict control over information.3
Indeed, in virtually every case, the most militarized and totalitarian states, those most willing to use force against their own people, are those most concerned with controlling the education, speech, and thought of their subjects. The reasoning behind such efforts is clear in light of two facts. First, the people are many and the state is few. Second, the constituent agents of the state itself, including members of the police and military, are not immune to infection by dissent, and can come to support regime change. Inverted pyramids of force are built upon the base of opinion. Even if, as Lenin said, one man with a gun can control one hundred without one, opinion can make that one man turn around onto his masters.

In some significant ways, dictatorships and monarchies face even stronger popular opinion constraints than democracies do. While elected officials are typically voted out of office in one piece, strongmen and their loved ones often face grotesque deaths when ousted. Additionally, the understanding among the public that democratic politicians can be voted out peacefully every few years can breed patience until the next election, whereas subjects of strongmen know change won’t come unless and until people take action. Thus, dictators have more personally at stake in the battle over popular opinion than do democratic politicians, and do not have the hope of periodic peaceful regime change to allay unrest among the masses.

Of all of the natural and social sciences, it’s most important that the intelligent layperson have a solid hold of economics, because their understanding of economics will shape the operation of the most powerful organization in every country in the world: the state. “The flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority.”

1. Humanities such as theology, philosophy, and history are not included in this claim.

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**Why “Free College” Will Do Little to Help Poorer Americans**

by Richard Vedder

Two facts about colleges stand out. First, they are largely (some argue almost entirely) a “private” good; that is to say, the benefits from college attendance accrue mainly to the student, not to society at large. For example, the Census Bureau tells us the typical male adult college graduate made about $30,000 a year more in 2017 than his counterpart with just a high school diploma. That’s private benefit.

While there are numerous arguments claiming “positive externalities” of college, the evidence for our 50 states suggests that state governments that shower lots of money on their public universities do not get higher rates of economic growth as a consequence—the positive economic externalities from spending state funds for higher education are pretty elusive.

"Free College" Would Mostly Help the Middle Class

Second, evidence from the Equality of Opportunity Project of Raj Chetty and several others shows that the overwhelming majority of students at most four-year colleges and universities come from relatively affluent families. There are 38 private schools, including a majority of the Ivy League, where more students come from the top one percent in the income distribution than the bottom 60 percent.

Even at the fairly typical state university where I teach, Ohio University, the median family income is over $90,000 annually—well above state and national norms. It is much higher still at prestigious state flagship schools—$135,100 at the University of North Carolina at Chapel Hill and even higher.
($155,500) at its rival to the north, the University of Virginia.

A large portion of the beneficiaries of free college will be relatively affluent middle-class individuals.

Poorer kids are less likely to complete high school, less likely to have good academic preparation, and thus less likely to attend schools with even minimally selective admissions.

With that by way of background, I have been mystified by the efforts (primarily of liberal Democrats) to enact “free college” for at least a year or two at state-supported colleges. It seems to me at least possible that a large portion of the beneficiaries of such an effort will be relatively affluent middle-class individuals, especially at highly selective admission state flagship universities.

Consider New Jersey, where Democratic governor Phil Murphy has favored high marginal income tax rates to help fund free college. To keep the proposal from favoring the rich, he proposes to make it available only to those attending community colleges, not state schools like Rutgers (median family income of attendees: $103,500) or the College of New Jersey ($133,000).

Politicians are using the proposal of free college to promote their own re-election rather than truly help the poor.

I took five large (each over 10,000 students) public New Jersey community colleges (Bergen, Brookdale, Camden, Essex County, and Middlesex) and looked at data from the U.S. Department of Education’s College Scorecard. Not one of them had a graduation rate as high as 25 percent, with average earnings after attendance varying between $30,100 and $38,400 annually. That is just about what the average earnings of high school graduates were in 2017 nationally ($35,713). Free community college seems far from a likely path up the economic ladder!

Meanwhile, the high-income taxes to help finance this scheme have contributed to New Jersey having significant out-migration of productive human resources.

Proposals, such as Senator Bernie Sanders’, for free college open to students at four-year state universities are almost certainly likely to primarily benefit students from moderately affluent families. Moreover, many really low-income families already get the equivalent of free or very low-cost tuition anyway, through school need-based scholarships and federal Pell Grants. Politicians are using proposed relief from high tuition costs resulting from dysfunctional federal student loan programs to promote their own re-election rather than truly help the poor.

Private Funding for Private Benefit

The good news is that there is a parallel, but little-publicized, “free college” movement underway. Private employers are increasingly paying the tuition of their employees. That doesn’t cost taxpayers anything.

For years, many employers have offered to pay part of the graduate schooling costs of some of their relatively high-paid managerial and technical employees. For example, a large business might pay some or all the tuition for an M.B.A. degree program, provided the employee agrees to stay at least two years after completion. But now employers are increasing their tuition benefit programs to relatively low-paying employees with high school diplomas who want to earn college degrees.

Starting several years ago, for instance, Starbucks began providing some tuition benefits for its employees. This has spread to many other businesses, including the nation’s largest private employer, Wal-Mart. Wal-Mart asks employees to pay a nominal amount ($1 a day) toward tuition at a small number of schools with which the company has negotiated contracts. A similar approach is used by others, including the Walt Disney Company. Federal tax law gives favorable treatment for benefits up to $5,250 annually, which has encouraged private support of tuition payments.

Schools like Brandman University are offering
We continue to learn how the Infinite Banking Concept got started. So far, you have heard only a part of my story. The beginning of my awakening was in November 1980 when our first grandchild was born. Interest rates had begun to zoom upward. That was Bunker Hunt’s heyday – do you remember him? Bunker and his brother were going to “corner” the silver market – and as a result silver prices went up higher than anything, relatively speaking. Gold went up to $800.00 per ounce – that will give you an index.

Well, what did that cause out in the big wide world? Among other things, “drug junkies” started supporting their habit by stealing silver from homes. While my wife was visiting our new granddaughter for several days, some 60 miles away, the thieves broke into our home at 3:00 p.m. and “cleaned us out.” Have you ever been burglarized? You won’t believe what they can do to a house in just a few minutes. Luckily, I got to clean up the mess. If my wife had seen it I don’t believe she would ever feel comfortable in that house again.

Let Wal-Mart and Starbucks subsidize college for their employees if they wish. Their employees might well learn something useful. That’s vastly better than “free college” on the taxpayer’s dime.

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chemotherapy when she was 6 weeks old. Six months later she went through surgery to remove the tumor on her right adrenal gland. The cancer was a neuroblastoma, a very rare kind that attacks children. The lesions had involved her liver and she had to go back on chemotherapy for several more treatments. My story has a good part – she is now 20 years old and is cured! We have seen a miracle!

And now for the bad financial news – it was that summer that Interest rates went to 23% – and there I stood owing $500,000 under those circumstances. When a number of bad things like this occur in fairly rapid succession it will increase the quality and quantity of your prayer life dramatically. The basic idea revealed in the Infinite Banking Concept was born over a period of many, many months at 3:00 to 4:00 a.m. in the kneeling position praying, “Lord please, show me a way out of this financial prison that I have created for myself.” The answer came back about like a baseball bat across the eyes. “You are standing in the midst of everything it takes to get out – but you don’t see it because you look at things like everyone else. You can get to money during these awful times at 5% to 8% interest from three different life insurance companies through policies that you own. The only thing that limits how much you can get to is the same thing they tell you at the bank when you ask them how big of a check you can write – how much have you put in?”

If I had not been accustomed to paying very large premiums, by worldly standards, it is doubtful that I would have seen the message. Hardship often helps us to see things to which we are normally blind. It was evident to me that I needed to increase my life insurance premiums dramatically to create a pool of cash values from which to borrow to pay off the bankers that I owed. But I owed $500,000! How could I do both?

Honest introspection revealed that I could revise my spending pattern. This was a starting place. When I started teaching others to design their financial dealings along these lines my income tripled and that helped out. Thirdly, it occurred to me that the American public will buy anything if you give them a time payment plan. So, I started fragmenting lots of my rural property and financing the sales. With that chain of payments, I bought more life insurance.

Practically everyone thought I was crazy – it was opposite to what all the “experts” said. But an objective look at the facts of how life insurance worked, plus reason and logic – and continued sessions of intense prayer for guidance has proved that the system works.

Maybe you have found yourself in such a financial prison – or maybe you want to develop a system that will keep you out! Maybe yours is smaller or greater. Whatever, the principles are the same and they will serve you well. It requires understanding – and it requires discipline to implement the idea, but it can change your life dramatically – even beyond your fondest dreams!
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