Sean Dempsey's Financial Plan

Based on Dave Ramsey Plan to Financial Peace & Nelson Nash's Infinite Banking Concept (IBC)

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Sean Dempsey

Foreword

Nothing in this article is unique. Literally nothing. I am heavily borrowing (with full credit where it is most due) from the technical and monetarist gurus whom have most influenced my life from a financial standpoint.

Dave Ramsey—who doles out solid financial advice "your grandmother would give you"—posits a plan for getting out of debt fast and reaching a state of living that allows for maximum wealth growth. At a high level he puts a plan in place whereby you "live like no one else so you may start living like no one else." Specifically, his philosophy is a super simplistic one and underscores the values of deferred gratification; if you budget correctly you won't spend outside your means. If you spend within your means and cut back on all but the most essential, you'll be able to get out of debt and accumulate wealth faster than you ever thought possible.

That said, the most powerful parts of his 7-step plan ("baby steps") are the initial 3 and a ½ steps. After that it's my opinion his plan falls off the rails and I explain why below. But that's not to say throw the baby(steps) out with the bathwater! The power and efficacy of the first 3 steps are SO incredible that even if you follow those and ignore everything else in his or my plan, you'll set yourself up for success on a level that blows 99% of your peers, family, and neighbors out of the water.

Once you get past babystep #3 of Ramsey's plan, the ***Sean Dempsey Plan*** takes a more 'radical' (though I should say "conservative") right-turn. While Ramsey advocates strongly for investments in equities (high-growth mutual funds), I find this analogous to gambling your money at a craps table. Before you gripe, I explain all this more below. So please keep reading…

My philosophy of retirement "investment" (and I use that word in quotes) involves saving for retirement through a powerful vehicle that involve actually saving (without risk of loss) and not gambling or speculation (as the stock market demands).

And more important than this, I strongly believe that the common person's need for a proper and stable means of **banking** (by this I mean a way to tap into funds for large purchases and/or emergencies) even exceeds their need for long-term wealth creation / investment. To be sure, the two concepts are of course strongly inexorably linked, but the distinction is important for reasons I'll get into later.

To accomplish my ideal form of a SAFE investment strategy and permit a means for access to capital for life's needs ("banking"), I advocate the use of Nelson Nash's Infinite Banking Concept ("IBC"). Though it is a most brilliant concept, and the innate mechanics straight-forward, it is a fairly complex concept to fully grasp at first. I'll explain in more detail below.

Some last thoughts before you read on – before reading anything further, I cannot stress enough how my words here are merely regurgitated sludge; much smarter and far more eloquent men have extoled the virtues of their respective programs in their own books. I HIGHLY HIGHLY HIGHLY recommend—no beg—that you read the following books:

- *The Total Money Makeover* by Dave Ramsey
- *Becoming Your Own Banker* by Nelson Nash
- *The Case for IBC* by Carlos Lara and Robert Murphy
- *How Privatized Banking Really Works* by Carlos Lara and Robert Murphy

Once you have read these, you will far better understand the concepts I describe below and be far more convinced by their effectiveness than my simple ramblings will permit. That all said, if you don't have the time or interest and just want the "spark notes" version of these philosophies, fine.

But fair warning: you'll be hearing through a muted amplifier a set of strategies that almost certainly will change your life forever and permit you to pay off debts faster, save more money than you thought possible, and invest far more wisely and without risk than you ever imagined…

Dave Ramsey Plan in a Nutshell

The power of the Ramsey plan isn't in its sophistication or its uniqueness; it's in the sheer audacity of its simplicity. Like a classic Beatles song or Pink Floyd album, the best was best for a reason. And you just can't improve upon a classic.

Dave has several core philosophies of his plan which I'll quickly line-item here:

- **Debt is Dumb.** Get out of debt as quickly as possible. Per Biblical teachings: "The borrower is slave to the lender." -Proverbs 22:7 (NIV)
- **Budget! Budget! Budget!** Proper monthly budgeting allows you to see where your money goes; and, more importantly, it will give every dollar a name each month.
- **Sacrifice is Key to Reward.** "Live like no one else so you can later live and give like no one else." You don't need to keep up with the Jones'. Let them be – they're broke. If you sacrifice now, you'll be in a FAR better place later.
- **Godly Financial Principals.** The Bible talks more about money than almost any other topic. Money is *not* the root of all evil; "love of money" is. Money is a tool. But like all tools (e.g. a gun or a hammer) it can be—and often is—very badly misused.
- **Giving Money is More Fun than Hoarding Money**. Amassing wealth, as Ramsey's plan allows you to do far more than you may imagine, is not to mean you hoard it all for yourself. It allows you to give it away to people, tithe, and offer it to God/others in a way that has powerful effects. Because the weak can't support the weak; you can't help someone else until you're on solid footing yourself.
- **Financial Freedom / Financial Peace**. Until you are financially free and money isn't controlling your life, you are in bondage. Getting out of debt and equipping yourself for fiscal success will lead to peace. Nothing causes more fights or destroys relationships like money (and the lack thereof).

- **Cash is King. Credit Cards are for Poor People**. **No Exceptions.** You cannot "beat" the system. There is no product in Earth's history which has been more aggressively marketed than the credit card. CC companies employ every gimmick, trick, and ploy in the book to get and keep you in debt; when you use charge-cards to pay for stuff, you pay more than you would otherwise.
    - No millionaire ever became rich with credit card miles!

The basic tenants of Dave's plan are broken down in very elemental "Steps" – he calls them "babysteps" – which are a throwback from the movie "What About Bob" (another classic). Basically, you can't get from one place to another without taking small, incremental steps.

1. Step 1 of the Ramsey plan is to ***drop everything*** and build up as fast as possible $1,000 in an intermediary "Emergency Fund."

   This allows for the miscellaneous "gotyas" that come up all the times in our lives like a car repair or a stove on the fritz. He understands and advocates the truth that you can't focus on saving or getting out of debt when you're being drowned by *life*. Getting this safety net in place allows you breathing room if/when something comes up.

2. Babystep #2 involves getting out of debt via the "Debt Snowball." This is, in my opinion, the **most important part of the Ramsey plan**. Until you're out of debt, you are essentially a slave and don't have the monetary horsepower to quickly propel you to any real level of financial freedom.

   Dave suggests listing your debts in progressive order, from smallest to largest (not including your mortgage). Ignore interest rates for now. Start paying your debts off in that order—starting with the lowest debt first—paying the minimum payments on all other debts. You want to focus on the emotional and psychological wins over a minutia of a few percentage points.

   Once you have your first/lowest debt out of the way, use the momentum (same payment amount) and add it to payment for the next debt in line. As you work the debt snowball, you'll find it'll get easier and easier as you move from one debt to the next. And make sure that any credit cards you're paying off you're then <u>cutting up</u>. In fact don't even wait to pay off the card – cut up the card NOW. The only good credit card is a cut-up and cancelled credit card. I don't care if you get 3000 airline points each purchase; you won't get rich amassing credit card miles. Getting out of debt while maintaining one or more credit cards is like trying to run a marathon while wearing metal boots. Why deal with the extra baggage?!

3. By the time you get to babystep #3 you'll have accomplished one of the most critical financial steps/goals in your life: you're now out of debt. This is no small feat. It took herculean effort! By most accounts, people spend their ***entire life*** in debt. To be debt-free makes you "weird" and goes against the grain of normal society. But now it's time to bolster up that emergency fund…

   The initial emergency fund (from babystep #1) was for the small stuff. Hopefully in your time working through #2, you didn't have to dip into it too much. But you might have to – and that puts you back to step 1 until you've weathered a storm. Going through that may make you realize that some storms are bigger than others.

To account for this, getting your emergency fund up to 3-6 months' worth of living expenses is what's next on the plan. The math for this is super easy, and completely depends upon your specific situation. If you have $4,000/mo in living expenses (food, gas, rent, etc) then you'll want an emergency fund of $12,000 – $24,000. Whether or not you air on the side of 3 months or 6 months' worth is a tad arbitrary (and depends on your tolerance for risk/safety); also, if you have irregular income (e.g. commissions, etc) you might want to air on the side of more additional safety / more savings. Make sure to store this in something LIQUID (see below).

3 ½. Ok, this is where things will start to diverge from Ramsey a bit. This is why I consider this "Babystep 3.5" of the Ramsey plan (and I'll henceforth refer to it as Step 4 of the Sean Dempsey Plan). Dave advocates putting 15% of your household income into investments. I agree some amount can go into speculative investments; however, I disagree it's 15% and I disagree with the specific investment approach.

Dave advocates in his plan a range of investment products, such as 401k, Roth IRA, and growth-stock mutual funds. Unfortunately, these asset classes all fall squarely into the category "equities" which are inherently ***quite risky***. I don't believe you should GAMBLE your retirement income in the market—where people can (and do) lose 30%, 40%…70%+ of their net worth overnight. I believe safer plays are important when retirement is at stake. This is especially important as you get older and closer to retirement.

Due to the current political and financial climate in America, we are poised for a reckoning. Our politicians, central bank, and the overall banking system have created a DECK OF CARDS ready to collapse. This is why I don't believe equities (aka "the stock market") is a healthy way to "invest" (again, air quotes) one's money. At best, this is speculation. At worst, this is just gambling—pure and simple. Read my article linked to above for more info on this, as there is a lot more to this than just words. But our country's debt, inflation, and the various bubbles we're in, all paint a single picture: collapse (e.g. recession…or even a depression). I don't want to be caught in it when it happens, and it WILL happen it's just a matter of WHEN.

Timing the market place is not something anyone can do, so a sound retirement investment and savings approach is one that that weathers storms without causing you to lose your shirt. The pundits will say "well, you're giving up on huge potential returns by not being in the market" (which is true, to a point).

Ramsey and other financial advisers will quote "average returns of 11%+ interest rate" when you keep money "in the market." But the part they are not factoring in adequately is the sheer amount of risk being taken on given the current ***CLIMATE*** of rampant debt and the FED's interest rate and money supply manipulation.

My main objection with "average rate of return" statistics commonly cited when examining benefits of putting money in the market is that it technically accurate but largely ***inaccurate from an investment principal perspective***. The average rate of return over a period does not measure the correct thing – the RATE itself doesn't matter; what

matters is the impact on the investment balance during that same period of time ("real return"). This is completely dependent on when you got in and the timing involved.

For example, assume someone told you they put $10,000 in the market and kept it there for 4 years (without investing another penny). They then said they made a -10% gain in year 1, +40% in year 2, -90% in year 3, and +125% in year 4. The *average* return percentage over that period (4 years) is fairly easy to compute. It's +16% on average over those 4 years.

That's a pretty awesome rate of return, right? 16% would be a great return to receive. However, consider what this means: it is NOT the consistent rate of return. It's the average (meaning some years were way down, and some were way up). Standard logic people often quote when investing money in the market long term: "there may be some up years, and down years, but overall it'll all balance out." Well does it?

Let's now track the actual ending balance (after 4 years that is) of the $10K investment. Again, the math is fairly easy:

Year	Loss/Gain	Balance
Year 0: Initial Investment.		$10,000
Year 1: Loss of 10%. Boo.	-$1,000	$9,000
Year 2: Gain of 40%! Yay!	+$3,600	$12,600
Year 3: Loss of 90%! Yuck!	-$11,340	$1,260
Year 4: Gain of 125%! Amazing!	+$1,600	**$2,835**

This basic (albeit over-simplistic) example is very interesting. We can agree the AVERAGE rate of return over the 4 years was +16%. However, despite this, the investment of $10K dropped to just $2,835 after the conclusion of 4 years. The REAL rate of return is -72%!

So average rates of return are quite telling—in how little they tell you. They tell you nothing about how your investment will fair over a length of time. The primary reason for this is simple: because the rate or return on risky investments like equities can often be **negative** (due to "busts" in the marketplace aka 'bear markets') it can take many years or even decades to recover! Whoops, looks like you didn't time that well. Hope you don't have to retire anytime soon…

But wouldn't it be better to invest money where the value of the investment can only go UP and never go down? When preparing for something like retirement wouldn't that be preferred?

Nelson Nash's IBC Plan in a Nutshell

Everything from this section onward assumes you are out of debt (completed baby step #2 above). I will now explain and attempt to distill the concepts and philosophy of Nelson Nash and his Infinite Banking Concept (IBC). It may sound complicated as you get into the weeds, but it is fairly straight forward.

The core concept here, before we get into the particulars, is understanding the purpose (goals / objectives) we are trying to accomplish. This is important before going forward:

1. **Better retirement planning** that doesn't involve putting money in the wall street casino but maintains TRUE compounding of your principal/investment.
2. **Access to capital** ("money") quickly for things like buying a car, unplanned life events (weddings, funerals, medical issues, etc etc), or even opportune investments you can't pass up. CRITICAL REQUIREMENT: must not require onerous collateral / liens.
3. **Becoming your own banker** so you can benefit from the tremendous profits generated by the banking sector. Get involved in the banking business and pay yourself instead.
4. *(less important but still a moral benefit)* **Removing yourself from the corrupt banking industry** so that the issues perpetuated by the banking sector are reduced (more on this later).

Ok, so let's tackle these objectives one at a time. First, since I've already explained the hazards of the equity marketplace (above), let's continue the discussion by providing an alternative for where to put the bulk of retirement savings.

Conventional wisdom (at least that provided by financial wizards over the last 30 years) continue to push equities hard because of the need to beat inflation. As an aside, inflation wouldn't be so high if Nixon hadn't gotten us off the gold standard and also if the FED didn't continue to mess with our money supply. But that rabbit-hole aside, the most conservative and traditional vehicle for saving money has existed LONG before the stock market came into being. It's the standard, plain, old, vanilla **Whole Life Insurance Product**.

Whole Life Insurance Explained

Now, when most people think of life insurance they don't think of savings or investment at all. How can you *save* money in your insurance policy?? It's there as a last resort, not any sort of asset, right?

Well, no actually - not always. When most people think life insurance they think of 'term insurance' (i.e. a fixed term/length of insurance, e.g. 20 years). Term life insurance functions the same way as other insurance, such as car insurance, fire insurance, etc. Both the insurance company (and you, the policy-holder) are betting you never have to use it.

For example, if you pay for a 20-year term life policy when you're 30 years old and if you happen to die before you're 50 then your beneficiary(ies) get the slated death benefit defined by the policy. But if you don't die, then the insurance company gets to keep all the premiums you paid. But if you then try to sign up for a *subsequent* 20-year term once your first term policy ends, it is understandably far more expensive.

However, whole life insurance is different; as the moniker implies it is for your WHOLE life. So the insurance doesn't cancel and rates don't increase after a certain period of time—even if you get terminal cancer, start smoking, take up spelunking, etc. You will get paid a certain amount no matter what—either upon your death or when you reach age 121, whatever comes first. No other product is

quite like this and because of that whole life insurance is an asset you can use for banking, as you'll see further below.

Dividend-Paying Whole Life Insurance as an Investment Vehicle

Since the insured (the person being insured by the policy) WILL be paid out at some point (i.e. everyone dies), the insurance company has a liability on their books – they have a contractual obligation to pay out the death benefit at some point. So each premium payment made is building up **equity** in the policy. This is very important, because this equity amount (just like a mortgage, for example) is getting closer and closer each month/year to being fully paid up. And each year it is collecting interest on the cash amounts put in, plus any additional dividends.

The amount in your policy can NEVER go down and never lose value—no matter what the market is doing. The dividends paid may fluctuate from year to year, but the growth in the account can only go **up**, never down.

NB: to maximize dividends you will want to use a mutual insurance company, which means the policy-holders are the owners of the company. This is the best way to implement the IBC strategy, as it allows you to re-invest dividends into additional "paid up insurance," which will increase your cash value each year!

Tax Benefits of a Whole Life Policy

What's also worth noting is the tremendous tax advantages of the whole life instrument. Since your investment in one is made post-tax, both the dividends paid out as well as the policy payout(s) are not taxable. This makes it an incredible tool for investment, especially if you believe (as I do) that income tax rates in USA will continue to rise due to our country's constant pull toward socialism.

I'll say again: when you pull out money from the policy in your later years (65+) your draw (in the form of policy loans – see more below) will all be completely tax-free! Assuming the income and capital gains tax rates will be higher in 30+ years, this is a very good thing!

Dividend-Paying Whole Life Insurance as BANKING Vehicle

A contractual feature you have as part of your policy is the ability to take out policy loans from the cash value you have accumulated in the policy. Remember: the policy is an asset on your "books" and a liability on the books of the insurance company. So you can withdraw against it, and the best (safest) thing the insurance company can do is make you a loan because IT ensures the collateral (the death benefit).

And an incredible feature about the nature of a policy loan is it isn't actually "coming out" of the policy itself—it's essentially a loan 'on the side' while your principal continues to bear interest and dividends!

The loan has no debt terms, no payment schedule, and no additional collateral (other than the death benefit). What this means is you may choose NEVER to pay back the loan if you don't want to. Unlike a conventional bank loan, there is no lien against an asset like your house or your car when you purchase something with the loan. They won't even ask you what the loan is for – it's your money and you can do with it what you want, including not pay it back if you choose not to.

IBC Process in Greater Detail – "Playing Honest Banker"

However, choosing not to pay back your policy loan(s) does not make you more wealthy, as we want to do. It may be a great "perk" of your policy, but Nash talks a great deal about playing "honest banker" with yourself. He actually says when you practise IBC it means you take on another job and will always have two (2) jobs: your primary vocation (e.g. teacher, consultant, plumber, etc) AND your second job: a banker. It's this second job that allows you to collect interest and PAY YOURSELF what you might have paid the next best alternative (a bank) for a loan. Allow me to explain:

Let's say you invest $10,000/yr in a whole life insurance policy. This is now "your bank." You do this for 6 years, and accumulate (with interest and dividends accounted for) ~$70,000 in your cash value. Now you need to purchase a new $35,000 truck. You have a few options.

1. You could pay cash (if you have it – but many people don't!) And, even if you do, the cash you're giving up on other things (opportunity cost), such as other investments or areas where cash might be more useful.
2. You could take out a loan from a bank at let's say 5% APR for 5 years (with the truck as the collateral on the loan). Or …
3. You could take a policy loan out of your whole life insurance at 2% (fyi policy loan rates are traditionally much lower than traditional market rates) with no terms other than your promise (***to yourself***) to play honest banker.

Let's explore option 3. If you take the loan out for $25,000 @ 2% from your policy, you should then come up with a plan to pay that back NOT at 3% but instead at 5% over 5 years (just as the car loan with a bank would have you do)!

In other words, you'll pay off the loan but pay MORE interest on the loan than needed. The difference you're paying (+3% APY each year) you're paying YOURSELF. You're becoming your own banker by paying yourself the difference in interest between what you should pay (but don't have to) and what you would have had to pay the bank if you didn't have a whole life policy at all. That additional 3% extra sis being used to purchase additional insurance (these are called "paid up additional insurance"). It'll increase your cash value and greatly improve the value your asset!

If you do this a few more times and follow this same process (e.g. for additional car purchases, annual business taxes, weddings, etc etc) the benefit will just keep getting better and better. Your cash value will continue to rise as your second "banking business" takes off. You're investing all that extra money in yourself / your long-term policy. The more you borrow (and pay back with extra interest), the more your asset grows as the IBC process grows your investment.

Removing Yourself from the Banking System

The tangential benefit of using the IBC process and becoming your own banker is that you'll have effectively (in all or in part) removed yourself from the banking sector. Why is that important? Because the nature of the banking sector is morally corrupt in how it doles out loans.

For every single dollar a bank takes in deposits, it is able to loan out 10 dollars in loans. In this way it essentially creates (out of thin air!) new money. This corrupt process is called "fractional reserve banking." Austrian Economists like Ludwik von Mises explained that this is what contributes the "boom and bust" cycle aka "the business cycle." In other words, the reason we tend to to have 5-10 year booms

in our economy and the stock market and then these giant CRASHES is because of the business cycle perpetuated by fractional reserve banking.

Austrians like me feel that the fractional reserve banking system is immoral, creates a moral hazard, and thus any way to remove yourself from it a positive thing. For more information on this, please read the book "How Fractional Reserve Banking Really Works" noted above.

Key Financial Lessons of the Sean Dempsey Plan ("Spark Notes")

If you glazed over the above 8 pages, feel free to read my summary points below.

- The Ramsey plan is tremendous for getting out of debt and getting yourself on a sound financial track
- Building and maintaining a monthly budget ensures financial peace and long-term flexibility
- Debt retards and prevents financial freedom.
- RUN, don't walk, from debt of all kinds—especially credit cards
- Investment in the market (i.e. IRAs, Roths, 401K, 403B, and Stocks) are foolish investments tantamount to gambling ***given the current political and economic climate***
- A wiser investment (and means to become your own banker) is a Dividend-paying Whole Life Insurance Policy with a Mutual company
    - A whole life policy will pay contractual interest payments each year; the cash value can never go down, meaning perpetual compounding (which you won't find in the market)
    - A whole life policy with a mutual company will surely pay dividends each year as well
- Store your emergency fund (baby step 3) in a whole life insurance policy. It's liquid and a great way to build up the bulk of your policy.
- Using the whole life insurance product as the VEHCILE to handle your banking needs allows for financial freedom and flexibility.
- Using whole life policies in the way defined above makes "Whole life insurance" really a misnomer; it is really better titled "a powerful banking vehicle with a death penalty bonus on the side."
- Using the IBC process allows you to remove yourself morally and literally from the corrupt banking sector
- Using IBC means you won't have to deal with the potential of falling on bad times and having to forfeit your car, house, or other asset to a bank. Bankers are your best friend…until they're your worst enemy.