How Will a Declining Dollar or Inflation Impact Bank On Yourself?

Some people have been asking how the life insurance policies used for Bank On Yourself will hold up if the value of the dollar declines or inflation increases.

Here are some answers:

1. The insurance companies used for Bank On Yourself have most of their investable assets in long-term, high-quality bonds. Long-term bond interest rates are generally going to increase when prevailing money rates increase due to inflation. Thus, if inflation drives up interest rates, policy dividends may increase, too. This is precisely what has happened during high inflation periods in the past 40 years.

So, your policy cash value could help you keep up with inflation as well or better than most other vehicles you could put your money into. And, you have an added advantage over investments such as real estate, stocks, bonds and mutual funds, where you may not only lose the purchasing power of your money, you could ALSO lose your dollars, if the value of the investment goes down.

The value of having money in a policy is that you HAVE the money, it will continue to grow, and it will be available when you need it.

Having the money allows you to take advantage of opportunities as they present themselves, in any economic environment. Furthermore, the death benefit minimizes the risk of exploring some of these opportunities, because using your money in the policy does not necessarily jeopardize the security of your family.

In fact, if you want to, you could build up equity in a Bank On Yourself-type policy, borrow your equity and invest it in something you believe to be a good hedge against a declining dollar. That gives you the security of knowing your policy is still growing, regardless of the outcome of your investment.

2. These policies are designed to become more efficient every single year you own them. The growth of both your cash value and the death benefit is guaranteed AND exponential, which in and of itself gives you some protection against inflation.

With a term policy, your death benefit stays level, and thus loses real value every single year. And you have nothing at all to show for the premiums you paid, unless you happen to die during the term of the policy (and studies show only 1% of term policies ever pay a claim).

3. Your premium is fixed. So if inflation does become a factor, you will be paying premiums with ever cheaper dollars.

4. With a dividend-paying whole life policy, you avoid the risk and volatility of investments often thought of as hedges against inflation, such as gold. Gold hit a high in 1980, then plunged and did not return to that level until 2006 – a full 26 years later!

And that doesn't even take into account inflation of over 100% over those 26 years (according to the US government's own data). If you factor in inflation, even after breaking through the $1,000-an-ounce level in 2009, gold has STILL not even come close to keeping pace with inflation since its high in 1980!

5. The value of the dollar may NOT continue to fall. The current economic environment can change any time, and it can turn on a dime, as it has in the past. We are a global economy, and the actions of other nations impact us, as well.

In an article from MoneyCentral (MSN.com, on October 13, 2009), it was reported that central banks in numerous Asian countries were "actively buying dollars to check its fall against their currencies."

Why do you think they would do that?

The reason given is that their exporters "can't handle a drop in profitability and competitiveness," if the dollar drops too far. Their prosperity has been in part due to a strong dollar, and "they aren't going to give up all that easily."

And, as the New York Times reported on October 18, 2009 ("Amid Dollar's Decline, Hopes Rise for U.S. Exporters"), there's an upside of a weak dollar: It benefits the American economy by aiding long-suffering manufacturers and rebuilding a stronger industrial base.

The point being that it's not a black-and-white issue and no one can accurately predict what will happen.

Since you must "park" your money SOMEPLACE, you would be hard pressed to find a safer, more advantageous place to put your dollars – in good times or bad – than in a Bank On Yourself-type policy.

Please let me know if you have any questions or comments.

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