Jeanettes's Banking System

By R. Nelson Nash

My oldest grand-daughter, Jeanette, finished Nursing School in May of 2003. She got a job right away. She bought her first car, a Toyota Celica, for $21,500 and paid cash for it with a policy loan on a policy her parents bought on her when she was 2 years old. (I bought one on her at the same time that is three times greater premium).

Jeanette set up an amortization table to repay the loan over five years at 10% interest. In making the "car payments" she is even accelerating her own high interest schedule. This means she is going to repay the loan "before she runs out of the amortization schedule."

If she doesn't finish the schedule -- then she is "stealing from her banking system." This means -- sometime in the next five years -- she needs to see a life insurance agent and buy another policy to accommodate that extra money she is paying on her car. The earlier she makes that move, the better, because the earlier you start a policy and the longer it stays in force, the more efficient it gets.

When she completes the schedule, she will have proved to me that she fully understands the essentials of "being your own banker." She will have "graduated from the Nash School of Finance" Summa cum Laude! At that point I will give to her the policy that I bought on her when she was age 2. My wife will have to join me in the gift and we will have to spread it over more than two years because of the IRS gifting limitations.

(Note: at this point she will have at least three policies.)

When she buys the next car, she simply repeats the process.

When she is 40 years old, we can assume that buying a house is a high priority in her financial life. All she has to do to pay cash for it is call her life agent and say, "*Get me a policy loan of $350,000 on my policies*." The agent needs to deliver the checks -- along with an amortization table for 30 years at 10% interest. (The more interest she pays her banking system, the better, because she will get back all her cost basis at retirement time, tax-free!).

The agent also needs to tell her, "*Jeanette, your next door neighbor bought his house last month -- and he had to pay $12,000 in closing costs. You didn't have to do that! To play 'honest banker' with yourself, you need to pay $12,000 back to your policies now to emulate what everyone else has to do in such transactions.*"

This all means that she is going to pay off that "house loan" before she finishes the 30 year schedule. And this means she must buy another policy to accommodate that extra cash flow. And, remember, the earlier she does it, the better the whole system performs.

NOW -- when she gets to be 70 years old, she can stop all premium payments and begin to withdraw dividend income in the neighborhood of $150,000 for the rest of her life. This won't diminish the death benefit of about $3,000,000 regardless of how much longer she lives.