

BANKNOTES

The Nelson Nash Institute Monthly Newsletter

July 2026

IBC Is Not A Gimmick

By L. Carlos Lara

In April of 1987, a newspaper ad ran in the Wall Street Journal with the following almost unbelievable bold headlines: ***“All Life Insurance Lets You Provide For Your Children—Ours Lets You Buy Toys Of Your Own.”***¹ This ad was so ostentatious in its message that it became Exhibit A in a Senate Hearing before the Subcommittee on Taxation and Debt Management on March 25th, 1988. The final outcome of these proceedings led to a dramatic change in the Internal Revenue Code treatment of life insurance unmatched by any other since the industry’s inception.²



Now, it’s true that even our common sense tells us this advertisement is definitely talking about special benefits for the living, not the dead. So the ad does beg the question, *“Is this really life insurance?”* Furthermore, who can dispute that the ad itself is shameless, especially since Congress had just enacted the 1986 Tax Reform Act³ the year prior, seemingly closing all of the tax *“loopholes”* of the wealthy. But it seemed that by overlooking this

In this month's issue:

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remaining favorable tax treatment enjoyed by traditional whole-life insurance, Congress had somehow “*inadvertently made a generous gift to a small privileged segment of society.*”⁴ Nevertheless, some life insurance companies had placed ads such as this in major newspapers and magazines, causing the sales of the “*single-premium*” whole life insurance policy to soar. The end result was that the entire life insurance industry—and specifically the whole life product—came under federal scrutiny.

One key witness in the panel of this formal inquest—the witness who actually submitted this particular ad as an exhibit to her testimony—was the Executive Vice President of the A.L. Williams Corporation, an insurance agency specializing in the exclusive sale of term insurance and also the agency famous for the catchphrase “*buy term and invest the difference.*” She, among the rest of the 23 panelists represented, was particularly outspoken and took the opportunity to tell the members of the Senate that “[w]hen life insurance becomes a haven for tax dodgers and a means for the wealthy to avoid paying their fair share of taxes, then Congress should take action... Failure to act now is tantamount to putting the Congressional stamp of approval on these abuses.”⁵

As assertive as these documented comments were, the truth is that there is much more to this complex tax story involving life insurance and this particular marketing debacle than first meets the eye. Granted, the newspaper ad is certainly disgracefully bad and tactless, but this accusatory reference to “*tax dodging*” by the A.L. Williams company⁶ is also a bit extreme, especially when the accusation came from the organization that went on to become *Citigroup*, one of the largest commercial banks in the nation, the very same organization that was bailed out with billions of dollars of taxpayer money in the 2008 financial crisis.

Still, two wrongs don’t make a right. It’s the resulting doubt and confusion the uneducated public must contend with that creates the long-term damage. This is really how reputations can be ruined

and institutions disgraced. As usual, government intervention only makes matters worse. More often than not, we discover that government intervention is the primary culprit as it was in this particular case. The end result of this entire ordeal was that the once-invincible whole life insurance product was so maligned that it bears a stigma that lingers to this day.

In this article, I intend to highlight several of the most significant in the chain of events that led to this Senate hearing in which the *single premium* whole life insurance product was put on trial and was ultimately classified as a Modified Endowment Contract (MEC).⁷ This dramatic revision and how it came about is an important subject for all practitioners of the *Infinite Banking Concept (IBC)* simply because the underlying framework for the implementation of this *privatized banking* process is still the dividend-paying whole life policy. These historical incidents are important because they help explain why, despite its often misunderstood image, those that truly understand the unique benefits of dividend-paying whole life insurance continue to defend its merits vigorously. What we must not forget is that the practice of IBC using dividend-paying whole life insurance continues to afford us financial freedom, but with this benefit comes responsibility, especially in how it is marketed to the public. Providing guidance and educational insight in this particular area is one of the most important reasons for the establishment of the Nelson Nash Institute, along with the Authorized IBC Practitioner Program for financial professionals.

Putting The Facts In Chronological Order

This story begins in the 1960s with, of all things, a common misconception about how whole life insurance is designed and how it actually works. At that time, the life insurance industry was relatively uncomplicated and had only two life insurance products: “**term**” and “**whole life**” insurance. The only other *non-life* product was the annuity. But what many members of the general public did not

know or understand from an actuarial standpoint was that “term” and “whole life” insurance were conceptually similar products that obeyed the same rules of design and pricing.

Ironically, the same lack of understanding prevails today. Properly understood, there really is no price differential between the term and whole life products since they are both priced according to the length of time of their coverage. A term policy whose coverage is so long that the insured will almost certainly die during its term becomes very similar to a “whole life” insurance policy. Term protection for a lifetime is naturally going to be more expensive than a 10-, 15-, or 20-year term policy. Consequently, in order to provide coverage for a period spanning a whole lifetime, a *specially designed term policy* will need to be created in such a way that an actuarial relationship between the fixed premiums, cash values, and death benefit are to be “just sufficient enough, and no more, to cause the policy to *endow*”⁸ (become fully paid-up). This is not a speculative strategy, but rather a set formula designed to reach a designated end. With a whole life policy, the insurer will pay out the death benefit claim, either upon the actual death of the insured or (sometimes) when the insured reaches the designated age (originally 100 but now often 121 years) and the policy endows. Unfortunately, as interest rates rose in the U.S. due to inflation and more of the American public turned to speculative ventures, this basic knowledge about whole life’s simple protection and saving structure began to fade. In 1979, this crucial understanding was dealt a deathblow.

Our particular sordid story unfolds with Ralph Nader⁹, the well-known consumer advocate of the 1960s who agitated for the federal laws governing seat belts in our automobiles. Nader took a self-promoting stance with the insurance industry by incorrectly diagnosing that whole life insurance was an *investment* product, and as such was terrible when compared to other investment products in the marketplace that paid a much more favorable rate

of return. Since most Americans still owned whole life policies as their primary means of saving money, Nader believed Americans were getting conned by the insurance companies. He began calling for a Congressional investigation, and that’s when the trouble really started.

The 1979 Federal Trade Commission Report

By the late 1970s, when government eventually stepped in to examine the life insurance industry and the whole life product itself, the confusion surrounding it had escalated. Keep in mind that state insurance commissioners—who actually regulate the life insurance industry and have done so for two centuries—had no problem understanding whole life insurance, its mechanics, and its ultimate purpose. But now we had a *federal* inquiry made up of an assembled staff of individuals commissioned to explain to the Federal Trade Commission how life insurance works. By starting with the wrong premise, their comparison of whole life to other investment products was an unfair analysis, more like comparing apples to oranges. They only served to bewilder the investigating committee even more. Consequently, their conclusions were not at all surprising and were identical to Nader’s. According to them, whole life insurance was a bad investment with meager rates of return. Furthermore, they determined that the moving parts of the whole-life product were entirely too concealed, thus making it difficult for the investing public to make proper buying decisions. Their recommendations were that the entire industry should be reformed to provide more disclosure of the products and their internal workings.

Unfortunately, this Staff Report to the Federal Trade Commission was published in a booklet in 1979¹⁰ and, without any warning to the National Association of Insurance Commissioners (NAIC), was released directly to the press. Predictably, newspapers had an absolute nationwide field day casting whole life in a bad light with astonishing headlines such as these:

***‘Whole Life Insurance a Bad Investment,’
Yields Only 1.3% Return, FTC Reports***

– Los Angeles Times, July 11, 1979

***‘FTC Staff Says Consumers Losing Money by
Keeping Savings in Insurance Policies’***

– The Wall Street Journal, July 11, 1979

***‘Americans Lose Billions on Insurance, FTC
Says’***

– Houston Post, July 11, 1979

***‘FTC Finds ‘Whole Life’ Insurance a Bad
Investment’***

– Dallas Morning News, July 11, 1979

‘FTC Study Assails Whole Life Policies’

– Palm Beach Post, July 11, 1979

Although the NAIC and life insurance actuaries representing many of the largest life insurance carriers came back into these investigation hearings for weeks afterwards to rebut these false accusations and set the record straight, it was too late. The damage had been done. The FTC report devastated the whole life product. It plummeted from about 85% of the life insurance market in 1979 to about 50% by 1986.

Buy Term and Invest the Difference

By the time of the Senate hearing of 1988, whole life was on the ropes and fighting for survival while the entire life insurance industry was under great duress in attempting to financially reposition itself. Several carriers such as Executive Life, Integrity, and others were very obviously struggling. It was actually these companies, in desperate acts to increase premium revenue, that had placed the ads promising outlandish benefits from life insurance. In order to keep them from going under and ultimately to protect policyholders, financially stronger life companies eventually acquired them. Though this period proved to be one of the more difficult and darkest in the history of the life companies, the record shows that they adapted to the circumstances and emerged from it all financially stronger than

ever. What really exonerated whole life insurance in the eyes of the thoughtful public was the severe stock market crashes that came later.

What our readers must understand is that the slanderous remarks made by the A. L. Williams Company against whole life in this particular hearing had actually started 20 years earlier when the young A. L. Williams set out with a handful of agents to destroy it. He, like consumer advocate Nader, had failed to see that in the broadest sense whole life was in fact “*term insurance and investing the difference*” all in one financial product— but with the investing being done in a very safe and conservative portfolio, compared to equity-based mutual funds. But now all that was a moot point. The 1979 FTC Report had already made A.L. Williams a billionaire and helped lead to the surrender of millions of whole life policies because the people believed the government. In his book and in his own words, A.L. Williams wrote:

“We put the FTC report on top of every client’s kitchen table. We passed out flyers by the thousands. The report supported everything we claimed. Its credibility just couldn’t be denied. Every man and woman in A.L. Williams felt a new conviction that our crusade was 100 percent right for consumers...Consumers now knew the real story behind “trash value” life insurance. With a choice, they came to A.L. Williams every time.” —A.L. Williams, Coach, 2006

Conclusion

After the Tax Reform Act of 1986, sales of the single premium whole life product had skyrocketed among wealthy individuals for good reasons: With many “tax loopholes” now removed, people began reaping the financial protections that had been there all along with traditional whole life insurance. At the time of the 1988 Senate hearing, Williams’ organization was no longer a small group of salesmen, but instead was a nationwide network of independent businessmen and women marketing financial services in all

50 states and all of the provinces of Canada with 180,000 licensed representatives. The presence of the A.L. Williams representative at this hearing was principally to make sure whole life would not be resurrected into the prominence it had previously held.

This 1988 committee's efforts were successful in reclassifying the *single premium whole life*¹¹ product from pure insurance to a "tax preferred investment account." However, the dividend-paying whole life product for all practical purposes remained intact, complete with all of its multi-dimensional benefits. Although a one-time single premium payment into a dividend-paying whole life policy no longer avoids income taxation on the excess cash accumulation due to these hearings, it is still possible to properly structure and fund even a large whole life policy that is not adversely affected by the revised IRS rules.

When properly designed and funded, the dividend-paying whole life policy continues to have the same favorable tax treatment, accessibility of its cash values, safety, privacy, diversification away from volatile markets, guaranteed growth, stability, control and numerous other financial advantages that had made it so appealing, both historically and in particular after the 1986 Tax Reform Act. It still continues to provide the flexibility to sequester small or large amounts of money inside of it for maximum protection and financing purposes, in addition to the peace of mind that comes from protecting one's beneficiaries in the event of death.

Since IBC is the process of using a specially designed, dividend-paying whole life policy for superior cash management purposes and safety, members of the public, when ready to implement the process, are encouraged to visit the Nelson Nash Institute for a complete, truthful explanation of its theory and seek out personal guidance from an Authorized IBC Practitioner listed on our website. It is wise to make sure one implements this process with the proper product, the proper policy design, and the proper education on how it works from the

very start.

What you will most likely never see again is a life insurance company promoting these special benefits ostentatiously and recklessly. Financial professionals should be careful not to do it either. We must not forget that government is like a roaring lion seeking to destroy everything in its path through excessive regulation when given the opportunity. Let's not give them an irresponsible reason to come looking our way again with sensational and misleading advertising. No matter how "*too good to be true*" IBC may seem, it is not a financial gimmick and should not be portrayed as such.

There is one last important anecdote I should mention in closing. It was repeated frequently in the 200-page transcript of this Congressional hearing, so it merits showcasing here and is exemplified in Senator Bacchus' statement:

*"If you are going to change the definition of life insurance, I think there is a strong basis for feeling that any changes should be prospective, that prior investments ought to be protected, because that change is very dramatic."*¹²

This statement specifically refers to "grandfathering" in and protecting all those that are already on the inside and are rightful owners of a whole life policy before any new law changes are enacted. This principle of applying large-scale changes in regulatory treatment only *going forward* is often (though not always) respected when we survey the history of government intervention. So I would only add that you be judicious enough in its use to cause you to act soon. There is a bad financial storm coming. Don't be left on the outside. Get in now while there is still time.

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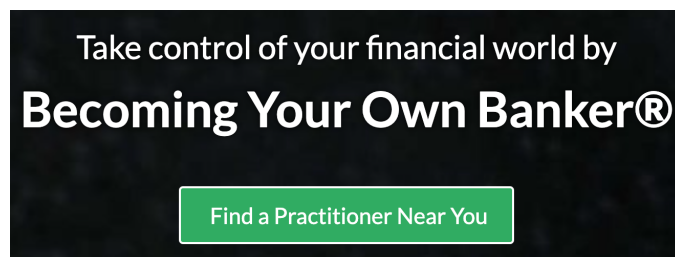
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IBC Practitioners have completed the *IBC Practitioner's Program* and have passed the program exam to ensure that they possess a solid foundation in the theory and implementation of IBC, as well as an understanding of Austrian economics and its unique insights into our monetary and banking institutions. The *IBC Practitioner* has

a broad base of knowledge to ensure a minimal level of competency in all of the areas a financial professional needs, in order to adequately discuss IBC with his or her clients. Before you look for a practitioner, we suggest listening to the following two episodes of [The Lara Murphy Report:](#)

- [How-To Guide for Starting IBC, Part 1](#) How to begin your study of Infinite Banking, including finding an Authorized Practitioner.
- [How-To Guide for Starting IBC, Part 2](#) How to prepare for your first meeting with an Infinite Banking Authorized Practitioner.

The professionals listed below renewed their membership as an
Authorized Infinite Banking Concepts Practitioner in July

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- | | |
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The Foundations of IBC is an online **video series** for the general public that provides a comprehensive introduction to the *Infinite Banking Concept*.

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