NEW EDITION!

INFINITE BANKING FOR SMALL BUSINESS OWNERS

LEARN HOW TO REGAIN FINANCIAL CONTROL & INCREASE THE VALUE OF YOUR BUSINESS

CHAD HOLSTLAW & DAVE SWANSON

NEW CASE STUDIES, BUSINESS GROWTH STRATEGIES & MORE!

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Preface

When we set out to name our business, we wanted an image that aligned with the Infinite Banking Concept and Nelson Nash's analogy of building a "bank" which one owns and controls. We kicked around many ideas and names, but when Downstream Wealth was suggested, we were in immediate agreement. This is why our logo depicts a dam with water flowing down into a river. We believe it captures many important elements critical to understanding what the Infinite Banking Concept is all about, and how it offers incredible value to businesses. The most obvious point is the dam and the controlled flow of water, having been captured upstream in a large reservoir and released as needed.

But there's something else you shouldn't miss. Dams take a long time to build before they're useful. Long before water can fill up a reservoir, planners must find the ideal location to build and acquire the land. There must already be a river with a consistent volume of water flowing. There must be a proper natural boundary that will become the reservoir. The properties of the surrounding landscape must be able to accommodate a massive steel and concrete structure and withstand enormous amounts of pressure and variance. After plans are finalized, the hard work of building the dam begins. It requires huge amounts of financial, intellectual, human, and physical capital, along with time. But once the dam is built and begins to fulfill its intended purpose, the benefits far outweigh the initial startup cost. Many dams produce enough hydroelectric power to supply millions of homes and businesses with electricity. Some protect communities from being wiped out by floods. Others provide consistent irrigation for agriculture or fresh drinking water in places that don't have a natural source. Most of them serve many of these purposes simultaneously.

Construction on the Hoover Dam began in 1931 and was completed in 1936 at a cost of $49,000,000. Since that time, it has maintained continuous operation—88 years—providing electricity to California, Nevada, and Arizona, along with flood control and vital water storage, not to mention the tourism and recreation from the creation of Lake Mead, the largest man-made reservoir in the United States at the time.

Your business, no matter what it is, is in the same position with your cash flows. In this book you'll see just how valuable that resource truly is and how to create a system that gives you full control of that capital. By redirecting that flow into the proper instrument, you will simultaneously protect your business from major financial risk, grow its value and attractiveness whenever and however you decide to exit, protect your business and family legacy, and have capital to deploy toward business expansion without reliance on banks and other lenders. The point we want you to see is that when you take control of your capital flow upstream — the resources which are already flowing through your bank account—you get to dictate what happens downstream.

Introduction

Small business owners are successful because they've found a way to efficiently allocate capital in order to profitably produce goods and services that people want and need. Businesses have a constant need for capital, not only to stay afloat, but grow. This is a constant cycle, and any interruption can be catastrophic. Business owners see this regularly as many are only one major expense away from trouble, and this becomes more apparent during recessions, periods of high inflation, or major economic disruptions like The Great Financial Crisis or Covid-19.

The problem with the traditional cash flow model is that cash quickly flows in through one door and out the other, in which business owners only briefly retain control of their capital. Not only does this keep the business reliant on creditors, but by giving up control of your capital, you're giving up any future *growth* on your capital. Despite the common narrative, because of the time value of money and our inflationary monetary system, ***everything you pay for is financed***. Of course, we have the literal form of **financing through third-party lenders**, but when a business owner pays cash for expenses, he/she is also paying via lost **opportunity costs**.

Additionally, when using the traditional cash flow model, owners realize that after being in business for several profitable years, ***capital is locked in the business***. When it's time to retire, owners have no good way of monetizing the value of their business they worked so hard building. The biggest assets are generally the owner or other key persons (due to their ability to source new business and serve existing clients) and capital-intensive assets that depreciate over time like machinery or equipment, making any potential buyers reluctant about the business's succession plans. Many business owners realize far too late that ***intangible capital*** **makes up roughly 80% of a business's value.**

Unfortunately, as the business grows, so do obligations. Things like COGS (cost of goods sold), payroll, taxes (theft), equipment, insurance, inflation (theft), and all sorts of other miscellaneous expenses consistently demand more and more of your capital each year. This forces business owners to make difficult decisions, in which sacrifices must be made. Do you want to pay down your line of credit, or do you want to save more for retirement? Do you want to give your people a raise, or do you want to give them better equipment to use? Do you want to put cash away for a rainy day, or do you want to expand the business?

These are challenging decisions all business owners must make, but many concerns can be alleviated by simply retaining more control of your capital. Rather than relying on others for your banking function, you can create **your own privatized banking system that allows you to safely grow and leverage your capital**, thereby maintaining your cash flows inside of a system you fully control. This can be achieved through a concept called **Infinite Banking**, which provides business owners and entrepreneurs with a ***far superior way to save, finance, and invest.***

Perhaps you've heard of the Infinite Banking Concept (IBC), and if so, it's also quite possible that you still don't understand what it is. This isn't uncommon. There's no universal definition of Infinite Banking, and many of those who talk about it on social media or podcasts either make it sound way too good to be true or become overly critical and miss the big picture.

After spending decades in the financial services industry, where we did extensive research on markets, money, the economy, the banking system, and traditional financial advisory and insurance products and services, we realized that Infinite Banking is the perfect foundation for financial success for small businesses and entrepreneurs. Our realization of how effective and simple this was, despite how poorly it was explained, drove us to change careers.

Collectively, we now have several Infinite Banking policies between us, but we also share the same point of view as so many of our clients who frequently say, "Why didn't I start this ten years ago?" Due to the compounding and long-term benefits, the sooner you get started with Infinite Banking, the better. We believe it's our purpose to help others discover this life-changing tool, and we believe our backgrounds in highly complicated financial markets have provided us with the skills to understand this at a deeper level and simplify the message. Hopefully, we can help teach you in just a fraction of the time it took us to understand.

Infinite Banking Process

The Infinite Banking Concept was first introduced by the late R. Nelson Nash, published in his book *Becoming Your Own Banker: Unlocking the Infinite Banking Concept*. The book is only about 85 pages long, and it's highly recommended for those interested in Infinite Banking. The book does a great job of explaining the concept, but due to others muddying the water for us during our learning, we didn't fully grasp the concept initially.

We'd like to build off Nelson's work and provide a fresh perspective given our unique experience in the financial world. We'll just note that this isn't an attempt to refine or change Nelson's concept, but an attempt at offering an alternative viewpoint to help business owners easily understand how it applies to them.

Ultimately, Infinite Banking is a solution that empowers business owners and entrepreneurs with the ability to immediately take control of finances, reduce risk, protect capital, and build a permanent asset for long-term wealth creation. It's a proven strategy that allows you to efficiently save and compound capital, but rather than spending your capital, thereby surrendering any future growth, you can safely borrow against it to eliminate lost opportunity costs.

More specifically, we define ***Infinite Banking as the process of safely growing and leveraging your capital using a specially designed, dividend-paying Whole Life insurance policy from a mutual insurance company***. This sentence can be broken down into multiple components:

- **The Process** – Infinite Banking is not a product, but a time-tested process that requires a change in thinking and disciplined behavior. This is not a theory, but an action that provides users with control, setting the stage for long-term wealth creation.

- **Safely Building Capital** – There are alternatives used to grow capital, and there are alternatives used to preserve capital, but this structure provides an unmatched combination of both **safety and lifetime guarantees** embedded within Whole Life insurance.

- **Safely Leveraging Capital** – Wall Street has no shortage of ways to take on more debt, but the inherent benefits from Infinite Banking allow us to ***safely*** leverage our capital with little to no risk. Leverage is critical because we all have a banking need, and this allows us to avoid interrupting the compounding of our capital by borrowing against it, rather than giving it away.

- **Specially Designed Policy** – A straight Whole Life insurance policy offers certain benefits, but by structuring the policy accordingly to maximize liquidity AND growth based on the policyholder's needs, we can greatly improve the utilization of the strategy.

- **Dividend-Paying** – A dividend-paying (or "participating") Whole Life insurance policy pays dividends out to policyholders which can be used to boost the long-term compounding of the strategy.

- **Whole Life Insurance** – Many out there foolishly attempt to sell indexed universal life (IUL) policies as the foundation for Infinite Banking. However, these policies can be expensive and dangerous, especially later in life. They fail to provide the time-tested security & guarantees required for Infinite Banking to be successful.

- **Mutual Insurance Company** – As opposed to stock companies that are owned by external shareholders, mutual companies are owned by the policyholders, or the customers themselves. This aligns incentives across the board and provides policyholders with enhanced benefits and growth as we'll see later.

We'll touch more on these specifics later, but for now, it's critical that you understand **Infinite Banking is the concept or *process***, while **Whole Life insurance is the underlying vehicle or foundation**.

A Time-Tested Asset

Whole Life insurance, the underlying vehicle for Infinite Banking, has been around for well over a hundred years. Many of the companies we work with today have been around since the mid-1800s, preceding major events like The Civil War, severe recessions in the early 20th century, World War I, The Federal Reserve Act and income tax, The Great Depression, World War II, Bretton Woods, The Vietnam War, the U.S.'s abandonment of the gold standard, 1970s skyrocketing inflation, Black Monday, The Dot Com Crash, The Great Financial Crisis, and Covid-19.

We're sure you've already heard of life insurance, but if you're hearing about Infinite Banking for the first time, you're not alone. It's certainly a new concept for many business owners, and it's not something regularly discussed on CNBC and Bloomberg, offered by most financial advisors, or mentioned by CPAs. While Infinite Banking has since been organized and defined by R. Nelson Nash, business owners and entrepreneurs leveraging their Whole Life insurance policies is not a new phenomenon.

- **JCPenney** – J.C. Penney borrowed against his Whole Life insurance policy during the Great Depression to keep his business afloat as thousands of banks failed.

- **Disney** – Walt Disney borrowed against his Whole Life insurance policy to start Disney after banks denied him loans after failing to see his vision.

- **McDonald's** – Ray Kroc borrowed against his Whole Life insurance policy to pay employees of McDonald's in the early growth stages.

These legendary business owners experienced firsthand why Whole Life insurance is the perfect foundation for Infinite Banking, thriving during major economic catastrophes while others fail or require significant taxpayer bailouts. However, in order to explain why Whole Life insurance works so well, we first need to understand the issues with modern banking, our money, and the economy.

Foundational Cracks

Fractional Reserve Banking

Historically, banks had two primary functions: to store money and issue loans. In today's terms, we can think of those two functions much more simply as demand deposits and time deposits, respectively. A demand deposit would basically be your checking account. Banks store your money and provide you with immediate access when you "demand" it. On the other hand, a time deposit is effectively a loan to the bank. A good example of this is a CD, where you promise to store your capital with the bank for a set period of time. The bank takes your dollars and lends them out to someone who needs them like a small business, hoping to capture a spread between the rate they pay you and the rate they collect. The bank eventually pays you back with interest.

The critical point here is that, with demand deposits, the assumption is generally that ***the bank is not lending out your money***. The money stays with the bank so you can access it. However, with a time deposit, you're explicitly giving the bank permission to lend out your money in exchange for a return. The amount of money in the system never changes but is instead just allocated to different parties. However, nowadays, ***banks lend out demand deposits while still giving depositors the illusion of control***. This is done by creating additional claims on your deposits through leverage, which puts capital at risk if depositors demand money back. This is ***Fractional Reserve Banking***.

Not only is this destabilizing for the banking system, but it’s also what drives inflation. For instance, banks might take in your $1,000 deposit and may keep a "fractional reserve" of $100 in its vaults and lend out the remaining $900. Since you still have access to your $1,000 in your checking or savings accounts, how do banks get the remaining $900 to lend out? They simply print it out of thin air, which is the definition of inflation. They're creating more claims on your $1,000 deposit and **diluting the value of your money**.

While it's easy to see that this is destabilizing to the banking industry, if banks are able to fail, then the inflation isn't necessarily permanent. In other words, if the bank takes on too much risk, and its borrowers default on their loans, the depositors (you) lose your money, and the bank is insolvent as the claims are wiped out. Therefore, the ability for banks to fail encourages prudent risk-taking and competition from high-quality banks who generally avoid excessive Fractional Reserve Banking, which would incentivize them to distinguish between time deposits and demand deposits.

With that being said, because **the U.S. government (aka U.S. taxpayer) deems the largest banks "too-big-to-fail (TBTF)**," and because the FDIC promises to partially protect depositors from bank insolvencies, this subsidizes excessive risk-taking. Additionally, because the Federal Reserve has the ability to permanently increase the base money supply by selectively injecting banks with reserves as they did during The Financial Crisis, the dilution of your capital becomes permanent.

What makes Fractional Reserve Banking even worse is the banks' huge **asset-liability mismatch**, in which they are generally borrowing short-term (taking in your deposits) and lending long-term by issuing business loans or mortgages. Since that money has been allocated to the new borrower for several years, the bank is left without money to repay the initial depositors who demand their money back. It's a game built on confidence that quickly erodes during financial stress.

Fed Policy

Before we continue, it's important to understand how the Fed operates at a high level. First, the Fed has two mandates: stable prices and full employment. We're mostly going to talk about how the Fed uses tools to stave off the inflationary impacts of Fractional Reserve Banking.

Historically, *commercial banks* would engage in more and more risk during booming economies, in which **private credit** would expand well beyond the amount of base money in the system. In other words, we'd have more and more loans (think home and auto loans) issued beyond the initial amount of deposits, resulting in more and more money created as banks continued engaging in Fractional Reserve Banking. More money chasing fewer goods equals higher prices.

The Fed would then raise rates to fight inflation. But how do they "raise rates?" First, the commercial banks (like Bank of America) have their own checking accounts at the Federal Reserve. When the Fed is raising rates, it's raising the IORB (Interest on Reserve Balance) rate, which is the same exact premise as your checking account. Therefore, if the Fed raised rates to 5%, the Fed would be paying the commercial banks 5% for any reserves (deposits) held at the Federal Reserve. The higher this rate goes, the more likely banks are to "save" their money at the Fed rather than create new loans. It's more return for less risk relative to other loans. Then, as banks quit issuing new loans (creating money), price inflation would quit rising or even fall. More on that later.

Regulation & Crowding Out

Following the 2008 Financial Crisis, regulators pushed through new rules with the attempt of stabilizing the banking system going forward. One of these to be monitored was a Liquidity Coverage Ratio (LCR), in which banks must hold a certain percentage of High Quality Liquid Assets (HQLA) relative to potential net cash outflows that the bank could experience during stress. As the screenshot below[1] from the Bank for International Settlements (BIS) shows, HQLA are primarily made up of very liquid securities like cash, central bank reserves, and government debt (i.e., U.S. Treasuries and agency mortgage-backed securities).

> **High Quality Liquid Assets**
>
> The numerator of the LCR is the stock of HQLA. Under the standard, banks must hold a stock of *unencumbered* HQLA to cover the total net cash outflows over a 30-day period under the prescribed stress scenario. In order to qualify as HQLA, assets should be liquid in markets during a time of stress and, in most cases, be eligible for use in central bank operations. Certain types of assets within HQLA are subject to a range of haircuts.
>
> HQLA are comprised of Level 1 and Level 2 assets. Level 1 assets generally include cash, central bank reserves, and certain marketable securities backed by sovereigns and central banks, among others. These assets are typically of the highest quality and the most liquid, and there is no limit on the extent to which a bank can hold these assets to meet the LCR. Level 2 assets are comprised of Level 2A and Level 2B assets. Level 2A assets include, for example, certain government securities, covered bonds and corporate debt securities. Level 2B assets include lower rated corporate bonds, residential mortgage backed securities and equities that meet certain conditions. Level 2 assets may not in aggregate account for more than 40% of a bank's stock of HQLA. Level 2B assets may not account for more than 15% of a bank's total stock of HQLA.

As a consequence, **this forced the largest banks subject to this rule to prioritize "safe" government securities and curtail lending to the private sector**, which hit small businesses the hardest. The NFIB chart below, highlighted in a Reuters article[2], shows that even during the 2010s, in which interest rates were effectively zero, small businesses had a much harder time securing credit.

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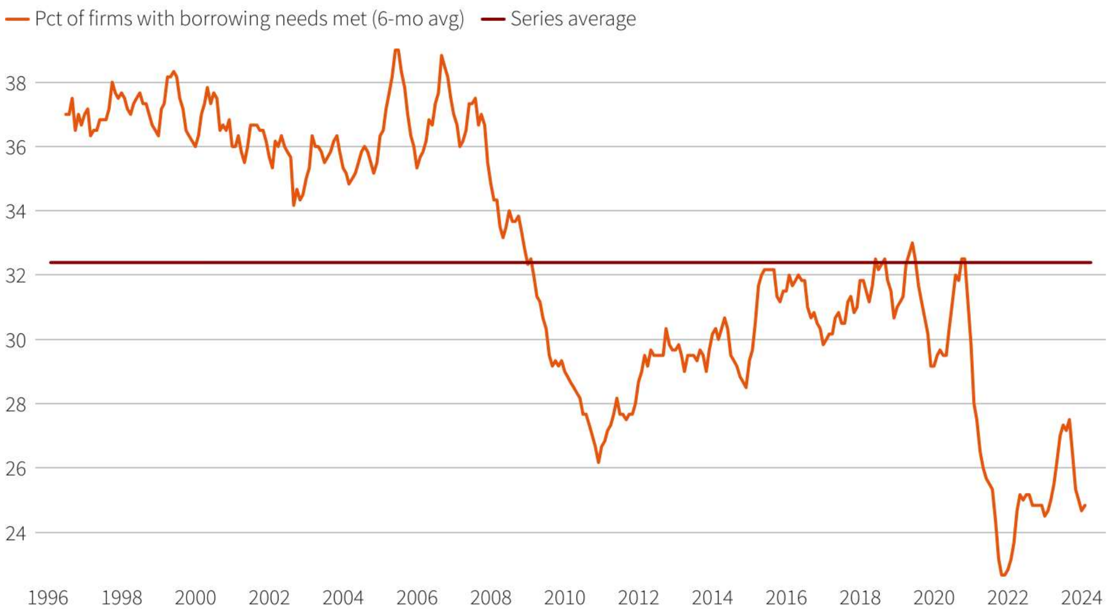
[1] https://www.bis.org/press/p130106a.pdf

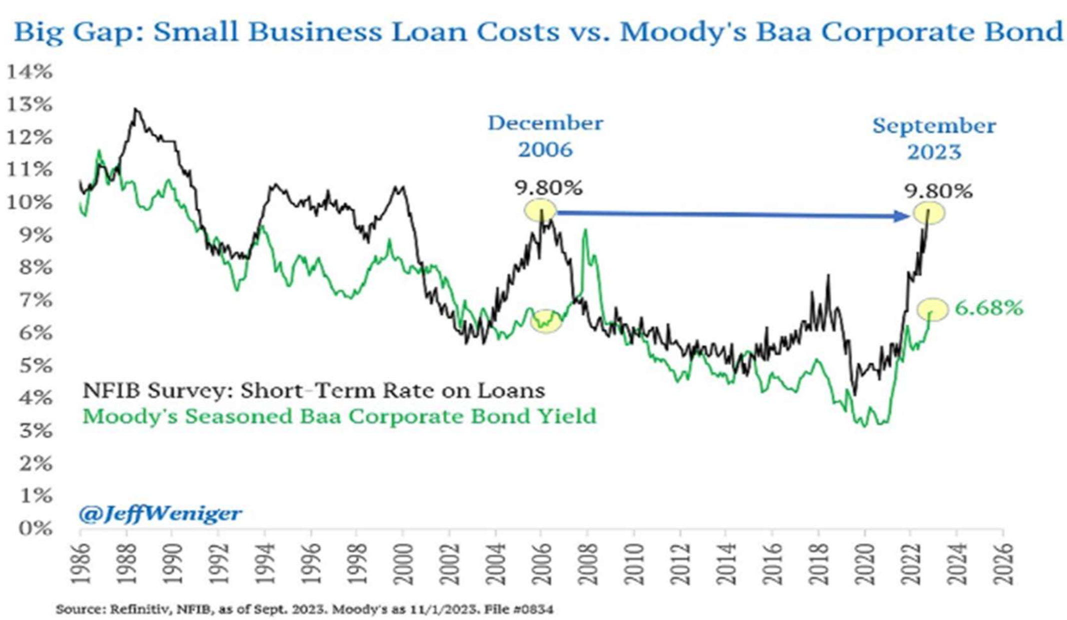
[2] https://www.reuters.com/markets/us/us-small-businesses-struggle-credit-one-year-after-regional-turmoil-2024-03-08/

Small businesses struggling to borrow



Note:
Source: NFIB

As the government has continued to issue more and more debt through Covid-19 and beyond, which must be purchased by the largest banks, small businesses have struggled even more to obtain credit. And now, interest rates are on the rise making those available loans and lines of credit much more expensive, as shown in the screenshot below from Jeff Weniger[3].

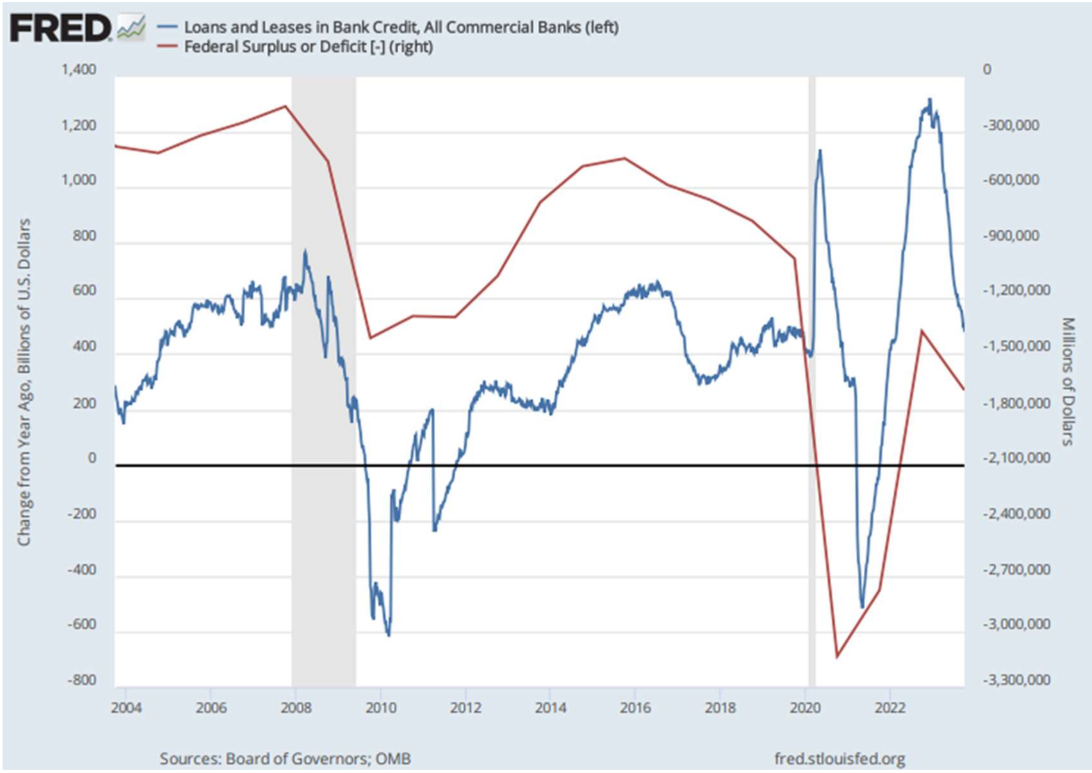


[3] https://x.com/JeffWeniger/status/1683911171676463124

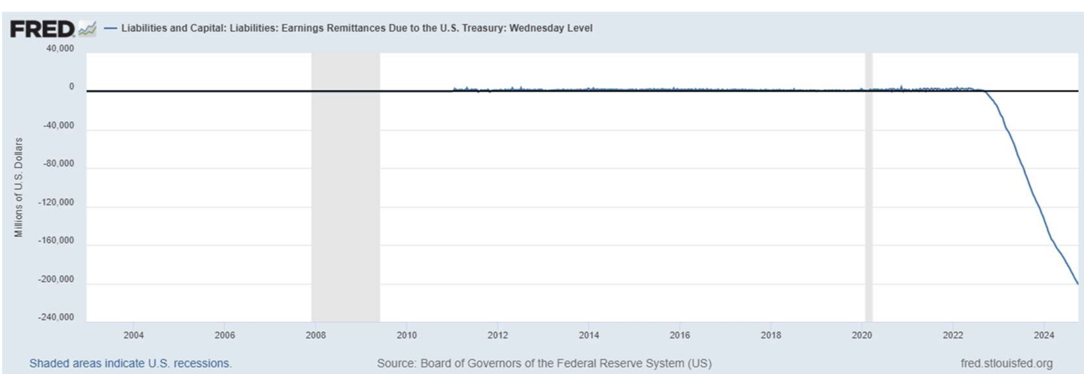
Since the largest banks are required to hold U.S. Treasuries and other HQLA, and since it's somewhat inconsequential for banks with trillions of dollars in assets to pay bankers to sit down with small businesses looking for a $50,000 loan, community banks and regional banks have generally been more capable suiters with higher loan approval rates.

The problem, as alluded to earlier, is that these smaller banks are forced to compete for deposits by issuing higher deposit rates, whereas a larger bank receives deposits solely for its inherent TBTF status, allowing them to secure dollar deposits for essentially 0% at times. For instance, savers flee community banks with higher yields in exchange for implied safety at TBTF banks. Therefore, if a community bank issued a 5-year small business note at 5% in 2020, and interest rates increase where smaller banks are now paying >5% on CDs to retain capital, the bank is now paying more on deposits than it's receiving on its loan. This displays how **interest rate volatility is a real risk that threatens bank solvency within the Fractional Reserve Banking system**.

Lastly, remember how we just talked about Fed policy earlier? We have two competing factors going on, which seem to be structural in the U.S. economy. First, the U.S. government is issuing more and more U.S. Treasuries that banks must own as "high quality" assets. However, we also have the Federal Reserve raising rates to fight inflation, enticing banks to reduce leverage. Therefore, ***the more debt we have in the system, and the more the Fed tries to fight inflation, the more the private sector is crowded out by U.S. government deficit spending***. The chart below from the Federal Reserve shows a strong correlation between rising deficits (more government spending) and a contraction in loans and leases (private credit issued by commercial banks).



What's even worse is that rather than lending to the private sector like small businesses or consumers, the TBTF banks are being paid a riskless percentage (IORB) for holding their deposits at the Federal Reserve, while they pay their depositors effectively nothing. And, since the Fed has no money, they've racked up over $200B in losses thus far as shown below in the chart from the Fed.



This effectively makes the Federal Reserve insolvent, but rather than the Fed's owners (banks) injecting new capital, the loss must be wiped away before any future profits are remitted to the U.S. Treasury. **Therefore, the U.S. taxpayer is effectively paying banks to NOT lend to the private sector, while the largest banks have effectively been handed $1T as shown in the Financial Times screenshot below!** Does this seem like an industry that's capable or willing to help small businesses thrive?


FINANCIAL TIMES

US banks + Add to myFT

Fed's high-rates era handed $1tn windfall to US banks

Lenders charged more for loans but kept interest payments to savers down, FT analysis finds

Save

Banks have begun to cut the rates they pay to depositors since Fed chair Jay Powell announced a half-point rate cut earlier this week © Tom Brenner/Reuters

Stephen Gandel and **Joshua Franklin** in New York SEPTEMBER 22 2024

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[4]

All this can certainly be confusing, but the big point is that U.S. government deficit spending and regulation are reducing the capacity for banks to lend to small businesses and consumers.

Strict Requirements

For those still interested in obtaining bank credit today, there are many strict requirements that come with the process. First, banks check your credit, which is determined somewhat arbitrarily. Isn't it funny how someone with no debt at all can have a lower credit score than someone with a lot of debt? Additionally, banks are certainly going to be looking at your financials, which creates a **direct conflict of**

[4] https://www.ft.com/content/4c013d3b-796b-47a3-a964-02f753d39846

interest for owners who do their best to legally minimize paper profits to reduce taxes.

Or perhaps your business is just cyclical where the bankers fail to understand the troubles over the past couple quarters or your positive outlook for the future. Or perhaps they have no sympathy that the government forced you to shut down while labeling your larger competitors "essential." Nevertheless, most importantly, banks need to be concerned with your ability to repay, so **they aren't positioned to offer you attractive loans when you need them most**.

Additionally, in that approval process, banks may demand collateral (which could be ***personal*** collateral) for your failure to pay. Do you want a lien on your personal assets if your business has a rough quarter or two? Also, these loans may be dependent on a banking relationship. For instance, if you are banking with a smaller community bank who offers you 5% on your savings but can't profitably give you an attractive loan at the moment, a larger bank may request that you move over your assets. This means that you could be sacrificing your return on capital by banking with a larger institution in exchange for access to credit.

Finally, even when approved, we've seen situations with our own clients where banks close or reduce lines of credit despite the borrower having 100% on-time payment history. This is largely related to the banking issues we mentioned above. We've also seen some business owners take advantage of the government's SBA program, which surprisingly comes with significant limitations on the business's operations as well.

Lastly, in some cases, **banks may require life insurance**, especially if your loan or line of credit is unsecured. This is to ensure that the business can satisfy the loan obligations if something happens to the owner or key employee responsible for driving the business's revenue. The list of requirements is extensive and may also require a minimum number of years in business, an in-depth business plan, a high debt service coverage ratio (DSCR), and hours of paperwork that's time consuming for the owner who has other daily responsibilities.

Hopefully you've begun to see why our traditional banking system, Federal Reserve, heavy government regulation, and our lack of sound money fail to provide the means for small businesses to effectively save and borrow. If so, keep reading to learn about the solution.

Whole Life Insurance

The Product

Before we talk about how Infinite Banking works, we first need to show you the foundation of the concept, which is Whole Life insurance. Whole Life insurance is a type of permanent insurance that provides permanent death benefit coverage for the life of the insured, or until he/she turns age 121, in which the death benefit is paid out in full. Once the policy is approved, policyholders pay predetermined, fixed premiums to the insurance company for a defined period of time. The insurance companies pool risk across millions of policyholders, thereby reducing the risk of loss.

During the life of the policy, the insurance company invests the premiums ("float") primarily in high-quality, fixed-income assets that generate a return on capital. The insurance company then generates profits and increases the ability to pay claims. While there's more nuance involved within the components of life insurance, we can see from the Wikipedia screenshot below how simple Whole Life insurance is compared to something like Universal Life (this summary also fails to address many risks associated with Universal Life later in the policy's life that result in higher surrenders and unaffordable premiums).

Whole life [edit]

Main article: Whole life insurance

Whole life insurance provides lifetime coverage for a set premium amount.

Universal life coverage [edit]

Universal life insurance (ULI) is a relatively new insurance product, intended to combine permanent insurance coverage with greater flexibility in premium payments, along with the potential for greater growth of cash values. There are several types of universal life insurance policies, including *interest-sensitive* (also known as "traditional fixed universal life insurance"), *variable universal life (VUL), guaranteed death benefit*, and has *equity-indexed universal life insurance*.

Universal life insurance policies have cash values. Paid-in premiums increase their cash values; administrative and other costs reduce their cash values.

Universal life insurance addresses the perceived disadvantages of whole life—namely that premiums and death benefits are fixed. With universal life, both the premiums and death benefit are flexible. With the exception of guaranteed-death-benefit universal life policies, universal life policies trade their greater flexibility for fewer guarantees.

"Flexible death benefit" means the policy owner can choose to decrease the death benefit. The death benefit can also be increased by the policy owner, usually requiring new underwriting. Another feature of flexible death benefit is the ability to choose option A or option B death benefits and to change those options over the course of the life of the insured. Option A is often referred to as a "level death benefit"; death benefits remain level for the life of the insured, and premiums are lower than policies with Option B death benefits, which pay the policy's cash value—i.e., a face amount plus earnings/interest. If the cash value grows over time, the death benefits do too. If the cash value declines, the death benefit also declines. Option B policies normally feature higher premiums than option A policies.

Cash Value

During the life of the policy, the insurance company assigns a Cash Surrender Value ("Cash Value" for short) to the policy. This is effectively the net present value of the death benefit. Some may think of this as the "equity" of the death benefit. Since this is permanent insurance, and the only question of the death benefit payment is "when," insurance companies are always prepared to surrender the policy, relieving them of their future obligation. During the life of the policy, since the insurance company can invest premium dollars, and because the risk of early death is minimized, the cash value increases every year to equal the death benefit at age 121. The cash value can also be boosted through dividends, and once a cash value has ascertained a certain value, it cannot contractually decline. ***Cash value is an asset.***

Base vs. PUA vs. Term

Generally, many people complain that Whole Life insurance is "expensive" compared to term insurance. This is flawed thinking and is the equivalent of complaining that it's more expensive to buy a house than rent one for a year or two. This thinking is also flawed because it generally implies that 100% of the premium must go towards "base" premium (structured as a "straight Whole Life" policy), whereas Infinite Banking involves a specially designed policy, in which premium dollars are used to buy PUAs (paid-up additions) to **boost immediate liquidity**, allowing the policyholder to leverage the cash value.

Contributing dollars towards base premium effectively means paying for your death benefit over time. Dollar-for-dollar, this buys you more death benefit and allows the policy to become more efficient ***over time***, but it also comes with uncertainty for the insurance company. For instance, a base $1,000 monthly premium ($12,000 annual) payment could get you $1,000,000 in base death benefit. A sizable base is necessary to boost long-term growth for the policy, but as critics note, we won't receive much liquidity in the short-term. This is because the insurance company is relying on you paying your $1,000 monthly premium for years to come that can be pooled and invested.

On the other hand, when we allocate dollars towards PUAs, we're buying "paid-up" insurance, reducing the uncertainty for insurance companies. These are single premiums that purchase additional, paid-up death benefit. There are no future commitments for premium, and there are no future commitments for an increasing death benefit on this paid-up insurance, so the insurance company has a much clearer expectation of risk for each PUA. We use PUAs in the early years of the policy because they add immediate liquidity by increasing cash values, which can be leveraged right away.

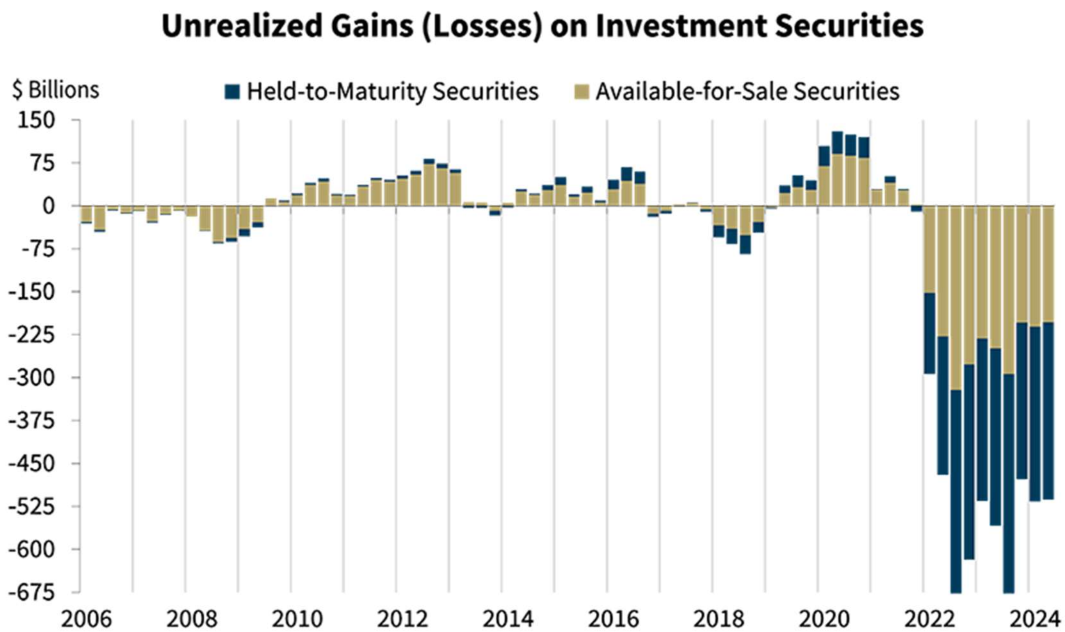
Therefore, if we split up our $1,000 monthly premium payment into $400 base/$600 PUAs, we might only get ~$430k in immediate death benefit, but after one year, we could have about $7,300 in cash value, whereas the 100% base policy has no immediate liquidity in the first year. These policies are specially designed to ***ensure business owners have sufficient liquidity in the short term, while buying enough base to generate long-term growth on capital***.

Lastly, we frequently tack on convertible term insurance riders to the policy, which does two important things. First, we are buying more death benefit, allowing us to adhere to the IRS's "seven-pay" test, preventing the likelihood of the policy becoming a MEC (Modified Endowment Contract), and therefore losing the tax-favored treatment of the interest and dividends. Second, we are buying the option to convert the term insurance into more Whole Life insurance without having to re-qualify in the future. Not only does this get the insured more coverage from day one, but it increases the capacity for Infinite Banking in the long run as cash flows increase.

Conservative Investments

As we mentioned before, banks engage in Fractional Reserve Banking, in which they're levering deposits to buy longer-term assets, which may need to be sold if depositors need their money back. This means that banks are prone to interest rate risk, where bond values fall during periods of higher interest rates. Additionally, many banks are also required to buy U.S. Treasury bonds, and you'll be hard-pressed to find an institution more leveraged than the U.S. government. As shown in the image[5] below from the FDIC, you'll notice that banks are still sitting on hundreds of billions of dollars in unrealized losses (largely on USTs) as the government's default risk has increased. Note that defaults can happen explicitly through a government bankruptcy, or they can occur on a real basis with the central bank inflating away the currency, thereby pushing inflation higher.

[5] https://www.fdic.gov/news/speeches/2024/remarks-fdic-chairman-martin-gruenberg-second-quarter-2024-quarterly-banking



Source: FDIC.
Note: Insured Call Report filers only. Unrealized losses on securities solely reflect the difference between the market value and book value of non-equity securities as of quarter end.

On the contrary, when insurance companies buy long-term bonds, which are generally more geared towards high-quality corporate bonds (see the NAIC table below[6]), they are generally committing to holding those bonds for the entire period. This is how insurance companies get their "guaranteed" cash value growth rates. They might look at the current yield for buying a basket of 30-year U.S. corporate bonds, for example, and once expenses and claims are covered and a portion is set aside for reserves, they would pay out profits to mutual policyholders in the form of dividends.

Table 3: Bond Breakdown by Insurer Type, Year-End 2021 (BACV$ in Millions)

Bond Type	Life	P/C	Health	Title	Total	% of Total
Corporate Bonds	2,245,647	465,844	72,320	3,023	2,786,835	56.4%
Municipal Bonds	212,282	276,875	22,659	1,016	512,832	10.4%
ABS and Other Structured Securities	392,735	100,613	16,295	25	509,667	10.3%
U.S. Government	153,701	138,180	23,918	533	316,332	6.4%
Agency-Backed RMBS	132,226	88,442	21,658	641	242,967	4.9%
Private-Label CMBS	158,199	49,083	9,215	14	216,511	4.4%
Bank Loans	73,097	20,152	2,231	226	95,706	1.9%
Private-Label RMBS	73,029	19,420	2,975	7	95,431	1.9%
Agency-Backed CMBS	46,463	28,543	1,909	83	76,998	1.6%
Foreign Government	53,162	21,034	1,313	325	75,834	1.5%
Exchange-Traded Funds (ETFs)	3,240	6,586	4,272	22	14,120	0.3%
Hybrid Securities	1,664	44	-	-	1,708	0.0%
Total	**3,545,446**	**1,214,816**	**178,765**	**5,914**	**4,944,941**	**100%**
% of Total	71.7%	24.6%	3.6%	0.1%	100%	

Note: Numbers in the table have been rounded.

6 https://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2021.pdf

Stock vs. Mutual Companies & Dividends

There are generally two types of life insurance companies - stock and mutual. Stock companies are owned by stockholders who are entitled to profits from the company. On the other hand, mutual companies are owned by policyholders, and any profits that accumulate beyond the insurance company's operating expenses, claims, and reserves held for future down years, are paid out to policyholders in the form of dividends. With Infinite Banking, we only work with mutual companies when designing our policies, which gives business owners more control. This structure should resonate with small business owners who prioritize customer satisfaction, whereas Wall Street prioritizes shareholders. ***Incentives are aligned*** with mutual companies.

Additionally, the companies we work with have a history of paying dividends for over 100 years in a row. These dividends, if used properly, are paid out tax-free. While these dividends can be paid out in cash, we prefer to use them to buy more PUAs when designing an Infinite Banking policy. By setting these up to buy more insurance, we're not only obtaining more immediate liquidity, but we're boosting the long-term compounding of the policy.

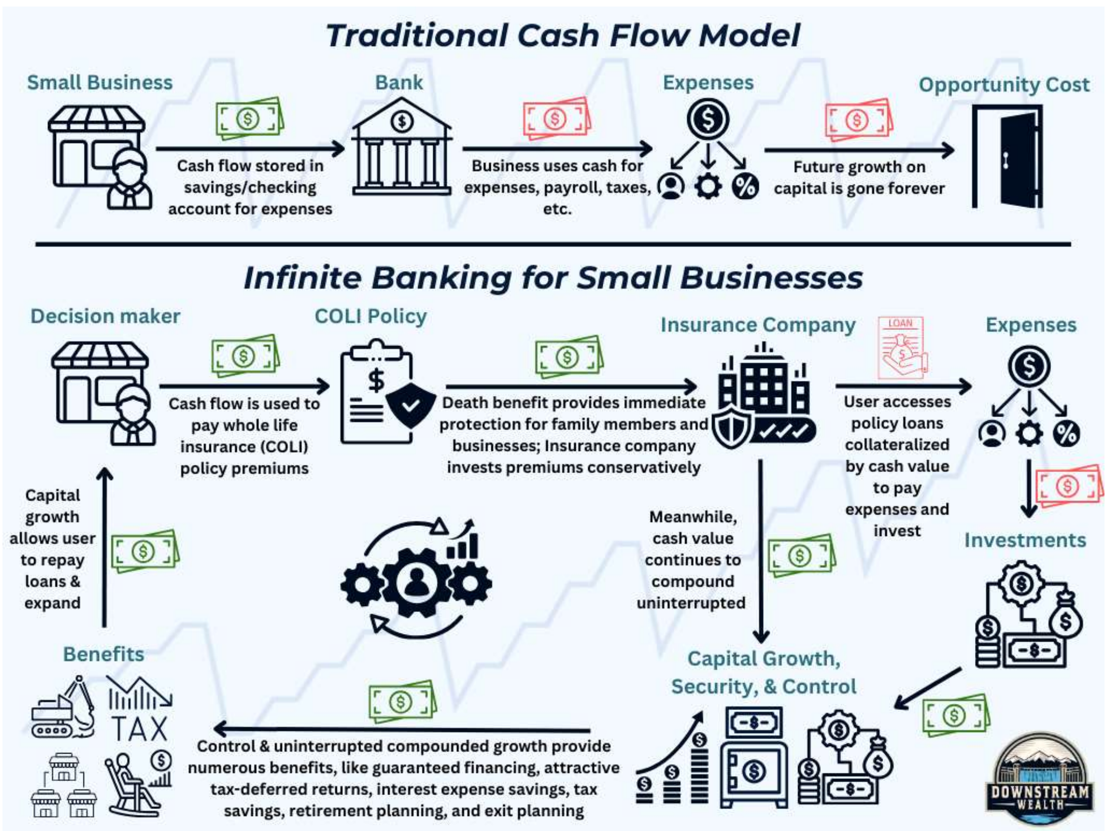
Policy Loans

It's possible to take withdrawals, and potentially tax-free withdrawals from the policy. However, our objective with Infinite Banking is to grow and leverage capital, and we can achieve this by borrowing against cash values. The insurance company contractually guarantees access to policy loans. Since the insurance company already owes you a large death benefit, the policy loan, which is collateralized by the cash value, is deemed as very low risk to the insurance company, and therefore, rates are quite attractive compared to alternative loans you might find in the banking industry.

Due to the unmatched safety and guarantees embedded within a properly structured, dividend paying Whole Life insurance policy, there is no better foundation for Infinite Banking. Now that we're confident this product solves so many of the issues within the traditional banking system, we can delve into how Infinite Banking works for small business owners.

Infinite Banking for Small Businesses

If the problems we've laid out resonate with you, and you can see the soundness of Whole Life insurance, perhaps it's time to consider a new approach. Infinite Banking is not only the best way to safely grow and leverage your capital, but it offers many benefits unique to small businesses and entrepreneurs. We'll start with the process of how this works, followed by a synopsis of Infinite Banking's allure compared to traditional banking and cash flow management. We'll then show you how Infinite Banking helps you increase and monetize the value of your business.



Traditional Cash Flow Model

The traditional cash flow model for small businesses starts with businesses taking in revenue, which is temporarily stored in a bank, and eventually paid out to cover expenses. Given our previous assessment of the banking system, perhaps you're already seeing problems with this process. Let's walk through some of the issues:

- Capital goes in one door and quickly out the other, preventing any future compounding. Every payment is financed through costly credit or opportunity cost.

- The Fractional Reserve Banking system is highly fragile and offers no guaranteed growth on your capital.

- Credit is difficult or expensive for small businesses to obtain, especially when you need it most, and banks will come after your assets if you fail to repay according to their unfavorable terms.

- Business owners are left with highly illiquid assets and insufficient funding for retirement or monetizing the value of their businesses.

- Business owners are generally forced to choose between keeping their capital in a non-guaranteed, low-yield savings account or risk capital in public markets.

Infinite Banking Cycle

On the other hand, Infinite Banking starts with using a portion of the business's revenue to pay policy premiums. As a reminder, ***Infinite Banking is simply the process of safely growing and leveraging your capital using a specially designed, dividend-paying Whole Life insurance policy from a mutual insurance company***. Therefore, we've started the process of recycling cash flows by saving first.

Then, the business still has expenses, so when those arise, the business takes a loan out from the insurance company using the cash value as collateral, if necessary. For instance, the business may pay down an existing equipment loan, thereby freeing up more immediate cash flow. Once expenses are taken care of, the business can use capital for strategic investment opportunities that increase revenue. Meanwhile, the entire cash value continues to compound throughout the life of the policy loan and beyond.

As cash flows back through the business from savings on financing and ROI, funds are used to pay premiums and pay down policy loans, shoring up future liquidity. Retaining control of your capital allows the business to safely leverage capital, which drives more revenue over time as the business expands. Then, once the policy has been maxed out, the owner can look to take out new policies, which would create additional capacity for capital. Meanwhile, the business is accumulating a high-quality liquid asset, which is adding value to the business over time.

Additionally, business owners are generally reluctant to plow their hard-earned dollars into the stock market. After all, why invest in OTHER PEOPLES' businesses? Stocks and bonds can be highly volatile, and therefore, do not serve the need to safely and efficiently build capital. Plus, if business owners wish to invest their capital, why not find a way to efficiently reinvest in their business, in which annual growth can easily trounce that of the largest companies in the S&P 500?

Efficiency

The Infinite Banking cycle is an opportunity for small business owners to redirect cash flows to improve the efficiency of their capital. If this doesn't fully resonate with you just yet, hang on. Let's take a step back and think about how a restaurant operates. If you're the owner, you ideally want high-quality and fresh ingredients for your recipes. However, inventory has a cost, especially when dealing with perishables. Not only does the quality of the ingredients decline each day, but the more inventory on hand, the less space for restaurant tables and kitchen space.

With that being said, even though inventory can be expensive, it doesn't make sense for the restaurant owner to ignore the need for readily available ingredients each day. If inventory is unavailable, an uptick in demand could result in the business missing out on more revenue with customers being unable to order their favorite menu items. Therefore, the solution is to warehouse inventory, which is typically done through food wholesalers. Not only is the business owner able to more efficiently utilize the space in the restaurant, but by using a wholesaler who promises to always provide you with fresh, high-quality ingredients when required allows the business to operate with ease and capitalize on time-sensitive opportunities.

When we think about Infinite Banking, the process is very similar. First, there's only so much capacity for government-insured cash in each entity. Second, and most importantly, holding cash in a bank account generally has a cost to it. This can be viewed through our historical negative real interest rate environment, which is arguably necessary to afford the government's deficit spending (remember, it must be paid through taxes or inflation). As a result, banks generally aren't paying you positive real interest rates on your capital. With Infinite Banking, we utilize "warehouses" that provide sufficient storage for growing capital, which generally comes with a positive real interest rate. Most importantly, it's available on demand.

HELOCs

Another analogy we love to use to help explain Infinite Banking is HELOCs. Most people generally understand how a HELOC works, and Infinite Banking has many similarities. For those unfamiliar, a HELOC, or home equity line of credit, is a revolving line of credit secured by the equity in your home. Borrowers apply for HELOCs from a bank, and the loan size is generally a function of your home's market value and your outstanding mortgage. Banks typically require an LTV (loan-to-value) of 80-90%. As an example, if your home is worth $400,000, and you have $200,000 left on your mortgage, an 80% LTV requirement would allow you to borrow $320,000 or an additional $120,000.

Additionally, after building up equity and applying for a loan, HELOCs have a draw period which allows you to access the line of credit (i.e., for 5-10 years), followed by a repayment period, which requires you to repay the loan plus interest (i.e., over the next 10-20 years). HELOC repayments, like typical mortgages, are treated as amortized loans, in which a portion (and potentially large portion) of payments are going towards interest. HELOC rates are variable, generally priced by the current prime rate plus a spread. They currently sit at about 10% on average. Failure to repay your HELOC could result in foreclosure.

HELOCs can be used for basically anything, although many use them for additional real estate purchases, home improvement, debt consolidation, or emergency expenses. As opposed to an unsecured loan like a credit card, the main appeal to a HELOC is that real estate prices generally trend higher over time with inflation, so you can leverage your equity to buy things, allowing your capital to continue growing (if home prices increase). However, as we're seeing now, home prices can fall. As a result, lenders may reduce your available credit limit to maintain your LTV. If home prices fall enough, this could also result in negative equity.

With Infinite Banking, we are also buying an asset, which is a permanent death benefit. As opposed to "renting" (think term insurance), the question isn't about whether the death benefit (our asset) will be paid or fully acquired, but when. Just like a HELOC (20% down payment plus additional equity), there is also a "capitalization" period, in which we build up "equity" to borrow against. Our current equity value is the cash surrender value ("cash value" for short) of the contract guaranteed by the insurance company.

When it comes to policy loans, access to our capital is guaranteed. We don't have to receive approval from the lender to access our capital because **the lender is the guarantor of our collateral**. What we mean is that the value of the asset we're buying (death benefit) is contractually guaranteed, which means our equity (cash value collateral) grows each year and cannot decline. As a result, the insurance company doesn't have to worry about negative equity situations, so loan rates are much more favorable. This also allows the insurance company to safely lend you more against your collateral than a bank might. For instance, it's not uncommon for insurance companies to let you borrow against 95%+ of your cash value asset.

Additionally, since the insurance company owes the borrower (death benefit) more than the borrower owes the insurance company (policy loan secured by the cash value), the repayment schedule is fully flexible. Any amount not paid will accrue interest at the end of each year, but there is no "foreclosure" on the asset being acquired. The insurance company would just deduct any outstanding policy loans plus interest from the death benefit when it's paid out. The last thing to note about policy loans is that these are not amortized, meaning all repayments go towards reducing the principal balance, which can save borrowers on interest.

Lastly, similar to a HELOC, policy loans can be used for anything at all. As an example, households find use in debt consolidation, home remodeling, and financing vehicle purchases. Entrepreneurs leverage their capital to start or buy businesses or invest in securities. Small business owners find this particularly helpful for equipment financing, business expansion, or emergency funding. However, Infinite Banking allows users to compound capital while safely borrowing against capital to buy the things they want or need.

Characteristics	**HELOCs**	**Infinite Banking**
Credit check & application	Required	Not required
Guaranteed access to capital	No	Yes
Guaranteed collateral growth	No	Yes
"LTV"	~80-90%	~95%+
Current rates	~10%	~5%
Debt repayment	Amortized	Non-amortized
Repayment schedule	Fixed & required	Flexible & not required
Used for	Anything	Anything
Offers death benefit protection	No	Yes

Death Benefit

It's important to understand that Infinite Banking isn't solely about the death benefit. However, it would also be incredibly naïve to ignore how important a large death benefit could be for an owner's business, the business's employees, and customers.

- **Family** – You might be wondering how a CORPORATE OWNED life insurance policy can help a business owner's family. However, let's think through the unfortunate series of events if something happened to the owner. Generally, his/her spouse would retain control of the business. Does he/she know how to operate the business? While other capital may be tied up in illiquid assets, by securing a large tax-free death benefit, the business immediately becomes much more liquid, in which the death benefit would be used as a liquid source of capital for a liquidation, sale, or to hold the business over until a replacement is found. Additionally, the inheriting spouse is generally unaware of tax that must be paid on a sale, and the death benefit could be structured to cover that and leave him/her with excess funds. **The death benefit within Infinite Banking allows you to leave your spouse with something to take care of him/her, rather than something he/she will have to take care of**.

- **Business** – At the time of application, we've already determined that the insured (owner or key employee) is critical to the success of the business. This is likely someone who drives the business's revenue, or a large portion of it. Without him/her, the business would struggle financially. A tax-free death benefit could go a long way in helping the business stay afloat, find a replacement during challenging times, and continue to pay other employees.

- **Customers** – Family and workers, the people you know and care most about, probably do and should receive most of your attention during difficult times. With that being said, as opposed to large publicly traded companies who prioritize shareholders, small business owners have dedicated their lives to serving customers. They are important to business owners, and many friendships are built along the way. Wouldn't it be nice to know that, aside from taking care of your family and employees, the large death benefit could also take care of your trusted customers who depend on your business?

Banking Benefits

The Fractional Reserve Banking system is inflationary and destabilizing and given the current regulatory structure and the government's tendency to spend money, traditional banks are poorly positioned to pay you to save money or issue you credit when you need it most. Whole Life insurance can solve this problem.

A properly structured, dividend-paying Whole Life insurance policy provides components that resemble both demand deposits and time deposits, serving as a superior sound money alternative. Policy owners pay premiums, and cash values accrue guaranteed on a scheduled basis. Policy owners know exactly how much capital is available to access each year in advance. The capital cannot decline, but the insurance company may make excess profits and pass through dividends, thereby boosting the cash value in any particular year. This cash value is like a bank's "demand deposit," available at any time. Since we allocate the premium dollars towards both base premiums and PUAs, liquidity is available immediately.

However, with permanent life insurance, the insurance company is promising that your cash value will grow over time. A portion of your premiums are invested in longer-term, high-quality assets that produce yields required to boost cash values in accordance with policy guarantees. These are like "time deposits," inaccessible early on, but guaranteed later in the life of the policy. The insurance company isn't using Fractional Reserve Banking to create additional claims on your money. The insurance company is clearly distinguishing between capital available now (current cash values) and capital that will be available in the future (future cash values). Since the future claim (death benefit) is guaranteed, the insurance company must be incredibly conservative with its investment guarantees. Therefore, ***Infinite Banking (through Whole Life insurance), rewards business owners for saving capital***.

Furthermore, because the cash value (available liquidity) is always less than the death benefit during the life of the policy, insurance companies are more than willing to give you access to your capital. By giving you a loan, which is a right granted by the contract, insurance companies are de-risking their portfolio by reducing the amount of death benefit that would need to be paid during a claim. Therefore, since the death benefit is always larger than the collateral, a policyholder "default" is also not a concern because the insurance company has already guaranteed that the value of the collateral would increase every year. ***It's an incredibly unique situation in which the lender is also the guarantor of your collateral***, and therefore, this significantly reduces any risk for the policyholder and insurance company. Therefore, policyholders have full control over loan repayments (and yes, that means you don't have to make any repayments at all).

As opposed to banks, having Whole Life insurance as the foundation for Infinite Banking provides you with guaranteed, uninterrupted lifetime growth, with transparent access to capital at any time, no questions asked. Where can you get anything like that on Wall Street?

Inflation

Some of you may be wondering how Infinite Banking holds up during periods of inflation. Given that Whole Life insurance policies pay out fixed rate returns in a currency (USD) that's being slowly debased, this is a valid concern. However, there are some key differences between banks and Infinite Banking.

First, Whole Life policy cash values are contractually guaranteed to increase each year and cannot decline, whereas banks don't have to, and rarely do, pay you attractive rates of return on your savings. However, as inflation increases, interest rates increase as investors demand more "real" (after-inflation) return on their investments. Since insurance companies have incoming premium dollars, they can continuously invest these dollars into higher-yielding investments each year, thereby increasing the overall return for the company. Since these are mutual companies, any excess profits beyond operating expenses, future reserves, and claims would be paid out in the form of dividends to policyholders.

Therefore, in the short term, you may not see dividends that match a sudden spike in inflation, but over the long run, larger dividends should flow through, which is what happened during the 1980s. Additionally, as opposed to term insurance that would need to be renewed at higher costs, or as opposed to car insurance that increases with the value of vehicle prices, Whole Life premiums are fixed. Therefore, while the after-inflation savings rate may initially decline during periods of high inflation, the fixed premium payments become easier to pay as the value of the dollar declines.

Lastly, and perhaps most importantly, Infinite Banking isn't simply the process of saving your capital in a Whole Life insurance policy. Infinite Banking is the ***process of growing and leveraging your capital***. This means to use it! If someone wanted to buy stocks, real estate, precious metals, commodities, cryptocurrencies, another business, or anything else with the intention of keeping up with or beating inflation, then Infinite Banking can still be leveraged to do so. In other words, as opposed to money saved in a Chase bank account, this isn't an either/or choice. Yes, hyperinflation would likely be bad for dollars ***saved*** in a Whole Life insurance policy, but that's only half of Infinite Banking. The capital opportunities are endless, but some of the examples below may help your business grow in line with or even beat inflation.

Capital Opportunities

The true power of Infinite Banking is being able to **be on both sides of the banking function - as the lender and the very best customer**. Not only do we need a safe place to grow our capital, but we need to borrow against it to generate higher returns on our capital. Unlike banks, who generally only lend money at attractive rates when you don't need it, you can leverage your capital opportunistically. The possibilities are endless (hence, "Infinite"), and while we won't name specific investments, we do have some creative ideas for business owners.

- **Saving for Future Purchases** – Many business owners use business income to fund personal expenses. Perhaps this is a vacation, paying for a child's education, or even a down payment on a new home. Owners that generate strong income and are disciplined to save up a large portion may not have attractive long-term savings opportunities in taxable bank accounts or wish to risk capital in public markets. Therefore, the guaranteed growth within Whole Life insurance policies provides owners with an attractive long-term savings opportunity, in which capital can be leveraged to make purchases. Future business income can be used to pay down policy loans.

- **Equipment Financing** – Most businesses have a recurring need for equipment. Rather than using a third-party financing partner like a bank (heavy financing costs with liens on assets), or paying cash (missed opportunity costs), business owners can leverage their cash values to buy equipment and pay back the loans with the same payment that would have gone to a bank. Not only do you keep your capital compounding, but generally the business owner can free up cash flow from paying a more attractive rate and reducing amortized interest through simple interest loans. And your capital continues to flow through a closed system where you are fully in control.

- **In-house Customer Financing** – Most business owners are very concerned with their ability to control costs and access credit during difficult times. However, what many don't think about is their customers' ability to pay. Generally, it's a foregone conclusion that owners can't do much about the economy, but if banks won't lend to you, they also probably won't be lending to your customers. This gives business owners an opportunity to selectively extend credit to customers through in-house financing. Not only does this protect your top line by allowing customers to afford your product, but you can potentially capture attractive financing rates on top of the profit from selling your products/services. This could be ideal for home improvement companies that offer larger purchases that customers generally finance. Here's an example of how this could work:

    - A business owner agrees to finance a $10,000 new HVAC unit for a creditworthy customer at 7.5% for 72 months (much better than the bank's 10% offer or 25% on a credit card).

- As opposed to the bank, the business owner has already built in a $2,700 profit on the job, in which $7,300 represents the cost of materials & labor.

- Therefore, the business owner borrows $7,300 against his/her Whole Life policy at 4% to pay for materials & labor, for example.

- The customer makes regular payments, which are used to pay down the $7,300 policy loan in just 44 months.

- The additional 28 months of customer payments represent profit on the job. The total profit on the job increases from $2,300 to ~$4,100, but most importantly, you found a way to help your client afford the upgrade as opposed to a $500 temporary fix.

- **Investing** – We talk to many business owners who are intrigued about taking a small portion of their capital to invest in the stock market, real estate, precious metals, or Bitcoin, for example. Financial advisors have a conflict of interest, convincing you to remain fully invested at all times, which increases their AUM fees. However, the best investors of all time didn't get wealthy by dollar cost averaging in index funds. They remained ***opportunistic***, willing to hold cash until assets could be acquired at attractive prices. For business owners who like control and prefer to avoid outsourcing their finances to third-party advisors, Infinite Banking provides them with an advantage over investment managers – the ability to ***get paid to wait for the right opportunities***. Due to the underlying growth and compounding within Infinite Banking, business owners can remain opportunistic and deploy capital during market dips to enhance investment returns.

Succession & Retirement Planning

- **Buy-Sell Agreement** – A buy-sell agreement is a legally binding contract that defines how a business partner's shares will be reassigned if the partner dies or leaves the business. These agreements generally state that the shares of the departing partner must be sold back to the partners who own the business. A Whole Life insurance policy can be taken out on each of the partners, in which the business pays premiums over the years. Then, once a partner leaves, the death benefit or cash value is used by the other partners to buy out the remaining share of the business.

- **Retirement** – You put your life's work into your business, and generally when it comes time for retirement, you have nothing to show for it. Your assets are illiquid, and cash has consistently been redeployed. This is where Whole Life insurance comes in. If structured properly, you can use company dollars to pay for Whole Life insurance, and you will likely be generating sizable dividends 15-20 years later that can be used for supplemental or even primary income during retirement. The business could simply borrow against the cash value to pay you in installments, and pay back the loans as free cash flow comes in. If the business lacks cash to repay policy loans, this can simply be seen as **spending your death benefit**.

Additional Features

- **Employee Retention & Reward** – It's very challenging to find and retain high-quality workers, but when you do, they can make a huge difference for your company. Offering employees non-qualified deferred compensation (NQDC), for example, which can be funded with Whole Life insurance, could be a great incentive to keep your best employees around. On top of that, you've insured your key employee. The insurance companies we work with offer additional creative employee retention strategies funded by Whole Life insurance, and the best part is that the employee can be confident in the policy's growth, and therefore their benefits.

- **Bonding Requirements** – Many companies, especially construction companies, have surety bonding requirements for jobs and annual licensing. Aside from a company's ability to safely complete jobs in a timely manner, bonding companies look at company liquidity and financial performance to determine their ability to cover any losses. Generally, the more financial strength and liquidity a company has, the lower the bond price. However, business owners generally have a tough choice: should they keep cash liquidity on their balance sheet, surrendering any potential growth on their capital, or should they deploy cash and pay higher bond fees? Infinite Banking allows business owners to use their cash values (guaranteed to grow) as collateral for lower bond prices.

Mechanics & Policy Loan Interest

Hopefully at this point, some of you are starting to understand the concept and benefits associated with Infinite Banking for small businesses. However, if you're a visual learner like we are, you may not understand the mechanics of how this works. Trying to understand the actual flows of money can be challenging, and knowing the concept alone isn't enough for some of you. However, the process is both flexible and simple.

First, you are **required to pay the base premium** to keep the policy active. This can be automated and paid according to your desired preference (i.e., monthly, quarterly, annually, etc.). When we structure policies, we help business owners carefully examine their liquidity to determine how much base premium they can conservatively pay now and in the future. The good news is that while base premiums are generally illiquid in the first year, they become much more liquid in years two or three, depending on the policy design. This means that a base premium of $1,000 in year one may not generate much cash value at all, but the $1,000 payment in year two may give you $750 in available cash value to leverage.

Second, we have PUAs (paid-up additions), which help maximize early liquidity since this is "paid-up" insurance. These are not required, but since they are very liquid, the point is generally moot. Remember, business owners have cash flowing in and out of the business frequently, so once owners have sufficient cash on hand to pay for immediate expenses, cash can then be used to pay PUAs. We're really just concerned with warehousing as much capital as efficiently as possible, and our policy allows us to do this.

We then access cash values (through policy loans so we keep capital compounding) for two reasons: 1. We need more cash on-hand to pay for expenses, or 2. We find an opportunity to generate more cash flow or long-term growth (see **Capital Opportunities** above). Generally, we're looking to reduce third-party debt to immediately free up cash flow or invest in opportunities that will enhance business growth.

Lastly, when we have sufficient cash on-hand, and expenses are taken care of, we can then begin paying down policy loans (warehousing our wealth). ***By using the business's cash flow to pay premiums and pay down policy loans in a separate, but superior cash operating account (our policy), we can maintain control and safely grow and leverage our capital***. Furthermore, while business owners with sporadic revenues and expenses may be hesitant to use Infinite Banking, this can be an advantage. Windfall periods can be used to pay policy premiums and repay loans, which may significantly reduce the outstanding loan period, and therefore, reduce policy loan interest.

To summarize, policyholders should prioritize base premiums first (required to keep the policy active), then pay PUAs (almost fully liquid and contributes to long-term policy compounding), and lastly pay down policy loans, which frees up more capital.

Business Valuation Growth

As we mentioned at the beginning of the book, about 80% of a business's value is derived from intangible assets. The tangible assets listed on your balance sheet alone only provide so much value. They're generally mark-to-market. Cash is cash; a truck is a truck. They usually aren't unique or scarce. It's all about replacement value and efficiency of your assets. If a competitor was weighing his/her option to either buy your business or start one on their own, then tangible assets generally don't mean much. Why? If you have trucks on your balance sheet marked at $60k/piece, why does the competitor need to acquire your business? Why can he/she not just start one from scratch and buy those same trucks in the open market?

Value isn't the tangible asset figure on your balance sheet. It's not necessarily how many assets you have, but how those assets work towards serving your ***customers – the ultimate judges of value***. Value is subjective, and it's not determined by accountants or financial advisors. Without adding value for your customers, your business is only worth the liquidation value of its tangible assets. While this may seem obvious, many business owners (and consultants) don't view things this way. They think about how they can use cash to buy more customers through marketing, purchase more equipment, hire more people, or cut costs without considering the end value to the customer. If you want to increase the value of your business, then you need to increase the replacement value of your business, which is done by ***leveraging capital to drive value for customers***. Owners don't grow their businesses by focusing on increasing revenue or improving margins. These are ***byproducts*** of adding value to customers.

The biggest opportunity to increase the value of your company is through multiple expansion. Businesses are generally valued on an EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) multiple. Smaller companies may be valued on an SDE (Seller's Discretionary Earnings) multiple, which is similar except it includes the owner's salary, perks, and non-essential expenses. However, because we want to understand what a business may be worth to a new buyer like a private equity firm who isn't necessarily expected to take excess salary from the business, we prefer to use EBITDA. The business's EBITDA *multiple* is based on the quality of a business's intangible assets. Here are some examples (for more value factors to improve your business valuation, contact us or visit downstreamwealth.com):

- Is the product or service better than those of competitors?
- Does the business have death and disability protections for its owners or key employees?
- What employee benefits are offered? How strong is employee retention and morale?
- Does the business have leverageable assets or access to affordable credit?

- How good is the company at collecting receivables?
- Does the business have a formal business plan?
- Is value transferable if the owner or key executive walks away?
- Does the business have documented SOPs (standard operating procedures)?
- What's the business's customer retention and organic growth?
- Does the business have updated systems and infrastructure?
- Beyond the business's core product/service, are any additional value-add services offered?

By using cognitive empathy and putting yourself in your customers' shoes, you can find ways to enhance value. This will not only drive your top and bottom-line growth but will also justify a much higher business valuation for potential buyers.

NOTE: While EBITDA is the most commonly used valuation metric amongst potential small business acquirers, it's far from perfect. As opposed to cash flow or net income, EBITDA is a highly adjusted number that may not reflect the real earning power of a business. Owners should work with professionals who can decipher financial statements, make sense of "add back" items, and analyze the real impact of "noncash" charges to the business. While it serves as a good starting point for valuation, there's a reason Charlie Munger called it "bullshit earnings." However, for simplicity, we are comfortable using it to explain other aspects of valuation.

Infinite Banking & Business Growth

Infinite Banking helps business owners increase value both directly and indirectly. When considering the direct benefits, the most important is the protection of the business against the loss of the owner or another key employee. Banks are hesitant to lend to businesses who don't have protections in place because they want to make sure income is sufficient to repay the loan. If the owner is the key driver of revenue, his/her loss may impact loan repayment ability. Potential buyers also want to make sure the business has access to capital to continue growing.

Additionally, if an owner is selling a business, the buyer needs to be sure the business can remain profitable. This likely means the existing key employees will be relied on heavily to maintain and increase profitability. If the owner has done a sufficient job at making sure the business can continue without him/her, then having key person insurance in place for buyers is critical. Those buyers can be sure that if something happens to top operators, the business will have some funding to help the business survive and find a replacement.

This key person insurance also serves as a potential employee retention tool. Options like NQDC (non-qualified deferred comp), executive bonus plans, split dollar agreements, etc. can all be safely funded with whole life insurance. Business owners can use these as golden handcuff options to insure key employees while incentivizing them to stay. It's a win-win.

Additionally, potential acquirers like private equity firms generally look for businesses with strong balance sheets and leverageable assets because it allows them to integrate operations and amplify their return on equity by funding the deal with debt. Infinite Banking is perfect because cash values cannot contractually decline and grow tax-free and uninterrupted. The insurance company also guarantees that you can borrow against your cash values, giving the potential buyer greater confidence in liquidity. This also allows the company to improve the efficiency of its cash flow by reducing heavy amortized interest expenses.

Lastly, when thinking about Infinite Banking and life insurance, the company generally is required to think about succession planning. Having these documented is critical for a potential buyer. For instance, having a buy-sell agreement in place, funded with whole life insurance, may ease concerns from a potential buyer about the direction of the business.

Infinite Banking also has one clear non-direct benefit. The point of a business is to solve problems for customers, and this requires a tremendous amount of financial capital. Saving takes discipline, but as we laid out, with our negative real interest rate environment, which is effectively required to keep the government solvent, savers have historically been punished by inflation. Infinite Banking allows owners to get rewarded for delaying consumption. The contractually guaranteed, uninterrupted, and tax-free growth on capital helps business owners remain disciplined, which allows them to efficiently save and leverage capital that can be used to drive value for customers.

Hopefully you're beginning to see how this works, but if it's not crystal clear yet, we'll walk through a couple case studies.

Small Business Use Cases

All business owners have routine and large expenses. Examples include quarterly income and payroll taxes, vehicles, equipment, a new office building, large marketing expenses, and more. **This means that business owners all have a banking function, in which they're saving cash (even if only for a short period of time), financing these expenses one way or another (third-party financing or paying via opportunity cost), and investing back in their business. Therefore, these businesses will all benefit from Infinite Banking in one way or another**.

However, we generally have two different types of clients. The first type of business we work with is one that's very capital intensive. Generally, we see the "trades" businesses in this category due to their heavy reliance on physical equipment, machinery, and labor. Transportation, wholesale and distribution, retail, other construction/contracting, and auto repair shops are other examples. While margins may be lower, they benefit from Infinite Banking most by controlling capital and leveraging cash flow, allowing them to increase the efficiency of their financing while reducing interest costs and building a long-term leverageable asset.

The second type of business we work with is one that requires less capital to scale. Marketing agencies, SaaS businesses, online education, coaching/consulting, health and wellness, and financial firms like accounting or bookkeeping are all examples. Generally, with higher margins, these companies retain cash for longer periods of time. They benefit most from Infinite Banking by having guaranteed, tax-free growth on their capital, with the ability to leverage their capital for larger growth investment opportunities.

We're going to lay out a case study for each example, but please note that there's quite a bit of overlap for each use case as Infinite Banking is beneficial for a variety of reasons, and each situation is unique. It's important to work with an advisor or consultant who thoroughly understands the ins and outs of policy design and how to analyze business cash flow and liquidity. While a properly structured policy can be a life changer for you and your business, a badly structured policy can be a liability.

Case Study #1

Our first case study deals with John, a 50-year-old owner of PowerPulse Contractors, which is a commercial electrical contracting business. The company works on large scale projects such as retail and multifamily housing. The business is highly cyclical, but after expanding their network and customer base and refocusing on the importance of training and education of its electricians, PowerPulse has increased efficiency and expanded EBITDA margins to 12%. The business currently does about $2.1M in revenue and $265k in EBITDA. They have 11 full-time field employees, including one foreman responsible for training and overseeing many of the other electricians. While John is generally pleased with the direction of the business, now providing him with sufficient personal income to fund his current lifestyle, he’s decided to speak with a business consultant to help him identify areas of improvement for his personal and business plans.

The Challenges & Vulnerabilities

First, John’s wife works part-time as a hairdresser. Her income is insufficient to take care of their two kids should something happen to John. They also don’t have enough retirement savings yet to fund their lifestyle. In the meantime, they plan to continue taking annual family vacations, help their children with buying their first vehicles, pay for a portion of college, and potentially buy a second retirement home. John has also realized that aside from a few rental properties, his net worth is tied up in his business. While he’s confident he can formalize a succession plan and continue growing PowerPulse, a bad recession could diminish the sale price or push back the timing. Therefore, he’d like to diversify assets while finding a safe and reliable place to store cash from the sale of PowerPulse.

Additionally, another big problem is PowerPulse’s reliance on John’s expertise and connections. Not only would the business struggle if John were to pass away, but even if John decides to retire, his value is not transferable to potential buyers. They’d need to find someone else to run the business at this point. The good news is that Ben, his 32-year-old ambitious foreman, has begun to learn the ropes and expressed interest in taking over some day. The bad news is that the labor market is highly competitive, which has increased turnover for the company recently as employees have left for higher paying jobs, and John is afraid Ben may do the same. Ben also currently lacks the funding for a buyout. The business would likely struggle to retain and train other employees if something happened to Ben.

Another challenge PowerPulse has is an aging fleet of trucks. John initially struggled to keep up with equipment financing loan payments but has since paid down a large portion of the debt using cash flow. However, John has come to realize that he’s still left with an aging fleet, and he’s surrendered all future compounding on his cash. He’s left with the difficult decision to buy things with cash and surrender future growth on that cash, or finance through a third party, in which thousands of dollars of interest are lost and the banks hold a lien against core assets. With $2.1M of cash running through the company's balance sheet each year, Ben has realized how little control he has over the cash that flows through his business. Lastly, due to the cyclical nature of the industry, a lack of core leverageable assets can become a significant burden in times of distress.

The Opportunity

John's consultant began with an assessment of the business today. Currently, due to several vulnerabilities (death & disability protection), a heavy makeup of tangible assets (depreciating equipment), a concentrated revenue base, higher employee turnover, a lack of organic growth, no value-add services, and nontransferable value (John's expertise and connections), the consultant informed John his business would likely be valued towards the lower end of the EBITDA multiple range across the industry (generally anywhere from 3x – 7x). They agreed that 3.5x EBITDA was appropriate, valuing the business at about $928k. Additionally, PowerPulse has grown revenue by about 12% over the past 10 years, and the company is currently sitting on $240k in cash and $315k in total liquidity. John plans to begin gradually delegating responsibilities in five years before formally stepping away when he turns 65.

John and his consultant believe revenue can conservatively grow at about 8% over the next 10 years as John starts introducing Ben to existing connections while their referrals, which have been a strong part of the growth so far, should continue to provide strong growth. The consultant also recommended focusing more on using capital to add value to enhance the customer experience, rather than focusing so heavily on tangible assets. For instance, the business could focus on conducting energy audits, helping potential customers identify areas to reduce energy consumption, or integrating "smart" solutions in residential buildings. By using cognitive empathy, the business can tap the minds of its customers to enhance their brand and presence over competitors. Additionally, as the business scales, John's consultant believes EBITDA margins should naturally expand to 14% as they can become more selective with jobs, reduce downtime, and diversify revenue streams.

However, the consultant explained to John that while the business can increase value by growing revenue and improving EBITDA margins, the largest opportunity for growth is by increasing the business's EBITDA *multiple*. The consultant showed John how Infinite Banking can provide huge opportunities for growth by relieving concerns of potential buyers and creating transferable value:

- Protect the business against the loss of John
- Protect the business against the loss of Ben
- Reduce company turnover & improve culture
- Generate stronger growth on cash that can be reinvested back into the business

- Reduce interest expense, taxes, and liens on core assets
- Leverage the cash flowing away from the business to reduce lost opportunity costs
- Create a core asset that can be tapped in times of distress
- Help Ben begin to save for a potential buyout

	Current	**Future**
Revenue	$2,135,000	$4,620,000
EBITDA margin	12%	14%
EBITDA	$265,000	$647,000
EBITDA multiple	3.5x	5.5x
Valuation	$928,000	$3,359,000

The consultant then explained that Infinite Banking not only helps the business increase value, but provides numerous advantages for John's personal plans:

- Protecting John's family
- Increasing retirement savings & income
- Increasing the efficiency on cash for John's future purchases
- Creating a warehouse for wealth upon the sale of PowerPulse

The Plan

The consultant recommended immediately starting an Infinite Banking policy for John. PowerPulse is structured as a sole proprietorship LLC, so John's policy would be owned by him personally (since this is a pass-through entity, it allows John to leverage cash values personally and for the business). John pays himself $180k/year and prefers to maintain at least $100k in total liquidity in the business, including $50k in cash or short-term investments (i.e., money markets). The business currently has about $130k of its $178k cash in money market funds, along with a $50k line of credit.

Revenue	$2,135,000
Net Income	$96,000
Taxes	$22,000
Interest	$25,000
Depreciation	$122,000
EBITDA	$265,000
CapEx	$98,000
Cash Flow	**$73,000**
Business cash	$178,000
LoC	$50,000
Total Liquidity	**$228,000**

The consultant closely analyzed John's and the company's financials and recommended a policy structured with a $52k base premium, along with a 3-year $88k PUA rider. John can pay the $52k base premium from his salary and use the business's cash on hand to pay the $88k PUA, which is almost fully liquid. This is very conservative because John has some personal savings, rental income, and additional capacity in his salary to pay premiums. Plus, the business is cash flow positive and expected to grow.

Additionally, contrary to what many critics say about whole life insurance, John will pay $140,000 in total premiums and see his cash value increase by $131,355 (based on current dividend scales) in year 2. While the loss of liquidity in the first few years is the cost to capitalize, we can see the policy more than makes up for it with cash value jumps of $50-$100k in later years when John pays his $51,460 base premium. We don't think about this in terms of a return on investment, but funding base policies becomes a *privilege* as the policy seasons.

John's Infinite Banking Policy

Year	Annual Premium	Cumulative Premiums	Cash Value	Increase in Cash Value	Net Increase in Cash Value	Death Benefit
1	$140,000	$140,000	$89,608	$89,608	-$50,392	$2,337,877
2	$140,000	$280,000	$220,963	$131,355	-$8,645	$2,557,322
3	$140,000	$420,000	$354,694	$133,731	-$6,269	$2,771,141
4	$52,000	$472,000	$409,738	$55,044	$3,044	$2,778,148
5	$52,000	$524,000	$470,591	$60,853	$8,853	$2,797,673
6	$52,000	$576,000	$535,784	$65,193	$13,193	$2,825,517
7	$52,000	$628,000	$605,502	$69,718	$17,718	$2,861,492
8	$52,000	$680,000	$678,125	$72,623	$20,623	$2,901,794
9	$52,000	$732,000	$753,728	$75,603	$23,603	$2,942,269
10	$52,000	$784,000	$830,639	$76,911	$24,911	$2,982,954
11	$51,460	$835,460	$913,275	$82,636	$31,176	$2,626,522
12	$51,460	$886,920	$999,477	$86,202	$34,742	$2,675,018
13	$51,460	$938,380	$1,091,138	$91,661	$40,201	$2,727,856
14	$51,460	$989,840	$1,186,755	$95,617	$44,157	$2,785,071
15	$51,460	$1,041,300	$1,288,199	$101,444	$49,984	$2,846,670
16	$51,460	$1,092,760	$1,395,696	$107,497	$56,037	$2,912,667
17	$51,460	$1,144,220	$1,507,760	$112,064	$60,604	$2,983,100
18	$51,460	$1,195,680	$1,626,234	$118,474	$67,014	$3,057,907
19	$51,460	$1,247,140	$1,751,355	$125,121	$73,661	$3,137,073
20	$51,460	$1,298,600	$1,881,654	$130,299	$78,839	$3,220,665
21	$51,460	$1,350,060	$2,018,342	$136,688	$85,228	$3,308,055
22	$51,460	$1,401,520	$2,158,534	$140,192	$88,732	$3,397,602
23	$51,460	$1,452,980	$2,304,034	$145,500	$94,040	$3,488,716
24	$51,460	$1,504,440	$2,454,900	$150,866	$99,406	$3,581,554
25	$51,460	$1,555,900	$2,611,221	$156,321	$104,861	$3,676,234

John's consultant also recommended a non-qualified deferred compensation (NQDC) plan for Ben, which would be funded with a business-owned Whole Life insurance policy (so John could control the policy), structured for Infinite Banking. While the details of NQDC plans can be highly flexible, John offered Ben an immediate $15,000 raise, which would be used to help fund life insurance premiums over the next 10 years. Ben has also elected to defer $15,000 of his initial salary for 10 years. Therefore, the business will be deferring $30,000 each year for John, which will be used to pay policy premiums.

This serves as a defined benefit plan for John. Starting in year one, the agreement states that Ben is able to request payment equal to half of the cash value once per year (from his portion of the contributions), and then beginning in year 5 (fully vested), Ben will be able to request payments equal to the policy illustration cash values. Then, if necessary, the business can take policy loans to pay Ben's compensation. Should Ben decide to leave, the company will retain ownership of the policy and access to the cash value. The consultant recommended structuring the $30,000 premium as a $12,000 base and an $18,000 10-year PUA rider. If Ben takes over the company one day, he, as the principal, would gain control of the policy. Lastly, to sweeten the cake, John also agreed that the company would pay 50% of the death benefit to Ben's family if something happened to him at any point Ben is still with the company.

Ben's Infinite Banking Policy

Year	Annual Premium	Cumulative Premiums	Cash Value	Increase in Cash Value	Net Increase in Cash Value	Death Benefit
1	$30,000	$30,000	$18,595	$18,595	-$11,405	$967,688
2	$30,000	$60,000	$47,529	$28,934	-$1,066	$1,040,799
3	$30,000	$90,000	$76,088	$28,559	-$1,441	$1,111,922
4	$30,000	$120,000	$106,801	$30,713	$713	$1,181,865
5	$30,000	$150,000	$139,219	$32,418	$2,418	$1,253,129
6	$30,000	$180,000	$173,402	$34,183	$4,183	$1,326,776
7	$30,000	$210,000	$210,338	$36,936	$6,936	$1,402,749
8	$30,000	$240,000	$248,528	$38,190	$8,190	$1,480,347
9	$30,000	$270,000	$288,028	$39,500	$9,500	$1,557,862
10	$30,000	$300,000	$328,902	$40,874	$10,874	$1,635,317
11	$12,000	$312,000	$355,252	$26,350	$14,350	$1,657,204
12	$12,000	$324,000	$382,764	$27,512	$15,512	$1,684,163
13	$12,000	$336,000	$412,409	$29,645	$17,645	$1,712,854
14	$12,000	$348,000	$442,430	$30,021	$18,021	$1,743,251
15	$12,000	$360,000	$475,592	$33,162	$21,162	$1,775,262
16	$12,000	$372,000	$509,301	$33,709	$21,709	$1,808,927
17	$12,000	$384,000	$545,390	$36,089	$24,089	$1,844,225
18	$12,000	$396,000	$583,062	$37,672	$25,672	$1,881,145
19	$12,000	$408,000	$622,396	$39,334	$27,334	$1,919,720
20	$12,000	$420,000	$664,389	$41,993	$29,993	$1,960,019
21	$12,000	$432,000	$707,963	$43,574	$31,574	$2,001,864
22	$12,000	$444,000	$753,021	$45,058	$33,058	$2,044,756
23	$12,000	$456,000	$800,532	$47,511	$35,511	$2,088,487
24	$12,000	$468,000	$849,678	$49,146	$37,146	$2,133,090
25	$12,000	$480,000	$900,551	$50,873	$38,873	$2,178,577

The Solution

Taking Care of Family, The Business, Employees, & Customers

By securing a sizable ~$2.3M death benefit to start, John is now protecting his family against his loss of life. This tax-free death benefit should help John's wife and kids. To some, $2.3M sounds like a substantial amount, but with expenditures for children, an existing mortgage, the rising cost of healthcare and consumer products, hopefully 40+ years of life left for John's wife, as well as taxes levied on the sale or liquidation of the business, some might argue that this isn't nearly enough. Plus, no beneficiary has ever claimed permanent life insurance paid out was TOO LARGE of a death benefit.

Not only does this take care of John's family, but it takes care of Ben's family directly through the death benefit from the policy on him, while also providing security to employees who are dependent on their jobs. Ben's policy also provides protection for the business, allowing the company to find a replacement to help the other employees. Lastly, John has dedicated his entire professional life to this business. As opposed to publicly traded corporations who prioritize shareholders, John has developed numerous relationships over the years with customers who depend on the business. By ensuring sufficient funds to replace the owner or proceed with an ***orderly*** sale, John can feel good about taking care of his customers.

Retirement Savings & Personal Expenses

While John plans to increase the value of the business substantially, in which Infinite Banking plays a big part (more on that later), several things could go wrong over the next 5-10 years. However, Whole Life insurance policies come with guaranteed, tax-free growth as long as they're structured and accessed properly. By the time John is 65, he will have accumulated almost $1.3M in available cash value based on current dividend scales (it's worth noting that while dividends aren't guaranteed, the policy still comes with guaranteed growth, and the companies we work with have 100+ consecutive year payout histories). By age 70, the available cash value will be nearly $2M.

As opposed to saving with cash, this gives John a growing capital base to borrow ***against*** to go on vacations, help his children with vehicle purchases, partially fund college, use a down payment for a house, invest more capital in his business, and generate additional retirement income beyond business sale proceeds. Then, instead of parking his personal savings in checking or savings accounts, John can pay down policy loans, freeing up more capital to be used in the future – all while the cash value continues compounding tax-free and uninterrupted.

Control Cash & Leverage Cash Flow

John's consultant has pointed out how Infinite Banking provides the perfect opportunity to use revenue to build an asset that, ***if structured properly by the right insurance professional***, compounds tax-free and uninterrupted. It allows John to not only find a way to store his excess cash but utilize a time-tested strategy of using safe leverage to buy the things he needs without interrupting growth on his capital. Therefore, when it comes time to begin replacing the fleet of trucks, rather than asking the bank for permission to borrow their money at higher rates, or rather than paying cash, John can leverage his asset by taking a policy loan at much more favorable rates. On top of that, these are simple interest loans, in which repayments go directly towards reducing the principal balance, allowing PowerPulse to save thousands of dollars in amortized interest.

Additionally, if John cannot repay his policy loan, unlike a bank that will come after his assets, the insurance company really doesn't care because they already owe him a death benefit much larger than available cash value. Furthermore, Nelson Nash used the idea of repaying policy loans, which may be in the 4-5.5% range right now, by using a similar rate that you'd ordinarily pay to the bank. This is John's privatized banking system, so why not treat it as such? The 4-5.5% interest would still go back to the insurance company, but if he's already accustomed to paying back third-party bank rates (i.e., 7-8%), then using a similar strategy to pay down policy loans frees up cash even quicker that can grow until it's time to make purchases or invest. Then, once policy loans are repaid and there's no more capacity for premiums, it's time to look at expanding his privatized banking system with more policies.

Investments

We've already highlighted how this provides John with a superior way to save and finance. Infinite Banking is the process of safely growing and leveraging capital. However, it doesn't stop there. The real power of Infinite Banking is how you leverage your capital to take advantage of opportunities. John has expressed interest in diversifying his investments in real estate and public markets. John's consultant explained that the real advantage of John using Infinite Banking to finance those purchases is that it **pays him to wait** for the right opportunity, and his capital continues to grow even when he leverages it to invest. Then, when cash flows in through the business or he realizes gains on those investment opportunities, John can repay the policy loan(s), refueling his superior capital account.

Distress

John noted that he likes to maintain a certain level of liquidity at all times, and that figure will likely increase as the business grows. Infinite Banking helps in two ways. First, John isn't letting his cash sit in a bank account yielding near 0% interest or having it locked in a taxable CD yielding 5%. It's compounding permanently, tax-free, in a whole life insurance policy. He's putting that capital to work. Additionally, if we enter a recession or some emergency happens, John doesn't have to ask for permission to access that capital. He can borrow against his capital, and as we mentioned earlier, policy loans don't have to be paid back (although we recommend at least paying the interest). The insurance company would just deduct any outstanding policy loans from his death benefit.

Business Culture & Exit

We already mentioned that this will help John build an asset for retirement, but beyond that, Ben's policy will encourage him to stay. This will reduce company turnover and improve the culture, which is something that's going to increase the value of the business for any potential buyer. When it comes to exiting the business, competitors or private equity firms could be potential buyers, but if John wishes to leave the business with Ben and his current employees, there are several options. For instance, John may look into an ESOP. He could also consider selling to Ben directly, which could be owner financed, financed through a bank loan, or Ben could look to secure an SBA loan, for example. If business growth remains on track, Ben would have access to almost a 5% down payment (pre-tax) from his cash value alone in year 10. This may incentivize Ben to stay and motivate others. Future raises could also be deferred and used to buy more insurance.

Warehouse for Wealth

Lastly, we mentioned that outstanding policy loans serve as a place to park idle cash, which could come from realized investments. However, many business owners don't think about what they'd do with the cash they get from the sale of their business. Theoretically, if John had leveraged a good portion of his cash for retirement, family expenses, and business expenses, he'd now have significant capacity to deploy capital from the sale of PowerPulse. John could use the down payment from the sale of his business to pay policy loans back, while taking in annual payments that could be used to pay policy premiums. For instance, in year 15, John could pay $51,460 in premiums and see cash value grow by almost $50,000 (based on current dividend scales). ***Where else in public markets will John be able to obtain this growth on his capital?*** Lastly, rather than investing that money directly in tax-deferred accounts, premiums/loan repayments in a properly structured whole life policy serve as tax-free legacy wealth that can be passed down to his kids.

The Outcome

John's consultant has shown him that Infinite Banking is not just a simple strategy to help finance truck purchases. It's not just a high yield, tax-free savings account. It serves as the foundation for his business, allowing him to save, finance, and invest much more efficiently. It protects his family and allows them reduce finance costs, while building a long-term asset that can be passed down tax-free. It protects his business and provides an opportunity to increase the efficiency on capital, which can be reinvested back in the business to add value for customers, and, as a byproduct, increase top line growth and margins. It helps John come up with an exit plan and allows him to retain employees. Lastly, it increases several forms of intangible capital, which largely make up the value of the business in the eyes of potential buyers.

Case Study #2

Our next case study deals with brothers Andrew and Chris, 46- and 44-year-old co-owners of CedarPoint CPAs, which is the #1 full-service accounting firm in a tri-county area. Their largest customers are real estate investors, business owners, and high net worth individuals. Andrew and Chris's father, Jim, just passed away at the age of 71. Jim started the firm nearly 45 years ago, and ever since Andrew and Chris joined, they've helped gain market share, hire and train additional employees, find value-add solutions to retain and attract new customers, and improve margins by cutting unnecessary costs and utilizing technology. They've also cornered a real estate niche after starting their own podcast focused on helping investors understand specific tax strategies such as accelerated depreciation. Andrew and Chris each own 30% of the business, and Jim's 40% share was inherited by his wife Julie.

Currently, CedarPoint CPAs is a cash-flowing machine, bringing in about $4.4M in revenue and just under $1.2M in EBITDA. With above-average EBITDA margins and strong market share, Andrew and Chris now want to shift their focus towards utilizing their experience to acquire real estate-oriented tax firms throughout the country. After having many CPAs reach out from their podcast, they believe their new digital leadership and training platform can help transform CPA firms remotely. Additionally, after hearing about Infinite Banking from a podcast listener and real estate investor, Andrew and Chris became interested in the benefits of growing and leveraging capital to fund these investments. Therefore, they've decided to speak with a consultant to understand how to get started with Infinite Banking.

The Challenges & Vulnerabilities

After being asked about Infinite Banking and hearing the brothers' situation, the consultant recommended immediately addressing the big elephant in the room, which is finding a way to acquire their mother's stake in the business. Jim had a sizeable 30-year term insurance policy in place, but before he could renew, he was diagnosed with Stage 3 melanoma. While Jim won his battle with cancer, he was left uninsurable, leaving Julie with her share of the business and a small amount of retirement savings. No formal buyout plans are currently in place, although Andrew and Chris prefer to buy out Julia over time to maintain some liquidity, but this still ties up capital that could be used to invest in other CPA firms.

Additionally, after finding out about the complexity involved with not having insurance in place, Andrew and Chris are also concerned about leaving their spouse with an additional burden. They want a succession plan in place that defines ownership after the other partner exits the business, as well as funding that takes care of the buyout. While the business is currently cash flow positive and sitting on about $900k in cash, finding a way to secure a succession plan, acquire life insurance, buy out their mother's stake in the business, and begin investing in other CPA firms is a challenge.

The Opportunity

The consultant recommended starting with a buy-sell agreement that would define Andrew's and Chris's shares in the business as well as ownership plans should one of them leave the business. While buy-sell agreements can be funded in many ways, their consultant sees many benefits from a whole life insurance policy which will also allow the brothers to leverage capital to fund the buyout and additional investments. To understand the amount of insurance required, the consultant performed a valuation on the business. Given their superior market share and operating ability, he valued the business at 6.5x EBITDA, which is above average for the industry. The brothers each own 30% of the $7.76M business, while their mother's 40% is valued at about $3.1M.

Revenue	$4,421,000
EBITDA margin	27%
EBITDA	$1,194,000
EBITDA multiple	6.5x
Valuation	$7,759,000

The consultant explained that the brothers could immediately open life insurance policies on each other owned by the S-Corp. The goal would be to achieve similar death benefits to ensure the business has sufficient insurance on each brother to fund the buyout. The consultant recommended starting the policies now assuming 50% ownership. After sitting down with their mother, she agreed to a $1,000,000 down payment, paid out over four years at the IRS's AFR (applicable funding rate) along with a 20-year 6% seller financing note to fund the remaining $2.1M of the buyout. As opposed to a short-term bank loan, this provides her with retirement income, while allowing her sons to maintain sufficient liquidity to pursue their passions.

Current Valuation	$7,759,00
Julia's 40% share	$3,104,000
Annual down payments (4 years)	$275,000
Annual note payments (20 years)	$180,000
Current business cash	$890,000
Annual cash flow	$760,000

These payments would eat up about $455k of the business's $760k in cash flow for the first four years. Therefore, to avoid losing all future growth on their capital, Andrew and Chris's consultant recommended specially designed Infinite Banking policies, which provide numerous benefits:

- Protect the business against the loss of Andrew
- Protect the business against the loss of Chris
- Establish & provide funding for the buy-sell agreement
- Ensure the brothers' spouses receive their tax-free share of the business
- Capture, control, and leverage buyout payments
- Provide a future warehouse for wealth
- Generate stronger growth on current cash

The Plan

The consultant designed Infinite Banking policies to be owned by the S-Corp on each brother. These were constructed so that each policy would be designed with base premiums that give them about $3.9M in base death benefit, or about 50% of the current business valuation. On top of that, their consultant recommended using current cash plus incoming cash flows to pay an additional $265k total in PUA for four years, split up between the two policies. This buys some additional paid-up death benefit and allows the brothers to quickly deploy and leverage cash that will be used for the CedarPoint buyout as well as acquisitions of other CPA firms. Once these drop off in year 5, the brothers will continue paying base death benefits, which will serve as a place to deploy future cash flows. The consultant also structured the products to provide strong liquidity starting in the second year with cash values increasing by about 94% of total premiums.

Andrew's Infinite Banking Policy

Year	Annual Premium	Cumulative Premiums	Cash Value	Increase in Cash Value	Net Increase in Cash Value	Death Benefit
1	$225,000	$225,000	$138,941	$138,941	-$86,059	$4,353,055
2	$225,000	$450,000	$350,957	$212,016	-$12,984	$4,740,745
3	$225,000	$675,000	$566,758	$215,801	-$9,199	$5,118,462
4	$225,000	$900,000	$794,351	$227,593	$2,593	$5,490,511
5	$90,000	$990,000	$905,535	$111,184	$21,184	$5,520,366
6	$90,000	$1,080,000	$1,029,258	$123,723	$33,723	$5,586,163
7	$90,000	$1,170,000	$1,162,281	$133,023	$43,023	$5,670,259
8	$90,000	$1,260,000	$1,297,782	$135,501	$45,501	$5,765,321
9	$90,000	$1,350,000	$1,439,682	$141,900	$51,900	$5,860,711
10	$90,000	$1,440,000	$1,588,127	$148,445	$58,445	$5,956,488
11	$89,932	$1,529,932	$1,740,064	$151,937	$62,005	$5,957,307
12	$89,932	$1,619,864	$1,905,721	$165,657	$75,725	$6,067,104
13	$89,932	$1,709,796	$2,077,777	$172,056	$82,124	$6,183,695
14	$89,932	$1,799,728	$2,256,554	$178,777	$88,845	$6,307,143
15	$89,932	$1,889,660	$2,442,362	$185,808	$95,876	$6,437,383
16	$89,932	$1,979,592	$2,643,406	$201,044	$111,112	$6,574,556
17	$89,932	$2,069,524	$2,848,633	$205,227	$115,295	$6,719,150
18	$89,932	$2,159,456	$3,066,152	$217,519	$127,587	$6,871,554
19	$89,932	$2,249,388	$3,292,603	$226,451	$136,519	$7,031,992
20	$89,932	$2,339,320	$3,532,290	$239,687	$149,755	$7,200,710
21	$89,932	$2,429,252	$3,787,293	$255,003	$165,071	$7,379,487
22	$89,932	$2,519,184	$4,051,447	$264,154	$174,222	$7,566,756
23	$89,932	$2,609,116	$4,328,837	$277,390	$187,458	$7,760,333
24	$89,932	$2,699,048	$4,616,147	$287,310	$197,378	$7,960,372
25	$89,932	$2,788,980	$4,913,832	$297,685	$207,753	$8,167,146

Chris's Infinite Banking Policy

Year	Annual Premium	Cumulative Premiums	Cash Value	Increase in Cash Value	Net Increase in Cash Value	Death Benefit
1	$217,000	$217,000	$133,819	$133,819	-$83,181	$4,300,407
2	$217,000	$434,000	$337,606	$203,787	-$13,213	$4,683,673
3	$217,000	$651,000	$548,930	$211,324	-$5,676	$5,057,082
4	$217,000	$868,000	$763,866	$214,936	-$2,064	$5,424,657
5	$87,000	$955,000	$874,493	$110,627	$23,627	$5,453,360
6	$87,000	$1,042,000	$989,717	$115,224	$28,224	$5,517,966
7	$87,000	$1,129,000	$1,121,632	$131,915	$44,915	$5,600,724
8	$87,000	$1,216,000	$1,252,070	$130,438	$43,438	$5,694,302
9	$87,000	$1,303,000	$1,388,898	$136,828	$49,828	$5,788,201
10	$87,000	$1,390,000	$1,532,216	$143,318	$56,318	$5,882,494
11	$87,000	$1,477,000	$1,682,608	$150,392	$63,392	$5,981,635
12	$87,000	$1,564,000	$1,839,015	$156,407	$69,407	$6,089,946
13	$87,000	$1,651,000	$2,005,537	$166,522	$79,522	$6,205,373
14	$87,000	$1,738,000	$2,178,630	$173,093	$86,093	$6,327,675
15	$87,000	$1,825,000	$2,362,484	$183,854	$96,854	$6,456,824
16	$87,000	$1,912,000	$2,553,623	$191,139	$104,139	$6,592,825
17	$87,000	$1,999,000	$2,752,538	$198,915	$111,915	$6,735,933
18	$87,000	$2,086,000	$2,963,481	$210,943	$123,943	$6,886,448
19	$87,000	$2,173,000	$3,183,154	$219,673	$132,673	$7,044,812
20	$87,000	$2,260,000	$3,415,841	$232,687	$145,687	$7,211,315
21	$87,000	$2,347,000	$3,663,350	$247,509	$160,509	$7,387,452
22	$87,000	$2,434,000	$3,919,550	$256,200	$169,200	$7,571,712
23	$87,000	$2,521,000	$4,184,878	$265,328	$178,328	$7,762,066
24	$87,000	$2,608,000	$4,463,506	$278,628	$191,628	$7,958,544
25	$87,000	$2,695,000	$4,752,036	$288,530	$201,530	$8,161,305

The Solution

Control Cash & Leverage Cash Flow

The brothers are excited about their new business venture. However, there's only so much savings to go around, and once it's spent, it's gone forever. By using Infinite Banking, they can control and leverage CedarPoint's cash flow. Rather than paying cash to buy out their mother's share of the business, by paying premiums first, the business is building a long-term asset that's guaranteed to grow each year. While this may not provide game-changing benefits in the first year or two of opening the policy, the compounded capital growth will provide the business with more funding in the future to acquire more business interests.

Investment Opportunity

Andrew and Chris know what it takes to grow a CPA firm. They've seen that, unlike market index funds, small businesses can grow at 25%+ each year for quite some time. By using Infinite Banking, the brothers can opportunistically buy CPA firms to help turn them around. While this is likely going to take a few years, given the 3x-5x value growth possibilities, Andrew and Chris are more than fine paying policy loan interest for a few years to leverage their capital. The brothers already have the opportunity and knowledge, but Infinite Banking can significantly enhance their returns over time.

Warehouse for Wealth

As Andrew and Chris buy more CPA firms, they anticipate two different forms of future windfalls. First, the business will be generating more cash flow. Additionally, Andrew and Chris are open to the idea of selling businesses they turn around back to the firm operators. Either way, having a place to store that capital is critical. The brothers can either pay down policy loans, freeing up additional capital, or they can pay more premiums. While the $442k combined premiums in years 1-4 seem excessive (although they still maintain a significant portion of that in liquid capital), the brothers will only be able to pay $177k total in base premiums starting in year 5. Based on current dividend scales, the brothers will pay $177k in premiums in year 5 and see cash value increase by almost $222k. This 25% "growth" provides even more capital for the brothers to leverage.

Succession Plan

Drafting a buy-sell agreement will give the brothers much-needed clarity on the business succession plan if one of them exits or passes away. By funding the agreement with Whole Life insurance, the brothers can ensure that the business has sufficient funds to buy out the deceased brother's share from his spouse. Additionally, the step-up basis means that the surviving spouse of the deceased brother would inherit her share of the business at the current fair market value, reducing or eliminating capital gains taxes if the share is sold. The life insurance death benefit will be received tax-free by the business, providing the liquidity needed to purchase the deceased brother's interest from the estate or spouse. This ensures a smooth transition of ownership without placing a financial burden on the surviving owners or heirs.

The Outcome

Some Infinite Banking policies are much simpler than others. This family has been very disciplined with saving, and they've built a cash flowing machine in CedarPoint CPAs. Growth isn't an issue. The brothers have decided to think bigger with expansion plans, but they have some very specific problems. By using Infinite Banking, while drafting a buy-sell agreement, the brothers can capture and leverage cash flow to acquire the remaining portion of their business. They can create a privatized banking system, allowing them to efficiently finance the purchases of additional CPA firms, while having a place to store capital and future windfalls. Lastly, when either of the brothers decide to step away, the buy-sell agreement will dictate ownership as the Whole Life insurance policy provides the funding to buy out their partner's share of the business burden free.

Case Study Design

Infinite Banking alone will not turn you into a multi-millionaire overnight. However, hopefully you can begin to see how many benefits it provides to small business owners and their families. Ultimately, it's up to you to find the discipline and creativity to maximize your potential. However, if you're unsure how Infinite Banking can help you, please reach out to us at info@downstreamwealth.com.

Process & Getting Started

Requirements

While the design of the policy may be flexible and complex, which we specialize in helping clients with, the requirements to get started are straightforward. First, we need to identify an insurable interest, in which the policyholder and beneficiary would prove financial loss and hardship if the insured were to pass away. In other words, you can’t just buy life insurance on a random stranger. Close family members and key employees are very common.

Additionally, insurance companies will perform underwriting for the potential insured person to assess insurability. Different ratings are assigned based on age and general health, which impacts actuarial mortality estimates. In other words, someone who is in good shape with no major health issues is likely to receive a better “rating” from the insurance company, while someone who has a terminal illness isn’t going to be insurable.

The insurance companies also look at financials to determine whether the owner can afford the policy, while also making sure that insurability makes sense. For instance, someone who makes $50k/year without significant additional assets is unlikely to secure a $30M death benefit. At this point in life, that death benefit is likely going to be way more than the value a growing $50k salary could produce during a lifetime. However, it’s far more common that people don’t have enough insurance. We rarely see someone get turned down for asking for too much insurance. Lastly, depending on the age and health of the insured, medical testing may be required and is paid for by the insurance company. The tests are flexible and easy to set up, and we generally help clients schedule.

Process

1. We first meet with the client to obtain a general understanding of their situation and potential needs, while assessing their understanding of Infinite Banking.

2. At this point, we can help educate the business owners if necessary, and give general guidance on how this could help the business.

3. Once the business owner is ready to see more, we’ll obtain financials and some general information about the business, succession plans, etc.

4. We carefully customize a solution for the owner, generally with a few different options or possibilities.

5. Once we've had a chance to review with the owner, we take his/her feedback and revise the proposal to ensure we're achieving the business's goals.

6. Then, once we've agreed on the numbers, we'd fill out and process an application, followed by medical testing and underwriting.

7. Once approved, we'd deliver the policy, and the owner would begin paying premiums and using Infinite Banking once ready.

8. The owner then has our contact information on hand for any questions or inquiries about the policy or the business's goals as it pertains to Infinite Banking, life insurance, exit/succession planning, etc.

Q&A

Here's a brief list of Q&As. For a much more extensive list, please visit our FAQs page at downstreamwealth.com.

Q: Infinite Banking sounds appealing, but how do I find the time to manage the process with my daily operations?

A: *Infinite Banking may sound complex with a lot of moving pieces, but most of the hard work is done up front, which we help you with. This isn't a daily or even weekly process. When it comes to the management of Infinite Banking, you can automate premiums. Aside from that, any excess capital should be used to pay PUAs or pay down policy loans. Reviewing your financials once per month should be sufficient.*

Q: What if a business owner is uninsurable?

A: *Business owners can take out policies on other key persons in the company, which will give the business protection against the loss of key personnel, while still allowing the company to practice Infinite Banking.*

Q: Is Infinite Banking only for business owners?

A: *No. While we believe this is a phenomenal tool for business owners, we'd argue that this is a great strategy for pretty much anyone who is insurable. We can structure policies for juveniles to help fund their first vehicle or college, for example. Others may use Infinite Banking to finance large purchases like homes or cars. Many real estate investors use Infinite Banking to purchase and remodel properties.*

Q: Should the policy be owned by the business as a Corporate-Owned Life Insurance policy (COLI) or personally in the owner's name?

A: *There are multiple options with policy ownership and beneficiary structure, and we see different benefits for both scenarios. We can help you assess what's best for your business.*

Q: How much money do I need to start?

A: *There's no specified amount. We have a thorough process where we help business owners and households analyze income, expenses, and liquidity to make recommendations.*

Q: Does any Whole Life insurance policy work?

A: *No, these are specially designed and tailored specifically to the client. There are a lot of nuances that go into customizing the product, and if designed incorrectly, the policies may fail to achieve your objectives.*

Q: What's wrong with "buy term (insurance), invest the rest?"

A: *First, most who do buy term insurance simply do not invest the rest. This is called Parkinson's law, as mentioned by Nelson Nash in BYOB, in which people spend excess capital. Second, term insurance expires and becomes much more costly later in life. Third, investment returns aren't guaranteed. We frequently see people plow money into tax deferred accounts they cannot touch, which forces them to end up relying on costly third-party debt anyway. Infinite Banking allows you to control your banking function.*

Q: What if I already have an IUL, VUL, or UL policy?

A: *There have been many regulatory changes recently to address drawbacks of the various forms of Universal Life insurance. It may be wise to request a current in-force policy illustration from your current insurer to see whether outcomes have kept pace with the initial illustration. We are happy to review any existing policies and make recommendations, but Whole Life insurance is the only suitable product for Infinite Banking. We are happy to have a discussion on the inherent flaws in UL policy designs and help you explore options to eliminate the risks associated with various UL policies.*

Q: Can't I just borrow against real estate, a brokerage account, or a qualified plan to achieve the same objective while generating higher returns?

A: *No. The great appeal of Infinite Banking, which uses dividend-paying Whole Life insurance, is the guaranteed cash value growth, which cannot decline. We've seen real estate, stocks, and even "safe" government bonds decline precipitously numerous times. Additionally, since the lender (insurance company) is also the guarantor of the collateral, financing rates are generally much more attractive than HELOCs or* *brokerage loans, for example. Additionally, you can generally only borrow FROM qualified accounts, rather than AGAINST them, which is one of the many appealing features of Infinite Banking.*

Q: If this is so great, why haven't I heard of Infinite Banking before?

A: *We suspect that because Infinite Banking significantly reduces the reliance on traditional Wall Street banks, it's highly discouraged. However, it's quite telling that banks themselves own a significant amount of cash value life insurance as a Tier 1 asset. They recognize life insurance as a high-quality asset, but it's likely much more lucrative to charge customers annually to manage their money and retain cheap deposits used to lever up returns through Fractional Reserve Banking.*

Q: How does Whole Life insurance show on my company's financial statements?

A: *Generally speaking, businesses frequently show cash value on the company's balance sheet as an asset, and policy loan proceeds may be tracked as a separate balance sheet line item. Policy premiums are tracked on the income statement as an expense, and while there may be exceptions for your situation, these are generally not tax-deductible if we want to maintain the numerous tax benefits of Whole Life insurance.* ***However, we highly recommend speaking with a tax professional.***

Conclusion

Small businesses are the bedrock of the United States. Unfortunately, the financial system is significantly lacking in value-add opportunities for owners who want to retain control, build their business, and protect people closest to them. Infinite Banking is the perfect sound money alternative that provides business owners with a way to safely protect and grow their capital. While some may foolishly overanalyze dividend rates in an attempt to compare Infinite Banking to certain investments, we know that Infinite Banking isn't an investment. It's a highly efficient and powerful savings tool that offers endless possibilities for the many creative and independent business owners.

While Infinite Banking works for individuals, small business owners have a much better understanding of cash flow and have a much stronger need for a banking function. Additionally, the Whole Life insurance foundation provides additional benefits for small businesses that not only have financing needs but need to ensure business growth, monetization, and succession planning.

Contact

Reach out today to receive a free customized proposal for your business. You may contact us by email at info@downstreamwealth.com. For additional information, and to stay on top of our current writings, please visit downstreamwealth.com or scan the QR code below:

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