THE LIFE INSURANCE INDUSTRY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ANTITRUST AND MONOPOLY

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

NINETY-THIRD CONGRESS

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THE LIFE INSURANCE INDUSTRY

TUESDAY, FEBRUARY 20, 1973

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY
OF THE COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 2228, Dirksen Senate Office Building, Senator Philip A. Hart (chairman of the subcommittee), presiding.

Present: Senators Philip A. Hart and Roman L. Hruska.

Also present: Peter N. Chumbris, minority counsel; Charles Bangert, general counsel; Dean E. Sharp, assistant counsel; Charles Kern, minority counsel; Patricia Bario, editorial director, and Janice Williams, clerk.

Senator HART. The committee will be in order.

Permit me a brief opening statement. More than 300,000 times a day, all year long, American consumers pay a bill without having more than a somewhat vague idea of what they are buying.

If this were the result of flimflam, enforcement agencies would have been all over the sellers years ago. But this is not intentional flimflam—it is as the man in "Fiddler on the Roof" explained away so many things—"tradition."

These 140 million consumers, at an outlay of about $23 billion a year, are buying life insurance policies.

Many years ago, when life insurance was born, a consumer knew what his annual premium bought; a guarantee that on his death his heirs would receive x amount of money. This money generally was to compensate heirs for the loss of income due to the breadwinner's death.

As the years went on, insurance companies devised the level-premium method, which added a savings element to the insurance or death protection. The companies thought the idea would have consumer appeal, and would protect against the companies ending up with only the worst risks. And the facts seem to suggest the companies were right.

Of the total 20 million new ordinary and industrial life policies bought in 1971, less than 1 in 10 was the old-fashioned term protection.

But while the policies became a package of savings and protection, the premiums stayed a single unit. Thus, the vast majority of consumers today are putting a part into savings, and a part toward death protection when they deposit that premium. But no one is telling them how much goes into each category.

Obviously, as the convening of these hearings shows, I have the feeling that it is time that perhaps someone did. And this is a philosophy shared apparently by a number of others that we will hear during this opening set of hearings.

There is an antitrust concern over the way the life insurance market operates today. In our system, the consumer is supposed to reward the good performers, and encourage the poor to do better. He does this by his purchasing decisions. That is what competition is all about. But pity the poor consumer attempting to do his job in the life insurance market.

Today, 1,805 companies offer so many different life insurance policies that no one has been able to count them all. One student found that 185 companies offered 21 different varieties of just term insurance.

This is supposedly the simple kind of policy to buy.

The situation gets even more confusing when a consumer is shopping for a savings type policy.

If the consumer cannot perform his function, then we can be assured that the marketplace will be filled with inefficiency and overcharging.

But there is a deep social concern in all of this, too: the impact on the ultimate consumer, usually widows and orphans.

Not only as a group, but individually, consumers spend an impressive amount of money for life insurance over the years.

One survey showed that of insurance-buying families in the income bracket of $7,500 to $15,000 a year, 41 percent were paying from $200 to $499 yearly, and 8 percent were paying from $500 to $999 a year.

Assuming a new 25-year-old father in that 41 percent took out a straight life policy the day his baby was born and kept it until his own death at 65, his total premium outlay would be $8,000 to $20,000.

I am sure many of us would agree that that could be money very well spent. For—as evidenced by the fact that about two out of every three Americans have life insurance—most of us think it is responsible to provide for those we leave behind.

But the fact is that—despite the impressive outlays—the average family gets little money when the breadwinner dies.

The average face value of a group life policy is $7,130. For individual ordinary life, it is $6,450, and for an industrial life policy it is $520.

About two-thirds of the new ordinary life policies on adults written in 1971 were bought by those in the under $10,000 income bracket, about the average income for an American family. A recent life insurance study shows that 52 percent of the widows surveyed received less than $5,000 from their husbands' group and individual ordinary life insurance.

In a country where it costs about $50,000 to raise a child to the age of 18, it would suggest that the average family is grossly underinsured.

Now, this subcommittee is interested in finding out if accurate, clear, and meaningful information in the hands of consumers would improve this situation.

We are concerned, also, naturally, about restrictions on the competition which come from State laws and regulations, and perhaps from industry activities.

And it is for these reasons that we are gathered here today, and the days ahead.

Senator Hruska, I know, is obliged to leave for another meeting. I wonder, at this point if you would care to make any statement.

Senator HRUSKA. Thank you, Mr. Chairman.

The other meeting, which I feel compelled to go to, is a meeting of the full Appropriations Committee, at which time we will have the Secretary of the Treasury and the Director of the Budget before us, and, of course, that is foundation to our virtually hundreds of meetings later in the year, and I should like to be there.

I want to commend the chairman for initiating and sponsoring this inquiry into the life insurance business. It is a very large, massive program in America, very vital, and very influential in many, many ways. And it is considered in the world to be one of the better, if not the best, insurance systems that we have that is known to advanced or improved nations.

In these hearings, however, I would not be prepared to say that all of the evidence will be good, because I have read some of the statements, and I don't agree with many of them. And I don't think they will bear the glare of such cross-examination as we expect to make from time to time with the idea of reaching a clear, enlightening informational basis on which to form judgments in terms of either legislating or not legislating as a National Government.

All of us know that since the inception of insurance, we have had regulation of insurance by State departments, and when the Supreme Court reversed by judicial decision, that jurisdiction, and said it's also business in the sense of being interstate commerce, and, therefore, within the jurisdiction of the Federal Government, Congress, 25 years ago, promptly responded by saying, "As long as the States will regulate insurance, the Federal Government will stay out of that field." And that is the national policy today.

So that for a hundred years we have had this policy, and it has a good basis, it has a firm basis that has not been dispelled by the passage of time.

In fact, the province of the Federal Government has widened. There are even more salutary and sound rules for retaining State regulation in this field rather then going into Federal legislation.

But the big part of the hearings, I think one of the most significant things will be that we will be able, under the testimony when it is all in—not these first 2 or 3 days but when it is all in—the overview will show exactly what life insurance means, how it really functions, where the frailties are.

The frailties, I do believe, the record will show in due time, will not be so much in the insurance industry as perhaps with the watchfulness, the alertness, and the capability of the citizenry to understand what it is buying.

There are very few contracts entered into that are lifetime in character. Life insurance happens to be one of those. So that when a 5-year-old child is insured, or a 20-year-old man or woman is insured, that means anywhere from 50 to 75 years of contractual relationship, intricate, complex, heavily regulated by statute and by regulation of the insurance departments and, therefore, difficult to understand.

And so that when we encounter areas in which there are, perhaps, what we would call "inadequacies," we must assess those inadequacies

and find out where is the trouble, and what can we do to help, and what should we not do that might possibly be detrimental to the interest of the consumer by way of fastening additional responsibilities or burdens without corresponding benefits coming from them.

Mr. Chairman, I have a formal statement that is now in the final stages of perfecting, and I would like to submit that at a later time for the record.

As of now, I would perfer not to take more of the time of the witnesses.

Senator HART. Thank you.

The statement will be printed at this point in the record.

[The document follows. Testimony resumes on p. 6.]

FORMAL OPENING STATEMENT BY SENATOR ROMAN L. HRUSKA, RANKING REPUBLICAN MEMBER, SENATE ANTITRUST AND MONOPOLY SUBCOMMITTEE

Mr. Chairman, I want to commend you for initiating this inquiry into the life insurance business. Life insurance holds a commanding position in the trade of our nation and it has become one of the largest and most significant branches of commerce and industry, affecting directly so many people in all walks of life. It touches the home, the family, the community, the business of most of our people.

The insurance industry recently appointed a Joint Special Committee of Life Insurance Costs to consider the method or methods that a prospective buyer of life insurance may find most suitable for use in comparing premiums, dividends and cash values of comparable policies that are offered by different life insurance companies.

The Joint Special Committee issued a report on May 4, 1970 reviewing a long list of cost indices possibilities. Three major methods were submitted:

A. Methods that determine an insurance cost index, having assumed an interest rate.

B. Methods that determine an interest yield rate, having assumed a cost of insurance.

C. Methods that relate the values of amounts paid by the company to amounts paid by the policyholder.

It was interesting to note that the methods that determines an insurance cost index, having assumed an interest rate had the most serious discussion, with several variations from the traditional method, the interest-adjusted method to the Professor Joseph M. Belth's level price method and the present value of premiums method developed by C. L. Trowbridge.

Experts in the life field differ widely as to which method is more desirable and necessary. Each has differing ideas as to the harmfulness of the various plans or to their usefulness.

Yet we in Congress are being asked among our numerous other duties to consider acting by way of a choice of one single method which will be required of and imposed upon all companies, agents, and insurance buying public.

A complex problem of highly and widely varied nature; mathematical, actuarial, scientific, psychological, marketing procedures, economics, investment.

All of them in worlds and in lines of endeavors in which we have small, if any, expertise; in which we have small, if any, practical experience.

We are asked to prescribe a specific form and the numbers which go into it. We are asked to make illegal and punishable the inclusion or disclosure of certain other numbers. We are denying to applicants information which they should have and which they are entitled.

Congress is being asked to govern the functioning of day-to-day operations in millions of solicitations and sales transactions daily in 50 states by over 500,000 presently licensed life insurance agents and their practices.

To accomplish the above, Congress is being asked: to police these efforts; to enforce compliance with provisions of a statute; to prosecute with civil and criminal penalties for infractions; to add to duties, responsibilities, expenses, personnel, and burdens of a federal governmental structure—already overladen in all of these respects, and to add even more cases to congested federal court calendars.

Invalued are fundamental, basic and long held principles of business, commerce, and government which have been adopted, established and pursued with deliberation and for many decades. And with success, plus prospects for even greater advantage to all immediately concerned and to the entire nation's economy and well-being.

Chief among these principles is one resident and explicitly contained in the McCarran-Ferguson Act—enacted over 35 years ago by the Congress.

In it is the direct and vigorous message and declaration that "the continued regulation and taxation by the several states of the business of insurance is in the public interest."

Under that Act, the "business of insurance" plainly includes the relationship and activity between insurance companies and policy holders, the type of policy which can be issued, its reliability, interpretation, and enforcement.

The Supreme Court has included within the phrase "business of insurance" the fixing of rate (United States vs. South Eastern Underwriters 322 U.S. 533, (1944)); the selling and advertising of policies (F.T.C. vs. National Casualty Co. 357 U.S. 560 (1958)); the licensing of companies and their agents (Robertson vs. California 328 U.S. 440 (1946)); and others.

So for over a century our national policy has been for regulation and taxation by the several states of the business of insurance. That policy is grounded in deliberate Congressional enactment. The reasons for it have been amply stated in the legislative history on McCarran-Ferguson Act, as well as in Supreme Court opinion. Those reasons and the rationale of the Act are still applicable today.

But now we are being asked to change all this. We are being asked to liquidate the McCarran-Ferguson Act. Only as to the life insurance business in certain of its aspects but no one need delude himself—it would be succeeded by additional aspects in short order—it was Justice Harlan, who wrote in F.T.C. vs. Travelers Health Association:

"One innovation with the Act (McCarran-Ferguson) is apt to lead to another, and may ultimately result in a hybrid scheme of insurance regulation bringing about uncertainties, and possible duplications which should be avoided."

It may be argued that the present system of state regulation has been failing in regard to life insurance cost indexes and related items, and hence federal jurisdiction should attack. The Supreme Court disposed of this type of reasoning in its opinion in F.T.C. vs. National Casualty Co. by ruling that it is the *existence* of state regulatory legislation and not the effectiveness of such regulation, that is the controlling factor.

But there are other reasons why national legislation should not preempt the field and intrude upon territory heretofore reserved for state action.

1. Enforcement. If any statute is needed in this particular, the state is in a better position to formulate, administer and enforce it than the national government is:

(1) A state is in close proximity to the people and transactions affected;

(2) The States have the machinery—laws, personnel, and expertise—which are required for understanding and enforcement of our laws or regulations. The federal government has no such machinery or means;

(3) The States have a more effective motivation to do a good job. Their Insurance Departments, Commissioners and staffs are located among the people they serve;

(4) The States and their Departments have demonstrated repeatedly and often, their responsiveness, capability and flexibility in treating with familiar problems. They have done it through the National Association of Insurance Commissioners; through Convention Examinations; through model laws they have sponsored, and in a host of other ways. In fact, even in this very field of life insurance cost estimates, the life insurance industry has been fruitfully active as will be shown when representatives of the Joint Special Committee on Life Insurance Costs testify later in these hearings. The Report it has prepared and published will prove to be very helpful indeed.

(2) Revenues. There is another inducement and motivation which States have in the premises. It is one especially compelling since it hits at the purse—the revenues—of each State. I have been informed that the fees and taxes enacted and collected by states from insurance companies is in the range of a billion dollars annually.

There is awareness that state-federal hybrid or dual regulation of insurance will soon edge states out of the picture entirely. The nature of federal jurisdic-

tion is to encroach, to dispossess, to pre-empt, till it is in entire, monopolistic control. That means a cut off of state tax revenues if the states no longer render regulation.

Even from the standpoint of revenue alone, it seems ironic that in these days of revenue sharing concept, partially in force and rapidly gaining greater favor, that such a momentum would be arrested and reversed at a billion dollars annual rate.

But revenue sharing is only one aspect of a large, steady wave of the future.

More and more it is becoming apparent that the federal government is ill-advised to reach out and grasp for additional power in such matters as these.

Senator HART. I would like to reinforce one point that Senator Hruska made. Getting an overview of anything is tough, if it is more complicated than 2 plus 2; and most things are.

I think an overview of this picture will be as large an assignment as most people have been given, and I hope that we can, at the conclusion of what may appear to some to be rather drawn out hearings, have a record that will permit informed third parties to make a wise, prudent judgment with the overview.

That should be our objective. It is.

Our first witness is Mr. Ralph Nader, one of the few Americans about whom it truthfully may be said, needs no introduction.

STATEMENT OF RALPH NADER; ACCOMPANIED BY PETER J. PETKAS, ASSOCIATE

Mr. NADER. Thank you, Mr. Chairman.

Distinguished members of the Senate Subcommittee on Antitrust and Monopoly, thank you for your invitation to testify on the competitive aspects of life insurance and the consumer interest.

Accompanying me today is my associate, Peter Petkas, who will be pleased to answer additional questions after the summary of the testimony.

I would like to submit the whole testimony for the record with your permission, and summarize it so that we can perhaps have more time for questions.

Senator HART. Let the prepared testimony be printed in the record in full. We welcome this summary.

[The statement follows. Testimony resumes on p. 19.]

STATEMENT OF RALPH NADER

Mr. Chairman, distinguished members of the Senate Subcommittee on Antitrust and Monopoly, thank you for your invitation to testify on the competitive aspects of life insurance and the consumer interest. Accompanying me today is my associate, Peter J. Petkas, Esq.

These hearings, which you have scheduled, are the first comprehensive investigations into the life insurance industry in the history of the United States Congress. It would therefore not be excessive to regard your Subcommittee's effort as one of historic proportions. This is the case both with regard to its resultant impact on this gigantic aggregation of capital and the millions of policyholders and beneficiaries whose reliance on the industry, in return for ample payments, has not been reciprocated with the trust that is its legal responsibility. In this period of disclosure of consumer abuses, from automobiles to drugs to food to loan transactions, few industries averted the scrutiny of Congressional committees such as yours. Partly because of historical accident awarding jurisdiction to the states and partly because of the focus of government attention on auto insurance reform, the life insurance industry is, perhaps, the last giant industry to come under the legislative microscope. Its contrived complexity, secrecy and public relations have fulfilled a strongly supplementary camouflage function. Hidden behind this camouflage, are two principal levers of maximizing life insurance company profit or surplus—deception, and ironi-

cally, gross waste. Neither redounds in any way to the consumer's benefit. For almost seventy years the life insurance industry has been a smug sacred cow feeding the public a steady line of sacred bull.

The scope of the inquiry before this Subcommittee can be encouraged by the size of the population concerned and the magnitude of the monetary stakes. About 140 million Americans are covered by some form of life insurance sold by this $235 billion asset industry. Total life insurance in force at the end of 1971 was $1.6 trillion. There is now over $789 billion worth of ordinary life insurance in force and the industry's five top companies (Prudential, Metropolitan, Equitable, New York Life and John Hancock) share over 41% of this total and control over 44% of the assets of the entire 1805 company industry. According to a 1961 National Industrial Conference Board study more than 5½% of total consumer expenditures went to life insurance companies. Last year, the industry reported $23 billion in premium receipts. An additional $13 billion a year is now going to these *same* companies in the form of health insurance premiums. The lion's share of these premiums go to a handful of companies.

No other concentrated group of corporations, except the auto manufacturers, claim a larger share of the consumer dollar. Unlike the auto companies, however, there is likely to be a greater *potential* of divergent views or dissent accessible to this Subcommittee, particularly if the united-front-minded trade associations are advised to avoid undue pressuring against the coming forward of any smaller companies or employees who have such divergent facts and judgments. There are also some companies whose prices for equal benefits are considerably lower than the giants in the industry—a phenomenon which provides important data about the uses of secrecy and the need for disclosure of comparable value to the consumer, as Professor Joseph Belth has demonstrated in his new book.

In a superlative of duplicative atrophy, the entire life industry is "regulated" by 50 different state insurance departments plus the District of Columbia and Puerto Rico. As a practical matter, it is exempt from antitrust regulation and from other federal consumer laws. Remarkably, there has *never* been a systematic investigation of competition and concentration in this industry by any federal agency or by Congress or by the academic community.[1] It would be accurate to say that the states have contributed very little to this subject as well, except for some materials in the Armstrong Committee Report (of the New York State legislature) in 1905. These hearings will have to pioneer this enormous task.

AN OVERVIEW

Mr. Chairman, here are some of the findings of our present testimony.

1. Life insurance tragically *fails to sufficiently protect its ultimate consumers*—the widows and children—from the financial risk of premature death of the breadwinner, according to data in a little noticed industry study (discussed later).

2. Through deceptions and inadequate information, the life insurance industry *dupes husbands into shortchanging their wives and children* by buying too much of the wrong kind of insurance (or too little of the right kind) at excessive prices.

3. Because there is little or no meaningful and communicated price competition, the *high expenses* of the life insurance industry—virtually all borne by the consumer—are a national disgrace.

4. The "quiet" concentration of economic power by this industry has been substantially ignored by Congress, by the academic community and by citizens who are mistakenly asked to believe that competition over agents and empty advertisements is value competition.

5. The SEC has bended to the will of life insurance giants to block or delay accounting reforms that would put life insurance profit reports on an equal footing with other industries.

6. Criticism of the industry is responded to with collateral irrelevance, semantic nullities, or private attempts to remove academic critics from their teaching positions. Instead of rational argument, company or trade association spokesmen use pompous pontification or a kind of patronizing insurance patriotism with roots deep in the industry's chauvinistic past.

7. Vietnam veterans and other servicemen and women are being victimized by an on-going military-insurance interlock at the Veterans Administration and the Department of Defense.

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[1] Even the Temporary National Economic Commission, which began but never completed a massive investigation of American industry due to World War II, concentrated its attention primarily on the investment activities of the industry and the lack of effective control by policyholders of mutual insurance companies.

1. FAILURE TO PROTECT ITS "ULTIMATE CONSUMER": THE WIDOWS' STUDY

The Institute of Life Insurance—the public relations arm of almost the entire industry—maintains that "the main reason why a man buys life insurance is to protect his family from financial hardship when he dies." Whether or not companies sell life insurance for other purposes such as to provide a savings or investment medium or to make a profit, the primary measure of their performance is the extent to which the financial needs of widows and children are being met. The real consumers of life insurance are those who survive after the premature death of the breadwinner. The industry's own analysis of the benefits received by survivors demonstrates that it has failed miserably.

"The Widows Study" conducted by the Life Underwriter Training Council and the Life Insurance Agency Management Association and published in 1970—but never widely circulated even within the industry—provides shocking and tragic evidence of this failure. Fifty-two percent of a representative sample of *all* widows received less than $5,000 in benefits even though 92% were covered by some form of life insurance.

The second phase of the Widows Study dealt with the situation of widows during and at the end of a two year period of widowhood. In the words of the authors, . . . "[T]he fact that a wife faces a 50–50 chance of undergoing a decline in living standards if her husband dies prematurely—and a 1 in 5 chance of undergoing a serious decline—should dispel any complacency about the adequacy of existing life insurance benefits." Without realizing the full implications of their findings, the authors heavily underscored the fact that "the life insurance industry, operating through its sales representatives had had the opportunity to reach these families before their husbands deaths." Indeed they had, since 92% carried insurance! The authors went on to conclude, "*Judged by any standards*, the amounts of life insurance received by the widows were low." (Emphasis added). As the widow of an accountant said when asked what would make it easier for other widows, "Nothing but money. If we only had a little more to live on things would be a lot easier."

Despite the widespread reliance on life insurance of all kinds for widow protection, wives generally are simply not well protected against the risk of the premature death of their husbands. Husbands do buy life insurance, but they buy too much of the *wrong* kind. With limited funds available, they are too often misled into putting them all into low benefit cash value policies at inflated prices.

2. THE UNKNOWN CONSUMER: THE WRONG KIND OF INSURANCE

Buyers are told in the typical sales presentation that if they buy term insurance, they'll have nothing left when the policy expires. The pitch is to the husband's ego rather than the wife and children's needs. The husband is exhorted to buy "living values" rather than death protection. If he buys a "cash value" policy he is told he can get most or all of the money he pays in premiums back through increasing cash values and so-called "dividends" which are in fact refunds of overcharge.

The tragic results of this type of selling are well documented in the Widows Study and in the table on Living Benefits vs. Death Benefits which we have attached to this statement. (Table A)

First, the face amounts of cash value policies are substantially smaller given the same premium dollar. (As one gets older, term premiums do increase but they are low when the wife's needs for insurance against the premature death of her husband are highest). Buyers with limited funds available for life insurance—that is most bnuyers) are sacrificing necessary protection in order to fulfill the company's promise that you will "get something back."

Second, because of the abysmal state of price disclosure in the industry—as Professor Belth and others have demonstrated—the purchaser of a cash value policy really doesn't know *what* he or she is getting and *how* much it costs. Part of what is "bought" is a "savings account," another part is pure insurance. The consumer isn't given a breakdown of the premium for this package of protection and savings.

Third, the consumer who buys a "participating" policy—one for which he is promised something called a "dividend"—is not told that the dividends are "nothing more than a refund of a deliberate overcharge and should not be confused with ordinary dividends payable to corporate stockholders," according to Professor Dan McGill of the Wharton School of Finance.[2] He is typically told

[2] McGill, *Life Insurance*, p. 325.

that this overcharge is tax free. He is not told that they are tax free *because* they are merely refunds. In 1911, insurance companies sought a favorable ruling through the Treasury Department on the treatment of dividend payments for certain tax purposes. To get a favorable ruling they had to show that dividends were in fact an overcharge and *not* "dividends" in the commercial sense. Accertain tax purposes. To get a favorable ruling they had to show that dividends to disregard all their public and promotional statements about dividends on the grounds that "commercial necessity [i.e., the need to make sales] had resulted in making misrepresentations of facts as to dividends to their prospective purchasers." We rarely see such candor today. Based on life insurance promotion literture, most buyers of insurance do not have the benefit of the truth about "dividends."

The traditional misuse of the term "dividend" is only one example of the unnecessary semantic traps this industry has laid for the consumer. Here is another. Cash value insurance is called "permanent" insurance and term insurance is called "temporary" in sales presentations. The fact is that only ⅓ of the "permanent" insurance sold today will still be in force in twenty years (according to recent industry submissions to the SEC). And the most commonly sold term policy is renewable every 5 years and can be converted later in life to cash value insurance which could be carried to age 100 like so-called "permanent."

Fourth, the typical first year premium on cash value policy may be a trap for the unwary. Most selling costs, including advertising and commissions. are charged against first year premiums. In the early years cash values are low and dividend accumulation is minimal. So if you drop your policy in the first year you can't reap the benefits of any cash value you've been told will build up; and, in fact, you never get any of that first year premium back. An astonishingly high percentage of cash value policies are in fact voluntarily terminated or "lapse" in the first two years.

In the recent Variable Life Insurance Proceeding before the SEC, the Equitable Life Assurance Society, number three in the industry, revealed that 25% of its ordinary life policies (sold to 25 and 35 year old customers) lapsed in the first year, *another* 10% in the second year. The first year lapse rates for New York Life and Aetna were 19% and 15% respectively. Lapse data have been traditionally highly secret. No wonder that the Life Insurance Fact Book of the Institute of Life Insurance, the most widely disseminated collection of industry statistics does *not* publish lapse or termination rates for policies in force less than two years. The question: Why? our Subcommittee may usefully ask the Institute of Life Insurance. The Fact Book does not report lapse figures for 2 year old and younger policies. It asserts only that after the critical first two years, about 4% of the policies in force lapse each year—a figure which deserves skepticism and may be under-reported given the individual company figures just noted. The sharp dropoff requires greater substantiation than the Fact Book wishes to provide.

Mr. Chairman, let me reiterate: cash value policies—that is the type of policies that represent 72% of the $731 billion ordinary life insurance in force in 1970—are a consumer fraud not because they are inherently valueless but because purchasers are denied systematic and useful information about alternative plans available to protect their wives and children, and the price for that protection, while they are urged with all the collossal mind-bending skills at the company's and agent's disposal that Plan X is the best. It is very often the best for the agent and the company but not for the customer. In short, consumer ignorance, not the consumer, is what helps make possible the lack of selective feedback and the ease of manipulation by companies skilled in obfuscation larded with silken reminders about the potential policyholder's obligations to loved ones.

3. EXORBITANT HIDDEN EXPENSE

The cost of the distribution system for the life insurance product in the context of a market with virtually no price competition is a national disgrace. Pick up any of a number of publications by and for the industry and you'll find frequent reference to 1) the high costs of selling and 2) the failure to find, keep and adequately compensate life agents.

Gordon Crosby, Chairman of the Board of United States Life, told the 1970 meeting of the Life Insurance Institute, "The basic patterns of the [life insurance distribution] system we use today came out of the Civil War days—and we've let our distribution costs get out of hand." The National Underwriter's Life and Health Edition, a leading industry journal, commented on a study done for the

industry by the management firm of Daniel Yankelovich: "What Mr. Yankelovich was saying was what has been said many times before and since—and mostly by individuals from within the industry. That is, that distribution costs are disproportionate to the price of the product delivered when compared to distribution costs of other industries."

We have attached a table (Table B) which compares overall expenses for sales or ordinary life insurance with those for group life of eight leading companies and another table (Table C) which expresses expenses as a percentage of premiums for these same companies. Out of about $7 billion paid in premiums to these eight companies for ordinary life insurance individually sold, almost $2 billion went to expenses. Most people understand that it is less expensive to sell group insurance, but few realize how much higher are ordinary life expenses. On the average 27% of every premium dollar went to expenses compared with 5.9% for group insurance. And this grossly understates the expenses typically loaded onto the first year premium (55% agents commissions alone is typical for individually sold *cash value* insurance for those companies doing business in New York; many companies not in New York pay 100% or *more* for certain special policies).

Not only consumers, but life insurance agents also are victimized by the systematized ignorance engendered by the industry. Michael P. Walsh, Director of Marketing, Home Life of New York, told the 1970 I.L.I. meeting that only 11% of men recruited and selected are still in the life insurance business at the end of five years, compared to 40% to 50% of the sales positions in other industries. One life broker estimated for the *National Underwriter* that the industry spends $1 billion a year on agent turnover, has been doing it for years, and things are getting worse. The Subcommittee could initiate inquiries to find out how the industry absorbs such "losses" and transfers them to consumers, how agents are recruited, and to what extent does the rapid turnover demonstrate the advisability of different distribution systems that are more efficient.

Submitted for inclusion in the record, with your permission, is a collection of advertisements for agents gleaned from insurance trade publications over the last few years. Many are merely designed to create a good image of the company. But many others are the sort of brassy testimonials usually associated with get-rich-quick schemes. Aside from the resources thrown into this effort, it seems that some companies are so used to deception that they use it to recruit agents as well as sell insurance. Obviously, the real competition among companies is for agents. This may explain in part the apparent anomaly of high turnover and low average income for agents. These ads and other promotional schemes generate expectations of high earnings that are never fulfilled.

Mr. Chairman, there is something seriously wrong when an industry, whose top five companies control 44% of its $235 billion assets, delivers its products at a self-admitted exhorbitant cost, squeezes the earnings of an insecure "migrant" sales force, massively misinforms or underinforms the public about the very nature and price of its primary product and yet continues to grow and increase its profit or surplus at a rapid rate. Producer sovereignty over regulation and in place of consumer sovereignty makes deception and concentration pay rich dividends but not to the policyholders.

4. QUIET CONCENTRATION

A definitive study of concentration in the life insurance industry has yet to be completed, but the sheer size of the top five companies when compared with other private institutions, financial or manufacturing, should be of serious concern to this Subcommittee. The top 50 industrial corporations listed in Fortune's 500 range from $2 billion to $28 billion in assets, the top 50 banks go from $1.7 billion to $24 billion, but the top 50 insurance companies range from a mere $500 million to $31 billion. We have attached to our statement (Table D) a comparison of the share of total industry assets of the top 5, 10, 20 and 50 leading banks and insurance companies. Whereas the top 5 banks hold 18% of their industry's assets, the top 5 insurance companies hold 44%, the top 20 banks hold 37%, the top 20 insurance companies hold 71%. Banking is concentrated, but insurance is much more so.

Recently the two largest trade associations in the life insurance industry merged to form the American Life Insurance Association. Traditionally the giant eastern mutuals and several of the large eastern stock companies formed the Life Insurance Association of American (LIAA) and the midwest, southern and western companies comprised the American Life Convention (ALC). Per-

haps this combination is symptomatic, perhaps it has little significance, but we urge the subcommittee to study this development. At the least, an industry that wants to speak with one voice is not going to reflect or tolerate diversity of viewpoints.

The 11 leading companies by premium volume are all mutual companies. Since giant mutual companies have no third party, stockholder interests to satisfy, and since the whole concept of the mutual form of organization is to bring the highest benefits at the lowest cost to policyowners, these companies should be in the forefront of efforts to produce meaningful disclosure. They should operate with the lowest costs, "profits" should be returned to policy holders in the form of higher dividends and lower premiums, and management should strive to increase the voice of policyholders in making important decisions about company policy. There is absolutely no evidence, however, that these mutual companies perform any better than their shareholder-owned counterparts. They are characterized by insulated management cliques, policyholder apathy or ignorance (not only about the products they buy but about the rights which they have as "owners" of the company), and bloated selling expenses. More specifically, they have been building up "surplus surpluses" and investing policyholder earnings in business lines far outside the life insurance area. Potentially the most accountable, they are in fact the least accountable of all our economic giants.

In 1941 one of the studies of the Temporary National Economic Commission concluded:

"On the basis of evidence adduced, it can be said that the policyholders have no control over management of the mutual companies. The rights of policyholders to select and elect directors have no practical value. The directors are completely self-perpetuating." (TNEC Monograph No. 28, A Study of Legal Reserve Life Insurance Companies, 1941)

5. PROFITS, SURPLUSES, AND THE SEC

The profitability of life insurance companies is nearly as inscrutable as the typical cash value life insurance policy—and the companies, especially the giant mutuals seem to like it that way. A perusal of the industry's Life Insurance Fact Book will reveal virtually no reference to profits or, as the mutuals call profits, "additions to surplus". In a series of maneuvers in late 1971, barely noticed beyond financial circles, the mutuals and some of their stock company allies convinced the SEC to postpone the adoption of a new audit guide for insurance companies. The guide, proposed by the American Institute of Certified Public Accountants (AICPA), would have required companies to show as earnings money currently flowing into reserves or being counted as costs. Under present rules, selling costs are written off the first year, since they are so high—some companies pay 100% of the first years premium as commissions—a company writing a lot of new business may actually show a loss (as did both Equitable and New York Life in 1971, the 4th and 5th largest companies respectively).

The AICPA proposals would have made one other serious change: To calculate the amount that ought to be set aside in reserves. Companies use formulas based in part on the earnings they expect from investing those reserves and on mortality tables. Currently, they use a 10 year old mortality table and an estimated return on investment of 3½%. This means they are putting substantially more in reserves for every premium dollar they receive than they would were they to use current mortality tables and 5% to 6% interest rates. These dollars would otherwise show up as higher earnings. Higher earnings in turn might mean more pressure from policy holders for lower premiums and, perhaps more important, a change in their income tax basis.[3]

In November 1971 the presidents of several large companies met with departing SEC Chairman William J. Casey to protest the changes. The SEC has virtually unlimited authority to prescribe accounting rules for listed companies, though it rarely uses it except when industry is dissatisfied with the AICPA's action[4] or inaction. According to Forbes magazine, soon after the meeting with Chairman Casey, Haskins, and Sells, which is Metropolitan Life's auditor,

[3] The insurance portion of the Internal Revenue Code is one of the most complex and least audited sections. The IRS has very few experts who can understand the technical labyrinths of insurance accounting and the Tax Division of the Justice Department has had great difficulty in retaining actuaries in its enforcement actions. The Subcommittees may wish to obtain further details on this area from Treasury and Justice.

[4] The SEC does not, of course, have power to set accounting rules for mutuals, but its accounting rules—including those of the AICPA that it accepts—are followed by non-listed companies.

changed its position and came out against the proposed changes. Then the SEC ordered companies to take no further action on adopting the changes. On January 14th the SEC finally approved the new Audit Guide with the explanation that the AICPA had settled certain unresolved matters.

6. THE INDUSTRY AND CRITICS

Aside from the somnolence-inducing complexity and intentional obfuscation of its leading product, there are other reasons the life industry has been relatively shielded from serious professional criticism—cooptation and intimidation. With growing fortitude from some professionals, such practices are ineffective—to wit:

The President of Hamilton National Life Insurance of Indianapolis, Stewart R. Billing, wrote Commissioner and former Insurance Professor Denenberg of Pennsylvania, "Somehow, Commissioner, it's a pleasure to tell you to go to hell. In my opinion, you are menace to society." Denenberg found this so humorous, he released the letter to the press. But such opinions have carried weight with others in the past to dim budding ardors of Commissioners or Professors.

Throughout the cash value industry proponents of more extensive reliance by the consumer on term insurance are disparagingly referred to as "termites." Ex-insurance agent, Commissioner Richard J. Barnes of Colorado, according to the *Cervi Rocky Mountain Journal* (Jan. 31, 1972, p. 4) personally complained to insurance agent Mason Knuckles about an ad Knuckles ran in the Journal. Barnes wrote, "quite frankly it [the ad] looks to me like the type of thing that the 'termites' selling mutual funds might use to obtain business." Barnes then complained about the ad to several of the insurance companies Knuckles represented. One of them immediately cancelled the agent's contract to sell for them.

At a recent annual convention of the National Association of Life Underwriters (Minneapolis, 1970) NALU executive vice president C. Carney Smith complained about the number of articles critical of the industry and its sales practices. He gave an example of NALU's response to one critic:

"One of them . . . was prepared by a professor at a highly reputable university. . . . He recommends mass merchandising as a substitute for the agency system. *We contacted the dean of the University concerning this article, and he was disturbed as we were, but he pointed out that the professor had tenure.*" (emphasis added)

Smith made clear that this was the normal procedure for "answering" academic critics:

"This is the answer we get from other Universities that have professors who are ill-informed and ill-equipped to pass judgement but who . . . find receptive ears for their unwarranted attacks."

For this and other reasons Smith concluded that the NALU fights at a disadvantage.

"I note that your witness list includes several leading scholars in insurance. I presume they will not be exposed to this sort of harassment." [5]

7. VIETNAM VETERANS AND THE MILITARY INSURANCE COMPLEX

In the pursuit of premiums at the expense of the consumer, life insurance companies have wielded their clout so as to enlist Congress, the Department of Defense and the Veterans Administration in their sales efforts.

Vietnam Veterans have been tragically victimized, and few people, least of all the vets themselves realize it.

Servicemen in World Wars I and II and the Korean War were able to buy limited amounts of low priced term insurance from the government through the U.S. Government Life Insurance (WWI) and National Life Insurance programs (WWII and Korea). Both were designed to enable service men to carry a basic minimum amount of coverage to protect their wives and children if they were killed or died in service. After these wars, veterans were permitted to continue their low cost coverage—but not to increase it—as part of the reward for their service in time of war.

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[5] For a less subtle form of patronizing arrogance see Institute of Life Insurance president Blake Newton's response in the *Wall Street Journal* (Sept. 14, 1967) to an article on Professor Belth's work. Newton begins, "Your page one article 'Insurers Under Fire' (Sept. 5) has evoked surprise in life insurance circles, not only for the misconceptions it airs, but also because it appeared in a publication of your character."

Because of life insurance industry lobbyists and their allies, Vietnam Veterans had no such opportunity. In 1965 Congress enacted the "Servicemen's Group Life Insurance" program. Though the minimum coverage was raised to $15,000 for in-service term insurance, the program and its implementation differs from the earlier programs in several ways which disadvantage the Vietnam-era veteran.

First, it is not in fact a government program. The Prudential Insurance Company manages an insurance pool in which a large number of the companies participate. The rates are low because they are subsidized by government so that men who were otherwise uninsurable could protect their families and so the companies would not lose money.

Second, unlike his predecessors the Vietnam-era veteran, unless disabled, cannot continue this coverage more than 120 days after leaving the service. He has the option of dropping the coverage or of converting it to a cash value policy sold by one of a number of companies on a list provided by the V.A.

Just before discharge each insured serviceman receives a booklet setting forth options and strongly suggesting that the only intelligent option is to *convert* to cash value insurance. A list of 600 or so companies is provided and no guidance is suggested on how to select a company. Senator Hart, you attempted to have included at a minimum some reasonable price comparisons, but received a cold shoulder from the V.A. You were told that such communication would be too expensive, that price was only one factor, that price information would confuse the veteran, and that considerable injustice would be done to the companies.

As Professor Belth later commented, ". . .[T]he VA's compassion was directed at the life insurance companies. The VA, in this instance protected the interest of the life insurance companies rather than the interests of Vietnam veterans."

The Armed Forces Life Insurance Counselor's Guide (DOD PA-9) distributed under the imprimatur of the Department of Defense was in fact written by the Institute of Life Insurance. We question the propriety of distributing such material at public expense under the seal of the Defense Department. The booklet (a) does not indicate clearly that the ILI and *not* insurance experts in the government wrote it; (b) does not include commentary from or the points of view of consumer groups and critics of the industry and its products; and (c) does not provide any cost comparison information, nor any suggestions about comparing the same or similar policies of different companies.

Having studied the pamphlet thoroughly, the service man or woman or armed forces life insurance counselor could not help coming away with such misconceptions as these:

(1) Similar policies issued by different companies vary in "cost" but any difference is due primarily to the difference between participating and non-participating (i.e., no dividend) policies. And since dividends are unpredictable, costs are unpredictable. (see p. 22)

(2) In any case, costs can't vary too much because, "in the long run, competition between companies tends to restrict differences in cost." (In fact, the pamphlet never used the word "price", subtly implying that costs and prices are the same.)

(3) There are no "profits" in the insurance business. (The differences between stock and mutual companies are generally discussed in the text (pp. 8–9) but there is no indication that they earn profits or surpluses. Buried in the glossary is the hint that stock holders and mutual policy holders "share in the surplus." Nor is there any indication that agents receive commissions or that commissions are determined not by the amount of protection sold, but by the size of the premium and the type of policy. Since their commissions are higher for sales of cash value insurance, even for the same amount of premium, it is understandable why they tend to push cash value rather than term insurance, but the service man or woman should be forewarned.)

We understand the pamphlet has been undergoing revision since 1969 or 1970. On March 17, 1970 the President of the Institute of Life Insurance, Blake Newton, four other ILI officials, and representatives of several other industry groups met with the Department of Defense Personal Commercial Affairs Board. Brigadier General Leo E. Benade, then Deputy Assistant Secretary of Defense for Military Personnel Policy profusely thanked ILI for writing earlier revisions of the pamphlet. He indicated that top priority should be given to the revision. We are submitting for your inspection a copy of DOD's current pamphlet and a copy of "Understanding Your Life Insurance", published for consumers by the Institute for Life Insurance. I think you will agree the similarities are remarkable.

Soon after the meeting, the industry's Joint Special Committee on Life Insurance (the Moorhead Committee) came out strongly for the "interest adjusted" method of price comparison. That method was used by Commissioner Denenberg in his consumer guide on life insurance. When we called the DOD to check on progress with the revision, we were told that a draft revision does exist, but that we could not see a copy without special permission since "it is not in a useful condition." It is clear that the DOD hasn't moved because the industry hasn't moved. DOD has apparently so conditioned itself to jump when industry—any industry—barks that it cannot bring itself to follow the initiative of the President's own consumer affairs spokesman, Mrs. Knauer. She has forthrightly demanded extensive use of the interest adjusted method as a first step to end consumer ignorance of the life insurance product.

RECOMMENDATIONS

In the course of the Subcommittee's inquiry, evidence in all likelihood will accumulate to suggest precise policy directions for your consideration. Industry power will also undoubtedly bear down on the Congress to preserve the status quo. At this point, the following suggestions are submitted for your consideration.

1. It is not conducive to consumer-oriented competition for conglomerates and financial institutions to continue their takeover of the insurance industry. The reasons against such takeovers were developed by observers of and advocates against the ITT purchase of Hartford Fire. Reciprocity, milking the cash flow, absentee vs. community ownership, one bank holding companies and many other factors have been considered in state and federal hearings to one degree or another. But the issue in focus has almost never been the competitive status of the insurance industry but other matters pertinent to curbing acquisition-minded forces. The Subcommittee has the jurisdiction to give this matter close analysis. The value of having independent countervailing industries was seen in the partial success of the insurance industry in limiting the potential diet of the one bank holding company in legislation a few years ago. Diversity of economic power and cross-industry challenges encourage competition and a less monopolized politics.

2. Three external mechanisms to the life insurance industry should be considered in detail:

(a) The establishment of federal authority to set standards for various aspects of the business which these life insurance companies perform nationally or in interstate commerce is long overdue. This does not have to mean a blanket preemption of state regulation. In certain areas co-jurisdiction can be beneficial. But it should mean that the old disorder of 52 exclusive duplicatory commissions with grossly inadequate skills (most states do not even have a life insurance actuary on the staff) should be considered an anachronism.

(b) What may be called "yardstick competition" through the establishment of state or federal life insurance funds which offer over the counter, low cost life insurance to citizens and operate without any support whatsoever from taxpayers, could prove to be a most effective stimulus to quality competition among the companies. Such funds could provide meaningful price and product information about their policies and those of private insurers who have not chosen to so inform the consumer as true market competition would expect them to. Such action could stimulate price competition and raise the level of consumer awareness of life insurance—its pride and its pitfalls.

The state of Wisconsin has operated such a fund since 1911. It provides low cost protection (up to $10,000) to anyone physically present in the state at the time of purchase. It sells only a few basic policies at prices, according to Professor Belth, lower than *any* of the private companies whose policies he priced. Best's Insurance Reports praised the Wisconsin State Life Fund for its "remarkably low expenses," low policy lapse rate, and "remarkably low" cost to policy owners.

Unfortunately, the Wisconsin Insurance Department which operates the Fund, makes no effort to communicate its existence to the public. The Fund does not even have a separate listing in the Madison, Wisconsin telephone directory. As a result after more than 50 years of operation, it has only $8 million in assets and wrote only $4.8 million in new business last year, representing only a few hundred policies for consumers who managed to ferret it out. Other yardstick competitors, such as savings bank life insurance, would help to enhance competitive quality, especially price competition.

(c) Serious consideration should be given to expanding the social security death benefits system which, at the present level of $255, is insufficient even to meet its purpose of covering funeral costs. One alternative would be to provide the spouse of a 30 to 35 year old worker with a family an additional lump sum death benefit of $10,000, similar in scope to a plan now operated by the Saskatchewan provincial government in Canada. This amount could be scaled down as the breadwinner grows older and up if he or she has a larger family. Death benefits could be reduced at a certain age when existing retirement and survivors benefits provide more adequate coverage. Social Security tax rates would not necessarily have to be increased. The maximum amount of income, instead, against which the tax is levied (generally called the "earnings base") could be increased to an appropriately higher level and not be used except for greater death benefits. Such a plan would tend to introduce a progressive element into the highly regressive social security tax structure.

3. A prerequisite tool for competitive quality is a meaningful disclosure law that would give the consumer the information necessary to compare the relative price and terms of different policies at the point of sale. At the very least consumers should be informed of the range of prices for the same policy (calculated in a meaningful way as Professor Belth has suggested) offered by other companies doing business in his state. It would be useful for the Subcommittee to make suitable inquiries as to the kinds of computerized consumer information systems which could make disclosure of information easily accessible when the consumer wants it.

Such disclosure should help to reduce the increasing proliferation of policies now being passed off as "product innovations." Disclosure is only one step forward, however. Something must be done to make policies more comparable and not so deliberately incomparable through false complexity. All "add ons" and "extras" to standard policies should be required to be sold and priced separately. Legitimate product innovations—those that represent real changes—would have a chance to be more visible and thriving.

The value of meaningful price information to the consumer has been confirmed by the response to Commissioner Denenberg's shopper's guides to cash value and term insurance. In addition to listing the companies selling the 10 highest and 10 lowest cost policies, he spotlighted 10 companies issuing "gimmick" policies that were rigged not only against the consumer but against meaningful price analysis by outside experts. Nine of the 10 policies are no longer being sold—a form of protective reaction by the companies involved. Tens of thousands of the guides are being distributed and at least 10 other commissioners have announced plans for similar actions. The National Underwriter is now publishing a price comparison manual covering many other companies and policies. Unfortunately 6 companies with more than $400 million life insurance in force including W. Clement Stone's Combined Life Insurance Co., Globe Life of Accident (Okla: mailorder), Life Investors Insurance Co. of America (Iowa), Presidential Insurance Co. (Ill.), Provident Life (N.D.) and World Services Life (Tex.: specializing in military sales) have apparently not provided the information necessary to make the calculations upon which the comparisons are based.[6]

Professor Belth's new book, *Life Insurance: A Consumer's Handbook* (Indiana University Press, 1973) is another valuable tool for the insurance shopper. If used by many consumers, it will contribute substantially to price competition in life insurance. Belth provides comparative price information on several dozen different types of basic policies. A number of companies have the dubious honor of appearing as sellers of high price policies in several of his tables.

These companies, for example, appear above the median in two important comparisons ($25,000 cash value policies sold to 25 and 45 years olds in 1970):

Aetna	Lincoln National (Ind)
Connecticut General	Occidental (Cal)
Franklin Life	Prudential
Jefferson Standard	Republic National (Tex)
John Hancock	Western & Southern

4. Traditionally, the life insurance companies have recognized their interest in helping to prolong life through health and other advocacies. Too many of these

[6] Belth, reviewing *Cost Facts in Life Insurance*, published by the National Underwriter, Journal of Risk and Insurance, Dec. 1972, p. 633.

efforts have merely paid lip service to noble ideals. They have been ineffective public relations gestures without contributing significantly to human health and safety. Pennsylvania Insurance Commissioner Herbert Denenberg recently sent letters to the twenty largest life companies asking about their activities in prolonging life. Occidental (Cal.) and Traveler's provided no useful answers. Other companies transmitted such a paucity of information that Denenberg commented: "The sheer lack of answers was frightening." His conclusion was that generally the companies were doing next to nothing to eliminate environmental threats to health and safety, to communicate health and product safety information, and to encourage safety research and standards.

Yet this is an area of corporate responsibility that the life companies could hold up in pride if they reversed their apathetic inertia and began to be the nation's health and safety advocates. Theoretically, such an effort should be in the direct line of their vested economic interest. How much good they could do by researching, advocating, leading in the great needs of our times—for health care, pollution control, job safety, safer energy systems, safer transportation systems (including automobiles) and safer consumer products. With a tiny allocation of their vast resources, animated by the tiniest amount of corporate executive courage, they could spark or help implement such progress. There are technologies to be liberated for health and safety; civil servants, trying to do the right thing against special interests, to be supported; and numerous other frontiers which can give these company executives a true and memorable mission.

The Subcommittee could make further inquiries on this subject and present specific challenges which the life companies could easily and inexpensively undertake given their alleged commitment to "loss prevention." I shall be pleased to recommend specific examples of such challenges for the Subcommittee's use.

5. One of the most compelling phenomena in this industry is how insulated the chief executives are from the urgencies which have convinced you to initiate this investigation. Consequently, it would serve a most educational function to have these gentlemen come, present testimony and reply to questions. Not only would this provide the Subcommittee with authoritative answers but the pre-testimony briefing exercises which these executives would receive might be a most valuable sensitizing experience. At least this was partly the case in 1966 with the auto executives, according to inside sources. A few names may be suggested, as starters, for your witness list:

Donald S. MacNaughton—Chairman of the Board, Prudential
Richard Shinn—President, Metropolitan
J. Henry Smith—President, The Equitable Assurance Society
R. Manning Brown—chief executive. New York Life
Gerhard D. Bleicken—chief executive, John Hancock
Donald Johnson—President, Aetna
Henry R. Roberts—chief executive, Connecticut General
T. A. Watson—chief executive, Lincoln National Life (Ind.)

Most of the giants in the life insurance industry are mutual companies (the top five for example). The mutuals control 67% of the industry's assets, although they represent only 8% of the companies. Mutual company executives should be asked the hard questions they are never asked at their near clandestine and poorly attended policyowner meetings: for example, why aren't policyowners returned a large share of the earnings of the company? Why aren't policy owners encouraged to participate in annual meetings which are now luncheon charades?

6. Department of Defense and Veterans Administration officials should be called to explain their favoritism for this industry and their disregard of the interests of millions of uninformed consumers and veterans. The non-responsiveness of these departments to your inquiries, Mr. Chairman, in recent years, indicates that a searching examination may reveal more than mere indifference or apathy.

7. The Subcommittee should be especially alert to the likelihood of what some call industry "insiders" coming forward with their concerns and information. Ethical whistleblowers who decide to place the public or consumer interest

above their own careers should be protected from arbitrary reprisals after their courageous stand has been taken. In the past, as in the auto dealer hearings in the Fifties, those witnesses who did come forward found little help from the Subcommittee after they returned home to face the squeeze and other subtle and not so subtle repercussions.

8. It is obvious that the task which the Subcommittee has established for itself and the American consumer is immense and long overdue. You may wish to consider the advisability of a temporary Special Committee to concentrate on this giant industry with the barest staff required to do a reasonably effective job. How many many times will such a modest effort pay for itself over the years in billions of consumer dollars saved and a more vigorously competitive life insurance industry committed to health and safety advancement. The life insurance industry should welcome this inquiry for it can make them hold their heads in pride in the future as models of corporate responsibility, that is, if they entertain such ambitions of grandeur.

David L. Brain, executive vice president of Kentucky Central Life recently serveyed the top executives of 62 large, medium, and small life insurance companies for their opinions on the impact of the consumer movement on their business. Thirty percent felt that the activity of the critics will lead to reduced premium rates or more liberal benefits. "In addition to the negative publicity the industry has already received," wrote Mr. Brain, "the most frequently mentioned effects of consumerism are: better service and improved policy owner relations; stiffer government regulations; and a trend toward more frequent price benefit comparisons . . ." Mr. Brain added his own opinion, "One other effect . . . is that it may produce fuel to accelerate the agitation for national health insurance legislation, and even bring about pressure for tacking a $5,000 life insurance provision on to Social Security benefits"[7] Mr. Chairman, there is some industry candor around.

[7] Best's Review, January 1973, pp. 56–57.

TABLE A.—DEATH AND LIVING BENEFITS AS A PERCENT OF TOTAL DEATH, SURRENDER, DIVIDEND, AND ENDOWMENT BENEFITS FOR TOP 15 LIFE INSURANCE COMPANIES RANKED BY ORDINARY PREMIUMS—1971

[Dollar amounts in millions]

Company	Death (percent)	Surrender (percent)	Matured dividends (percent)	Matured endowments (percent)	Total death, surrender dividend and endowment benefits
Prudential	31	20	39	10	$1,461
Metrolopolitan	34	21	34	9	1,318
New York Life	34	21	39	6	724
Equitable Life (New York)	34	26	34	6	559
John Hancock	37	26	31	6	418
Northwestern Mutual	29	21	45	5	462
New England Mutual	27	29	36	8	251
Mutual of New York	37	24	32	7	251
Connecticut Mutual	27	24	43	6	192
Mutual Benefit Life	31	32	34	3	204
Connecticut General	40	43	11	6	143
Lincoln National	58	22	10	10	150
Penn Mutual	29	25	36	10	157
Aetna Life	44	32	12	12	139
Mass Mutual[1]	31	26	39	4	254
Industry—1,805 companies	33	25	33	9	
Benefits	$3,699	$2,882	$3,680	$990	$11,251

[1] Mass Mutual is ranked between Northwestern Mutual and New England Mutual.

From: Best's Review (life and health edition) January 1973 pp. 32-33 and Life Insurance Fact Book, 1972 (Institute of Life Insurance).

TABLE B.—COMPARISON OF PREMIUMS[1] AND EXPENSES[2] IN DOLLARS OF ORDINARY LIFE INSURANCE WITH GROUP LIFE INSURANCE FOR 5 LEADING MUTUAL AND 3 LEADING STOCK COMPANIES, 1971

[In millions of dollars, rounded]

Company	Group		Ordinary	
	Premiums	Expenses	Premiums	Expenses
Aetna Life[3]	391	29	192	61
Connecticut General[3]	159	17	237	63
Equitable Life Assurance Society	413	22	749	184
John Hancock	213	14	703	224
Metropolitan	682	26	1,885	521
New York Life	76	9	1,093	264
Prudential	531	28	2,121	564
Travelers[3]	343	21	170	53
Total	2,808	166	7,150	1,934

[1] Excludes investment income.
[2] Excludes investment expenses.
[3] Stock company.

Note: Figures taken from 1971 annual statements.

TABLE C.—COMPARISON OF EXPENSES AS A PERCENTAGE OF PREMIUMS OF ORDINARY LIFE INSURANCE WITH GROUP LIFE INSURANCE FOR 5 LEADING MUTUAL AND 3 LEADING STOCK COMPANIES, 1971

Company	Expenses as a percentage of premiums	
	Group	Ordinary
Aetna Life[1]	7.4	31.8
Connecticut General[1]	10.7	26.6
Equitable Life Assurance Society	5.3	24.6
John Hancock	6.6	31.9
Metropolitan	3.8	27.6
New York Life	11.8	24.2
Prudential	5.3	26.6
Travelers[1]	6.1	31.2
Average	+5.9	27.0

[1] Stock company.

Source· 1971 annua lstatements.

TABLE D.—COMPARISON OF SHARE OF ASSETS OF LEADING LIFE INSURANCE COMPANIES WITH LEADING COMMERCIAL BANKS[1] AS OF DEC. 31, 1972

[Dollar amounts in millions]

	Banks	Life insurance companies
Top 5:		
Amount	$115,690	$97,590
Percent	18	44
Top 10 leading:		
Amount	$172,272	$127,125
Percent	27	57
Top 20:		
Amount	$238,359	$157,677
Percent	37	71
Top 50:		
Amount	$313,665	$189,949
Percent	49	82
Total industry:		
Amount	$640,255	$220,000
Percent	100	100

[1] Figures obtained from Fortune magazine (May 1972); Life Insurance Fact Book (1972); and Federal Reserve Board.

Mr. NADER. Thank you.

These hearings, which you have scheduled, are the first comprehensive investigations into the life insurance industry in the history of the U.S. Congress.

It would therefore not be excessive to regard your subcommittee's effort as one of historic proportions. This is the case both in regard to its resultant impact on this gigantic aggregation of capital and the millions of policyholders and beneficiaries whose reliance on the industry, in return for ample payments, has not been reciprocated with the trust that is its legal responsibility. In this period of disclosure of consumer abuses, from automobiles to drugs to food to loan transactions, few industries averted the scrutiny of congressional committees such as yours. Partly because of historical accident awarding jurisdiction to the States and partly because of the focus of Government attention on auto insurance reform, the life insurance industry is, perhaps, the last giant industry to come under the legislative microscope. Its contrived complexity, secrecy, and public relations have fulfilled a strongly supplementary camouflage function. Hidden behind this camouflage, are two principal levers of maximizing life insurance company profit, or, as the mutual companies call it, surplus. These two are deception, and ironically, gross waste. Neither redounds in any way to the consumer's benefit. For almost 70 years the life insurance industry has been a smug sacred cow feeding the public a steady line of sacred bull.

The scope of the inquiry before this subcommittee can be encouraged by the size of the population concerned and the magnitude of the monetary stakes. About 140 million Americans are covered by some form of life insurance sold by this $235 billion asset industry. Total life insurance in force at the end of 1971 was $1.6 trillion. There is now over $789 billion worth of ordinary life insurance in force and the industry's five top companies, that is, Prudential, Metropolitan, Equitable, New York Life and John Hancock, share over 41 percent of this total and control over 44 percent of the assets of the entire 1,805 company industry. According to a 1961 National Industrial Conference Board study more than 5½ percent of total consumer expenditures went to life insurance companies. And last year, the industry reported $23 billion in premium receipts, with an additional $13 billion going to these same companies in the form of health insurance premiums. The lion's share of these premiums go to a handful of companies.

No other concentrated group of corporations, except the auto manufacturers, claim a larger share of the consumer dollar. Unlike the auto companies, however, there is likely to be a greater potential of divergent view or dissent accessible to this subcommittee, particularly if the united-front-minded trade associations are advised to avoid undue pressure against the coming forward of any smaller companies or employees who have such divergent facts and judgments. There are also some companies whose prices for equal benefits are considerably lower than the giants in the industry—a phenomenon which provides important data about the misuses of secrecy and the need for communicated disclosure of comparable values to the consumer, as Professor Belth has demonstrated in his new book.

If the consumer, or the prospective policyholder, cannot ascertain or estimate price, he cannot choose on the basis of price.

In a superlative of duplicative atrophy, the entire life insurance industry is "regulated" by 50 different State insurance departments plus the District of Columbia and Puerto Rico. As a practical matter, it is exempt from antitrust regulation and from other Federal consumer laws. Remarkably, there has never been a systematic investigation of competition and concentration in this industry by any Federal agency or by Congress or by the academic community, including the TNEC in the late thirties. It would be accurate to say that the States have contributed very little to this subject as well, except for some materials in the 1900 Armstrong committee investigation and report for the New York State Legislature. These hearings will have to pioneer this enormous task.

To summarize some of our findings, Mr. Chairman, the following is submitted with greater detail in the prepared testimony.

1. Life insurance tragically fails to sufficiently protect its ultimate consumers—the widows and children—from the financial risk of premature death of the breadwinner, according to the data in a little noticed industry study. This is known as the "Widow's Study," conducted by the Life Underwriting Training Council and the Life Insurance Agency Management Association, published in 1970 but never widely circulated even within the industry.

It provides shocking and tragic evidence of this failure. Fifty-two percent of a representative sample of all widows received less than $5,000 in benefits, even though 92 percent were covered by some form of life insurance.

2. Through deceptions and inadequate information, the life insurance industry dupes husbands into shortchanging their wives and children by buying too much of the wrong kind of insurance, or too little of the right kind, at excessive prices.

This, of course, is the well articulated difference between traditional insurance protection ("term" insurance) and cash value insurance, the use of insurance premiums, in part, as a form of savings.

Because of the abysmal state of price disclosure in the industry, as Professor Belth, Mrs. Knauer and others have demonstrated, the purchaser of a cash value policy really doesn't know what he or she is getting and how much it costs. Part of what is bought is a savings account, another part is pure insurance. The consumer isn't given a breakdown of the premium for this package of protection and savings.

3. Because there is little or no meaningful and communicated price competition—and I want to emphasize the word "communicated"—the high expenses of the life insurance industry, virtually all borne by the consumer, are a national disgrace.

There are numerous attributions that can be made for that statement of high expenses, rampant inefficiency are policy within the industry, itself. Over the years, going back 30, 40, 50 years, members of the industry and its representatives have repeatedly excoriated the overall high expense record of that collective enterprise.

It's also, I think, important to know that there have been scholars, such as Professor Belth, who have shown enormous gaps between the cost, or the premium, of life insurance policies by different companies given comparable values. And it's not just important to be able to show

these gaps, it's very important to be able to communicate them and get them through the obfuscating curtain that has surrounded the life insurance industry.

The uses of complexity here, Mr. Chairman, suggests a reference to the training of laboratory mice through labyrinths in the medical research lab.

There's an old story, that's been told, about a prospective policyholder who entertained regular visits from insurance agents. The first one came in one evening and put forth all the varieties of policies, add-ons, differentiations. And the prospective policyholder assiduously tried to take notes, tried to make a meaningful understanding of it all.

And then he invited another agent in and the other agent brought in new and different varieties, new and different contingencies, new and different incentives, inducements and new and different appeals to the person's responsibility to his loved ones and the like. And the policyholder went through the same, but a little more quizzical or confused, process of trying to understand.

And then the third evening the policyholder heard the doorbell ring and the door was opened and a third agent announced he was there representing his company, whereupon the prospective and confused policyholder leaped forward, threw his arms around the agent's neck; and as he hung on limply, said, "take me, I'm yours."

That, in a perhaps compressed way, indicates how confusion and how product proliferation can dull the rational response and discriminatory ability of the consumer to a point where he begins to rely on the salesman's smile and the salesman's adjectival assurances; instead of the actual ability, which should be his, communicated from the agent to compare the values of competing policies and to know what is being purchased.

4. The "quiet" concentration of economic power by this industry has been substantially ignored by Congress, by the academic community and by citizens who are mistakenly asked to believe that competition over agents by these companies and competition over empty advertisements is value competition.

I don't think, for example, the essential message to a prospective customer of Prudential is the advertisement about buying a piece of the rock.

5. The Securities Exchange Commission has bent to the will of life insurance giants to block or delay accounting reforms that would put life insurance profit reports on an equal footing with other industries.

The 10-year record of the life insurance industry's dealings with the SEC has been one of almost incredible victories on the part of the industry. Not only victories for its various demands, but surprisingly strong victories compared with other financial institutions who have to go through some sort of motion and disclosure with the SEC, and who also operate interstate.

6. The criticism of the industry is responded to with collateral irrelevance, semantic nullities, or private attempts to remove academic critics from their teaching positions. Instead of rational argument, company or trade association spokesmen use pompous pontification or a kind of patronizing insurance patriotism with roots deep in the industry's chauvinistic past.

It's important to understand the history of this industry. There's a self-righteousness about this industry which proceeds from the feeling that it, indeed, is saving the financial security, or preserving and protecting the financial security of families who face premature death of the breadwinner.

This almost attained mystical proportions, particularly around the turn of the century. There's a great deal of symbolic facade to the industry. Notice its names, Fidelity, Guarantee, Prudential, and the like.

It engaged in architectural battles, as to who was to build the most ornate building back at the turn of the century, and today, who is to build the building that reaches closest to the heavens. The giants in the industry still are engaging in this kind of edifice complex.

But it also reflects, I think, the fact that they don't know what to do with their money, they've got so much of it.

7. Vietnam veterans and other servicemen and women are being victimized by an on-going military-insurance interlock at the Veterans' Administration and the Department of Defense.

I'd like to point out here—which obviously is nothing new to you, Mr. Chairman—that you've been trying to get this information from the VA and Department of Defense for a number of years. I'd like to point out that until 1965 war veterans could obtain and keep very, very cheap Government life insurance. It was considered their reward for the agonies and exposures that they went through.

And in 1965 a law was passed, which was called the Servicemen's Group Life Insurance Law. The minimum coverage was raised to $15,000 for in-service term insurance and the Prudential Life Insurance Co. manages an insurance pool in which a large number of the companies participate.

The rates are low because they are subsidized by Government so that men, who are otherwise uninsurable, could protect their families and so the companies would not lose money.

Since the expenses of selling have been also low that has accounted partly for the comparatively lower rates.

Unlike his predecessors, however, the Vietnam era veteran, unless disabled, cannot continue this coverage more than 120 days after leaving the service. He has the option of dropping the coverage or of converting it to a cash value policy sold by one of the companies on a list provided by the Veterans' Administration.

We're talking about roughly 6 million veterans, so far, that would come under this act.

Just before discharge each insured serviceman receives a booklet setting forth his options, and strongly suggesting that the only intelligent option is to convert to cash value insurance. A list of 600 or so companies is provided and no guidance is suggested on how to select a company.

Mr. Chairman, you have attempted to have included, at a minimum, some reasonable price comparisons, but the VA just wasn't interested. The VA said that such communication would be too expensive, that price was only one factor, that price information would confuse the veteran and that considerable injustice would be done to the companies.

On the grounds that price information would confuse the veteran, the VA should have recommended the abolition of the Vietnam war.

The kind of answer that you get from the VA or the Department of Defense is not only unresponsive, it's downright intriguing. The closeness with which these two agencies have worked with the life insurance industry, the very close similarity between their Armed Forces Life Insurance Counselors Guide and a comparable life insurance industry pamphlet, I think, would recommend further inquiry to find out just what is going on.

In the recommendations I should like to say the following: In the course of the subcommittee's inquiries, evidence, in all likelihood, will accumulate to suggest precise policy directions for your consideration.

At this point the following suggestions are submitted for your consideration.

Senator HART. Mr. Nader, is there a page number in your prepared statement that you're now on?

Mr. NADER. Yes; page 15.

It is not conducive to consumer-oriented competition for conglomerates and financial institutions to continue their takeover of the insurance industry. The reasons against such takeovers were developed by observers of and advocates against the ITT purchase of Hartford Fire.

Reciprocity, milking the cash flow, absentee versus community-based ownership, one bank holding companies and many other factors have been considered in State and Federal hearings to one degree or another.

But the issue in focus has almost never been the competitive status of the insurance industry, but other matters pertinent to curbing acquisition-minded forces.

The subcommittee has the jurisdiction, obviously, to give this matter close analysis. The value of having independent countervailing industries was seen in the partial success of the insurance industry in limiting the potential diet of the one bank holding company in legislation a few years ago.

Diversity of economic power and cross-industry challenges, such as the insurance industry challenge of the banking industry in this area, encourage competition and a less monopolized politics.

I might say that if ever you want to adduce an example of the necessity to keep some distance between industries and to keep them from taking over one another or becoming too interlocked, you can point to the lobbying of the insurance industry against the banking industry. If it didn't occur there would have been the stage even more for the emergence of a one bank holding economy under the Federal Reserve Board.

2. Three external mechanisms to the life insurance industry should be considered in detail. I'm sure they'll be very, very disturbing to the life insurance industry, but that might account for their utility.

First, the establishment of Federal authority to set standards for various aspects of the business which these life insurance companies perform nationally or in interstate commerce is long overdue. National standards for national business.

This does not have to mean a blanket preemption of State regulation. But it should mean that the old disorder of 52 exclusive, duplicatory commissions, with grossly inadequate skills—most State insurance departments don't even have a single life insurance actuary on the staff, for example—should be considered an anachronism.

Second, what may be called "yardstick competition" through the establishment of State or Federal life insurance funds which would offer over-the-counter, low-cost life insurance to citizens and which would operate without any support whatsoever from taxpayers, could prove to be a most effective stimulus to quality competition among the companies.

Such funds could provide meaningful price and product information about their policies and those of private insurers who should have chosen to so inform the consumer, as true market competition would expect them to.

Such action could stimulate price competition and raise the level of consumer awareness of life insurance, both its pride and its pitfalls.

The State of Wisconsin has operated such a fund since 1911. It provides low-cost protection (up to $10,000) to anyone physically present in the State at the time of purchase. It may require a medical examination, but does not mandate it.

It sells only a few basic policies at prices, according to Professor Belth, lower than any of the private companies whose policies he prices. Best's Insurance Reports praised the Wisconsin State Life Fund for its "remarkably low expenses," low policy lapse rate and remarkably low cost to policyholders, or owners.

I might say that there is little in the State of Wisconsin that is less known that the State of Wisconsin Insurance Fund.

Unfortunately, the Wisconsin Insurance Department which operates the fund, makes no effort to communicate its existence to the public. The fund does not even have a separate listing in the Madison, Wis., telephone directory. And as a result it is very, very small.

Other yardstick competitors, such as Savings Bank Life Insurance, would help to enhance competitive quality, especially price competition.

I might say that about 11 years ago I called the Connecticut State office of Savings Bank Life Insurance to ask for information. They had been so accustomed to being preyed upon and pressured by the life insurance agents and industry in Connecticut that they almost treated any call as an act of hostility. They're always on the defensive. And they never—they never try to really actively or aggressively promote what was in effect the lowest cost life insurance in the State, even though there is a maximum coverage of $5,000.

I think one of the problems with these yardsticks is that they somehow restrain themselves and are very defensive. And the subcommittee may want to inquire about just why they are so restrained and timid.

Third, serious consideration should be given to expanding the social security death benefits system which, at the present level of $255, is insufficient even to meet its stated purpose of covering funeral costs.

I think it should be said, again and again, that the social security is life insurance. Social security is life insurance and offers an alternative to develop a base of adequate protection.

One alternative would be to provide the spouse of a 30- to 35-year-old worker with a family an additional lump-sum death benefit of, say, $10,000, similar in scope to a plan now operated by the Saskatchewan Provincial government in Canada.

This amount could be scaled down as the breadwinner grows older and up if he or she has a larger family. Death benefits could be reduced at a certain age when existing retirement and survivors benefits provide more adequate coverage.

Social security tax rates would not necessarily have to be increased. Instead, the maximum amount of income, against which the tax is levied, generally called the earning base, could be increased to an appropriately higher level and not be used except for greater death benefits.

Of course, this does not come directly under the subcommittee's jurisdiction, but under the Finance Committee's jurisdiction. But it warrants notice in these hearings.

And such a plan would tend to introduce a progressive element into the highly regressive social security tax structure.

3. A prerequisite tool for competitive quality is a meaningful disclosure law that would give the consumer the information necessary to compare the relative price and terms of different policies at the point of sale.

At the very least, consumers should be informed of the range of prices for the same policy (calculated in a meaningful way as Professor Belth, Consumers Union and others have suggested) offered by other companies doing business in his, or her, State.

The usefulness, for the subcommittee to make suitable inquiries, is evident as to the kinds of computerized consumer information systems which could make disclosure of information easily accessible when the consumer wants it.

That's the key, the ease of accessibility is the key. It's not enough just to have some mathematical formula to lay the basis for understanding the price comparisons, or disclosing them, it's got to be communicated. And I don't think anybody, yet, has the answers as to how it's to be communicated, except that the computer offers interesting potential here.

I know Consumers Union, 3 years ago, in a very temporary way experimented with the ability of a computer, so programed that it would answer a number of key questions that the prospective policyholder would ask of it in order to disclose the requisite information.

But that required more funds than Consumers Union could afford to further refine and develop.

Disclosure is only one step further, however, something must be done to make policies more comparable and not so deliberately incomparable through false complexity. All add-ons and extras to standard policies should be required to be sold and priced separately. Legitimate product innovations—that is, those that represent real changes, would have a chance to be more visible and thriving.

The value of meaningful price information to the consumer has been confirmed by the response to Commissioner Denenberg's shopper's guides to cash value and term insurance.

This is the first time the companies have been ranked by an insurance commissioner in this respect. In addition to listing the companies selling the 10 highest and the 10 lowest cost policies, he spotlighted 10 companies issuing what he called "gimmick" policies that were rigged not only against the consumer but against meaningful price analysis by outside experts.

Nine of the 10 policies are no longer being sold, a form of protective reaction by the companies charged.

Tens of thousands of the guides are being distributed and at least 10 other commissioners have written to me, in response to a question that I asked of them, announcing plans for similar action.

The National Underwriter is now publishing a price comparison manual covering many other companies and policies.

I might add that the secrecy of the industry here starts with the largest mutual companies. Consumers Union tried to get the data in order to make price comparisons and most of the big six mutual companies refused to supply that information.

I think perhaps it would be simpler to say that here's a series of companies that supposedly believe in a market system and they will do almost everything possible to keep the price of their services confused and obfuscated. Even the price is considered virtually a trade secret.

The comparisons that were brought together in Professor Belth's new book, "Life Insurance: A Consumer's Handbook," appear to illustrate the following:

The following companies appear above the median in each two important comparisons in involving $25,000 cash value policies sold to 25- and 45-year-olds in 1970.

Here were the companies listed, that appeared above the median price for those two important comparisons:

Aetna, Connecticut General, Franklin Life, Jefferson Standard, John Hancock, Lincoln National, Occidental, Prudential, Republic National of Texas, and Western & Southern.

Now, of those, two are in the top five, in terms of size in the industry.

4. Traditionally, the life insurance companies have recognized their interest in helping to prolong life through health and other advocacies. Too many of these efforts have merely paid lip service to noble ideals. They have been ineffective public relations gestures without contributing significantly to human health and safety.

Pennsylvania Insurance Commissioner Herbert Denenberg recently sent letters to the 20 largest life companies asking about their activities in prolonging life. It is a rather obvious question to ask a life insurance company, which is why it's never been asked.

Occidential Life of California and Traveler's provided no useful answers. Other companies transmitted such a paucity of information that Denenberg commented: "The sheer lack of answers was frightening."

His conclusion was that generally the companies were doing next to nothing to eliminate environmental threats to health and safety, to communicate health and product safety information, and to encourage safety research and standards.

I realize that this is not an explored subject, at all. But, I believe that this is one of the greatest contributions that the life insurance industry could possibly make and could justify on the basis of loss prevention and an economic vested interest.

This is precisely the kind of countervailing force, for safety and health, that has not, at all, been advanced for the public's well-being. It's an area of corporate responsibility that the life companies could hold up in pride, if they reversed their apathetic inertia and began to be the Nation's health and safety advocates and conscience.

Theoretically such an effort should be in the direct line of their vested economic interest. How much good they could do by researching, advocating, leading in the great needs of our times—for health care, pollution control, job safety, safer energy systems, safer transportation systems, including automobiles, and safer consumer products.

With a tiny allocation of their vast resources, animated by the tiniest amount of corporate executive courage, they could spark or help implement such progress. There are so many technologies waiting to be liberated for health and safety; from solar energy, safer cars, to more helpful techniques of processing foods.

Civil servants, trying to do the right thing against special interests, need to be supported. The life insurance industry could do that. Numerous other frontiers which can give these company executives a true and memorable mission await to be explored.

I might call their attention to the work by the Insurance Institute for Highway Safety, funded by the casualty insurance companies which after years of abdication of their responsibilities, have focused on excessive damagability of automobiles and ornamental bumpers, and have served to build up a great deal of pressure on the auto industry, which will result in the savings by consumers, through more adequate bumpers and lower insurance bills, many, many millions or dollars every year.

The casualty insurance companies in 1965-67 and before also said that they couldn't do it and they didn't know how to do it. But they were induced to do it largely by several people now in charge of the Insurance Institute. And, indeed, it's beginning to work.

The subcommittee could make further inquiries on this subject and present specific challenges which the life companies could easily and inexpensively undertake given their alleged commitment to loss prevention.

I should be pleased to recommend specific examples of such challenges for the subcommittee's use.

One of the most compelling phenomena in this industry is how insulated the chief excutives are from the urgencies which have convinced you to initiate this investigation. Consequently, it would serve a most educational function to have these gentlemen come, present testimony and reply to questions before the committee.

Not only would this provide the subcommittee with authoritative answers but the pretestimony briefing exercises which these executives would receive, inside their companies, might be a most valuable sensitizing experience. At least this was partly the case in 1966 with the auto executives, according to inside sources.

A few names may be suggested, as starters; Donald S. MacNaughton, chairman of the board, Prudential; Richard Shinn, president of Metropolitan; J. Henry Smith, president of the Equitable; R. Manning Brown, chief executive, New York Life; Gerhard D. Bleicken, chief executive, John Hancock; Donald Johnson, president of Aetna; Henry R. Roberts, chief executive, Connecticut General; and T. A. Watson, chief executive of Lincoln National Life of Indiana.

It would be greatly beneficial to consumer protection were these gentlemen to become household words.

Most of the giants in the life insurance industry are mutual companies, the top five, for example, are all mutuals. The 154 mutual

companies control 67 percent of the industry's assets, although they represent only 8 percent of the companies. Mutual company executives should be asked the hard questions they are never asked at their near clandestine and poorly attended policyowner meetings; for example, why aren't policyowners returned a larger share of the earnings of the company? Why aren't policyowners encouraged to participate in the annual meeting which are now luncheontime charades?

I recall, in the Temporary National Economic Commission hearings, there's a case described where a mutual policyholder sent in a postcard asking his company as to the time and place and agenda of the annual meeting. And the company sent a private detective to investigate.

6. The Department of Defense and Veterans Administration officials should be called to explain their favoritism for this industry and their disregard of the interests of millions of uniformed consumers and veterans.

7. The subcommittee should be especially alert—I'd like to emphasize this because it could help enormously to fulfill the subcommittee's quest for truth—the subcommittee should be especially alert to the likelihood of what some call industry "insiders" coming forward with their concerns and information.

Ethical whistleblowers who decide to place the public or consumer interest above their own careers should be protected from arbitrary reprisals after their courageous stand has been taken.

In the past, as in the auto dealer hearings in the 1950's before this subcommittee, those witnesses who did come forward found little help from the subcommittee after they returned home to face the squeeze and other subtle and not so subtle repercussions from the auto companies.

It is obvious that the task which the subcommittee has established for itself and the American consumer is immense and long overdue. You may wish to consider the advisability of a temporary special committee to concentrate on this giant industry with the barest staff required to do a reasonably effective job.

How many, many times will such a modest effort pay for itself over the years in billions of consumer dollars saved and a more vigorously competitive life insurance industry committed to health and safety advancement. The life insurance industry should welcome this inquiry for it can make them hold their heads in pride in the future as models of corporate responsibility, that is, if they entertain such ambitions of grandeur.

I'd like to quote from a statement by David L. Brain, executive vice president of Kentucky Central Life Co., which came out as a result of his recent survey of top executives of 62 large, medium, and small life insurance companies for their opinions on the impact of the consumer movement on their business.

In this survey 30 percent felt that the activity of the critics will lead to reduced premium rates or more liberal benefits.

In addition to the negative publicity the industry has already received the most frequently mentioned effects of consumerism are: Better service and improved policy owner relations; stiffer Government regulations; and a trend toward more frequent price benefit comparisons. * * *

Mr. Brain added his own opinion,

> One other effect is that it may produce fuel to accelerate the agitation for national health insurance legislation, and even bring about pressure for tacking a $5,000 life insurance provision on to social security benefits.

Mr. Chairman, there is still some industry candor left. Thank you.

Senator HART. Yes.

Mr. NADER. If I may ask for the record to be kept open, there are additional materials which, with your permission, we would like to submit.

Senator HART. They will be received, and after staff makes an evaluation of those thought appropriate for printing, they will be printed.

[See material received for the record at the end of Mr. Nader's testimony.]

Mr. NADER. Thank you very much.

Senator HART. Thank you for the testimony you have given us, the suggestions you have made, criticisms you have voiced, and cautions you have voiced.

One thing that had not occurred to me, frankly, was the problem of protecting persons who, whether in this industry or any other, feel some moral outrage about a practice that they are familiar with. They discover that a congressional committee is studying it, come in and voice their concern, and then go home and find that they have lost the franchise.

Frankly, I don't know what you would do about it. On the law books, there is an obstruction of justice statute. It does reach to congressional inquiries of witnesses before it. It is not just: "Do not hit the man over the head as he comes out of the grand jury room," but do not hit him when he comes out of a Senate hearing either, or before he goes in.

This is a very difficult case to prove, because they really never yanked the franchise; it is not that gross.

Now, having admitted really the inadequacy of any advance assurance against retaliation, I would hope that we, as a result of your reminder, be more sensitive to it. I will do my best to protect witnesses.

Mr. NADER. I could make some suggestions, Mr. Chairman, as to how to further develop an anticipatory response to these kinds of reprisals.

For example, if an insurance agent comes forward—a number of them have written to me and, I am sure, to Mr. Chumbris and Mr. Sharp and others who have looked into this problem—one way, I think, to protect him is to put on the record your concern in the following manner: When the insurance agent comes before this committee, he should be asked the names of all the companies that he is now representing. He should be asked to disclose, in effect, his business environment in terms of the potential conduits for these kinds of reprisals or post-restraints.

There are other ways, I think, to try to secure the requisite freedom of speech before a controversial hearing such as this that might bring you exceptionally important information, as well as save the taxpayer and the staff a lot of time and money.

Senator HART. We will do our best.

I think everyone, in the industry and out, would agree that an overriding need is clear, understandable information against which a potential insurance buyer can make a rational judgment.

You assume, I think, that this is a manageable undertaking. I hope at the end of the hearings I can be convinced, but maybe it is because I am wretched at arithmetic myself. Everybody that ever ran against me always cited it.

It seems to me that it is a monstrous job, given the combination of factors for us to hope that we will ever be able to put it on paper or even into a computer and punch it out.

Do you believe that this is a manageable thing?

Mr. NADER. Well, let me reply in this manner. This book by Consumers Union is supposedly a clearly written, a compressed advisory to prospective policyholders as to how they should decide the insurance that is best for them. It has tables and charts, and you fill out the budgets and what you have coming from various sources of income, et cetera, in order to decide.

It would take a very concentrated effort to use this book by a family—not that it is beyond the average family; it just would take a number of hours and some study.

Now, if this was all we had, I would agree with you. But I think we can go further on this disclosure point in the following ways:

First of all, as more disclosure occurs, various groups will be able to make recommendations, which policyholders or prospective policyholders would want to rely on. For example, one could consider Consumers Union's recommendations, or an insurance commissioner's ranking, or the Veterans' Administration, for example, if it would help clarify that list of 600 companies to weed out the more expensive companies.

So that there would be groups interpreting this information and able to convey it as an educational or informing function to the final customer.

Second, group life insurance, obviously, will begin or will continue to take more and more of the reliance factor by family breadwinners, instead of just trying to rely on the agent coming in the door trying to sell them a complicated, cash value policy.

I think, thirdly, disclosure reduces price, regardless of the level of consumer preference. For instance, if the Wisconsin Life Insurance Fund and if the Denenberg type of list and if the Savings Bank Life Insurance data received a great deal of publicity and a great deal of authoritative analysis throughout the United States, that effect would have to begin to depress the price level of other companies and make them more efficient as well.

Those are what I think are some of the uses of disclosure, other than just sitting down and spending 10 hours trying to fathom the particular insurance needs of a particular family.

Mr. PETKAS. Could I add a footnote to that, Mr. Chairman?

Senator HART. Yes.

Mr. PETKAS. I think we must be very careful not to accept the thesis that all life insurance is necessarily horrendously complicated and complex.

You will probably see in these hearings that there is a lot of unnecessary confusion and complexity. To that extent, disclosure may be made

more meaningful if the complexity, the proliferation of policies can be reduced in some fashion.

Mr. NADER. I might also add that the standardization of policies, which many have recommended, would help reduce that confusion. It would be important for students in high schools and other schools around the country taking consumer education courses to begin considering, as a prerequisite of a liberal education, some understanding of insurance.

If that can be done throughout the country, that would also provide an information base for more critical appraisals of insurance offerings.

Senator HART. We assign a good many responsibilities to the schools, but I think that is an appropraite suggestion. Maybe I would be in better shape if there had been that type of a course.

You mentioned proliferation of policies, and we have been talking about the lack of understanding. I would welcome your reaction to a suggestion that proliferation of policies, ignorance in the marketplace contributes to this concentration of economic power that we often talk about, perhaps especially with the mutuals.

Do you have any opinion about this?

Mr. PETKAS. Well, I have an opinion. I think it has got to be supported by the kind of evidence that this committee will, hopefully, develop.

But I do think that it is certainly a factor, a factor in concentration. We have not yet isolated out who is more responsible for complexity, the large companies or the small companies.

I think it is a general observation that we can make in the industry that the average consumer, when he meets his insurance agent or even if he receives a mail order solicitation, is frequently confronted with an array of mumbo-jumbo that is often reduced to terms that are essentially misleading.

It has got to have some impact on competition, on the concentration of economic power. But what particular impact that particular abuse has I think remains for further study.

That is one of the problems with concentration in the industry. The literature is almost nonexistent. Professor Denenberg did a piece recently, before he became a commissioner of insurance, about concentration.

One of his points was that the academic literature is very limited, because no one has really examined in any great depth the consequences of this and the causes.

Mr. NADER. Of course, we know how product proliferation or brand name proliferation operates in the gasoline industry and the cosmetic industry and the food industry. Part of it is tied to the advertising leverage that one company has over another.

That is, if Prudential and Metropolitan heavily advertise, they want to advertise a corporate identity. They will advertise a particular type of policy very heavily that further etches the corporate identity in the consumer's mind.

Basically, what they are doing is selling that advertisement or that identity or that type of meaningless policy differentiation which further increases, of course, their hold on the market.

Professor Turner, when he was head of the Antitrust Division, wrote a speech on the anticompetitive effects of advertising budgets,

which pointed out this type of process, although he did not specifically refer to the insurance industry.

What it really amounts to is this: If companies can compete about noncontroversial things, they will. They do not like to compete on price. If they can avoid competing on price, they will compete on more trivial differentiation.

As the bigger companies have more money to advertise these trivial differentiations, they tend to self-perpetuate their entrenched position in the rankings.

Senator HART. Having been exposed now for some years to issues such as this, I do have a strong feeling that whatever the motive, the consequence of vast product differentiation has the effect of restricting the degree of price competition. It does contribute to a concentration of marketplace.

Now, that is based on the testimony I have heard over the years on tangible, physical commodities. I am curious as to whether there is going to be the same relationship here.

Mr. NADER. I think one important piece of evidence is that in the rankings of companies, in terms of their costs to the policyholders, other things being equal, the lower priced companies at the top of the list are not the big companies. They are not Prudential, Metropolitan, Connecticut General.

They are more the middle-sized companies.

Now, if indeed the price system were working, the biggest companies would have at least as cheap a price offering, and they do not. So that is an interesting indication of the fact that price competition is not working, because the price of the services is not being communicated in a consistent and accurate way at all to the customer.

Mr. PETKAS. There is one other possibility; and that is that the reasons, one of the reasons for proliferation is this competition for agents that we see in the insurance business.

In other words, the consumer is never really provided the kind of information to know the difference anyway. So the proliferation of products—note that these are just pieces; we have not developed the kind of evidence we need yet—the proliferation of products is an attempt by companies to corner the market on agents.

Once they have cornered the market on agents, so I would hypothesize, it is relatively easy to do the same, to corner the market—to get a larger share of the market of sales, premiums, income.

Senator HART. In preparation for these hearings or as a result of the announcement of them, a concern has been voiced to me by agents rather frequently that the kind of disclosure of data that you urge us to persuade the insurance companies to make available will mean that the agents won't survive.

As one put it to me, it would be so costly compared to this computer punch-out thing, the agent system would disappear.

Do you have any opinion, either reassuring them or depressing them?

Mr. PETKAS. Well, I think, in the first place, you must recognize that in the agent system there is an enormous turnover of agents as it is. Industry spokesmen are continually decrying the massive turnover in agents.

One spokesman—I think we quote him in our prepared testimony—indicates that after 5 years only 11 percent of the agents who join a company are still selling insurance.

Now, there is something wrong with the agency system, perhaps besides the kind or type of disclosure we are talking about.

I think that what Commissioner Denenberg has observed in Pennsylvania will provide us with a clue. That is that the agents, given disclosure, tend to move to the companies that are the lower cost companies.

So you have a ripple effect of disclosure in the industry. There is a move of agents toward selling the products of the lower cost companies, because it is easier to sell a product that is comparatively lower when you have this kind of information available.

I do not really think it is going to end the agent system. I really think the consequences will be to reform it substantially, so that competition for price, rather than competition for gimmicks and for the kinds of product proliferations we are talking about and for advertising, will become more of an integral part of the relationship between the agent and the consumer.

I do not think that we can justify any particular system of distribution, unless it is economically viable. If we disclose the facts and the system crumbles, then I do not think we can cry alligator tears over that.

I do not think that will happen. I think the system will survive, given competition. After all, that is what free enterprise is all about.

Mr. NADER. Two additional points.

Since prospective policyholders or customers cannot really know which is the best policy for them, they are victims of a seduction of trust.

For example, the companies want to hire the agents who have a lot of relatives and who have a lot of friends in the community, because these agents can sell this life insurance on the basis of a friendship trust or a kinship trust relationship.

Once they exhaust that pool of prospective customers, they tend to go on hard times and they are turned over. That is one of the reasons for the rapid agency turnover.

Now, it is nice to have a trust relationship between buyer and seller if it is merited. But if it is basically irrelevant to the commodity that is being purchased or sold, such as kinship or friendship, and if it replaces price competition, then that is an abuse of trust.

Consequently, a more price competitive industry will reduce the number of agents and will make the existing agents have to perform in a more efficient way and chose the most efficient company policy to offer.

Senator HART. Mr. Chumbris?

Mr. CHUMBRIS. Thank you, Mr. Chairman.

Mr. Nader, I believe in the long years that we have been here as an antitrust and monoply subcommittee, this is your first appearance before this subcommittee.

Mr. NADER. Yes.

Mr. CHUMBRIS. Your paper, as Senator Hart has indicated, is a rather extensive paper and I am sure that it will be read carefully by interested parties of all points of views.

There may be some who will agree with you on many things. There will be some who will disagree with you on many things. From what I have read, the insurance industry itself has shown concern. The joint committee that was created in the last 4 or 5 years made a study, and improvement has been seen in changes in policies.

For example, the Consumers Union pamphlet on life insurance which you referred to points out that in 1950 term insurance was hard to get. In 1966, 40 percent of all life insurance sold to individuals was term insurance. That is quite a jump from 1950, when term insurance was hard to get, to 1966 when term insurance was constituting 40 percent of all insurance sold to individuals.

Group policies are term insurance and are the type of insurance that is being sold to many groups, such as government workers. So if you take that into consideration, also, term insurance has moved very well.

This book also points out that in many instances a man, instead of buying $50,000 of one type of policy, should buy $25,000 of term and $25,000 of ordinary life. In that way he can build up his savings at the same time, with the other $25,000 buying as much protection as he possibly can.

Those are the kinds of questions I think that we are going to have to weed out during the course of these hearings.

If I may just make one more point, another illustration, then you may comment.

You referred to the fact that this Widow Study in 1970 showed that 92 percent of the widows received some form of insurance benefits. Their husbands had some form of insurance.

It would be interesting to note, if we go back 50 years to 1920 and see how many widows received any kind of life insurance benefits on their husbands' deaths.

At least 92 percent of them had some. Now, if 92 percent had insurance benefits and 52 percent of them had less than $5,000, then it follows that 48 percent of the widows received anywhere from $5,000 to possibly a million dollars in life insurance benefits.

That is not beyond the realm of possibility, because there are people who buy 3, 4, 5 million dollars worth of insurance.

I do not know what the figures are going to show, but it is interesting to also develop that point.

With that, Mr. Chairman, I hope that as we go through these hearings, we look at each of these statements that have been made, such as the 11 percent of agents left after a 5-year period, we should find out about that. Also, are we referring to agents who work for an established insurance company, or are we referring to agents that are in an agency serving for four or five different insurance companies?

Mr. PETKAS. In the life insurance industry, almost all agents sell only for one company. The pattern is exclusive—exclusive agency arrangements.

These are not our figures. These are industry figures.

Mr. CHUMBRIS. Well, I took the trouble to ask that question of the National Association of Insurance Agents. They have a different distinction than you have just given me.

I think the way I put the question will indicate that there is a percentage where an agent will be an agent only for Insurance Company

X. And there may be an agency that may handle five or six different types of life insurance.

Thank you very much, Mr. Chairman.

Senator HART. Yes.

Mr. NADER. Two additional comments, if I may.

I do not read the Consumers Union report as being quite that sanguine on the purchase of cash value life insurance. My interpretation of it is not that.

They give all the pros and cons. I do not think at all that they come out leaning toward splitting half term and half the cash value.

The point about 92 percent being covered compared to many years ago is hard to challenge. But the question basically is not whether more people have coverage now than 30 or 40 or 50 years ago.

The question obviously has to be: What kind of coverage do they have given for money that they pay? Now or 10 years ago or 20 years ago?

They are obviously paying much, much more now than they were 30 or 40 or 50 years ago. It is because they are paying more and more are under coverage of some kind that the seriousness of this subcommittee's quest is made plain.

Mr. CHUMBRIS. The point I was trying to bring out is: We cannot do much about what has been done under the contracts that have already been purchased, except for the person who has a policy and has an option to turn his ordinary into term or term into ordinary. He might want to do something after he has heard the testimony of these hearings.

What I am trying to point out is: We have a problem here, and what will be developed from this point on, as far as the consumer is concerned—in making sure that he buys the type of policy that will be the best for him and his family.

All of us up here are consumers. We have bought insurance, and I think everyone of us, since we have started looking into issues have reevaluated the policies that we have.

I know that in looking at mine and I do not know what the good percentage is, but the way it turns out, I have more term insurance than I have ordinary life insurance. Maybe it is because one is a member of some bar association or a member of some State legal group or is with the Government service, and such groups have term insurance.

Mr. PETKAS. I think our conclusion from the Widow Study and from our observation of what the industry is selling—that is, what it is pushing—is that it is overemphasizing the virtues of cash value insurance and understating the virtues of term insurance for those people who need it most.

That is part of the consumer disclosure problem. Agents, for instance, receive much larger commissions when they sell a low-benefit, high-cost cash value policy. There typically is quite a spread between those kinds of commissions, so their incentive in that for certain families—that is, for young families—might very well be in the wrong direction.

So the limited dollars that those young families have to spend on insurance are often put in the wrong kind of insurance; that is, the

kind of insurance that means lower benefits for them in the case of premature death.

That is not the conclusion of the study. That is our interpretation of those figures. I think it will stand up.

Mr. CHUMBRIS. The Consumers Union book does stress the point that you have just made. But Professor Belth, who is going to testify next, has a view different from the Consumers Union book and a view that is also different from that of the insurance industry.

We are going to hear the agents. They will not be heard in this first round of hearings, but as I understand it, when we have our second round of hearings, probably in May, they will be here to give us their views.

Senator HART. A moment ago it occurred to me it would be interesting to find out what kind of insurance agents bought for themselves. You know, when you roll that around again, maybe it won't prove anything either.

Mr. PETKAS. They may be just as confused as the rest of us about it. There is some thinking that agent confusion is a problem.

Senator HART. Mr. Sharp.

Mr. SHARP. Thank you, Senator.

Mr. Nader, first of all to clear up a few minor little statistical facts that the minority counsel stated—not that we're advocating "term" versus "whole life" or "straight life" or anything to the kind—but I think we should keep the record straight from a factual standpoint.

In the 1972 life insurance factbook published by the Institute of Life Insurance, on page 18 appears a table showing an analysis of ordinary life insurance purchases in the United States, and of the number of policies purchased in 1971, only approximately 11 percent were so-called term policies.

Term policies have usually higher face amounts than straight life policies. Mr. Chumbris was measuring sales by what the industry would call in-force, meaning nothing more then face amount of the policies.

So, when you compare term sales with straight life sales by "in-force," or face amount, rather than by number sold, since term insurance contracts usually have higher face amounts, obviously you're going to get a larger percentage for term.

I just thought we'd clarify that, and let the factbook speak for itself.

Now, to move on, Mr. Chairman, as far as "agents turnover" is concerned, I think Mr. Nader in the full statement, second paragraph, he quotes from one Michael Walsh, a general agent for Home Life of New York, which is not exactly a small company—it's a very large mutual company in the top 30 companies out of 1,805. In order to prevent any misunderstanding I would like to place in the record Mr. Walsh's full statement.

It's not that long, and I think it would be beneficial.

Senator HART. We will accept it.

[The document follows. Testimony resumes on p. 41.]

DANIEL J. WALSH'S SONS, INC.,
Philadelphia, Pa., May 10, 1973.

Senator PHILIP HART,
U.S. Senate,
Capitol Building,
Washington, D.C.

DEAR SENATOR HART: As Chairman of the Senate Sub-Committee before which I was quoted by Mr. Nader regarding the Life Insurance industry, I thought the complete text of my speech might be of interest to you.

It is my hope that the work of your Committee and Mr. Nader will result in strengthening and bettering this great industry.

If there is any manner in which I may be of help, please call upon me.

Cordially,

MICHAEL P. WALSH, C.L.U.,
President.

Enclosure.

THE MARKETING CHALLENGE

(By Michael P. Walsh, C.L.U. the House Life Insurance Company of America)

Progress—Everybody is for it but nobody wants *change.* In discussing with you the present challenges of our business and its future opportunities, I would like to suggest that the ultimate success of the life insurance industry can only be assured by making *changes* and not just progress.

The most fundamental change our industry must make is to go from an institution which sells its products to a business which *markets* its products. It will be this change from selling to marketing that will write a successful future for our business.

Now some of you might think that I am oversimplifying the obvious and that selling is marketing. I suggest to you that it is not. But rather that selling is just one phase of the marketing activity.

In the context of this presentation, marketing can be defined as the opportunity to accurately assess what the needs and desires of the market place are, how products can be designed to fill those needs and desires, determining the most efficient way to distribute those products in the market place, and the recognition that the ultimate measure of our success or failure will be in the hands of the consumer.

Just a cursory examination of this definition reveals four major ingredients: namely,

1. It is a definition of marketing and just not selling
2. It refers to product in terms of what the consumer wants and needs
3. It suggests the most effective and efficient method of distribution
4. It puts the measure of success or failure with the consumer.

Let's look at each of these parts of our marketing definition. First, the change to a marketing business. To be very frank, the life insurance industry has traditionally been just selling its products. Most Agency Officers and Agency Organizations have really just been tinkering with new wrinkles of the old theme—increased sales. For years, we have just been selling our products without the realization that the selling activity is only *one* part of the marketing process. We have convinced ourselves that our product is so different that it has to be handled differently.

I would like to suggest to you that our products, whatever they are or will be, are not that different and the sooner we elect to marketing, rather than selling, the better off we will be.

We need a realization in this industry that marketing is really four activities: 1. Planning; 2. People; 3. Production; 4. Profitability.

And that it is the combination of these four ingredients, managed with expertise, that will be our future. But just giving head nodding agreement to this basic premise is not sufficient. For life insurance companies to give life to this concept, sweeping changes must be made.

For instance, do you realize that most of our life insurance companies are not even organized to be a marketing business. A comparison of a L.I.A.M.A. survey with the results of a survey conducted by the Sales Executive Club of New York indicates this quite clearly. While 80% of this respondents to the Sales Executive's survey indicated their firms has a top marketing executive, only 36% of the L.I.A.M.A. respondents indicated such and, in addition, even those life insurance companies that did have a marketing executive, did not have all the marketing functions reporting to that Chief Marketing Officer. What could be even more shocking is the fact that only 16% of the life companies with a top market officer had any kind of formal training program for this executive. Can we expect sound marketing results from this kind of situation. How much longer are we going to rely on people flying by the seat of their pants. When are we going to recognize the sophistication, the training, and the expertise that is required to perform the top marketing job and that men in this job need to be highly qualified? That they need a working knowledge of computers and computer lead time in the decision making process? Computers have been in commercial use for over 20 years but are we getting our money's worth from they in our marketing? I suggest not. It seems to me that we are just scratching the surface, and that the only way we can take real advantage is by this full recognition of marketing. When are we going to see that our top sales—marketing—people are prepared to do the market planning that is required today? Let me just give you one fact to drive this point home. Consider, that recent statistics indicate combination companies are concentrating in the below $10,000 income level of the market place and that ordinary companies tend to concentrate in the $20,000 and above income levels. Yes, these are the facts—in spite of another fact that the real growth and opportunity available to us in the Seventies is in the $10,000 to $20,000 income level. Shocking, yes, but true.

And when are we going to take this marketing function and its people and integrate them with the other functional areas of a life insurance company? Perhaps, some of our present difficulties stem from the fact that all of a company's activities are not leading to the accomplishment of overall corporate goals.

Let's turn our attention to the second ingredient of our marketing definition—the inference that we must accurately determine what the needs and desires of the market place are. This of course, refers to product design. It seems to me that our business has to do a better job in determining what the needs and desires of the market place are and must do a better job of providing products that fill those needs and desires. Such a position is fundamental to a marketing operation, but unfortunately, it has not been fundamental to our business of insurance.

Let me illustrate. Our business has gone from 5 basic products in the early part of this century to literally hundreds of different products today. You know this story even better than I do. We have gone from whole life to joint life and split life and modified life; from limited pay to low pay, slow pay, modified pay, increasing premiums, decreasing premiums and on and on. I suppose the next step is no pay.

The basic question is this. Are we in fact dictating what the public will buy as opposed to reacting what the public wants? Consider these facts:

The fact that a recent survey indicated that in less than 2% of the cases studied was an attempt made by direct consumer contact, to determine what the consumer wanted before a new product was designed in our business.

The fact that the Executive Vice President of one of the leading companies just stated that they never design or introduce a new product without the council of their Agent's Advisory Committee. Now I think the fact that they are doing that is fine, but it can't replace dialogue with the consumer.

The fact that when term insurance was introduced our industry damned it—in spite of the fact that the consumer, by his response in the market place, indicated his acceptance of the product.

That the Family Plan when introduced in 1957 was called the ruination of our industry, but again, the consumer in the market place voiced his decision.

The fact that our companies decided the way to bolster premium income and agent's earnings was to enter the equity field. And I hope we are listening because I think the consumer is giving us his answer.

And finally, the fact of cash value life insurance. Now you and I know and understand fully the theory and the practice of cash value insurances. Just as well, I am sure, that the automobile industry understands the Rolls Royce. But

they also understand that for a variety of reasons most consumers did not need or desire a Rolls, so they willingly provided Fords, Chevy, and Volkes Wagons.

No discussion of product would be complete without touching one final area. In the course of time various consumer needs have become apparent and our industry has not moved to fill these needs. History has recorded, as well as the Congressional Record, the results of our inertia. The case of the need for medical insurance to the aged is behind us. But currently facing us are some consumer needs of equal or more significance. I refer of course, to the following: 1. Health insurance for all consumers; 2. Portable Pension Plans; 3. Fire and Homeowners coverage; 4. Automobile insurance.

In all of these areas, insurance is an economic necessity for which there should be a competitive market. Our challenge here is obvious. If this challenge is not met by the private sector, other sectors have indicated a willingness to step in.

The third part of our definition of marketing referred to an efficient and effective distribution system and it is at this juncture that we really get into the thick of things. The traditional method of distributing the life insurance products was, and for the most part still is, the Agency System, but our definition of Marketing calls for an *efficient* and *effective* distribution system.

It seems to me that the Agency, system as it presently exists does not meet this definition. Mr. Yankelovich put us all on the alert when he said, and I quote "The Archilles heel of the industry is the cost of the Agency Distribution System which reflects high cost to the policyholder, the high cost of Agent turnover, of lapses, and of policy switching." Do you know how the life insurance industry responded to Mr. Yankelovich? Just five weeks after his statement was released, the National Underwriter carried the following headline "Life Insurers must raise rates or face profit crisis."

Gentlemen, let's get with it. The kind of thinking reflected by that headline will bury our industry. How long can we ignore people like Yankelovich, Peter Drucker, Bob Slater and others? It is not my intention, at this juncture, to suggest that the Agency System should be done away with. But, I do intend to say that we must get ourselves in gear and look at the question of *distribution* in more realistic terms.

Here are the cold facts:

Yes, the Agency System sold about $194 billions of life insurance in 1970. And yes, total life insurance in force in this nation aproached $1.4 million. A good job; but is it enough? Consider some other facts:

That all of our people currently being hired into the Agency System, only 11% of them will still be in it five years from now. And then compare that 11% with preliminary figures generated by the National Industrial Conference Board, which shows a net of 40% to 50% after five years for sales positions in other industries.

That the market place is changing dramatically. In age it is growing in the under 35 group and the over 55 segment. The educational level is rising substantially, particularly at the college level. Family income is increasing and is expected to be more than $14,000 by 1980. The work force is expanding in numbers and particularly the number of blacks and women. Does the Agency System in its recruiting follow these trends?

The fact that the Agency System calls its men professionals when really this is doubtful. How can he be a professional when the average Combination Agent, in 1969, produced $210,000 in volume and earned about $7,000. His counterpart, the Ordinary Agent only faired a little better—about $413,000 of production and earned less than $10,000 and when at the same time, the average income level of all professional level adults was over $11,000.

Consider too, the fact that the Agency System justifies itself by saying an Agent is needed on an "eyeball to eyeball" basis to motivate a prospect to buy an adequate amount of life insurance. Yes, that's what we are told and other facts indicate that the average family's life insurance protection is $21,000—which is still roughly the same rate of insurance to income that existed in 1940.

Consider the fact that the *Widows Survey* indicates that 76% of the husbands whose widows were surveyed, owned less than $5,000 of individual life insurance and that 88% owned less than $10,000.

Consider the fact that the Agency System has also been justified because its Agents provided much needed service to the policyholders—but, when and how do we provide this service? Shouldn't our service be more than just delivering a death claim check? Why do we have so many "orphan policyholders?"

This represents much of what we know about the Agency System. Every year Agency Officers at conventions keep saying we are making progress in these areas. Now the time has come to say, either *change* it and make it work effectively and efficiently or find a better distribution system. Regardless of which alternative appeals to you, that the life insurance industry we can no longer afford the luxury of thinking our marketing position is secure, because, referring to our product, ". . . there is no substitute for it." We can no longer afford to believe that the size and quality of your Agency Organizations is superior to any other and that a century and a half of tested performances is all that is necessary for success in the future.

But rather, we must recognize that the age of bigness is over. That the ultimate test is no longer "how big" or "how old" but "HOW GOOD."

As a concluding thought on the Distribution System, let me strongly point out three developments which will have profound effects on *any* distribution system; consumer credit, credit cards, and communications. I believe that these factors in the coming years will have a direct bearing and influence on our marketing process. And anyone who is not regarding them, is just not doing the job.

And now we come to the man that makes all our "marketing" happen; our friend the consumer. And in my mind, he is our friend because without him we are out of business. Remember, that in our marketing definition, the final determination of our success or failure is in his hands—and that is as it should be. But, if we are going to market our products successfully, we must do a better job of educating the consumer. Most people recognize at least a basic need for our product. Peter Drucker even suggests that some will buy it without being sold. However, have we met the challenge of informing the consumer in specific terms about the real nature of our products and our services? I think not.

This challenge is most critical to us. A competitive market depends on knowledgeable buyers. Unless we foster a "knowledgeable buyer" the market place will no longer be a competitive one. Since insurance is an economic necessity for which there should be a competitive market, our challenge is obvious. If this challenge is not met, the Federal Government will step in and has already shown its willingness to do so.

Further, the demand for educating the public can be seen from the thrust of "consumerism" towards our business. In 1968, Elmo Roper gave us all a preview of the age of consumerism. As previously stated, Mr. Roper indicated that the age of business was over; that people were not going to be concerned with "how big" but rather with "how good"; that the age of quantity would be replaced with the age of *quality*.

Added to this, is the fact that the public mood is changing. It is now one of discontentment. Belief in our most basic values has been shaken and questioned. Conflicts and contradictions surround us. As a result, the mood of the public is more emotional, more questioning. There is evidence that the public no longer sees the life insurance industry as wearing a white hat.

Research has indicated *clearly* to us the areas that disturb the public the most. The general mood of the public is that buying life insurance is a *duty* not a pleasure. Life insurance is linked primarily with death and certainly this is a disquieting subject. In addition, the consumer harbors a basic suspicion regarding agents compensation which makes him wonder if the agent is financially able to work *only in the best interest of the client*.

Why are we defensive about questions concerning price comparisons within our industry? Indeed, we cannot even agree among ourselves on the basis upon which the price of our products can be compared. However, in our daily lives, you and I shop for goods and service in the market place by comparing product, value, and *price*. But we don't encourage the consumer to shop for our product like this.

The public also feels that life insurance companies are distant, remote and extremely wealthy. Because we talk about the institution of life insurance rather than the business of life insurance, the public has little awareness of our business aspects—for instance, how we make money. Lack of knowledge breeds suspicion and undermines confidence.

The challenge of educating the public directly presents a challenge to our advertising programs. Unfortunately, our advertising is just not doing the job for us.

Recent surveys and studies indicate that life insurance advertising is simply not getting the message across. Four years ago, a survey indicated a public demand for greater product knowledge in our ads. However, a recent survey

states and I quote, ". . . lacking in content with the result that the message of particular products is just not getting across." I submit to you that our ads must talk about the more relevant aspects of our business and downplay the "fireplace of financial warmth" concept.

THE PENN CENTRAL CHALLENGE

There is one other challenge which faces our industry today and next to the Marketing Challenge, it might be the most important of all. I refer to it as the Penn Central Challenge.

By now, all of us are familiar with the Penn Central Story, of how the greatest railroad empire this nation has ever seen was driven to bankruptcy. Many business experts were quick to point out the reasons for the failure of Penn Central—and the most common reason given was that Penn Central forgot it was in the transportation industry and not just the railroad business.

I suggest to you that this explanation of the Penn Central failure is wrong. That the real reason for its failure was that Penn Central forgot it was in the *railroad business* and the mistake was that of its management was diverted from its most important task—the operation of a railroad company at a profit.

Gentlemen, we face this same challenge in our business. We must decide what is the real nature of our business. Is is, as some have suggested, just the business of supplying income protection—the traditional life insurance product; or as others say, is the real nature of our business the supplying of total financial services to the public? Rather than to try to answer this fundamental question, I would simply ask the following: Are we, in determining the true nature of our business, listening to the consumer and moving in the direction of supplying the products which he is demanding in the market place?

Or, are we questioning the real nature of our business because as a noted management consultant put it, it gives one a feeling of acomplishment to diversify in failing.

Gentlemen, regardless of how you answer this fundamental question, I suggest to you that the real challenge of tomorrow's changing markets is the familiar Marketing Challenge.

Gentlemen, by way of summary, let me say this. I believe very strongly in the business of life insurance. I believe in the future of our business. But, I also believe that the challenge that face our business is more fundamental than changing demographics. I believe if you and I, together with our management associates in all the companies realistically attack the challenge of today, that we will be successful in the markets of tomorrow.

Mr. SHARP. Also, I would like to offer for the record the complete Widow Study.

Mr. HART. It will be received.

[The study referred to appears at the end of Mr. Nader's testimony.]

Mr. SHARP. On page 19 of Mr. Nader's statement, reference is made to the mutual life insurance industry and statistics have been supplied the subcommittee. In order to further complete the record, Mr. Chairman, the staff would like to offer for the record a series of tables showing market shares and structure of the life insurance industry.

This is a preliminary study, and more needs to be done.

Senator HART. They will be received.

[The tables referred to follow. Testimony resumes on p. 44.]

ORDINARY LIFE PREMIUMS, ASSETS AND ORDINARY LIFE IN FORCE OF 30 LEADING MUTUAL AND STOCK-CAPITAL COMPANIES RANKED BY PREMIUMS, ASSETS AND ORDINARY IN FORCE, 1971

[Dollar amounts in millions; rounded]

Company	Form of organization	Rank by: Ordinary life premiums — Rank	Ordinary life premiums	Rank by: Admitted assets Dec. 31, 1971 — Rank	Admitted assets Dec. 31, 1971	Ordinary in force (policy face amount): Whole life and endowment — Rank	Whole life and endowment	Term — Rank	Term	Total — Rank	Total
Prudential	Mutual	1	$2,121	1	$31,156	2	$62,494	1	$31,856	1	$94,350
Metropolitan	do	2	1,885	2	29,136	1	70,651	4	8,693	2	79,344
New York Life	do	3	1,093	4	11,268	3	34,935	6	7,230	3	42,165
Equitable Life Assurance Society	do	4	749	3	15,395	5	22,407	8	4,719	5	27,126
John Hancock	do	5	703	5	10,603	4	22,429	2	10,939	4	33,368
Northwestern Mutual	do	6	557	7	6,453	7	11,627	21	1,220	10	12,847
Massachusetts Mutual	do	7	405	10	4,566	6	13,105	14	2,161	6	15,266
New England Mutual	do	8	366	12	3,751	8	10,935	19	1,519	11	12,454
Mutual of New York	do	9	324	11	3,946	9	10,453	13	2,798	9	13,251
Connecticut Mutual	do	10	309	13	2,922	10	9,796	22	1,207	13	11,003
Mutual Benefit Life	do	11	241	14	2,697	11	7,815	29	614	17	8,429
Connecticut General	Stock	12	237	8	5,668	13	6,943	7	5,123	12	12,066
Lincoln National	do	13	209	16	2,363	12	7,280	5	7,568	7	14,848
Pennsylvannia Mutual	Mutual	14	202	15	2,512	14	6,812	18	1,564	18	8,376
Aetna Life	Stock	15	192	6	7,803	17	6,105	15	2,106	20	8,211
Occidental	do	16	173	20	1,796	22	4,332	3	9,120	8	13,452
State Farm	do	17	172	29	902	16	6,176	10	3,964	15	10,140
Franklin Life	do	18	171	25	1,311	23	4,137	9	3,992	21	8,129
Travelers	do	19	170	9	5,043	15	6,272	11	3,116	16	9,388
National Life of Vermont	Mutual	20	147	22	1,521	21	4,947	29	574	14	10,521
Western and Southern	do	21	133	18	1,979	18	5,784	23	1,129	23	6,913
Phoenix Mutual	do	22	130	24	1,446	24	4,022	26	768	26	4,790
American National	Stock	23	123	23	1,487	19	5,425	16	1,951	22	7,376
Continental Assurance	do	24	121	21	1,769	29	3,743	17	1,895	24	5,638
National Life & Accident	do	25	121	19	1,890	20	5,235	12	2,979	19	8,214
Bankers Life (Iowa)	Mutual	26	117	17	2,250	25	3,948	20	1,377	25	5,325
State Mutual	do	27	113	26	1,305	27	3,773	27	633	28	4,406
Guardian Life	do	28	107	28	993	30	3,164	25	882	30	4,046
Home Life	do	29	105	30	884	26	3,850	28	612	27	4,462
Provident Mutual	do	30	99	27	1,190	28	3,759	30	419	29	4,178

Source: 1971 Annual Statements; Best's Reports (Life and Health Edition, 1972).

ASSETS OF TOTAL MUTUAL AND TOTAL STOCK LIFE INSURANCE COMPANIES AS A PERCENTAGE OF TOTAL LIFE INSURANCE INDUSTRY ASSETS, 1971

[Dollar amounts in millions; rounded]

	Companies		Assets	
	Number	Percent	Amount	Percent
Mutuals	154	8	$148,500	67
Stocks	1,651	92	73,600	33
Total industry	1,805	100	222,100	100

Source: Life Insurance Fact Book—1972 (Institute of Life Insurance).

ASSETS OF LEADING [1] MUTUAL LIFE INSURANCE COMPANIES AS A PERCENTAGE OF TOTAL ASSETS OF MUTUAL LIFE COMPANIES, 1971

[Dollar amounts in millions; rounded]

	Assets	Percent
5 leading	$97,558	66
11 leading	121,893	82
20 leading	135,973	92
Total mutual companies, 154	148,500	

[1] As ranked by ordinary life premiums.

Source: 1971 Annual Statements; Life Insurance Fact Book, 1972 (Institute of Life Insurance).

ASSETS OF LEADING [1] STOCK LIFE INSURANCE COMPANIES AS A PERCENTAGE OF TOTAL ASSETS OF STOCK LIFE COMPANIES, 1971

[Dollar amounts in millions; rounded]

	Assets	Percent
5 Leading	$18,537	25
11 Leading	31,093	42
20 Leading	38,553	52
Total stock companies, 1,651	73,600	

[1] As ranked by ordinary life premiums.

Source: 1971 Annual Statements; Life Insurance Fact Book, 1972 (Institute of Life Insurance).

ASSETS, AND ORDINARY IN FORCE (FACE AMOUNT) OF 11 LEADING LIFE INSURANCE COMPANIES RANKED BY ORDINARY PREMIUMS, 1971

[In millions of dollars; rounded]

Company	Form of organization	Premiums	Admitted assets	Ordinary in force
1. Prudential	Mutual	$2,121	$31,156	$94,350
2. Metropolitan	do	1,885	29,136	79,344
3. New York Life	do	1,093	11,268	42,165
4. Equitable Assurance	do	749	15,395	27,126
5. John Hancock	do	703	10,603	33,368
6. Northwestern Mutual	do	557	6,453	12,847
7. Massachusetts Mutual	do	405	4,566	15,266
8. New England Mutual	do	366	3,751	12,454
9. Mutual of New York	do	324	3,946	13,251
10. Connecticut Mutual	do	309	2,922	11,003
11. Mutual Benefit Life	do	241	2,697	8,429
Total		[1] 8,753	[1] 121,893	[2] 349,603
Industry—1,805 companies		15,963	222,000	789,167

[1] 55 percent.
[2] 44 percent.

Source: 1971 annual statements; Best's Reports (Life and Health Edition, 1972).

PREMIUMS, INVESTMENT INCOME AND EXPENSES, ORDINARY LIFE INSURANCE BUSINESS ONLY, FOR 30 LEADING COMPANIES BY PREMIUMS, 1971

[Dollar amounts in millions; rounded]

Company	Premiums	Investment income [1]	Expenses [2]	Expenses as percentage of premiums
Prudential	$2,128	$891	$564	26.5
Metropolitan	1,885	808	521	27.6
New York Life	1,093	450	264	24.2
Equitable Life Assurance Society	749	329	184	24.6
John Hancock	701	268	224	32.0
Northwestern Mutual	557	284	95	17.1
Massachusetts Mutual	405	165	93	22.9
New England Mutual	366	141	80	21.9
Mutual of New York	324	159	91	27.8
Connecticut Mutual	309	126	67	21.6
Mutual Benefit Life	241	106	50	20.7
Connecticut General	237	79	63	26.6
Lincoln National	209	100	45	21.5
Pennsylvania Mutual	202	106	54	26.7
Aetna Life	192	75	61	31.8
Occidental	173	46	57	32.9
State Farm	172	47	45	26.1
Franklin Life	171	59	39	22.8
Travelers	170	94	53	31.2
National Life of Vermont	147	59	32	21.7
Western and Southern	133	48	50	37.6
Phoenix Mutual	130	51	28	21.5
American National	123	46	57	46.3
Continental Assurance	121	36	33	27.2
National Life and Accident	121	41	55	45.4
Bankers Life (Iowa)	117	49	32	27.3
State Mutual	113	40	30	26.5
Guardian Life	107	44	27	25.2
Home Life	105	40	29	27.6
Provident Mutual	99	46	22	22.2
Total	11,595	4,833	3,045	[3] 26.3

[1] After all expenses.
[2] Excludes investment expenses.
[3] Average.

Note: The figures used were taken from 1971 Annual Statements, p. 5 "Gain and Loss Exhibit," "ordinary life insurance," col. 3, lines 1, 3, 4, 21 through 27.

Mr. SHARP. I would also like to ask Mr. Nader this question.

You have referred to the "military insurance complex." What do you think are some of the possible reasons why the Department of Defense depends so heavily on the Institute of Life Insurance, and why the Veterans' Administration depends so heavily on the Prudential?

In short, why don't these Federal agencies consult with independent experts?

Mr. NADER. I think the first plausible reason is that they are lazy. They are just lazy. You know, the routine approach here is to take the easiest, least controversial way out. If you can present the list of 600 companies, and not have to make educational differentiation for the serviceman or the veteran, then you get away with the least controversy.

No. 2, and this is what the subcommittee should really inquire into, is precisely how the decisions were made. Precisely where the gentlemen who made the decisions are now working if they have left the Department of Defense or the Veterans' Administration, precisely what were the nature of the conversations, and the contacts between the industry and these two agencies.

It's not that they didn't have expert advice; they did, as you implied. They had the advice of a number of specialists that they could have drawn on; they were contacted by a number of groups. I know Consumer's Union was interested in this situation. And they could have developed their own experts if they had wanted to; after all, they are the No. 1 and No. 3 agencies in Government in terms of size, the Veterans' Administration being, in terms of budget, the third largest Government agency in the U.S. Government, in terms of employees, the second largest.

So, just in terms of what is now revealed on the public record, I think that's about all that could be said. But it certainly deserves more inquiries.

Mr. SHARP. Mr. Chairman, I would like to make for the sake of the record, the following explanation.

Senator Hart, starting in 1968, has communicated with the Veterans' Administration on three occasions and twice with the Department of Defense. Staff wrote a memorandum, a couple of years ago to the Department of Defense at their request, outlining what was wrong with the "Servicemen's Life Insurance Counselor's Guide."

At the time, staff did call on outside independent experts in life insurance—outside of the industry—in academic circles and State regulatory departments.

It is my understanding that the "Life Insurance Counselor's Guide" has not been revised by the Department of Defense.

To complete the record, I offer the memorandum of subcommittee staff to the Department of Defense, as well as certain minutes of a DOD meeting which was attended by the Institute of Life Insurance executives with no other consumer representation present.

Senator HART. They will be received. Minority staff has not seen them, so you will show him.

Mr. SHARP. Certainly, Mr. Chairman, we will go over them with Mr. Chumbris.

[The documents follow. Testimony resumes on p. 208.]

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MEMORANDUM

July 20, 1970

TO: Colonel Robert A. Connelly, Director
Personal Commercial Affairs Office
(M and RA) (MPP) Department of Defense

FROM: Dean Sharp, Assistant Counsel
Senate Antitrust and Monopoly Subcommittee

SUBJECT: Suggestions -- Re: Life insurance price disclosure and the Life Insurance Counselors Guide for the Armed Forces

In order to assist your office, and the Defense Department's adoption of meaningful life insurance price disclosure for the armed forces, the following observations and suggestions are offered for your consideration.

The first topic discussed in this memo will be price disclosure (see Life Insurance Counselor's Guide for the Armed Forces, first draft submitted by the Institute of Life Insurance, 1970 pp. 37-39 (hereinafter referred to as the "Draft Guide".)) Certain portions of the remaining material in the Draft Guide then will be discussed on a page by page basis.

I. The method used for "comparing policy costs" (pp. 37-39) is a version of the so-called traditional method. Basically, under the traditional method, premiums are added together for usually 20 years, and there is subtracted from that figure the cash value at the end of the period, and the sum of all policy dividends shown in the life insurance company's illustration for the period. The result, which might be positive or negative, is frequently then divided by 20 and by the number of thousands of the

amount insured. The end product is described in such terms as "average surrendered net cost per $1,000."

The traditional method has been criticized in recent years as being "deceptive" when used as a means for indicating that one company's policy is more attractive than another's, particularly, when participating (dividend paying) level annual premium policies are compared with one another and with nonparticipating level annual premium policies.

Subsequent to the submission of the Draft Guide to your office, the Institute of Life Insurance received and published the Report of the Joint Special Committee on Life Insurance Costs (hereinafter referred to as the "Report", copies of which have been furnished your office). The Report (p.6) acknowledges the misleading nature of the traditional method in pointing out its "major criticisms."

The Committee concluded that the method called in this report the Interest-Adjusted Method is the most suitable of all those of which we have knowledge" (p.21). At page 21 of the Report, there is spelled out the steps required to apply the interest-adjusted method to whole life (level annual premiums) policies and term life policies.

Once the serviceman has selected the type (and amount) of policy, that is, straight life, limited payment life, term and endowment, the Committee's recommended interest-adjusted method should be utilized by the companies for the furnishing of cost information to the prospective buyer.

As Senator Hart suggested in his July 2 letter to General Ramade, those life insurance companies authorized to operate or solicit on military bases should be required to furnish prospective buyers with 20 year cost figures based on the interest-adjusted method and 4 percent interest. This information should be obtained on (1) participating straight life policies, and (2) 5 year renewable term policies at issue ages of ~~any~~, 20, 25 and 30, and could be published as part of the Guide or separately.

But, neither the Report nor Draft Guide, supplied a technique for making information available about the protection-savings mix of various policies, which would assist the prospective young (serviceman) buyer in selecting the type of policy most suitable for his needs. "If [the serviceman] is young and raising a family, [his] foremost financial need is to protect their income against the possibility that [he] may die prematurely. In the early years especially, [he] may have to ration [his] dollars for this basic protection." (Draft Guide p. 48). "But, later on after [he has] a solid foundation of life insurance, [he] can expand [his] program and start on other important goals. One of these is a more comfortable retirement." (Draft Guide p. 48). Further, many young servicemen with limited budgets "need maximum immediate protection for each premium dollar". (Draft Guide p.17). In order to accomplish these worthwhile objectives, the serviceman needs information about how much he would be paying for death protection and how much goes into the saving element.

The companies should be required to furnish (1) the present value of protection, (2) the present value of savings increments, (3) the present value of premiums and (4) the present value of dividends for (1) participating straight life policies and (2) 5 year renewable term policies, at the ages of 20, 30, and 40 Dr. Joseph M. Belth* describes in detail this approach to the evaluation of a life insurance policy in the following articles: The Relationship Between Benefits and Premiums in Life Insurance, Journal of Risk and Insurance, Vol. 36 (March 1969) pp 20-23; Life Insurance Price Measurement, 57 Kentucky Law Journal 687 (Summer 1968-69) pp 688-694. (Copies of these are enclosed.)

If there are any complaints to the effect that a computer is needed to calculate these present values, Dr. Belth advises that the computations can be performed by Indiana University's Research Computing Center.

Should the companies voice objection to Dr. Belth's methods, as Senator Hart stated on July 2: "I hope that some techniques can be agreed upon so that this kind of information can be made available along with comparative cost data."

II. The balance of this memo will deal with the remaining material in the Draft Guide on a page by page basis.

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* Dr. Joseph M. Belth, Ph.D., C.L.U., C.P.C.U. is Professor of Insurance in the Graduate School of Business at Indiana University and a consultant to the Senate Antitrust and Monopoly Subcommittee. He has published extensively in the life insurance field.

p.2. Line 5. What does the Life Insurance Institute mean by the term "professionals"? Does it mean a person who has merely passed State licensing exams? Does it mean a person who has obtained the C.L.U. designation?

p.6. Line 7. Strike the sentence "In later years, the rates become almost prohibitive", and substitute: "Particularly beyond 65 rates become increasingly higher." (So do level premium rates, by the way).

p.6. Line 17. Strike $10,000 (and wherever it appears) and substitute $15,000. President Nixon has signed S.1479 which raised the limit to $15,000.

p.6. Line 19. Instead of "administered by the Veterans Administration", shouldn't it read "administered by the Prudential Insurance Company of America"?

p.16. Line 10. Strike the word "not". What does the Life Insurance Institute mean by saying that cash value is <u>not</u> "savings" in the usual sense? What can you do with "savings" in the "usual sense" that you can't do with a cash value policy?

On p. 16 in its discussion of "cash value", the Institute has presented an inadequate discussion of yearly renewable term vs. level premium policies. The distinction between these should be clearly drawn by the Institute.

p.17. Strike the last complete sentence. If a serviceman buys a renewal term policy to age 65 with a convertibility provision up to age 60 to straight life, he has the power to hold the policy to age 100. There is nothing "temporary" under this type of term policy!

p.21. Lines 8-10. As far as a young serviceman is concerned, "so what", if the idea is to obtain "maximum immediate protection for each premium dollar", and to protect his limited income, particularly if he has heavy financial responsibilities.

p.22. Line 14 and 15. Strike "mutual life insurance companies, which are controlled by their policyholders - - -" and substitute "a mutual life insurance company is one in which there are no stockholders." Add the word "It" on line 15 before the word "issue" and add an "s" to that word.

p.24. Line 17. Add "attorney and" between words "your" and "life".

p.25. Line 13. Since a "common disaster clause" concerns the disposition of property, add after the sentence "A common disaster clause prevents this," the following: "An attorney should be consulted about the advisability of drawing a will to include such a clause."

p.26. Line 6 under paragraph number "2". Strike the word "interest" and substitute "annuity".

p.30. Line 4. Between the words "Payments" and "This" the following sentence should be added: "This extra charge can range from 12 to 24 percent per annum."

Since servicemen are paying premiums on a monthly allotment basis, are there any companies charging monthly premium rates?

p. 32. Line 12. Add "ne" to word "insurable".

p.34. Lines 11 and 12. What does the Institute mean by "a good agent has had extended education in life insurance and financial planning? What does "extended education in (1) life insurance, and (2) financial planning" mean? Does it mean something more than merely passing his state examination and receiving some company training?

p.35. Lines 1 and 2. This is self-serving. The serviceman should be advised to consult independent references, such as, Beats Life Insurance Reports. (Published by Alfred M. Best and Co., Morristown, New Jersey).

p.41. Lines 12 and 13. This sentence is not entirely correct. The Institute should be requested to cite its precise authority for this statement.

p.46. Line 18. "Experts strongly advise - - -". Would you please request the Institute to furnish you with the names of these "experts"?

If we can give your office any further assistance, we would be only too pleased to do so in anyway possible.

Since the author of this memo will be out of the country until August 20th, if you have any questions pertaining to these issues, please contact Dr. Joseph M. Belth, Graduate School of Business, Indiana University, Bloomington, Indiana. telephone number (812-337-3297).

LIFE INSURANCE COUNSELOR'S GUIDE FOR THE ARMED FORCES

INTRODUCTION

This booklet is intended for officer and enlisted counselors in the field of life insurance and family financial planning. But because it is also meant to help military personnel plan their own life insurance programs, it is addressed specifically to "you," the serviceman (or woman) with a family to protect.

The booklet endeavors to cover a broad range of general information for military personnel at many stages of life, in various family situations, with different financial resources and goals.

Much of the information is presented with younger service families in mind -- those headed by "short-timers" who are merely completing their military obligation and who expect to return soon to civilian life -- as well as young "career families" who plan on many years in the military service.

There is also information for young, unmarried personnel; for older men with maturing families; and for couples past the child-rearing stage of life, who look forward to retirement from the service within a few years.

Your Role As A Life Insurance Counselor. The function of the counselor is to help servicemen and women obtain the information they need to make sound decisions concerning their life insurance protection. You aren't expected to be an expert on insurance or estate planning. Your function should end before the people you are counseling reach their final decisions. Those decisions must be their own.

To effectively help them, you should acquaint yourself thoroughly with the contents of this booklet, as well as other pertinent directives and reference materials.

You also may find it useful to have some discussions with civilian life insurance professionals in your locality. They will be glad to answer your questions and help you develop a better understanding of life insurance protection and how it works.

If there is a life insurance company home office, a local association of life underwriters, or a local chapter of the American Society of Chartered Life Underwriters in your vicinity, they may hold courses or lectures that you could attend as a guest to increase your information and understanding of the subject.

I. GOVERNMENT BENEFIT PROGRAMS

Your eligibility for a long list of government benefit programs can be a big factor in determining the life insurance protection your family may need.

Each program has a different set of eligibility rules, and the rules are quite specific.

Various benefits are available to active and retired servicemen; veterans (including special benefits for those with service-connected disabilities); their wives, dependent children and parents; and families of deceased servicemen and veterans.

Social Security programs of interest to servicemen are mainly Old-Age, Survivors and Disability Insurance (OASDI), which provides income for retired and disabled servicemen and their families, and dependents of deceased servicemen; and Hospital Insurance (Medicare) for the aged. Medicare also provides supplementary medical insurance, effective at age 65.

All active military service since 16 September 1940 may be credited toward OASDI benefits and -- since 1966 -- toward Medicare.

You accumulate credit based on your earnings up to a maximum amount each year. Congress has raised the maximum from time to time. At the time this is written, the ceiling is $7,800. As a serviceman, you get a special break. Since 1967, your Social Security wage credits are generally computed at $100 per month higher than your actual base pay. Yet the Social Security taxes deducted from your pay are based on your actual earnings up to the $7,800 ceiling.

You pay the same tax rate as civilians. In 1970 the rate is 4.8% (4.2% for OASDI and .6% for Medicare), or a maximum of $374.40 a year. Increases are scheduled from 1971 through 1987, when the tax will reach a maximum of $460.20 a year (based on the current income ceiling of $7,800).

Like civilian employers, the government contributes an equal amount for you.

A man retiring currently with maximum wage credits would receive around $190 a month, starting at age 65. He can start collecting as early as age 62, but his monthly benefits would be reduced. His wife may also be entitled to monthly benefits up to 50 per cent of the amount for which he is eligible at 65. She must be at least age 62.

A younger widow with at least one dependent child is generally entitled to the same monthly benefits her husband would have received by retiring at age 65. Each dependent child may also be eligible for an additional 50 per cent of his monthly benefits -- up to the family maximum. (In effect, this limits a family's total monthly benefits to the widow and two dependent children).

Today's younger servicemen who will be earning yearly wage credits up to the current $7,800 ceiling throughout most of their future careers will be entitled to larger Social Security benefits when they eventually retire. Based on today's benefit schedules, if their yearly earnings throughout their career were to average at least $7,800, their monthly benefits at age 65 would be around $250.

A retiree under age 72 can lose some or all of his Social Security payments if he earns a significant amount of income. This does not include a military or civilian pension, or income from investments.

Military Retirement. If you complete at least 20 years of active military service, you will qualify for a lifetime pension immediately upon retirement.

Your pension is calculated on the basis of 2½ per cent of your highest base pay for each year of active duty, up to a maximum of 75 per cent. After 20 years' service, you can retire with 50 per cent of your highest base pay. After 30 years' service, you are entitled to the maximum 75 per cent.

You have the option of taking a smaller pension so that if you die, your wife would continue to receive part of it as long as she lives.

Military reservists who complete at least 20 years of satisfactory service -- including active duty and service in drilling units of reserve components or the National Guard -- may also qualify for a pension, beginning at age 60.

Medical Care. Complete medical, hospital, surgical and dental care is available from government facilities to active and retired military personnel, and to their families under the Dependents' Medical Care Program.

Government Life Insurance. Many older servicemen still on active duty are covered by National Service Life Insurance (NSLI), issued by the government during and after World War II for $10,000 or less. If you formerly carried this insurance, it may be possible to reinstate it. For example, a serviceman on continuous active duty may replace an NSLI term insurance policy or replace or reinstate a permanent plan of insurance which was turned in for its cash value while he is in service or within 120 days following separation. If you leave the service and have a service-connected disability, you may apply to the Veterans Administration for special nonparticipating NSLI, which does not pay dividends.

It is also possible to reinstate a policy under certain conditions even if a veteran has no service-connected disability. The Veterans Administration can provide you with the details.

Any NSLI term policy you now have may be converted to a permanent plan if requirements are met. This is worth serious consideration. The longer you hold onto your term policy, the higher the premium rates go. In later years, the rates become almost prohibitive. Some NSLI policies must be converted before age 50.

The major advantage of converting a term policy to a permanent is that the premium, although higher, no longer keeps going up. In addition, every permanent policy provides growing cash values which you can borrow on, if desired, at a low rate of interest, currently 4 per cent. Left intact, these values can give additional benefits which become important after retirement.

Servicemen's Group Life Insurance. Since 25 September 1965, you and every other man and woman on active duty in the Armed Forces are automatically covered by $10,000 of term insurance under Servicemen's Group Life Insurance (SGLI), which is issued by private life insurance companies and administered by the Veterans Administration. You have a choice of taking the $10,000 of term coverage (with $3 a month deducted from your pay) or $5,000 of coverage at $1 a month. Or you may decline the insurance altogether. Most servicemen carry the full $10,000. If you do not carry this insurance, or carry only $5,000, you can apply for the full amount at any time, but you will have to take a physical examination.

You are covered while on active duty and for 120 days after separation.

During this latter period, you can convert your term insurance to a permanent individual policy with any private life insurance company participating in the SGLI program, regardless of your health. But you would then pay standard premium rates, based on your age at that time. The cost will be substantially higher than the $2 a month you paid for SGLI term insurance, but the new policy would provide permanent insurance and build cash values.

This conversion privilege is mainly of value to veterans with health impairments. If you can qualify for life insurance at standard rates without exercising the conversion privilege you may find it advantageous to apply for a new policy -- since you can include in it extra protection features, such as disability provisions and term insurance, that are not available with converted policies.

You can also convert your SGLI policy while you're on active duty, but it is rarely advantageous for you to do so. If you wish a permanent policy, you would nearly always be better off to buy a new policy and keep your low-cost SGLI term coverage as extra protection.

If you should later reenlist after converting your SGLI coverage to an individual policy upon separation from the service, you get an additional $10,000 of SGLI. Servicemen who have the older National Service Life Insurance get $10,000 of SGLI in addition.

The Department of Defense cautions you not to let the low cost of SGLI "be a temptation to cancel or reduce any other life insurance," but "to regard it as a very inexpensive supplement to other policies."

Dependency and Indemnity Compensation (DIC). Widows, unmarried children under age 18 (as well as older helpless children and full-time students to age 23), and certain dependent parents of servicemen who die from disease or injury incurred or aggravated in line of duty while on active duty or inactive reserve training are entitled to monthly compensation.

A widow receives $120 a month, plus 12 per cent of the serviceman's base pay (including any later increases for his pay grade enacted by Congress), or a minimum of $133 a month. She receives it for life or until she remarries.

Income for children and dependent parents varies. Where there is no widow, one child under 18 receives $80 a month; two children, $115; three children, $149; each additional child, $29. Helpless children and those attending school receive assistance, whether or not their mother is alive.

Compensation for Service-Connected Disabilities. Veterans with service-connected disabilities receive monthly payments ranging from $23 to $400, depending on the degree of disability, or payments up to $1,000 a month for certain specific disabilities. Those with dependent wives, children and parents (or both) receive additional compensation.

Non-Service-Connected Disabilities. Wartime veterans who are totally and permanently disabled from causes not traceable to military service, and who have little or no other income, may receive monthly pensions up to $130 a month. They are entitled to a reduced pension if they have some outside income up to a maximum of $3,200 a year, with dependents, or $2,000 without dependents.

Non-Service-Connected Death Payments. Widows who have not remarried, and unmarried children under age 18 (or up to 23, if attending school) of veterans who die from causes not traceable to military service may receive monthly pensions up to $90 if they have little or no other income. A widow may receive a smaller pension if she has some income up to $3,200 with children, or $2,000 without children.

Six-Months' Death Gratuity. The family of a serviceman who dies on active duty or inactive reserve training -- or within 120 days after that from service-connected causes -- receives a sum equal to 6 months' pay of the deceased serviceman, including special incentive, hazard and basic pay, but not allowances. The sum is at least $800, but not more than $3,000.

Burial. The government pays up to $250 toward burial expenses of wartime veterans or peacetime veterans with service-connected disabilities. All veterans whose last period of active service terminated honorably may be buried in a National Cemetery. Burial is also available to an eligible veteran's spouse and dependent children. A headstone or grave marker is provided without charge.

Other Veterans' Benefits. Here is a partial list of other government benefits:

-- Hospitalization, nursing home or domiciliary care, and prosthetic devices for veterans with service-connected injuries or disease, or war veterans with non-service-connected disabilities who cannot pay for private treatment and for whom beds are available.

-- Outpatient medical and dental treatment for veterans with service-connected disabilities.

-- Special automobiles or other conveyances for veterans with service-connected loss of both hands or feet, or permanently impaired vision.

-- Guide dogs and electronic or mechanical aids for blind veterans with any service-connected disability.

-- Free medical examinations to determine presence of service-connected conditions, for government life insurance purposes, or when applying for hospitalization.

-- Veterans Administration guaranteed or insured loans to buy, build or improve a home; to buy a farm, farmland, stock, feed and seed, farm machinery and other farm supplies; to buy, undertake or expand a business venture.

-- Advantageous down payment requirements on home mortgages insured by the Federal Housing Administration.

-- Grants up to 50 per cent of the cost, up to $10,000, to build, buy or remodel a home to meet the special requirements of totally and permanently disabled veterans with loss of both feet, or with other disabilities.

-- Monthly allowances up to $175 for veterans enrolled in college, high school, farm cooperative training, apprenticeship or other on-the-job training.

-- Educational benefits for children, wives and widows of veterans whose deaths or permanent disability was service-connected.

-- Preference for Federal Civil Service Positions.

-- Preference in job-finding assistance.

-- Reemployment rights.

-- Unemployment compensation.

-- Elimination of certain requirements for naturalization of alien war veterans.

-- Vocational rehabilitation of veterans with service-connected disabilities.

II. FUNDAMENTALS OF LIFE INSURANCE

For many servicemen and servicewomen, particularly those who have no family responsibilities, government life insurance and other programs often suffice for personal financial protection. Yey many single men and women in uniform, upon thinking through their future expectations and goals, decide they ought to begin a more comprehensive life insurance program even before marriage.

Officers and enlisted men in the higher pay grades generally find that government benefits protect only part of their monthly pay and allowances. With no other resources, most service families could face real financial hardship if the breadwinner should die.

That's the basic reason why servicemen with families frequently use private life insurance in addition to their government benefits.

To illustrate: your $10,000 of Servicemen's Group Life Insurance would help answer the financial emergency caused by your death. But when a family includes several children, $10,000 isn't likely to last more than a few years. The typical cost of raising a child to age 18 is now about $30,000 -- and the cost is constantly rising.

Also, SGLI covers a serviceman only as long as he's on active duty and for 120 days thereafter. As a civilian, you must either convert or replace your SGLI coverage with an individual policy if you want the protection to continue.

Just what is life insurance and what can it do for you? Like all forms of insurance, it is a system for sharing financial risks among many people. You and your family don't bear the full burden of an economic loss beyond your control, that might prove ruinous to a single family.

The primary purpose of life insurance is to protect families from the financial hardship that so often follows a death -- not merely the large immediate expenses, but more importantly, to continue family income.

Specific Needs for Life Insurance. Here are some ways that service families use life insurance:

-- Settle debts. Young families often have heavy debts that would be seriously burdensome in event of a husband's death.

-- Pay off the mortgage so that the family will have the assurance of a home that is free and clear.

-- Cover final expenses not paid by the government.

-- Provide extra income to relieve financial pressure on the family during the period of readjustment to a new way of life.

-- Help defray the heavy expenses of rearing young children to adulthood.

-- Allow additional income for a widow in her later years.

-- Help with college education for the children.

-- Provide additional retirement income for the serviceman himself.

Career Objectives. Of course, the need for life insurance varies widely among service families. Career objectives can be a major factor.

If a serviceman plans on a career in the armed forces, his family can rely on government benefit programs to a much greater extent than the family of a "short-timer" who is completing a few years of military obligation. And if the career man plans to devote 30 or more years

to the service, his long-range life insurance needs may differ from those of a man who expects to retire from the service after 20 years and then embark on a new civilian career -- while he's still relatively young.

But even the most career-minded young serviceman can't really see 20 or 30 years into the future. Changes in national defense policy as well as his personal ambitions may alter the course of his service career. His life insurance program should be flexible enough to adjust to career changes.

What many people overlook is that life insurance performs a "creative" function by eliminating major causes of worry and fear in family life. Put another way, adequate life insurance protection helps to stimulate men and women to greater personal initiative and productivity. By affording them greater peace of mind and a sense of financial security, it enables them to reach for higher aspirations in pursuance of their personal and financial goals in life.

This function can be particularly important in a military career, which tends to involve greater mobility and sometimes, risks than most civilian pursuits. When a soldier, sailor, Marine or airman realizes that his family's financial security is taken care of, he can devote himself more effectively to his professional life.

An effective life insurance program requires careful, long-range planning, plus periodic review to make sure that it continues to be adequate.

Different policies are available to help families achieve immediate and long-range objectives. But before considering specific types of policies, it is a good idea to have a fundamental understanding of the way life insurance works.

"The Law of Averages". All forms of insurance, including life insurance, are based on the law of averages. No one can predict how long you or any other individual may live, but from past experience, insurance actuaries can predict fairly accurately the average number of deaths that will likely happen during the year among a large number of policyholders.

When you buy any insurance policy, you -- along with each of the other people who buy the same coverage -- pay a small proportionate share of the losses that a few policyholders or their families will suffer. Your share of the losses comes out the premium you pay. That premium is quite small in comparison with the benefits your policy would provide.

Actuaries calculate life insurance premiums mainly from mortality tables that show the average number of deaths likely to occur in one year among every 1,000 of its policyholders at each age. A life insurance company sets aside part of your premium payments in a reserve fund to make certain that the money will be there when the time comes to pay benefits. But the company doesn't just lock this money away in a vault. Until it is needed, it is put to work through sound investments -- usually in high-grade bonds, ~~and~~ mortgage loans policy loans Income from these investments, incidentally, are a major factor in financing the growth of the nation's economy. By purchasing substantial amounts of government bonds, life insurance companies also help to furnish our country with much of its day-to-day needs for cash.

Cash Value: A By-Product of Reserves. Suppose you have paid premiums on a life insurance policy for five or 10 years or longer. And suppose you then find that you no longer need the policy. So you decide to cancel it.

Obviously, it would be unfair for the life insurance company to keep all the reserves built up during the years your policy was in force. So instead, the company refunds your share of the reserve fund. The amount of your refund is guaranteed in your policy and is called the cash surrender value.

The cash value is not "savings" in the usual sense. But you can use it as collateral to borrow from the insurance company at a low interest rate. Since this would reduce the amount of your insurance, most financial advisors suggest caution when using policy loans, and repaying such loans as soon as possible. The cash value in your policy can be a significant factor in building an estate or a retirement fund.

No - if you view insurance as face amount. Notions cash value.

Draw distinction between yearly renewable term vs. level premium policies

Inadequate discussion of yearly renewable term vs. level premium policies

you do with a cash value policy?

III. LIFE INSURANCE POLICIES

Many different policies are available, but each of them comes under three basic types: whole life insurance, term life insurance, or endowment life insurance.

Whole life insurance is designed to protect you and your family for as long as you live. You can keep it as long as you need it, and the premiums, which are based on your age when you buy your policy, never increase. The younger you are, the lower the premium.

There are two forms of whole life insurance:

1. Straight life insurance policies carry the lowest premium rates for whole life protection and are the most widely-used form of individual life insurance protection. Premiums are payable for as long as you live, as long as you want the insurance.

2. Limited payment life insurance policies become paid up, with no further premium payments due, after a certain number of years. The choice is yours. You can pay for 20 years, 30 years, or until you reach 65, and then stop. But the protection continues for the rest of your life.

   Premiums have to be higher for this type of policy than for straight life insurance, but cash values accumulate more rapidly.

   Limited payment policies are not always the most suitable kind for the serviceman who needs maximum immediate protection for each premium dollar. But if retirement planning is a major consideration, this policy may be worth considering.

provides "maximum immediate protection for each premium dollar."

Term life insurance covers a specified number of years rather than an entire lifetime. It can be 1 or 5 or 10 years, or up to 30 years, or to age 65. ~~Because of the time limitation, term insurance is often called "temporary" insurance.~~ eliminate

But it usually renewal term to age 65 — with convertible up to age 60 to straight life — then pre paid to hold it age 100.

Because of the limited span of protection, term insurance has lower premium rates than whole life policies. There is generally no cash value.

Term insurance is particularly valuable for young families with limited incomes and heavy financial responsibilities, who need additional protection while their children are growing up. A term policy is often bought to meet a special need. For instance, it can guarantee that a debt will be repaid if the policyholder should die.

Term insurance is usually not available beyond age 65 or 70, because the premium rates would have to be extremely high. Most policyholders outlive their term insurance policies.

So what it does is to protect income for young families

Many term insurance policies are both renewable and convertible. Each of these features adds a little to the premium, but each is generally desirable for younger families who cannot really foresee what their future insurance needs may be. "Renewable" means the insurance can be put back in existence, after its expiration, without a physical examination. "Convertible" means that the term insurance can be changed to a whole life policy at a higher premium even if a policyholder becomes uninsurable because of his health.

One type of term insurance is designed to provide the same amount of coverage for a stated period of time. An example is "5-year" term insurance, for which you pay the same annual premium over the five years. If you renew the insurance, the premium goes up because you are now older. In later years, the cost rises sharply.

Another kind of term insurance is designed to provide decreasing protection, for example to cover a debt that is being paid off. The insurance declines by a small amount each year until there is no protection left and the policy expires. Premium payments remain the same each year. Decreasing term insurance is also used by families while the children are growing up. If the father dies during this period, his family receives a monthly income for the remainder of the period of coverage. (This coverage is usually purchased as extra protection in combination with whole life insurance, but is also available as a separate policy.)

Term insurance can usually be obtained either as a separate policy, or, at something of a saving, in combination with whole life insurance. A combination policy can be useful to a younger family who needs a base of whole life protection plus additional low-premium term insurance while the children are growing. One combination policy is the "family plan." It gives the father whole life insurance, and term insurance to the mother and to each minor child. When the youngster reaches a certain age, usually 25, his term insurance ends, but he can convert to whole life coverage, even if he is uninsurable. because of poor health.

Endowment life insurance can be thought of as a thrift plan backed by life insurance protection. It guarantees payment whether the policyholder lives or dies. Say a father wants to have $3,000 paid to him in 10 years, or to his family if he should die sooner. That's what an endowment is designed to do. You can select the amount, as well as the time period.

To build savings, an endowment policy calls for a higher premium than any other type of life insurance at the same age. But it also builds cash values faster than other policies.

One important use of endowment plans is to build a retirement fund for the policyholder, while at the same time providing additional life insurance for his family. But most experts in financial planning advise that families use endowment insurance only after they already have adequate protection under whole life or other policies. This is because endowment policies provide less protection per premium dollar, and the coverage lasts only for a limited period of time.

Which Type of Policy Is Best? There simply is no single answer to this question that would apply to all families.

No two service families are exactly alike. They differ in age, number of children, health, educational attainment, financial resources and obligations. They spend their money differently and they vary in their ability to save money. They have different financial goals and strive for these goals in various ways. So a life insurance policy suited to one family's needs may be entirely wrong for another family.

Some people contend that you should buy nothing except term insurance at the lowest possible rate -- and invest the difference in premiums between term insurance and straight life insurance in stocks, mutual funds, real estate, government bonds -- or simply put it away in a savings account.

Undoubtedly there are families who can follow this plan successfully and end up at retirement better off than if they had bought whole life insurance. But to make the plan work requires a rare kind of financial discipline, as well as investment expertise and luck.

Or you may occasionally hear a reverse argument against term insurance. It's been said that since term insurance protects you only for a limited number of years and builds little or no cash value, there's something wrong with it. But many families with limited incomes and heavy financial responsibilities need much more protection than they can immediately afford under whole life policies. Term insurance can give them the additional protection they need, starting at a premium rate they can be comfortable with.

You could make a serious mistake by arbitrarily ruling out either whole life or term insurance coverage. Each offers distinct advantages, and many families need both types of protection.

IV. POLICY PROVISIONS

Whatever kind of life insurance you select, it will automatically include certain features, rights and privileges. You also have the option of adding other provisions to most policies. Some carry a small additional cost because they give you extra protection. Others, available without charge, clarify certain aspects of your coverage or increase its usefulness to you even though there is no additional protection.

Many policy features are required by law, or are more or less standard among policies. Other features vary with certain types of policies or certain companies. And, for competitive reasons, a company will frequently include special provisions in its own policies.

To get the most of your life insurance, it's important to clearly understand what your policy can and cannot do for you.

Policy Dividends. A Mutual life insurance companies, ~~which are controlled by their policyholders,~~ is one in which there are no stockholders! issue mostly "participating" policies, for which premium rates are deliberately set somewhat higher than might normally be needed. This provides a safety margin to cover the possibility of unusual developments, such as an increase in policyholder deaths or a serious decline in investment income. When no such unusual losses occur, the company refunds part of the premiums to the policyholders as policy "dividends." Dividends can never be guaranteed, and usually grow in amount from year to year.

Stock life insurance companies are owned by their stockholders, and generally issue "non-participating" policies, on which no policy dividends are paid because premiums are calculated as closely as possible to the anticipated costs. The companies' stockholders bear the risk of unusual losses. These policies are sometimes described as "guaranteed cost" life insurance, since the policyholder knows in advance exactly how much his cost will be.

But some stock companies also issue participating policies, which pay dividends.

Since dividends can't be guaranteed in advance, it really isn't possible to predict with certainty whether a participating or a non-participating policy will cost more in the long run.

But comparisons are available see Com. Dept p. 8

There are four things you can do with yearly dividends:

1. Have the company send you a check.

2. Reduce your next year's premium.

3. Leave dividends with the life insurance company at interest (the interest is subject to Federal income tax). In later years, you can use your accumulated dividends to "pay up" your policy, with no further premiums payable. Or you can take accumulated dividends as additional retirement income.

4. Use the dividends each year to buy small amounts of additional paid-up insurance -- thus increasing your protection without adding to your premium outlay.

Some companies also offer you a fifth option -- to use each year's dividend to buy additional one-year term insurance, usually up to the policy's cash value. This is designed mainly to pay off any policy loan uf you should die with a loan outstanding. But you can buy term insurance under the fifth dividend option even where you haven't borrowed on your policy.

Your Beneficiary. The beneficiary of a life insurance policy is the person who will receive the insurance proceeds at the death of the policyholder. The policyholder can name one or any number of beneficiaries to share the proceeds.

There are two big advantages in naming a specific beneficiary:

1. Direct payments to specific beneficiaries do not go through probate. This reduces court costs, executor's fees and legal expenses. (Sometimes a policyholder names his estate as beneficiary of his life insurance, then neglects to make a will. This increases the cost of settling his estate, leaving less for his family.)

2. Life insurance proceeds to specific beneficiaries are also protected against claims of the policyholder's creditors, but they do have first claim to the assets of an estate.

You can choose virtually anyone as the beneficiary of a policy on your own life, but most men name their wives. However, there may be reasons for naming someone else, and your attorney and life insurance agent can advise you on this particular matter by helping you to accomplish the precise results you desire. The language used can be very important.

For instance, suppose you name your children as primary beneficiaries, to share equally in the proceeds of your policy. Then suppose one of your sons dies before receiving his share. What would happen to that share? Depending on the language in your beneficiary designation, his share could go either to his wife and children or to your other surviving sons.

That's one reason why your agent will probably suggest that you name a contingent beneficiary as well as a primary beneficiary. The primary beneficiary receives the proceeds if he or she is living. The contingent beneficiary, at the death of the primary beneficiary, receives any proceeds not yet paid.

You can change your beneficiary any time in the future, unless you should name an irrevocable beneficiary. In that case the beneficiary cannot be changed without his or her consent.

Common Disaster Clause. Married couples frequently include a "common disaster clause" in policies where the wife is the husband's beneficiary, or vice versa. This states how the policy should be paid if both are killed as a result of the same accident.

Without a common disaster clause, it's possible that -- merely because a wife survived her husband by a few minutes -- the entire proceeds of his life insurance might become part of her estate and go to her relatives, bypassing any contingent beneficiaries. As a result, the proceeds might be distributed contrary to the wishes of either the husband or wife. A common disaster clause prevents this.

Policy Ownership. The person whose life is insured normally applies for the policy, pays the premiums, retains ownership and control over it, and names the beneficiaries who are to receive the proceeds.

But not always. Sometimes someone else applies for the policy, pays the premiums and retains ownership. A husband or wife often buys a policy covering his or her spouse. Parents and grandparents buy policies on children. A lender may buy life insurance on a borrower to repay the loan if the borrower should die.

But no one can buy life insurance on anyone else without the consent of the person whose life is insured. In addition, a person applying for life insurance on someone else must have an insurable interest. This means the applicant would suffer a serious financial, emotional or other loss from the death of the other person, and needs life insurance to compensate for that loss.

The owner of the policy (whether or not he's the person whose life is insured) is the only one who can name or change the beneficiary, use the dividend options, convert or exchange the policy for different coverage, borrow against the cash value, assign the policy to a lender as collateral, surrender it for cash, or transfer ownership to someone else.

Extra Protection. When you buy life insurance, you can usually add provisions that give you and your family additional protection at relatively little extra cost.

These special features (not the policy itself) usually expire at age 60 or 65, and you stop paying the additional charge.

Three provisions are available with most policies:

1. Waiver of Premium. If you become totally and permanently disabled, your policy will continue in full force, but you won't have to pay any further premiums ~~the rest of your life.~~ [illegible] you never from [illegible] disability.

2. Disability Income. You will receive ~~a lifetime~~ income (usually $10 monthly per $1,000 of basic life insurance) in case of total and permanent disability. Your life insurance also continues in force, with no further premiums to pay during the period of disability.

3. Accidental Death Benefit. Your family will receive an extra amount if you should die as a result of accidental injuries. The total death payment (including basic insurance) may be two or three times the face amount of the policy -- which is why this extra protection is often described as "double indemnity" or "triple indemnity."

Some authorities consider accidental death coverage superfluous, since a family's need for funds following a death is normally unrelated to the cause of death. In fact, the financial needs may be greater when death follows a lingering illness than when it occurs in an accident.

But accidents are the prime cause of death among younger adults, and in any event the cost of this extra protection is quite low.

Double indemnity coverage should never be considered part of a family's basic life insurance protection. Depending on it to help meet basic insurance needs could be a serious mistake.

Double or triple indemnity provisions do not usually cover servicemen killed directly or indirectly as a result of:

1. An air accident in which the insured person performs any specific duties aboard the aircraft, or the aircraft is operated for any training purpose;

2. War, whether declared or undeclared;

3. Service in the armed forces of any country or international organization at war, whether declared or undeclared.

A serviceman would be covered in a fatal accident unrelated to his military duties. But a double or triple indemnity is not paid if death results from a self-inflicted injury (whether or not insanity is involved) to the aggressor in an assault or a felony.

Settlement Options. When a policyholder dies, the entire amount of his life insurance becomes payable immediately to his beneficiary, unless he has specified otherwise. His beneficiary -- most often his wife -- may need money quickly for final expenses.

If she doesn't need all the proceeds at once, there may be good reasons for not taking the entire amount in a lump sum. Even if she is experienced at handling and investing large sums of money, it may be difficult for her to make vital financial decisions under the shock and grief of a recent death.

She has several other choices under the settlement options of a policy:

1. She can leave part or all of the proceeds with the life insurance company, drawing interest until she needs the money or decides how to use it. Later on, she can withdraw any amount, whenever she wishes, or change to a different option.

2. Under the lifetime income option, she can receive a monthly income for as long as she lives. The amount paid each month per $1,000 of insurance depends on her age when she starts to collect -- the older her age, the larger the payments. This option is mainly advantageous to those in their 60s and 70s. Based on current [redacted] rates, a typical $10,000 policy would pay a woman more than $60 a month starting at age 60, or nearly $85 a month starting at age 70. Since men have a shorter life expectancy than women, they get larger payments.

3. She can receive income for a certain number of years -- for instance, while the children are growing up. At current interest rates, a $10,000 policy would give her more than $100 a month for 10 years. Her age and sex have no bearing on the amounts paid.

4. Or she can receive a certain amount each month until the $10,000, plus interest, is used up. Again, her age and sex are not factors.

A policyholder can specify in advance exactly how his insurance will be paid to his beneficiary, and he can make his decision binding. In some cases, this may be prudent. But since family financial needs change, it is usually advisable to give the beneficiary the right to select or change the settlement option if she desires.

Nonforfeiture Values. The same options available to a beneficiary are also available to the policyholder himself, using cash value of his policy for his own benefit during his lifetime. These "nonforfeiture provisions" can provide either an income or a lump sum.

If you select either of these options, using all of the cash value, your insurance policy would cease to exist. But you could keep the insurance going by converting the policy to a smaller amount of full, paid-up life insurance on which you would owe no further premiums. For example, with a $10,000 straight life policy purchased at age 30, you could convert at age 65 to about a $7,900 paid-up policy that will continue for the rest of your life.

Another choice at age 65 would be to convert it to extended term insurance, keeping the full $10,000 of coverage for about 14 more years, without paying any further premiums. Your insurance would expire after that.

Suppose you wanted to use the cash value to add to your retirement income. Under a typical $10,000 straight life policy bought at age 30, your $5,500 cash value at age 65 would give you a lifetime income of about $44 a month. Your agent can tell you about other possible arrangements for a lifetime income. One is to choose a larger income for a certain number of years. Regardless of your age or how long you live, your $5,500 cash value would provide about $56 a month for 10 years. After 10 years, the income would stop. (These figures may change if current interest rates change.)

Premium Payments. Life insurance premiums are payable on a yearly basis, but you can also pay them in smaller installments -- semi-annually, quarterly or monthly. This is an extra charge for the additional cost of handling more frequent premium payments. This charge is usually reduced when the government transmits your premiums for you after deducting them from your military pay.

Incidentally, buying life insurance in quantity can save you money. That is, the larger the policy, the lower the cost per $1,000 of insurance. It's a point worth remembering when planning a long range insurance program.

Grace Period. If you do not avail yourself of the convenience of pay allotments for your private life insurance, then you must watch carefully that you pay the premiums on time. You are allowed a "grace period" of one month (generally 31 days) after the due date in which to pay the premium. (Your insurance would go to your beneficiary even if you were to die during this period.) If the company does not receive the premium within the grace period, the policy may end.

It all depends on the customary practice of the company. Some companies voluntarily grant an additional month's grace period after the original one has expired. Some do not extend the grace period, but allow you an additional month in which to reinstate your policy without evidence of insurability simply by paying the overdue premiums. Others simply expect you to pay on time.

The danger of losing your insurance protection by inadvertently failing to pay a premium is greatly reduced when your policy has cash value.

Most life insurance companies will include an automatic premium loan feature in a cash value policy, if you request it. If a premium is not paid, the company will automatically pay it for you by issuing a loan against the policy's cash value. You pay interest on the loan. If you should allow the loan and interest to exhaust the cash value, your insurance protection would lapse.

What if you do not have an automatic premium loan and fail to pay a premium? Under many policies your coverage would continue as "extended term insurance," unless you notify the company within a certain period (usually 90 days) thereafter that you want something else done with the cash value. Extended term insurance means your policy automatically is changed to term insurance for the full amount of the policy. But the protection is not for a stated period of time, depending on the policy's cash value. A table in the policy shows you exactly how long the extended term protection would last.

Reinstatement. Suppose you lose your insurance because of an unpaid premium. Can you get it back? Usually yes, within three to five years after a policy has lapsed, and if you haven't taken out the cash value. But you will probably have to satisfy the insurance company that you are still insurable, and in addition, pay overdue premiums with 5 per cent interest. You would also have to repay any loans on the policy.

Incontestability. In every life insurance policy there is a statement that, after a certain period, generally two years, the company cannot cancel the policy or decline to pay any claims because you made misstatements, or concealed facts in applying for the insurance. Thereafter, the policy can be cancelled only if you stop paying premiums. However, if gross

may give someone a reason to investigate

fraud is involved, for example if someone else took your physical examination, the company is not obliged to pay the insurance benefits. Also, a company can question a claim for double or triple indemnity if it believes a death was not caused by an accident.

Every policy contains a clause that discourages the purchase of life insurance in contemplation of suicide. It usually reads that if suicide occurs within two years after the policy is issued, the company will merely refund all premiums. But if a suicide occurs after two years, the company would pay the full face value.

Guaranteed Insurability. For a small additional cost, many life companies guarantee you the right to buy additional whole life insurance in the future at regular rates, even if you become uninsurable.

For example, you might make these purchases on your 25th, 28th, 31st, 34th, 37th, and 40th birthdays -- plus additional purchases at marriage and on the birth or adoption of a child.

Policy Loans. If you have "cash value" life insurance, a table in your policy shows exactly how much it is at any time. You have the privilege of using the cash value as collateral for a loan from the life insurance company. You can generally borrow up to about 95 per cent of the cash value without any credit investigation. Because this loan reduces the funds that the company would otherwise invest, interest must be charged. The rate -- usually 5 or 6 per cent -- is specified in your policy.

Getting a policy loan is easy, but there are pitfalls.

If you should die before repaying the loan, it would be subtracted from the proceeds of your policy, reducing the amount paid to your family.

Since there are no credit requirements, you may be tempted to take out unnecessary loans, or to borrow more than you need or can repay. Since there is no pressure to repay, you might be tempted to let the loan run on indefinitely. Interest charges over a number of years could add up to a sizable amount. If you should have a real financial emergency and be unable to pay the interest or the premium, you might lose your life insurance protection completely.

Not all policies have cash values. Term insurance, including Servicemen's Group Life Insurance (SGLI), does not. If you have an older National Servicemen's Life Insurance policy (NSLI) and have converted it to a "permanent" plan, it will have cash values.

V. PLANNING A LIFE INSURANCE PROGRAM

Selecting an Agent. This is the first and a most important step in planning your life insurance program.

You may be approached by an agent where you are stationed, or you may deal with an agent in a nearby community or at home. Agents and companies are not permitted to do business in a military, air or naval installation without authorization from the Department of Defense or a post or station commander.

You should select your agent with the same care that you would choose a doctor or lawyer. You must be able to confide in him and trust his advice.

what does this mean?

A good agent ~~must~~ has had extended education in life insurance and financial planning. He must be licensed by the state in which he does business, and must pass an examination to qualify. Because he has passed his state exam and has had a little training with company.

Perhaps a member of your family, a friend or associate can recommend an agent who has given satisfactory service. Or you may get a suitable recommendation from a local bank.

Preferably, the agent you select should be someone with whom you can continue to deal in the years ahead. But this may be impractical for the serviceman stationed far from home.

Selecting a Company. In choosing a company, you should consider its reputation, both nationally and locally.

Who are the company's local representatives? Are they highly regarded by your friends and associates? Does the company have a record of good service to policyholders in your military organization and your community?

Any life insurance agent will gladly give you detailed information about the company he represents.

You can also secure important facts about a company by obtaining from the agent or the home office a copy of the latest annual report to policyholders. It generally covers the activities of the company and its management, objectives, problems and accomplishments, and recent financial results.

You may also be able to get information about a company from a local banker or businessman.

State laws require that any life insurance company doing business within a state must be licensed by that state. This shows that the company has complied with state laws and regulations designed to protect the policyholder; is subject to periodic examinations by the state insurance commissioner; maintains required legal reserves; has filed its annual financial reports with the state; and has been judged qualified to do business with citizens of the state.

If you are in doubt as to whether a company is licensed in your state, write to your state insurance department at the capital city.

For a serviceman stationed far from home, it is probably a good idea to choose a company licensed to do business in your home state -- or the state where you plan to settle at the end of your military service -- as well as the state where you're currently stationed, if you are based in the U.S.

How Much Life Insurance Do You Need? There are two ways to answer this question.

The quick way is a rule-of-thumb that families generally need enough life insurance to cover four to five times their annual income.

But that formula won't give you a very precise answer -- particularly for service families whose insurance needs are answered in part by government benefits.

Also, no two families have exactly the same needs. Five times annual income may be too much for an older couple with investments -- and much too little for a young serviceman with a wife and four small children, and no assets.

To figure your needs, start thinking of your life insurance not just as a sum of money, but in terms of the income it could provide. What you're really insuring is your paycheck.

Your fami. may need some of your life insurance benefits in a lump sum -- particularly if you have few other assets that can readily be turned into cash. But most of all they will need some regular replacement for the income they depend on.

Following are the main factors to consider in setting up your life insurance program:

1. Cash for immediate needs, to cover final expenses and debts.

2. Readjustment money. When the breadwinner dies, the family's fist need it time -- time enough to consider before making some very important decisions. Should they sell the home? Should they move? Should the mother take a job? If so, does she need a refresher course or other training? Some extra income at this time -- for a year or two -- can make a big difference.

3. Educational funds for your children. The average college graduate earns some $170,000 more during his lifetime than a high school graduate. You probably want your children to have this advantage, or other special training. College costs today average at least $2,000 a year.

4. Income for your family during the children's growing years. This covers the period when children must look to their mother for support. By one rule of thumb, a family needs about 60 per cent of the father's monthly income. Social Security and government benefits could likely provide part of this income, but many families need additional insurance.

5. Lifetime income for your wife. Once the children are on their own, her need for income will usually drop. But she would typically continue to need at least 25 per cent of what her husband had been earning.

6. Extra income for your own retirement.

You can also use life insurance to meet other needs -- for instance, to pay off the mortgage on your home if you should die, and to help provide an income in case of illness, accident or permanent disability.

Your life insurance agent can help you translate all these needs for income into a specific amount of life insurance.

After you have decided how much cash and income will be required for your family's needs, he can help you determine approximately how far your government benefits, Social Security and other assets will go, and how much remains to be covered by life insurance. It could work out to less than four times your income, or a great deal more than five times.

Comparing Policy Costs. Issue I The most important consideration is to select the policy that best fits your needs. Buying some particular policy simply because it seems cheaper, regardless of needs, may prove uneconomical in the long run.

Talk about other things immediately

If you compare costs of policies from different companies, it's important to remember that policy provisions are not always identical, and that such differences are likely to affect the costs.

Issue No. I What's the mix? In order to help the person choose what type of policy to buy — term, whole life, term or combination

Once you ... in ... amount - then Pay - which company? Interest adjusted cost method

Premiums for "participating" policies always run higher than for "non-participating" policies, but the actual cost is the premium less the dividend you would receive from the participating policy. Dividends can vary from year to year.

With non-participating policies, the premium is the actual cost and no dividends are payable.

There are several ways to compare the costs of different types of life insurance. ~~Without knowing exactly how long you're going to live, it's impossible to say exactly which policy will give you the greatest protection at the lowest possible cost. But~~ One yardstick is a simple comparison of premiums payable over a certain number of years and the cash values accumulated during the same period. Interest adjusted method. p. 30 Item No. 1

Net cost method

Two or several ways

DECREASING TERM (TO AGE 65:)

The younger you are when you buy a life insurance policy, the lower your premium rate will be. If it's a whole life policy, the premium will never increase as you get older.

Even though you'll be paying premiums for a greater number of years, chances are that the policy will cost you less in the long run than if you delay the purchase until you're older.

Also, there's always a possibility that in the meantime you might become uninsurable.

The results could be doubly tragic if you were to die after postponing the purchase of life insurance.

Here's a comparison of premium rates for a typical non-participating (no dividends) $10,000 straight life policy purchased at various ages; total premiums payable through age 65; and the cash value at age 65:

Age at Purchase:	Yearly Premium:	Total Premiums Thru Age 65:	Cash Value At Age 65:
20	$118.00	$5,310.00	$5,940.00
30	$160.10	$5,603.50	$5,520.00
40	$233.10	$5,827.50	$4,830.00
50	$348.10	$5,521.50	$3,560.00

please support this with authority what is the premium. what authority are you quoting and what assumptions & calculations

what do they mean?

ignoring interest

Reviewing Your Program. As time goes on, changes in your financial situation, as well as changes in your family, are bound to occur.

So review your life insurance program periodically, look over your policies, and consider whether they reflect your current wishes and needs. Your agent will be glad to help you work out any revisions that may be necessary.

The insurance proceeds must be paid by the company the way you set them up in the policy. Life insurance money is separate from any other property, and so does not become part of your will, unless your policies are payable to your estate, which is not generally desirable. So a revision of your will does not revise your life insurance program.

A good agent will keep himself posted on the changing conditions and needs of your family. He'll recommend any adjustments that may seem desirable in your life insurance program, and will handle the details.

Experts generally advise that you should review your life insurance program at least every two years.

Exchanging Policies. There is seldom any advantage in exchanging a life insurance policy you already have for a new one, and there may be a real disadvantage. If anyone suggests such an exchange, ask him to submit his proposition in writing. Then you'll have the facts and can study them. Before taking any action, get in touch with the life insurance company that issued your old policy -- either directly or through your agent.

The policy you already have may give you more favorable guarantees than those in a new policy. Also, you would again have a one or two year contestable period, during which any statements made in the application for the new policy could be questioned. And since you are now older, the premium rate of the proposed new policy would likely be higher on that count alone. Furthermore, you may have built up values and benefits in your older policy that would take years to build in a new policy. Even if you've borrowed up to the limit against your present policy, it seldom pays to drop it in favor of a new one.

If it should appear that your old policy no longer meets your needs, your company will gladly help you adapt it to your current situation.

It is seldom necessary or advisable to exhange policies in order to meet new needs. not entirely true — Private authority

The only general exception to this rule would be converting term insurance to a whole life policy. But that doesn't involve giving up or exchanging your old coverage. You merely covert it to a different form.

Other Pointers:

1. Keep your life insurance company informed of your address. This is particularly important with servicemen, who are frequently transferred to new assignments.

2. Read your life insurance policy. Be sure you understand its basic provisions and benefits. When you do, you will probably get a better appreciation of the values in your policy and what it can do for you. You'll learn something of its flexibility in meeting various needs and changing situations. And you can avoid possible misunderstandings by reading the contract carefully. If you have any questions about it, your life insurance agent or your company can help answer them.

3. Keep your policy in a safe place at home. You can obtain a duplicate copy if it becomes lost or destroyed, but not without some inconvenience and delay. This might happen when you or your family needs the policy the most. As an additional safeguard, keep a separate record of your policies. Be sure that your policies are accessible both to yourself and to your beneficiaries -- and that your beneficiaries know where the policies are kept. Generally policies must accompany requests to the company for benefits. You can keep your policies in a safe deposit box, but a beneficiary has to obtain permission from the tax authorities to open the box after the owner's death. This could involve a delay.

4. Discuss your life insurance program with your family or other beneficiaries. It's usually advisable to have them share in the planning from the outset and to discuss with them each addition to or change in the program. It's also a good idea to leave a letter outlining your life insurance policies and indicating any choices the beneficiaries may have in settlement of the policies. It may be well to point out that (1) they should notify the company at once in event of death and (2) your life insurance agent will help your beneficiaries fill out the proof of claim forms required for settlement and to assist in deciding how to take the proceeds if a choice is left to your beneficiary.

VI. OTHER CONSIDERATIONS

Military Risks. When the United States is engaged in combat operations, hazards to military personnel present special circumstances for life insurance.

Any serviceman not currently serving in a combat area or alerted for service there can generally buy reasonable amounts of private life insurance at standard rates, with no war clause or any other war restrictions. If a serviceman should later be assigned to a combat area, the insurance company cannot add any war restrictions to a policy once issued.

The amount a serviceman can buy varies from company to company, and depends to some extent on rank and family responsibilities. Lower-ranking enlisted men (particularly if they have no dependents) are generally limited to $10,000 of coverage in addition to their $10,000 of Servicemen's Group Life Insurance. Non-commissioned officers and petty officers can typically obtain $25,000 or more life insurance other than SGLI, and commissioned officers may be issued $50,000 or more. In all cases, consideration is given to family status and the need for protection.

Most life companies are not currently issuing new policies to officers or enlisted men serving in southeast Asia, or who have been alerted for service there, or whose military units are expected to be assigned there. However, several larger companies will issue minimum amounts -- generally not more than $5,000 -- to personnel already alerted for combat duty, particularly if their family responsibilities present a need for protection.

It may also be possible for them to obtain a policy containing a war clause -- which specifies that, if they should be killed as a result of the war, the company would not pay the face amount of the policy, but would refund all their premium payments, with interest. If death should occur for any other reason, the full face amount would be payable. War clauses are customarily cancelled at the end of hostilities. All war clauses during World War II were dropped at the end of that war. Once cancelled, they cannot be reinstated.

Some military personnel not serving in a combat area have to pay higher premiums for new policies because of hazardous duties. For instance, anyone regularly assigned to flight duties in military aircraft normally must pay extra. Deep-sea diving and ordnance or explosives-handling are also examples of duties requiring extra premiums.

But any current life insurance policy is not affected in any way by a serviceman's subsequent assignment to a combat area or hazardous duties. Nor is his SGLI coverage affected.

Impaired Health. From the standpoint of health, the chances are that you can get private life insurance at standard rates. For the nation as a whole, only about 1 out of 20 applicants has to pay a higher premium because of impaired health. And men and women on active military service are generally in superior health.

If you aren't over 40 years old, have a favorable medical history, and aren't applying for an unusually large policy, you may not even have to take a medical examination.

Other Group Life Insurance. Besides Servicemen's Group Life Insurance and your individual policies, you may be eligible for additional group life insurance protection through a professional or fraternal organization. Your membership dues may entitle you to buy this added coverage if your health is good. This insurance generally goes down in amount, or the premium may go up as you get older. Often the insurance ends when you reach 65. Insurance sold to association members is usually term insurance, and has no cash value.

Credit Life Insurance. If you take out a loan, finance a new car or other purchase through a bank, credit union or finance company, you usually get credit life insurance through the lender to repay your debt if you should die before completing the payments. It eliminates leaving your family with a burdensome debt.

Insuring Your Wife and Children. Families usually depend on the husband for their main income. So as a rule, their insurance should emphasize his coverage. To stint on a husband's life insurance in order to insure his wife and children could be a tragic mistake.

But, after he is adequately covered, there may be good reasons for considering some protection on other members of the family, such as:

1. Working wives whose income is essential to the family.

2. Career woman who earn as large or larger incomes than their husbands and need as much or more life insurance.

3. A wife who has inherited a large estate, and may need life insurance to cover taxes on it at her death. (In states with community property laws, a husband may have to pay taxes on their joint property if his wife dies before he does.)

"Wife insurance" can be important to any family. Final expenses are involved in any death, and the cost of replacing a wife's and mother's services to her family may be a continuing need. She plays a vital economic role merely by running the home and rearing the children.

What about a policy for a child? Today the chances of a child dying are quite small. But after parents are sufficiently insured, a small amount of life insurance on children might be considered to help meet final expenses if a child should die.

For the huge majority of children who live to adulthood, even a small policy purchased at a young age can be a big help in getting started on a lifelong insurance program. It protects them against the possibility that they might become uninsurable later on. And their policy can guarantee their right to buy more insurance when they grow up, regardless of their future health.

Children's premium rates are very low. And the policy can be kept for the rest of their lives with no increases in premiums as they get older.

Experts advise that a child's life insurance include a "payor clause," which costs a little extra. It provides that, if the father dies, no further premiums will be due until the child reaches adulthood. It can also cover a father's disability.

When a youngster is ready for college, his parents can borrow against the cash value of his policy to help meet educational expenses. After he graduates and starts earning an income, the loan can be repaid and the full protection restored.

But a policy bought specifically as a college savings plan should cover the father's life, rather than the child's. If the child should die before reaching college age, the college funds would not be needed.

Women's and children's insurance needs can often be met at moderate cost under "family plan" policies, which combine whole life protection on a husband and smaller amounts of term insurance on his wife and each minor child. The premium is the same for any number of children. Those born later will be covered at no additional cost. Each $1,000 of term insurance on a child is convertible to $5,000 of whole life insurance when he or she reaches maturity (usually age 25), at standard premium rates, regardless of insurability.

When buying an individual policy on a child, it's wise to protect his or her right to buy more insurance in the future by adding a guaranteed insurability rider at a small additional charge.

VII. A LOOK TO THE FUTURE

Right now, if you are young and are raising a family, your foremost financial need is to protect their income against the possibility that you might die prematurely. In the early years especially, you may have to ration your dollars for this basic protection.

But later on, after you have a solid foundation of life insurance, you can expand your program and start on other important goals. One of these is a more comfortable retirement.

Of course, if you're a career serviceman, retirement will be less of a problem for you than for most civilians. Your military pension and Social Security should cover the essentials. But to fully enjoy your later years, you may want to augment this basic retirement coverage.

As a by-product of your protection, whole life insurance builds cash value that you can use for extra retirement income. However, chances are that you'll continue to need some of this insurance for protection after retirement.

There are other plans specifically designed to accumulate funds for retirement -- including annuities and mutual funds or some combination of these.

Annuities. An annuity is essentially a life insurance policy in reverse. Instead of paying benefits when a person dies, it pays him an income as long as he lives.

Under "conventional" annuities, the same amount of income is paid each month for life. Under "variable" annuities, a lifetime income is also guaranteed, but the monthly check may vary.

The cost of the annuity depends mainly on the age that a person starts to collect his lifetime income. The older he is, the larger the amount he will get monthly for each $1,000 he invests.

Each income payment he receives is partly interest and partly a return of his own money. The interest portion is taxable, but since a person's total income drops at retirement, chances are that the tax, if any, will be small. An annuity can be bought outright, say at age 65, or it can be paid for in installments, starting at a younger age. Or the cash values of a life insurance policy can be used to buy an annuity at an advantageous rate.

There are several types of annuities. One pays an income only as long as the annuity holder lives. Another type pays a smaller income in order to provide some money for a beneficiary if the annuity holder dies within a certain period. Or a husband and wife can arrange for a smaller annuity income for them both so that when one dies, the survivor will continue to get an annuity check for life.

A newer type, the variable annuity, also guarantees an income for life, but the payments may vary from month to month. This is because the funds behind the variable annuity are invested in common stocks, whose earnings may go up or down. The holder of a variable annuity takes the risk of a drop in income if the stock portfolio performs poorly, but he also has a chance of a higher income if the investments prove profitable. Although only a few life insurance companies sell variable annuities to individuals so far, interest in them is growing.

A mutual fund is also based on a portfolio of stocks, and like a variable annuity, its investment results cannot be guaranteed. A major difference is that the variable annuity, like any annuity, guarantees an income for life.

When You Leave The Service. If you take a civilian job when your military service is completed, you will probably be covered by your employer's group life insurance plan. Even firms with just a few employees now have this protection. Generally, no physical examination is required.

Group life insurance is usually one-year term insurance, with the coverage renewable each year.

Some plans provide the same amount for each employee, perhaps $3,000 or $5,000. Often the amount of insurance is based on an employee's income, such as one or more years' wages or salary. Many employers pay the entire cost. Employers often provide a reduced amount of group life insurance for their retired employees, at no cost to them.

If a civilian employee's job ends for any reason, his group life insurance continues for 30 days. During this period he has the privilege of converting his group insurance to an individual whole life policy at standard premium rates, even if he is in poor health.

Estate Planning. Your estate consists of everything you own, including life insurance. A father and husband will want to plan carefully on how he will want to pass these possessions along to his family. The best way is to have a will, drawn up with legal help, to make sure the plan is carried out, and to keep estate taxes to a minimum.

Life insurance "bypasses" a will if you name a beneficiary, but must still be part of your plan. Unless special arrangements are made, life insurance proceeds at your death are counted as part of your estate and may be taxed. But deductions and exemptions help to keep the tax down.

In addition, the first $60,000 of your estate, including your life insurance, is exempt from taxation. There are also deductions for state death taxes, funeral expenses, administration of the estate, other claims and charitable bequests.

This tax can further be minimized by giving away some of your assets to your family during your lifetime, including life insurance. Or you can set up a "life insurance trust" with this in mind. But you'll need the guidance of your lawyer and perhaps a bank, as well as your life insurance agent because of the technical nature of these arrangements.

PLANNING A LIFE INSURANCE PROGRAM

The following chart will help you obtain a better view of your own family's protection needs and show you if there are any gaps that require filling. It's a good idea to review your figures every year or two, when you receive a promotion or if any major change occurs in your family.

IMMEDIATE CASH FUNDS

How much money would be needed, if you died tomorrow, to pay bills, funeral expenses, loans and other debts, and taxes?..... $_____

If you desire to have the mortgage on your home paid off, how much would be required? ..... $_____

How much cash would be needed to provide your family with a reserve fund for emergencies? ..... $_____

TOTAL..... $_____

Family Income

During Readjustment Period:

How much extra income would your family need per month during a readjustment period? Total for two years ..... $_____

While Children Are Young:

How much income would your family need to furnish the ordinary comforts until your children are grown up? ..... $_____

How many years until your youngest child is grown?..... _____

Permanent Income for Your Wife:

How much income would your wife need, after the children are grown, to provide her with the ordinary comforts of life?..... $_____

Educational Fund:

How much money would be required to furnish each of your children with funds for a college education -- currently estimated at about $2,000 per child per year? ..... $_____

Retirement Fund

How much income per month would you want to provide for yourself and your wife, commencing at age _____? ..... $_____

PRESENT LIFE INSURANCE

What life insurance policies do you currently own?

Policy Number	Life Insurance Company	Type of Policy	Amount Less Indebtedness
_____	Servicemen's Group Life Insurance	Level Term	$ 10,000
_____	National Service Life Insurance	_____	$ /
_____	_____	_____	$_____
_____	_____	_____	$_____
_____	_____	_____	$_____
_____	_____	_____	$_____

GOVERNMENT BENEFIT PROGRAMS

Social Security:

How much old-age income per month will you and your wife receive under Social Security when you reach age 65 and she is 62?..... $_____

How much income per month would your wife receive in case of your death during the years your children are growing up?..... $_____

How much income per month would your wife receive, starting at age 62, in case of your death?..... $_____

Military Retirement:

How much military pension do you expect to receive per month after completing 20 or more years of military service -- assuming normal promotions?..... $_____

How much would your wife be entitled to receive per month from your military pension after your death?..... $_____

Dependency and Indemnity Compensation (DIC):

How much compensation per month would your wife receive under the DIC program during the years your children are growing up, in case of your death on active duty or from a service-connected cause within 120 days thereafter? ..... $_____

How much compensation per month would your wife receive permanently under DIC after your children are grown up? ..... $_____

6 Months' Death Gratuity:

How much would your family receive under this program in case of your death while on active duty? They would get an amount equal to your full pay (but no allowances) -- and not less than $800 nor more than $3,000 ..... $_____

YOUR ESTATE AND DEATH TAXES

To Determine Your Gross Estate:

Cash -- in savings accounts.....	$_____
Cash -- in checking accounts	$_____
Household furnishings	$_____
Personal property	$_____
Home -- current value (less mortgage)	$_____
Real Estate (other than home)	$_____
Stocks, bonds and mutual funds	$_____
Variable annuity -- current value	$_____
Life insurance (less loans)	$_____
Proceeds from government benefit plans:	
Social Security	$_____
Military pension -- current value	$_____
Dependency and Indemnity Compensation (DIC).....	$_____
6 Months' death gratuity	$_____
Burial allowance	$ 250.00
Notes and accounts receivable	$_____
Interest in family or other business	$_____

1. TOTAL GROSS ESTATE ..... $_____

To Determine Death Taxes:

Debts and expenses:	
Debts (current bills, notes, loans, etc.).....	$_____
Funeral and last expenses	$_____
Administration expenses	$_____
Accrued taxes (including income taxes)	$_____

2. TOTAL DEBTS AND EXPENSES ..... $_____

3. ADJUSTED GROSS ESTATE (Subtract item 2 from item 1) ..... $_____

Deductions and exemptions:

Marital deduction	$_____	
Charitable and educational bequests	$_____	
Exemption	$ 60,000	

4. TOTAL DEDUCTIONS AND EXEMPTIONS ..... $_____

5. TAXABLE ESTATE (Subtract item 4 from item 3)..... $_____

Death Taxes:

Federal estate tax	$_____	
State death taxes	$_____	

6. TOTAL DEATH TAXES ..... $_____

To Determine Net Distributable Estate:

7. TOTAL GROSS ESTATE (Item 1) ..... $_____

Debts, expenses and death taxes:

Total debts and expenses (item 2)	$_____	
Total death taxes (item 6)	$_____	

8. TOTAL DEBTS, EXPENSES AND DEATH TAXES..... $_____

9. NET DISTRIBUTABLE ESTATE (Subtract item 8 from item 7)..... $_____

DEPARTMENT OF DEFENSE PERSONAL COMMERCIAL
AFFAIRS BOARD MEETING - MARCH 17, 1970

MINUTES

1. The meeting was called to order at 1000 hours, March 17, 1970, by the Chairman, Lt. Cdr. Edwin M. Furey, USN. Those in attendance consisted of the following:

   Lt. Cdr. Edwin M. Furey, Chairman and USN Member
   Colonel Hubert A. Connelly, Executive Secretary, PCA Board
   Mr. R. L. Walter, USA Member
   Mr. Paul R. Young, Jr., USAF Member
   Lt. Col. Charles E. Spence, Legal Advisor (USMC)
   Major Leonard E. Rice, Army-JAG
   Lt. Col. James H. Patterson, Assistant Director, PCA(MPP)
   Miss Barbara E. Schoenberger, AdminSpecialist, PCA(MPP)
   Guests -- See Attachment 1.

2. Agenda for the Meeting -- See Attachment 2.

3. Business Conducted by the Board.

   a. The Chairman introduced Lt. Col. James H. Patterson, newly assigned to the Personal Commercial Affairs Office (Assistant Director), welcomed the official guests and then introduced the Deputy Assistant Secretary of Defense (Military Personnel Policy), Brig. Gen. Leo E. Benade.

   b. General Benade welcomed the guests and expressed appreciation to the Institute of Life Insurance for the services which it has rendered to and for Department of Defense personnel in the field of life insurance consumer protection measures. General Benade noted to the President of the Institute of Life Insurance, Mr. Blake T. Newton, Jr., the high regard which all counseling personnel held for the Armed Forces Life Insurance Counselor's Guide which the Institute developed in 1958 and superseded in its present format in 1965. The offer of the Institute to revise this Pamphlet - the purpose of their meeting with the PCA Board this date - was recognized. General Benade assured the Institute of Life Insurance representatives that their work in revising this Pamphlet (DoD PA-9) would receive high priority in the coordination process to assure publication at the earliest possible date.

c. Proposed changes to the existing Pamphlet were presented and discussed. It was agreed that the Institute of Life Insurance would submit their proposed revision, based on topics as discussed, at the earliest possible date. Upon submission, a draft would be forwarded to the PCA Board Members for informal review and will be followed by a joint working session within two weeks to discuss any further approaches. After this meeting, the Pamphlet revision would be disseminated for routine formal coordination. The visitors then departed.

d. The Board proceeded with scheduled agenda items:

(1) No major problems have been encountered with DoD Directives 1344.7, 1344.9 and 1000.10 since publication. The excellence of implementing instructions by the Military Departments have assured the desired degrees of uniformity of approach and interpretation. Minor problems were noted but no significant trends. PCA Board Members were encouraged to advise the Executive Secretary of such problems, if they arise.

(2) The Board was advised that plans to revise DoD Directive 1344.1 have been delayed pending resolution of problem areas wherein life insurance companies now seek to commingle insurance sales and security sales. This involves coordination problems with the Securities and Exchange Commission and the industry. It appears that these have now been addressed satisfactorily. However, it is planned to rescind DoD Directive 1344.6, Motor Vehicle Liability Insurance, dated April 15, 1964, and incorporate it as part of DoD insurance policies. Solicitation rules on military installations for insurance sales of all types will be as now prescribed in DoD Directive 1344.7. Automobile insurance requirements on military installations will parallel those of the state in which the installation is located or as prescribed by other laws (as in the Soldiers' and Sailors' Civil Relief Act). The only other portion of the existing Directive to be retained is that which levies a requirement on the Military Departments to administer an effective driver training and motor vehicle safety program. Mandatory reports associated with both 1344.1 and 1344.6, as now constituted, have already been discontinued by separate DoD administrative action.

(3) PCA Board Members were presented with copies of correspondence with The Publishers Committee which established a liaison office to represent member companies engaged in Book, Bible and Encyclopedia sales world-wide. This extends, on behalf of the industry, a central coordinating office to assist the DoD in implementing its policies on consumer protection in this aspect of personal commercial solicitation.

4. The Board adjourned at 1250 hours.

Edwin M. Furey
Lt. Cdr., USN
Chairman

Hubert A. Connelly
Colonel, USAF
Executive Secretary

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

March 11, 1970

MANPOWER AND
RESERVE AFFAIRS

Meeting with Representatives of Institute of Life Insurance
1000 hours, March 17, 1970 -- Room #6 (1E-801)

Present:

Mr. Blake T. Newton, Jr.
President, Institute of Life Insurance

Mr. William K. Paynter
Executive Vice President, Institute of Life Insurance

Mr. Milton Amsel
Director, Press & Editorial Division, Institute of Life Insurance

Mr. Larry Sims
Writer, Editorial Division, Institute of Life Insurance

Mr. Joseph McCarthy
Assistant Vice President, Institute of Life Insurance

Mr. Ray Stroupe
Washington Representative, Health Insurance Institute

Mr. Robert Taylor
Vice President, Institute of Life Insurance

Mr. Ralph J. McNair (absent)
Vice President, Life Insurance Association of America

Mr. Richard E. Vernor
Associate General Counsel, American Life Convention

Attachment 1.

AGENDA

Personal Commercial Affairs Board, March 17, 1970. 1000 Hours, Room 1E 801 - 6

Meeting with representatives from the Institute of Life Insurance and the Insurance Industry to review and discuss proposed revision of DoD Pamphlet PA-9, " Armed Forces Life Insurance Counselor's Guide ".

See attachment for listing of conferees.

Following this topic, the PCA Board will review:

Post-publication problems on:

DoD Directive 1344.7, July 1, 1969.

DoD Directive 1344.9, July 1, 1969.

DoD Directive 1000.10, July 11, 1969.

Revision Approaches to:

DoD Directive 1344.1, March 3, 1964.

DoD Directive 1344.6, April 15, 1964.

Liaison Arrangements with The Publisher's Committee (see handout).

Items of Interest as Presented by the Members.

For the Chairman:

Hubert A. Connelly
Colonel USAF
DASD (MPP) (PCA)
Executive Secretary

2 Attachments:

Roster of Guests
Correspondence on Publisher's Committee

Attachment 2.

Understanding Your Life Insurance

Understanding Your Life Insurance

INSTITUTE OF LIFE INSURANCE
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Introduction

As far as Americans are concerned, life insurance is well-nigh universal. Families rely on life insurance for financial protection when their children are young, and they continue to use it well into their retirement years.

What makes life insurance work? You've probably asked yourself this question at one time or another. A mechanism that guarantees the payment of benefits 20, 30, 50, or even 100 years in the future can become fairly complex. Professional actuaries use sophisticated electronic devices to make the necessary computations and calculations. But you don't have to be an actuary to gain an understanding of the basic principles involved. After you've finished reading this booklet, you'll come away with a better grasp of life insurance, and be able to discuss the subject more knowledgeably with your agent.

If you have any questions, technical or otherwise, please write us and you'll receive a prompt reply.

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The Social Aspects of Life Insurance

Life insurance protects people against many of life's risks. People pay a small portion of their current incomes into a common fund to provide for the time when their incomes will become smaller or stop altogether because of retirement, poor health or death. Life insurance really is an easy way for people to become financially secure.

Life insurance is neither mysterious nor difficult to understand. It works in the following manner:

A person joins a risk-sharing group (an *insurance company*) by purchasing a contract (a *policy*). Under the policy, the company promises to pay at the time of the policyholder's death a sum of money to the person or persons selected by him (the *beneficiaries*), or, in the case of an endowment policy, to pay the money to him if he is alive on the future date (*maturity date*) named in the policy. This promise is given in return for the policyholder's agreement to pay periodically a sum of money (the *premium*) to the insurance company.

Life insurance offers a *voluntary* plan which the individual may buy or not, as he sees fit. It is this voluntary aspect of life insurance which has made it necessary to establish certain requirements as to health and occupation which a person must meet in order to buy a policy. If there were no such requirements, people in good health would tend to postpone its purchase while people in hazardous occupations and those in ill health would buy. This would make the cost prohibitive.

Life Insurance and the American Family

Along with the automobile and the telephone, life insurance has become part of the way of life of the American family. This reflects the American concept: that a father has an obligation to provide financial support for his family for as long as the family has need of funds, even if he should not live to fulfill that need. So often, in many lands, the death of the head of the family is accepted not only as a great personal loss but also as a financial misfortune which the widow and children must bear with courage and little else.

Accordingly, life insurance is used by families to fill financial needs created by the loss of the breadwinner, which are: (1) money to meet final expenses, (2) money to live on while the family readjusts itself to the new conditions with the father gone, (3) an income for the family while the children are growing up and finally (4) an income for the mother after the children have left home.

A family's life insurance program is developed as the family grows and it can be adapted to meet the changing needs at various stages of the family cycle. In times past, individual life insurance policies bought by various members of the family alone offered opportunities to develop an adequate protection program. In recent years, employer-employee programs providing benefits under group insurance plans contribute largely in this area. Social Security is a third factor in helping families provide adequate financial protection. This makes the development of a family's financial program easier to attain but more complicated than ever – calling for the guidance of a well-trained life insurance agent.

Life Insurance Dollars at Work

Life insurance is based on the natural law of human mortality – the inescapable fact that, as people grow older, an increasing proportion must die. And no one lives forever.

Part of the premium dollars are therefore set aside to guarantee future obligations to policyholders and their families. Until needed, these funds are invested, and the earnings help keep down the cost of insurance to policyholders.

As a result of the need for investing these funds, life insurance is one of the most important sources of capital to finance the nation's economic growth and to provide jobs for an expanding population. The obligations of U.S. life insurance companies are backed by some $205 billion, invested in an almost endless variety of ways.

Under the broad heading of investments in mortgage loans and real estate, life insurance funds help to build homes, farms, apartments, office buildings, stores, shopping centers, hotels, motels and other essential facilities. The life insurance business also set in motion a special urban investment program to invest $2 billion for needed housing and jobs for people living in blighted city areas.

Under a second broad heading of investments in American business and industry, life insurance funds help to provide modern plants, equipment and working capital for almost every type of enterprise. For example, life insurance funds are a vital factor in financing jet planes for airlines, nuclear generating plants for electric companies, radio and television broadcasting facilities, natural gas pipelines, and research and production facilities for the plastics, chemical and drug industries.

Still other life insurance investments include Federal and local government bonds, some foreign securities and loans to policyholders themselves.

Thus, life insurance dollars play a significant role in helping to provide the nation with the capital needed for its growth. They are put to work for the policyholders until needed to pay the benefits for which they were purchased.

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How Life Insurance Provides Security

Modern life insurance plans are designed to meet almost every circumstance in which there is loss of earning power.

In recent years coverage has not only been liberalized, but policyholders can select the payment plan that is easiest for them. Most people have individual policies or group plans, or both.

Although insurance plans go a long way back in history, it was not until 1854 that life insurance began to meet the needs of large numbers of people. In that year a new type of individual life insurance plan became available to low-income industrial workers in England. The new policy was cheaper than past plans and was paid for at the home when the life insurance agent called each week or month. This type of insurance was introduced into the United States in 1875 and became very popular, reaching far more people for many years than did the earlier type of individual policies. The insurance is known as *industrial insurance,* the word coming from the industrial workers for whom it was designed. The earlier type of individual insurance is called *ordinary insurance,* a term which was perhaps not well chosen but which appears to be embedded in the language of life insurance.

"Ordinary" Life Insurance

"Ordinary" life insurance is used to provide not only a sum of money to enable one to "die even with the world," but also a continuing income to a widow and children, making it possible to keep

the family and home together. In addition, it is purchased to provide a life income to the widow after the children are grown. It can pay the children's way through college and retire the mortgage on the family home.

People use ordinary life insurance not only for protection but also as a means of accumulating money through cash values for their own use in later life. The value of the policy may then be taken either in one sum or in an income which will continue as long as the insured person lives.

In addition to these individual and family uses, ordinary life insurance is very frequently used in the business world to insure the lives of business executives and other key men for the benefit of the business. In small corporations and partnerships all part-owners are often insured. This makes it possible when a part-owner dies to promptly pay his family a prearranged price for his interest in the business. It enables the surviving part-owners to continue the business. It avoids delay in settlement or even liquidation.

Premiums for ordinary policies are usually paid directly to the company annually, semi-annually, quarterly, or monthly. Policies are almost always issued in units of $1,000 or more. The average size ordinary policy purchased in 1969 was $10,760. A medical examination is frequently required of each applicant as one factor in qualifying for a policy, although most companies write "non-medical" ordinary policies for limited amounts.

Group Life Insurance

Group life insurance was introduced in 1911 and, as the name implies, this form of insurance provides a means for insuring a group of people under one policy.

The most usual group is made up of the employees of a business organization who are insured without medical examination under a master contract issued to the employer. Each insured employee receives a certificate stating the amount of his insurance, the name of the beneficiary he selected and a summary of his rights and benefits. His insurance is often one to two years' salary or earnings.

Group life insurance is usually issued on the term insurance basis. That is, the premium collected for the entire group buys protection only from one year to the next and does not buy permanent protection. The employer and employees usually share the cost of group insurance, the employees' portion being deducted (with their con-

sent) from their salary or wages, and the balance of the premium being paid by the employer. The employer may, however, pay the entire cost.

If an employee leaves his employer he loses his group insurance, but the employee has a valuable right, namely that he may buy an individual policy for the same coverage (paying the premium at his age) even though he may be uninsurable at that time. This conversion privilege must be exercised within 30 days of the termination of his employment.

In recent years various plans of *group permanent* life insurance have been developed. The cost of these is higher. However, the employee leaving his employer retains some part of his group protection as fully paid permanent insurance. He also has the right to buy an individual policy, without evidence of insurability, equal to the balance of his group protection.

Originally, when an employee retired his group life insurance stopped. But now it is generally continued by his employer. The amount of coverage is usually reduced. For some the reduction is immediate and to a nominal amount of $1,000 to $2,000; for others, the reduction is made, in steps over a five-year period, to about 50 per cent of the benefit prior to retirement.

Industrial Insurance

With the economic gains of American workers in recent decades, and with their increased ability to purchase larger policies in the ordinary category, the total amount of industrial life insurance in force in the United States has declined gradually since the mid 1950's while, as a percentage of total protection it has decreased from some 14 per cent twenty years ago to 2 per cent at the end of 1970.

Many of those who in prior years would have purchased industrial insurance are still receiving, however, the service of a life insurance agent, who is calling at their homes, but now they are buying ordinary insurance and paying monthly premiums. This insurance is classified in the statistics of the business as monthly debit ordinary insurance.

Industrial life insurance is issued in individual policies almost always less than $1,000. The average size industrial policy purchased in the United States was $810 in 1969. This form of insurance is usually issued without medical examination, although an examination may be requested by the company.

Credit Life Insurance

Credit life insurance is used to repay a personal debt should the borrower die before completing the payments. It is based on the belief that "no man's debts should live after him." It was introduced in 1917 in the United States in connection with installment financing and purchasing. Originally, and for many years, this coverage was provided by policies that individuals purchased for themselves. Now, the vast majority of the coverage is group insurance provided under a master contract issued either to a bank or other type of lending agency or to a retail store selling goods on the installment plan. The average under group coverages is $1,010 per individual loan. Credit life insurance accounted for 7 per cent of all life insurance in the United States at the end of 1969.

Participating and Nonparticipating Policies

There are several ways of classifying individual life insurance policies. One is whether it is *participating* or *nonparticipating*.

For a *participating policy*, the premium rate is fixed at an amount somewhat greater than the company expects will be needed under normal conditions to pay for the cost of providing insurance. The policyholder receives a refund, in the form of a *dividend*, based on actual operating experience together with an estimate of future cost trends. Specifically, the dividend represents the portion of the participating premium not needed for the following purposes: to be set aside for present and future benefit payments to policyholders and beneficiaries (known as the *reserve*), to be set aside for possible contingencies (known as the *surplus fund*), and to meet the operating expenses of the company.

Under a participating policy, the policyholder has the guarantee that he will never be called upon to pay more than the premium rate specified in the policy. But the net cost of a participating policy cannot be guaranteed in advance since it depends upon actual operating experience from year to year.

In a *nonparticipating* policy, the premium rate is fixed at an amount which represents as closely as possible what the company expects will be needed to pay for the cost of providing the insurance, and no dividend is payable. This premium rate then becomes the cost to the policyholder. Thus the actual cost of a nonparticipating policy is guaranteed in advance for the life of the policy.

What Are the Different Types of Companies?

There are two basic types of life insurance companies – *stock companies* and *mutual companies.*

A *stock company* is owned by stockholders who finance its operations and who assume the risks and responsibilities of ownership and management. Most stock companies issue only nonparticipating policies; a few also issue participating policies; a very few issue participating policies only.

A *mutual company* has no stockholders. Its management is directed by a board elected by the policyholders for whose benefit the company is operated. Nearly all mutual companies issue only participating policies; a few also issue policies on a non-participating basis, the owners of such policies having no voice in the management.

Individual Policies and Their Uses

Basically there are only three types of individual policies: term, whole life and endowment. However, there are many variations of each type and, in addition, a number of special-purpose policies combine two or more of the three basic policies with perhaps an annuity element added. Here is a brief outline of the three basic policies and of a few special types of individual policies.

1. TERM POLICY

A term life insurance policy provides temporary protection. The benefit is payable only if the policyholder dies within a specified period of time. Some companies offer term policies which run to age 60 or 65.

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A term policy may be *convertible;* that is, it may grant the privilege of exchanging it, without proving one's insurability, for permanent insurance on either the *whole life* or an *endowment* plan, which have higher premiums but which also contain cash values.

A term policy may contain a *renewal privilege,* which gives the right to renew the policy, without proving one's insurability, at the end of the original policy term. The renewed term policy will usually be similar to the first one, except that it will call for a higher premium rate because the policyholder is older at the time of change. This renewal privilege is limited to a certain number of renewals, or the policy may not be renewed after age 55, 60 or 65. The insurance ends at the close of the final renewal period.

A term policy is frequently used to provide additional temporary insurance protection on a father's life while his children are growing up. During such periods, people usually need maximum insurance protection at a minimum of premium outlay.

Another typical use of a term policy is to guarantee the repayment of the mortgage on the policyholder's home if he should not live to do so himself.

Example

Richard Smith is 28 years old, has a wife and a two-year-old daughter. He has recently been made an assistant foreman in the machine shop where he works.

Mr. Smith has owned $12,000 of life insurance for several years and has $10,000 of group life insurance. He knows that, provided he remains alive and healthy, he will be able to take good care of his family. Should anything happen to him, on the other hand, he realizes that his wife and small daughter will have to rely solely upon his life insurance and Social Security.

His family needs additional life insurance protection — more than he can afford to buy on a permanent basis at this time. Because his prospects for future advancements are bright, Mr. Smith decides to buy a $15,000 ten-year convertible term insurance policy. He plans to change it to a whole life or endowment policy as soon as he can afford the larger premium required.

2. WHOLE LIFE POLICIES

There are policies which provide lifetime insurance protection. At the death of the policyholder the face value (the amount written on the front of the policy) is paid to the beneficiary he has named. A person may select a policy which calls for the payment of premiums for as long as he lives; or for a definite number of years; or to a certain age; or even in a single sum. His choice should depend upon an estimate of his ability to pay premiums as well as the purpose for which he is buying the policy.

Straight life or *ordinary life,* has the lowest premium rate of any lifetime policy on the "level premium" plan, which means the premium stays the same even though the policyholder grows older (see page 31). It is among the most widely used and is a flexible policy which can meet many different needs and family situations. While the policy calls for premium payments as long as the policyholder lives, many people plan to discontinue premium payments in later years and take a lump sum or an income for life.

Example

Tom Jones is 35 years old. He has a wife and three children, 2, 4, and 7 years old. He owns his own home in the suburbs and has a good law practice in the city.

Most of Mr. Jones' insurance is on the straight life plan because this gives him a lifetime program with maximum protection per dollar of premium payments. It also gives him the right to borrow against the cash value of the policy, say in an emergency.

If he someday wishes to discontinue premium payments, he can select any one or, if his policy is large enough, a combination of the following things:

1. Continue the protection at a reduced amount for the balance of his lifetime;

2. Continue the full amount of protection for a definite period of time;

3. Cancel the policy entirely in return for a cash settlement of guaranteed amount; or

4. Discontinue the policy and receive an income for a certain limited period of time, or for life.

A *limited payment life policy* also provides lifetime protection, but premium payments end after a period such as 10, 20 or 30 years, or at a certain age, usually 60, 65 or 85, according to the buyer's choice. Because the premium-paying period is limited, the premium rate is necessarily higher than for the straight life policy. The higher premium, however, builds cash values faster than a straight life policy for the same amount. In all other respects, it is similar to the straight life policy.

If a person wants lifetime protection, but wishes to limit premium payments to a definite period of time, such as his best earnings years, then a limited payment life plan may be the policy for him to purchase. Since the premium rate is higher than for the straight life policy, this factor by itself will tend to limit the amount of protection he can buy for his family.

Example

Jim Brown is 45 years old and has a wife aged 42, but no children. He is anxious to provide an income adequate to take care of his wife for the rest of her lifetime, in the event of his death. He already owns $20,000 of insurance on the straight life plan.

On the advice of his agent, Mr. Brown buys a $10,000 twenty-payment life policy. In the event of his death, his widow will receive $2,000 to pay current obligations and the balance will be available to her as a monthly income for life, the amount depending upon her age at the time of his death. At her current age, Mrs. Brown would receive about $105 a month in all. If Mr. Brown dies when Mrs. Brown is 65, she would receive about $160 a month for life.

The new policy is written on the twenty-payment life plan

because Mr. Brown wants lifetime protection but wishes to stop paying premiums on it at age 65, when he hopes to retire from business. At that time he may wish to discontinue the insurance protection and elect a lifetime income from the cash proceeds of both policies.

3. ENDOWMENT POLICY

An *endowment policy* enables a person to accumulate a sum of money which is paid to him at a date named in the policy (the *maturity date*). If the policyholder dies before the maturity date, the money is paid to his beneficiary. Because the premium rate is higher than that of a limited payment life policy or a straight life policy, the policy builds higher cash values.

When a person buys an endowment policy, he selects the date on which he wishes to receive the money. This may be at the expiration of a definite number of years, or at a certain age.

The endowment policy is designed for those who need not only life insurance protection for dependents but also a definite sum of money or income at some future date to supplement or replace their earnings.

An endowment is often used to accumulate a sum of money for a specific purpose. Married men who have been able to cover their family needs with other policies buy endowment policies because this plan provides some additional insurance protection for dependents during the endowment period, and also makes possible the accumulation of funds for retirement purposes.

Single persons who have only moderate family obligations use endowment policies as a means of regularly setting aside portions of their earnings for future use as well as to provide insurance protection for, say, their parents.

People also purchase endowment policies for the purpose of electing a lifetime income at the end of the endowment period, rather than taking a lump sum at that time.

Example

Robert Evans is a buyer in a department store. He is 38 years old, has a wife 34, and a daughter 4.

He now has $40,000 of life insurance, including $10,000 of group insurance, which, with Social Security, would provide a modest income until his daughter is out of high school, and still leave something for his wife.

Mr. Evans has just received an increase in salary and wants to set aside a good part of it. His agent advises him to buy a $10,000 endowment policy maturing at age 65. This will enable him to accumulate money for retirement. With this plus his company pension and Social Security payments, he will have a fairly comfortable income.

On the other hand, should Mr. Evans not live to age 65 the proceeds of this new policy, added to his present insurance, will provide a more adequate income for his wife.

SPECIAL POLICIES FOR FAMILY PROTECTION

Special policies have been developed to help meet the insurance needs of the head of a family with minor children. The head of such a family needs life insurance protection to provide:

1. Funds to pay off debts and to meet his last sickness and burial expenses.

2. An income which will help provide for the children until they reach maturity.

3. Funds sufficient to allow the widow to get readjusted in life, if not sufficient to provide her with a life income.

The first and third needs call for permanent life insurance protection – that is either a straight life, a limited pay life, or an

endowment policy. The second need requires only temporary protection and can be met by term insurance.

The *family income policy* combines these two types of protection. The permanent part is usually a straight life policy. The temporary part is reducing term insurance which runs for 10, 15, or 20 years from date of purchase – which is called the family protection period.

Thus a $10,000 family income policy would provide a family with an income of $100 a month (1 per cent of $10,000) at the death of the father for the balance of the protection period.

Additionally, it would provide $10,000 for the family from the permanent portion of the policy. Most policies are arranged to pay this $10,000 immediately on the death of the father, but it can instead be used to provide an income.

If the policyholder outlives the family protection period, he has simply a permanent life policy for $10,000 – the term portion having ended. At or near the end of this period, his policy provides for a reduction in premium to that of the $10,000 permanent life policy alone.

Many companies will provide the family income benefit by issuing a "rider" that can be purchased as a supplement to a permanent policy which the policyholder already owns.

Companies also offer a *family plan policy* which also combines straight life with term insurance protection. A typical unit places $5,000 of straight life insurance on the father, $1,000 of term insurance to age 65 on the wife, and $1,000 of term insurance to age 18, 21 or 25 on each of the children. The protection continues as the family group changes. For example, newborn children are automatically covered at no additional cost when they become 15 days old.

Another type of special policy is based on the idea that a young man needs a lower premium rate for a few years and can thereafter afford to pay more while buying an amount of insurance which remains the same throughout life. This is often called a modified or graded-premium policy. Some companies offer policies with premiums increasing yearly for as many as 11 years before becoming fixed at a stated level.

A policy for those under age 21, which will jump to five times the amount of coverage after age 21, has proved to be very popular. It is generally known as a *"jumping juvenile"* policy. The premiums remain the same throughout life but are higher than for regular juvenile policies.

Some Recent Developments

One of the most important developments in individual life insurance is the *guaranteed insurability option.* This allows the policyholder to buy additional insurance even if he has become uninsurable. The option is generally offered with the purchase of a whole life or endowment policy to buyers under age 40. Additional insurance can be purchased every three or four years, usually in the same amount as the original policy but often no more than $10,000 each time.

A development which facilitates the payment of monthly premiums, is the *preauthorized check plan.* The life insurance company, with the authorization of the policyholder and the consent of the bank, draws a draft or check each month on the policyholder's account for the amount of the premium.

Premiums are *graded by size* by most companies so that the rate per $1,000 of life insurance decreases as the size of the policy purchased increases. Also, most companies write insurance at *lower premium rates for women* than for men in recognition of the somewhat lower mortality rates for women.

3

How Annuities Provide Security

Income protection that the policyholder himself can enjoy . . . that's what life annuities are all about. Life annuities are different from regular insurance:

> Life insurance provides a set sum at the policyholder's death. (Under endowment policies, a set sum is provided to the policyholder at a future date if he is still living, or to his beneficiary if he dies before that date.)
>
> Life annuities provide an income to the contract owner (the annuitant) for his entire lifetime.

People buy life insurance because they may not live long enough to support their families. People buy life annuities because they may outlive their earning years.

Life insurance policies and annuity contracts complement each other. The proceeds of life insurance policies may be turned into annuity income. Insurance policies may be included in some types of annuities. Thus, while life insurance is designed to furnish *protection for dependents* and while life annuities are designed to furnish *income for old age,* each may meet part of the other objective. Both insurance policies and annuity contracts have their uses in a well-balanced personal security program.

Annuities are based on the principle of a group of people getting together and sharing risks. Individually, these people could not spend their savings without fear of outliving their principal. Some would die before their principal was exhausted, but others would live long after their money had disappeared.

However, as members of a group of annuitants, each of these people can turn all or part of his savings over to a life insurance company and secure in exchange a guarantee that the company will pay him a regular income as long as he lives. While a life insurance company does not know how long any individual member of the group will live, it does know approximately how many in a group will be alive at the end of each successive year. A company can thus calculate the amount that each member of the group would have to contribute to the pooled funds.

Sometimes people ask, "Can I stop the annuity payments I am now receiving and get cash for the balance of the payments?" No; once the payments of a life annuity have started, the contract cannot be cancelled and a refund obtained. Otherwise the plan would not work for all members of the group. But a person can usually get a refund if he is not yet receiving annuity payments.

Sometimes a prospective annuitant – one who has not begun to receive income payments – wishes to change the retirement age. A person may want to retire at 55 or 60 instead of at 65 as originally planned. This can be arranged with the insurance company, often as a matter of contract right. Since the company would have to make income payments for a longer period of time, each payment will be smaller. If the annuity is currently being purchased and the change calls for premiums to stop at age 60 instead of continuing to 65, then each income payment will be smaller for this reason as well. The combination of fewer premium payments to the company and more income payments by the company means substantially smaller benefits at age 60 than at 65.

Annuities, like life insurance, are available on both the individual and group basis.

Individual Annuities

Individual annuities can be purchased on one life or on two to provide an income in old age. But they can also be used to provide an income at a comparatively young age.

Payments for individual annuities are made to the life insurance company either in one lump sum, or in annual or more frequent installments. Annuity contracts are issued in units of $10 of monthly income or $100 of annual income starting at a given age, such as 65. They are also issued in terms of income based on units of $100 of annual premiums (or $1,000 of single premium) at say age 65.

Because an annuity completes the circle of personal and family protection, it is included as an income alternative of most individual life insurance policies. This means that in place of a lump sum settlement, a beneficiary may receive an annuity. The policyholder himself can decide if he wants his beneficiary to receive this form of payment. (The beneficiary can make the same choice instead of taking a lump sum payment.) Policies generally permit the policyholder to use the cash value of his policy to "buy" a life income for himself, at say age 65, at the rates stated in the income settlement options of the policy.

Types of Individual Annuity Contracts

While the following descriptions apply principally to individual annuity contracts, they also relate generally to benefits under group annuity plans and to the income provisions of ordinary life insurance policies.

Individual life annuities can be classified several ways.

STRAIGHT LIFE AND OTHER LIFE ANNUITIES

A *straight life annuity* pays an income to an annuitant for the rest of his life; no further payments are made to anyone after he dies. This type of annuity furnishes the largest amount of lifetime income per dollar of purchase money. This annuity is recommended for the person who needs maximum income and either has no dependents or has taken care of them through other means.

Some people dislike the idea of a contract that might pay them an income for only a few months and then stop if they died at that time. Actually, of course, the life insurance company uses the remainder to provide an income to other annuitants who live longer.

Even when an annuitant clearly understands this and insists on buying a straight life annuity, the heirs are frequently dissatisfied if the annuitant received only a few payments and then died. It is hard to convince them that this money does not go to the company, but to other annuitants who live a long time.

Annuities with either a guaranteed period of payment or a refund provision help solve this problem.

A **life annuity with installments certain** pays an income to the annuitant for life. If, however, the annuitant dies within the guarantee period, the income payments for the balance of the period are paid to a beneficiary selected by the annuity holder. This period is usually 10 or 20 years and is often expressed as 120 or 240 months. The company is obligated to pay income benefits, in any case, for the 10 or 20 years. Some contracts give the beneficiary the right to **commute** the balance of guaranteed payments coming to him — that is, to collect their discounted value or present worth in one lump sum.

An **installment refund annuity** likewise pays an income to the annuitant for life. But if the annuitant dies before he has received as much money as he paid in, income payments are continued to his beneficiary until total payments equal that amount.

A **cash refund** annuity also pays an income to the annuitant for life. However, if the annuitant dies before he has received as much money as he paid in, the balance is paid in one sum to his beneficiary.

A straight life annuity is advisable for the person who wishes to receive the largest possible income for his money. A life annuity with installments certain or a refund annuity is advisable for the person who not only wants a lifetime income but who also wishes to provide some payment to his beneficiary in the event of his early death. For a given amount of purchase money, the income is less under these plans than under a straight life annuity because of the additional benefits.

IMMEDIATE AND DEFERRED ANNUITIES

Annuity contracts can provide an income beginning either immediately after the contract is purchased or some years later on a maturity date chosen by the annuitant.

The income from an annuity is paid monthly, quarterly, semi-annually or annually according to the annuitant's wishes.

An *immediate annuity* is purchased with a single payment. The income starts one month from the purchase date if income payments are on a monthly basis – or one year from the purchase date if income payments are to be made annually. Immediate annuities are generally purchased by people in middle or later life. They want this income to begin almost at once and to continue as long as they live.

Example

Ralph Allen is 60 years old. He has just retired from his position as a bank cashier. He is single and has no close relatives.

Mr. Allen has saved a modest sum of money but it is hardly enough to yield an adequate income even when added to his Social Security and his early-retirement pension.

Enjoying good health and desiring a lifetime income free of investment worries, he decides to buy an immediate annuity of the straight life type. This will guarantee him a monthly check for as long as he lives.

A *deferred annuity* provides an income which will begin on a future date. This annuity may be purchased by a single premium. More often, it is paid for in installments over a period of years. Deferred annuities are usually bought by people who do not need life insurance, or who already have adequate life insurance.

Most individual retirement plans that are popularly known as deferred annuities are akin to life insurance. They build up cash values more rapidly than the usual life insurance policy in order to accumulate a fund that is later used for an immediate annuity. Descriptions of two such plans follow:

The *retirement annuity,* to which companies give various names, is issued to meet the needs of people who want to save regularly for a life income and who need no insurance protection. This contract is really an accumulation at interest of premiums paid, less

expenses. The amount accumulated at the end of the deferred period is used to buy life annuity of the *straight life* or another type of life annuity. The usual unit for this contract is $10 of monthly retirement income at the selected age which is generally 65.

Added to each unit of retirement income is a very small amount of life insurance protection – just enough, in fact, to provide *death protection* during the early years of the policy equal to all premiums paid. After that time the cash value accumulation exceeds the total of premiums paid and becomes the *death protection*, the insurance element ceasing. As the cash value builds up, the death payment likewise increases.

Prior to the maturity date, the policy has a *cash surrender value* and also a *loan privilege*. During the early years of the policy, due to expenses and insurance costs, the cash and loan values will be less than the total of premiums paid.

Example

Eleanor Young is a laboratory technician. She is able to save regularly and has built up a fund to meet emergencies. She also has a small life insurance policy to cover final expenses.

For her needs, a retirement annuity is ideal. It enables her to set aside money regularly for her retirement. Her sister, whom she has selected as beneficiary, will receive at least the amount of the premiums she paid if she dies. The policy provides her with a fund on which she can borrow in case of need. She can cash the policy in if her situation changes and except for the early years she will get back at least what she paid in.

The *retirement income policy*, to which companies also give various names, is a variation of the retirement annuity. This contract includes a substantial insurance element coupled with each unit of $10 of monthly income at the retirement age selected. The insurance element ranges from $1,000 to $1,500 for each $10 unit. In all other respects this contract is identical in principle to the retire-

ment annuity. The death protection is the insurance element until the cash value exceeds that amount and becomes the death protection.

The retirement income policy fits the needs of many types of people. Single persons often find that the insurance furnishes them all the protection they need while the policy directs their premium dollars principally toward filling retirement needs. People with dependents who have purchased nearly all the insurance protection that they want and now wish to strengthen their retirement program find this policy helpful. It strengthens their insurance program which is an advantage, while it lays principal stress on building a retirement income.

Example

Ronald and Mary Roberts have three children. They own their home, have a bungalow at the beach and a life insurance program which includes plans for the education of the children.

Now they want to make plans for their own old age so that they will not be a burden on the children. But they realize they need more life insurance to buttress the program they already have.

Mr. and Mrs. Roberts decided to take out a retirement income policy on his life which will give them $200 a month of income when he reaches 65. This policy adds $20,000 of life insurance protection now. Later, when the death protection exceeds $20,000, it will still fit the needs of the family because other policies will have been used to provide for the education of the children.

JOINT LIFE AND SURVIVORSHIP ANNUITIES

Most life annuities are based on the life of a single person. It is possible, however, to purchase a *joint life and survivorship annuity* based on the lives of two or more persons. This type of annuity pays an income until the death of the last survivor of the two or more

annuitants. Some of these contracts continue the full amount of the original income until the death of the last survivor. Others provide for a reduction to two-thirds or one-half of the original income at the death of one of the annuitants.

Joint life and survivorship annuities are generally purchased by two people — for example, man and wife, two brothers, or two sisters. Generally they are immediate annuities, purchased in middle or later life to provide an income that will continue as long as at least one of the annuitants is still alive.

Joint life and survivorship annuities can be set up from the proceeds of ordinary life insurance policies. Also they are frequently selected instead of single life annuities payable under group annuity plans.

INSURED PENSION PLANS

For many years, life insurance companies have specialized in designing pension plans of various types for employers who wish to provide in a systematic way for the retirement of their employees at certain specified ages, such as 65. Such plans underwritten by life insurance companies are known as *insured pension plans.* In order to qualify as an employer business expense, all pension plans must be approved by the Internal Revenue Service. To secure approval, the plans must meet certain requirements established by law and by supporting regulations. They are then referred to as *qualified insured pension plans.*

Life insurance companies use a variety of plans for their insured pension plans, according to the needs of the individual employer. The basic types of insured pension plans are described on the following pages.

Group Annuities

The first group annuity contract was issued in 1921 for the purpose of providing a company-sponsored employee retirement plan. The early growth of this coverage was slow but in recent years it has developed at a rapid rate. Group annuities are issued to a number of employees under a master contract held by an employer. Each employee receives a certificate stating the retirement age at which the income is to start and outlining his rights and benefits.

The employer and employee frequently share the cost, the employee's portion being deducted from his salary or wages. However, the employer often pays the entire cost.

In 1969, about 90 per cent of payments into all types of insured plans were made by employers and 10 per cent by employees.

VARIABLE ANNUITIES

Most annuities are designed to provide a specified amount of retirement income for life in the form of a monthly check. The *variable annuity* guarantees an income for life, but monthly payments may vary because they are largely based on equity or stock investments.

Variable annuities are most often available on a group basis through employers as a retirement benefit for workers, the employer usually sharing in the cost. But an increasing number of companies are making variable annuities available to individual purchasers. As with conventional annuities, these can be paid for in installments, or with a single payment.

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How Life Insurance Operates

A look at fire insurance premiums will help you understand how life insurance premiums are figured.

Only a very few houses in each community are damaged or destroyed by fire each year. No one knows whose house will catch fire, but if every homeowner were to pay a small amount into an insurance fund, those who do suffer losses can be compensated. Past experience is usually a reliable guide to these losses, and the premium or cost of the insurance can be figured accordingly.

While most houses never suffer fire damage, every person now alive must someday die. And while the risk of a house catching fire does not increase, as a rule, as the house gets older, the risk of dying does increase each year.

Fire insurance rates are set at an annual level. But to provide life insurance premiums at an annual level, the premiums would have to be increased each year to meet the increased risks of growing older. This is a very poor and expensive way to buy lifelong protection. Some people have tried to do so and found this out from actual experience. It is particularly unsatisfactory in the later years of life, when the yearly cost increases to a point where many people cannot afford to carry life insurance that they still need and want.

Level Premium System

There is a way of buying life insurance and paying the same amount of premium each year. This system is known as the *level premium system* of life insurance.

The level premium way of paying for life insurance means *paying*

more in the earlier years of the policy than the cost of your protection at those ages and *less in later years of the policy* than the cost of protection at the older ages. The additional money which the policyholder pays to the life insurance company in the earlier years helps pay the greater cost of life insurance protection at the older ages so that there is no need of the company's increasing premium payments at that time.

There are two advantages to level premium life insurance. For one thing, by paying a little extra in your early years, you avoid a rising insurance cost in your later years. A second advantage is that you are building up a cash value which can be very useful in time of emergency or opportunity.

How Your Premium Is Figured

How does an insurance company know what to charge as a level premium, in order to have enough to provide insurance protection during your entire lifetime? – or, if you have an endowment policy, to provide protection from the time the policy is purchased until it matures and the company pays the face amount?

The companies have kept careful records of large groups of people. They have recorded the number of those living and dying at each age of life. These records show that the rate of death at each age of life is predictable with sufficient accuracy to estimate future deaths based on past experience. The statistics of "the march through life" are compiled into a *mortality table.*

Suppose that you and a number of other people wish to insure your lives. Further suppose that everyone in your group is 20 years old and that to begin with, there are exactly 10,000 persons in the group. For the sake of illustration, assume that you plan to provide the dependents of each member of the group with a payment of $1,000 at the death of that member. Let's say that each member agrees to pay the same amount now and at the start of each year as long as he lives. What must this annual payment be?

At age 20 the mortality rate of 1.79 per 1,000 people means that approximately 18 out of 10,000 will die before reaching age 21 and that 9,982 will be living. The rate at age 30 of 2.13 indicates that about 21 out of 10,000 persons at that age will die before reaching the age of 31, and so on until the last surviving member of the group has died.

The insurance company which agrees to carry out this plan must prepare to pay a total of $18,000 to the dependents, or beneficiaries of the 18 persons dying the first year; and so on every year until all members of the group have died and a total of $10,000,000 has been paid to beneficiaries.

There will be a total of 10,000 payments by policyholders of the group to the company the first year, plus 9,982 the second year, and so on. According to the mortality table these add up to a total number of annual payments over all the years of 508,703 made by this group.

A total of $10,000,000 must be paid by the insurance company and since the company will collect 508,703 equal installments from policyholders, simple division tells us that the annual payment would be $19.66.

Under this plan, your group will pay the insurance company more than necessary to meet all claims in the early years, and the additional sums will be available for investment. Assuming that the company can earn interest on the investment of these funds, then these earnings can be used to help pay claims. This reduces what the policyholders would otherwise have to pay.

If 3 per cent interest is earned, for example, each member of the group need pay a premium of only $9.56 a year instead of $19.66. In other words, the payments over the years for everybody need be only $4,863,201 instead of $10,000,000. In this sense, an average of $10.10 a year for each member is paid toward the insurance cost by interest earnings or a total for everybody of $5,136,799.

That's how life insurance operates. In actual practice there are, of course, the *operating expenses* of the insurance company to which each member of your group contributes. Hence, the premium you pay is increased by a charge to meet expenses. In addition, to protect the policyholders' fund, it is usual to add a small amount which may be used to meet investment losses, mortality fluctuations and other contingencies.

Every company is made up of policyholders representing many age groups, who have purchased various types of policies at different times. Furthermore, new individuals purchase policies every day, thus forming new groups.

All this is oversimplified, but correct in principle. The actual calculations take all of these factors into consideration.

How Policyholder Benefits are Guaranteed

The level premium system of life insurance has been in use in the United States since 1807, and has been proven by experience to be the only sound way for an individual to buy insurance that will protect against death at any time of his life. As we have seen, it requires simply an application of arithmetic to determine what premiums should be charged and how funds collected should be managed.

Collecting more funds than are actually needed in the earlier years of life, creates definite obligations on the part of a company to its policyholders. These obligations are called "reserves required to meet benefit payments to policyholders and beneficiaries" or, more briefly, *policyholder reserves.*

In supervising life insurance, the states have realized the necessity of carefully measuring these obligations. State laws specify the minimum basis for calculating them. For this reason, the obligations are more often called "legally required reserves" or simply *legal reserves.* This is the amount of money at any particular time which, together with all future premium collections and future interest earnings, will enable the company to pay all future policy benefits. *The company must hold assets corresponding in amount.* In fact, the ownership of assets equal to these reserves and other liabilities is the test of a company's solvency. *This is the test of a company's ability to meet all of its present and future obligations.*

The measure of a company's obligations must be made for each group of policyholders who purchased insurance of the same kind at the same age in the same year. These obligations make up the largest part of a life insurance company's liabilities.

Financial Operations of a Life Insurance Company

PREMIUM AND INTEREST INCOME

Taking the total income of all life insurance companies in the United States for 1970 as just one dollar, premiums paid by policy-

holders made up 78.4 cents of that dollar. An important part, 21.6 cents came from interest earnings.

Premium payments alone do not pay the full cost of life insurance protection. The interest earnings (21.6 cents in 1970) pay a substantial part of the insurance costs. As we have seen, when life insurance is purchased on the level premium plan, some dollars are not needed at once but will be needed later. Insurance companies invest these dollars (see pages 9 and 33) so that they will earn interest for the policyholders until needed.

OUTGO AND FUNDS FOR FUTURE BENEFITS

How is the average life insurance dollar paid out? Most of it, 77.3 cents in 1970, is placed in a reserve fund all of which will be paid out in current and future benefits to policyholders and their beneficiaries. (Incidentally, in 1970, 55.8 cents was paid out from that reserve fund to policyholders and beneficiaries.) Surplus and contingency reserves, both of which are available for emergency use, were strengthened by 1.4 cents from the outgoing dollar in 1970.

Operating expenses in 1970 required 17.3 cents. This was made up of 7.1 cents for commissions paid to agents and 10.2 cents for salaries of company personnel, rent, and other management costs.

Taxes paid by life insurance companies were 4.4 cents of the average 1970 outgoing dollar. The balance of the outgoing dollar, amounting to 1.0 cent was paid as dividends to stockholders of stock life insurance companies.

Life insurance money "goes back to Main Street" twice. . . .

First, it goes back to work on Main Street as investment money. It helps build and expand plants, pave highways, extend power lines, helps finance homes, schools, and improve farms. It makes jobs.

Second, life insurance money goes back to Main Street when paid to policyholders and beneficiaries. Then it helps keep families together, keeps children in school, gives older couples a more secure retirement.

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Values of Life Insurance Policies

A life insurance policy is valuable only if it meets the policyholder's objectives. When original objectives change, most policyholders find that their insurance policies are flexible enough to meet these new conditions. It is not necessary to give up the old policy. But the policyholder should study his policy carefully and discuss it in detail with his life insurance agent.

What If You Stop Paying Premiums?

Sometimes a policyholder who has purchased life insurance on the level premium plan finds that for one reason or another he wants to stop paying premiums and withdraw from the group of insured people.

Had such a policyholder purchased term insurance, in effect paying his share of that year's death claims and expenses, he would have had his protection at cost, and be entitled to nothing more.

But if he had bought it on the level premium plan, he and other policyholders in his group paid premiums which were more than needed to pay claims in the earlier years, thus building up a fund of assets with which to meet claims in later years. As a continuing policyholder, he shares along with every member the aid of the accumulated fund of assets in carrying out his insurance contract. It follows that when he withdraws there is an accumulation of assets out of the premiums paid by him to which he is entitled.

In the early days of legal reserve life insurance a withdrawing

policyholder sometimes received no further benefits when he ceased paying premiums. This was commonly called a "forfeiture."

It became the custom of more progressive companies to establish a value to withdrawing policyholders, called *nonforfeiture values.* Some companies made a cash payment while others continued insurance protection beyond the date when premium payments ceased.

In 1861, through the efforts of Elizur Wright, then Commissioner of Insurance of Massachusetts, the first statute was enacted which gave a withdrawing policyholder a legal right to a nonforfeiture benefit. Thus the law required recognition of the best business customs of its time. This statute granted an *extended term insurance benefit,* which stated the minimum values that must be provided, upon withdrawal after a policy had been in force for a few years.

Today, individual policies of all legal reserve life insurance companies (other than most term insurance policies) provide a choice of nonforfeiture values by a policyholder who stops paying premiums, after a policy has been in force a few years. The minimum values that must be provided are specified by law in many states, although companies often pay more than these require.

The basic type of nonforfeiture value is the *cash value.* There is a choice of two other nonforfeiture benefits if the withdrawing policyholder wants some continued insurance protection. One is called *extended term insurance* and the other *reduced paid-up insurance.* A fourth type, which actually is not a nonforfeiture value, is sometimes provided in the form of *automatic premium loans.*

1. CASH VALUE

The cash value is the amount of money that will be paid to the owner of a level premium policy if he stops paying premiums. It is a value that is guaranteed in his contract as required by law.

Why do policyholders ask for their cash values? Almost all such situations can be summed up as either "changed insurance needs" or "emergencies calling for cash." Some policies are purchased to protect the family only for as long as that need exists and then the policies are cashed in for a specific use.

For example, straight life policies are often purchased to insure the education of children in the event of the death of the father. But if the father is living when college days arrive, he plans to meet those expenses in part from current earnings and in part from the cash he will get from turning in his insurance policy.

Today many people reaching retirement age arrange to take their cash values in the form of income. This is a growing use of life insurance and is discussed more fully on pages 39 and 41.

Many requests for cash reflect an upset in family finances. There have been general business declines which changed the lives of many families, but individual financial difficulties strike some families even when times are good. These result from unexpected illnesses and financial catastrophes. Though life insurance is not designed as a way of preparing to meet these temporary financial difficulties, *it has helped tide over millions of families at various points of their lives.*

"Permanent" life insurance has a *policy loan* provision, under which you may borrow any amount up to the cash value of the policy. Because you are borrowing from your company's fund of assets, which are expected to earn interest on behalf of all policyholders, it is necessary that you pay interest on a policy loan.

You may repay the loan in one lump sum or in installments at any time. If the loan remains unpaid at your death or at the maturity of an endowment, your insurance company must, of course, deduct the amount of the loan and any unpaid interest from the proceeds of your policy at that time. In other words, you simply borrow from your company just as does any borrower whose bonds the insurance company buys. Your insurance policy serves as collateral.

It is best not to borrow on your policy except in case of real need. It is never easy to repay a policy loan because you will not be requested to do so. You will of course be advised of interest payments due on the loan.

2. EXTENDED TERM INSURANCE

Suppose you stop paying premiums on your whole life or endowment policy and want to continue the maximum amount of insurance protection as long as possible. You should ask for *extended term insurance.* This gives you continued protection for the full face value of your policy less any loan outstanding but only for a limited period of time, as stated in the policy. In the case of an endowment policy there may be enough to provide the extended protection to the original maturity date of this policy and also to provide a reduced endowment payment to you if living on that date.

3. REDUCED PAID-UP INSURANCE

This provision enables you to obtain a paid-up policy for a reduced amount of insurance, payable under the same conditions as your original policy (life or endowment). If you have a whole life policy, the paid-up insurance feature will protect you for life without further premium payments, but the insurance is reduced in amount. If you have an endowment policy, your reduced protection continues to the maturity date named in the original policy, at which time you will receive this reduced amount.

4. AUTOMATIC PREMIUM LOAN

Some companies have included a fourth special provision in policies, the *automatic premium loan,* which operates as a nonforfeiture value and will pay automatically any premium that is not paid when due. The company will charge such premiums against the available loan value. The policy continues in force until the total loan against the policy equals the cash surrender value. At that time the policy terminates without further value.

Every policy states which of these provisions will apply if your premium is overdue and you do not choose a provision within a given time. This will be either 30, 60 or 90 days. Sometimes you make this choice in your application. In some states, the law says which provision must take effect if the policyholder makes no choice.

Your policy has one or more tables illustrating the nonforfeiture values. It also states the mortality table and the rate of interest used in figuring them. Values for years not shown in these tables are figured in the same way and may be secured from your company.

An Income From Your Policy?

Nearly all ordinary life insurance policies state that the policy benefit will be paid as a lump sum of money. However, you or your beneficiary may find your needs are better suited by income under an *optional settlement* or *settlement option.* When a choice has been made and it is time for the income to start, companies sometimes issue a *supplementary contract* replacing the original policy.

Under the terms of these options, the proceeds of the policy at maturity will be held by your company. The company will then begin paying a regular income in place of the lump sum payment.

All but the very oldest ordinary policies contain these settlement options. Many owners of group life insurance certificates may choose an optional settlement provision by applying to their employers or writing to the company which issued the insurance. Optional settlements are not, as a rule, offered in industrial policies because of the smaller amounts involved.

Income payment plans may be combined in different ways if the policy proceeds are enough to warrant it. Payments can be arranged on an annual, semi-annual, quarterly, or monthly basis. In most companies, each income payment must be for at least $10, and the policy proceeds must amount to at least $1,000.

Optional settlement payments may usually be chosen under one of the following circumstances:

1. During your own lifetime you may choose an income plan for your beneficiary.

2. If you do not choose an income plan, your beneficiary may do so after you die, but before the policy proceeds are paid.

3. Although some older policies do not provide for income arrangements for a policyholder himself, your company may allow you to take the proceeds of your policy as income. In this case, however, the income may not be quite the same as that offered in the policy for your beneficiary.

The following are the three most common settlement options:

INTEREST PAYMENTS

The company will hold policy proceeds, paying interest at a guaranteed rate. Interest payments can be arranged to last for a number of years or for life. Generally, arrangements may also be made to permit withdrawals from the principal sum. Finally, arrangements can be made to have any remaining principal paid to some other person or organization as beneficiary.

An interest payment plan is used chiefly to maintain an emergency reserve fund – such as for education of children – or when the money is to be passed along to someone else at the death of the original beneficiary, or at some predetermined time.

INSTALLMENT PAYMENTS

The company will make regular payments of equal amounts until the fund is used up. In the meantime, the company will add interest on the money remaining to be paid out.

If each payment is for a *specific amount,* then the length of time during which the payments will be made depends on:

Amount of the proceeds of your policy,

Amount of the income payment, and

Rate of interest guaranteed in the policy.

If payments are to be spread over a given *period of time,* then the amount of each payment depends on:

Amount of the proceeds of your policy,

Number of years the income is to be paid, and

Rate of interest guaranteed in the policy.

If you elect installment payments for your beneficiary, you may wish to permit your beneficiary to "commute" the remaining payments – that is, stop income payments and take all the money that remains in one final sum. Or, you can arrange to have any money left, when the first beneficiary dies, paid in one sum or continued as income to one or more *secondary* beneficiaries.

Installment payment plans are most useful when a beneficiary needs a definite amount of income for only a limited period of time, for example while the children are growing up.

LIFE ANNUITY INCOME

One of several types of life annuity income settlements may be chosen. (See the discussion of annuities on pages 22-30, 49-50.) A *life annuity* pays a given income regularly to the *annuitant* as long as he or she lives. Some life annuity plans also guarantee that payments will continue to another person if the annuitant dies (1) before the payments total a certain amount, or (2) before they have been

paid for a certain length of time. The amount of each payment depends on several factors, including:

1. Sex of the annuitant,
2. Age of the annuitant when payments begin,
3. Mortality table used in the policy,
4. Rate of interest guaranteed in the policy, and
5. Form of life annuity settlement chosen.

Many policies allow the choice of a *joint and survivor* life annuity as an income settlement. The amount payable to the survivor may be the same or two-thirds of the amount payable when both are living.

Annuity income settlements are widely used to provide a life income for a widow, children, or dependent parents. While living, the policyholder earned an income from his job in which the dependents shared. Policy proceeds paid in a lump sum places all of the insurance money in the hands of dependents at one time. If the money is to last, the dependents must then conserve it, invest it and draw only a reasonable amount periodically. An annuity income places all three responsibilities on the insurance company. In addition, it guarantees an income for life.

An annuity income settlement is also a very valuable provision for the policyholder whose life insurance has served its purpose and who now wants to obtain in its place, a retirement life income. This can be done by using the cash value to set up an annuity. If the policy permits the choice of a joint life and survivorship annuity, the policyholder may prefer this arrangement, which will guarantee a life income for both husband and wife. (Page 28.) Where a policy does not specifically permit the policyholder himself to use the settlement options, the company will advise what income he can obtain from his insurance.

Policy Dividends and Their Uses

If you have a participating policy, the premium is fixed at an amount somewhat greater than the company expects will be needed

under normal conditions. However, the actual yearly net cost of your insurance is determined only after the factors of expense, mortality losses, and interest are known. You receive refunds, called *dividends,* of such amounts as are not needed in the light of the actual operations, past experience, and present conditions.

These dividends are made up primarily from three sources: (1) the difference between anticipated and actual operating expenses; (2) the difference between estimated and actual mortality losses; and (3) any interest earned on the investments over and above that required to maintain the legal reserves. Since dividends are determined by operating experience, the amount of future dividends cannot be guaranteed.

You may use the dividends payable under your ordinary insurance policy in any one of four ways:

1. You may take your dividends in cash.
2. You may use your dividends to help pay premiums.
3. You may take your dividends in the form of additional paid-up insurance protection.
4. You may leave your dividends with the company to accumulate with interest.

Many companies now offer a "fifth" dividend option, under which the dividend may be used to buy one-year term insurance, usually up to the current cash value of the policy.

Review of Policy Provisions

When you buy a life insurance policy, the company agrees to pay a sum of money under specified circumstances, and you agree to pay a specified premium regularly. A word should be added about the *grace period,* which allows 28 to 31 days to elapse after the premium is due during which it may be paid without penalty. After that time, the policy lapses if the premium has not been paid. A lapsed policy may be put back in force (*reinstated*) if it has not been turned in for cash. To reinstate a policy the policyholder must again

qualify as an acceptable risk and pay overdue premiums with interest. There is also a time limit on reinstatement. The reason for these precautions is, of course, that the tendency to reinstate would largely come from former policyholders who believe that they may have become uninsurable.

A loan from the company is available on a straight life or endowment policy after the policy has been in force for one, two or three years, as stated in the policy. This is known as the *policy loan* provision and permits the owner of the policy to borrow any amount up to the *cash value* of the policy. (Pages 37-38.)

Income provisions, or settlement options, are contained in ordinary life insurance policies. (Pages 39-42.)

An important provision in every policy is the right to name your *beneficiary*. In individual and generally under group insurance you can name one or more persons as contingent beneficiaries who will receive your policy proceeds if the primary beneficiary dies before you do. Arrangements can often be made to leave a life interest in your insurance proceeds to a primary beneficiary with any remaining balance going to one or more "secondary" beneficiaries. Otherwise the money would go into your estate. You can *change* your beneficiary arrangements unless they are designated as irrevocable. In that case, you must have your beneficiary's written consent before you can make the change.

Ordinary insurance policies may be *assigned* to cover a debt or obligation. Unless you have retained the right to change the beneficiary, the beneficiary's consent to the assignment is needed.

Life insurance policies are *incontestable* after either one or two years. During this period the company has the opportunity to check the information you gave in the application for the policy. If a material false statement was made, a company may seek release from the policy. For the policyholder's protection, the incontestable clause fixes the time limit on the company.

If there is an *error* in reporting the policyholder's age, the company will pay benefits corresponding to what the premiums paid would have bought at the correct age.

An ordinary life insurance policy may also include a waiver of premium disability benefit, an accidental death benefit or both. The premium rate will be higher if these benefits are included. Under the *waiver of premium benefit,* any premiums which fall due after the beginning of total and permanent disability will be waived. In effect, the company will pay them. Disability must occur before you reach a certain age, usually 60, and before the policy matures if it is an

endowment. The disability must last for at least six months before it will be considered permanent. The *accidental death benefit* provision promises to pay an additional sum equal to the face of the policy if death occurs by accidental means. The accidental death benefit is often called "double indemnity." Some companies have policies with a triple feature. Accidental death must occur within a certain time after the injury, usually ninety days, and before a certain age, usually 60 or 65. The "double indemnity" clause says that certain causes of death are not covered. These causes are ruled out either because (1) they result from risks that cannot be calculated, or (2) the cause of death is not actually accidental.

Some Tax Aspects of Life Insurance

Life insurance death payments are not subject to income taxes. However, they count in an estate, and when an estate is large enough, the payment of death taxes may be required. If life insurance proceeds are taken as income rather than a lump sum, there is an interest element in each payment received. This portion is taxable.

Occasionally when a policyholder receives benefits from his own life insurance, the proceeds are larger than the amount he has paid in premiums. The difference is regarded as taxable income.

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Buying Life Insurance

Your first policy is but one step in a lifetime protection plan. This first policy should cover the essential needs of your family . . . wife, children and yourself.

People have different needs for financial security. Husbands have needs that differ from their wives. Wives who support their families have needs similar to male breadwinners. Younger single people have distinctly different needs from older single people.

There are a number of factors to consider before buying insurance. These include present and future sources of income, other savings and income protection, group life insurance, group annuities (or other pension benefits) and Social Security.

What Do You Want Your Insurance to Accomplish?

Before you consider types of policies, you must decide what you want your life insurance to do for you and your dependents.

First

What amount of money do you want to leave to your dependents if you should die today? Will you require more or less insurance protection to meet their needs as time goes on?

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Second

When would you like to be able to retire? What amount of income do you feel you and your wife would then need?

Third

How will you be able to pay for your insurance program? Which is most likely, that you will earn more when you are older, the same, or less than you do now? Are the demands on the family budget for other expenses of living likely to be greater or less as time goes on?

When these questions have been considered and some approximate answers have been developed, you are ready to select the types and amounts of policies which will help you accomplish your objectives.

A life insurance agent is trained to assist you:

1. In discovering your needs and in deciding upon their order of importance.

2. In selecting the right types of policies to meet these needs so that as nearly as possible you will have (a) planned protection for your dependents, (b) planned retirement for yourself, and (c) a plan for purchasing that will fit your income and budget.

3. In building your program of individual insurance policies so that they fit in with your other plans including group coverage and other protection.

Life insurance purchased without the help of a life insurance agent is likely to fall short on one or more of these major points.

Rarely can an individual plan a life insurance program at any given time that will cover all of life's eventualities. Nor is anyone able to figure out just exactly how, over the years, he will pay for his life insurance. Most of us become aware of changing insurance needs as we go through life. Some changes in our family life can be anticipated. As other changes occur we see an additional need here, the reduction or disappearance of a need there. As we earn more money we find it possible to buy another policy and so build another part of our insurance program. As changes occur we need an agent's help in reviewing our needs and in seeing that our current insurance program is headed toward our goals.

The Principal Life Insurance Needs of a Family

1. CASH FOR FINAL EXPENSES

The loss of any member of the family is almost always followed by inescapable debts – doctor bills, hospital bills, funeral expenses, unpaid taxes and any other outstanding obligations – the final settlement of personal accounts. These obligations must be met immediately. Unless they can be met from savings or from current income, life insurance is needed.

Insurance for this purpose should be purchased for the breadwinner of the family. In families with little or no savings and with low incomes, some life insurance also may be thought necessary for the wife and each of the children. Families with moderate savings and income, or even better means, may feel that they can meet such situations without life insurance ear-marked for this purpose, particularly in the case of the children.

2. READJUSTMENT MONEY

The loss of the head of the family cuts off the flow of family income. Funds are urgently needed until the rest of the family can carry on. At least some money is necessary until other members of the family can get out and work. This may mean leaving the younger children with relatives or making other arrangements for their care. If the widow is going back to secretarial work, for example, she may need a refresher course in typing and shorthand.

All families need enough insurance to allow for at least a brief period of readjustment. Some families can afford no more than this. Families that can, should arrange the readjustment money so that it will be paid out in installments over a period of a year or more, rather than in a lump sum.

3. THE FAMILY INCOME PERIOD

Think how much it means to a widow with children, to know that she will receive a definite amount of money each month – now that

she has the sole responsibility for bringing up her family. A regular income means bread and butter, clothing, and shelter. Equally important, it means giving the children a fair chance to prepare for life's work. Most families will want sufficient life insurance, together with Social Security survivorship payments, to provide at least a minimum living income for the family until the youngest child is, say 18 years of age. Here again, the policies purchased to cover this need should be arranged so as to provide an income covering a period of years, depending upon the age of the children and other factors.

4. LIFE INCOME FOR THE WIDOW

Most families would like to make provision for an income, not only for the young family during their "growing-up years," but also for the widow during her remaining lifetime. After the children have struck out for themselves, a widow is left alone and her problems change. It may then be difficult for her to hold down a full-time job, or she may not wish to do so. A steady income for life, even if it is only enough to provide part of the income she needs, would be most welcome.

Also, special provision should be made for the period between the youngest child's eighteenth birthday and the wife's sixty-second birthday because no Social Security payments will be made during that period.

5. INCOME FOR OLD AGE

Everyone would like to be able to retire someday from active work, and most of us look forward to that day. The most enjoyable years of our lives can be those following retirement, particularly if this time can be spent in doing the things we have always wanted to do. A regular guaranteed income can help make this possible. In many cases, this may be provided by a pension plan supplemented by life insurance. In other cases, it may be provided primarily by life insurance, perhaps supplemented by income from investments, or some combination of all three.

Some of the life insurance policies designed to take care of a man's family may no longer be necessary when he reaches retirement age. He can then use the cash or maturity values of these policies to provide a life annuity income to help take care of himself and his

wife. Whatever additional money he may need in the way of a retirement income can be provided by another policy designed specifically for this purpose. Here again, when the retirement income is being planned, a person should take into consideration all other funds that will be available at retirement, with particular reference to any pension plan there may be.

6. OTHER NEEDS

Other needs, which a family will want to consider and provide for as they are able, include the following:

(A) EDUCATION OF THE CHILDREN

Many parents would like their sons and daughters to go to college. The father's death will not necessarily deprive his children of educational opportunities if he has made special plans through a life insurance policy. One such plan has been described on page 37.

(B) REPAYMENT OF MORTGAGE

A home with a mortgage may be a burden instead of a comfort following the death of the family breadwinner. Provision may be made to pay off the balance of the mortgage with the proceeds of a life insurance policy, in the event the policyholder does not live to do so himself.

Why Do Women Buy Life Insurance?

Women buy life insurance for many of the same reasons that men do. They may have dependents and desire to protect them, or they may have the need or desire to create or supplement retirement income for their later years.

Traditionally, life insurance in this country has developed as a means for replacing the income of the breadwinner at death or retirement. Since traditionally the man has been the family breadwinner,

life insurance for many years was needed and used primarily by men.

As women have come to take more active part in the business and professional world, their responsibilities have grown and their needs and uses of life insurance have grown. Many of them contribute substantially to the family income even though the husband may occupy the place of principal breadwinner. In other families they are the principal or sole support. They need life insurance to protect their dependents. They are also finding life insurance useful in providing their own retirement income and to supplement Social Security and pensions.

Beyond this, there has been increasing recognition of the economic contribution made by the wife and mother who works only within the home and community, not contributing to the family income by employment outside the home. Today, it is recognized that the loss of the wife and mother involves an economic loss to the family just as real, although less readily measurable than does the loss of the husband and breadwinner. Life insurance on the wife is widely used to help protect the family against this loss.

At the end of 1970, women owned about $205 billion, or 14 per cent of the life insurance in this country. Their ownership of ordinary policies accounted for much of their total life insurance holdings. They are substantial holders of industrial life policies, and their ownership of group life insurance reflects their participation in the business world. The kinds of life insurance and types of policies purchased by women vary somewhat from men's patterns of buying just as women's insurance needs differ from those of men.

Why Life Insurance for Youngsters?

The chief reasons why people buy life insurance for their children are: (1) just as for grownups, to provide funds to pay for the last illness and burial expenses; (2) to begin early to instill in their children the habit of regular and systematic approach to financial planning; (3) to provide their children with funds for such things as a college education, setting up a business, getting married; (4) to help them secure immediate and permanent insurance protection at relatively low rates; and (5) to help them acquire policies while healthy and easily able to meet the companies' standards of insurability.

The usual type of life and endowment policies are available on

the lives of children. The amount of insurance on a child's life must not be out of proportion to the insurance carried on the parent's life.

For many years a separate life insurance policy for each child was the only form of coverage available on children. Today many children are covered under family plan policies. (Pages 19-20.)

Parents and grandparents frequently purchase a special children's policy which provides $5,000 of protection after age 21 for each $1,000 of insurance up to that age. Automatically, such a policy guarantees that a young person will have a good-sized policy as an adult, even if he has become uninsurable. (See jumping juvenile policies, page 20.)

More and more young people of school and college age are buying life insurance, either independently or through their parents.

What about Social Security?

If you are eligible, Social Security will help provide what you and your family need. The local office of the Social Security Administration of the U. S. government nearest to you will be glad to give you information about your Social Security or you may get information from your employer.

In planning your life insurance program, it will be helpful to estimate the income which may be available under the Social Security Act for your survivors or at your own retirement. The life insurance program should be so arranged that it will dovetail with Social Security.

Your life insurance agent will help you estimate your probable Social Security payments, and will work out with you a suitable program which combines it with your life insurance.

There are limits (up to age 72) to what you may earn while receiving Social Security checks, but life insurance proceeds are not counted as income here. In other words, Social Security continues, even though you may also be receiving monthly payments under a life insurance policy.

How to Select an Agent

If you do not already have a competent life insurance agent, find one – just as you would locate a doctor or lawyer. Inquire among

your friends and in your community. Find an agent who is well trained and knows his business – one in whom you can have confidence.

When selecting an agent, keep in mind that as a client you will deal with your agent through the years. You will want a man or woman who will become a trusted friend and adviser.

In all states, the agent must pass a written examination to qualify for a license to sell life insurance. The good agent has had further extensive education and training in life insurance, financial planning, and other subjects related to serving the needs of clients. On his own initiative, an agent will often continue his education over the years, frequently under company auspices or through his professional organization, the National Association of Life Underwriters. He may be a graduate of the two-year course offered by the Life Underwriter Training Council. He may also have received the designation of Chartered Life Underwriter, awarded by the American College of Life Underwriters following an intensive college-level course of study.

How to Select a Company

> "The first thing of all in judging a life insurance company is to know the character of the men who manage it; next the safeguards of the system under which they act; and after that, the relation of its means to its liabilities. — Elizur Wright — 1859.

That statement is as true today as it was over a century ago. In choosing a company, you will want to consider its reputation, both nationally and in your own community. Among other things, you may want answers to the following questions: Who are the local representatives? Are they highly regarded by your friends and neighbors? Does the company have a record of good service to policyholders in your community? Does the company's agent understand your particular problem, and has he offered you a practicable solution?

Any agent will gladly give you detailed information about the company he represents.

Another way to secure important facts about a company is to obtain from the agent or the home office a copy of the latest annual report to policyholders. Reports generally cover such subjects as the varied activities of management, the company's objectives, its prob-

lems, and its accomplishments, and give a record of the company's financial results. This will help you get a picture of the company, and how it operates.

If you wish further information about a company, seek the guidance of your local banker or some prominent businessman.

The laws of the states require that any company represented by an agent within the state be licensed by that state. This is evidence that it has complied with the laws of the state designed for the protection of the policyholder; is subject to regular periodic examinations by the Insurance Commissioner; has filed its annual financial reports with the state; maintains required legal reserves; and has been judged as qualified to do business with the citizens of the state.

If you are in doubt as to whether a company is licensed to do business in your state, do not hesitate to write your State Insurance Department at the capital city, where information will be given you without charge regarding the companies licensed to do business in your state. Furthermore, results of the periodic examinations are on file in the State Insurance Departments and are available to anyone who seeks information.

If a company is not licensed to do business in the state, prospective purchasers of insurance should be on their guard to secure full information about the company and the exact terms of the policy offered.

What About Comparing Policy Costs?

The most important consideration is to select the policy which best fits your needs. Buying some particular policy simply because it is cheaper than another kind of policy, regardless of needs, may prove to be uneconomical in the long run.

If you wish to make any comparison between the cost of policies in different companies, it is important to know that policy provisions are not always identical, and that such differences are likely to affect the cost of these policies.

If you compare similar policies issued by different companies, you will find some differences in cost. In the case of participating policies, your net cost for the year is the premium less the dividend. Dividends can vary from year to year because of differences in

the amount of death payments, investment results and operating expenses.

In the case of nonparticipating policies, as we have seen, the annual premium is your cost for the year and no dividends are payable.

As between similar policies issued on the participating and nonparticipating plans, there is naturally bound to be some difference in cost, one way or the other, over a period of years. However, the difference cannot be predicted. In fact, it can be measured only as a result of actual experience.

How to Obtain a Policy

A life insurance policy is issued to an individual following his *application* for insurance and acceptance of the application by the company. An application is sent in to a company by a life insurance agent after it is filled out by a prospective policyholder.

There are usually two parts to an application. In the first section the applicant indicates, among other things, the type of policy desired, the amount of insurance he wants, and states his occupation and the amount of insurance he now owns. In the second section the applicant gives his medical history. Here the questions are frequently asked by a doctor who examines the applicant, explains medical terms, and writes the applicant's answers. The applicant must sign both section of the application.

A medical examination is frequently required of applicants for ordinary policies (page 7). No examination is usually required in connection with group insurance.

In accordance with customary business practices, the company usually requires an *inspection report* on the applicant. This is needed to protect policyholders against possible fraud, by establishing such fundamental facts as (1) that there is such a person, (2) that he lives at the address given, (3) that his employment is as stated, and (4) that his reputation indicates that he is a good moral and financial risk. Naturally, this information is not sought from the applicant but from his personal and business acquaintances. A very small percentage of inspection reports reveal some fraudulent applications. Every applicant should understand that inspection reports protect him from paying part of the cost of fraudulent claims that might otherwise result.

The information contained in the application, the medical examination and the inspection report is needed by the company to see whether the applicant meets the requirements for *insurability*. Ninety-seven per cent of all applicants for life insurance do meet these requirements, although some may be offered policies at slightly higher rates because of physical impairments or occupational hazards.

In ordinary policies, a photostat of the application is attached to the policy and becomes a part of the contract. Some industrial policies similarly include the application while others simply include a statement of conditions under which the company may recall the policy if the applicant has given false information of material importance.

A Final Word on Planning Your Program

In planning your life insurance program, be sure to discuss your plans with your dependents. Husband and wife should jointly plan family insurance. Children can be brought into an understanding of life insurance at an early age.

Most families will find that they can set up only a part of their insurance program immediately. It is much better to fulfill the program step by step as your increasing income allows and as your family's needs become more apparent. In other words, buy what you can today, and cover your most important needs first.

Because the premium rates on new insurance are higher for older persons, your yearly premium outlay will be less if you buy as you go along. Then, too, your family will be protected in the meantime for at least as much of the program as you are able to provide.

There is also the question of your insurability from the health standpoint. Today you are quite likely insurable; some day you may not be able to pass the medical examination. You have no way of knowing when that day will arrive.

7

Pointers for Policyholders

If you have any questions about life insurance, seek out the answers. Good sources of information are the Institute of Life Insurance, the various life insurance companies and life insurance agents. They can furnish specific facts about types of policies and how they can be tailored to fit your needs.

As a policyholder, you will find the following five pointers helpful:

1. **Keep your company informed of your address.** This is particularly important. Each year a number of policyholders move without leaving a forwarding address or notifying their insurance companies. If you are planning to be away for a few months, be sure to leave forwarding addresses so that you may continue to receive premium notices and any other important messages from your company.

2. **Read your life insurance policy.** Be sure that you understand its basic provisions and benefits. When you do, you will probably get a better appreciation of the values that are in your policy and what your policy will do for you. You will learn something of its flexibility in meeting various needs and changing situations. You can avoid possible misconcep-

tions by reading carefully your written contract. If you have any questions about your policy, your life insurance agent or your company will be glad to answer them.

3. **Keep your policy in a safe place.** You can obtain duplicate policies if they are lost or destroyed by fire, but not without some inconvenience and delay. This might occur when you or your family needs them most. As an additional safeguard keep a separate record of your policies. Be sure that your policies are accessible both to yourself and to your beneficiary and that your beneficiary knows where they are kept. Generally policies must accompany requests to the company for benefits. Should you keep your policies in your safe deposit box, your beneficiary will have to obtain permission of the tax authorities to open the box after your death. This may involve a delay, depending upon the legal requirements in your state.

4. **Discuss your insurance program with your family or other beneficiaries.** It is usually advisable to have them share in the planning from the outset and to discuss with them each addition to or change in the program. It's a good idea also to leave a letter outlining your insurance policies and indicating any choices the beneficiaries may have in the settlement of policies. It may be well to point out (1) that they should notify the company at once in the event of your death and (2) that your life insurance agent will help your beneficiary fill out the "proof of claim" papers and assist in deciding how to take the proceeds if a choice is left to your beneficiary.

5. **Review your life insurance program with your agent at least every two years.** He will assist you in making any changes which may be advisable because of changed conditions. Don't make the mistake of trying to change your program without calling on his knowledge and experience.

Safeguarding Policy Proceeds

The use of income provisions of life insurance policies has increased in recent years. Still more policyholders and beneficiaries might find that this type of settlement fits the needs of their dependents better than the usual single payment. By conserving the policy proceeds, it makes certain that money will be available as the years go by for the use of dependents.

Of course, the first need is to provide for the payment of sufficient policy proceeds in cash to take care of immediate bills, debts, and other obligations which must be met at once or in the near future.

Beyond that, when $2,000 or more of additional life insurance is owned, an income settlement is preferable to a lump sum settlement. It may be much better for dependents to receive the balance as income for living expenses of the dependents (while they are making readjustments in family life). For example, $3,000 could be programmed under the settlement provision of the policy to provide $150 a month for a little over 20 months. Or, $5,000 of proceeds would provide $200 a month for a little over 24 months.

With larger insurance programs it may be better to leave the choice of settlement provisions of some or all of the insurance proceeds with the beneficiary. This allows for more flexibility in the use of these funds. Such a decision places considerable responsibility on the good judgment of the beneficiary. If this decision is reached, it is well to (1) acquaint him or her with the possible choices that may some day have to be made, discussing of course the entire insurance program with your beneficiary, and (2) leave a letter of instructions with your policies summarizing these ideas and including the suggestion that your beneficiary discuss all of this with your agent and company, particularly in the light of any change in conditions, before making any choice of an income provision.

In most states the law permits you to include in the settlement arrangements a so-called *spendthrift clause* which protects your beneficiaries from the claims of their own creditors. This means the beneficiaries cannot assign, alienate, commute, or encumber the proceeds of your life insurance, when left with the company, to satisfy the claims of their own creditors. This protects them from loss of funds through unfortunate business or financial transactions. In all states your life insurance, if payable to beneficiaries, is already protected from the claims of your own creditors.

What About Exchanging Policies?

There is a well-known saying that it is not a good idea to change horses in mid-stream. Likewise, there is seldom any advantage in exchanging an old life insurance policy for a new one. And there may be a real disadvantage. If anyone suggests such an exchange, ask him to submit his proposition in writing to you. Then you will have the basic and essential facts and you can study them at your leisure. Before taking any action, get in touch with the life insurance company in which you have the policy – either directly or through your agent.

The policy you already own may contain more favorable guarantees than those which can be secured in new policies today. You would again have a one or two year *contestable period,* after the new policy goes into effect, during which the company is entitled to question the statements made in the application for the policy. Also you are older, so the premium rate of the proposed new policy would likely be higher on that account alone. Furthermore, you have built up values and benefits in your life or endowment policy which it would take years to build in new policies. Even if you have borrowed up to the limit against your present policy, it seldom pays to drop it in favor of a new one.

If it should appear that your old policy no longer meets your needs, your company will gladly aid you in adapting it to your present situation. Therefore, it is seldom necessary or advisable to exchange policies in order to meet new needs.

Adjusting Your Life Insurance Program

As time goes on, changes in your financial condition as well as changes in your family needs are bound to occur.

When you make a will with the help of your lawyer, you express how you wish your possessions distributed at the time of your death. At some future date, however, the provisions of your will may no longer meet your needs or wishes. At such time you will naturally want to revise these provisions.

The same is true of your life insurance program. From time to time, you should review your policies and consider whether they,

too, reflect your present wishes. The services of your agent are available in working out any revisions which may be necessary. Keep in mind that policy proceeds must be distributed in accordance with the terms of your policy. Their distribution is not governed by the provisions of your will unless your policies are payable to your estate, which is not generally desirable. A revision of your will, therefore, does not accomplish a revision of your life insurance program.

A good agent will keep himself posted on the changing conditions and needs of your family. He will recommend any adjustments which may seem desirable in your life insurance program, and will handle the details necessary to accomplish the changes you desire.

Your agent and your company will gladly assist you whenever any question arises about your life insurance program. Feel free to call upon them.

There are several good sources of information about life insurance available to you. The principal ones are:

1. **Your life insurance agent and your company.** A competent agent is well trained. He knows the benefits and uses of all different types of life insurance policies. He knows how to analyze your particular problem and fit the required policies to your individual and family needs.

   Your life insurance company is equipped to render complete life insurance service, and is ready to help you in every way possible.

   These services are available to you at no extra cost. You should feel at perfect liberty to call upon your agent or your company for assistance at any time.

2. **Your State Insurance Department.** This department is located at the state capital and is always ready to give you information. The department is available to you in the event of any complaint or dispute, and will see to it that you receive the protection of the insurance laws of your state.

3. **Your local Life Underwriters Association.** In most large cities and in many medium-sized towns, you will find a life underwriters association composed of life insurance agents, general agents, and company branch managers in these

communities. These local associations are members of the National Association of Life Underwriters with head offices in Washington, D. C. They will gladly furnish information and assistance in any way they can.

4. **The Institute of Life Insurance.** The Institute is a central source of information on life insurance. The members of its staff will be glad to furnish factual information on life insurance. This is offered as a public service, without charge, by the legal reserve life insurance companies doing business in the United States. (Address: 277 Park Avenue, New York, New York 10017.)

Life Insurance Terms

Accidental Death Benefit A provision added to an insurance policy for payment of an additional benefit in case of death by accidental means. Often referred to as "Double Indemnity."

Agent A sales and service representative of an insurance company. Life insurance agents are also called life underwriters.

Annuitant The person during whose life an annuity is payable, usually the person to receive the annuity.

Annuity A contract that provides an income for a specified period of time, such as a number of years or for life.

Annuity Certain A contract that provides an income for a specified number of years, regardless of life or death.

Application A statement of information made by a person applying for life insurance. It is used by the insurance company to determine the acceptability of the risk and the basis of the policy contract.

Assignment The legal transfer of one person's interest in an insurance policy to another person.

Automatic Premium Loan A provision in a life insurance policy authorizing the company to pay automatically by means of a policy loan any premium not paid by the end of the grace period.

Beneficiary The person named in the policy to receive the insurance proceeds at the death of the insured.

Cash Surrender Value The amount available in cash upon voluntary termination of a policy before it becomes payable by death or maturity.

Claim Notification to an insurance company that payment of an amount is due under the terms of a policy.

Contingent Beneficiary One or more additional persons named in a policy to receive all or part of life insurance proceeds in the event that the primary beneficiary named dies before the policyholder.

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Convertible Term Insurance Term insurance which can be exchanged, at the option of the policyholder and without evidence of insurability, for another plan of insurance.

Credit Life Insurance Term life insurance issued through a lender or lending agency to cover payment of a loan, installment purchase or other obligation, in case of death.

Deferred Annuity An annuity providing for income payments to begin at some future date, such as in a specified number of years or at a specified age.

Disability Benefit A provision added to a life insurance policy for waiver of premium, and sometimes payment of monthly income, if the insured becomes totally and permanently disabled.

Endowment Insurance Insurance payable to the insured if he is living on the maturity date stated in the policy, or to a beneficiary if the insured dies prior to that date.

Face Amount The amount stated on the face of the policy that will be paid in case of death or at the maturity of the contract. It does not include dividend additions, or additional amounts payable under accidental death or other special provisions.

Family Income Policy A life insurance policy, combining whole life and decreasing term insurance, under which the beneficiary receives income payments to the end of a specified period if the insured dies prior to the end of the period, and the face amount of the policy either at the end of the period or at the death of the insured.

Family Policy A life insurance policy providing insurance on all or several family members in one contract, generally whole life insurance on the husband and smaller amounts of term insurance on the wife and children, including those born after the policy is issued.

Grace Period A period (usually 30 or 31 days) following the premium due date, during which an overdue premium may be paid without penalty. The policy remains in force throughout this period.

Guaranteed Insurability Option A right included in a newly-issued life insurance policy at extra cost, guaranteeing that the policyholder may buy specified additional insurance at specified later times, regardless of his or her state of health.

Group Life Insurance Life insurance issued, usually without medical examination, on a group of persons under a single master policy. It is usually issued to an employer for the benefit of employees. The individual members of the group hold certificates stating their coverage.

Industrial Life Insurance Life insurance issued in small amounts, usually not over $500, with premiums payable on a weekly or monthly basis. The premiums are generally collected at the home by an agent of the company.

Insurability Acceptability to the company of an applicant for insurance.

Insured The person on whose life an insurance policy is issued.

Lapsed Policy A policy terminated for nonpayment of premiums. The term is sometimes limited to a termination occurring before the policy has a cash or other surrender value.

Level Premium Insurance Insurance for which the cost is distributed evenly over the period during which premiums are paid. The premium remains the same, and is more than the actual cost of protection in the earlier years of the policy and less than the actual cost in the later years. The excess paid in the early years builds up the reserve.

Life Annuity A contract that provides an income for life.

Limited Payment Life Insurance Whole life insurance on which premiums are payable for a specified number of years or until death if death occurs before the end of the specified period.

Maturity Date The date at which an endowment policy "matures" and begins to pay benefits to the policyholders.

Nonforfeiture Option One of the choices available to the policyholder if he discontinues the required premium payments. The policy value, if any, may be taken in cash, as extended term insurance or as reduced paid-up insurance.

Ordinary Life Insurance Life insurance usually issued in amounts of $1,000 or more with premiums payable on an annual, semiannual, quarterly, or monthly basis. The term is also used to mean "straight life insurance."

Paid-Up Insurance Insurance on which all required premiums have been paid. The term is frequently used to mean the reduced paid-up insurance available as a nonforfeiture option.

Permanent Life Insurance A phrase used to cover any form of life insurance except term; generally insurance that accrues cash value, such as whole life or endowment.

Policy The printed document stating the terms of the insurance contract that is issued to the policyholder by the company.

Policy Dividend A refund of part of the premium on a participating life insurance policy reflecting the difference between the premium charged and actual experience.

Policy Loan A loan made by an insurance company to a policyholder on the security of the cash value of his policy.

Policy Reserves The amounts that an insurance company allocates specifically for the fulfillment of its policy obligations. Reserves are so calculated that, together with future premiums and interest earnings, they will enable the company to pay all future claims.

Premium The payment, or one of the periodical payments, a policyholder agrees to make for an insurance policy.

Renewable Term Insurance Term insurance which can be renewed at the end of the term, at the option of the policyholder and without evidence of insurability, for a limited number of successive terms. The rates increase at each renewal as the age of the insured increases.

Settlement Option One of the ways in which the policyholder or beneficiary may choose to have the policy proceeds paid.

Term Insurance Insurance payable to a beneficiary at the death of the insured provided death occurs within a specified period, such as five or ten years, or before a specified age.

Variable Annuity An annuity contract in which the amount of each periodic income payment fluctuates. The fluctuation may be related to security market values, a cost of living index, or some other variable factor.

Whole Life Insurance Insurance payable to a beneficiary at the death of the insured whenever that occurs. Premiums may be payable for a specified number of years (limited payment life) or for life (straight life).

DoD PA-9/DA Pam 360-517/NAVPERS 15212/AFP 34-1-7/NAVMC 1195

ARMED FORCES LIFE INSURANCE COUNSELOR'S GUIDE

Armed Forces Information and Education • Department of Defense

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*DA Pam 360-517
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FOREWORD

Parts of this book have been adapted from the HANDBOOK OF LIFE INSURANCE published by the Institute of Life Insurance (277 Park Avenue, New York, N.Y., 10017). It has been especially prepared to aid military commanders and insurance officers in counseling members of the Armed Forces on their personal financial security and insurance needs.

CONTENTS

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INTRODUCTION

Your Job as Insurance Officer

As insurance officer, your job is to give help to members of your unit in life insurance matters. You probably are not an expert on insurance. You are not expected to be.

This handbook is designed to serve as a simplified reference and textbook on the essentials of each type of life insurance. If you acquaint yourself thoroughly with its contents, you will be equipped to counsel and guide on matters relating to life insurance. As a counselor, your function stops before a final decision on insurance is made by the individual being counseled. Your job is to see to it that the serviceman or servicewoman seeking your assistance has all of the facts he or she needs in reaching that decision. The insurance counselor is not an estate planner; you are expected to avoid influencing the ultimate decision—which must be reached by the person directly affected.

Those whom you counsel will fall into two main groups. First are those with long service, who by 25 April 1951 had been issued a Government life insurance policy. The Government life insurance discussion in part I will be of particular interest to them. The second group—now considerably larger than the first—will be those persons who entered the Service after 25 April 1951 and (except in cases involving disability separation) are not eligible for Government life insurance.

In deciding what sort of life insurance to purchase, the serviceman will need to understand exactly how his personal situation will be affected now and in the future. He will have to realize that there are pitfalls to be avoided as well as benefits to be achieved from an insurance program. If his plan is soundly based on certain principles that this guide sets forth, he will be able to keep within the bounds of his income and still enjoy the maximum financial security available to him. Only careful planning can make a reasonable degree of financial security possible through purchase of life insurance.

In helping to plan that security, the United States Government has established a number of programs which make the achievement of that protection considerably easier for Service personnel. Benefits available to members of the Armed Forces must, under all circumstances, be taken into consideration in planning any life insurance coverage.

Information Sources

As appendixes, this guide supplies two helpful tools—a list of selected references on life insurance to which both counselor and counseled can turn for additional guidance, and a glossary of terms used in the life insurance field.

Limits of Counseling

Even after the counselor has gone as far as the limitations of his own knowledge and the information contained in this guide permit, the serviceman may still find himself unable to reach a final decision. This is the point at which you, as his counselor, should consider urging him to turn to other reputable sources of insurance advice.

Each of the Services has published a regulation dealing with life insurance that will further assist you as a counselor. They are concerned with the solicitation of life insurance (on military installations) and with the purchase of life insurance, and with allotments from military pay for life insurance. They are identified as: Army—AR 210-8; Navy and Marine Corps—SECNAV INST 1740.1; Air Force—AFR 211-16; and Coast Guard—Comdt. Inst. 1740.2.

PART I

GOVERNMENT INSURANCE AND BENEFITS

Each Man's Choice

Each serviceman (and servicewoman) must consider his (or her) own personal situation carefully before signing up for insurance. One of the major factors to be weighed is the amount and kind of protection he has coming or available by reason of his military service. Let's consider this here—leaving out factors that do not have a direct bearing on his insurance problem.

> **Government Life Insurance**
>
> *Servicemen's Group Life Insurance*, and other Government life insurance programs for certain servicemen and veterans, are described on pages 25 and 26.

Survivors' and Dependents' Benefits

The widow of a man who dies while in service or of a service-incurred cause after his separation, is eligible for a monthly payment of $120 plus 12 per cent of his current monthly basic pay at the time of death. (If that rate of pay is later raised for a comparable pay grade, she gets a proportionate increase.) From the standpoint of planning his insurance program, the serviceman, even in the lowest pay grade, should give

weight to the fact that, conditions having been met, his widow would receive the payment (Dependency and Indemnity Compensation—or DIC) as long as she lives or until she remarries. There also is provision for his children and dependent parents. If the widow dies, has been divorced from the serviceman, or re-marries, payment is made for his children at the rate of $77 a month for one child, $110 for two, $143 for three, and $28 for each additional child. His parents, if dependent on the serviceman's support, draw benefits scaled to their rate of other income. Additional information about these benefits is available from the Veterans Administration (VA). The pamphlet "Federal Benefits for Veterans and Dependents" (VA Fact Sheet IS-1) goes into this subject—and Government life insurance—in some detail.

Social Security

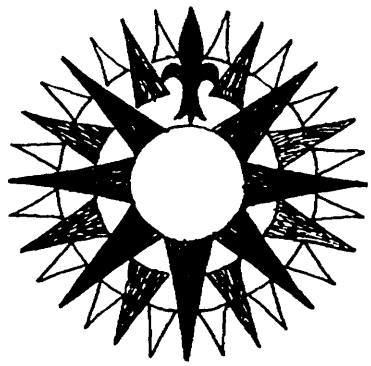
Since 1 January 1957, members of the Armed Forces have been under the Social Security program on a contributory basis—which means that a serviceman pays tax on the first $4,800 of his basic pay, a tax matched by an equal amount by the Government. Assuming that eligibility factors have been met, he and/or his family has coverage in three areas: family benefits, old age benefits, disability benefits. All three benefits must be considered in relation to any insurance program. (A brief but informative leaflet on this subject is "Social Security for Servicemen and Veterans," U.S. Department of Health, Education and Welfare, OASI-31a.)

Social Security *family benefits* provide a monthly income for: his widow with children; his children under 18; his widow age 62 or over; aged dependent parents.

Old age benefits provide monthly payments when he retires at age 65 (with additional payments of one-half that sum going to his wife). There is also a provision for reduced old age benefit payments if he retires at age 62.

Disability benefits provide monthly payments if he incurs a disability expected to be long continued or of indefinite duration. These benefits are supplemented by additional payments to his children, to his wife if caring for a child eligible for the payments, and to his wife at age 62. As with the other two types of benefit, the amounts depend on the average of previous earnings.

Service members having service before 1957 should be advised of applicable Social Security wage credits for that earlier service. They would receive wage credits of $160 per month (regardless of basic pay) for months of service in the period 1940 through 1956, unless they were to draw retired pay based on service during that same period. In that case, they would receive wage credits for months of service in the 6-year period 1951 through 1956.



Military Retirement

Voluntary retirement after 20 or more years of active Federal service can bring retirement pay for life up to and including a maximum of 75 percent of active duty pay, depending on the specific law under which retirement is granted. Long service reservists also can look forward to retirement benefits.

There are also provisions for monthly payments, either from the Service or the Veterans Administration, for those retired for a physical disability; and for severance pays for those separated for a physical disability. The pamphlet, *Disability Separation* (DoD PA-1), provides further details about this subject.

Medical Care

Another thing the serviceman should consider in planning his life insurance program is financial protection for his dependents if they should need medical care after his death. He needs also to consider whether their medical care during his lifetime will create a financial liability that might limit his capacity to pay for insurance. The Dependents' Medical Care Program, together with other provisions already in force, provide a substantial degree of protection on both scores. For detailed information on dependents' medical care see DoD PA-3, *Dependents' Medical Care Program, 1964*.

Retired Serviceman's Family Protection Plan

A member of the Armed Forces may elect to receive a reduced amount of military retired pay in order to provide his widow and/or children under 18 with a monthly income that will begin upon his death following retirement. He mus. exercise this option either before completing 18 years of service for pay purposes or else at least 3 years before he is granted retired or retainer pay, if he has not made an election before completing his 18th year of service.

He may choose to provide his dependents with one half, one quarter, or one-eighth of his reduced retired

pay. (Reduced retired pay is his gross retired pay, less the cost of the annuity for his dependents.) The cost depends upon the amount to be paid survivors, his age, and the age of his eligible survivors.

Detailed information about this program is in the pamphlet *Retired Serviceman's Family Protection Plan*, DoD PA-7. If in doubt about any of its provisions, the serviceman should consult his personal affairs, finance, or legal assistance officer, as appropriate, before taking any action.

What About Government Insurance?

NSLI policies held by servicemen were (and are) of two types—5-year level-premium term insurance, or permanent-plan insurance (of which there are six varieties). Under the former, the policy is renewed automatically each fifth year, provided it is in force at the expiration of the term period. If the policyholder fails to keep it in force, the policy expires. Each time the contract is renewed, his premium rate increases to reflect his current age; it remains at that level during the five-year period.

Holders of such a policy should seriously consider converting to a permanent plan. The longer they hold on to their term policies, the higher the rates. As the years go on and a person nears the "golden years," the rates become almost prohibitive. Conversion to a permanent plan may be made at a current date or retroactively to any prior date (any prior date on which premiums were due), as far back as the original date of the policy. Doing it retroactively calls for the payment of an amount equal to the reserve that would have built up.

Permanent-plan insurance differs in that it does not have to be renewed. Instead, the policyholder pays his premiums regularly at a rate fixed when the contract was issued. His permanent plan may be one of six types—*ordinary life, 30-pay life, 20-pay life, 20-year endowment, endowment at age 60, or endowment at age 65.* These plans are discussed in detail in part III.

(Public Law 88-664 Insurance)

Two insurance provisions of Public Law 88-664, which went into effect 1 May 1965, are of interest to many veterans, some of whom may be still on active duty.

The first is aimed at veterans—including individuals still on active duty—who hold NSLI term insurance policies. It offers them an opportunity to convert their policies to a level-premium modified life permanent plan before the premiums on their renewable term policies become prohibitive with increasing age. This modified life plan gives permanent type insurance at lower premium rates than were possible before, since the face value of such a policy will be automatically reduced by 50 percent when the insured person reaches 65. At that time, however, the policyholder will have the option of restoring the full amount of his coverage by purchasing ordinary life insurance without medical examination. There is no cutoff date on converting term insurance policies to the modified life plan, and it extends beyond the 2 May 1966 deadline set for the other insurance provision of Public Law 88-664. However, conversion to modified life must be made before the insured attains the insurance age of 61 (60 years and 6 months).

The second insurance provision of that law gave certain disabled veterans (not on active duty or active duty for training of 31 days or more) an opportunity to apply to the Veterans Administration for NSLI insurance for a 1-year period—1 May 1965 to midnight, 2 May 1966.

These veterans must, first of all, have been eligible to apply for NSLI insurance after 7 October 1940 and before 1 January 1957 (those who entered on military service after 25 April 1951 must have had a break in service or have been separated before 1 January 1957 to be eligible).

Secondly, they must either (1) have a service-connected disability for which compensation would be payable if it were 10 percent or more in degree, and not withstanding that disability they are in good health; or (2) be uninsurable because of a service-connected disability, and except for that disability be in good health; or (3) have a non-service-connected disability or a service-connected disability which combined with a non-service-connected disability renders them uninsurable, provided they can establish that such uninsurability existed on 13 October 1964 and that they are unable to obtain commercial life insurance at substandard rates because of such uninsurability.

The maximum coverage provided by the VA is $10,000, so eligibles who have no NSLI insurance can obtain up to that amount, and those who may have less than $10,000 coverage can increase their insurance protection to the maximum. These policies will be nonparticipating—that is, they will not pay dividends.

Steps To Take

It is quite likely that you, as insurance counselor, will be queried by men of longer service about the steps to take in the matter of Government policies currently held or no longer held. Some may have cash-surrendered a policy or allowed it to lapse by failing to keep up the premiums; others may have a premium waiver still in effect; yet others may have continued regular premium payments.

If the serviceman had—or has—Government insurance, there are just so many steps open to him, as follows:

1. He had, while in active service, surrendered per-

manent-type policies for cash between 25 April 1951 and 1 January 1957 to take advantage of the "free indemnity" offered under the Servicemen's Indemnity and Insurance Acts of 1951.

Action. He may apply to the VA, without a physical examination, to reinstate or replace his insurance any time while still in active service or within 120 days thereafter.

2. He has a permanent-type NSLI or USGLI policy on which he applied for an in-service waiver of the pure insurance risk portion of premium payments and has not requested termination of the waiver.

Action. He may exercise any one of three options:

(a) Request termination of the waiver at any time while in active service or within 120 days thereafter, and begin payment of full premiums.

(b) Request at any time while in active service or within 120 days thereafter termination of the waiver and stop the payment of premiums. **WARNING: This action will cause the insurance to lapse!**

(c) Continue the waiver as long as he is on active service and for 120 days thereafter.

NOTE. If an insured dies while an in-service waiver is in effect, his eligible survivors *will not be entitled* to dependency and indemnity compensation, even though otherwise eligible. Instead, his survivors will be entitled to the old form of death compensation which, in most cases, is lower than the DIC benefits.

3. He had term insurance under in-service waiver of the premium payments and has not requested termination of the waiver.

Action. Same as the second action.

4. He continued regular premium payments on insurance without applying for an in-service waiver or for a cash surrender.

Action. Continue regular premium payments (both while on active duty and after) in order to keep the insurance in effect.

5. He had insurance under in-service waiver and requested termination of the waiver and requested termination of the waiver and resumed paying full premiums.

Action. Same as the fourth action.

6. He picked up cash-surrendered or expired insurance before 1 January 1957, and since then has continued paying full premiums.

Action. Same as the fourth action.

7. He allowed his insurance to lapse by failing to pay premiums.

Action. Contact the nearest VA office immediately to obtain reinstatement requirements and information.

Charting Survivors' Income

You can help the serviceman gain a clearer understanding of the survivor protection his family already has and of additional income it would need if he were to die, by showing him how to draw up a Survivors' Income Chart.

Such a chart is patterned after the "estate plan" chart used in the insurance industry. It can be drawn easily on graph paper. Charts A and B on these pages represent no specific person or family situation, but merely provide sample formats or guides to be followed.

The serviceman probably will be more interested at present in chart A, which shows the income his family will get if he dies while on active duty. It is marked

CHART A (DEATH WHILE ON ACTIVE DUTY)

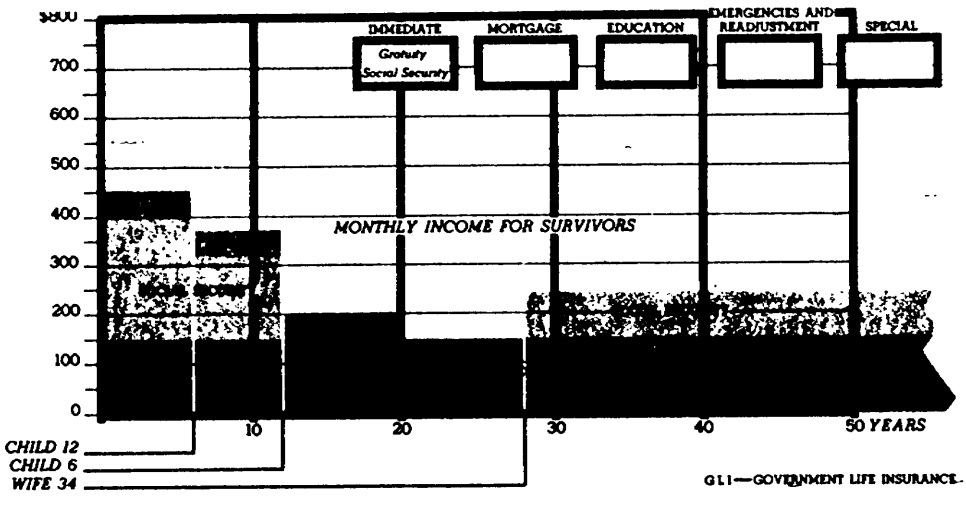
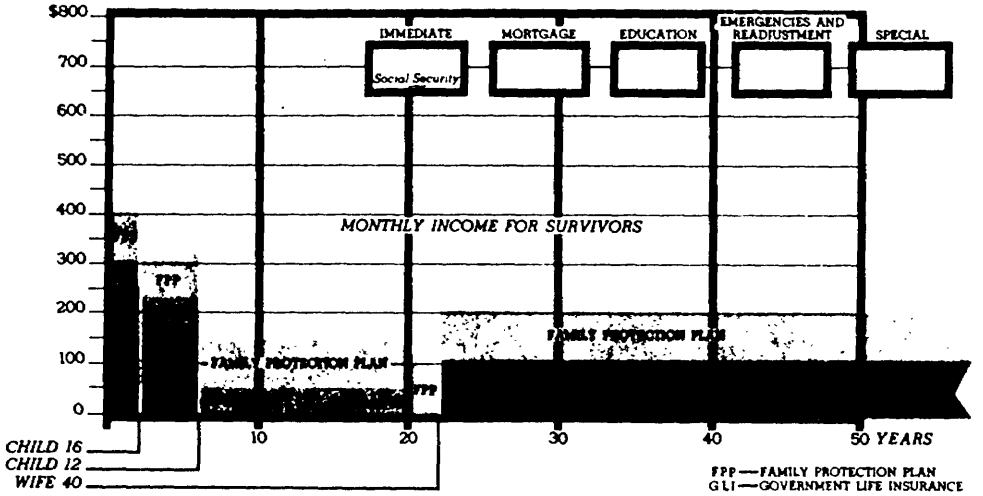


CHART B (DEATH AFTER RETIREMENT)



off across the bottom in years, and has a dollar scale at the left margin. His wife's present age and his children's names and ages are entered below the graph. A line is extended to the right on the chart for each child to the point where he or she reaches age 18. Another line indicates the point on the chart where the wife reaches age 62.

Above the graph is a group of blocks. In the block labeled "Immediate," write the amount of money available to survivors immediately upon the serviceman's death, such as the death gratuity of 6 months' pay ($800 minimum, $3,000 maximum) and the Social Security lump-sum death payment. Any money earmarked for payment on a home, such as mortgage insurance payable upon the man's death, is entered in the "Mortgage" block. The face value of education policies on the serviceman's life in favor of his children is entered in the "Education" block. Amounts set aside for "Emergencies and Readjustment" go into the next block. The "Special" block is for amounts provided through savings or investments for purposes other than those covered by the other blocks.

Now the man being counseled is ready to begin filling in the graph itself. He first enters his survivors' Dependency and Indemnity Compensation (DIC) monthly payment—$120 plus 12 percent of his current monthly basic pay—at the bottom of the graph. DIC provides a base to which other survivor incomes are added.

Estimated Social Security family benefit monthly payments are added above the DIC on the chart. These payments are reduced as each child reaches 18, cut off when the wife no longer has an eligible child in her care, and resumed when the wife reaches 62.

If he has any Government life insurance it is added to the chart next. If he has elected a lump-sum settlement (see page 14) the amount is entered in the appropriate block at the top of the chart. If he elected another method of payment, however, it is drawn in on the graph above the Social Security payments. (Both sample charts show a $50 monthly payment over a 240-month span.) Any civilian life insurance he already has also is entered on the Survivors' Income Chart in the same manner as indicated for Government life insurance.

At this point he has graphic evidence of the amount of financial protection his family would have if he were to die while on active duty. This can help him decide whether he should provide additional income through commercial life insurance, and if so, how much and what kind.

Chart B provides the serviceman guidance on charting the income his survivors would have when he dies after he has retired from the service. Dependency and Indemnity Compensation—the basic active duty survivors' benefit—is not counted, although it could be shown in the case of a disability retirement. Social Security family benefits now form the base to which other monthly income payments are added. Any planned Government or commercial life insurance monthly payments are entered on the graph above the Social Security payments. This chart contains an element not found in chart A. This is the monthly payment under the Retired Serviceman's Family Protection Plan, which many career people sign up for before retiring. It is drawn in above the Social Security and insurance payments.

PART II

LIFE INSURANCE

What Is Life Insurance?

It is defined as: "A cooperative risk-sharing plan through which people are able to set aside part of their income regularly during their earning years in order to provide for the time when their income ceases—because of death, retirement, or declining health in old age." Life insurance makes it comparatively easy for people to prepare to meet these uncertainties; it is a task generally impossible for an individual to accomplish alone.

Life insurance offers a plan that enables a person to join a risk-sharing group *(an insurance company)* by purchasing a contract *(a policy)*. Under the policy, the company promises to pay at the time of the policyholder's death a sum of money to the person or persons selected by him *(the beneficiaries)*, or, in the case of an endowment policy, an additional promise to pay the money to him *(the policyholder)* if he is alive on the future date *(maturity date)* named in the policy. This promise is given in return for the policyholder's agreement to pay periodically a sum of money *(the premium)* to the insurance company.

Life insurance offers a *voluntary* plan. It is this voluntary aspect which has made it necessary to establish certain requirements as to health and occupation that must be met in order to buy a policy. If there were no such requirements, people in good health would tend to postpone its purchase, while those in hazardous occupations or in ill health would buy. This would make the cost prohibitive.

In order to obtain life insurance, a person must pass a medical examination or meet other health requirements; his occupation, habits, family background, and general character must be deemed satisfactory. In this way, the cost of insurance protection to all members of the insured group will be equitable.

The Different Types of Companies

A *stock company* is owned by stockholders who finance its operations and who assume the risks and responsibilities of ownership and management. Most stock companies issue only nonparticipating policies; a few also issue participating policies; a very few issue participating policies only.

A *mutual company* is owned by its policyholders, and all its funds are held for their benefit. Nearly all mutual companies issue only participating policies; a few also issue policies on a nonparticipating basis, the

owner of such policies having no voice in the management.

A *mixed company* is a special type of stock company that combines features of both of the other types.

Two Forms of Life Insurance

The two main classifications or forms of life insurance (as distinguished from *types* of life insurance *policies*) are ordinary life insurance and group life insurance.

Ordinary life insurance is the oldest and most widely used of these, and is designed to provide not only a sum of money to enable one to "die even with the world," but also a continuing income to survivors, making it possible to keep the home together. It can be used to meet almost every conceivable type of personal need in which protection of human life, values, and loss of earning power are at stake.

In addition, "ordinary" is purchased to provide a family income to the widow after the children are grown. It can pay the children's way through college and retire the mortgage on the family home. People use this form not only for protection, but also as a means of accumulating money for their own use in later life when they have outlived the need for insurance protection. The value of the policy may then be taken either in one sum or in an income that will continue as long as the insured lives.

Group life insurance provides a means for insuring a group of people under one policy. Under the usual form a number of people—all the employees of a company, for example—are insured without a medical examination. A master contract is then issued, with each employee receiving a certificate showing the amount of his insurance and other details. Sometimes there is a conversion clause, which permits him later to buy an individual type of life or endowment policy without evidence of insurability, but at a premium based on his age at that time.

"Group" is usually issued on the term insurance basis, but in recent years permanent life insurance plans have been developed. This form of insurance makes life insurance protection possible for many people who could not otherwise obtain it at standard rates, if at all, because of poor health or other reasons.

For the past several years military personnel have had the opportunity to take part in group insurance plans especially oriented to them. These plans are offered by associations underwritten by insurance companies.

One major difference between "ordinary" and "group" is that the first is permanent insurance. It builds cash value through the years and can later be used to provide a lump sum of cash or retirement benefits. In contrast, group term insurance builds no permanent insurance protection or cash values.

Premiums and Allotments

Insurance premiums are usually paid by the insured person directly to the insurance company annually, semi-annually, quarterly, or monthly.

For servicemen the usual practice is to pay the premiums (either for an ordinary or group policy) by means of a monthly allotment from his service pay. This is an easy and convenient way of doing it, and assures that there will be no missed payments.

Participating and Nonparticipating Policies

A policy is either a participating type or a nonparticipating type. There is a considerable difference between the two.

For a *participating policy*, the premium rate is fixed at an amount somewhat greater than the company expects will be needed under normal conditions to pay for the cost of providing insurance. The policyholder receives a refund, in the form of a *dividend*, based on actual experience together with an estimate of future trends.

The dividend represents that portion of the participating premium not needed for the following purposes:

(1) To be set aside for present and future benefit payments to policyholders and beneficiaries (known as the *reserve*);

(2) To be set aside for possible contingencies (known as the *surplus fund*);

(3) To meet the operating expenses of the company.

A dividend usually is payable after premiums for the first 2 or 3 years have been paid, and is generally paid annually thereafter. Deducting this yearly dividend from the regular *gross premium* gives the policyholder his yearly actual insurance cost. Thus the cost of a participating policy reflects the operating results of the company from which it is purchased.

Under a participating policy, the policyholder has the assurance that he will never be called upon to pay more than the premium rate specified in the policy. But the net cost of a participating policy cannot be guaranteed in advance, since it depends upon actual experience from year to year.

In a *nonparticipating policy*, the premium rate is fixed at an amount which represents as closely as possible what the company expects will be needed to pay for the cost of providing the insurance. This premium rate then becomes the cost to the policyholder. Thus the actual cost of a nonparticipating policy is guaranteed in advance for the life of the policy. When a life insurance policy is purchased, there is no way of foretelling whether a participating or nonparticipating policy will be lower in cost in the long run.

PART III

INDIVIDUAL POLICIES AND THEIR USES

Basic Types of Policies

There are three basic types of individual policies: *term policies, whole life policies,* and *endowment policies.* However, there are many variations of each of these three types. Additionally, a number of policies have been developed to meet special needs. These special-purpose policies, however, are combinations of two or more of the three basic policies with perhaps an annuity element added. Here is a brief outline of the three basic policies, plus a few special types.

Term Policy

Protection. A term life insurance policy provides temporary protection. The benefit is payable only if the insured dies within a specified period, or term of years. The term is usually from 1 to 10 years, although it may be longer. Some companies offer term policies that run to age 60 to 70.

Convertibility. A term policy may grant the holder the privilege of exchanging it, without proving his insurability, for permanent insurance on either the *whole life* or *endowment plan.* This is done upon payment of the higher premium required for the new policy. Sometimes this conversion period is limited to a shorter term of years than that for which the policy is written. For example, a 10-year term policy may permit change to a whole life or endowment policy, without another medical examination or other evidence of insurability, only during the first 7 years after the term policy was issued. If the insured plans a change to permanent insurance, he will find it advantageous to make the change as soon as his budget will allow. This is because a policy's premium rate is based, in part, on a person's age—and the younger a person is, the lower the rate will be.

Renewal. A term policy may contain a *renewal privilege*, which gives the right to renew the policy, without proving one's insurability, at the end of the original policy term. The renewed term policy will usually be similar to the first one, except that it will call for the higher premium rate for the insured's attained age at the time of change. This renewal privilege is limited to a certain number of renewals, or the policy may not be renewed after age 55, 60, or 65. The policy terminates without value at the end of the period following the final renewal.

Other Features. Since the premium for a term policy pays only the cost of protection during the term of the policy, the policy seldom has any *nonforfeiture* values (see page 13). A term policy is frequently used to provide additional insurance protection on a father's life while his children are growing up. During such periods, people usually need maximum insurance protection at a minimum of premium outlay. Another typical use of a term policy is to guarantee the repayment of the mortgage on the insured's home if he should not live to do so himself.

Whole Life (or Lifetime) Policy

Several policies provide lifetime insurance protection, with payment of the face value at the death of the policyholder to the beneficiary selected by him.

Lifetime, and all individual policies except most term policies contain *nonforfeiture* values. These values give the policies greater flexibility in meeting changing needs. Under these provisions the insured may borrow money from his life insurance company, using his policy as collateral; or he may stop paying premiums and continue the insurance protection on a modified basis; or he may receive a cash settlement for the complete termination of the contract.

Today many people buy whole life policies for the double purpose of securing life insurance protection while they have dependents, and then discontinuing premium payments in later years and electing to receive a lump sum or an income for life.

Several variations of whole life policies are available. The differences are mainly in the duration of the premium-paying period. A person may select a policy that calls for the payment of premiums—

(1) During hs remaining lifetime;
(2) For a definite number of years;
(3) To a certain age; or even,
(4) In a single sum.

The selection should depend upon an estimate of his ability to pay premiums as well as the purpose for which he is buying the policy.

Straight life (or *ordinary life*) has the lowest premium rate of any lifetime policy on the level-premium plan. Premiums are payable until death, or a certain age, usually 96 or 100. The most widely used, it is a good all-purpose policy which meets many different needs and family situations.

A *limited-payment* life policy also provides lifetime protection, but limits the payment of premiums to a period such as 10, 20, or 30 years, or up to a certain age, usually 60, 65, or 85. Because the premium-paying period is limited, the premium rate is necessarily higher than for the straight life policy. The higher premium, however, builds higher cash values than are available in the straight life policy. In all other respects, it is similar to the straight life policy.

If a person wants lifetime protection, but wishes to limit premium payments to a definite period of time, such as his best earning years, then a limited-payment life plan may be the policy for him to purchase. Since the premium rate is higher than for the straight life policy, this factor will tend to limit the amount of protection he can buy.

Endowment Policy

Advantages. This type of life insurance policy enables a person to accumulate a fund of money that will become available to him on a future date named in the policy (the maturity date), or that will provide for a payment of the same amount to his beneficiary at his death if he should die before the maturity date. Since the policy builds up a larger cash value, the premium rate is higher than that of a comparable whole life policy. The endowment policy is designed for those who need not only life insurance protection for dependents but also a definite sum of money or income at some future date to supplement or replace their earnings.

Disadvantages. From the standpoint of the average serviceman, however, this form of coverage has certain disadvantages, which the counselor should make sure are understood. Although the idea of providing for additional income at some time of anticipated need—such as when children are ready for college or when paying off a mortgage on a home—is attractive, it is a definite luxury for a man whose income is limited and who ought to give first priority to protecting his dependents in the event of his death. Except for the rare serviceman who has already provided amply for that eventuality and still has income available for further insurance commitments, endowment coverage is inadvisable.

Other Considerations. If a serviceman buys endowment coverage early in life he is likely to find within a few years that marriage or additions to his family have changed his insurance requirements. Now he needs life insurance protection more than ever but finds his ability to purchase it limited by the earlier commitment. Here again the painful decision must be

faced—whether to continue payments on the endowment policy, even though they block the way to taking on greater life coverage, or exchange the endowment, if possible, for a larger straight life policy.

Summary. There are many things to be said in favor of endowments, but the counselor should make it clear to the serviceman that they are best suited to men who already have accumulated the proper amount of basic life insurance. This time generally comes later in life, and that is the best time to consider endowment coverage. Meanwhile, the various Government forms of family protection discussed in part I assist in meeting the problems of providing for survivors.

Special Policies for Family Protection

Special policies have been developed to help meet the insurance needs of the head of a family with minor children. The head of such a family needs life insurance protection to provide—

(1) An income that will help provide for the children until they reach maturity. Here again, the subject covered in part I should be noted.

(2) Funds sufficient to allow the widow at least to get readjusted in life, even if not sufficient to provide her with a life income.

The first need, protection for the children, requires only temporary protection, which can be met by term insurance. The second need calls for permanent life insurance protection—either a straight life or endowment policy—to the extent thought necessary beyond benefits automatically available to the serviceman or veteran and his survivors.

(Family-type Policies)

(1) The *Family Income Policy* combines both forms of protection. The *permanent* part is a straight life policy, a limited-pay life, or an endowment policy. The *temporary* part is *reducing term insurance* that runs for 10, 15, or 20 years from date of purchase—covering what is called the family period.

Thus a $10,000, 15-year Family Income Policy would consist usually of $10,000 of straight life insurance plus term insurance running for 15 years starting at about $13,000 and reducing to nothing at the end of that time. The policy provides that if the head of the family dies during the family protection period, $100 will be paid each month (1 percent of $10,000) until the end of the term of family period. At that time the $10,000 of permanent protection will be paid in a lump sum or may be taken in the form of an income. If the insured outlives the family protection period, he has simply a straight life policy for $10,000—the term portion having run out. At or near the end of this period, his policy generally provides for a reduction in premium to that of the $10,000 straight life policy.

(2) Some companies offer a *Family Protection Policy*, which is a combination of *level term insurance*, rather than *reducing term protection*, together with permanent protection. If death occurs during the family period, this policy provides an income for 10, 15, or 20 years from the death of the head of the family—not for just the remaining years of the family period.

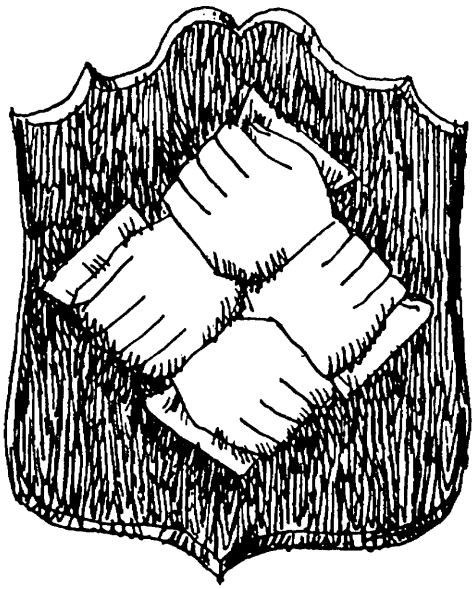
The advantage of these special combination family policies is that they furnish protection for family needs more cheaply than if purchased in two separate policies. A family policy can be written to cover a 10-year range for a man whose family is half-grown or a 20-year range for a man with a very young family. The permanent protection may also be on the 20-pay life basis or on, say, an endowment at age 65 policy. The term insurance portion can often be added to a policy already owned.

(3) *The Family Life Insurance Policy*, combining protection for all members of the family under a single contract—including children yet to be born—is a relatively new type of policy. A number of companies have developed individual features, but the average family policy provides a whole life plan on the head of the household with convertible term insurance for the wife and children. The policy is generally available to husbands between the ages of 18 and 50 and usually the wife must be between 12 years younger and 7 years older than the husband. Children are commonly eligible from the age of 15 days to 18 years. The number of children in the family does not usually affect the cost. Unborn children are included and automatically covered, usually 15 days following birth. Purchases can usually be made in units of $5,000, $7,500, $10,000, $12,500 and $15,000 on the life of the father, with insurance on each dependent about one-fifth of the unit bought. The policy premium is usually based on the age of the father and the amount of insurance purchased.

The Measure of a Policy's Value

The paramount measure of its value is its *ability to meet the principal objective for which it was bought.* There are other major considerations, however, as discussed below.

Most insurance today is issued on the level premium plan, which means that the premium remains the same from year to year. With that as a background and taking the case of a policyholder who wants to stop paying premiums and discontinue his policy, he and other policyholders in his group paid premiums that were greater than needed to pay claims in the earlier years, thus building up a fund of assets with which to meet claims in later years. It follows that when he



withdraws there is an accumulation of assets out of the premiums paid by him to which he should be entitled.

However, in the early days of life insurance, a withdrawing policyholder sometimes received no further benefits when he ceased paying premiums. This was commonly called a "forfeiture." Later, it became the custom of the better companies to pay a value to withdrawing policyholders. These were called *nonforfeiture values*, because they recognize a value that a withdrawing policyholder should not have to forfeit. Some companies made a cash payment, while others continued insurance protection beyond the date when premium payments ceased.

Today, practically all individual policies (other than most term insurance policies) provide a choice of nonforfeiture values by a policyholder who stops paying premiums, after a policy has been in force a few years. The minimum values that must be provided are specified by law in many States, although companies often pay more than these required minimum values.

The basic type of nonforfeiture value is the *cash value*. There is a choice of two other nonforfeiture benefits if the withdrawing policyholder wants continued insurance protection. One is called *extended term insurance* and the other *reduced paid-up insurance*. A fourth type, which actually is not a nonforfeiture value, is sometimes provided in the form of *automatic premium loans*. Each is discussed below.

Cash Value Provision

The cash value is the amount of money that will be paid to a policyholder who purchased insurance on the level premium plan if and when he stops paying premiums. It is a value that is guaranteed in his contract as required by law.

Why do policyholders ask for their cash values? Almost all such situations can be summed up as either "changed insurance needs" or "hard times calling for cash." Some policies are purchased for the purpose of protecting the family as long as that need exists and then cashing in the policies for a specific use.

For example, *straight life policies* are often purchased to insure the education of children in the event of the death of the father. But if the father is living when college days come, he plans to meet those expenses in part from current earnings and in part from the cash he will get from turning in his insurance policy.

Today many people reaching retirement age arrange to take their cash values in the form of income. This is a growing use of life insurance and is discussed more fully on pages 14 and 15.

Many requests for cash reflect an upset in family finances. These result from unexpected illnesses and financial catastrophes. Though life insurance is not designed as a way of preparing to meet these financial difficulties, *it may help more in this unexpected event than it would if kept in force to fill primary needs.*

In many situations where family finances are squeezed it is not necessary to discontinue the policy. A loan of a part or all of the cash value will often tide people over and enable them to pay premiums, thus keeping the policy in force. Ordinary life policies contain the *policy loan* privilege, under which the policyholder may borrow any amount up to the cash value of the policy.

As has been pointed out, the serviceman is seldom forced to the above step. If, however, he is forced to borrow from the life insurance company's fund of assets to keep his policy going, he will have to pay interest, usually at the rate of 5 or 6 percent per year. It is advisable for the serviceman to ask his agent to explain this feature fully before purchasing insurance.

The policy loan may be repaid in one lump sum or in installments at any time. If it remains unpaid at the insured's death or at the maturity of an endowment, the insurance company deducts the amount of the loan and any unpaid interest from the payable proceeds of the policy at that time.

In an emergency, the loan provision in a life insurance policy can be used to secure money or to pay a premium. But the serviceman should understand that it is best not to borrow on his policy except in cases

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of real need. It is seldom easy to repay a policy loan—particularly since the borrower will not be requested to do so, though he will be notified as interest payments fall due on the loan. Just as with the premium-paying provision, a serviceman may avail himself of the pay allotment system to repay an insurance policy loan.

Extended Term Insurance Provision

This is what should be asked for if a person decides to stop paying premiums either on a whole life or an endowment policy but wants to keep the maximum amount of insurance protection as long as possible—for such insurance provides continued protection (though for a limited period) for the full face value of the policy, less any loan outstanding. The length of this period is equivalent to that which the net cash value of the policy will permit when used as a single payment to buy the extended term protection at the policyholder's current age. (In the case of an endowment policy, there may be enough not only to provide the extended protection to the original maturity date of the policy but also to provide a reduced endowment payment to the policyholder if he is living on that date.)

Reduced Paid-up Insurance Provision

This enables a person to obtain a paid-up policy for a reduced amount of insurance, payable under the same conditions as the original life or endowment policy. If it is a life policy, the paid-up insurance feature will provide protection for life without further payments, but the insurance is reduced to what the net cash value will buy as a net single payment at the insured's present age. (For an endowment policy, the reduced protection continues to the maturity date named in the original policy, at which time the reduced amount will be paid as a cash settlement.)

Automatic Premium Loan Provision

Some companies have included a fourth special provision in ordinary policies which may be helpful as an emergency measure—the *automatic premium loan*. This means the company will automatically pay a premium that is not submitted when due. The company charges off such premiums as loans against the policy, up to extent of the available loan value. The policy continues in force until the total loan equals the cash-surrender value. Then the policy terminates without further value.

In the absence of a written election by the policyholder, the policy states which of the values will automatically go into effect if a premium is missed. If he wants a value other than the one automatically provided, he should notify his company of this desire at the time the premium is withheld. Most companies require that such notice be given within 13 weeks after the premium is due.

The policy will include tables stating these guaranteed nonforfeiture values for durations of 2 to 20 years plus years 25 and 30, and also quite possibly at ages 60 and 65. There also will be a statement of the mortality table and the rate of interest on which they are based. Information on later years not covered in these tables is available on request from the company.

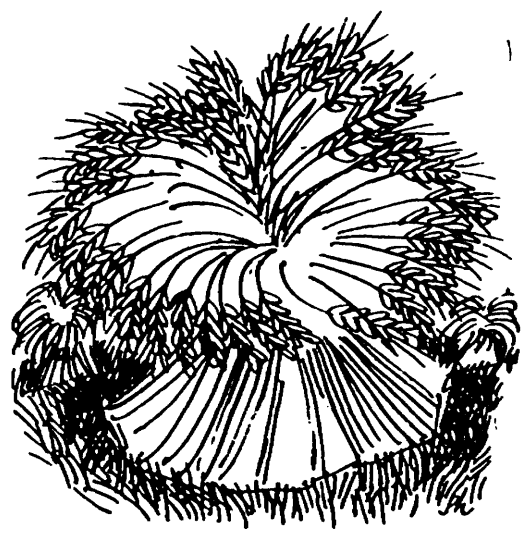
Settlement: Lump Sum or Income?

Nearly all ordinary life insurance policies state that the policy benefit will be paid as a lump sum of money. However the insured or his beneficiary may find it wiser to choose one of the income provisions called *optional settlements* or *settlement options*. When a choice has been made and it is time for the income to start, companies often issue a supplementary contract replacing the original policy.

Under the terms of these options, the proceeds of the policy at maturity will be held by the company. It will then begin paying a regular income in place of the lump-sum payment. The use of these options eliminates the danger that the proceeds, if paid in a lump sum, might be poorly handled or misspent by a beneficiary. A page or two in the policy describes the different plans, plans which may be combined in different ways if the policy proceeds are enough to warrant it. Payments can be arranged on an annual, semi-annual, quarterly, or monthly basis. In most companies, each income payment must be for at least $10 and the policy proceeds must amount to at least $1,000.

Optional settlement payments may usually be chosen under one of the following circumstances:

(1) During his lifetime the insured may choose an



income plan to become payable to his beneficiary at the time of the insured's death.

(2) If he does not choose an income plan, the beneficiary may do so after the death of the insured, but before the policy proceeds are paid.

The following are the three most common settlement options:

(1) *Interest Payments.* The company will hold policy proceeds, paying interest at a guaranteed rate. Interest payments can be arranged to last for a number of years or for life. Generally, arrangements may also be made to have any remaining principal paid to some other person or organization as beneficiary. An interest-payment plan is used chiefly when the objective is to create an emergency reserve fund upon which to draw—when the principal is being held intact for some future use, such as for education of children or when the money is to be passed along to someone else at the death of the original beneficiary, or at some predetermined time.

(2) *Installment Payments.* The company will make regular payments of equal amount until the fund is used up. In the meantime, the company will add interest on the money remaining to be paid out.

If each payment is for a *specific amount*, the length of time during which the payments will be made depends on—

(a) the amount of the policy;

(b) the amount of the income payment; and

(c) the rate of interest guaranteed in the policy.

If payments are to be spread over a given *period of time*, the amount of each payment depends on—

(a) the amount of the policy;

(b) the number of years the income is to be paid; and

(c) the rate of interest guaranteed in the policy.

If the insured elects installment payments for his beneficiary, he may wish to permit the beneficiary to "commute" the remaining payments—that is, to collect their discounted value or present worth in one final payment. Also, the insured can arrange to have any money left, when the first beneficiary dies, paid in one sum or continued as income to one or more "secondary" beneficiaries.

Installment-payment plans are most useful when a beneficiary needs a definite amount of income for only a limited period of time—while the children are growing up, for example.

(3) *Annuity Income.* One of several types of annuity income settlements may be chosen.

An annuity income settlement provides a fixed income regularly to the *annuitant*, or payee, as long as he or she lives. From the same amount of insurance proceeds, an annuity settlement produces a larger income for an older person than for a younger person. In some annuity settlements, payments continue to another person if the first annuitant dies: (1) before the payments total a certain amount; or (2) before they have been paid for a certain length of time.

The amount of each payment depends on several factors, including—

(a) the age of the annuitant when payments begin;

(b) the specified mortality table;

(c) the rate of interest guaranteed in the policy; and

(d) the form of life annuity settlement used.

Annuity income settlements are widely used to provide a life income for a widow, children, or dependent parents. While living, the insured earned an income in which the dependents shared. A lump-sum settlement of a policy places this source of future income in the hands of dependents at one time. If the money is to last, the dependents must then conserve it, invest it, and draw only a reasonable amount periodically. An annuity income places all three responsibilities on the insurance company. In addition, it guarantees an income for life under the annuity principle.

An annuity income settlement is also a very valuable provision for the policyholder whose life insurance has served its purpose and who now wants to obtain in its place a retirement life income. This can be done under the provisions of many policies in one step. The process amounts to the surrendering of the policy for its cash value (page 13). This money is then distributed under the annuity income settlement provisions of the policy. The annuity settlement can be one of the single life annuity types discussed. If the policy permits the choice of a joint life and survivorship annuity, the insured may prefer this settlement. This will guarantee a life income for both husband and wife. Where a policy does not specifically permit the policyholder himself to use the settlement options, upon request the company will advise what income he can obtain from his insurance.

Each of the above three types of income provision is an integral and valuable part of life insurance policies. Whether a policyholder selects a plan for his beneficiary, or whether on the death of the policyholder the beneficiary makes the choice, or whether the policyholder selects an income provision for his own use—in any case, the payment of proceeds as income fits many needs far better than a lump-sum payment.

Safeguarding Policy Proceeds

The choice of an income provision (in contrast to a lump sum) has greatly increased in recent years, for policyholders and beneficiaries often find that this type of settlement serves better than a single payment. By conserving the policy proceeds, it makes certain that

money will be available as the years go by for the use of dependents.

In general, where $2,000 or more of life insurance is owned, an income settlement is preferable to a lump-sum settlement. Rather than receive $5,000 in one payment, it may be much better for dependents to receive a smaller lump sum (with which to meet final expenses of the insured) and the balance as income for living expenses of the dependents (while they are making readjustments in family life). For example, the $5,000 could be programmed under the settlement provision of the policy to provide a cash payment of $2,000 plus $150 a month for a little over 20 months. Alternatively, a cash payment of $1,000 could be paid plus $200 a month for about the same period of time.

With larger insurance programs it may be better to leave the choice of settlement provisions of some part of the insurance proceeds with the beneficiary. This allows for more flexibility in the use of these funds. Such a decision places considerable responsibility on the good judgment of the beneficiary. If this decision is reached, it is well to do these two things:

(1) Acquaint him or her with the possible choices that may some day have to be made, discussing, of course, the entire insurance program with the beneficiary; and

(2) Leave a letter of instruction with the policies summarizing these ideas and including the suggestion that the beneficiary discuss all of this with the agent and company, particularly in the light of any change in conditions, before making any choice of an income provision.

In some States the law permits the policyholder to include in the settlement arrangements a so-called *spendthrift clause* which protects his beneficiaries from the claims of their own creditors. Such a provision generally states that the beneficiaries cannot assign, alienate, commute, or encumber the proceeds of the life insurance, when left with the company, to satisfy the claims of their own creditors. This protects them from loss of funds which might result should they have unfortunate business or financial transactions. In most States, life insurance, if payable to named beneficiaries, is already protected from the claims of the insured's creditors.

Dividends and Their Uses

In a *participating* policy, the premium is fixed at an amount somewhat greater than the company expects will be needed under normal conditions. However, the actual yearly cost of the insurance is determined only after the factors of expense, mortality losses, and interest are known. The policyholder receives premium refunds, called *dividends*, of such amounts as are not needed in the light of the actual operations, past experience, and present conditions.

These dividends are made up primarily from three sources:

(1) The difference between anticipated and actual operating expenses;

(2) The difference between estimated and actual mortality losses; and

(3) Any interest earned on the investments over and above that required to maintain the legal reserves.

Since dividends are determined by operating experience, the amount of future dividends cannot be guaranteed. Because of the expense of issuing a new policy, dividends are not usually payable until after a full 2 or 3 years' premiums have been paid.

Dividends payable under an ordinary insurance policy can be treated in any one of these four ways by the policyholder:

(1) Taken in cash.

(2) Used to reduce premium payments.

(3) Taken in the form of additional paid-up insurance protection.

(4) Left with the company to accumulate with interest.

Main Aspects of a Life Insurance Policy

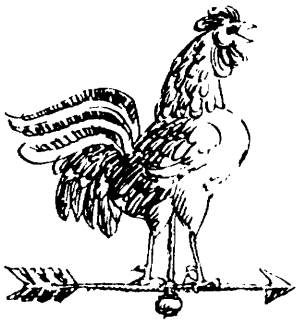
The main thing is the company's promise to pay specified benefits. The specific benefits promised determine the type of policy. It is the policyholder's agreement to pay premiums that makes the company's promise to pay specied benefits legally binding.

The values to which a policyholder is entitled when he stops paying premiums *(nonforfeiture values)* are set out in every lifetime or endowment policy (pages 11 and 12). A word should be added about the *grace period provision*, which allows a period of 28 to 31 days after the premium is due during which it may be paid without penalty. After that time the policy lapses. A lapsed policy may be put back in force *(reinstated)* if it has not been turned in for cash. To reinstate a policy the insured must again qualify as an acceptable risk and pay overdue premiums with interest. There is also a time limit on reinstatement.

A loan from the company is available on an ordinary life or endowment policy after the policy has been in force for 1, 2, or 3 years. Known as the *policy loan* provision, this permits the owner of the policy to borrow any amount up to the *cash value of the policy* (page 13).

Income provisions, or settlement options, are contained in ordinary life insurance policies (pages 14 and 15).

The difference between *participating* and *nonparticipating* policies has been explained on page 9. *Dividends* received under participating policies and their use have been discussed elsewhere on this page.



An important provision in every policy is the right to name a *beneficiary*. In ordinary policies, the insured can name one or more persons as contingent beneficiaries who will receive the policy proceeds if the primary beneficiary dies before the death of the insured. (For example, a man may name his wife as primary beneficiary and his mother as contingent beneficiary; if his wife dies before he dies, his mother automatically becomes entitled to the policy proceeds after his death.) Arrangements can be made with some companies to provide for an *interest payment* method of settlement (for the primary beneficiary) with any remaining balance going to one or more "secondary" beneficiaries. A policyholder can change beneficiary arrangements if he has reserved the right to do so in the original application for the policy. This still can be done if he has not reserved the right, but then only with the original beneficiary's consent.

Ordinary insurance policies may be assigned to *cover a debt or obligation*. Unless the policyholder has retained the right to change the beneficiary, he again needs the beneficiary's consent to the assignment.

Life insurance policies are *incontestable* after either 1 or, in most cases, 2 years. During this period the company has the opportunity to check the information given in the application for the policy. If materially false statements were made, a company may seek release from the policy. The incontestable clause fixes the time limit on the company in order to protect the purchaser.

If there is an *error* in reporting the insured's age, the company will adjust the policy benefits to correspond to the correct age.

The existence of exclusion or restrictive clauses or provisions, including war clauses, geographic limitations, aviation exclusion provisions, demolition, etc., must be plainly indicated on the face of the policy.

By their very nature, such clauses—which greatly restrict the total protection—should be carefully considered by the serviceman before he buys a policy.

An ordinary life insurance policy may include a waiver of premium disability benefit, an accidental death benefit, or both. The premium rate will be higher if these benefits are included.

Under the *waiver of premium disability benefit*, any premiums that fall due after the beginning of total and permanent disability will be waived. Disability must occur before a certain age, usually 60, and before the policy matures if it is an endowment. The disability must last for at least 6 months before it will be considered permanent.

The *accidental death benefit* provision promises to pay an additional sum equal to the face of the policy if death occurs by accidental means. The accidental death benefit is often called "double indemnity." Accidental death must occur within a certain time after the injury, usually 90 days, and before a certain age, usually 60 or 65. This clause should be carefully read over by the serviceman, for with some policies a death caused by action of war or while engaged in flying is excluded from the benefit.

Government Help in Paying Premiums

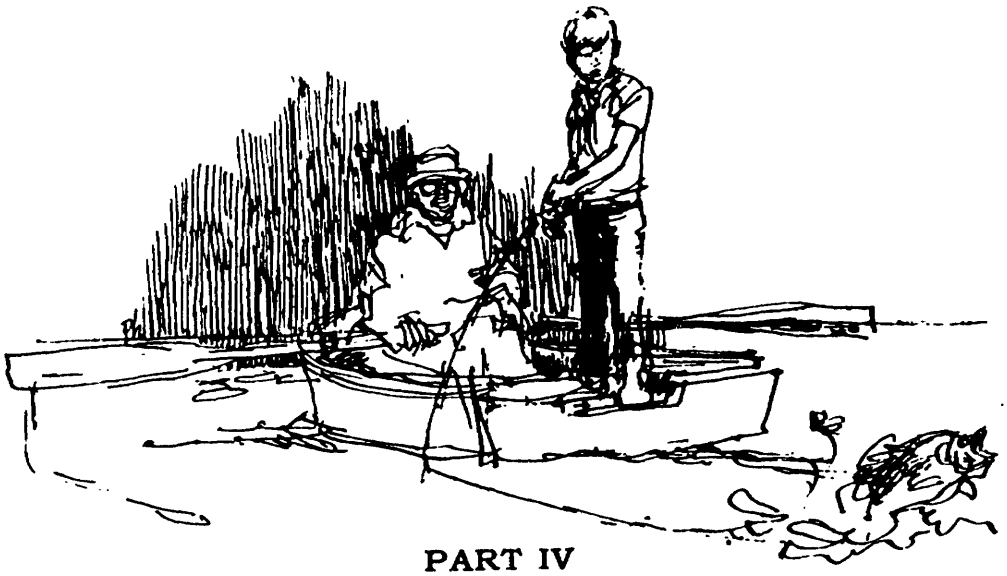
As insurance counselor, there may be occasions when you will be asked about the "life insurance provision" of the Soldiers' and Sailors' Civil Relief Act of 1940—a provision that assists those having difficulties in paying premiums on commercial insurance because of reduced income.

More formally known as "guaranty of premiums on commercial life insurance," this provision applies to up to a total of $10,000 of insurance (in one or more policies) on the person's own life and issued at least 180 days before entry into service.

The heart of the matter is that the VA will (if all is in order) guarantee the payment of the premiums and interest. Application is made (on a VA Form 9-380, "Application for Protection of Commercial Life Insurance Policy") direct to the insurance company, with copies sent to the VA.

After his return to civilian life he will have to (1) resume making premium payments himself, and (2) arrange with the insurance company so that he can repay the back premiums and interest. This should be done within 2 years, for after that any indebtedness is treated as a policy loan, unless the indebtedness exceeds the cash value. In this latter event, the policy would be ended and the Government would pay the insurance company the difference between the indebtedness and the cash value. The amount paid by the Government would then become *his debt* to the Government.

The serviceman should be advised to approach this matter with careful thought. The fact remains that eventually he will either have to make repayments—plus interest (at the company's rate)—or lose the policy and still have a debt to the Government.



PART IV

ANNUITIES

How Annuities Provide Security

People buy life insurance because of the possibility that they may not live long enough to support their dependents, but they buy life annuities because of the possibility that they may outlive their earning period and need a steady income during their remaining years. A life annuity provides for the payment of money in the form of an income for the remaining lifetime of the owner of the contract, who is known as the *annuitant*.

Life insurance policies and annuity contracts complement each other. The proceeds of life insurance policies can be used to provide an annuity income, while some types of annuities include an insurance element. Thus, while life insurance is designed to furnish *protection for dependents*, and while life annuities are designed to furnish *income for old age*, each *may* meet part of the other's objective.

To a considerable extent, the warning mentioned earlier concerning purchase of endowments at the expense of straight life coverage also applies here. The younger serviceman in particular should be made to understand that the security provided by an annuity policy is, at best, a poor substitute for adequate life insurance protection for his dependents—if he is faced with a one-or-the-other choice.

On the other hand, an older man—including one with considerable service toward retirement—might consider an annuity if his dependents' futures are already reasonably well covered by insurance on his life. If his children are now or soon will be able to take care of themselves in the event of his death, he might shift his insurance program from emphasis on life coverage to provision for his own future. In the case of the career man, an annuity would augment his prospective retirement income.

The main types of annuities are—

- **Straight Life Annuity**—pays income during annuitant's remaining lifetime, ending with his death.
- **Life Annuity "With Installments Certain"**—pays income to annuitant for life, with payments during balance of guarantee period to beneficiary selected by annuitant.
- **Refund Annuity**—annuitant makes single payment and income begins almost an once. **Deferred Annuity**—annuitant can make single payment, and income begins on a future date.
- **Retirement Income Annuity**—allows person needing no insurance protection to save for a life income.
- **Retirement Income Policy**—variation of retirement income annuity that includes substantial insurance.
- **Joint Life and Survivorship Annuity**—pays income until death of last survivor of two or more annuitants.

PART V

BUYING LIFE INSURANCE

In counseling a member of the Armed Forces on a life insurance program, you are helping him build a lifetime plan. This plan should evolve along the principle of providing for the needs (in the order of their importance) of his dependents and himself. Needs will differ with individuals. The father of a family has needs that the wife alone does not. If, however, the wife is directly contributing to the support of the family, her situation as a breadwinner resembles his. Also, the young single person has distinctly different needs than does the older single person.

Within the Services, needs and situations will vary according to the age, rank, and length of service, and will also be affected by plans for staying in the service until retirement age, or for leaving after only a brief period of service. In helping these men and women plan their insurance programs, the counselor should see that they take into consideration all sources of income, other forms of saving, and other forms of protection, including Government benefits, as outlined in part I.

Selecting Beneficiaries

In addition, the counselor should advise taking a long-range view of insurance, particularly in the selection of beneficiaries. A man with a wife and children has no problem, of course; generally he just names his wife the principal beneficiary and his children the secondary beneficiaries.

The young man who is unmarried, however, may need guidance. He may want to name his fiancee or a friend as his beneficiary, or someone else who may not be the best choice from the long-range standpoint. In most instances where the individual doesn't have dependents when he takes out an insurance policy, he would be better off naming a parent, or brother, or sister, or another relative as beneficiary. Then, when he marries—or if a member of his family becomes dependent on him for support—he can change the beneficiary designation and name his bride—or that dependent relative—as his new beneficiary.

What Should Insurance Be Expected To Accomplish?

Before he considers types of policies, the insurance purchaser must decide what he wants his life insurance to do for himself and his dependents. These are the questions he must try to answer:

1) How much money does he want to leave to his

dependents if he should die today? Will he require more or less protection to meet their needs as time goes on?

(2) When does he plan to retire? What amount of income does he feel he and his wife would then need?

(3) How will he be able to pay for his insurance? Is it likely that later on he will earn more, the same, or less than he does now? Are the demands on the family budget for other expenses of living likely to be greater or less as time goes on?

When he has worked out approximate answers, he is ready to select the types and amounts of policies that will help him accomplish his objectives. Life insurance agents will provide assistance in drawing up estimates of needs and their relative importance. They will assist in selecting the right types of policies to meet these needs as nearly as possible with planned protection for dependents, planned retirement for the policyholder, and a plan for purchasing that will fit his income and budget. Lastly, they should be able to help fit in private insurance with other forms of coverage, including Government benefits.

Life insurance purchased without the help of an agent is likely to fall short on one or more of these major points. No one is able to plan a life insurance program at any given time that will cover all of life's eventualities. Nor is anyone able to figure out just exactly how, over the years, he will pay for his life insurance.

You, as the life insurance counselor, are not expected to be a go-between for the individual serviceman and the life insurance agent, or a substitute for the agent when it comes to working out details of a program. Your greatest service when a person brings his problem to you is to help him become aware (1) of the need for careful planning and (2) of the fact that insurance needs are not usually apparent until they actually hit. You will not be expected to furnish a critique of the life insurance plans submitted by agents to a serviceman.

You should be able to help him evaluate these plans in the light of his present and prospective needs. One way to do this is to review the following six points with the serviceman. These should be discussed against the background of the very considerable monetary benefits that accrue to the survivors of the active duty serviceman, benefits payable by his Service, by the VA, and by Social Security—but tempered by the fact that the sum total of these benefits is considerably less after a return to civilian life.

The Principal Needs of a Family

Cash for Final Expenses. The loss of *any member of the family* is almost always followed by inescapable debts. These have to be met immediately. Unless they can be met from savings, current income, or Government death benefits, a life insurance policy that helps provide for these expenses on every member of the family is indispensable.

The serviceman who is not planning to stay in the service has to figure out how it will be carried if he or a member of his family dies after his separation. Insurance of this kind is always advisable for the breadwinner of the family.

Readjustment Money. The loss of the head of the family cuts off the flow of family income. Funds are urgently needed until the rest of the family can carry on. At least some money is necessary until other members of the family can get out and work. This may mean leaving the younger children with relatives or making other arrangements for their care. If the widow is going back to secretarial work, for example, she may need a refresher course in typing and shorthand.

All families need enough insurance to allow for at least a brief period of readjustment. Some families can afford no more than this. Families that can, should buy ordinary policies. The readjustment money can then be arranged so that it will be paid out in installments over a period of a year or two, or more, rather than in a lump sum.

The Family Income Period. To the widow with children who suddenly has sole responsibility for bringing up her family, it means a great deal to know she will receive a definite amount of money each month. Besides food and shelter, it means giving the children a fair

chance to prepare for life's work. Most families will want enough life insurance, together with other income, to provide at least a certain living standard until the youngest child is, say, 18 years old. Insurance purchased to cover this need should be arranged to provide an income covering a period of years, depending on the age of the children and other factors—including the size of the family, its financial obligations, the possibility of the wife finding employment, and the plans of the father for remaining in the military service.

Life Income for the Widow. Most families would like to make provision for an income, not only for the young family during their "growing-up years," but also for the widow during her remaining lifetime. After the children have struck out for themselves, a widow is left alone and her problems change. It may then be difficult for her to secure employment. A steady income, even if it is only enough to provide part of what the widow needs, is desirable. Such an income can be arranged so that the payments continue as long as she lives. During the family income period, the proceeds of this part of the insurance can remain with the company, which will pay interest periodically to the widow. If she is given the right to make withdrawals from this fund, it can also serve as a source of cash in time of emergency. If a family is eligible for Social Security benefits, special provisions should be made for the period between the youngest child's 18th birthday and the wife's 62d birthday, because no Social Security benefits will be paid during that period.

Income for Old Age. A regular guaranteed income for the years following retirement can help make that period what most people want it to be—a time of relaxation and enjoyment, with assurance that the business of simply staying alive will not be a pressing burden.

Some of the policies designed to take care of a man's family may no longer be necessary when he reaches retirement age. He can then use the cash or maturity values of these policies to provide annuity income to take care of himself and his wife. Whatever additional money he may need in the way of a retirement income can be provided by another policy designed specifically for this purpose. Here again, when the retirement income is being planned, a person should take into consideration all other funds that will be available at retirement, including, of course, any military retirement pay.

Other Needs. Among the other needs that a family will want to consider and try to provide for are the following:

(1) Education of the children. Many parents would like their sons and daughters to go to college. The father's death will not deprive his children of educational opportunities if he has made special plans through a life insurance policy.

(2) Repayment of the mortgage. A home with a mortgage may be a burden. Provision may be made to pay off the balance of the mortgage with the proceeds of a life insurance policy, in the event the insured does not live to do so himself.

Life Insurance for Women

Traditionally, life insurance has been a means for replacing the income of the breadwinner at death or retirement. Therefore it has been used primarily by men. However, many wives contribute substantially to the family income (even though the husband continues as principal breadwinner) and wish to provide additional protection for their children. Some wives also find life insurance useful in providing their own retirement benefits and in supplementing Social Security old age benefits.

Beyond this, there has been increasing recognition of the economic contribution made by the wife and mother who works only within the home, not adding to the family income by outside employment. Today, it is recognized that the loss of the wife, mother, and homemaker involves an economic loss to the family just as real, although less readily measurable, than does the loss of the husband and breadwinner. Life insurance on the wife helps protect the family against this loss.

Women in the service face essentially the same insurance questions as career women in civilian life, with the important difference that length-of-service benefits put them at advantage. For any self-supporting person, the fact that retirement income and medical services are automatically made available through military service has a direct bearing on determining the size of the insurance program.

Life Insurance for Youngsters

The chief reasons people buy life insurance for their children are: (1) to provide funds to pay for the last illness and burial expenses; (2) to begin early to instill in children the habit of regular and systematic thrift; (3) to provide children with funds for such things as a college education, setting up a business, getting married; (4) to help them secure immediate and permanent insurance protection at relatively low rates; and (5) to help them acquire policies while healthy and easily able to meet insurability standards.

The basic life and endowment policies are available on the lives of children. For younger children, the insurance benefit is frequently graded so that it will increase yearly for a number of years until it reaches a certain maximum amount. Even small babies may have life insurance policies.

PART VI

GETTING A POLICY

Selection of an Agent

Servicemen will probably have two problems in selecting an insurance agent—finding a good one in the first place, or making a choice from among those who already have sought him out. The counselor's helpfulness at this point is limited, of course, because he is not authorized to make the selection himself. Nevertheless, there are useful suggestions you can pass along. One of them is that a life insurance agent should be selected as though the man were looking for a doctor or lawyer —by making inquiries among his friends, older members of his immediate family, relatives, or other persons whose astuteness in such matters he trusts. The agent, after all, should be the kind of person who can be admitted to the purchaser's confidence as a trusted adviser. The good agent has been given extensive training by his company. He must hold a State license to practice his business, and in many States a written examination must be passed before he can qualify.

Because the agent ought to be available as a consultant and adviser over the years as insurance needs change, it is often advisable to do business with one located in or near the serviceman's hometown. Moreover, it will be easier to look into the agent's qualifications among familiar people and places.

For the serviceman, of course, this is not always easy to do, being stationed away from his hometown. If it is impossible or impractical for him to deal with a hometown agent, the next best thing is to seek out the better qualified men who are available near at hand. The counselor may point out that sources of information include the local chamber of commerce, better business bureau, and State insurance commissioner. In most large cities and in many medium-sized towns there will be a Life Underwriters Association composed of life insurance agents, general agents, and company branch managers. These local associations and members of the National Association of Life Underwriters, Washington, D.C., will furnish information and assistance.

How To Select a Company

Much the same general considerations apply to the selection of an insurance company. Local businessmen, bankers, chambers of commerce, better business bureaus, etc., can be helpful in ascertaining the reputation and character of a given company. The insurance commissioner—of the State in which the company is located, as well as the State in which the serviceman is presently located or intends to live—again is a primary source of information.

The criteria for judging the soundness of a company are the character of the men who manage it, the safeguards of its operating system, and the balance of its liabilities against its assets. Some of these questions can be answered on the basis of its national and local reputation, as viewed by trusted observers. The insurance buyer will want to know: Who are the local representatives and are they highly regarded? Does the company have a record of good service to policyholders?

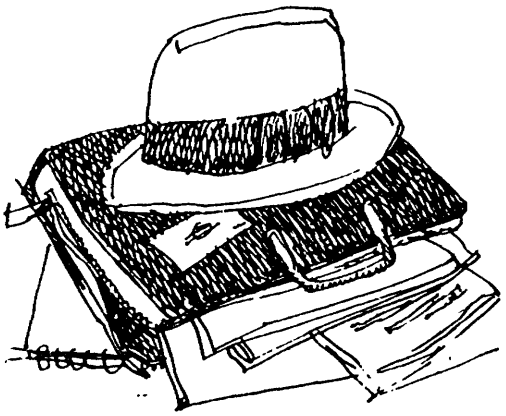
Another way to learn important facts about a company is to obtain from the agent or the home office a copy of the latest annual report to policyholders. Reports generally cover such subjects as the varied activities of management, the company's objectives, its problems, its accomplishments, and a record of its financial results.

The laws of the States require that any company represented by an agent within a particular State be licensed by that State. This is evidence that the company has complied with the laws of the State designed to protect the policyholder; is subject to regular periodic examinations by the insurance commissioner; has filed its annual financial reports with the State; maintains required legal reserves; and has been judged as qualified to do business with the citizens of the State.

Comparing Policy Costs

It's a mistake to choose one policy over another simply because it is cheaper; the important consideration is selecting the policy that best fits the purchaser's needs. You, as insurance counselor, can help get this point across by explaining to servicemen how they should go about comparing the cost of policies in different companies.

First of all, policy provisions are seldom identical; such differences are likely to affect cost. Similar policies issued by different companies often will vary in cost. In the case of participating companies, for example, actual cost to the policyholder is the premium he pays, less the dividend he receives. Variations in the number and amount of death losses, differences in investment returns, and operating expenses will cause changes in insurance costs between different companies.



These unpredictable factors can alter the size of the dividend from year to year. (In the case of nonparticipating policies, however, the premium rate is fixed and the cost is guaranteed in advance.)

As between similar policies issued on the participating and nonparticipating plans, there are differences in cost over a period of years, but these differences cannot be predicted. In the long run, competition between companies tends to restrict differences in cost.

How To Obtain a Policy

A life insurance policy is issued following the person's *application* for insurance and acceptance of the application by the company. An application is sent to a company by a life insurance agent after he has reached an understanding with the prospective policyholder.

There are usually two parts to an application. In the first section the applicant indicates, among other things, the type of policy desired, the amount of insurance he wants, and states his occupation and the amount of insurance he now owns. In the second section the applicant gives his medical history. In ordinary policies, a photostat of the application is attached to the policy and becomes a part of the contract.

What About Exchanging Policies?

The old saying about not changing horses in midstream applies to life insurance. There is seldom any advantage in exchanging an old policy for a new one—never any advantage in yielding or surrendering a Government policy in an "exchange." (*Converting* a term policy to a straight life policy is another matter.)

The serviceman confronted with a proposition involving his non-Government insurance should insist that the details be submitted in writing. This will give him the essential facts and an opportunity to study them carefully. Before taking any action, he should check with the two insurance companies involved—his old one, through his agent, either by visits with the agent or writing to him, and the new one, by writing its home office.

His present policy may contain more favorable guarantees than can be secured in new policies today. Also, by substituting a new policy for the old one, he will again be paying the expense of placing a new contract on the company's books. He will again have a one- or two-year contestable period, after the new policy goes into effect, during which the company is entitled to question the statements made in the application for the policy. Also, since he is older, the premium rate of the proposed new policy will be higher. Furthermore, he has built up values and benefits that it would take years to build in new policies. Even if he has borrowed up to the limit against his present policy, it seldom pays to drop it in favor of a new one.

If it should appear that an old policy no longer meets a policyholder's needs, his company will gladly aid in *adapting* it to his present situation. Therefore, it is seldom necessary or advisable to exchange policies in order to meet new needs.

If Allotment Termination Is Requested

As insurance officer, you should arrange with your finance office to be notified when a request to discontinue an insurance allotment is received. This gives you the opportunity to make sure that the usual disadvantages in terminating existing life insurance policies are understood by the serviceman considering such an action. It is just as important to provide counseling at this time as it is when a serviceman purchases an insurance policy or contemplates exchanging policies. As you know, insurance counseling is mandatory for members of pay grades E-1, E-2, and E-3 and encouraged for all others under provisions of DoD Directive 1344.1 of 3 March 1964 and implementing Service regulations. Therefore, you should give first priority to counseling members of the first three pay grades whenever a request to discontinue an insurance allotment is brought to your attention.

PART VII

INSURANCE PROGRAM

A Final Word on Planning an Insurance Program

No insurance counselor should forget to pass on this final piece of advice to the serviceman considering the purchase of a policy: "Be sure to discuss your plans with your family." A husband and wife should plan family insurance together. And even children ought to be given some understanding of life insurance at an early age.

The life insurance buyer should not be disappointed or discouraged if he cannot put his whole insurance program into effect immediately. It probably will require several years of careful planning before he can set up a completely adequate program that will cover all needs. It is better to fulfill the program step by step, as increasing income or budgetary changes warrant, than to wait until there is enough money available to put the entire plan into operation at once. In other words, he should buy what he can today and cover his most important needs first.

One good reason for not putting off the purchase of needed life insurance too long is the fact that premium costs go up year by year as a person's age advances. Another is that his family should have as much protection as he can afford, even in early years, before increased income or other conditions permit purchase of a more rounded insurance program.

Adjusting the Life Insurance Program

As time goes on, changes in his financial conditions as well as his family's needs are bound to occur. When a person makes a will, for example, he sets forth how he wants his possessions distributed after his death, but from time to time he may want to revise this plan as conditions change.

The same is true of life insurance. The policyholder should therefore review his policies regularly. The services of his insurance agent are available in working out any needed revision.

Policy proceeds are distributed strictly as set forth in the policy—not according to the will. (If, however, the insurance is payable to the man's estate, rather than to specified persons, the will is followed.)

A good agent will keep in touch with the person who buys from him, and will keep himself posted on the changing conditions and needs of that person. The agent will recommend adjustments that seem desirable as conditions change, and will handle the necessary details. That's why it is so important for the individual buyer of insurance to start out on the right foot by selecting an agent he can rely on for years to come. This is especially important to the serviceman, who will "touch base" in his hometown only infrequently. A good insurance agent will gladly assist whenever a question arises about life insurance, either through correspondence, or if possible, by means of a personal visit. The serviceman policyholder should feel free to use the services of his agent. He should also feel free to correspond with the company.

Servicemen's Group Life Insurance

All servicemen and women have been automatically provided $10,000 life insurance coverage since 29 September 1965 by Public Law 89-214.

The Servicemen's Group Life Insurance (SGLI) is the first Government-sponsored life insurance program for members of the Armed Forces since the free Servicemen's Indemnity program ended on 31 December 1956.

SGLI coverage of $10,000 costs a serviceman only $2 per month, collected by automatic deductions from his pay. This very low cost was made possible by insuring all members of the Uniformed Services under a single group insurance master contract. Any extra-hazard costs brought about by a stepped-up military situation will be borne by the Government.

All members of the Uniformed Services on active duty (under a call or order to duty that does not specify a period of 30 days or less) are covered by SGLI. However, this does not mean that a member must serve 30 days before he is covered under the program—he is insured from the first day he is on active duty (provided he is not on orders for a period of 30 days or less).

Service members can reduce their SGLI coverage to $5,000, costing $1 per month, or even "elect out" of the program. As an insurance officer, you should point out to anyone planning either of these actions that SGLI's $10,000 of life insurance for only $2 is a good buy, regardless of what other insurance he may have. The other features of SGLI, also are advantages not normally found in life insurance policies for servicemen.

Servicemen who have National Service Life Insurance (NSLI) or U.S. Government Life Insurance (USGLI) policies they acquired in past years also are covered by the new Servicemen's Group Life Insurance. Thus, if their NSLI or USGLI policies are for $10,000, they now have $20,000 of low-cost Government-sponsored life insurance coverage.

Another strong argument against reducing or dropping the full $10,000 SGLI coverage is that if a serviceman later changes his mind and wants to request the full coverage again, he must meet certain qualifications, including the passing of a physical examination meeting stringent commercial insurance medical standards.

In addition, servicemen with permanent plan insurance—whether commercial or Government policies—should be reminded that this insurance should not be dropped just because they are now covered by SGLI. Permanent plan insurance normally provides loan and cash values that continue to grow the longer a policy is held, while SGLI, on the other hand, provides no loan or cash values.

Beneficiaries

Other Government life insurance programs that have been offered servicemen in the past, as well as most benefits for servicemen's survivors, have placed limits on the choice of beneficiaries. However, one of the main features of the SGLI program is a free and unlimited choice of beneficiaries. A serviceman participating in the program—and everyone is unless he specifically "elects out"—can designate any person or legal entity as primary beneficiary to receive the proceeds of his SGLI life insurance in the event of his death; he can name a member of his immediate family, a relative, or a person not in his family, or he can designate a school, a church, a charity, or his estate, as his SGLI beneficiary. He has the same freedom of choice in naming a contingent beneficiary who would receive the proceeds of his life insurance if the primary beneficiary died.

If a serviceman dies with no beneficiary designated, the proceeds of his SGLI insurance would be paid in the sequence prescribed by law, as follows: first, to the widow (or widower); to his child or children; then his parent or parents; or, if none of these are living, to the executor or administrator of his estate; and finally, to his next of kin under the laws of his home State.

Since the SGLI law does not stipulate kind of parent or parents who would receive proceeds if an SGLI-insured serviceman dies with no designated beneficiary, a serviceman who wants the proceeds of his SGLI policy to go to an adoptive or stepparent(s), guardian(s) or custodian(s), or foster parent(s), rather than to his natural parent(s), must specify the proper beneficiary or beneficiaries on the SGLI election form, VA Form 29-8286.

Some servicemen don't need to designate any beneficiaries because the sequence of beneficiaries provided by law matches their own preferences. Nevertheless, you should point out that when servicemen designate beneficiaries they are first of all indicating their intentions and secondly insuring that their intentions would be known and carried out in the event of their death. The matter of designating beneficiaries is always a serious one, and whether it is an initial selection or a redesignation, it should be done only after careful consideration.

The proceeds of SGLI insurance policies are paid either in a lump sum or in equal monthly installments over a 36-month period. The serviceman can indicate which method of settlement should be used, although if he does not, the beneficiary can do so after his death.

You can point out that the serviceman has the time to think about the needs and best interests of his beneficiary and make a considered decision regarding method of settlement, while the beneficiary would be making the decision at a difficult and unsettled time. Incidentally, if the serviceman indicates settlement by lump-sum payment, the beneficiary can request payment in monthly installments instead. However, the reverse is not permitted—a beneficiary cannot take a lump-sum payment if the serviceman specified payment by monthly installments.

When a serviceman draws up a Survivors' Income Chart (illustrated on page 6 of the Counselor's Guide), he will have to vary it from the example either by including the SGLI lump-sum payment with the other money his survivor or survivors would receive upon his death in the *Immediate* block at the top of the chart, or by adding the monthly payment under SGLI to other kinds of survivor payments for the first 3 years, reading from the left on the chart (the GLI shown on the sample chart refers to USGLI or NSLI Government life insurance policies many members still have in force).

SGLI's Conversion Provisions

Servicemen are still covered without cost for the 120 days following their active duty service, regardless of whether they are discharged, retired, or returned to nonactive duty reserve status. Servicemen can convert SGLI into permanent plan civilian life insurance while on active duty or during that 120-day period. This conversion to permanent plan life insurance has several points that should be explained to servicemen contemplating reducing or dropping their $10,000 SGLI coverage and to all servicemen being separated or retired.

First, the life insurance policies written for those who are covered by SGLI must—by law—be made available regardless of the individual's health or physical condition. Such policies must be the same in cost for those in poor health or poor physical condition as for those in good health and good physical condition. This is particularly advantageous to servicemen separated or retired for physical disability, who otherwise could expect to pay higher premiums for commercial life insurance, if they could obtain it at all.

The second advantage is that they cannot contain war exclusion clauses. That is, the face value of life insurance policies cannot be reduced because of death occurring in a war situation.

These policies will be available from the life insurance companies participating in the SGLI program. Not all companies insure in all areas. Lists of eligible companies (by area) may be obtained by writing the Office of Servicemen's Group Life Insurance, 212 Washington St., Newark, N.J. 07102.

Although servicemen will normally purchase this commercial life insurance during the 120-day period following their return to civilian life, they may, if they wish, obtain it while they are on active duty. If they do so, their SGLI coverage is canceled. In most cases, there would be no advantage in converting SGLI to this permanent insurance.

However, an individual can obtain this life insurance after completing a period of active duty and then enter another period of active duty of 31 days or more (through reenlistment, perhaps) and again be covered by SGLI during his new period of active duty, but only if there is a break in service of at least 1 full day.

Other Government Life Insurance

Two other classes of Government life insurance were offered active duty servicemen in the past. The first was U.S. Government Life Insurance (USGLI), first issued in World War I and made available until 1940. National Service Life Insurance (NSLI), which replaced USGLI in 1940, remained available to servicemen until 1951.

In 1951, during the Korean war, the Government introduced Servicemen's Indemnity. It was a free program that provided payments of $92.90 for 120 months to selected survivors of servicemen. It was not true life insurance although many viewed it as such, and it was popularly called the "free GI insurance." Servicemen's Indemnity remained in effect until 31 December 1956, after which time surviving dependents of servicemen were given the greater financial protection of Social Security and the VA's Dependency and Indemnity Compensation.

Meanwhile, many of today's servicemen still have USGLI or NSLI policies they acquired before 1951. They should be emphatically advised to continue those policies in effect—even though they now are also covered by the new SGLI insurance—both for the added financial security provided their beneficiaries and for the important fact that their USGLI or NSLI insurance continues in effect after they leave the Armed Forces as long as they want it to, in contrast to SGLI, which cuts off after 120 days.

If you are counseling a serviceman and discover that he has a USGLI or NSLI policy on which he has waived premium payments, or which he has cash-surrendered or let lapse, you should point out to him the advantages of resuming premium payments, or of reinstating his policy, and how to do so.

Service-Disabled Veterans Insurance

Another Government life insurance program that still is in effect—although not open to active duty servicemen—is the VA's Service-Disabled Veterans Insurance. It is available only to veterans separated on or after 25 April 1951 who have disabilities which the VA rates as service-connected, regardless of degree of disability. These veterans must be in good health except for their service-connected disabilities, and they must apply for the insurance within 1 year of the date the VA determines their disabilities to be service-connected. This insurance is available in $1,000 amounts up to a maximum of $10,000.

You should advise any serviceman being discharged or retired for physical disability to discuss this insurance with a VA contact man or to get full details at a VA office. You should also assist him in getting in touch with the VA.

APPENDIX A

POINTERS FOR POLICYHOLDERS

Before any member of the Services becomes a holder of life insurance, or before he purchases an additional policy, it's a good idea for you, the unit insurance counselor, to see that he has a sufficient store of general, basic information on the subject. You can, for example, let him look over this guide—particularly the section on "Buying Life Insurance." In addition, he can refer to the publications listed as references in appendix C, or write to the Institute of Life Insurance for further information on types of policies and how they fit individual and family needs.

All these, together with the counselor's suggestions, will help him in discussing his insurance program with an agent. Later, as a policyholder, he should be sure to do these five things which will help him and his beneficiaries:

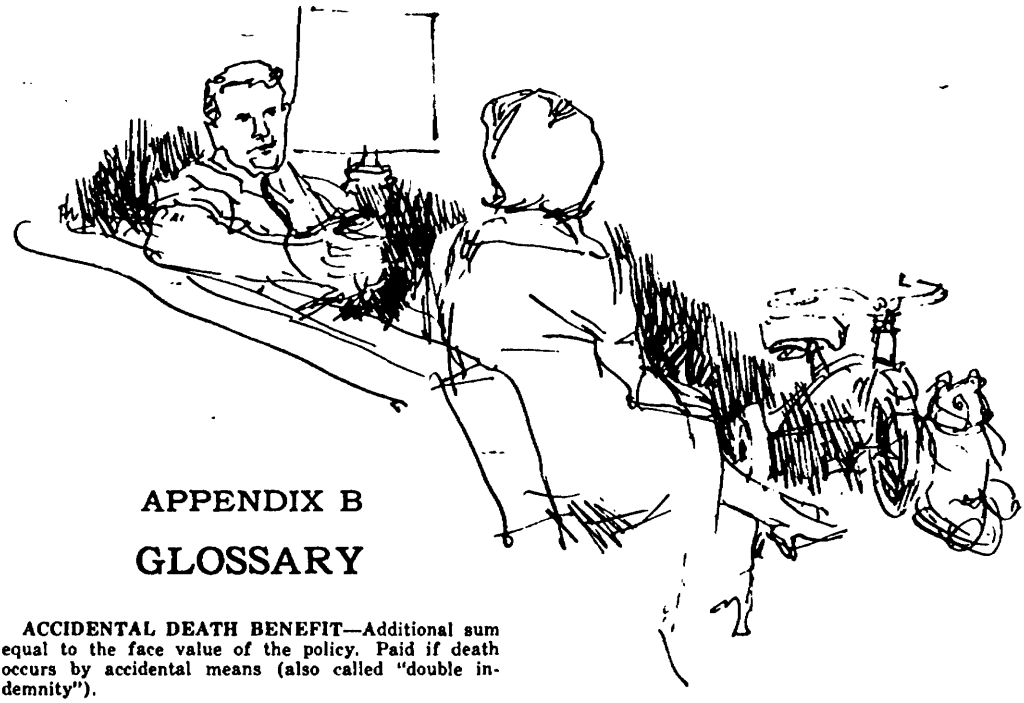
(1) *Read and reread his policy.* He should be satisfied that he understands its basic provisions and benefits. When he does, he will probably get a better appreciation of the values that are in his policy and what they mean for him. He will learn something of its flexibility in meeting various needs and changing situations. He can avoid possible misunderstandings—especially if he refers any questions that arise over the meaning of the policy's provisions to his agent or insurance company.

(2) *Keep his policy in a safe place.* Just as with other important personal or family papers, his policy should be kept in as safe a place as feasible. A lost or destroyed policy does not mean the end of the policy's protection, for a duplicate copy can be obtained later—but only after some inconvenience and delay. He should keep a separate record of his policies. His official *Record of Emergency Data* form (Army—DA 41, Navy—NAVPERS 601-2, Air Force—AF 246, Marine Corps—NAVMC 10526-PD, Coast Guard—CG 4113) serves a valuable role here, and he should be sure to fill in all the spaces pertaining to insurance. Premium receipts will serve as a record, but some people find a more complete record is of advantage in reviewing their life insurance programs. He should be sure his policies are accessible both to himself and to his beneficiary, or at least that the beneficiary knows where they are kept. Some people keep policies in a safe deposit box. This means, however, that in event of death, the beneficiary may have to obtain permission of the tax authorities to open the box. The serviceman probably would be wise to leave the policies with some member of his family for safekeeping, unless his military units has some provision for storing its members' personal records.

(3) *Keep his company informed of his address.* This is particularly important for the serviceman, since his address is apt to change frequently. Each time he moves to another station or assignment he should notify his insurance company.

(4) *Discuss his insurance program with his family or other beneficiaries.* It is usually advisable to have them share in the planning from the outset and to discuss with them changes in the program. It's also a good idea for him to leave a letter outlining his insurance policies and indicating any choices the beneficiary may have in the settlement of policies. This letter ought to be with the policies or at least in some safe place where it can easily be found after his death. It may be well to point out in the letter that (1) no outside assistance is needed to collect the insurance money, and (2) his life insurance agent will help the beneficiary fill out the "proof of claim" papers and assist in selecting a settlement provision if the choice is left to the beneficiary.

(5) *Review his life insurance program with his agent at least every 2 years.* The agent will help make any changes that may be advisable because of changed conditions. The policyholder should not try to revamp his program without calling on the agent's professional knowledge and experience. When a policyholder is transferred, he can obtain assistance or the name of an agent in his new locality by writing his insurance company's home office.



APPENDIX B

GLOSSARY

ACCIDENTAL DEATH BENEFIT—Additional sum equal to the face value of the policy. Paid if death occurs by accidental means (also called "double indemnity").

ACTUARY—A statistician or specialist who makes the computations on which life insurance economics (premiums, reserves, surrender values, etc.) are based.

ANNUITANT—One who receives an annuity.

ANNUITY—A stated sum of money paid periodically at the end of a fixed interval.

ANNUITY, CERTAIN—One which is paid over a definite (certain) period of time whether or not the annuitant lives to receive all payments.

ANNUITY, CONTINGENT—One which is payable subject to a stated circumstance—for example, the continued life of the annuitant during the period of payments.

ANNUITY, DEFERRED—One from which the annuitant begins to receive payments only after a stated period of time has elapsed.

ANNUITY, IMMEDIATE—One on which payment to the annuitant begins at once (at the end of the first month, or first year, at the annuitant's option).

ANNUITY, JOINT LIFE—An annuity which continues to be paid jointly to two recipients as long as both are alive.

ANNUITY, LAST SURVIVOR—A sum payable as long as one of two or more annuitants remains alive.

ANNUITY, LIFE—One paid regularly as long as the annuitant lives.

ANNUITY, SURVIVORSHIP—Payable for the lifetime of a designated person after the death of the original annuitant or annuitants.

ANNUITY, TEMPORARY—One on which payments to the annuitant stop at the end of a stated period.

ASSIGNEE—The person to whom a policy or an interest therein is "assigned."

AUTOMATIC EXTENDED INSURANCE—Stays in force automatically when a premium is missed, but only for a specified time.

AUTOMATIC PAID-UP INSURANCE—Stays in force automatically when a premium is missed, but only as insurance equivalent to what the current cash value will purchase.

BENEFICIARY—The person named to receive policy benefits.

BENEFICIARY, CONTINGENT—One who receives policy benefits only if some event takes place, such as the death of a primary beneficiary.

DIVIDEND, ANNUAL—A share in company earnings allocated to policyholders once a year but in some cases contingent on their having paid the current premium due.

DIVIDEND, CASH—The same, paid in cash (rather than held for accumulation with interest, to pay premiums or for additional insurance, etc.).

DOUBLE INDEMNITY — (See ACCIDENTAL DEATH BENEFIT.)

ENDOWMENT—A policy that guarantees a payment to the insured (in lump sum or installments) if he lives beyond a certain period. May also be combined with term insurance, which guarantees payment to a beneficiary if the insured dies before the endowment period elapses.

ENDOWMENT PERIOD—The length of time in which an endowment policy matures.

GOVERNMENT INSURANCE—Covers all forms of Government insurance issued to members of the Armed Forces.

INSURANCE, PAID-UP—A policy, purchase of which is completed and no further premiums are due.

LAPSE—Voidance of a policy by failure to pay premiums when due.

LEGAL RESERVE—Minimum levels, set by State law, below which an insurance company's reserves may not fall without becoming legally insolvent or discontinuing the issuance of new insurance—or both, depending on how individual statutes are worded.

LIABILITIES—An insurance company's obligations and debts, including present value of future obligations.

LOAN VALUE—What the current reserve value of a policy will permit the policyholder to borrow from the company.

MATURITY—The date on which a policy becomes paid up or payable.

MORTALITY RATE—The rate of deaths among a given age group, as calculated on the basis of actuarial experience.

MUTUAL INSURANCE COMPANY—An insurance organization in which policyholders share control, elect directors, and share in any surplus.

NON-FORFEITURE PROVISIONS—Guarantees in the policy that after a stated period of time, failure to meet a premium date will not forfeit the policy entirely but will only reduce it to certain stated values.

NSLI—National Service Life Insurance: the system of insurance (maximum of $10,000) instituted during World War II for members of the Armed Forces.

OPTIONS OF SETTLEMENT—Choices allowed as alternatives to the receiving of policy benefits in a single lump sum.

PERMANENT-PLAN INSURANCE—Any type of insurance other than term; it may be straight life (whole life), endowment, annuity, or a combination. Unlike term insurance, it need not be renewed periodically.

POLICY—The printed document issued to the insured by the company stating the terms of the insurance contract.

POLICY LOAN—A loan which, if not repaid, is deductible from the policy reserve and which, in any event, cannot exceed that reserve or a stated proportion of it.

POLICY, NONPARTICIPATING—One which does not entitle its holder to receive dividends.

POLICY, ORDINARY LIFE—One which provides for payment of benefits upon the death of the insured and on which he pays premiums throughout his life time.

POLICY, PARTICIPATING—One which entitles its holder to receive a share in the company's surplus (a dividend); premiums for these generally are higher than for nonparticipating policies.

POLICY YEAR—The 12-month period beginning with the due date of the first premium.

PREMIUM—The payment required (annually, semi-annually, quarterly, or monthly) to keep a policy in force; it may, in the case of an endowment or paid-up policy, be paid in a single sum.

PREMIUM, EXTRA—Additional payment to cover some special risk, such as an occupational hazard.

PREMIUM, LEVEL—One which remains unchanged throughout the life of the policy.

PREMIUM, SINGLE—A single lump-sum payment that purchases paid-up insurance.

RESERVE, POLICY VALUE—Amount of money received by an insurance company in the form of premiums and held (generally in interest-bearing assets) against anticipated future claims as policies mature. Includes interest earned.

RIDER—An addition to a policy, in the form of a separate insurance provisions or endorsement, which becomes a part of the policy.

STOCK INSURANCE COMPANY—One owned by stockholders who share any surplus and elect directors. Some stock companies allow policyholders to share in surplus also.

SURPLUS—That portion of a company's assets which exceed its legal liabilities, including chiefly the value of its policies, and by which its solvency is measured.

SURRENDER VALUE—What a policy is worth to its holder when he gives it up in exchange for whatever the issuing company has guaranteed in such an event—generally cash or paid-up insurance.

SURVIVORS—Immediate members of the family of a deceased person who are either his dependents or eligible to receive benefits by reason of his death.

TERM POLICY—Insurance which provides for payment of the face amount only if the policyholder dies within a specified period.

TERM POLICY, CONVERTIBLE—One which allows the policyholder to turn it in during the term in exchange for some permanent plan of insurance.

TERM POLICY, RENEWABLE—One which is automatically renewable at the end of each term, without a new medical examination, but at a higher premium in accordance with the attained age of the policyholder.

USGLI—United States Government Life Insurance: first issued to members of the Armed Services during World War I.

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APPENDIX C

REFERENCES

DEPARTMENT OF DEFENSE PUBLICATIONS

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THE SECRETARY OF DEFENSE
WASHINGTON

ARMED FORCES LIFE INSURANCE COUNSELOR'S GUIDE (DoD PA-9)—This official Department of Defense publication is for the use of personnel in the military Services.

By Order of the Secretaries of the Army, the Navy, and the Air Force:

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Chief of Staff.

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Mr. SHARP. Now, I would just like to clarify one other point here in this statement, Mr. Nader.

One of your recommendations on the top of page 17, No. 3, you talk about a "meaningful disclosure law that would give the consumer information necessary to compare the relative price and terms of different policies at the point of sale."

Dr. Belth, our next witness, has developed one such method of breaking the premium down for the package of protection and savings, and we will be hearing from Dr. Belth on this point.

I take it that when you say, "different policies at the point of sale," you feel that a mandatory disclosure system is necessary to get accurate, adequate, and meaningful information to the consumer at the point of sale, or do you think a voluntary system would be enough?

Mr. NADER. No, I think not only a mandatory system, but one where there is a specific, uniform form for such disclosure.

If they want to complicate their policy, let them complicate their policy, but at the end, they have to present to the prospective policyholder a uniform, comparable system of information about that policy.

Mr. SHARP. Thank you—I did want to put into the record at this point the fact that the top five leading life insurance companies, which are all mutual, have some 86,000 agents according to Best's Life Insurance Reports for 1972. It's my understanding that there is anywhere from 150,000 to 250,000 career or full-time agents in the life insurance industry, yet these companies alone have some 86,000 according to Bests.

Mr. CHUMBRIS. Mr. Sharp, if you will yield a moment, I understand that the record shows that there are 250,000 agents who earn 50 percent or more of their income from selling life insurance, and that there are a couple of hundred thousand more who do part-time selling, such as retired agents, who continue to sell life insurance.

Mr. SHARP. Thank you, Mr. Chumbris.

I should mention that Senator Hart has sent out a questionnaire to some 82 life insurance companies holding some 92 percent of the industry's assets. A series of questions deals with agents, and as we get more information, Mr. Chumbris, we will introduce it for the record.

Thank you for calling it to my attention.

Now, Mr. Nader, you make a comment on page 6 of your statement, that the Life Insurance Institute Factbook fails to include first 2-year lapse policy data. Senator Hart did write to the Institute of Life Insurance, and they did say, "yes, we do omit first 2-year lapse policy data for ordinary life insurance." The Institute has furnished the subcommittee with that data. In 1970, life insurance companies issued nearly 11 million ordinary life insurance policies.

Now, according to the institute, 19 percent of these policies lapsed or were dropped by policyholders over the period 1970 and 1971. In short, 2 million policies were dropped.

When policyholders drop their straight life policies during the first 2 years after issuance of a policy, they usually get little or nothing back in the way of cash values. In some cases, if the policies are large, they may get some first year cash value, but very rarely. And, sometimes they'll get a minimum amount the second year, but, by and large, they get very little back.

Subcommittee staff has made a preliminary estimation of the loss to policyholders on ordinary life policies issued by the industry in 1970, and dropped by policyholders in 1970 and 1971. That estimated loss was $505 million.

Staff realizes that this preliminary estimate may be open to question because of the methods used to arrive at the estimate. Staff had to use the only data publicly available; that is, the 1972 factbook published by the Institute of Life Insurance.

Senator Hart, staff would like to suggest that the life insurance industry undertake to produce its own estimate of the loss to policyholders stemming from early lapsation of ordinary life policies.

Senator HART. We would welcome the information, and let's make it clear that, as I think you have, the analysis you make, though obtained from the best sources available, may not be accurate.

Mr. SHARP. That's right. Even though they are industry sources, sir, I would like to submit this for the record, and also to state that in the questionnaires we have asked for lapsation data; in short, how many policies are dropped in the early years.

Mr. CHAMBRIS. Mr. Chairman, may I have that?

Mr. Chairman, Mr. Sharp was reading from a statement on estimated policyholder losses from lapsed ordinary life insurance policies issued in 1970, and I understand he wants to place this in the record.

I have one objection to his conclusion in the last paragraph, because he's trying to calculate a loss by multiplying the number of policies times a certain dollar amount. Since we're asking the insurance company for information, we ought to find out also statistics on people who lapsed their policies but years later acquired life insurance. For example, a policy held for 2 years, and then for some reason the policyholder found out he couldn't keep the payments, and he was in a position where he didn't need insurance as much as he thought he did, and he let that policy lapse. And, 5 years later he bought a policy and went ahead and maintained it.

I'd like to know how many people who lapse a policy from one company, may pick up another policy from another company, or may wait 2 or 3 years, as a good mutual friend of Mr. Sharp's said he did, when he had a policy and let it lapse within the first year. But that person is well-insured today.

So, if you use the figure that Mr. Sharp has here, and it is a fantastic figure, we may find out that if you let a policy lapse for 2 or 3 years you may save $800 or $1,500 during that interim, if you pick up another policy later, which most people will do anyway.

So I think that the figure that Mr. Sharp is using here is a figure just to speculate—it's a speculated figure, and I don't think it serves any useful purpose or is relevant to the issue herein.

I think I'd like to know how many people, if it's possible, allow a policy to lapse, and later will pick up another policy.

Mr. SHARP. Mr. Chairman, I'd like to just respond briefly.

We have set forth exactly how we calculated this, and we do note here that we've made some estimations for policyholder cost of protection; that is, what it would have cost the policyholder for term insurance. Obviously, he had the "death protection" for the 2-year period, so that was taken into account.

And, after all, the policyholder has paid money, and all we're saying is, other than the death protection which may have been from the way we calculated it—$88 over 2 years on an average policy of $11,000—which means the difference was lost—the difference in our calculations of $242 was the estimated net loss per policy.

From the policyholder's standpoint, he has lost that, period.

Now, I would also like to ask one more question, Mr. Chairman, if I may, please.

Mr. CHUMBRIS. Will you reserve judgment on that, admitting that statement?

Senator HART. It seems to me that the comments that have been made indicate its tentativeness. The data, I assume referred to by Mr. Sharp, omits information that you have identified?

Mr. CHUMBRIS. I am referring to the relevancy of a chart like that because it's a misleading type of chart that really doesn't prove anything.

Senator HART. If it's a misleading chart, it won't go in. If it is as precise as available data permits, it will. I will reserve judgment.

Mr. SHARP. Thank you, Mr. Chairman.

Mr. Nader and Mr. Petkas, on page 7 of the statement, you make the observation, in New York State, agents commissions are regulated, the only State in the Union where life insurance agents commissions are regulated.

And many companies not in New York pay 100 percent or more for certain specialty policies.

There is only so much in a dollar, 100 cents.

Now, assume a company has a premium for a policy of $200, and in some cases, it has come to staff's attention, that a company will pay out 125 percent first year commission, which means that 25 percent of that $200 has to come from some place.

Wouldn't it be coming out of surplus?

Mr. PETKAS. Well, some of the advertisements that I have seen, they actually come out of another policy that the policyowner has; that is to say, they induce him to cash in one cash value policy, and at the same time that he purchases a new one, and at least for a certain period of time there are funds available.

Mr. SHARP. Excuse me. That is not what I am getting at here.

Mr. PETKAS. No.

Mr. SHARP. We are talking about one policy. The company sells me a policy. The first year premium is $200. The agent's first year commission is 125 percent.

Mr. PETKAS. Well, essentially, they have to advance those, the difference in commissions, out of the funds they have available, which are surplus funds, which are funds taken from other policyholders.

That is to say, funds received in other premiums underwrite those 100 percent plus commissions on some policies.

Mr. SHARP. Thank you.

And this is an area, Mr. Chairman, that I think the subcommittee must further investigate.

That is all, Mr. Chairman.

Senator HART. I believe that in discussion with Mr. Chumbris, we may be able to develop language which would safeguard against a misinterpretation of the chart. Pending development of that language, we will reserve judgment on that, and its admission.

[As a result of the discussion mentioned above the following was received for the record.]

ESTIMATED POLICYHOLDER LOSSES FROM LAPSED ORDINARY LIFE INSURANCE POLICIES ISSUED IN 1970

In 1970, life insurance companies issued 10,974,000 ordinary life insurance policies. (72 Fact Book 17). According to the Institute of Life Insurance, 19% of these policies lapsed over the period, 1970–1971 (Letter to Sen. Hart 1/26/73), or 2,085,506.

The average size ordinary life insurance policy issued in 1970 was $11,230. (72 Fact Book 20). The average premium per $1,000 of ordinary life insurance face-amount was around $15 in 1970. This was determined by dividing $1.8 billion (first year premiums for 1970, which was obtained by taking 12% of total ordinary premiums for that year—see 72 Fact Book 60) by $123 billion (face-amount of ordinary life purchased in 1970—72 Fact Book 17).

The average premium for 1970 was $165, and the total premiums for the period, 1970–1971 were $330. ($15 per $1,000 face-amount times 11—$11,230/$1,000). The estimated policyholder cost of protection (term insurance) for the period, 1970–1971 was $4 per $1,000 face-amount, or $88 total. Thus, $242 was the estimated net loss per policy lapsed during the period 1970–1971.

2,085,506 (lapsed policies) times $242=$504,692,000, the estimated loss to policyholders on ordinary life policies issued in 1970, and lapsed during 1970 and 1971.

Mr. SHARP. Mr. Nader, I did not comment, although I made a note as you went along, on the point you make that leaders in the life insurance business could, indeed, become the national advocates for health and safety.

Economic self-interest would suggest corporate responsibility, would encourage it, and I hope they do. I am glad that you reminded us that Dr. Haddon and the Insurance Institute in the field of automobile safety and repairability have made dramatic impact on the Congress, and I think the automobile insurance buyer, and automobile insurance companies. And given that kind of experience and model, I would hope that the leaders in the life insurance business in this country will, indeed, grab hold of this. And it just makes eminent good sense.

Mr. NADER. And it can be done very inexpensively, as the casualty insurance industry has shown, again, in the bumper area, and in the airbag area.

For example, Allstate, instead of displaying fatuous ads, on occasion will focus on the airbag, and how it works, and how they believe in it. So they get their name across. They get their corporate interest across. But they also get across the idea that advance technology can really dramatically save lives.

And if the life insurance industry would take specific areas of interest such as the nuclear power hazards, which the insurance industry refuses to underwrite because they don't want to absorb those risks, they could perform wonders with virtually no investment—just as part of their proper public education programs and leadership.

Senator HART. Well, if there are no further questions, let me again thank you. In these days of doubt, everybody, including, I suppose, the chairman of the board of the biggest life insurance company, wonders if anybody is listening, if there is anything they can do about making this system more responsive. Indeed, one of my own children tells me that there is no point in getting in the system because no matter how much they try, it can't be turned around.

I cite to them, and I say on the record, Ralph Nader is a dramatic example of how an individual can turn this system around, not always to the pleasure of some, but to the long-term benefit of all.

I appreciate your coming this morning.

Mr. NADER. Thank you, Mr. Chairman.

[The following material, relating to Mr. Nader's testimony, was received for the record. Testimony resumes on p. 527.]

INSURERS ACCREDITED FOR SOLICITATION

on

Department of Defense Installations in Foreign Countries

FY 1973

Not applicable re on-base solicitation in the United States, its Territories and its Possessions (the Commonwealth of Puerto Rico, the Virgin Islands, the Canal Zone, Guantanamo Naval Base, American Samoa and Guam, Johnston, Midway and Wake Islands).

Price Info available				
✓	1.	Academy Life Insurance Company (Denver, Colorado)	4	
✓	2.	All American Assurance Company (Baton Rouge, Louisiana)	None	
	3.	All American Life & Casualty Company (Chicago, Illinois)	2	
	4.	American Amicable Life Insurance Company (Waco, Texas)	4	
	5.	American Bankers Life Assurance Company of Florida (Miami, Florida)	3	
✓	6.	American Defender Life Insurance Company (Raleigh, North Carolina)	4	
✓	7.	American Fidelity Life Insurance Company (Pensacola, Florida)	3	
✓	8.	American Foundation Life Insurance Company (Little Rock, Arkansas)	3	
	9.	American General Life Insurance Company of Delaware (Houston, Texas)	1	
✓	10.	American International Life Assurance Company of New York (New York, New York)	nor	✓

FY 1973

11. American Life Insurance Company none
(Wilmington, Delaware)

12. American Mutual Life Insurance Company 1
(Des Moines, Iowa)

13. American National Insurance Company 1
(Galveston, Texas)

14. Bankers Life Insurance Company of America none
(Dallas, Texas)

15. Bankers Union Life Insurance Company none
(Denver, Colorado)

16. Beneficial Life Insurance Company 1
(Salt Lake City, Utah)

17. Beneficial National Life Insurance Company 4
(New York, New York)

18. The Capitol Life Insurance Company 2
(Denver, Colorado)

19. Charter National Life Insurance Company 3
(Saint Louis, Missouri)

20. The Chesapeake Life Insurance Company 4
(Baltimore, Maryland)

21. Citizens Standard Life Insurance Company 4
(Corpus Christi, Texas)

22. Companion Life Insurance Company 4
(New York, New York)

23. Connecticut Mutual Life Insurance Company 1
(Hartford, Connecticut)

24. Continental Assurance Company 2
(Chicago, Illinois)

FY 1973

25. Crown Life Insurance Company 1
(Toronto, Canada)

26. Delaware American Life Insurance Company none
(Wilmington, Delaware)

27. Durham Life Insurance Company 2
(Raleigh, North Carolina)

28. Executive Life Insurance Company 3 ✓
(Beverly Hills, California)

✓29. Farm and Home Life Insurance Company 3
(Phoenix, Arizona)

30. Federal Life & Casualty Company 4 ✓
(Battle Creek, Michigan)

31. First Colony Life Insurance Company 4
(Lynchburg, Virginia)

✓32. First National Life Insurance Company of America none
(Atlanta, Georgia)

33. The Franklin Life Insurance Company 1
(Springfield, Illinois)

34. General Services Life Insurance Company 4
(Washington, D. C.)

✓35. George Washington Life Insurance Company 4
(Jacksonville, Florida)

✓36. The Gibraltar Life Insurance Company of America 4
(Dallas, Texas)

✓37. Globe Life Insurance Company 4
(Chicago, Illinois)

38. Government Employees Life Insurance Company 1
(Washington, D. C.)

FY 1973

39. Government Personnel Mutual Life Insurance Company 3
(San Antonio, Texas)

√40. Guarantee Mutual Life Company 1
(Omaha, Nebraska)

41. Gulf Life Insurance Company 4
(Jacksonville, Florida)

42. Homesteaders Life Company 3
(Des Moines, Iowa)

43. Investors Guaranty Life Insurance Company 3
(Mercer Island, Washington)

√44. Investors Insurance Corporation none
(Portland, Oregon)

√45. Investors Life Insurance Company of Nebraska 4
(Watertown, South Dakota)

46. Investors Syndicate Life Insurance and Annuity Company 2
(Minneapolis, Minnesota)

47. ITT Hamilton Life Insurance Company none
(Saint Louis, Missouri)

48. Jefferson Standard Life Insurance Company 1
(Greensboro, North Carolina)

49. John Hancock Mutual Life Insurance Company 1
(Boston, Massachusetts)

50. The Lafayette Life Insurance Company 1
(Lafayette, Indiana)

√51. Life Insurance Society of America none
(Birmingham, Alabama)

52. The Manufacturers Life Insurance Company 1
(Toronto, Canada)

FY 1973

53. Massachusetts Mutual Life Insurance Company 1 ✓
(Springfield, Massachusetts)

54. Metropolitan Life Insurance Company 1 ✓
(New York, New York)

55. Midland National Life Insurance Company 2
(Watertown, South Dakota)

56. Monumental Life Insurance Company 1
(Baltimore, Maryland)

57. The Mutual Benefit Life Insurance Company 1 ✓
(Newark, New Jersey)

58. The Mutual Life Insurance Company of New York 1 ✓
(New York, New York)

✓59. Mutual Savings Life Insurance Company none
(Decatur, Alabama)

60. National Fidelity Life Insurance Company 1
(Kansas City, Missouri)

61. The National Investors Life Insurance Company 4
(Little Rock, Arkansas)

62. National Travelers Life Company 2
(Des Moines, Iowa)

✓63. National Western Life Insurance Company 4
(Austin, Texas)

64. Nationwide Life Insurance Company 1 ✓
(Columbus, Ohio)

65. North American Life Insurance Company of Chicago 3
(Chicago, Illinois)

66. Northern Life Insurance Company 1
(Seattle, Washington)

FY 1973

67. Occidental Life Insurance Company of California 1
(Los Angeles, California)

68. Occidental Life Insurance Company of North Carolina 4
(Raleigh, North Carolina)

69. The Old Line Life Insurance Company of America 2
(Milwaukee, Wisconsin)

70. Old Republic Life Insurance Company 3
(Chicago, Illinois)

71. Old Security Life Insurance Company 3
(Kansas City, Missouri)

72. Ozark National Life Insurance Company
(Kansas City, Missouri)

73. Pacific Fidelity Life Insurance Company 4
(Los Angeles, California)

74. Peninsular Life Insurance Company 4 1
(Jacksonville, Florida)

75. Pierce National Life Insurance Company
(Los Angeles, California

76. Pilot Life Insurance Company 1
(Greensboro, North Carolina)

77. Pioneer American Insurance Company 4
(Fort Worth, Texas)

78. Professional Insurance Corporation 3
(Jacksonville, Florida)

79. The Prudential Insurance Company of America 1
(Newark, New Jersey)

80. Pyramid Life Insurance Company
(Charlotte, North Carolina)

FY 1973

81. Pyramid Life Insurance Company 3
(Kansas City, Kansas)

82. Reserve Life Insurance Company 3
(Dallas, Texas)

83. Safeco Life Insurance Company 1
(Seattle, Washington)

84. Security Benefit Life Insurance Company 2
(Topeka, Kansas)

85. Sentinel Security Life Insurance Company
(Salt Lake City, Utah)

86. Standard Life & Accident Insurance Company 4
(Oklahoma City, Oklahoma)

87. Standard Life Insurance Company of Indiana 4
(Indianapolis, Indiana)

88. Sunset Life Insurance Company of America 1
(Olympia, Washington)

89. Surety Life Insurance Company 4
(Salt Lake City, Utah)

90. Transwestern Life Insurance Company None
(Billings, Montana)

91. Trans World Assurance Company
(formerly Trans World Life Insurance Company) None
(San Mateo, California)

92. The Travelers Insurance Company 1
(Hartford, Connecticut)

93. United American Life Insurance Company 4
(Denver, Colorado)

94. United Benefit Life Insurance Company 1
(Omaha, Nebraska)

95. United Life & Accident Insurance Company 1
(Concord, New Hampshire)

96. United Services Life Insurance Company 1
(Washington, D. C.)

97. University Life Insurance Company of America 4
(Indianapolis, Indiana)

98. USAA Life Insurance Company 2
(San Antonio, Texas)

99. Valley Forge Life Insurance Company 4
(Chicago, Illinois)

100. The Variable Annuity Life Insurance Company 3 ✓
(Houston, Texas)

101. Western Life Insurance Company 1
(Saint Paul, Minnesota)

102. Western Reserve Life Assurance Company of Ohio 4
(Clearwater, Florida)

✓103. World Service Life Insurance Company none
(Fort Worth, Texas)

INSURERS ACCREDITED FOR SOLICITATION ON DOD DEFENSE INSTALLATIONS IN FOREIGN COUNTRIES OFFERING $10,000 NONPARTICIPATING STRAIGHT LIFE POLICIES ISSUED IN 1970 TO MALES AGE 20, FEMALES AGE 23

Company	20-yr average gross premium	20-yr average annual cost of insurance and rank— Traditional net cost		Interest adjusted	
		Rank	Cost	Rank	Cost
American General	$115.50	1	$8.40	1	$35.50
Occidental (California)	111.40	2	5.40	3	42.90
Franklin	114.00	3	5.45	5	43.90
Old Line	[3] 112.00	4	5.50	4	[3] 43.20
United Securities [1]	103.60	5	6.10	2	40.60
Pilot	114.70	6	6.20	7	44.60
Penninsular	117.40	7	6.50	11	45.80
Government Employees	112.80	8	6.80	6	44.30
Gulf Life	116.50	9	7.95	12	46.40
Jefferson Standard	116.50	10	8.00	12	46.40
Western Life	113.70	11	8.20	10	45.60
American National	[4] 118.20	12	8.20	17	47.20
Continental Assurance	115.40	13	9.40	15	46.90
United States	116.20	14	10.20	18	47.70
Occidental (North Carolina)	106.70	15	11.35	8	45.10
Capitol	114.40	16	11.40	19	47.90
Safeco	[3] 116.00	17	11.50	22	48.50
Midland National	[3] 116.00	18	11.50	22	48.50
American Bankers	114.70	19	11.95	21	48.30
Crown (Canada)	[3] 105.70	20	12.20	9	45.30
National Western	115.30	21	12.30	25	48.80
Durham	115.10	22	12.35	24	48.70
Am. Amicable	115.30	23	12.55	26	48.90
Northern Life	115.70	24	12.70	28	49.20
United Life & Accident	109.50	25	12.85	16	47.10
Federal Life & Casualty	119.10	26	13.10	30	50.60
National Investors	116.00	27	13.25	29	49.60
Old Republic	122.00	28	14.00	38	52.30
Standard Life & Accident	120.10	29	14.15	34	51.70
Valley Forge	120.00	30	14.25	36	51.80
Investors Syndicate	117.60	31	14.60	31	51.10
Monumental	117.70	32	14.85	32	51.30
Pacific Fidelity	102.00	33	15.95	12	46.40
Manufacturers (Canada)	104.00	34	17.50	20	48.10
All American	114.00	34	17.50	34	51.70
Travelers	118.00	34	17.50	39	53.10
Reserve Life	120.30	37	17.55	41	53.90
Investors Guaranty	[3] 114.00	38	18.00	37	52.00
First Colony	104.60	39	18.55	27	49.00
United Benefit	116.40	40	18.90	40	53.40
North American	107.50	41	20.00	33	51.60
Beneficial Life	116.90	42	22.75	42	56.10
National Investors [2]	140.40	43	23.90	43	65.20

[1] Endownment to age 90.
[2] Whole life to age 90.
[3] Premium calculated on basis of last birthday.
[4] Waiver of premium benefit included; calculated on basis of last birthday.

Source: Senate Antitrust and Monopoly Subcommittee. Derived from "Life Insurance Cost Facts" of National Underwriter Co., 1972.

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INSURERS ACCREDITED FOR SOLICITATION ON DOD DEFENSE INSTALLATIONS IN FOREIGN COUNTRIES OFFERING $10,000 PARTICIPATION STRAIGHT LIFE POLICIES ISSUED IN 1970 TO MALES AGE 20, FEMALES AGE 23

Company	20-year average annual cost of insurance and rank—				
	20-yr average gross premium	Traditional net cost		Interest adjusted	
		Rank	Cost	Rank	Cost
Connecticut Mutual	$135.00	1	−$21.35	1	$22.40
Massachusetts Mutual	156.30	2	−20.40	3	29.50
Security Benefit	164.30	3	−17.75	6	34.90
John Hancock	157.00	4	−17.65	8	35.70
Guarantee Mutual	119.50	5	−17.05	2	28.30
Mutual of New York	152.00	6	−15.50	11	36.60
Mutual Benefit	158.00	7	−13.75	5	34.90
Connecticut Assurance	155.70	8	−13.70	10	36.00
Western	150.70	9	−13.30	14	38.00
Metropolitan	158.60	9	−13.30	17	39.60
Franklin	146.00	11	−12.25	4	34.10
Gulf	157.80	12	−11.50	19	39.20
Jefferson Standard	150.90	13	−11.35	12	36.60
Nationwide	150.90	14	−11.25	9	[1] 35.90
United Services	154.10	15	−8.35	15	38.50
American General	135.60	16	−8.30	18	39.20
American National	155.80	17	−7.40	20	[2] 40.80
Occidental (California)	153.30	18	−6.25	21	42.10
Beneficial (Utah)	148.20	19	−6.15	16	38.60
Midland National	154.40	20	−4.70	22	[1] 43.00
Crown (Canada)	119.70	21	−3.50	7	[1] 35.60
American Mutual	160.10	22	−2.50	25	48.30
Manufacturers (Canada)	127.80	23	−1.60	13	37.10
Lafayette	155.70	24	−1.15	23	[2] 46.40
Pilot	160.20	25	−.20	24	46.50
Standard Life & Accident	176.30	26	1.20	27	49.30
Capitol	156.40	27	1.65	29	50.20
National Travelers	157.00	28	3.95	28	49.50
Occidental (North Carolina)	146.40	28	3.95	26	48.40
Northern	164.70	30	4.20	31	52.20
All American Life	157.80	31	5.00	32	52.30
National Investors (Arkansas)	146.30	32	6.20	30	51.30
Government Personnel	157.20	33	8.50	33	54.20

[1] Premium calculated on basis of last birthday.
[2] Waiver of premium benefit included; premium calculated on basis of last birthday.

Source: Senate Antitrust and Monopoly Subcommittee. Derived from "Life Insurance Cost Facts" of National Underwriter Co., 1972.

INFORMATION WITH RESPECT TO LIFE INSURERS ACCREDITED FOR SOLICITATION ON DEPARTMENT OF DEFENSE INSTALLATIONS IN FOREIGN COUNTRIES

	Is company's U.S. business regulated by New York State—	Best's policyholder recommendation as to financial strength	Is there any price information available, other than traditional net cost figures—	Type of policy	Male age 20 (female are 23) $10,000 straight life issued in 1970	
					Annual premium	Average yearly cost of insurance (over 20 yr.)
Academy Life Insurance Co. (Denver, Colo.)	No	4	No			
All American Assurance Co (Baton Rouge, La.)	No	None	No			
All American Life & Casualty Co. (Chicago, Ill.)	No	2		Par E90	157.80	52.30
				Nonpar	114.00	51.70
American Amicable Life Insurance Co. (Waco, Tex.)	No	4		Nonpar	115.30	48.90
American Bankers Life Assurance Co. of Florida (Miami, Fla.)	No	3		Nonpar	114.70	48.30
American Defender Life Insurance Co. (Raleigh, N.C.)	No	4	No			
American Fidelity Life Insurance Co. (Pensacola, Fla.)	No	3	No			
American Foundation Life Insurance Co. (Little Rock, Ark.)	No	3	No			
American General Life Insurance Co. of Delaware (Houston, Tex.)	No	1		Par L95	135.60	39.20
				Nonpar L95	115.50	35.50
American International Life Assurance Co. of New York, (New York, N.Y.).	Yes	None	No			

See footnotes at end of table.

INFORMATION WITH RESPECT TO LIFE INSURERS ACCREDITED FOR SOLICITATION ON DEPARTMENT OF DEFENSE INSTALLATIONS IN FOREIGN COUNTRIES—Continued

	Is company's U.S. business regulated by New York State—	Best's policyholder recommendation as to financial strength	Is there any price information available, other than traditional net cost figures—	Type of policy	Male age 20 (female are 23) $10,000 straight life issued in 1970: Annual premium	Average yearly cost of insurance (over 20 yr.)
American Life Insurance Co. (Wilmington, Del.).	No	None	No			
American Mutual Life Insurance Co. (Des Moines, Iowa).	No	1		Par	160.10	48.30
American National Insurance Co. (Galveston, Tex.).	No	1		Par	155.80	[1] 40.80
				Nonpar	118.20	[1] 47.20
Bankers Life Insurance Co. of America (Dallas, Tex.).	No	None	No			
Bankers Union Life Insurance Co. (Denver, Colo.).	No	None	No			
Beneficial Life Insurance Co. (Salt Lake City, Utah).	No	1		Par	148.20	38.60
				Nonpar L85	116.90	56.10
Beneficial National Life Insurance Co. (New York, N.Y.).	Yes	4	No data for 20-year-olds, but for 25, 35, 45, 55.			
The Capitol Life Insurance Co. (Denver, Colo.).	No	2	No	Par	156.40	[2] 50.20
				Nonpar	114.40	[2] 47.90
Charter National Life Insurance Co. (Saint Louis, Mo.).	No	3	No data for 20-year-olds, 25, etc.			
The Chesapeake Life Insurance Co. (Baltimore, Md.).	No	4	No	Par	159.00	[2] 49.10
Citizens Standard Life Insurance Co. (Corpus Christi, Tex.).	No	4	No			
Companion Life Insurance Co. (New York, N.Y.).	Yes	4	No data for 20-year-olds.			
Connecticut Mutual Life Insurance Co. (Hartford, Conn.).	Yes	1	No	Par	135.00	[2] 22.40
Continental Assurance Co. (Chicago, Ill.).	Yes	2		Par	155.70	36.00
				Nonpar	115.40	46.90
Crown Life Insurance Co. (Toronto, Canada).	No	1		Par	119.70	[3] 35.60
				Nonpar	105.70	[3] 45.30
Delaware American Life Insurance Co. (Wilmington, Del.).	No	None	No			
Durham Life Insurance Co. (Raleigh N.C.).	No	2		Nonpar	115.10	48.70
Executive Life Insurance Co. (Beverly Hills, Calif.).	Yes	3	No data for 20-year-olds-25 etc.			
Farm & Home Life Insurance Co. (Phoenix Ariz.).	No	3	No			
Federal Life & Casulty Co. (Battle Creek, Mich.).	Yes	4		Nonpar	119.10	50.60
First Colony Life Insurance Co. (Lynchburg, Va.).	No	4		Nonpar	104.60	49.00
First National Life Insurance Co. of America (Atlanta, Ga.).	No	None	No	Nonpar	119.00	[2] 62.60
The Franklin Life Insurance Co. (Springfield, Ill.).	No	1		Par	146.00	34.10
				Nonpar	114.00	43.90
General Services Life Insurance Co. (Washington, D.C.).	No	4	No			
George Washington Life Insurance Co. (Jacksonville, Fla.).	No	4	No			
The Gibraltar Life Insurance Co. of America (Dallas, Tex.).	No	4	No			
Globe Life Insurance Co. (Chicago, Ill.).	No	4	No			
Government Employees Life Insurance Co. (Washington, D.C.).	No	1		Nonpar	112.80	44.30
Government Personnel Mutual Life Insurance Co. (San Antonio, Tex.).	No	3	No	Par	157.20	[2] 54.20
Guarantee Mutual Life Co. (Omaha, Nebr.).	No	1		Par	119.50	28.30
Gulf Life Insurance Co. (Jacksonville, Fla.).	No	4		Par	157.80	39.20
	No			Nonpar	116.50	46.40
Homesteaders Life Co. (Des Moines, Iowa).	No	3	No			

See footnotes at end of table.

INFORMATION WITH RESPECT TO LIFE INSURERS ACCREDITED FOR SOLICITATION ON DEPARTMENT OF DEFENSE INSTALLATIONS IN FOREIGN COUNTRIES—Continued

	Is company's U.S. business regulated by New York State—	Best's policyholder recommendation as to financial strength	Is there any price information available, other than traditional net cost figures—	Type of policy	Male age 20 (female are 23) $10,000 straight life issued in 1970: Annual premium	Average yearly cost of insurance (over 20 yr.)
Investors Guaranty Life Insurance Co. (Mercer Island, Wash.).	No	3		Nonpar	114.	[3] 52.00
Investors Insurance Corp. (Portland, Oreg.).	No	None	No			
Investors Life Insurance Co. of Nebraska (Watertown, S. Dak.).	No	4	No			
Investors Syndicate Life Insurance & Annuity Co. (Minneapolis, Minn.).	No	2		Nonpar	117.60	51.10
ITT Hamilton Life Insurance Co. (St. Louis, Mo.).	No	None	No data for 20-year-olds—25, 35, 45, 55.			
Jefferson Standard Life Insurance Co. (Greensboro, N.C.).	No	1		Par L85 Nonpar L85	150.90 116.50	36.60 46.40
John Hancock Mutual Life Insurance Co. (Boston, Mass.).	Yes	1		Par	157.00	35.70
The Lafayette Life Insurance Co. (Lafayette, Ind.).	No	1		Par	155.70	[1] 46.40
Life Insurance Society of America (Birmingham, Ala.).	No	None	No			
The Manufacturers Life Insurance Co. (Toronto, Canada).	No	1		Par Nonpar	127.30 104.00	37.10 48.10
Massachusetts Mutual Life Insurance Co. (Springfield, Mass.).	Yes	1		Par	156.30	
Metropolitan Life Insurance Co. (New York, N.Y.).	Yes	1		Par	158.60	[1] 39.60
Midland National Life Insurance Co. (Watertown, S.Dak.).	No	2		Par Nonpar	154.40 116.00	[3] 43.00 [3] 48.50
Monumental Life Insurance Co. (Baltimore, Md.).	No	1		Nonpar	117.70	51.30
The Mutual Benefit Life Insurance Co. (Newark, N.J.).	Yes	1		Par	158.00	34.90
The Mutual Life Insurance Co. of New York (New York, N.Y.).	Yes	1		Par	152.00	[1] 36.60
Mutual Savings Life Insurance Co. (Decatur, Ala.).	No	None	No			
National Fidelity Life Insurance Co. (Kansas City, Mo.).	No	1	No Data for 20-year-olds 25, 35, 45, 55.			
The National Investors Life Insurance Co. (Little Rock, Ark.).	No	4		Par L85 Nonpar L90 Nonpar SL	146.30 140.40 116.00	51.30 65.20 49.60
National Travelers Life Co. (Des Moines, Iowa).	No	2		Par E85	157.00	49.50
National Western Life Insurance Co. (Austin, Tex.).	No	4		Nonpar	115.30	48.80
Nationwide Life Insurance Co. (Columbus, Ohio).	Yes	1		Par	150.90	[3] 35.90
North American Life Insurance Co. of Chicago (Chicago, Ill.).	No	3		Nonpar	107.50	51.60
Northern Life Insurance Co. (Seattle, Wash.).	No	1		Par Nonpar	164.70 115.70	52.20 49.20
Occidental Life Insurance Co. of California (Los Angeles, Calif.).	No	1		Par Nonpar	153.30 111.40	42.10 42.90
Occidental Life Insurance Co. of North Carolina (Raleigh, N.C.).	No	4		Par Nonpar	146.40 106.70	48.40 45.10
The Old Line Life Insurance Co. of America (Milwaukee, Wis.).	No	2		Par Nonpar	 112.00	 [3] 43.20
Old Republic Life Insurance Co. Chicago, Ill.).	No	3		Nonpar	122.00	52.30
Old Security Life Insurance Co. (Kansas City, Mo.).	No	3	No			
Ozark National Life Insurance Co. (Kansas City, Mo.).	No	None	No data for 20-year-olds, 25, etc.			

See footnotes at end of table.

INFORMATION WITH RESPECT TO LIFE INSURERS ACCREDITED FOR SOLICITATION ON DEPARTMENT OF DEFENSE INSTALLATIONS IN FOREIGN COUNTRIES—Continued

	Is company's U.S. business regulated by New York State—	Best's policyholder recommendation as to financial strength	Is there any price information available, other than traditional net cost figures—	Type of policy	Male age 20 (female are 23) $10,000 straight life issued in 1970	
					Annual premium	Average yearly cost of insurance (over 20 yr.)
Pacific Fidelity Life Insurance Co. (Los Angeles, Calif.).	No	4		Nonpar	102.00	46.40
Peninsular Life Insurance Co. (Jacksonville, Fla.)	No	4		Nonpar	117.40	45.80
Pierce National Life Insurance Co. (Los Angeles, Calif.)	No	None	No			
Pilot Life Insurance Co. (Greensboro, N.C.)	No	1		Par	160.20	46.50
				Nonpar	114.70	44.60
Pioneer American Insurance Co. (Fort Worth, Tex.)	No	4	No			
Professional Insurance Corp. (Jacksonville, Fla.)	No	3	No			
The Prudential Insurance Co. of America (Newark, N.J.)	Yes	1	No	Par	157.00	[3] 36.40
Pyramid Life Insurance Co. (Charlotte, N.C.)	No	None	No			
Pyramid Life Insurance Co. (Kansas City, Kans.)	No	3	No			
Reserve Life Insurance Co. (Dallas, Tex.)	No	3		Nonpar L95	120.30	53.90
Safeco Life Insurance Co. (Seattle, Wash.).	No	1		Nonpar	116.00	[3] 48.50
Security Benefit Life Insurance Co. (Topeka, Kans.).	No	2		Par L90	164.30	34.90
Sentinel Security Life Insurance Co. (Salt Lake City, Utah).	No	None	No			
Standard Life & Accident Insurance Co. (Oklahoma City, Okla.).	No	4		Par	176.30	49.30
				Nonpar	120.10	51.70
Standard Life Insurance Co. of Indiana (Indianapolis, Ind.).	No	4	No			
Sunset Life Insurance Co. of America (Olympia, Wash.).	No	1	No data for 20-year-olds, 25 etc.			
Surety Life Insurance Co. (Salt Lake City, Utah).	No	4	No			
Transwestern Life Insurance Co. (Billings, Mont.)	No	None	No			
Trans Worls Assurance Co. (formerly Trans World Life Insurance Co.) (San Mateo, Claif.)	No	None	No			
The Travelers Insurance Co. (Hartford, Conn.)	Yes	1	No	Nonpar	118.00	[3] 53.10
United American Life Insurance Co. (Denver, Colo.)	No	4	No data for 20-year-olds, 25 etc.			
United Benefit Life Insurance Co. (Omaha, Nebr.)	No	1	No	Nonpar	116.40	[3] 53.40
United Life & Accident Insurance Co. (Concord, N.H.)	No	1		Nonpar	109.50	47.10
United Services Life Insurance Co. (Washington, D.C.)	No	1		Par	154.10	38.50
				Nonpar E90	103.60	40.60
				Nonpar	116.20	47.70
University Life Insurance Co. of America (Indianapolis, Ind.)	No	4	No			
USAA Life Insurance Co. (San Antonio, Tex.)	No	2	No	Par	100.00	[3] 28.60
Valley Forge Life Insurance Co., (Chicago, Ill.)	No	4	No	Nonpar	120.00	[3] 53.80
The Variable Annuity Life Insurance Co. (Houston, Tex.)	Yes	3	No			
Western Life Insurance Co. (Saint Paul, Minn.)	No	1		Par	150.70	38.00
				Nonpar L95	113.70	45.60

See footnotes at end of table.

Western Reserve Life Assurance Co. of Ohio (Clearwater, Fla.)	No	4	No	
World Service Life Insurance Co. (Fort Worth, Tex.)	No	None	No (didn't furnish data to National underwriter)	

[1] Waiver of premium benefit included; premium calculations based on last birthday.
[2] See "Pennsylvania Mini-Guide".
[3] Premium calculated on basis of last birthday.
[4] "Financial strength of company. Not all companies have enough financial strength to merit consumer confidence. Best's Insurance Reports, the most widely recognized and reliable insurance reporting service, gives life companies 1 of 4 recommendations, which are from highest to lowest as follows: (1) Most substantial; (2) Very substantial; (3) Substantial; (4) Considerable. Unless a company has had 1 of these 2 highest or 3 highest ratings for a number of years, many experts would advise you to avoid it.

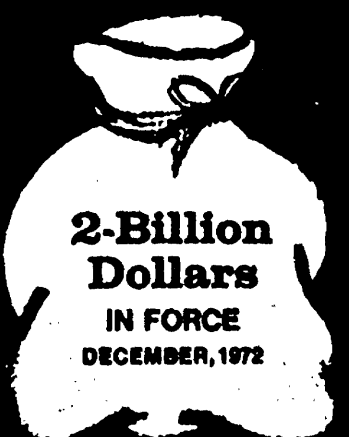
Our studies indicate that the lowest cost companies tend to have higher financial ratings than the highest cost companies, although there are exceptions." "A Shopper's Guide to Term Life Insurance" at p. 6, Pennsylvania Insurance Department, December 1972. Source: Senate Antitrust and Monopoly Staff Analysis.

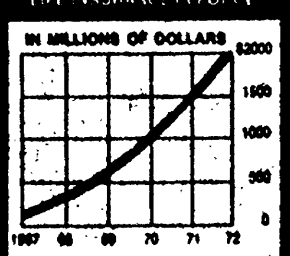
Notes: See the following table:

Total companies	103
Is company's U.S. business regulated by New York State:	
Yes	16
No	87
Best's policyholder recommendation as to financial strength:	
Rank 1	31
Rank 2	10
Rank 3	16
Rank 4	28
No rank	18
Is there any price information available other than traditional net cost figures: No	40

Our Life Department Bagged Its 2nd Billion!

1-Billion Dollars
IN FORCE
DECEMBER, 1970





COMBINED INSURANCE COMPANY OF AMERICA

Our General Agents make more money.

Here's why:

Additional dollars from personal production.
Outstanding products —
Par, Non-Par, Health, Group, Annuities.
Quick service, electronic proposals.
Added income through brokerage.
Expense allowance and persistency bonus.
Excellent underwriting —
average of 10 days for policy issue.
Excellent agents' financing plan.
Recruiting not necessary.

General Agent opportunities are available in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Louisiana, Mississippi, Montana, Nevada, New Mexico, North Carolina, Oklahoma, South Carolina, Texas, Utah, Wyoming.

If you're interested and have proven to yourself you can make a living selling life insurance, fill out and mail the coupon below.

I'm interested . . .

Name _____

Address _____ Phone _____

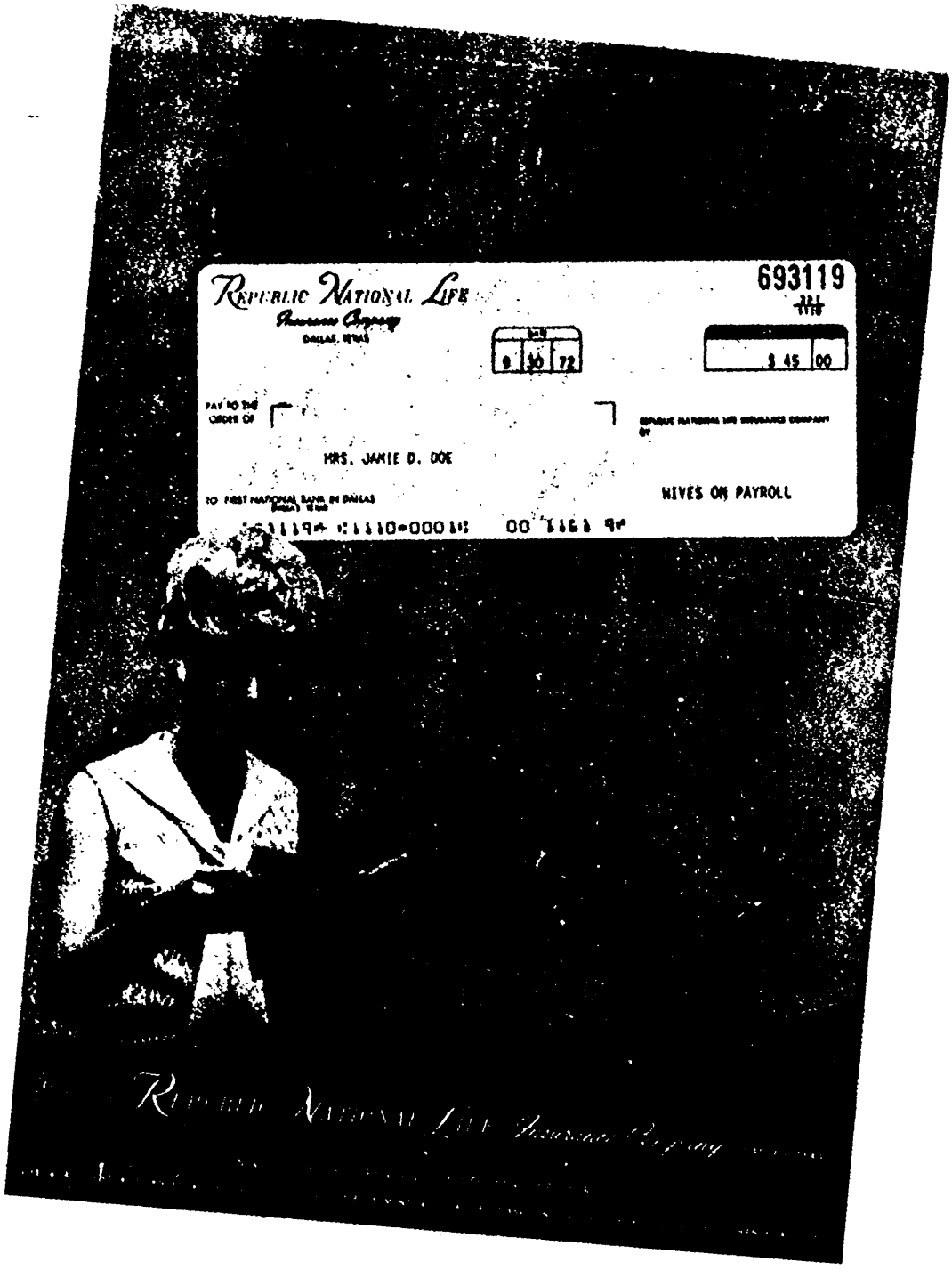
City _____

State _____ Zip _____

Send to Bill Williams, C.L.U., Box 1972, Houston, Texas 77001.

GREAT SOUTHERN LIFE INSURANCE COMPANY FOUNDED 1909

GREAT SOUTHERN
Life Insurance Company
HOME OFFICE / HOUSTON, TEXAS


Republic National Life
Insurance Company
DALLAS, TEXAS
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PAY TO THE ORDER OF
MRS. JANIE D. DOE
TO FIRST NATIONAL BANK IN DALLAS
WIVES ON PAYROLL
Republic National Life Insurance Company

JIM MUELLER

Guarantee Reserve Life Insurance Co. Manager, Springfield, Illinois

"IT'S NOT ENOUGH FOR HOSPITAL-MEDICAL PLANS JUST TO BE GOOD...

THEY'VE GOT TO HAVE BUYER INCENTIVE"

Guarantee Reserve plans give the buyer a choice
Jim's customers were able to save by selecting only the coverages needed by each family.

Four plans to choose from...with many selections
Selected Care: Permits selection of type-and-amount from a full range of services (Hospital, Medical-Surgical, Nursing, Maternity, Added Accident).
Extra Care: To supplement hospital and convalescent facility costs.
Added Care: To take over where Medicare stops.
Cancer-Care: $2,000 the first month $1,000 the second and third months... then $500 per month as long as confinement continues

3-for-2 feature offers buyers 1-year free coverage
For two years advance premium, the policyholder receives three years coverage One full year free!
Agents benefit too! Prepayment assures better persistency. And you receive full first year and renewal commissions immediately.

For information on General Agency and Career Management opportunities, complete and return coupon Or phone Robert W Buckenberger, C L U. Vice President Sales at 219 931 3550 All inquiries held in complete confidence.

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BR 1

Occidental Life announces an all new Agent and Brokerage Compensation Program.

Starting January 1:

- ☆ our commissions and renewals are 65%–25%–15%–10%–10% on most of our plans. We've moved the renewal commissions up front.
- ☆ production bonus.

Our agents have:

- ☆ pension plan.
- ☆ persistency bonus.
- ☆ group life and medical insurance program with high limit coverage. And it includes dependents.
- ☆ income protection against disability and sickness.

There's a lot more to our plan, too. In benefits and details. So if these openers sound good, get in touch with William Stannard, Vice President of Agencies at Occidental Life, P.O. Box 2101, Los Angeles, California 90051. Or call him at 213–748-8111. He'll lay it all on the line.

Occidental Life of California A Member of Transamerica Corporation

Commission gap?

Not here!

Our General Agents make the Top Dollar. Here's why:
Additional dollars from personal production.
Outstanding products —
Par, Non-Par, Health, Group, Annuities.
Quick service, electronic proposals.
Added income through brokerage.
Expense allowance and persistency bonus.
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Excellent agents' financing plan.
Recruiting not necessary.

General Agent opportunities are available in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Louisiana, Mississippi, Montana, Nevada, New Mexico, North Carolina, Oklahoma, South Carolina, Texas, Utah, Wyoming.

If you're interested and have proven to yourself you can make a living selling life insurance, fill out and mail the coupon below.

I'm interested . . .

Name _____

Address _____ Phone _____

City _____ State _____ Zip _____

Send to Bill Williams, C.L.U., Box 1972, Houston, Texas 77001.

GREAT SOUTHERN LIFE INSURANCE COMPANY FOUNDED 1909

GREAT SOUTHERN
Life Insurance Company
HOME OFFICE / HOUSTON, TEXAS

Now **Equity Funding** is making it harder than ever to say "no" to a **Bankers National Life** general agency contract.

It's never been easy to pass up Bankers National Life's generous general agency commissions, with production and persistency bonus supplements.

- ☐ **Or** our annualization and vesting.
- ☐ **Or** the qualified leads generated by our Association Variable Pension program.
- ☐ **Or** a most versatile policy portfolio for the sales professional.
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Now that Bankers National Life has become part of Equity Funding Corporation of America, you can still have all of that—plus the opportunity of offering the *Equity Funding*™ Insurance Premium Funding Program, tax-shelter oriented investments, and other *Equity Funding* Financial Services—including a complete portfolio of fully-funded, fully-insured, split-funded and "leverage-funded" retirement plans and business insurance products.

For the full story on how a Bankers National Life contract can help increase your 1972 income substantially, mail the coupon today!

BR-3/72

William F. Good, Executive Vice President—Sales
Bankers National Life Insurance Company
Parsippany, New Jersey 07054

Dear Bill:

Yes, I'm interested in Bankers National Life's General Agents story.

Name _____

Address _____

City _____

Phone ( ) _____
area code

Life Premium _____ Securities License? _____

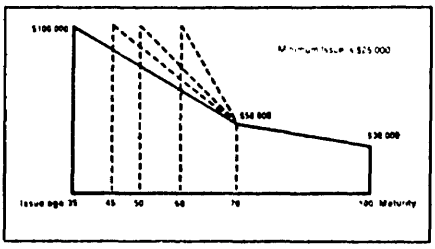
BANKERS NATIONAL LIFE INSURANCE COMPANY
Parsippany, New Jersey 07054
A subsidiary of Equity Funding Corporation of America

Equity Funding is the registered trademark of Equity Funding Corporation of America for its insurance premium funding program ("The *Equity Funding* Program").

We've added something new to life.

(Decreasing Ordinary)

It combines the best of ordinary and decreasing term to provide low cost protection with a cash value.



Here's How It Works.
Coverage decreases on a straight line until age 70 when it reaches a value 50% of the original face value. It then declines at a slower rate until maturity when it reaches 30%.

Which Makes It Surprisingly Easy To Sell. Especially to prospects with high income potential but with current earning power limited.

Check these important sales advantages:

- Protection with cash values at rates only slightly more than term.
- Coverage that decreases on an annual basis rather than monthly.
- A Change of Plan Option moving a client to permanent coverage without a medical.
- All regular policy riders are available.

This makes Decreasing Ordinary the ideal policy for prospects looking for high limits, cash values and low cost. So if decreasing term has been your only answer for substantial coverage at low cost, take a good look at our new Decreasing Ordinary. It could be that something new in Life your client is looking for.

Occidental Life
of California

A Member of Transamerica Corporation

Occidental Life of California
Occidental Center, Los Angeles, Calif. 90054

Tell me more about Decreasing Ordinary.

Name _____

Street _____

City _____ State _____ Zip _____

We've doubled our advertising exposure to average 130 million readers per month

The new Prudential theme: "Own a piece of The Rock" is now being exposed to more Americans than ever before. We're adding Esquire, Newsweek, TV Guide and Business Week to our advertising schedule. This raises the average monthly readership of magazines carrying the Prudential message to 130 million.

When you couple this with the millions of viewers of Prudential commercials on the F.B.I. (alternate Sunday evenings ABC-TV), it's easy to see we're leaving no stone unturned in our efforts to give Prudential agents in the field the kind of support they want.

Prudential

...my second full year's income was in excess of $55,000

Manchester, New Hampshire
January 21, 1971

Mr. George E. Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois

Good morning, George!

Gee whiz! My W-2 form arrived today and I just couldn't resist writing you to tell you the good news. I'm happy to report that my second full year's income was in excess of $55,000.

George, I am especially appreciative to Franklin's management for showing the confidence they had in me as a newcomer to New Hampshire, having moved here from Arkansas some two and one-half years ago. I was awarded my Franklin contract at age 26. Our Manchester Agency has grown from nonexistence in 1968 until today it is the largest life insurance agency in Northern New England.

My pride comes, George, from the challenge, the esprit de corps, the merchandise and the income that belong to those who have a Franklin contract. I am currently on schedule to reach my goal of $100,000 of annual earnings by age 30.

My wife, Pat, joins me in thanking you and the Franklin for the two most exciting years of our lives.

Cordially,

Thomas S. Dunn

Tom Dunn

Here is a record of Tom Dunn's earnings since joining Franklin
1968 . . .
$5,816.01
1969 . . .
$20,328.76
1970 . . .
$55,955.18

The Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE E. HATMAKER, President

WILLIAM J. ALLEY, C.L.U.
Senior Vice President—Agency
Franklin Life Insurance Co.
Springfield, Illinois
GEORGE GROGAN
Vice President
Franklin United Life Insurance Co.
Garden City, New York

Easier to convert. Easier for you to sell more, earn more.

Yes, General American YRTs harder; that's why we're way up in this easy-to-sell field. Send for our YRT sales kit that shows you how you can offer more protection and increase your earnings with Yearly Renewable Term . . . now at new, low rates. Then earn even more as your clients convert all, or part, of their Yearly Renewable Term to permanent insurance under General American's easy new conversion rules.

Tear out the coupon and mail it today. You'll find that YRTing harder is easier than ever . . . and more profitable for you, too.

*Initial premium for $100,000, male, age 35, preferred risk. Convertible all or in part, to some of the finest permanent plans without evidence of insurability up to age 65

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GENERAL AMERICAN LIFE
Insurance Company
1501 Locust Street • St. Louis, Mo. 63103

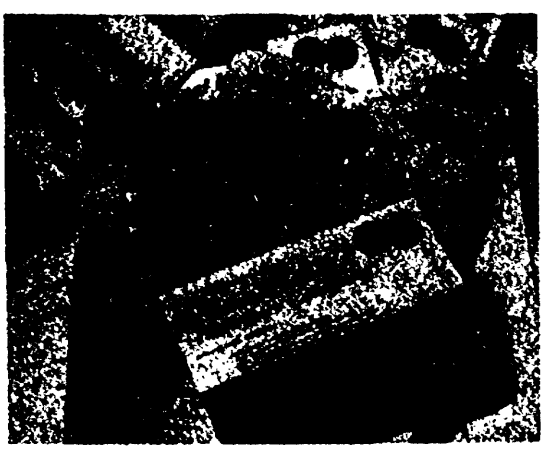
Gentlemen: Please send your YRT sales kit with complete information.

NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

Last year we sold over $234 million in new policies to old customers. That says a lot about National Life.



We specialize in life. That means our agents get the kind of specialized back-up they need to sell life.

One result of our singlemindedness is that an agent's business easily becomes repeat business—and that repeat business increases every year. In 1970, 38% of our sales were to existing policyowners.

Another result of our singlemindedness is that our agents really *know* their business. And because they do, they do more business, *both* new and repeat. Perhaps this is the nicest result of all.

National Life of Vermont

National Life Insurance Company, Montpelier, Vermont.

LIFE INSURANCE, BUSINESS INSURANCE, DISABILITY INCOME PROTECTION, PENSION AND PROFIT-SHARING PLANS

Push Our Button And Watch Us Perform.

For Free.

Our new Push Button Proposal will make sales for you even easier and faster.

Faster because our computers devote the night to pushing buttons. Which means your customized policy illustration is ready the next morning when we open for business.

And now that we've added our new Executive 95 to our proposals, you can show your client full details on nearly 100 possible variations illustrating our 26 leading plans...while he's still hot.

We can show minimum-pay illustrations geared to a client's tax bracket. You select the 4 of the first 7 years that are fully paid and which 3 are loaned.

We can provide split-dollar illustrations showing employer/employee shared costs and benefits. We even have "employer pay-all" illustrations.

And there's illustrations of simple year-by-year policy values, dividends, premium outlay and net costs. We can show these up to 40 years or attained age of 85.

All we need to know is your client's age and amount and type of protection he needs. Our computers do the rest. So call your nearest Occidental Life Agency. Ask for a Push Button Proposal and push it.

After all, the price is right.

Occidental Life
Insurance Company of California

A Member of Transamerica Corporation

My income more than doubled in the last year

Columbus, Ohio
February 6, 1971

Mr. George Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois

Dear George:

When I joined the Franklin Life in January 1965, I had no idea of the great potential for making money it offered a neophyte like me. I had no previous experience in selling life insurance, but soon discovered the Franklin philosophy, "Specialization Spells Success," really works.

Franklin's Special, the President's Plan, really turned me on. During 1970, 95% of my sales were of this remarkable plan, which shows that it is a real "bread and butter" item.

I never dreamed that in just six short years my annual earnings would "snowball" in excess of $37,500. With the assistance of the sales oriented Home Office staff, it can only continue to grow year after year if I continue to present the great Franklin Specials to my clients, and this I fully intend to do.

Thank you and Franklin for giving me the opportunity to have a part in the outstanding success and sharing the reputation we hold in the industry.

Most sincerely,

Bill Deubner

WILLIAM F. DEUBNER

Here is a record of Bill Deubner's earnings since joining Franklin:

1965	$ 4,556.13
1966	14,561.08
1967	18,656.42
1968	14,702.56
1969	17,078.48
1970	37,624.74

The Franklin LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE E. HATMAKER, President

WILLIAM J. ALLEY C.L.U.
Senior Vice President Agency
Franklin Life Insurance Co
Springfield, Illinois
Phone (217) 528-2011
GEORGE GROGAN
Senior Vice President
Franklin United Life Insurance Co
Garden City, New York
Phone (516) 742-6400

When the big hands are on the President's Trophy, it's that time again.

Every January we take a fresh, hard look at all our New England Life agencies.

We check out, for example, their policyholder service efficiency, persistency of business, recruitment and sales performance in all lines, including equity products.

When we're finished, we award the President's Trophy to the outstanding agencies.

You're looking at this year's top hands:

On the far left are winners Hicks Baldwin, CLU and George Graves, CLU, Washington, D.C. In 1970, the Baldwin-Graves Agency came in with a hefty $18 million in life insurance. This is the second President's Trophy for Hicks and George in four years.

In the middle is winner Jud Pettis, CLU, Harrisburg, Pa. Jud and his associates pulled in a big $10.5 million in life insurance in 1970, 28% over last year.

On the far right is winner Jim Longley, CLU, Lewiston, Me. Jim and his men have done it again, making this their second year in a row to win the Trophy. In 1970, the State of Maine Agency brought in $20.4 million in life insurance, a nice 26% over the year before.

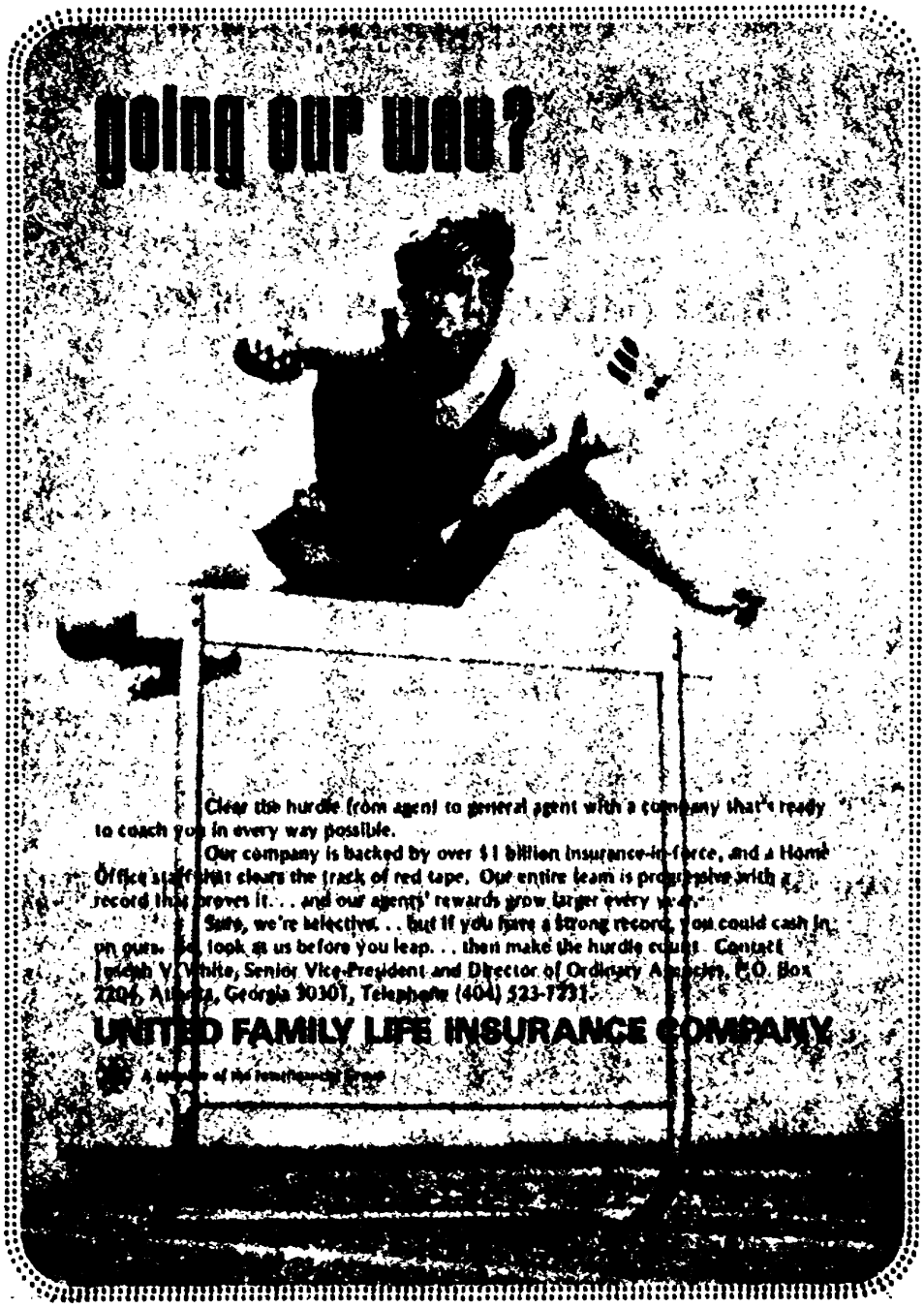
Second from the right is winner David Marks, Jr., CLU, New York City. The Marks staff sold a phenomenal $115 million in life insurance in 1970 and won its seventh President's Trophy.

This highest award for excellence was presented to these men at The King's Inn, Grand Bahama on February 26th by New England Life President, Abram T. Collier.

He gave them the biggest hand of all.

New England Life

New England Mutual Life Insurance Co., 501 Boylston St., Boston, Mass 02117
Subsidiary: NEL Equity Services Corp.; Affiliate Loomis, Sayles & Co., Investment Counselors


going our way?
Clear the hurdle from agent to general agent with a company that's ready to coach you in every way possible.
Our company is backed by over $1 billion insurance-in-force, and a Home Office staff that clears the track of red tape. Our entire team is progressive with a record that proves it. . . and our agents' rewards grow larger every year.
Sure, we're selective. . . but if you have a strong record, you could cash in on ours. So look at us before you leap. . . then make the hurdle count. Contact Joseph V. White, Senior Vice-President and Director of Ordinary Agencies, P.O. Box 2206, Atlanta, Georgia 30301, Telephone (404) 523-7231.
UNITED FAMILY LIFE INSURANCE COMPANY

FOR A WORLD OF DIFFERENCE

GO WHERE THE ACTION IS

Chase National Life is the place

At Year's End...1970...

Life Insurance in Force had reached a new high of $277,861,361.00. This marked a 17% increase over the previous year.

Assets had increased 21% over 1969 and moved near the $8 Million mark. Total Assets were $7,853,636.74.

Income for 1970 was $4,545,372.03. This was a 14% increase over last year.

Policyholder Reserves also increased substantially over 1969. Policy-holder Reserves were $4,653,290.00, an increase of 29%.

Net Investment Income, like all other areas of the Company's operation, showed a good gain over the previous year. Net Investment Income was $386,377.33.

The operating territory was increased by one new state during 1970 with the Company being granted permission to write business in the State of Virginia. This brings the total to 15 states.

CHASE NATIONAL LIFE INSURANCE COMPANY
GROWTH IN THE PAST SIX YEARS

	1965	1966	1967	1968	1969	1970
INSURANCE IN FORCE	$73,420,411	$113,755,656	$145,395,620	$180,989,672	$237,708,233	$277,861,361
ASSETS	$ 1,962,407	$ 3,044,603	$ 4,158,634	$ 5,311,265	$ 6,472,946	$ 7,853,636
TOTAL INCOME	$ 1,361,284	$ 2,317,662	$ 2,883,861	$ 3,384,788	$ 3,988,937	$ 4,545,372
POLICYHOLDER RESERVES	$ 355,087	$ 1,114,211	$ 1,919,724	$ 2,628,982	$ 3,558,771	$ 4,653,290
NET INVESTMENT INCOME	$ 66,579	$ 95,332	$ 138,547	$ 201,505	$ 281,577	$ 386,377

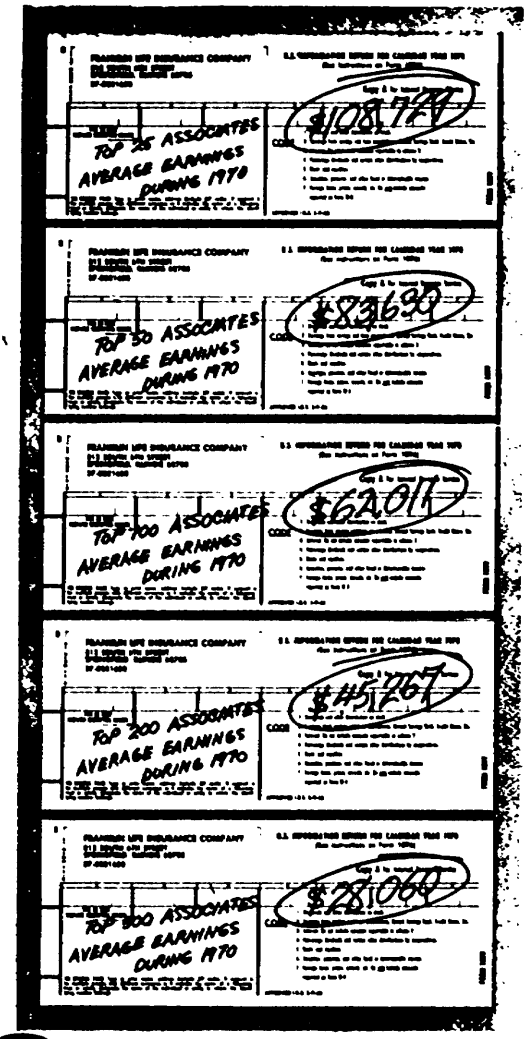
CHASE NATIONAL

Life Insurance Company

550 ST. LOUIS STREET • SPRINGFIELD, MISSOURI 65806

DONALD E TEAGUE, PRESIDENT

1970 another year of record-breaking incomes for Franklin Associates



If your income during 1970 wasn't all that you thought it should have been – it may be time t consider a Franklin opportunity.

Discover for yourself how selling and building the Franklin way can put you into the next higher tax bracket by year end.

Drop us a line or call collect. The few minutes it takes to hear the Franklin story could mean thousands of extra commission dollars to you.

The Franklin LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE B. HATMAKER, *President*

WILLIAM J. ALLEY, C.L.U.
Senior Vice President-Agency
Franklin Life Insurance Co.
Springfield, Illinois
Phone (217) 528-2011

GEORGE GROGAN
Senior Vice President
Franklin United Life Insurance Co.
Garden City, New York
Phone: (516) 742-4400

May, 1971

An open letter to 41 Life Insurance Agents who want to increase their income at least 50% this coming year

Bankers National Life Insurance Company

As you begin to read this letter, ask yourself why you are doing so. Isn't it because you're dissatisfied with your present arrangement and the prospect of bettering your income has real appeal for you?

If that's the case, you're the kind of Personal-Producing General Agent I'm seeking. You probably have at least three years' experience, you're writing $500,000 volume this year for at least $12,000 of life premium. Hopefully, you've gotten in some work on your C.L.U. degree. For you and 40 other self-starters, here's what I have to offer...

First, a 90% basic life commission. So if your present commission rate is, for example,60%, you can actually increase your income 50% this coming year, even if you don't increase your production. We also pay a handsome persistency bonus on that business.

And here's a really important unexpected "plus" for you. We can give you qualified leads for new business. Our national advertising and the endorsements of local, state, and national associations produce thousands of good leads every year. If you're ready to increase your production, we're ready to supply you with new prospects in your own area. What's more, we offer you a sensible development allowance to help you get started.

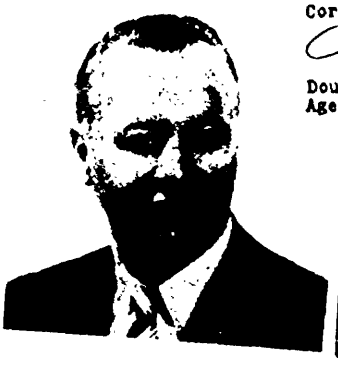
As a General Agent for Bankers National, you would represent a company which is licensed in 49 states, and currently has two billion dollars of insurance in force. (New York is served through our subsidiary, Palisades Life Insurance Company.) Your portfolio would include a wide variety of insurance programs, including individual life products, corporate and professional pension plans, salary savings programs,and over 100 mutual funds. You'll have the advice of a staff of pension experts, the cooperation of a flexible underwriting department, and all the benefits of our computer facilities in providing proposals, leads,and policy analysis.

If you're the man I'm seeking, you'll act on this today. To do so, pick up the phone and dial (201) 267-4000. I'm waiting to hear from you. Or mail the attached coupon.

Cordially,

Doug Schoenfeld

Douglas R. Schoenfeld, C.L.U.
Agency Vice President



Douglas R. Schoenfeld, C.L.U., Agency Vice President
Bankers National Life Insurance Company
Parsippany, New Jersey 07054

71-05

Yes, I want more information about the advantages of being a General Agent for Bankers National.

Name _____

Street _____

City _____ State _____ Zip _____

Home telephone number _____

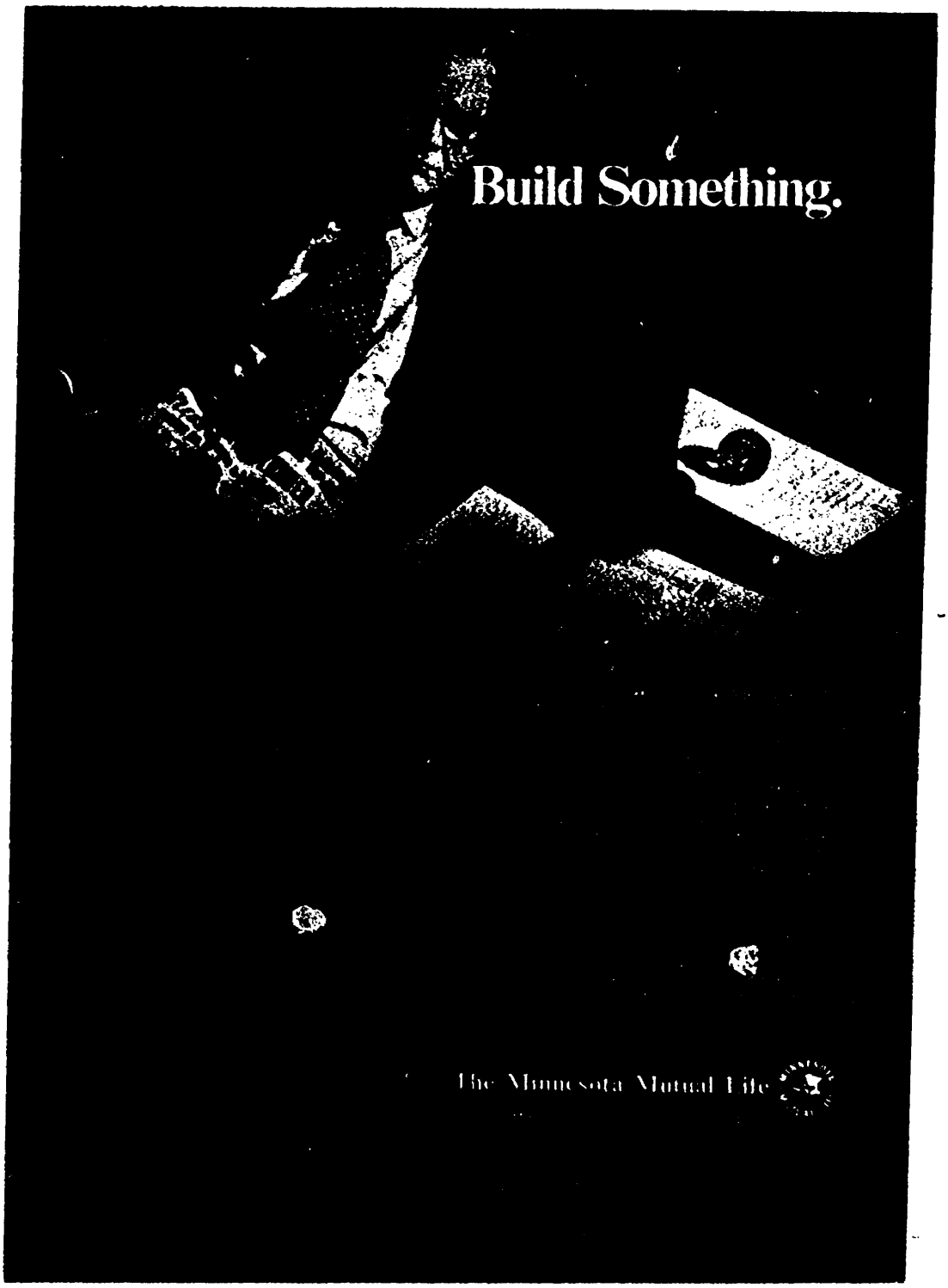
A few years ago Charles "Chuck" Groves was the Rookie Policeman of the Year in Dallas. In those days whenever Chuck stopped the driver of a luxurious car like an Olds 98 for some traffic infraction, little did he dream that in January of 1971, he would be handed the keys to just such a car as the leading personal producer in all the Branch Offices of Republic National Life, and a winner in the Company's now nationally recognized "Start Your Engines" sales incentive program. Nor did he foresee that in that same month he and his attractive wife, Pat, would be guests at the RNL Sales Conference at the fabulous Hotel Del Coronado, California.

Before joining RNL Chuck was a Detective in the Dallas Vice Squad and during this time he [illegible] about people and the [illegible] nobody. He also [illegible] the [illegible] called [illegible] a fantastic [illegible] for him.

So by Chuck's early twenties [illegible] He wanted [illegible] remain a sales leader. He will proudly explain that an important reason for his success is the fact that he can offer a good product — designed especially for the people he loves to talk to about their need for RNL services. And the proof is in the fact that in number, he has written over [illegible] applications for a total production of nearly [illegible] in 1970.

So [illegible] was a very proud [illegible] when they [illegible] key to their new car [illegible]

[illegible]


Build Something.
The Minnesota Mutual Life

THIS IS EQUITABLE'S GAME PLAN.

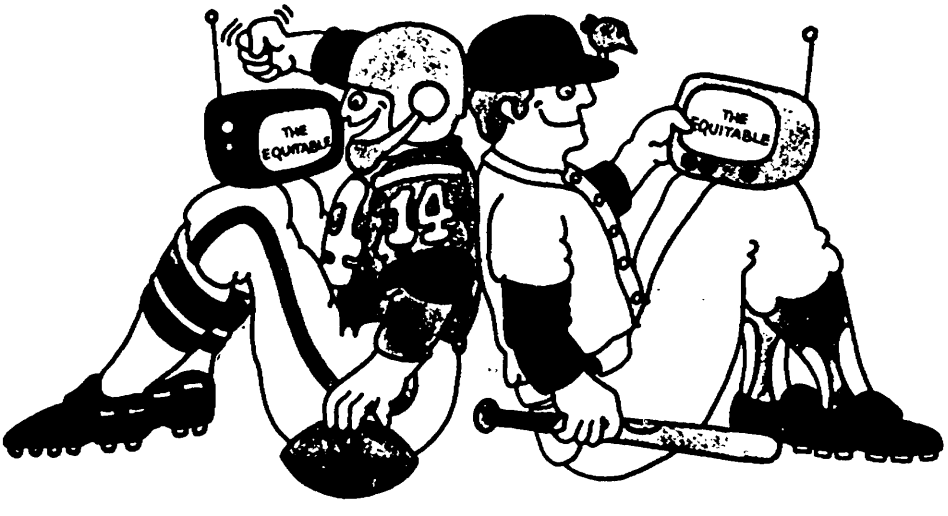
As a participating sponsor of the World Series and major pro football games, we'll again be on CBS-TV and NBC-TV with our advertising theme: "There's nobody else exactly like you."

A theme that has made people aware of the Equitable agent's philosophy toward his life insurance clients and prospects.

That's the way the ball's going to bounce. And a few million avid sports fans coast-to-coast will be catching it.

Helping people build a better life

THE EQUITABLE



HOW TO MAKE AN EASY SALE

and a client very happy.

Show him our Executive 95. It's our newest, lowest net cost policy. And it works like this.

Say your client is 35 and male. You sell him $50,000 of Executive 95. Assuming he elects to use the dividends under the option to reduce his premiums, at the end of 20 years the net cost will be an average annual net gain of $4.50 per $1,000 of coverage, based on dividends that are currently in effect.*

Executive 95 has a $50,000 minimum requirement. And it can be written ages 16 through 65. A variety of one-year term insurance dividend options are also available in addition to all of the regular options. We will even write it substandard through Table P.

Send for the full story. It's all in the rate card.

*Current dividends are neither guarantees nor estimates of the future

Occidental Life
of California

Occidental Life of California
Box 2101 Terminal Annex
Los Angeles, Calif. 90051

Send me the full story on Executive 95. It's in the rate card.

Name

Address

City

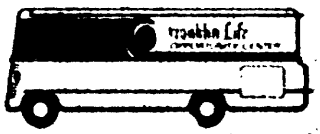
State Zip

There's a Franklin opportunity near you . . .

for more details, call us collect (217) 528-2011

Wherever you live — or would like to live — a Franklin opportunity awaits you. We're a big company with an aggressive sales philosophy. And we specialize. In fact, our brand of specialization consistently makes our field associates the highest paid salesmen in the world. Our top 100 salesmen averaged $62,011 apiece last year. The earnings of our top 500 averaged $28,060.

Franklin's division headquarters shown above have existing opportunities for qualified salesmen. If you're interested in increasing your present earnings by selling and building the Franklin way, let's talk opportunity . . . sometime soon. Call us collect.



FRANKLIN ON THE MOVE

Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE R. HATMAKER, President

WILLIAM J. ALLEY, C.L.U.
Senior Vice President, Agency
Franklin Life Insurance Co.
Springfield, Illinois
Phone: (217) 528-2011

GEORGE DUGAN
Senior Vice President
Franklin United Life Insurance Co.
Garden City, New York
Phone: (516) 742-4400

The Acacia achievement award you wouldn't dream of hanging in the office.

Money.

Specifically, bonus money. And Acacia's one of the most generous companies around.

For example, our last six-month bonus payments were the highest in our history. Average bonus. $644. The highest, almost $5,000.

And it's pure gravy. Extra cash that's not already figured into the family budget.

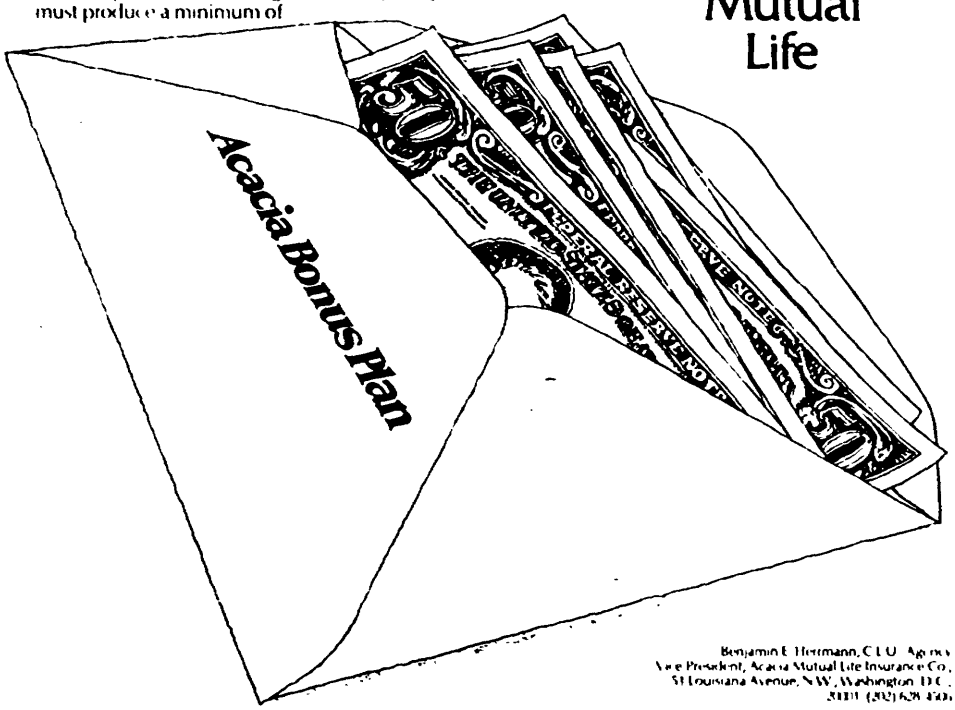
To qualify, an Acacia agent must produce a minimum of $60,000 of net new business with 75% quality for the preceding six months.

We help out by offering things like lower premiums for non-smokers on eight of our most popular policies. A new series of pension policies. And sales aids like the Plan-A-Graph, an insurance programming service that turns 50% of our qualified prospects who use it into paying clients.

Granted, plaques and certificates have their place, and we certainly give the best. But there comes a time when a man stops looking at his wall.

And into his wallet.

Acacia Mutual Life



Benjamin E. Herrmann, C.L.U. Agency
Vice President, Acacia Mutual Life Insurance Co.,
51 Louisiana Avenue, N.W., Washington, D.C.
20001 (202) 628-4200

14 questions and answers for every Life Insurance Agent who wants to increase his income at least 50% this coming year

1. Q: How can I increase my income 50% ?

A: Bankers National Life Insurance Company offers Personal-Producing General Agents a 90% basic life commission. So even if your present commission is, for example, 60%, you can actually increase your income 50% this coming year, even if you don't increase your production.

2. Q: How can you help me increase my production?

A: If you're aiming to step up your sales volume, Bankers National can give you qualified leads. The endorsements of local, state, and national associations produce thousands of good leads every year.

3. Q: Do you have an unlimited number of openings for General Agents?

A: No. We are now looking for 23 high calibre men with a successful insurance background.

4. Q: What kind of insurance background do I need?

A: You should have at least three years' insurance sales experience . . . writing $500,000 volume this year for at least $12,000 of life premium. Hopefully, you've done some work on your C.L.U. degree. And you're probably a self-starter, who enjoys working without supervision.

5. Q: Can you offer me any other monetary incentive?

A: Yes, on top of your commission, we also pay a handsome *persistency bonus* on all the business you sell. So the more good business you sell, the more you can make over and above your 90% commission.

6. Q: How can you help me get started with Bankers National?

A: We offer a sensible *development allowance* to help you make the transition from your present arrangement to Bankers National.

7. Q: What if I now have my own agency?

A: Fine. You can start selling Bankers National products in addition to the other insurance programs you are now handling. This could be the perfect solution if you're looking for some extra high-commission products.

8. Q: What kinds of insurance products can you offer me to sell?

A: A wide variety of programs, including individual life, corporate and professional pension plans, salary savings programs, and over 100 mutual funds.

9. Q: Do you offer me any other services?

A: Yes. You'll have the advice of our staff of pension experts, the cooperation of a flexible underwriting department, and all the benefits of our computer facilities in providing proposals, leads, and policy analysis.

10. Q: Can you offer me any of the other personal benefits I may now be receiving as a full-time Agent for another insurance company?

A: Yes, we can give you excellent group health and life insurance protection for you and your family. In addition, we hold meetings and conventions where you can discuss mutual problems with your associates. One such convention is already scheduled for Rome in 1971.

11. Q: Is Bankers National licensed to sell insurance in all 50 states?

A: Bankers National Life Insurance Company is licensed in 49 states, and serves New York through a subsidiary, Palisades Life Insurance Company.

12. Q: Can you tell me a little more about Bankers National Life Insurance Company?

A: We have been successfully selling insurance for 44 years, and currently have two billion dollars of insurance in force.

13. Q: Are you doing any advertising which could help back up my sales efforts?

A: Yes. A major national advertising campaign is now set to break in 1971. This should bring Bankers National products to the attention of a wide public, and provide even more leads for you.

14. Q: How do I get more information about being a General Agent for Bankers National?

A: Simply call (201) 267-4000 and ask for Doug Schoenfeld, our Agency Vice President. Or mail the coupon below.

BANKERS NATIONAL LIFE INSURANCE COMPANY

Doug Schoenfeld, C.L.U., Agency Vice President 11 10
Bankers National Life Insurance Company
Parsippany, New Jersey 07054

Yes, I want more information about the advantages of being a General Agent for Bankers National.

Name_____

Street_____

City_____ State_____ Zip_____

Home telephone number_____

The level premium system is part of a moon rocket. Right?

If that definition seems a little off course, it's because we're trying to make a point.

And the point is, too many people know too little about life insurance.

Which is too bad. Because that can cause a family to have too little life insurance. Or not enough of the right kind.

And after all, life insurance really isn't that hard to understand.

Take the level premium system, for instance. The level premium is simply one way to pay for life insurance. And here's the way it works.

Since life gets shorter as people grow older, you might expect a life insurance premium to increase year by year. However, the companies have figured out a way for you to spread your payments over the years at a level price. This lets you put a fixed price on your permanent life insurance—and, incidentally, build cash value into your policy.

Want to know more? We can help.

We're not in the business of selling life insurance. We're here to help you do a better job of buying it. By giving you the kind of information you need to talk to an agent with a little more confidence than you may have right now.

The fact is, we have a 64-page booklet called *Understanding Your Life Insurance*. The booklet is free. And it's filled with the simple ideas behind complicated-sounding terms like level premium system.

So why not write to us and ask for a copy. We'll mail it to you, fast.

Institute of Life Insurance
277 Park Ave., N.Y., N.Y. 10017
Central source of information about life insurance.

The more people know about life insurance, the better it is for our business. That's why we're running a series of ads like this one in Reader's Digest, supplemented by Time and Sports Illustrated. And that's a total audience of 70,000,000 people every month.

JOSEPH J. PATTI, JR.

Here is a record of Joe Patti's Franklin earnings for the past four years as reported to the Internal Revenue Service:

1966	$15,909.47
1967	18,540.72
1968	24,665.81
1969	32,052.80

$50,000 in my 5th year with Franklin

Baltimore, Maryland
July 15, 1970

Mr. George E. Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois 62705

Dear George:

I am happy to report that business in our area is great. My associates and I submitted over one million dollars in new sales during the month of July. This is the third month we have shattered the million mark and by year end we plan to make it a habit. George, by early September this year I hope to announce my qualification for Franklin's 100 $Million Club and have already allotted the 100 working days to pay for the million so I should be sporting my diamond-studded cuff links for the holidays.

When joining Franklin five years ago I found it hard to believe that any merchandise could have such great public appeal. But the Franklin Specials have really opened my eyes. Because of specialization and the confidence it gives my presentation, I plan to earn $50,000 this — my 5th year — with Franklin. Many thanks for all your help and encouragement. Hope to see you soon.

Cordially yours,

Joseph J. Patti, Jr.

The Franklin
LIFE INSURANCE CO.
HOME OFFICE / SPRINGFIELD, ILLINOIS

GEORGE E HATMAKER
President and Chairman of the Board
WILLIAM J. ALLEY, C.L.U.
Senior Vice President—Agency
Over $7,700,000,000 of Insurance in Force
Distinguished Service Since 1884

FRANKLIN LIFE INSURANCE CO. • FRANKLIN UNITED LIFE INSURANCE CO. • FRANKLIN FINANCIAL SERVICES CORP. • FRANKLIN DATA SERVICES CORP.

Throughout our territory of eleven southern states, Life of Georgia has become known as the "Because You Love Them" company. These words have formed the theme of our outdoor and broadcast advertising since 1961. So, whenever and wherever you see or hear "Because You Love Them", that's Life of Georgia . . . standing behind each one of our agents.

Because You Love Them
. . . that's Life of Georgia

Life Insurance Company of Georgia
Home Office — Atlanta — 30308

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BNL **BANKERS NATIONAL LIFE INSURANCE COMPANY**

Doug Schoenfeld, C.L.U., Agency Vice President — H-M
Bankers National Life Insurance Company
Parsippany, New Jersey 07054

Yes, I want more information about the advantages of being a General Agent for Bankers National.

Name _____

Street _____

City _____ State _____ Zip _____

Home telephone number _____

"I'M NOT JUST A COG IN A GIANT COMPUTER"

St. Paul, Minnesota
June 22, 1971

Mr. George E. Hatmaker, President
Franklin Life Insurance Company
Franklin Square
Springfield, Illinois

Dear George:

I know that contracts are similar with all companies - and I'm speaking of life insurance contracts. But this similarity is only skin deep. It's the "extras" that Franklin gives you that really make the difference. The real opportunity to live and enjoy life . . . the chance to be your own boss . . . and get paid well for it. We are a company of professional salesmen -- tops in the industry - all members of one big family, not just cogs in a giant computer.

With the Franklin, accomplishments are recognized, and rewards are great. Why, because we are only paid for what we legitimately accomplish - and that is the way it should be.

When my associates and I visit our Home Office, we are always treated like royalty, and this is not at all unusual - because every Franklinite that visits the Home Office receives a similar welcome. But I do believe it is unusual insofar as most other companies are concerned.

So, as a satisfied veteran of 15 years plus, all I can say is that one of my greatest regrets is that my insurance career did not *begin* with the Franklin.

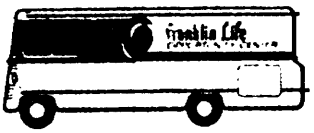
God bless you all,

Morrie (Butch) Yellen

MORRIE (BUTCH) YELLEN

Here is a record of Butch's earnings for the last five years . . . and he's well on schedule for a substantial increase this year.

1966	$39,515.06
1967	43,069.32
1968	49,575.88
1969	50,043.22
1970	57,777.77



FRANKLIN ON THE MOVE

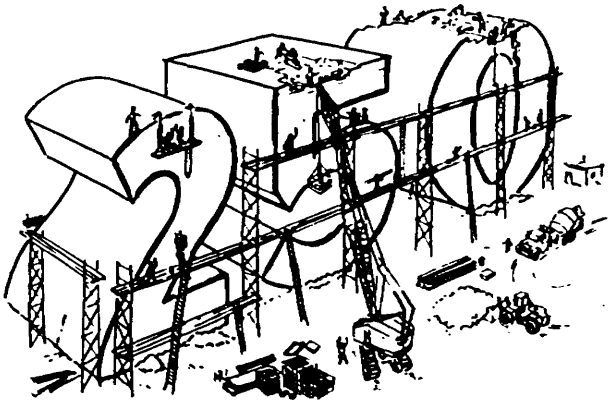
Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE E. HATMAKER, *President*

WILLIAM F. ALLEY, C.L.U.
Senior Life President - Agency
Franklin Life Insurance Co.
Springfield, Illinois
Phone (217) 25-5011

GEORGE GROGAN
Senior Life President
Franklin United Life Insurance Co.
Garden City, New York
Phone (516) 742-4141

Best's Review

BUILT FOR THE BIG ONES



Here's the Eastern Life one-year renewable and convertible term plan for the man with big potential income. It's the plan especially for the man with important new corporate responsibilities. Eastern has designed it to be adapted for him as he prospers.

EASTERN 250

$250,000 or more, issued for ages 20 through 65. It's renewable for 20 years... up to policy anniversary nearest age 70.

It's convertible for 5 years... although not later than policy anniversary nearest age 65.

EASTERN 250

BIG PROTECTION at small cost

...HERE'S WHAT WE MEAN:

Annual Premiums Per $1,000—Male

Age	First Year Annual Premiums Per $1,000	Average Annual Cost* 5 Years	10 Years	20 Years
30	$2.30	$2.42	$2.69	$3.96
35	2.61	2.93	3.57	5.80
40	3.58	4.20	5.25	8.86
45	5.28	6.31	8.04	13.76
50	8.13	9.77	12.47	21.44

*Excludes Policy Fee of $15.

We would be pleased to provide full details on how the EASTERN 250 can help you make money. Write or call:

EASTERN LIFE
INSURANCE COMPANY OF NEW YORK
355 LEXINGTON AVENUE, N.Y. 10017 ■ CHARTERED 1926

For excellence, it's EASTERN

'69 was a very good year

The New Sales Figures:*
$1,186,810,000 in 1969,
$959,465,000 in 1968.

Thanks to great work in the field, 1969 saw an increase of 24% in life and health business written by Confederation Life's international organization. This impressive growth is a tribute to the calibre of our men "out there".

Confederation Life

*Combined individual and group issued business.

Home Office
321 Bloor Street East, Toronto 5, Canada
Founded as a Legal Reserve Company in 1871.

Offices in most major centers throughout the United States.

When you work with John Hancock,

John Hancock works with you.

here's how

1 A continuous 3-year training course.
Plus basic and advanced home office seminars.
To keep you fully informed, and always up-to-date.

2 Computerized policy service cards.
To give you complete information on any policyholder, at a moment's notice.
And to keep the policyholder fully informed, as well.

3 National television advertising on major sports programs. So you're never a stranger.

4 30 years of policy dividend payments always equalling or exceeding those illustrated at time of sale.

5 More to offer your clients.
Including life, accident and health, group, and business insurance; in fact, a complete line of financial services.

John Hancock
LIFE INSURANCE

September, 1970

If you want to do your own thing and make a lot of money doing it

Then You Should Be A

PAN-AMERICAN LIFE

D.M.

Our brand new District Manager contract is probably the finest available anywhere. It has to be to offer big producers, with good persistency, this much compensation.

$25,000 Annual Premium Production
Linton A Persistency

Contract Year	1st Yr. Commission	Ren. Commission	Per. & Prod. Bonus	Total Compensation
1	23,750	--	—	23,750
2	23,750	5,600	11,875	41,225
3	23,750	7,695	11,875	43,320
4	23,750	8,684	11,875	44,309
5	23,750	9,623	11,875	45,248
◇	◇	◇	◇	◇
10	23,750	13,742	11,875	49,367

1) Note: Assumes annual production and Linton A persistency using Ordinary Life commission scale
2) Note: 1st Year commission rate plus bonus equals 142.5% of 1st year premium.

$60,000 Annual Premium Production
Linton A Persistency

Contract Year	1st Yr. Commission	Ren. Commission	Per. & Prod. Bonus	Total Compensation
1	57,000	—	—	57,000
2	57,000	13,440	28,500	98,943
3	57,000	18,468	34,200	109,668
4	57,000	20,841	34,200	112,041
5	57,000	23,094	34,200	114,294
◇	◇	◇	◇	◇
10	57,000	32,979	34,200	124,179

1) Note: Assumes annual production and Linton A persistency using Ordinary Life commission scale.
2) Note: 1st year commission rate plus bonus equals 142.5% on 1st year's production, 132% on subsequent years' production.
3) Note: Additional 10% bonus.

For the man who is presently producing high quality business yet finds his compensation not all that it should be, we offer this unequalled opportunity to earn more, with fewer strings attached. You are your own boss. We're not telling all, but here are some of the outstanding features of our new District Manager Contract that should appeal to any go-getter.

- **It is a high first year commission contract with correspondingly high renewals. It vests immediately.**
- **It incorporates a variable rate concept—the higher your production, the higher your rate of earnings.**
- **The D. M. can earn a handsome bonus, based on the premiums generated and on his monthly persistency level. The bonus is paid monthly.**
- **This flexible contract provides two attractive options for appointment of agents.**
- **Opportunity for unexcelled training leading to appointment as managing General Agent.**

Pan-American Life is a field orientated company that offers you a complete line of products for total policyowner protection—Individual Life and Health, Annuity and Retirement, Group Life and Health. Service to the field is the primary function of the Home Office staff. Special proposals, special underwriting, supervisory assistance, policyowner service, sales tools and advertising help are yours for the asking.

We have openings in 31 states. Let's hope there's one in your area.

Write in confidence to: **Duane B. Adams, Second Vice President, Agency**

PAN-AMERICAN LIFE
INSURANCE COMPANY

A MUTUAL COMPANY · **2400 Canal Street, New Orleans, La. 70119**

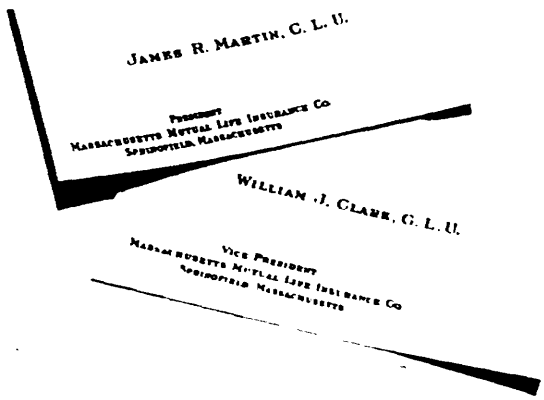
Professionalism.

At Mass Mutual, it has produced these achievements.

Last year, 671 of our agents and general agents held the coveted CLU designation. 725 won the National Quality Award. 796 qualified for the Mass Mutual President's Club with $1 million or more of ordinary production.

These were the attainments of our team of some 2500 professionals. Who spend their lives helping people solve life's money problems. Who are among the most highly trained, respected, and honored life insurance agents in the country.

At Mass Mutual we cultivate this kind of professionalism.



SURE YOU'VE SOLD LOTS OF INSURANCE BUT YOU HAVEN'T SOLD REAL LIFE INSURANCE UNTIL YOU'VE SOLD

Computer life!

What's Computerlife? A computerized medical record service that makes a subscriber's health record available to a doctor with just one toll-free phone call from anywhere in the continental U.S.—*in minutes!* In a medical emergency this may mean the *difference* between life and death.

Strictly speaking, of course, it's not insurance. But it *is* a natural, very low cost "add-on" to the group health or hospitalization insurance you've *already* sold your accounts. *That makes it an easy sale!*

Now you have a reason to *go back in* to your clients with the one extra they can't get anywhere else. Computerlife is an *exciting* story because its benefits are for use right now, by living members . . . to help save lives and safeguard health —not as an indemnity for loss.

And think of the edge you'll have going after *new* group business when you can offer what nobody else can—Computerlife!

You—as a producer of group business—are the most logical representative of the Computerlife program. We've got a beautiful little presentation to help you sell the program—it costs you nothing. We provide all promotional material and handle all the administrative details. What *you* do is earn high commissions, first year *and* renewal!

Find out how you can offer the only really "full benefit package"—one that *includes* Computerlife. Mail the attached, postpaid card today.

FOR MY MEDICAL RECORD
CALL COMPUTERLIFE
IN GREATER NEW YORK, CALL: (212) 686-4500
FROM NEW YORK STATE, CALL: 800-522-2170
FROM ELSEWHERE, CALL: 800-221-2140

URGENT: [redacted]

IDENTIFICATION NUMBER:
2422 315 153 2422
3153 2422 ◀ VERIFICATION NUMBER:
SEE REVERSE SIDE FOR EMERGENCY INSTRUCTIONS

BENEFIT PLAN ADMINISTRATORS

Now you can fill that security gap . . . If you're responsible for a benefit program for your company, association or union and would like complete information about Computerlife—we'll be glad to provide it. Let us show you how Computerlife is the lifeline to proper medical treatment in any emergency. Just write on your letterhead.

Computer life 432 PARK AVENUE SOUTH
NEW YORK, N.Y. 10016 / (212) 889-0440

So you want to be a General Agent?

We might talk you out of it.

Most agents should stay with their own company,
but for the right man who wants—

1. Additional dollars from personal production,
2. Outstanding products (Par, Non-Par, Health, Group, Annuities)
3. Quick service, electronic proposals,
4. Added income through brokerage,
5. Expense allowance and persistency bonus,
6. Excellent underwriting—average of 10 days for policy issue

— and has proved to himself that he can make a living selling life insurance and wants independence — we want to talk to you. Call or write Bill Williams, C.L.U., Agency Vice President, 713 622-2000, P. O. Box 1972, Houston, Texas 77001.

General Agent opportunities are available in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Louisiana, Mississippi, Montana, Nevada, New Mexico, North Carolina, Oklahoma, Texas, Utah, Wyoming.

I'm interested . . .

Name _____

Address _____

City _____

State _____ Zip _____

Send to Bill Williams, C.L.U., Box 1972, Houston, Texas 77001.

GREAT SOUTHERN LIFE INSURANCE COMPANY FOUNDED 1909

GREAT SOUTHERN
Life Insurance Company
HOME OFFICE / HOUSTON, TEXAS

"I will earn in excess of $50,000 in my third year"

A. RAY BROWN

Cincinnati, Ohio
July 27, 1970

Mr. George Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois

Dear George:

Just three short years ago Seab Hillis and Bill Clements presented the "Franklin Story" to me. At the time, I was representing one of the large Eastern companies.

The main reason I came with Franklin was—like many other men with my company, I had been pumped full of the great opportunity to earn big money but knew of no one who was earning or had earned that kind of money for any length of time. Bill showed me man after man with Franklin who had earned over $50,000 a year and up. He illustrated how Ray Brown could earn big money and convinced me that I really would with Franklin.

George, my first full year with Franklin I earned over $20,000 and now in my third year, I will earn in excess of $50,000 . . . not bad at 31 years of age.

My purpose for writing this letter is to let you know the appreciation that Sharon and I feel being a part of Franklin Life . . .

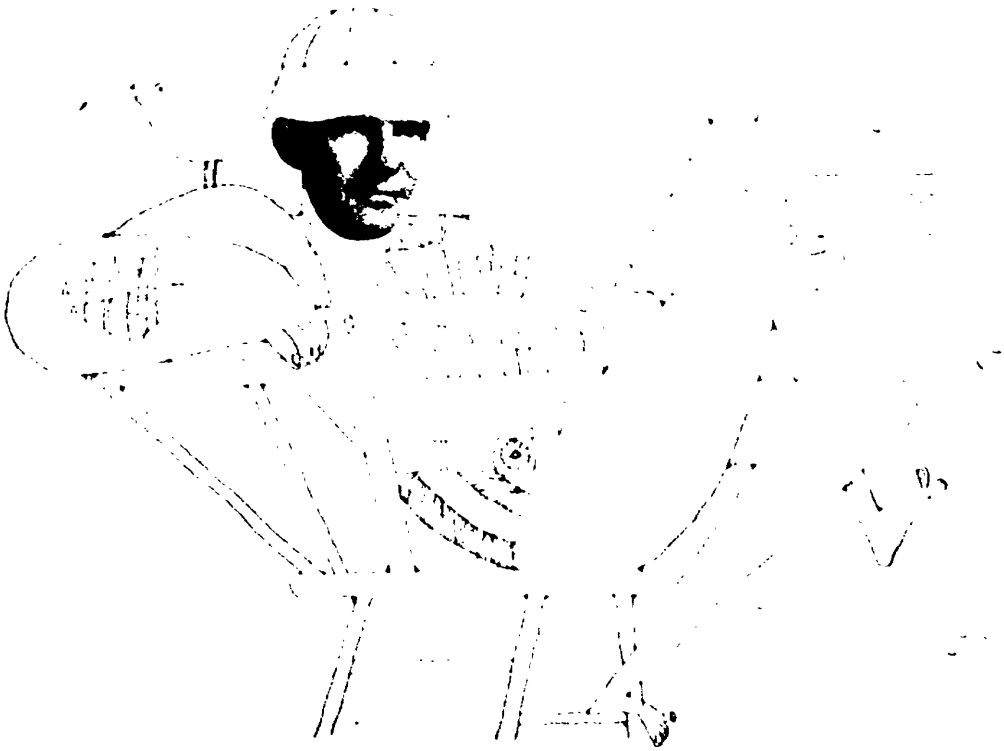
Many thanks,

Ray Brown

The Franklin
LIFE INSURANCE CO.
HOME OFFICE / SPRINGFIELD, ILLINOIS

GEORGE E. HATMAKER
President and Chairman of the Board
WILLIAM J. ALLEY, C.L.U.
Senior Vice President—Agency
Over $7,700,000,000 of Insurance in Force
Distinguished Service Since 1884

FRANKLIN LIFE INSURANCE CO • FRANKLIN UNITED LIFE INSURANCE CO • FRANKLIN FINANCIAL SERVICES CORP. • FRANKLIN DATA SERVICES CORP.



In Philadelphia... Ken Juncker can help you make some great saves

Is the competition for Life business getting keener in your area? Are you losing sales to agents who specialize in certain types of coverage? Maybe you're not making enough use of a real Life-saver . . . your local Employers' Life Specialist. He's on duty near you, wherever you are, ready to come to the rescue at the twist of a phone dial.

He knows the entire spectrum of Employers' Life products inside out . . . he knows how to adapt them to individual needs and how to sell them in a competitive environment. He can give you tips on prospecting for new business, and on selling up present clients to more comprehensive coverage. And he can help analyze, organize and dramatize for effective sales presentations.

The next time you get that sinking sensation, don't despair, just dial your Employers' Life Specialist and say H-E-L-P. He'll be at your side before you can say 'Full Spectrum'.

The Employers' Life ..... ONE OF THE **Employers·Commercial Union Companies**

110 Milk Street, Boston, Massachusetts 02107

FULL SPECTRUM FINANCIAL SERVICE . . . . is the concept of the future. Total Comprehensive. All encompassing. It includes Life, Corporate and Personal Financial Planning — and virtually all other kinds of insurance, most of which are available worldwide.

You take an interest in them

Few people in any other business give of themselves so freely as the insurance man. (Just add up the time that it takes to turn a prospect into a client.)

And few people in any other business get so totally involved with their customers or help them in so many ways. The fact is, selling insurance helps a man grow.

We know because we've got over 4,000 growing agents. Their enthusiasm for our Total way of Life concept of insurance programming has helped put us in the top 4% (based on premium income) of all life insurance companies.

As a matter of fact we're growing so fast we've had to begin construction on a new home office building. Incidentally, it will be 37 stories and 535 feet high, the tallest building in Florida.

If you'd like to join in our exciting times, write our Director of Agencies.

TOTAL LIFE

Independent Life.

Herald Life.

Give yourself a **better chance...** while you give your clients a **bigger choice.**

Become a Bankers National General Agent

Bankers National Life, a recent addition to the growing family of Equity Funding Corporation of America, a New York Stock Exchange-listed company, invites you to examine the advantages of doing business with a leader in the financial services industry.

Bankers National Life, a recognized pioneer in today's imaginative marketing approaches, offers the following advantages:

- ☐ the opportunity of offering (through a broker/dealer subsidiary) the *Equity Funding** Insurance Premium Funding Program, tax-shelter oriented investments and other Equity Funding financial services—including a complete portfolio of fully funded, fully insured, split-funded and "leverage funded" retirement plans and business insurance products—all at General Agent Commissions
- ☐ annualization and vesting of General Agent's commissions
- ☐ qualified leads generated by the endorsement of more than 200 state and national trade and professional associations through our Association Variable Pension Plan
- ☐ a portfolio for the sales professional—par and non-par
- ☐ a wide range of split-funded programs with HR-10 and corporate prototypes
- ☐ a competitive, multi-purpose disability income portfolio
- ☐ generous stock option program and group benefits

BR-7/72

For the full story on how a Bankers National Life General Agent's contract can help double your 1972 income, mail the coupon today!

William F. Good, Executive Vice President—Sales
Bankers National Life Insurance Company
Parsippany, New Jersey 07054

Dear Bill:

Yes, I'm interested in Bankers National Life's General Agent's story

Name _____ Address _____
City _____ State _____ Zip _____
Phone _____ Business Phone _____
Life Premium $ _____ Securities License? _____ A&H License? _____

BANKERS NATIONAL LIFE INSURANCE COMPANY
Parsippany, New Jersey 07054
A subsidiary of Equity Funding Corporation of America

**Equity Funding* is the registered trademark of Equity Funding Corporation of America for its insurance premium funding program (The *Equity Funding* Program).

Finlay—Continued

those who wish to change our whole system, and he added that if poverty is widespread, the system is vulnerable to such attacks.

The CLIA president reminded members that the overall Canadian poverty rate is 25%, meaning that one Canadian in four is a member of a family unit whose income is below the poverty line, and that, despite heavy taxation, the pattern of income distribution has not changed for several decades.

He said that, on the whole, the life insurance industry accepts the role of government in providing social welfare and a base for social insurance. "We should be confident that there will still be a major role for us to play in providing Canadians with financial protection on a voluntary basis," he declared.

PURPLE COUGAR PASSES

It didn't last long—but it was a wild, wacky, wonderful ride while it was going. With purple Cougar cars, all-expenses-paid trips to exotic far-off places, razzmatazz salesmanship, and the bright-eyed hope that a homebrew company could take on the "big boys" and beat them at their own game.

It was the story—the sad story—of Rocky Mountain Life, based in Calgary, Alberta, which opened its doors for business on January 1, 1966 and proceeded to splash some gaudy color into the rather sober atmosphere of Canada's life insurance business before closing its doors rather abruptly last month on orders from the government of Alberta.

In fact, the financial situation of Rocky Mountain could only have become worse, and to avoid a complete fiasco with subsequent hardship for the insurer's 11,000 policyholders, Alberta Attorney-General Mervin Leitch stepped in.

When it became obvious the financially troubled company was unable to raise sufficient capital to stay afloat, Mr. Leitch announced that Rocky Mountain Life would be wound up, but that policyholders will receive all the benefits to which they are entitled; shareholders

(Continued)

You can beat SOME of the competition
ALL of the time...

and ALL of the competition
SOME of the time...

NOW YOU CAN BEAT MOST OF THE COMPETITION
MOST OF THE TIME

"Before Today... Beyond Tomorrow"

the State Life
INSURANCE COMPANY
INDIANAPOLIS

Willie was on top of the world . . .

(he thought.)

Willie was a super salesman . . . wrote $1,000,000 early in his career. He had confidence and class, but he wanted more challenge, more room to grow. One day Willie read about the fantastic opportunities for General Agents offered by National Travelers Life. It sounded like just what he was looking for. Willie had heard about National Travelers . . . knew it was a solid, progressive company that cared about its people and backed them up in the field. That was very important. Willie knew his stuff, but he wanted a good team behind him. So he wrote National Travelers. They liked his aggressiveness . . . he admired their professional way of doing business. Now Willie's a GA for National Travelers Life—and sitting on top of a bigger world. If you'd like to see the view from "on top," find out about National Travelers' exceptional GA openings for you!

Why not mail this coupon? (Willie did.)

Paul Behr, Vice President
NATIONAL TRAVELERS LIFE CO
8[illegible] Keo Way Des Moines Iowa 50308 Phone 515 283 0101

Okay, Paul! Tell me how things look from "on top" too, especially in Wisconsin, Illinois, Missouri, Kansas and Iowa.

NAME .....

ADDRESS .....

CITY ..... STATE ..... ZIP .....

PHONE .....

MY THIRD FULL YEAR WITH FRANKLIN I EARNED $39,765

Jacksonville, Florida
May 22, 1972

Mr. George Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois

Dear George:

It is hard to put into words what great things have happened to me since I heard "The Franklin Story."

After twelve years with my former company it was a big decision to leave my renewals and start over again. Seab Hillis told me that by doing the same job with the Franklin, I would make more money and triple my income in five years. I am happy to say that in the second full year I more than doubled my income from the previous company. I contribute my success to the Franklin specials and our philosophy "Specialization Spells Success."

We call it "The Friendly Franklin" but no one can possibly realize how true these words are until they have visited the home office, had breakfast with you and your associates and been to a Franklin convention.

Pat and I are most appreciative of what the Franklin has done for us and our two boys . . . it's truly the good life!

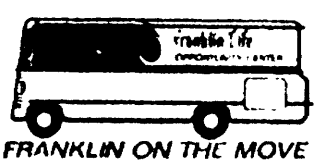
Cordially,

Roland L. Rousselle

- Roland L. Rousselle

Here is a record of Roland's earnings for the past three years:

1969 . . . $19,688.09
1970 . . . 25,596.35
1971 . . . 39,765.93



FRANKLIN ON THE MOVE

Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE E. HATMAKER, President

WILLIAM J. ALLEY, C.L.U.
Senior Vice President-Agency
Franklin Life Insurance Co.
Springfield, Illinois
Phone (217) 528-3011

GEORGE CURRIGAN
Senior Vice President
Franklin Life Insurance Co.
Garden City, New York
Phone (516) 742-6470

MY SECOND YEAR WITH FRANKLIN I PASSED THE $58,000 INCOME MARK

Lubbock, Texas
January 31, 1972

Mr. George B. Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois

Dear George:

In June, I will be completing my tenth year in the life insurance business. What a tremendous experience it has been for me these past two years, since joining the Franklin team on March 15, 1970.

The Franklin system has given me the freedom to control my own agency, greater incentive, more enjoyment and satisfaction as a life underwriter, and the opportunity of making more money than I thought was ever possible. It's nice to be part of an organization where the salesman is really "King." I know that the Franklin Specials have helped me to achieve the success I now enjoy. All of this is the reason I passed the $58,000 income mark for 1971.

I would like to take this opportunity to thank you for letting me hear the Franklin Story. It has meant a tremendous change in my life, and I hope others will have the same opportunity that I have had. Again, George, many thanks to you and everyone in the Home Office.

Most cordially,
Jimmy R. Moore

Jimmy R. Moore

FRANKLIN ON THE MOVE

Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE B. HATMAKER, President

WILLIAM J. ALLEN, C.L.U.
Senior Vice President-Agency
Franklin Life Insurance Co.
Home Office, Springfield, Illinois
Western Regional Office
Franklin Life Insurance Co.
Garden City, New York
Phone (516) 742-0400

MY FOURTH YEAR WITH FRANKLIN AND MY EARNINGS THIS YEAR THROUGH OCTOBER 31 ARE OVER $57,000

Fairbanks, Alaska
November 29, 1971

Mr. George E. Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois

Dear President George:

Today as I look back over the past four years as a Franklinite, I can only say I am deeply grateful for the many wonderful things that have happened to me.

It was inevitable, after I heard the Franklin Story from Garth DeWater, a long-time Franklinite, that I would make the decision to bring my military career of 21 years to a close and join the Friendly Franklin Family. I have never regretted the decision.

I was attracted to Franklin because there is no limit to income and future.

The opportunity for an income beyond my wildest dreams, combined with the satisfaction of helping others save money for the future, is an unbeatable combination. By 1970—my third full year with Franklin—my annual income exceeded $50,000. My earnings through October of this year are over $57,000 and I expect at least a 20% increase over 1971.

Franklin offers great opportunities for a satisfactory and lucrative career, and gives me the "Specials" to make this possible.

I am limited only by my own goals, both in personal sales and in agency building. My only regret is that my insurance career did not begin sooner with Franklin.

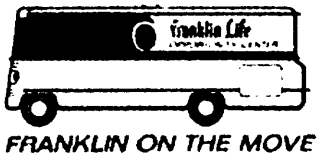
Sincerely,

Richard P. Migliaccio

Richard P. Migliaccio

Here is a record of Migg's earnings since joining Franklin:

1968	$14,673.59
1969	16,193.07
1970	50,899.99
1971	57,146.25



FRANKLIN ON THE MOVE

Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE E. HATMAKER, President

WILLIAM J. ALLEY C.L.U.
Senior Vice President Agency
Franklin Life Insurance Co.
Springfield, Illinois
Phone (217) 525-2011
GEORGE GROGAN
Senior Vice President
Franklin United Life Insurance Co.
Garden City, New York
Phone (516) 742-4400

January, 1972

For fast, fast, fast, fast relief Take Chase.

For a remedy that will cure what ails you, we suggest the following fast action company, Chase National.

AILMENT 1: Take one if your headache is a slow growing company. Chase National Life has, in a short six years, moved into the top 25% of all life insurance companies doing business in the country today.

AILMENT 2: If you feel depressed and down-and out because of backward management, then take one more. At Chase National, we have one of the most innovative and modern thinking managements in the industry today. Our management team is headed by a man widely respected in the insurance industry, Donald E. Teague.

AILMENT 3. Take another if you feel hemmed in with no place to go and your company is not expanding like you think it should. Chase National Life is now licensed to do business in 18 states—Alabama, Arkansas, Colorado, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, North Carolina, Oklahoma, Texas and Virginia.

AILMENT 4: Chase National offers an exclusive Contract that is perhaps the most sought after participating contract in the industry. If your product is behind the times and offers little incentive to sell, please take another.

AILMENT 5: If your company has a bad asset to liability ratio, then we advise you to take still one more and look at Chase National. From an independent analysis of our Company compared to the 25 largest insurance concerns in the U. S., Chase National was well above the average . . . showing financial soundness.

If you have run through all these ailments and still don't want to believe that you can be cured, good luck. And bottoms up.

CHASE NATIONAL LIFE INSURANCE COMPANY . . . . THE COMPANY OF DISTINCTION ALWAYS PROVING "THE POWER OF POSITIVE PEOPLE"

CHASE NATIONAL

Life Insurance Company

650 ST. LOUIS STREET • SPRINGFIELD, MISSOURI 65806

DONALD E. TEAGUE, PRESIDENT

REPUBLIC NATIONAL LIFE

OFFERS A VARIETY OF PLANS DESIGNED TO MEET EVERY FAMILY REQUIREMENT

SHOWN HERE IS A CHECK LIST OF TIME-TESTED PLANS

- ✓ Joint Ordinary Life
- ✓ Life Paid 95
- ✓ Cost of Living Rider
- ✓ Estate Starter Plan
- ✓ ECONO-Term
- ✓ Complete Family Insurance
- ✓ Four Times Ten to Sixty-Five
- ✓ Hospitalization Income Protection
- ✓ College Estate Plan
- ✓ Non-Smokers and Non-Drinkers Plans
- ✓ Business Insurance
- ✓ Disability Income Protection
- ✓ Group Ordinary Life
- ✓ Tailored Income Protection
- ✓ Pension • Profit Sharing

Republic National Life is now offering new and expanded services to both prospects and policyowners across the nation. If you are interested in an unlimited sales opportunity with a company that NEVER STOPS TRYING TO DO EVEN BETTER, we invite your inquiry.

REPUBLIC NATIONAL LIFE
Insurance Company
DALLAS, TEXAS

Now doing business in 49 States, District of Columbia and Puerto Rico

LIFE • ACCIDENT • SICKNESS • MEDICAL AND SURGICAL REIMBURSEMENT • TOTAL GROUP AND PENSION SERVICES • COMPLETE REINSURANCE FACILITIES

An open letter to ~~41~~ 23 Life Insurance Agents who want to increase their income at least 50% this coming year

Bankers National Life Insurance Company

As you begin to read this letter, ask yourself why you are doing so. Isn't it because you're dissatisfied with your present arrangement and the prospect of bettering your income has real appeal for you?

If that's the case, you're the kind of Personal-Producing General Agent I'm seeking. You probably have at least three years' experience, you're writing $500,000 volume this year for at least $12,000 of life premium. Hopefully, you've gotten in some work on your C.L.U. degree. For you and ~~40~~ 22 other self-starters, here's what I have to offer...

First, a 90% basic life commission. So if your present commission rate is, for example, 60%, you can actually increase your income 50% this coming year, even if you don't increase your production. We also pay a handsome persistency bonus on that business.

And here's a really important unexpected "plus" for you. We can give you qualified leads for new business. Our national advertising and the endorsements of local, state, and national associations produce thousands of good leads every year. If you're ready to increase your production, we're ready to supply you with new prospects in your own area. What's more, we offer you a sensible development allowance to help you get started.

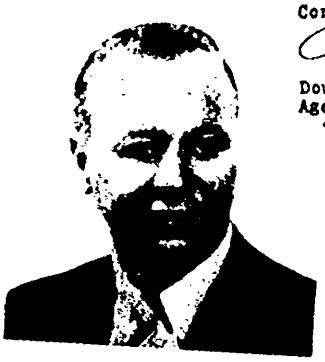
As a General Agent for Bankers National, you would represent a company which is licensed in 49 states, and currently has two billion dollars of insurance in force. (New York is served through our subsidiary, Palisades Life Insurance Company.) Your portfolio would include a wide variety of insurance programs, including individual life products, corporate and professional pension plans, salary savings programs, and over 100 mutual funds. You'll have the advice of a staff of pension experts, the cooperation of a flexible underwriting department, and all the benefits of our computer facilities in providing proposals, leads, and policy analysis.

If you're the man I'm seeking, you'll act on this today. To do so, pick up the phone and dial (201) 267-4000. I'm waiting to hear from you. Or mail the attached coupon.

Cordially,

Doug Schoenfeld

Douglas R. Schoenfeld, C.L.U.
Agency Vice President



Douglas R. Schoenfeld, C.L.U., Agency Vice President
Bankers National Life Insurance Company
Parsippany, New Jersey 07054

71-09

Yes, I want more information about the advantages of being a General Agent for Bankers National

Name _____

Street _____

City _____ State _____ Zip _____

Home telephone number _____

SMALL COMPANY BACKGROUND - MY BASIS FOR A $70,000 FRANKLIN INCOME THIS YEAR

Granite City, Illinois
June 25, 1971

Mr. George E. Hatmaker, President
The Franklin Life Insurance Company
Springfield, Illinois

Dear George:

I came into this great profession of ours in the spring of 1959 on a part-time contract with a company about the size of a gnat's eye. We were, I suppose, the hottest little sales force in Illinois. And after one year part-time, I knew this was the profession for me. So, I resigned from a very enjoyable four years of teaching and coaching.

As you very well know, my small company merged (for pride's sake I use the word merged) with the Franklin in 1967. Since that day, I have never ceased to be amazed at the psychological design of our sales presentations for causing people to realize their financial needs and leading them to take positive action to meet those needs. Franklin is truly "the man in the field's" company. And I like owning my own business too!

I have made the following statement many times to myself and my associates and I say it with great sincerity ... "If we cannot succeed in our profession with Franklin Life, we might as well change professions."

Sincerely,

Billy H. Terrell

Billy H. Terrell

Here is a record of Bill's earnings since joining Franklin:

1967 ..... 30,761.21
1968 ..... 37,818.48
1969 ..... 34,921.38
1970 ..... 38,504.96
1971 ..... 38,283.23
(as of July 23)

FRANKLIN ON THE MOVE

Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE E. HATMAKER, President

WILLIAM J. ALLEY, C.L.U.
Senior Vice President Agency
Franklin Life Insurance Co.
Springfield, Illinois
Phone (217) 528-2011
GEORGE GROGAN
Senior Vice President
Franklin United Life Insurance Co.
Garden City, New York
Phone: (516) 742-4400

FROM $7,200 to $74,078 IN FIVE SHORT YEARS

Denver, Colorado
June 8, 1972

Mr. George E. Hatmaker
The Franklin Life Insurance Company
Springfield, Illinois

Dear George:

I received a report in the mail this morning showing my earnings for the year-to-date through and including May 26, 1972. It suddenly dawned on me that if my income remains constant for the balance of 1972 and does not snowball, my taxes at year-end would be based on a figure in excess of $100,000. Not bad for an ex-milkman with little formal education!

George, I have only been in the insurance business for six years and am 34 years young with 31 working years left until normal retirement age 65. It excited me to project my potential income for the future. My thoughts go back to June 1966 when I was first considering a Franklin Opportunity and realize that I almost decided against selling. Today, I thank God and my dear wife, Shirley, for helping me make the right decision. And I want to give you and the Franklin a special thank you for the opportunity to:

(1) Make money by helping other people save money.
(2) Be an entrepreneur.
(3) Have complete independence.
(4) Have pride and prestige in my work.
(5) Have the famous Franklin Specials in my selling portfolio.

When you add this all up, it spells Success.

George, I hope that every young man who is looking for this same opportunity will merely place a call to the nearest Franklin associate asking about the "Good Life" and hear for himself the Franklin Story.

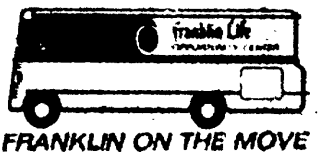
Most sincerely,

Scott W. Cleveland

Scott W. Cleveland

Here is a record of Scott's earnings for the past five years:

1967	$14,510
1968	34,314
1969	61,768
1970	40,545
1971	74,078



FRANKLIN ON THE MOVE

Franklin
LIFE INSURANCE CO.
HOME OFFICE/SPRINGFIELD, ILLINOIS
GEORGE E. HATMAKER, President

WILLIAM J. ALLEY, C.L.U.
Senior Vice President-Agency
Franklin Life Insurance Co.
Springfield, Illinois
Phone: (217) 525-2661

GEORGE GROCAN
Senior Vice President
Franklin United Life Insurance Co.
Garden City, New York
Phone: (516) 742-6400

MUTUAL OF OMAHA GROWTH FUND
MUTUAL OF OMAHA INCOME FUND

Two more good reasons for choosing a selling career with the Mutual of Omaha Companies!

For years, salesmen who represented Mutual of Omaha and its life insurance affiliate, United of Omaha, have enjoyed the competitive advantage of being able to offer their prospects a complete portfolio of personal insurance protection.

Added Advantage

Now, they have the added advantage of being able to provide their clientele with an opportunity to invest in two mutual funds — the Mutual of Omaha Growth Fund and the Mutual of Omaha Income Fund.

The funds complement the fine program of health and life insurance you offer your prospects as a Mutual of Omaha Companies representative — enable you to provide them with the truly complete program of financial services they need.

Offer Wide-Range

Through Mutual of Omaha you are able to offer your clientele new Wide-Range Health Insurance including Paycheck Protection for the family breadwinner plus hospital-surgical-medical coverage for every member of the family.

As a representative for United of Omaha, you can provide your prospects with the most advanced plans of life insurance protection, too, everything from college fund to retirement income plans.

Add to this the opportunity you now offer your clients to invest in mutual funds, and it's easy to understand why people look to the man from the Mutual of Omaha Companies for their financial planning.

Send for Booklet

So don't delay! Send today for your free copy of the booklet, "Build a Career with Mutual of Omaha • United of Omaha." This booklet outlines in more detail the outstanding opportunity for success that can be yours when you represent the Mutual of Omaha Companies — equal opportunity employers.

Mutual of Omaha.
The Company that pays

Life Insurance Affiliate: United of Omaha

MUTUAL OF OMAHA INSURANCE COMPANY
HOME OFFICE: OMAHA, NEBRASKA

A. F. Mastmoroney,
Director,
Manpower Development
Mutual of Omaha
Insurance Company
Omaha, Nebraska 68131
Dept. 91-4

Please send me a free copy of the booklet, "Build a Career with Mutual of Omaha • United of Omaha."

Name _____

Address _____

City _____

State _____ ZIP Code _____ Phone _____

WOOD, STRUTHERS & WINTHROP INC.

Current Statistics

pertaining to

THE INSURANCE INDUSTRY

and to

Selected Companies

January 8, 1973

COMMENTS ON THE INDUSTRY

Fire and Casualty - The expansion in the earnings of most fire and casualty companies over the past two years has been so large and has emerged so suddenly that it has inevitably led many investors to question its permanence. Such healthy skepticism, however, should not be allowed to obscure the fact that this emergence of profit reflects not only a combination of unusually favorable short term factors, but also long term trends that will continue to benefit the earnings of these companies. Among the favorable, short term developments one might include the unusually large rate increases secured in the private passenger automobile lines in 1969 and 1970, a marked decline in automobile claim frequency during 1970-1972 which remains largely unexplained, and a relatively low level of catastrophe losses over the past two years. Longer term trends that should continue to work in favor of investors and policyholders alike include:

1. Greater pricing freedom and substantially improved rating plans with which to reduce rate lags and maintain adequate rate levels.

2. A continuing trend towards stronger and safer cars to minimize collision and bodily injury losses.

3. The growing use of deductibles by the public in both automobile collision and homeowners contracts that is building a healthy element of co-insurance in this vital segment of the market, and which is helping to lower claim frequency in these lines.

4. More sophisticated and reliable loss reserving techniques, and the use of catastrophe reserves that should minimize year to year fluctuations in earnings.

5. The likelihood that the wage-price stabilization program will continue to limit inflation, particularly in the important hospital and medical lines, to a more predictable and stable rate over the next several years than was true of the late 1960's and early 1970's.

6. The spread of no-fault automobile insurance plans, with their potential for more prompt and equitable settlement of claims, reduced opportunity for loss reserve miscalculations, and with benefits which can accrue from a more satisfied public.

7. Better and more profit-conscious managements that are willing to maximize profit opportunities while trying to avoid many of the losses that in the past have resulted simply from mismanagement, miscalculation, or even a lack of awareness of the problems involved.

There is little doubt that, now that the benefits from the large rate increases in the personal lines have run their course, the industry is entering a more competitive phase. This is also true in the commercial lines, where a greater number of companies are vying for business that has traditionally been serviced by relatively few companies well staffed with loss prevention and claims personnel. Thus, while virtually all companies have shown healthy underwriting margins during this recent period of "easy" profits, the next several years are expected to bring a greater differentiation between the companies in terms of their ability to sustain underwriting margins and to increase earnings. Specifically, this means that those companies that can support their marketing efforts with professional claims, engineering, and other policyholder service staffs, that have strong actuarial departments and well established and reliable loss reserving practices, that enjoy a broad mix of business and the management information systems to detect adverse trends in the different lines of business at an early date, and that can achieve superior investment performance, those companies will produce the best results for their shareholders.

Life Insurance - The interest in life insurance stocks over the past year seems to coincide with a growing recognition of the quality of the earning power of these companies, and of their ability to grow at a consistent and above average rate. The promise of higher investment earnings because of improved cash flow and higher interest rates, better control of expenses, and more concerted and efficient efforts to increase new premium production should enable many life companies to develop a faster rate of growth in earnings, at least over the next several years, than that which they enjoyed during the 1960's. With a wide number of these companies still selling at average multiples of less than 15 times earnings, the opportunity for meaningful gains exists in these issues. A positive attitude toward the group among investors generally should also be reinforced by the recent adoption of an audit guide for life insurance companies by the Accounting Principles Board. This guide will be mandatory for 1973 results.

INVESTMENT POSTURE

From the investor's standpoint, a by-product of a more competitive environment in the fire and casualty industry will be the need to differentiate more clearly than in the past between the various classes of business and their respective profit outlook. For example, while it is difficult to see further substantial gains in the earnings from private passenger automobile business over the near term, conditions in the accident and health and homeowners lines remain favorable, and the outlook for the workmen's compensation business is also improving rapidly. Thus, the process of selection in this group should stress those companies in which volume is concentrated in the lines of business that can help their earnings during the next year. Such companies include: Aetna Life and Casualty, CNA Financial, Crum and Forster, Mission Equities, and Republic Financial Services. Other quality companies such as Chubb Corp., St. Paul Fire and Marine, and Safeco might also be included in such a list at lower prices. U.S.F.&G. should continue to be held by long term investors seeking current income together with moderate appreciation potentials.

In the life area, a combination of internal changes, the relative attraction of markets being served, and market price lend appeal to Lincoln National, Protective Life, Provident Life and Accident, United Services Life, and Variable Annuity Life. American General, with two-thirds of its earnings stemming from life insurance, might also be viewed favorably in this context. USLIFE Corp. continues to be recommended for its long term appreciation potential.

Wood, Struthers & Winthrop Inc.

TRENDS IN AUTOMOBILE INSURANCE RATES & IN MEDICAL COSTS - 1965 TO DATE

	Automobile Insurance Rates	% Incr. Year Ago	Property Insurance Rates	% Incr. Year Ago	Physicians Fees	% Incr. Year Ago	Hospital Daily Service Charge	% Incr. Year Ago
1965								
June	89.4	+ 9.8			88.0	+ 3.5	76.2	+ 5.5
Dec.	94.9	+10.7			89.6	+ 3.8	78.5	+ 6.6
1966								
Mar.	96.1	-			91.2	-	80.4	+ 6.6
June	96.9	+ 8.4			93.0	+ 5.7	82.1	+ 7.7
Sept.	98.5	-			95.1	+ 7.2	86.3	+11.5
Dec.	99.0	+ 4.4			96.6	+ 7.8	91.5	+16.5
1967								
Mar.	99.5	+ 3.5			98.5	+ 8.0	97.1	+20.8
June	99.7	+ 2.9			99.8	+ 7.3	100.0	+21.9
Sept.	100.5	+ 2.0			101.3	+ 6.6	102.0	+18.3
Dec.	100.9	+ 1.9			102.5	+ 6.1	105.6	+15.5
1968								
Mar.	101.5	+ 2.0			104.1	+ 5.7	109.0	+13.2
June	101.9	+ 2.2			105.3	+ 5.5	112.2	+12.2
Sept.	102.6	+ 2.1			106.5	+ 5.2	115.8	+13.6
Dec.	104.3	+ 3.4			108.4	+ 5.7	119.6	+13.2
1969								
Mar.	108.6	+ 6.9			110.9	+ 6.5	124.5	+13.3
June	110.4	+ 8.3			113.0	+ 7.3	126.8	+13.0
Sept.	113.5	+10.6			114.8	+ 7.8	130.9	+13.0
Dec.	119.3	+14.3			116.3	+ 7.3	133.9	+12.0
1970								
Mar.	122.7	+13.0	112.6	-	119.0	+ 7.3	139.4	+12.0
June	126.5	+14.6	112.8	-	121.6	+ 7.6	142.1	+12.1
Sept.	129.6	+14.2	114.0	-	123.3	+ 7.3	147.5	+12.7
Dec.	132.1	+10.7	115.4	-	125.7	+ 8.1	152.0	+13.5
1971								
Mar.	140.1	+14.2	117.0	+ 3.9	128.0	+ 7.6	157.1	+12.7
June	142.5	+12.6	120.2	+ 6.6	129.9	+ 6.8	160.5	+12.9
Sept.	142.9	+10.3	121.5	+ 6.6	131.5	+ 6.7	164.4	+11.5
Dec.	141.8	+ 7.3	122.4	+ 6.1	132.2	+ 5.2	165.5	+ 8.9
1972								
Jan.	141.0	+ 3.8	122.4	+ 6.9	132.3	+ 5.1	167.1	+ 8.8
Feb.	140.8	+ 0.6	122.4	+ 5.5	132.6	+ 4.7	168.2	+ 8.3
Mar.	140.9	+ 0.6	122.4	+ 4.6	132.9	+ 3.8	101.2(a)	
Apr.	140.7	- 0.9	122.6	+ 3.2	133.2	+ 3.7	101.5	
May	140.6	- 1.1	122.7	+ 2.8	133.3	+ 3.2	101.8	
June	140.7	- 1.3	122.6	+ 2.0	133.9	+ 3.1	102.0	
July	141.1	- 1.1	123.4	+ 1.6	134.0	+ 2.8	102.4	
Aug.	141.1	- 1.3	123.4	+ 1.6	134.2	+ 2.3	102.7	
Sept.	140.4	- 1.8	123.6	+ 1.7	134.4	+ 2.2	102.8	
Oct.	139.6	- 1.6	123.6	+ 1.0	134.6	+ 2.2	102.9	
Nov.	139.8	- 1.4	123.7	+ 1.1	134.8	+ 2.1	103.0	

(a) Hospital daily service charges series changed-not comparable with earlier periods. (Private rooms are no longer included, certain tests are added-e.g. lab tests, electrocardiograms, physical therapy, etc. and on base January, 1972=100).

Source: U.S. Department of Labor Consumer Price Indices 1967 100

W.S.&W. SELECTED GROUP OF INSURANCE STOCKS[a]

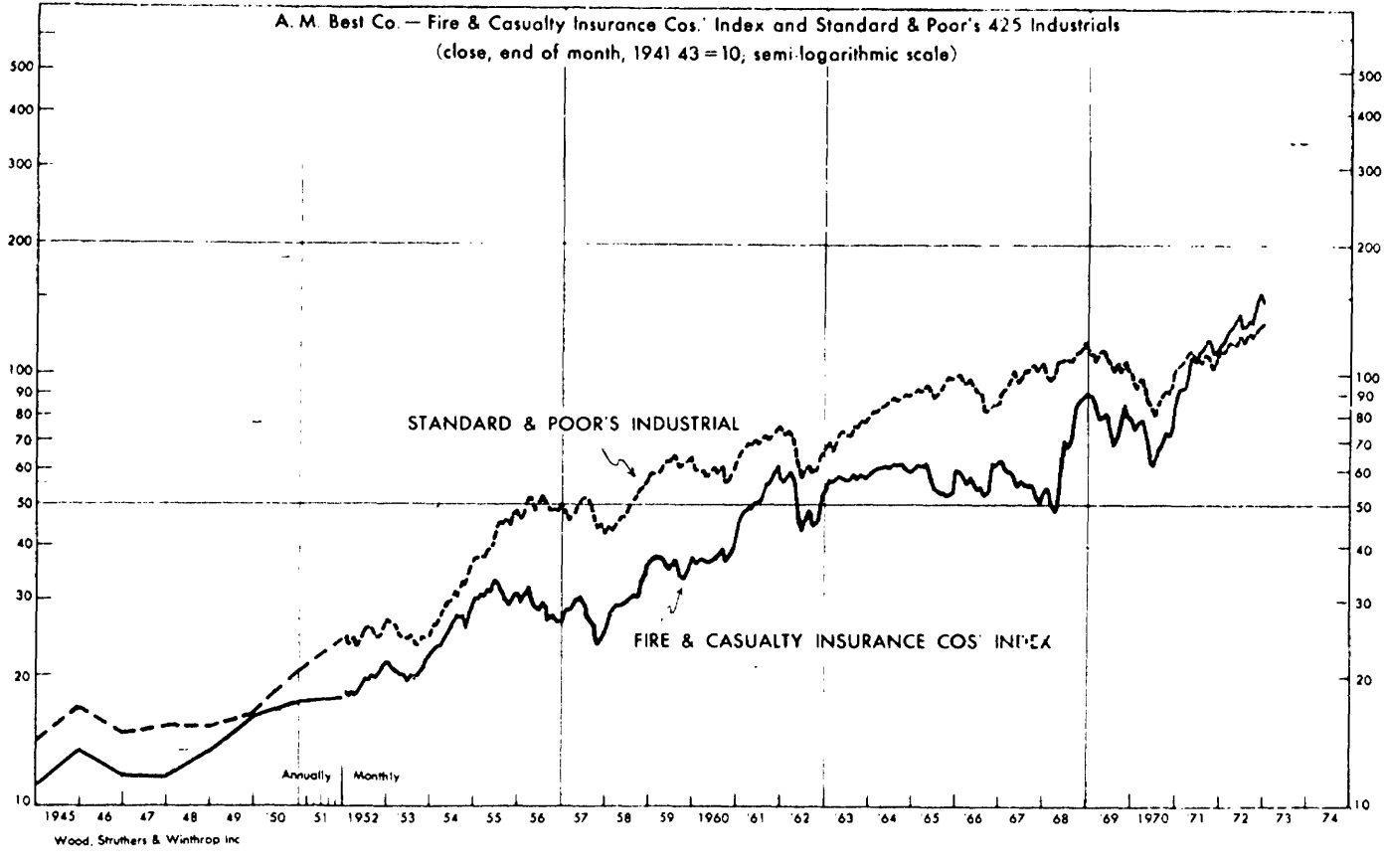
	Price/Earnings Ratios		
	to 1971 Earnings[b]	to Lat. 12 Mos. 9/30/72 Earns.[d]	to Estimated 1972 Earns.[d]
Fully Multiple Line	14.0x	13.0x	12.5x
Predom. Fire & Casualty	13.3	12.3	12.1
Specialty Cos.	32.0	31.4	30.1
Reinsurance Cos.	29.2	33.1	32.0

W.S.&W. SELECTED GROUP OF LIFE & A&H COS.[a]

	Price/Earnings Ratios	
	to 1971 Earns.[c]	to Est. '72 Earns.[d]
Predominantly Life and Industrial Cos.	16.5x	17.6x
Diversified Cos.	16.2	16.0
Predominantly A&H and Specialty Cos.	21.8	20.4

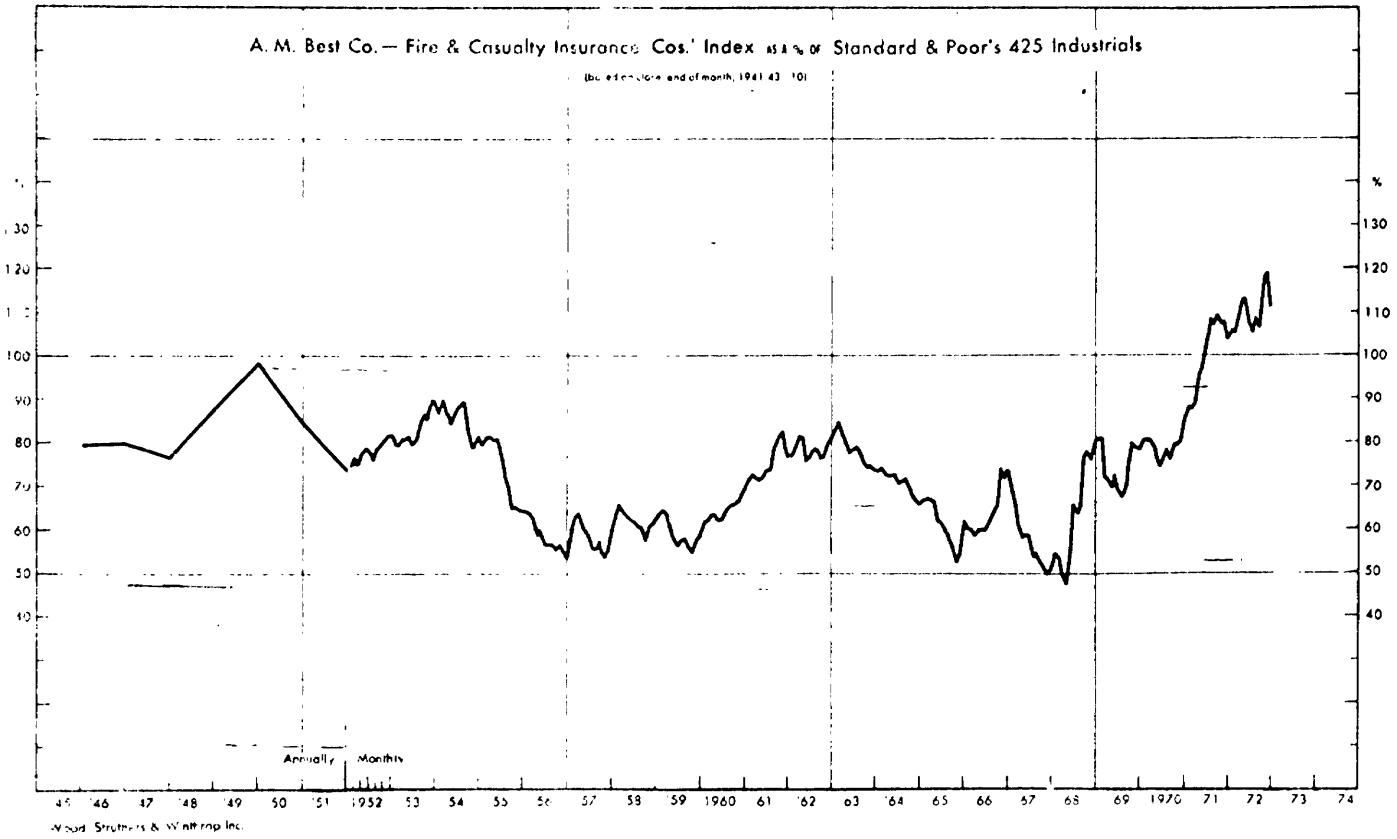
a-For companies used in groups - see last 2 pages of report
b-Using 9/6/72 price
c-Using 9/7/72 price
d-Using 1/4/73 price

STOCK PRICE INDEXES COMPARISON



RELATIVE PERFORMANCE

STOCK PRICE INDEXES



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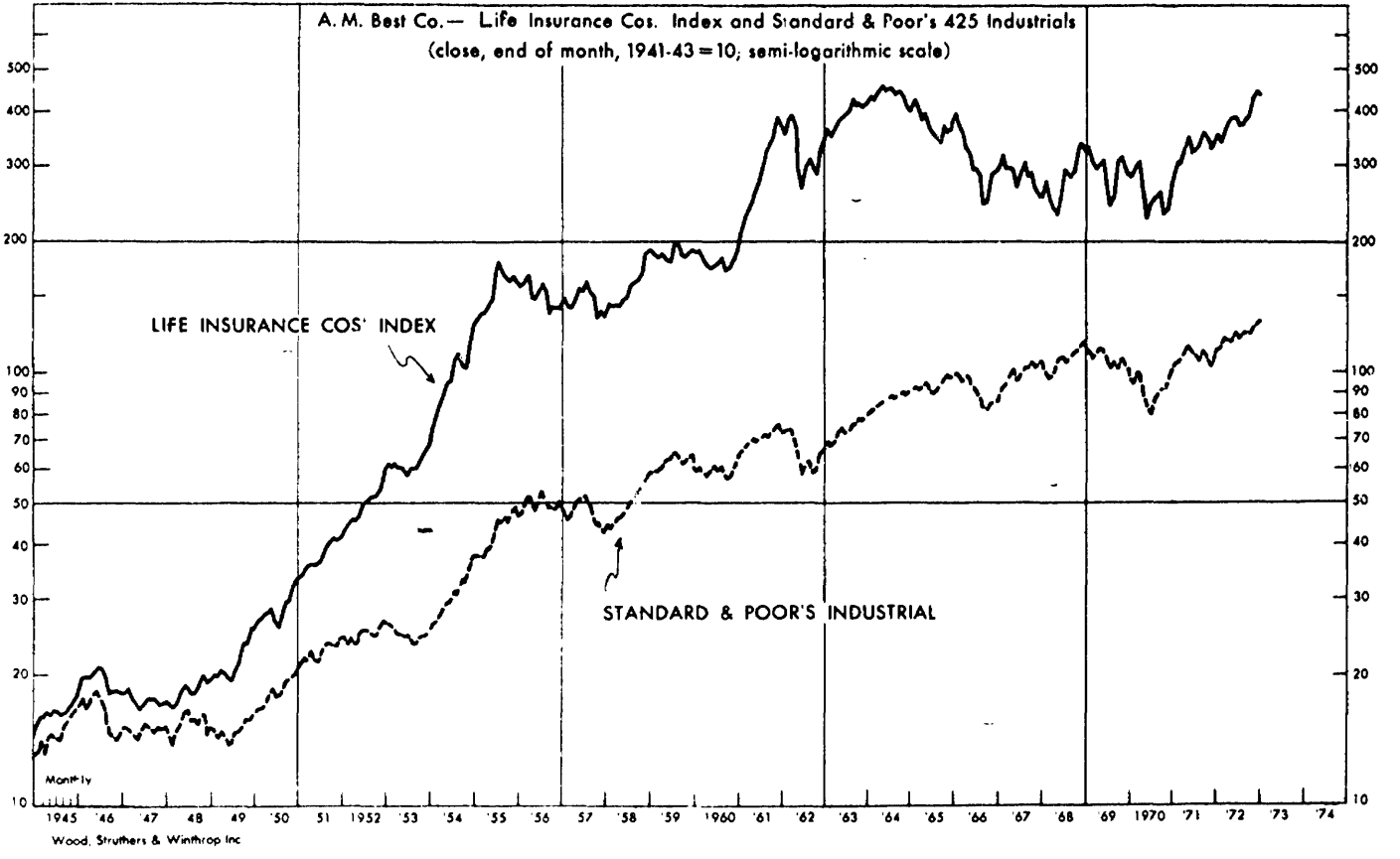
STOCK PRICE INDEXES COMPARISON



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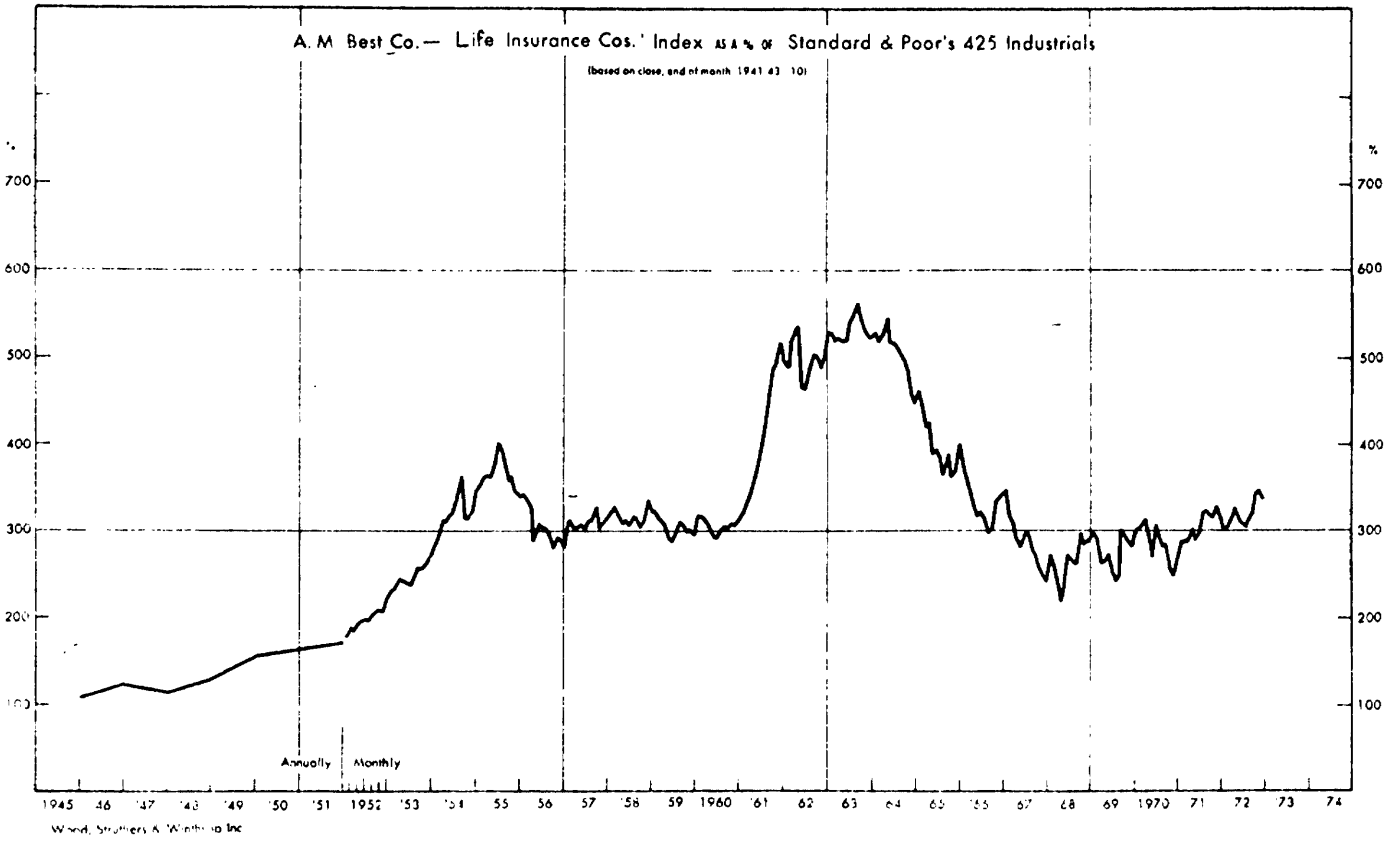
RELATIVE PERFORMANCE

STOCK PRICE INDEXES



Wood, Struthers & Winthrop Inc.

January 5, 1973

SELECTED INSURANCE STOCKS - PRICE DIVIDEND AND EARNINGS DATA

	1972-1973 Price Range	Current Price 1/4/73	Ind. Div.	Adjusted Operating Earnings Per Share 1969	1970	Latest 12 Mos.-1971 3/31	6/30	9/30	Actual 1971	Latest 12 Mos.-1972 3/31	6/30	9/30	Est. 1972 Earns.	Est. 1973 Earns.	P/E Ratio 1972E
Multiple Line															
Aetna Life & Casualty	80-55	75	$1.68	$1.88	$3.55R	$3.67	$4.16	$4.81	$5.08	$5.27	$5.86	$6.32	$6.35	$7.00	11.8
American General	23-16	20	0.52	1.38	1.25R	1.19	1.33	1.61	1.60	1.69	1.80	1.88	1.95	2.25	10.3
CNA Financial	27-17	20	0.54	1.32	1.22	1.27	1.42	1.65	1.87R	1.96R	2.07R	2.23	2.20	2.45	9.1
Connecticut General	88-67	8[illegible]	0.88	3.18	1.39	1.86	2.16	3.02	4.41x	4.41	4.38	4.41	5.00	5.75	16.6
Travelers Corp.	47-34	3[illegible]	0.84	1.76	1.72	1.71	1.84	2.24	2.62	2.69	3.15	3.38	3.40	3.75	11.5
Predominantly Fire and Casualty															
Chubb Corp.	66-44	56	1.12	1.86	2.05	2.36	2.76	3.28	3.23	3.37	3.43	3.45	3.50	3.90	16.0
Continental Corp.	48-38	45	2.00	2.51	2.42	2.56	2.83	3.29	3.49	3.66	3.90	4.19	4.20	4.40	10.2
Crum & Forster	39-29	33	1.12	1.14	1.61R	1.79	2.04	2.52	2.76	2.98	3.08	3.33	3.30	3.70	10.0
INA Corp.	55-33	48	1.50*	2.13	2.82	3.17	3.72	4.05	4.08	4.26	4.15	4.52	4.60	5.00	10.4
Kemper Co	51-38	44	0.60	1.47	1.82	2.16	2.89	3.39	3.81	3.88	3.89	3.94	4.05#	4.40	10.9
NN Corp.	38-26	33	0.83	1.67	1.95	2.07	2.30x	2.47x	2.60x	2.70x	2.80x	2.95x	2.90x	3.30	11.4
Ohio Casualty	69-44	53	0.93	1.81	2.36R	2.82	3.02	3.33	3.66	3.86	4.17	4.41	4.40	4.15	12.0
Republic Financial	35-23	33	0.48*	0.56	1.41	1.63	1.81	2.14	2.18	2.58	2.98	3.23	3.25#	3.70	10.2
Safeco	66-27	57	0.80	1.40	1.97	2.23	2.61	2.86	3.05	3.35	3.56	3.77	3.80	4.00	15.0
St. Paul Cos.	110-62	99	1.28	2.81	3.21R	3.68	4.35	4.41	4.77	5.23	5.54	6.06	6.10	6.40	16.2
U.S. Fidelity & Guaranty	48-40	43	2.28	2.04	2.31	2.72	2.77	3.00	3.10	3.17	3.25	3.26	3.45	3.75	12.5
Western Cas. & Surety	29-20	25	0.48*	0.86	1.55	1.84	2.13	2.51	2.76x	2.97x	3.05x	3.09x	3.10	3.25	8.1
Specialty Companies															
American Int'l Group	90-48	85	0.26	1.07	1.23	1.30	1.36	1.48	1.61	1.70	1.79	1.89	1.95*	2.25	43.6
American Reserve	45-30	42	0.20	0.72	0.89	0.93	0.91	0.95	1.06	1.10	1.14	1.21	1.25	1.45	33.6
Centennial Corp.	82-39	72	0.10	0.60	0.79	-	-	-	1.15	-	1.38	1.53	1.70*	2.20	42.4
Gov't Empl. Insurance	64-43	59	0.66*	0.83	0.93	1.02	1.11	1.29	1.43	1.60	1.79	1.91	2.00	2.30	29.5
Hartford Steam	60-40	50	1.55*	3.00	3.03	3.58	3.91	4.60	4.99	5.09	4.97	4.67	4.75#	5.20	10.5
Mission Equities	47-27	47	0.36*	1.00	1.17	1.40	1.48	1.52	1.57	1.67	1.74	1.86	1.95	2.25	24.1
MGIC Investment	96-44	92	0.10	0.49	0.64	0.66	0.69	0.75	0.82	0.91	1.02	1.15	1.25	1.92	73.6
Reinsurance Companies															
American Re	63-38	52	1.04	1.96	2.29	2.40	2.60	2.74	3.04	3.18	3.24	3.41	3.40	3.75	15.3
ERC Corp.	55-38	54	0.52	1.31	1.80	1.84	1.99	2.18	2.18	2.25	2.44	2.29	2.50	2.85	21.6
General Re	489-318	483	0.60	5.54	7.59	7.87	8.42	9.52	11.12	11.56	11.95	12.12	12.50#	14.00	38.6

* Denotes recent increase
x Excludes extraordinary items

\# Denotes recent reduction
R Restated

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SELECTED LIFE AND A&H COMPANIES - PRICE, DIVIDEND AND EARNINGS DATA

	1972-1973 Price Range	Current Price 1/4/73	Ind. Div.	Adjusted Earnings Per Share 1969	1970	1971	Latest 12 Mos. - 1972 3/31	6/30	9/30	Est. 1972 Earnings	Est. 1973 Earnings	P/E Ratio 1972E
Predominantly Life												
BMA Corporation	32-19	32	$0.42	$1.50	$1.56	$1.90	$1.84	$1.97	$2.02	$2.10	$2.35	15.2
Capital Holding	32-20	31	0.23	0.91	1.03	1.18	1.23	1.24	1.30	1.35	1.50	23.0
Franklin Life	35-20	31	0.[illegible]	1.14	1.49	1.56	1.56	1.67	-	1.80	2.05	17.2
Jefferson-Pilot Corp.	74-42	67	0.[illegible]	2.45	2.67	3.27	3.30	3.48	3.65	3.70*	4.10	18.1
Liberty Corp.	26-[illegible]	23	0.25	1.42	1.55	1.49	1.52	1.66	1.73	1.75	1.90	13.1
Northwestern Nat'l Life	28-17	25	0.18*	1.87R	1.50R	1.71R	-	1.97	2.29	2.25	-	11.1
Philadelphia Life	35-17	31	0.40	1.02	1.05	1.19	1.27	1.31	1.35	1.40	1.60	22.1
Provident Life & Accident	127-82	123	1.00	3.94	4.24	5.07	-	-	-	5.65	6.20	21.8
Southwestern Life	45-31	41	0.80	1.62	1.79	1.93	-	1.97	-	2.10	2.35	19.5
Industrial Companies												
Independent Life & Accid.	56-30	56	0.76*	2.64	2.79	3.56	3.77	3.99	4.19	4.20	4.60	13.3
Liberty National	50-31	49	0.[illegible]	1.68	2.07	2.18	-	-	-	2.30	2.[illegible]	20.4
NLT Corp.	60-28	59	0.[illegible]	2.53	2.88	3.17	3.28	3.37	3.50	3.50	3.90	16.9
Diversified Companies												
Gulf Life Holding	60-42	55	0.85	2.33	2.98	3.64	3.9[illegible]	4.11	4.25	4.30	4.60	12.8
Interstate Corp.	34-21	33	0.20	1.39	1.71	1.90	1.93	2.03	2.08	2.15#	2.45	15.3
Lincoln National Corp.	47-34	47	1.08*	2.51	2.54	3.21	3.31	3.29	3.60	3.65*	4.10	12.9
Monumental Corp. (a)	70-45	68	0.52	1.53	1.86	2.19	2.25	2.44	2.57	2.60	3.00	26.2
Richmond Corp.	62-48	58	1.04	3.12	3.10R	4.33R	4.61R	4.56	4.69	4.60	5.00	12.6
USLIFE Corp. (d)	76-44	75	0.52	1.97	2.35	3.03	3.16	3.27	3.42	3.65	4.15	20.5
Predominantly A&H												
Colonial Life & Accident	74-56	74	0.82	1.41	1.57	1.75	1.90	1.97	2.10	2.15*	2.40	34.4
Combined Insurance	36-17	20	0.43*	1.05	1.13	1.23	1.26	1.29	1.35	1.45	1.6[illegible]	13.8
Monarch Capital	26-16	18	0.54	1.14	1.30	1.43	1.42	1.41	1.43	1.50#	1.65	12.0
Pennsylvania Life	30-7	8	-	0.74	0.92	1.06	1.09	1.11	1.04	1.05#		7.6
Specialty-Product												
College/University	24-14	21	0.11	-0.19	-0.12	1.64	1.50	1.72	-	1.85	-	11.4
Family Life	19-13	17	-	0.91	1.10	1.28	1.01	1.10	1.12	1.[illegible]	-	15.2
Fidelity Union	46-35	42	0.25	1.61	1.98	2.36	-	2.72	2.84	2.90	3.30	14.5
First Colony	15-11	13	0.24*	0.64	0.76	0.66	-	0.73	0.76	0.80	0.90	16.3
Old Republic Int'l ø	53-35	51	0.63*	2.05	2.59	3.00	3.05	3.02	3.12	3.20	3.45	15.9
Variable Annuity Life (c)	21-13	17	-	-0.43	-0.27	0.01	0.[illegible]	0.13	0.09	0.40*	0.[illegible]	42.5
Specialty Market												
Colonial Penø	67-32	67	0.15	0.35	0.49	0.72b	0.78	0.88	0.98	1.10	1.30	60.9
Credit Equities Life	66-40	63	0.24	0.92	1.14	1.38	-	-	-	1.55	1.75	40.6
Union Fidelity ø	33-19	29	-	0.25	0.57	1.12	1.[illegible]	1.46	1.57	1.65	2.10	17.6
United Services Life	32-15	39	0.28	1.33	1.61	2.29	2.[illegible]	2.36	2.43	2.45	2.70	15.9

* Denotes [illegible] dividends paid
ø Denotes [illegible] reorganization
Est. [illegible]

(a) [illegible] cash flow from depreciation of [illegible] estate operations
(b) 1971 [illegible] months results of Nat'l Pen [illegible] acquired 11 8/[illegible]
(c) Estimates include adjustment [illegible]

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Best's Insurance News Digest
Property/Liability Edition
January 8, 1973

SALAD-OIL SWINDLE

F&C Pays $6 Million Settlement to Bankrupt Firm

Fidelity & Casualty Co. of New York paid the bankruptcy trustee of Ira Haupt & Co. $6 million as settlement for a $48 million lawsuit brought by Haupt in 1965 as a result of losses to Haupt arising out of a salad-oil swindle.

The bankruptcy referee in granting final approval of the settlement, details of which were reported last August, said that "many of the 'facts' are seriously and justifiably contested with vigor by F&C in the pending litigation."

The suit alleged that Haupt's losses were covered by bonds issued by F&C, but the insurer refused payment, charging among other things that Haupt's management was lax in overseeing the firm's operations.

CHARTER SOLD

International Harvester Buys Washington General

International Harvester Co. purchased the charter of Washington General Insurance Corp., New York, from Continental Insurance, also of New York, for an undisclosed amount of stock, effective December 29. International Harvester said it would change Washington General's name to Harco Casualty Co.

Washington General, which has not retained underwriting commitments for its own account since January 1, 1967 when it began reinsuring all business with Continental, is licensed in 47 states, the District of Columbia and Puerto Rico and operates in Belgium, Canada, Germany and the Netherlands.

CIMCO Inc., Kansas City, Mo., and **Guardian National Corp.**, Detroit, combined operations under a holding company, Financial Guardian Group Inc., Kansas City, effective January 1. Both companies will retain their corporate identities. Financial Guardian has net revenues, principally from insurance commissions, of over $3.8 million and CIMCO has gross commissions in excess of $2.1 million.

The National Flood Insurers Association named **Travelers Indemnity** as servicing company for the national flood insurance program in Arkansas.

Washington Seen
by Al Goldsmith

SEC: The SEC called on stock property/liability insurance companies for comprehensive disclosure of their catastrophe reserves, and urged development of a uniform system of accounting.

The SEC pointed out that some companies have been setting up such reserves to cover major losses which occur irregularly, and encouraged current efforts by the committee on insurance accounting and auditing of the American Institute of CPAs and its Accounting Principles Board to arrive at a single acceptable accounting approach to such losses.

In the meantime, the SEC added, full disclosure of the accounting being followed and the dollar impact of that accounting on reported income and liabilities will be required in companies' financial statements.

*

AAA: The American Automobile Association will be viewed as "a part of the insurance industry" in a report that will be published about mid-year by a Ralph Nader action group following a year-and-a-half study of the 13 million-member organization.

"The AAA's rather intimate involvement with insurance makes it a part of the industry," Ron Landsman of Mr. Nader's Public Interest Research Group declared. Four of the largest AAA motor clubs – in Michigan, California, Missouri and Chicago – have their own insurance companies, he said, and in addition to automobile insurance they sell life and A&H insurance to members. Among the companies affiliated with the AAA are the Kemper Group, Merchants Mutual, Mutual of Omaha and Travelers, Mr. Landsman said.

*

Conglomerates: The impact of recent mergers resulting in giant conglomerates may have been far less anticompetitive than generally has been believed, but the public has suffered from the resulting loss of information regarding sales and profit data of the acquired companies, according to findings of an in-

(Continued)

depth staff study by the FTC on the economic effects of conglomerate merger performance.

The 200-page report – it has not been adopted by the Commission – is based on responses to questionnaires sent to nine large conglomerate corporations, including ITT Corp., parent of the Hartford Group, and Gulf & Western Industries, parent of Capitol Life Group, Providence Washington Group and Emmco Group.

Although almost two-thirds of their large acquisitions have been in the manufacturing sector, the report pointed out, non-manufacturing acquisitions have been larger on the average and "represent the more far-flung diversification popularly believed to characterize 'conglomerate' corporations."

The report found "wide variations" in the amount of detail provided in published annual reports. ITT, the largest of the nine sample conglomerates, divided its operations into nine divisions, it said, but "except for showing the profits of Hartford Fire, the presentation does not enable one to relate profits to specific product lines."

Conversely, the study found Gulf & Western at the head of the list in divisional reporting practices, publishing sales for 41 and profits for 12 separate divisions in its 1971 annual report.

*

FIA: Retiring Housing and Urban Development Secretary George Romney, in his valedictory on the accomplishments of HUD over the past four years, claimed substantial progress for the crime and flood insurance and riot reinsurance programs that became operational during his administration.

Federal Insurance Administrator George K. Bernstein, who developed and directed the three programs, is one of the few top-ranking HUD officials who was asked to remain in office by Mr. Romney's successor, James T. Lynn.

The amount of crime insurance written in recent months, Mr. Romney reported, has quadrupled and its availability has been extended to Tennessee. New Jersey will be added early in 1973. Over 10,000 policies are now in force.

*

Fishing Vessel Insurance: Insurance executives and representatives of the U.S. fishing industry will meet January 9 and 10 in Washington, D.C. to discuss problems of commercial fishing vessel insurance at a conference sponsored by the National Marine Fisheries Service of the Commerce Department's National Oceanic and Atmospheric Administration. Fishing vessel owners are paying record premium rates and in some cases are finding it difficult to obtain adequate coverage at any rate, according to the Commerce Department.

*

Atomic Energy: Consumer advocate Ralph Nader joined with a group of "concerned scientists" who believe catastrophic accidents at private nuclear power plants are very possible unless the atomic energy program is cut back until reactor safety systems are strengthened. They called for repeal of the Price-Anderson Act that provides for up to $500 million of government excess liability coverage above some $100 million in third-party liability insurance now being made available for each occurrence by the insurance industry atomic energy pools.

*

OSHA Suit: The Justice Department asked the U.S. Court of Appeals in Washington, D.C. to stay the order barring the Labor Department from granting six-month extensions to states to operate their own job safety laws pending federal approval of state plans. A U.S. district judge has refused to stay his preliminary injunction. The AFL-CIO, the United Steelworkers and the International Union of Electrical Workers have filed suit to stop the Department from extending the December 28, 1972 deadline set in the Occupational Safety & Health Act of 1970. It will be heard January 26.

Assistant Secretary of Labor George C. Guenther, who joins the INA on January 22, expressed the hope that the appeals court would overturn the injunction quickly, warning of a disruptive impact in job safety if there is a gap in enforcement allowed to continue for the next six months.

(Subscribers to Al Goldsmith's Washington Insurance Newsletter *receive in-depth analyses of major insurance news from Washington weekly.)*

Directors of **Bituminous Casualty Corp.**, parent of Bituminous Fire & Marine, Rock Island, Ill., voted to form a holding company, subject to approval by shareholders and regulatory authorities. The plan would be effected through a one-for-one exchange of stock.

1972 INSURANCE STOCK TRENDS

Insurance stocks in 1972 continued to exhibit significant increases, keeping close pace with their exceptional performance in 1971. Against a rise of 14.58% for the Dow Jones Industrial Average and a gain of 15.63% for the broader-based Standard and Poor's 500, *Best's Life Stock Index* was up 26.05% and our *Property/Liability Insurance Stock Index* gained 25.60%, hitting an all-time year-end high. The NASDAQ insurance stocks indicator rose 22.83%.

This marks the fifth consecutive year that insurance stocks have produced good results relative to the general market, and the second consecutive year that they have noticeably outperformed the major indexes.

This table of 105 major insurance stocks covers 14 conglomerates, 24 property/liability companies and 67 stock life insurers. About 85% of those companies recorded gains in the market value of their stocks in 1972. Last year 90% of them were up. Nine companies closed each of the last five years with an increase over the year before: American Re-Insurance, Chubb Corp., ERC Corp., General Reinsurance, Globe Life & Accident, Ohio Casualty Corp., Security-Connecticut Life, USLIFE Corp. and American Reserve Corp. The latter has posted seven consecutive increases in year-end prices.

Life Stocks

Our Life Stock Index closed the year at 444.2, up 91.8 points in the 12 months. It peaked at 452.4 on November 15 after a low of 340.2 in January. The 1972 Index year-end figure is the high for the past five years – the low for the period is the 253.4 recorded in 1967 – and 1973 begins with the life stocks only 15.2 points behind the all-time high of 459.4 set in April 1964.

Fifty-five of the 67 life stocks gained in 1972. Four were up more than 100% and were the biggest gainers among the insurance stocks, led by Jefferson National Life at 231%. Security-Connecticut Life gained 116%, compared with 105% last year, while Time Holdings was up 108%, a substantial increase over a drop of 28% in 1971, and American Heritage Life climbed 101%. Biggest losers in 1972 were Pennsylvania Life (-68%), Combined Insurance (-33%), United American Life (-29%), Monarch Capital Corp. (-26%), and Equitable Life of D.C. (-23%).

Those companies with five-year increases of more than 200% are Security-Connecticut Life, 781%; American Fidelity Life, 673%; American Bankers Life, 405%; Globe Life & Accident, 294%; and Liberty National Life, 209%.

Property/Liability Stocks

Best's Property/Liability Insurance Stock Index set record highs 11 times in 1972. The Index hit four consecutive highs during November, reaching the top at 155.8 on November 20. It tapered off during December and closed the year at 147.2, a 30-point gain over the 1971 closing. The year's low was 115.1, on January 26. Every one of the property/liability companies was up in 1972, headed by Employers Casualty (+64%) and St. Paul Cos. (+61%).

The property/liability stocks began moving ahead after mid-1970 as the general market began to pick up. By the end of 1971, our Index was 86% ahead of where it stood five years earlier. By the end of 1972, the five-year increase was 179.85%. All of the property/liability stocks are ahead of their year-end figures of five years ago, with General Reinsurance showing a gain of 607%, American Reserve 586% and American Bankers 577%.

Conglomerates

The conglomerates show a less consistent record than the straight insurance company stocks. Three were down in 1972, led by CNA Financial Corp. (-17%). Beneficial Standard Corp. was down for the second consecutive year, showing a 5% decline, and INA Corp. was off 3%. Best performers in 1972 were Interfinancial Inc. (+81%) and American International Group (+74%). On the five-year run, Republic International Corp. is ahead with a 273% gain, while USLIFE is up 147% and Connecticut General 107%.

Year End Prices of Insurance Stocks

LIFE	1972	1971	% CHANGE 12-31-71 to 12-31-72
All Amer. Life & Fin.	14 1/2	13	12
American Bankers Life	34 3/4	18	93
American Fidelity Life	43 1/2	23 1/4	87
American Heritage Life	28 3/8	14 1/8	101
American Income Life	17	13	31
American National Fin.	12 1/4	8 1/8	51
American States Life	15 3/4	18 1/2	−15
Bankers Security Life	20	13	54
Beneficial National Corp.	5 1/4	3 3/4	40
BMA Corp	30 1/4	21	44
Calif.-Western States Life	17 3/4	19 1/2	−9
Capital Holding Corp.	28 7/8	22 1/8	31
College/University Corp.	20 7/8	16 1/4	28
Colonial Life & Accident	71 1/2	61 1/4	17

(Continued)

	1972	1971	% CHANGE 12-31-71 to 12-31-72
Colonial Penn Group	63 3/4	32 1/8	98
Combined Ins.	20 3/8	30 3/8	−33
Continental Amer. Life	30	22 1/2	33
Equitable Life (D.C.)	22	28 1/2	−23
Equitable Life of Iowa	22 3/4	----------	-----
Family Life	17 5/8	16 7/8	4
Farmers New World Life	63 1/4	40 1/2	56
Fidelity Union Life	41 3/4	37 3/4	11
First Pyramid Life	8 1/2	4 5/8	84
Franklin Life	31 1/4	22 1/8	41
Globe Life & Accident	25 1/8	20	26
Gov. Employees Life	62 1/4	38 3/4	61
Great Southern Corp.	25 3/8	16 3/8	55
Gulf Life Holding	56 3/8	47 3/4	18
Home Beneficial Corp.	46	26 3/4	72
Home Security Life	23 1/2	13 7/8	69
Independent L&A	52	31 1/4	66
Integon Corp.	17 5/8	11 5/8	52
Interstate Corp.	32 1/2	24 3/4	31
Jefferson National Life	39 3/4	12	231
Jefferson-Pilot Corp.	69 5/8	48	45
Kansas City Life	139	113	23
Kentucky Central Life	8 5/8	6 3/8	35
Lamar Life	39	34	15
Liberty Corp.	23	19 7/8	16
Liberty National Life	49 1/8	34 3/4	41
Life of Georgia	43 1/4	28 1/2	52
Midwestern United Life	19 5/8	20 3/8	−4
Monarch Capital Corp.	18 1/4	24 5/8	−26
National Old Line	9 3/4	8 1/8	20
Nationwide Corp.	18 5/8	10 1/4	82
Nationwide Life	25 1/2	18 3/4	36
NLT Corp.	59 3/8	33 5/8	77
Northwestern Natl. Life	24 1/4	17 1/2	39
Pennsylvania Life	9 1/8	28 1/2	−68
Philadelphia Life	30 7/8	17 3/8	78
Protective Life	19 1/2	16 1/4	20
Provident Life & Accident	120	82	46
Republic National Life	15	15 1/8	−1
Richmond Corp.	57 3/4	54 7/8	5
Security-Conn. Life	29 3/4	13 3/4	116
Security Life & Accident	15 1/4	19	−20
Southland Fin. Corp.	42	23 3/4	77
Southwestern Life	41 3/8	35 1/4	17
Standard Security Life	11 1/4	10	13
Sunset Life	28 1/2	23 3/4	20
Surety Financial Corp.	5 1/4	3 3/8	56
Time Holdings	32 1/4	15 1/2	108
UNICOA Corp.	18 5/8	16 7/8	10
United American Life	3 3/4	5 1/4	−29
United Services Life	37 3/8	30 5/8	22
Washington National Corp.	31 1/2	35 1/4	−11
Wisconsin National Life	26	20 3/4	25

PROPERTY-LIABILITY

	1972	1971	% CHANGE 12-31-71 to 12-31-72
American Bankers	22	14 5/8	50
American Re-Insurance	51 7/8	45 7/8	13
American Reserve Corp.	43 3/4	30 7/8	42
Chubb Corp	58 1/4	45 7/8	27
Criterion Insurance	84	55 1/2	51
Crum & Forster	33 7/8	31 1/2	8
CSE Corp.	17 3/8	11 1/8	56
Employers Casualty	44 1/4	27	64
ERC Corp.	52 3/4	43 1/2	21
Excelsior Insurance	17 3/4	11 1/2	54
General Reinsurance	473	329	44
Government Employees	55 7/8	44 3/8	26
Hanover Insurance	54 1/4	41 1/4	32
Hartford Steam Boiler	48	48	0
NN Corp.	32 3/4	27 1/2	19
Northeastern Ins	24 3/4	19 1/4	29
Ohio Casualty Corp	53 1/2	48	11
Peerless Insurance	11 5/8	10 3/8	12
Republic Financial Serv.	32 3/4	22 5/8	45
SAFECO Corp.	56 3/8	39 3/4	42
St. Paul Companies	101 1/4	62 7/8	61
Security Corp.	42 1/2	29 1/8	46
U.S.F.&G	43 7/8	42 3/8	4
Western Casualty & Surety	25 1/2	20 1/8	27

CONGLOMERATES

	1972	1971	% CHANGE 12-31-71 to 12-31-72
Aetna L&C	73 1/8	62	18
Amer. General Ins.	20 3/4	20 1/8	3
Amer. Intern. Grp	84 3/4	48 3/4	74
Beneficial Standard	9 7/8	10 3/8	−5
CNA Financial Corp.	20 1/8	24 1/8	−17
Connecticut General	83 3/8	71	17
Continental Corp	42 7/8	41	5
INA Corp.	47 1/2	49	−3
Interfinancial Inc.	12	6 5/8	81
Lincoln National Corp.	43 7/8	42 1/2	3
Monumental Corp.	67 1/2	50	35
Old Republic Intern. Corp	51 1/4	34 3/4	47
Travelers Corp.	38 7/8	37 1/8	5
USLIFE Corp	74	46 1/2	59

BRIEFS

South Carolina Ins. Co., Columbia, a member of the Seibels, Bruce group, acquired **Investors National Life**, also of Columbia, in an exchange of stock. The acquisition, effective December 31, 1972, involved the exchange of one share of South Carolina stock for each four shares of Investors National.

ISO companies in Louisiana will **reduce private passenger auto rates by 6.6%** statewide, effective January 24, under the state's modified prior approval law.

Oscar H. Ritz was re-appointed Indiana insurance commissioner by Governor-elect Otis Bowen, effective January 8.

American International Group formed a wholly owned subsidiary, **AIG Data Center Inc.**, to administer all AIG data processing operations. The new company will operate from Wilmington, Del., Manchester, N.H., and New York City.

The National Underwriter, January 6, 1973

the week in Insurance Stocks

By LEVERING CARTWRIGHT

L. Cartwright & Co., Board of Trade Bldg., Chicago

On the last trading day of the year, aggressive buying appeared in numerous insurance issues including Am. Bankers, up 1¼ for the day; A.I.G. 1½; Am. National 1⅛; Chubb 1¾; C.G. 1⅞; Farmers New World and Independent L.&A. 1¼; Kemperco 2⅝; Ohio Casualty 1½, and Security Corp. 2. Market action in the last named continues to be suggestive.

Penn Life and Combined scored a smart rally on volume. These were two conspicuous insurance stock casualties of the year and were buffeted by tax loss selling. Canny buyers bided their time, picking up Penn Life as low as 7 and Combined at 17. Then on the final day when the losers had their last chance to go for the deep six, buyers took over. Penn Life, with a trade of 265,000 shares was volume leader of all NASDAQ issues and advanced five-eighths. Combined with 64,200 shares traded, was plus 1 for the day. Financial Security Group was another issue that got the same kind of play. As a new issue, comprising ownership of three George Olmstead situations, it came out earlier this year at 16½. It sold down to 9 and followers of the issue went in to buy on Friday when it advanced five-eighths on volume of 21,000 shares.

Option buyers were paying $450 for 65 day straddles on Aetna with a striking point of 72⅞. They were paying $425 for 6 month straddles on Combined with a striking point of 20½. They were paying $400 for 6 month straddles on Union Fidelity.

Greater Nebraska Corp. commenced trading under its new title of First Great West Corp. and ex the 1 for four reverse split.

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Elsewhere in this issue appear the year-end quotations on more than 500 insurance stocks.

Spectacular winners in 1972 include Guaranty National of Denver which vaulted by 358%! World Service Life of Ft. Worth, plus 282%; Jefferson National Life 229; Peoples Protective 222; Ohio State 200; Old Line 213; General Services Life 211, Twentieth Century Industries 186; National Security of Elba 177; Independent Liberty Life 181; National Savings Corp. 131; Reliable Life of Webster Groves 104 and Am. Heritage Life, Celina Financial, Time Holding and Security Life of Macon, each up 100%.

Other not-to-be-sneezed-at market performances were those of Colonial Penn and American Underwriters, each up 98%; Crown Life and Eldorado General 97; Farmers Group 96; American Bankers Life 94; Georgia International 93; Am. Fidelity Life 87; Old Equity 85; Selected Risk 84; Nationwide 82; Interfinancial 78; Great West and Southland 77; NLT, Philadelphia Life and GL Enterprises 76; A.I.G. 73; Peninsular 72; Tokio and Mercury General 71; Home Beneficial 70; Employers Casualty 69; Home Security 69; Pioneer Western 67 and Mission Equities 67; American Bankers Insurance 65; George Washington 64; Great Equity and Louisiana and Southern 63; St. Paul 61; Government Employees Life and Great Southern 60.

The two mutual funds that are concentrated in insurance stocks are Century Shares Trust and Life Insurance Investors. CST scored a gain for the year of about 22% while LII was up 33%. CST has a large commitment in fire-casualty items and these had a less mercuric performance in 1972 than in the previous year. The low bid price for the year for CST was $13.37 per share on Jan. 1, and the highest was $17.11 on Nov. 21. For LII, the low bid was $8.61 on Jan. 4 and the high was $11.17 on Dec. 4.

Except for Synercon, which was plus 26% for the year, the insurance brokerage firms were backsliders—Fred S. James was down 40%; Marlennan 30; Alexander & Alexander 28; Corroon & Black 26; Integrated Resources 22; E. H. Crump 20; Baldwin & Lyons 15; Pinehurst 6 and R. B. Jones 3.

Aetna Life edged out Conn. General by a point for market performance of Hartford's Big 3; gaining 19% while C. G. was up 18. Travelers' gain was 5%.

Of the reinsurers, Am. International Reinsurance which is highly leveraged in A.I.G. soared 122%; General Re was up 44%; Northeastern 34%; ERC 21 and American Re 14.

Of the substantial issues Penn Life suffered the most severe descent, dropping by 68%. Other reactionary issues included UNAC, down 51; Combined, off 39%; Am. Family, 30; Monarch 26.

1972 Insurance Stock Trends

INSURANCE STOCKS in 1972 continued to exhibit significant increases, keeping close pace with their exceptional performance in 1971. Against a rise of 14.58% for the Dow Jones Industrial Average and a gain of 15.63% for the broader-based Standard and Poor's 500, *Best's Life Stock Index* was up 26.05% and our *Property/Liability Insurance Stock Index* gained 25.60%, hitting an all-time year-end high.

This marks the fifth consecutive year insurance stocks have produced good results relative to the general market, and the second consecutive year they have noticeably outperformed major indexes.

This table of 105 major insurance stocks covers 14 conglomerates, 24 property/liability companies and 67 stock life insurers. About 85% of those companies recorded gains in the market value of their stocks in 1972. Last year 80% of them were up. Nine companies closed each of the last five years with an increase over the year before.

LIFE STOCKS

Our Life Stock Index closed the year at 444.2, up 91.8 points in the 12 months. It peaked at 452.4 on November 15 after a low of 340.2 in January. The 1972 Index year-end figure is the high for the past five years—the low for the period is the 253.4 recorded in 1967—and 1973 begins with the life stocks only 15.2 points behind the all-time high of 459.4 set in April 1964.

Fifty-five of the 67 life stocks gained in 1972. Four were up more than 100% and were the biggest gainers among the insurance stocks, led by Jefferson National Life at 231%. Security-Connecticut Life gained 116%, compared with 105% in 1971, while Time Holdings was up 108%, a substantial increase over a drop of 28% in 1971, and American Heritage Life climbed 101%. Biggest losers in 1972 were Pennsylvania Life (—68%), Combined Insurance (—33%), United American Life (—29%), Monarch Capital Corp. (—26%) and Equitable Life of D.C. (—23%).

Those companies with five-year increases of more than 200% are Security-Connecticut Life, 781%; American Fidelity Life, 673%; American Bankers Life, 405%; Globe Life & Accident, 294%; and Liberty National Life, 209%.

PROPERTY/LIABILITY STOCKS

Best's Property/Liability Insurance Stock Index set record highs 11 times in 1972. The Index hit four consecutive highs during November, reaching the top at 155.8 on November 20. It tapered off during December and closed the year at 147.2, a 30-point gain over the 1971 closing. The year's low was 115.1, on January 26. Every one of the property/liability companies was up in 1972, headed by Employers Casualty (+64%) and St. Paul Companies (+61%).

The property/liability stocks began moving ahead after mid-1970 as the general market began to pick up. By the end of 1971, our Index was 86% ahead of where it stood five years earlier. By the end of 1972, the five-year increase was 179.85%. All of the property/liability stocks are ahead of their year-end figures of five years ago, with General Reinsurance showing a gain of 607%, American Reserve 586% and American Bankers 577%.

CONGLOMERATES

The conglomerates show a less consistent record than the straight insurance company stocks. Three were down in 1972, led by CNA Financial Corp. (—17%). Beneficial Standard Corp. was down for the second consecutive year, showing a 5% decline, and INA Corp. was off 3%. Best performers in 1972 were Interfinancial Inc. (+81%) and American International Group (+74%). On the five-year run, Republic International Corp. is ahead with a 273% gain, while USLIFE is up 147% and Connecticut General 107%.

Best's Review (Life/Health edition)

Insurance Stock Trends

	as of December 31, 1972				Approximate Year-end Bid Prices						1968 through 1972		% Change		
	Common Shares Outstanding (in thousands)	Aggregate Market Value of Common (in millions)	Indicated Dividend Rate Per Share	Indicated Yield in %	1972	1971	1970	1969	1968	1967	High Bid	Low Bid	12-31-71 to 12-31-72	12-31-70 to 12-31-71	12-31-67 to 12-31-72
Aetna Life & Casualty	26,461(a)	1,935	1.68	2.3	73⅛	62	47½	38⅜	51½	42	79⅞	32⅞	18	31	74
American General Ins.	25,481(a)	529	.52	2.5	20⅜	20⅛	18⅛	23½	23½	22⅛	27⅜	11	3	24	- 6
American Intl. Grp.	18,877(a)	1,600	.26	.3	84⅜	48¼	37¼	31¼	....	....	89½	19⅛	74	54	....
Beneficial Standard Corp.	3,688	35	.40	4.1	9⅞	10⅜	12¼	18	18½	11⅜	24⅜	9	—5	—15	—16
CNA Financial Corp.	34,803(a)	700	.54	2.7	20⅛	24⅛	15	23⅛	23⅞	....	31¾	10½	—17	27	..
Connecticut General	17,957	1,497	.88	1.1	83⅜	71	52⅜	73¼	57⅛	40⅜	87⅞	32⅞	17	35	107
Continental Corp.	23,461(a)	1,005	2.00	4.7	42⅞	41	33⅛	41⅞	54¼	32⅜	59¾	25	5	24	32
INA Corp.	24,163(a)	1,148	1.50	3.2	47½	49	37	33⅛	49⅝	29¼	57½	22¼	—3	32	62
Interfinancial Inc.	2,538	31	.208(b)	1.7	12	6⅜	4½	7½	....	....	14⅛	4⅛	81	47	..
Lincoln National Corp	19,379(a)	850	1.08	2.5	43⅞	42½	33¾	36¼	37¼	29⅜	45½	26¼	3	26	48
Monumental Corp.	9,302(a)	628	.52	.8	67½	50	29⅝	25⅞	....	....	69½	17⅜	35	69	....
Old Republic Intl. Corp.	[illegible]	132	.63(b)	1.2	51¼	34¾	21⅞	14	19⅜	13¾	53¾	11⅜	47	59	273
Travelers Corp.	45,158(a)	1,756	.84	2.2	38⅞	37⅛	32¼	33⅞	32½	25¼	47	20⅜	5	15	54
USLIFE Corp.	8,932(a)	661	.52	.7	74	46½	34¼	32⅜	31⅜	30	75⅜	19½	59	36	147
PROPERTY-LIABILITY															
American Bankers Ins.	4,245	93	.20	.9	22	14⅝	7⅛	6	6	3¼	23⅜	2¾	50	97	577
American Re-Ins.	5,445	282	1.04	2.0	51⅞	45⅞	35⅞	25⅞	18¾	13¼	62½	11½	13	24	292
American Reserve Corp.	3,895(a)	170	.20	.5	43⅜	30⅞	22⅜	18½	11⅝	6⅜	45	4⅞	42	36	586
Chubb Corp.	17,204	711	1.12	1.9	58¼	45⅞	35⅜	25⅝	22⅞	17¼	66¼	13⅞	27	30	238
Criterion Ins.	1,387	117	.20	.2	84	55½	28½	28⅝	27⅝	24	100	18⅝	51	97	250
Crum & Forster	12,452(a)	422	1.12	3.3	33⅞	31½	23¾	18⅜	28⅜	13⅜	39¼	29⅛	8	35	153
CSE Corp.	1,132	20	.28	1.6	17⅛	11⅛	6	6⅜	12¼	6⅞	21⅜	4⅛	56	85	153
Employers Casualty	1,200	53	.725(b)	1.6	44¼	27	13¼	12⅞	14⅝	10⅝	48¾	10⅜	64	104	316
FAC Corp.	4,931	260	.52	1.0	52⅜	43½	27½	20¼	17⅞	11¼	54⅝	11	21	58	369
Excelsior Ins.	393	7	.52	2.9	17⅜	11½	7	6¼	9⅜	6⅜	19	5⅛	54	64	163
General Reinsurance	2,723	1,288	.60	.1	473	329	179¼	118	95½	66⅞	489	58⅝	44	84	607
Government Employees Ins.	17,006	950	.67(b)	1.2	56⅞	44⅜	25⅝	26¾	26¼	23⅞	63⅞	16⅝	26	73	134
Hanover Insurance	1,664	90	1.00	1.8	54¼	41¼	31¼	20⅛	38½	34¾	65¾	17	32	32	56
Hartford Steam Boiler	1,800	86	1.56	3.3	48	48	33¼	30¼	28¼	19	60	17½	0	44	153
HSI Corp.	3,265	107	.832(b)	2.5	32⅜	27½	18⅜	15½	19⅛	11⅜	38⅜	9⅜	19	47	179
Northeastern Insurance	600	15	.72	2.9	24⅜	19¼	9⅜	8½	11½	5¼	30½	5¼	29	97	371
Ohio Casualty Corp.	5,734	307	.928	1.7	53½	48	34¼	18	17¼	14⅞	60⅛	13	11	40	260
Peerless Insurance	1,131(a)	13	.40	3.4	11⅝	10⅜	7⅛	6⅞	9½	7⅛	15⅜	5⅛	12	43	63
Republic Financial Services	3,839	126	.48	1.5	32⅜	22⅝	8⅜	7⅜	12⅜	7⅜	35⅜	5⅛	45	159	344
SAFECO Corp.	13,332	752	.80	1.4	56⅜	39⅜	31	26⅛	31⅜	18½	65⅜	16¼	42	28	205
St. Paul Companies	10,485	1,062	1.20	1.3	101¼	62⅞	54	40⅜	41½	29½	110	23½	61	16	243
Security Corp.	1,615	69	2.00	4.7	42½	29⅛	23⅝	36	39⅜	28⅜	45¼	18⅞	46	23	48
U.S.F.&G.	15,547	728	2.28	5.2	43⅞	42⅜	41	33⅜	37	25⅜	51½	21	4	3	70
Western Casualty & Surety	4,700	132	.48	1.9	25½	20⅛	12⅛	9⅛	12⅛	10⅜	28⅜	7	27	66	140
LIFE															
All Amer. Life & Financial	5,026	87	.24	1.7	14½	13	11¼	16⅜	16⅛	12½	17⅛	7⅜	12	15	16
American Bankers Life	1,844	64	.20	.6	34⅜	18	10⅜	12⅝	13	6⅞	35⅜	7⅛	93	67	405
American Fidelity Life	1,649	72	.0727	.2	43½	23¼	5⅜	7⅜	7⅜	5⅜	49	4⅞	87	302	673
American Heritage Life Inv.	3,259	92	.25	.9	28⅜	14⅛	9⅜	11¼	13½	9⅜	33¼	7⅜	101	45	191
American Income Life	1,331	23	None	None	17	13	8¼	10⅜	13⅞	9	29	8¼	31	58	89
American National	32,213	395	.38	3.1	12¼	8¼	8¼	8⅞	14⅛	11½	16⅛	7⅜	51	—2	7
American States Life	1,453	23	.05	.3	15⅜	18⅝	14	9⅜	12¼	12	23½	6½	—15	32	31
Bankers Security Life	1,102	22	.20	1.0	20	13	11	12	16¼	13⅜	21⅜	9	54	18	45
Beneficial National Corp.	1,885	10	None	None	5¼	3⅜	4¼	6½	10½	4⅞	11¼	3¼	40	—12	8
BMA Corp.	5,972	181	.415	1.4	30¼	21	18	20¼	26	24	32½	13⅜	44	17	26
Cold.-West. States Life	5,249	93	.44	2.5	17⅜	19½	18	17	26½	18¼	30	9⅜	—9	8	- 7
Capital Holding Corp.	26,508(a)	765	.2288	.8	28⅞	22⅛	14½	11	11½	9⅜	31⅜	8½	31	53	196
College University Corp.	1,572	[illegible]	.11	.5	20⅜	16¼	8¼	21	26⅜	29⅜	35½	8⅜	28	97	—30
Colonial Life & Accident	1,982	142	.32	.4	71½	61¼	48	45⅝	46⅜	31	80	27½	17	28	131
Colonial Penn Group	15,896	1,013	.15	.2	63⅜	32⅛	13⅞	7⅜	....	....	86¼	4⅜	98	171	....

Insurance Stock Trends

	as of December 31, 1972				Approximate Year-end Bid Prices						1968 through 1972		% Change		
	Common Shares Outstanding (in thousands)	Aggregate Market Value of Common (in millions)	Indicated Dividend Rate Per Share	Indicated Yield in %	1972	1971	1970	1969	1968	1967	High Bid	Low Bid	12-31-71 to 12-31-72	12-31-70 to 12-31-71	12-31-67 to 12-31-72
Combined Ins.	27,821	567	.46(b)	2.3	20⅝	30⅜	29¼	38⅞	41¾	29	45½	17½	—33	4	—30
Continental American Life	494	15	1.12	3.7	30	22½	23	24½	30⅜	35¼	36¾	16	33	—2	—15
Equitable Life, D.C.	3,337	73	.3432	1.6	22	28½	12	10	12⅜	8¼	32¼	8¼	—23	138	167
Equitable Life of Iowa	5,000	114	.25	1.1	22¾	....	....	....	....	....	27½	18¾	....	....	....
Family Life	2,023	36	None	None	17⅛	16⅞	12⅞	11¼	22¾	8⅝	25¾	7	4	31	104
Farmers New World Life	6,601	418	.12	.2	63¼	40½	25⅞	34¾	27¼	27	68¼	14⅛	56	57	134
Fidelity Union Life	5,100	213	.245	.6	41¾	37¾	29⅜	40¼	44⅛	23¼	46¼	23¼	11	29	80
First Pyramid Life	1,000	9	.064	.8	8½	4⅝	2½	2⅝	4¼	3½	9⅜	2¼	84	85	143
Franklin Life	21,008	656	.52	1.7	31¼	22⅛	18⅞	17	26⅜	23⅞	34½	10¼	41	31	31
Globe Life & Accident	3,031	76	.0692	.3	25⅛	20	10¾	10¼	8¾	6⅜	33	5⅞	26	86	294
Government Employees Life	2,977	185	.24	.4	62¼	38¾	28⅞	25⅝	25¾	21¼	66¼	17¼	61	34	193
Great Southern Corp.	5,000	127	.36	1.4	25⅝	16⅜	9	10	16	10	27⅞	8	55	82	154
Gulf Life Holding	5,278(a)	298	.85	1.5	56⅛	47¾	31⅞	35¼	26¾	21¼	59⅝	18¼	18	50	165
Home Beneficial Corp.	3,200	147	.74	1.6	46	26¾	19½	18¾	19⅝	18¼	49¼	15	72	37	152
Home Security Life	970	23	.50	2.1	23½	13⅞	9¼	10¼	15	9½	25¾	8½	69	50	147
Independent Life & Accident	4,908	255	.76	1.5	52	31¼	28¼	31	38	20	53¾	19¼	66	11	160
Integon Corp.	6,356	112	.24	1.4	17⅝	11⅛	9¾	14	16	9¼	18⅝	6¼	52	19	91
Interstate Corp.	5,555	181	.20	.6	32½	24¾	12	10¼	14¾	14½	34¼	8¾	31	106	124
Jefferson National Life	1,254	50	.20	.5	39¾	12	8¼	10	15⅞	12¾	41¾	7⅜	231	45	212
Jefferson-Pilot Corp.	12,029	838	.92	1.3	69⅝	48	27¼	30	34⅝	28	73⅝	23½	45	76	149
Kansas City Life	1,021	142	2.20	1.6	138	113	85⅞	61⅝	92½	64½	140	55	23	32	117
Kentucky Central Life	5,599	48	.16	1.9	8⅝	6⅜	6	6⅞	10	7½	12	4½	35	6	15
Lamar Life	778	30	.80	2.1	39	34	29	33½	35	35½	42½	24½	15	17	10
Liberty Corp.	6,760(a)	155	.25(b)	1.1	23	19⅞	17½	17⅝	23¼	17½	25½	13	16	14	31
Liberty National Life	15,030	738	.364	.7	49⅛	34¾	23¾	22	23¾	15⅞	49¾	15⅛	41	46	209
Life of Georgia	4,000	173	.58	1.3	43¼	28½	16¾	18½	22	22	43¾	12⅜	52	70	97
Midwestern United Life	2,114	41	.47(b)	2.4	19⅝	20⅝	11⅞	12½	18¾	17⅜	23	10½	—4	72	13
Monarch Capital Corp.	9,992	182	.64	3.5	18¼	24⅝	18⅝	14⅞	24½	18¼	29⅞	11	—26	34	0
National Old Line	5,676	55	.20	2.1	9⅝	8⅛	7⅝	5½	7⅞	5⅜	11	5	20	10	73
Nationwide Corp.	10,228	191	.20	1.1	18⅝	10¼	11	10⅛	11	7⅝	19¾	7½	82	—7	144
Nationwide Life	3,600	92	.50	2.0	25½	18¾	18	15	19	16¼	28½	13	36	4	57
NLT Corp.	17,100	1,015	.60	1.0	59⅝	33⅝	31⅛	36	43	34⅝	59⅝	22½	77	6	71
Northwestern National Life	3,520	85	.385	1.8	24¼	17½	22	24⅝	21⅝	19	27⅝	15⅛	39	—20	28
Pennsylvania Life	21,649(a)	198	None	None	9⅛	28½	23	24¾	19⅝	7¾	30¼	6¼	—68	24	18
Philadelphia Life	7,584	234	.381	1.2	30⅞	17⅜	11¾	15⅝	25½	19¼	34⅞	8⅝	78	48	61
Protective Life	2,565	50	.42	2.2	19½	16¼	12¾	13¾	16¾	13½	20⅛	10⅝	20	27	44
Provident Life & Accident	3,937	472	1.00	.8	120	82	60½	62½	65	54¾	130	44½	46	36	119
Republic National Life	9,393	141	.208	1.4	15	15⅛	14	20¼	34½	17⅞	35½	11	—1	8	—18
Richmond Corp.	6,263(a)	362	1.04	1.8	57¾	54⅞	37	35⅝	39¼	26⅝	62¾	24	5	48	117
Security-Connecticut Life	1,660	49	None	None	29¾	13⅝	6¾	6⅛	5	3⅜	31	3½	116	104	781
Security Life & Accident	1,414	22	.32	2.1	15¼	19	14¼	12¼	19½	11⅝	23⅞	10¼	—20	33	31
Southland Financial Corp.	6,311	265	.50	1.2	42	23⅝	19⅛	14¼	19	17⅝	44¼	13¾	77	24	138
Southwestern Life Corp.	10,331	427	.80	1.9	41⅜	35¼	27¾	23½	24¼	18⅝	45¼	17⅝	17	27	121
Standard Security Life	1,060	12	None	None	11¼	10	9	22½	28	11	31	8	13	11	2
Sunset Life	509	15	None	None	28½	23¾	19½	15½	22¼	14¼	36½	13⅝	20	22	100
Surety Financial Corp.	1,777	9	.04	.8	5¼	3⅝	4	4⅛	8⅝	4½	10⅜	2¾	56	—18	17
Time Holdings	1,331(a)	43	.20	.6	32¼	15½	21½	24¼	18⅝	20½	34	13¾	108	—28	57
UNICOR Corp.	4,708	88	None	None	18⅝	16⅞	19½	22¼	33	28⅝	38	13½	10	—13	—35
United American Life	1,613	6	None	None	3⅝	5¼	5⅞	5¼	6¼	4⅜	7⅝	3⅜	—29	—11	—14
United Services Life	2,376	80	.35(b)	.9	37⅜	30⅝	21⅝	22¾	22⅛	15¾	42¾	13⅝	22	42	137
Washington National Corp.	5,571(a)	175	.68	2.2	31½	35¼	22	36¾	41¾	29	48⅝	16¾	—11	80	9
West Coast Life	1,000	16	.50	3.2	15½	14½	13	15	22	16	24¾	10	7	12	—3
Wisconsin National Life	525	14	.64	2.5	26	20⅝	14	18	17	14¼	26	11	25	48	82

Note: All prices are adjusted for stock dividends and splits through December 31, 1972.
(a) Convertible issues are also outstanding.
(b) Indicated dividend rate includes extra.

New publications

Glossary of Insurance Terms *edited by Robert Osler and John S. Bickley, Ph.D.*

Encouraged by the Commission on Insurance Terminology and the board of the American Risk & Insurance Association, the glossary features definition of key terms used in all lines of insurance, including all the definitions developed by the CIT and ARIA. It also contains a special section of definitions developed by the Committee on Pension and Profit-Sharing Terminology, sponsored by the Pension Research Council and under the chairmanship of Dr. Dan M. McGill, chairman of the insurance department, Wharton School of Finance & Commerce, University of Pennsylvania. Also included and indicated are definitions developed by the Reinsurance Association of America.

The glossary is designed as a reference for students of insurance, for insurance industry personnel, and those in related areas.

175 pages.—$4.95 per copy for the hardbound edition and $3 for the softbound version in orders of 100 or more. Available from Insurors Press, Dept. IG-1, P.O. Box 1430, Santa Monica, Calif. 90406.

Unaccountable Accounting *by Abraham J. Briloff, Professor of Accounting at the City University of New York*

This book begins with a description of the underlying body of accounting theory, and the author then documents the ways in which this doctrine has been perverted in practice. In this development, Professor Briloff brings into question the practices followed by some major stock exchanges, all audited by prominent national accounting firms.

The author discusses the conflicts in interest that currently face the accountants. They are torn between corporate management who pays them for their services, and third parties who rely on their independence and integrity for exposing all the facts regarding the corporation's activities and status. He concludes with his proposal for reform directed toward management, the financial community, investors, government, the organized profession, and especially the individual accountant.

365 pages. $9.50 per copy. Published by Harper & Row, 10 E. 53rd St., New York, N.Y. 10022.

The Simplicity of Agency Management *by Jack W. Hartman*

This book presents a system of training and supervision that has worked effectively with large numbers of agents who are detached from the agency office. Mr. Hartman has developed an automatic recruiting system that develops qualified recruits in areas from 20 to 200 miles away from the agency office.

According to Mr. Hartman, "The secret of motivation is in being able to get other men to motivate themselves. The ability to teach men how to motivate themselves is far and away the most important part of a general agent's job."

$8.75 per copy (less in larger quantities). Available from National Underwriter Co., 420 E. 4th St., Cincinnati, Ohio 45202.

An Historical Analysis of the Tontine Principle *by Robert W. Cooper*

This monograph, published by the S. S. Huebner Foundation for Insurance Education, initiates a series designed to recognize scholarly studies which are not of sufficiently wide interest to warrant commercial publication but which are too long for publication in a journal.

This particular monograph is based on a seminar paper written by Mr. Cooper while a Ph.D. student in insurance at the University of Pennsylvania. The study concentrates on the tontine and semi-tontine (deferred dividend) life insurance policies which were issued in the United States during the nineteenth and early twentieth centuries.

The author attempts to clarify the linkage among the diverse schemes, ranging from fourteenth century government loans to the deferred vesting requirements of modern pension plans, by providing a general definition of the tontine principle. Next, he offers an historical analysis of several of the key applications of the principle. Also briefly mentioned in the discussion are pre-nineteenth century tontines and modern applications of the principle.

69 pages. $2.50 per copy. Available from Richard D. Irwin Inc., Homewood, Ill. 60430.

Establishing an Internal Audit Function in a Life Insurance Company, Financial Planning and Control Report No. 24

Designed for companies of all sizes, this LOMA report covers requirements for organizing an internal auditing function, basic auditing terminology, and background information on conducting internal audits. Attention is focused on the internal auditor's responsibilities, implementing the function in home office operations, and writing meaningful reports to management.

Appendices illustrate organizational alignment and techniques used in conducting audits and preparing audit reports. A bibliography includes such subjects as systems analysis, EDP and auditing, statistical sampling, flow charting, internal control, and operations and management auditing.

The report has been distributed to association members. Additional copies for members are $5.50 each; for nonmembers, $10. A postage charge of 35 cents for one report and 25 cents for each additional report should be included, as well as New York sales taxes, where applicable. Available from Administration Division, Life Office Management Association, 100 Park Ave., New York, N.Y. 10017.

(Continued)

Carney Smith Explains Problem Of Answering Life Ins. Critics

Some insight into the dilemma the life insurance business faces as far as its recent batch of self-appointed critics is concerned was provided those in attendance at the annual convention of National Assn. of Life Underwriters in Minneapolis by C. Carney Smith, NALU executive vice president, in his report to the membership at the national council session Monday morning.

C. Carney Smith

As Mr. Smith noted, attacking the establishment seems to have become a popular national pastime, and there can hardly be a more "establishment industry" than the life insurance business. Thus, it only naturally follows that many articles critical of the business and, sometimes, of the men who sell its products, the life agents, are appearing in newspapers and magazines throughout the country.

Mr. Smith then spelled out a particular case and the problem NALU had in answering a critic: "One of them which some of you may have seen appeared in a Los Angeles newspaper and was prepared by a professor at a highly reputable university. He condemns cash value life insurance and also condemns agents per se. He recommends mass merchandising as a substitute for the agency system. We contacted the dean of this university concerning this article, and he was disturbed as we were, but he pointed out that the professor had 'tenure.'

"This is the answer we get from other universities that have professors who are ill-informed and ill-equipped to pass judgment, but who—because of their position and the glorification that has been given to them in recent years—find receptive ears for their unwarranted attacks."

Fighting At A Disadvantage

Mr. Smith indicated that while NALU works hard to combat this sort of criticism, it fights at a disadvantage. For example, "When the professor of a very famous school—well known to all of you—suggested that cash value life insurance be declared illegal, we secured another professor to answer him. It wouldn't do any good for us to answer him. Unfortunately, the other professor's article, not being anti-establishment, did not receive such wide publicity as did the attack."

How much do the writings of these critics affect public attitudes toward life insurance? In attempting to answer this question, Mr. Smith gave the example of a recent series of articles critical of life insurance that appeared in a New York City newspaper. Immediately after these attacks were printed, the institute of Life Insurance conducted a poll to determine the reaction of the public served by the particular newspaper. The results showed that 54% of the respondents still maintained a favorable attitude toward the life insurance business. Also, Mr. Smith pointed out, the result is not different from the comparable findings in the institute's continuing attitude surveys.

However, he noted, "this is not to imply that these articles had no negative consequence. A good many of the people (respondents) played back the charges which had been made in the article with a great deal of accuracy. I am sure, too, that some of our agents in that area found their prospects with another excuse for not taking action."

As for what this means for NALU, Mr Smith said: "All of this points out the fact that NALU must be more aggressive than it has been in the past in the field of legislation, both on the Federal and state levels. It must do a great deal more in the area of education and training—particularly in the field of adult education and training. We must do an infinitely better job of our public relations; we must remember and recognize that in all of these areas the best way in the world to get to the minds of the people is through our personal involvement with their problems.

"You do it every day as you solve those problems by providing financial services to meet individual needs. Your national association does it on a countrywide scale through greater service in law and legislation, association management, public relations, public education and further expansion of our services to you, our members."

Excerpts from Mr. Smith's report follow:

Smith's Remarks

The success of the present NALU administration, to the extent that the staff is responsible for it, is due in large part to the good work that has been done by those people who stayed in Washington and really kept the show going.

We have been understaffed since Robert Wood left. The reason that we have been able to survive this year without actually replacing one department head has been because all the rest of the staff cooperated and assumed some of the duties that had been carried on by Lee Derkay and/or Bob when they were in two separate jobs. That sort of thing is going to have to be changed soon, because there are just certain tasks that cannot be accomplished unless we add additional personnel to do them.

Year Of Growth

However, this year has seen growth and development in every area of activity. We had more conferences with some of your leadership—involved and representing more of your local and state associations than ever before in the history of NALU.

With the help of the NALU Foundation we have produced a series of 10 educational TV programs on family finance and money management. These have already been shown in a number of cities, and their exposure will grow as months go by.

We are in the process of preparing some filmed program material that can be made available to local associations. Under normal circumstances the sort of talent we hope to assemble is of a calibre which they might not be able to attract through their own efforts. At the moment we have money for three such programs. We do earnestly hope we can expand this project in the foreseeable future, so that every one of our 100,000 members—wherever he or she lives—can have the advantage of seeing, hearing, and benefiting from the knowledge of the truly great people in our business.

Public Service Program

We have seen the public service program, co-sponsored by NALU and the Institute of Life Insurance, grow to the largest number of participating associations in its 14-year history. It has grown from very

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THE NATIONAL UNDERWRITER

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The National Underwriter

Extra Edition No. 388 LIFE & HEALTH INSURANCE EDITION September 17, 1970

Sees Problems For 'Life-Only' Insurance Cos.

Companies that choose to sell only life insurance are fighting a losing battle for the consumer dollar, W. Douglas Bell, president of State Mutual Life, has warned.

"If other life companies are going to branch out into all lines and financial services, as they have and as they are; and if the general insurance companies are going to invade the life insurance market, as they have and as they are; and if the mutual funds and the bankers and J. C. Penney and others are coming in too, as they are, then it certainly seems probable that the company that specializes in life insurance alone will have a market that becomes narrower and narrower in the long run," he said.

GAMA Speaker

Mr. Bell spoke in Minneapolis at the luncheon sponsored by General Agents & Managers Conference during the annual meeting of National Assn. of Life Underwriters.

His basic theme was that companies will not only have to accept the fact that conditions are changing and pressures are growing, they will also have to determine how they can bert adapt to the changes.

And, he said, with more and more companies offering their diversified

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Life Ins. Business Critics: Watson's Reasoned Analysis

A calm and reasoned analysis of the life insurance industry and its critics, of public attitudes toward the business resulting from the shower of recent criticism, was provided by Thomas A. Watson, president of Lincoln National Life at the National Assn. of Life Underwriters annual convention in Minneapolis.

Mr. Watson was the speaker at the Past President's Breakfast on Thursday morning, a new feature in NALU's streamlined convention program. (In prior years, the Past President's event was a luncheon at Thursday noon.)

Mr. Watson, after a review of some of the criticism, said that what the critics seem to be saying to the industry adds up to something much as the following:

If the industry were to cut its product lines, and if it published comparative rates or adopted the same rate scale throughout, it would save its marketing dollar, agents would be put out of work and the business would thus have to depend upon the sophistication of the buyer to take care of his financial planning. Mr. Watson noted the irony in such a situation when he added that it is

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Organized Crime And Insurance Tie-Up? Another Shocker For NALU Annual Meeting Audience

By WILLIAM MACFARLANE

MINNEAPOLIS—Organized crime in America is not only costing the insurance business countless millions of dollars annually, it has already made successful inroads into the industry on several fronts, according to Aaron M. Kohn, managing director of the Metropolitan Crime Commission of New Orleans, who was a featured speaker on the program for the annual convention of National Assn. of Life Underwriters here.

As the new streamlined NALU program moved toward its conclusion, Mr. Kohn's remarks at the public service luncheon represented yet another unexpected shocker for an audience that had come to this annual convention expecting a moderately routine meeting devoted primarily to the dog-work of association business. First, it was the unnerving realization that Minneapolis's nationally reported bombings and bomb scares were more than mere sensational journalism. (See the first of these special NALU convention issues for a report on NALU people and their brushes with bombs and bombers.) Now they were being told that the insurance industry—an industry which at least two speakers on the program had referred to as an "establishment business"—was being invaded by some of the worst possible criminal elements in the U.S.

At a press conference Mr. Kohn elaborated on those portions of his talk that dealt with the insurance business. (Elsewhere in this special NALU convention issue there is a short report of the non-insurance elements of his talk.) He explained to the press exactly why organized crime would seek to move into insurance. Basically, he said, it needs such corporate entities as insurance companies, loan companies, and savings and loan associations to, first, hide its illegally acquired capital and to then use the investment medium as a means of moving that capital into still other investments, either legal or illegal. A favorite route is outright acquisition, as opposed to just minority stock investment, because it permits criminal organizations to own and control the records of the business and the movement of their capital.

Mr. Kohn gave several examples of organized crime's involvement with the insurance industry, among which were:

"Insurance company funds have helped capitalize Las Vegas gambling casinos.

"Last month, at the American Bar Assn. convention in St. Louis, Ralph Salerna reported that the biggest number-gambling racketeer in Indianapolis bought out an entire insurance company, lock, stock and barrel.

"Sometime ago I learned about negotiations of a national life insurance company with two labor union bosses for group insurance, with indirect kickback inducements. Both labor bosses, according to our information, have a history of economic alliance with La Cosa Nostra's boss in Louisiana, Carlos Marcello.

"A Louisiana-based financier includes among his many controlled corporations ownership of a life in-

Cont'd on Page 6

Sales, A 'With It' Career: Mischke

HERBERT F. MISCHKE, Equitable of Iowa

Herbert F. Mischke, who is slated to become president of National Assn. of Life Underwriters this morning, frequently expresses the strong conviction that the world of life insurance selling is a "with it" career—particularly for young people who are willing to apply their talents and engage in meaningful hard work.

During his tenure as NALU president, Mr. Mischke said, he intends to re-emphasize this belief, pointing up the tremendous challenge existing in the business to be creative in the face of rapid, complex change.

"I can't stress enough," he says, "how great our opportunity is. There has been a marriage of the traditional, fixed-dollar concept of life insurance with equities and variable life insurance. We are moving towards becoming an 'account-oriented' rather than a 'policy-oriented' business. More than ever, life under-

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SPECIAL ISSUE: NALU Annual Meeting / Thursday

Carney Smith Explains Problem Of Answering Life Ins. Critics

Cont'd from Page 2

modest beginnings into what is now referred to as the "shining example of business/industry voluntarism," by government and private health and welfare officials. There is no better program in the country than ours. It is topped only by programs established under the auspices of the various service organizations.

This past year 495 local associations, representing 75,000 of our members, participated in over 700 individual community service projects.

A recent survey by the Institute of Life Insurance research department unearthed these telling statistics: (1) Four out of every five rank-and-file NALU members feel public service is helpful to their work; (2) Over three-quarters of the respondents would like to see their local associations put more emphasis on public service and almost no one felt it should be cut back.

Jim Douds has again this year served on several committees of the National Assn. of Insurance Commissioners. Publications of the State Law and Legislative Bulletin and the Federal Legislative Roundup has reached an all-time high. Never before have so many of these bulletins been sent out as have been this year.

Several years ago it was my good fortune to be able to report to you on the contribution that John Z. Schneider had made as the president of your association in the years 1963-64. This year I can report on what he has done for NALU as a consultant in equity products.

As you know, at the time of his presidency and until January of this year, John Schneider was manager for Connecticut General in Baltimore. Most of you also know that Connecticut General was one of the first life insurance companies to enter the equities field. For several years, then, John has been engaged in studying, training and supervising people in the area of equity sales.

What some of you probably did not know, is that before John joined Connecticut General he served as a lawyer and a trust officer in one of the major Baltimore banks. It was a most fortunate thing for us that he decided to take early retirement. It was fortunate, too, that he consented to act as consultant for us.

Some weeks ago, Jim Douds and I had lunch with Robert J. Myers, retired chief actuary of the Social Security Administration. As you know, it is through him that we obtained a good many of the figures that we have used in our testimony and in articles we have had printed. Mr. Myers' information served as the basis for comments we made concerning the utilization of Social Security funds for retirement purposes.

Since it would be a real advantage to know that the figures we use and the points we make in our Social Security testimony have been verified by the former chief actuary of that organization, and since he has been a friend of ours for a long time, we therefore decided to retain Mr. Myers as a consultant in the area of Social Security.

Consistently, throughout all of its 80 years, we have endeavored to follow the three basic objectives that were laid down by our founding fathers in 1890. The three objectives are:

1. To preserve the agency system.
2. To upgrade the individual agent.
3. To create a better climate in the public's mind for the selling and servicing of life insurance.

We hade adhered consistently to those objectives. To implement them, your leadership has, over the years, founded the American College of Life Underwriters; the Million Dollar Round Table; was instrumental in helping to establish the Institute of Life Insurance; is recognized by the LIAMA as one of its founding organizations; joined the LIAMA in establishing the National Quality Award; participated in founding the LUTC, and now has two conferences for special interest groups: The General Agents and Managers Conference—which was founded in 1951—and the Association for Advanced Life Underwriting—which became a conference of ours in 1967.

Expanding Services

Since 1963 our services in every area have been expanded to meet the growing needs of change in this country. We have established the national sales achievement award; we have produced slide films, film strips and movies to help you tell your story to educators, students and service groups. These last seven years have seen our offspring become lusty, stronger and bigger.

As they grow stronger and bigger, it is necessary for them to produce bigger and better educational programs. This is as it should be. Nevertheless, these meetings now being sponsored by our allied and affiliated organizations put another demand on the time and talents of the outstanding leaders of this business. It also puts the life under-

already, but we should have funds for expansion of this project.

EDUCATION AND TRAINING. Successful implementation of adult classes in money management/family finance in a number of cities and the creation of an educational TV series has set the scene for greater efforts But it appears the key to continuing success in consumer education is found in the amount of personal on-the-spot assistance NALU can give.

We cannot discuss these new programs without discussing headquarters personnel, because the nature of the services will obviously require additions to the staff.

Broadening Sights—

All of us know that the entry of the life insurance business into the equity field has caused us to broaden our sights as an organization, to take a look at our priorities, and, to retain our distinguished past president, John Z. Schneider, as a part-time consultant on equity products.

It is probable that we will soon have to have another lawyer—with background in equities and equity regulations.

Because of the loss of a key staff executive early this year, other members of the staff have had to assume his duties, in addition to carrying out their assigned tasks We should fill this void at headquarters—with special emphasis on an individual or individuals skilled and experienced in association management and services.

To sum up, then, a projection of meaningful programs in law and legislation, association management, public relations and conceivably in equity products will necessarily require more staff personnel

LEGAL STAFF. Here are some other ideas as to additional activities that NALU might support of a Federal and state legislative nature:

1. With sufficient funds, the legal department could invite key association members to Washington for visits with members of the Congress These individuals would be used to assist NALU in making its viewpoint clear on various issues

2. Our state leaders would value additional assistance from our legal staff through additional regional meetings and personal visits Such activity can help us more easily pinpoint areas where NALU assistance will be of value, in advance of a crisis.

3. Introduction of computerized services in the area of insurance laws and codes among the 50 states

The thought here is to distribute this material to the various insurance departments and state legislative chairmen as a service of NALU

Total Picture

Since the real purpose of these remarks is to (1) assess our present capacity to serve effectively in a time of change, and (2) to perceive the resources to assure our leadership in the next 10 years, we would be remiss if we didn't look at the total NALU picture.

In doing so, we find opportunity to improve our performance in several other areas For example:

DATA PROCESSING:

1. This is a relatively new area for NALU and it might result in new areas of service to the membership such as membership reporting, dues collection, more efficient and faster reporting of statistical information to the field, and surveys and studies regarding industry, association, and similar problems.

2. Additional equipment for the data processing department would be required if this program proves to be feasible.

AWARDS DEPARTMENT:

1 With additional funds it would be possible to improve promotion and get greater participation in our quality and recognition award programs

2. A larger budget would enable NALU to initiate a series of visits by staff to company home offices to explain the various award programs, and work out tie-in promotions

INTERNAL COMMUNICATIONS.

We have improved our internal communications in recent years through the president's area conferences, regional conferences, staff and board participation in state and local meetings and state association management conferences

We could further improve on this performance by greater utilization of our experienced officers and trustees as "traveling ambassadors of NALU"

It is important, I believe, to bring rank-and-file-members and NALU leaders into face-to-face situations to discuss our policies, programs, and future

Obviously, the funding of this extensive visitation program requires additional dues dollars

One Man's View

I have given you one man's look into the future of this organization I am convinced that the response we must make to the realities of the times makes it necessary for NALU to increase its dues.

NALU has had only two dues increases during the last eight years We increased dues $2 in 1962 and voted another $2 increase in 1966, to become effective in 1968 In addition, we also installed a new membership fee of $2 in 1967, which goes to help liquidate the mortgage on our headquarters building

We will have a surplus in the 1969-70 year. This is due in part to money saved when no staff replacement for Robert H. Wood was hired, in part to unanticipated savings in our pension plan, in part because we did not do some of the things requested by our affiliated associations because of lack of staff personnel.

Because of the 1969-70 surplus and accumulated surplus from past years, we can operate through the 1970-71 fiscal year without a dues increase By Jan. 1, 1972, however, we will have run out of lead-time in facing up to the challenge of the 1970s

Our finance committee has recommended that our national dues be increased before making any commitments for these new programs in our NALU blueprint for action.

The executive committee has unanimously endorsed this proposal and your board of trustees voted to recommend this proposal and to urge its approval.

Therefore, I earnestly and sincerely recommend for your adoption an amendment to our by-laws which will become effective Jan 1, 1972, and raise our national dues by $3 to a total of $13 annually One dollar of this dues increase will be specifically earmarked to support a national advertising program for NALU. The other $2 will be used to move NALU forward and to keep our association in the forefront of all that is good for the life insurance salesmen of America.

—

From Kentucky Central

Attending the convention as representative of the Lexington, Ky., district sales office, is Emmett R. Crump Jr, manager.

writer, who is anxious for knowledge and success, in a position where it is necessary for him to make choices. It is extremely difficult for a life underwriter to attend all the meetings of all of these allied and affiliated organizations and still take care of his clientele in the way in which he would want to do.

Therefore, it behooves NALU to be aggressive and forward-looking in its leadership to the industry if we are to meet the challenges that face us in competing for the time and talents of the people we need, and by the same token, by the people who need us. If NALU fails, then all the educational forums in the world won't save the life underwriters. If the agency system is to survive, we have to battle our critics not only in the legislative halls of our state capitals and in Washington, D.C., but in the minds of the people. That is why it is essential that NALU not rest on the laurels of its past contributions but move boldly out in front to give leadership as it always has to the industry.

Northwestern Natl. Dinner

Eight men from the home office of Northwestern National Life acted as hosts for the company dinner held Tuesday evening in the Minneapolis Club. They were John S. Pillsbury Jr., chairman; Harry E. Atwood, president; D. D. McLaughlin, vice president and marketing director, Robert V. Van Fossan, senior vice president, agency; Gordon L. Williams, 2nd vice president-marketing; Chris Finsness, 2nd vice president-advertising and public relations; John C. Anderson, 2nd vice president, agency administration, and John E. Pearson, vice president and group manager.

Equitable Society Events

Hosts at the dinner for company people held Tuesday evening in the Curtis Hotel by Equitable Society were Richard C. Hageman, senior vice president; Robert J. Tiffany, vice president; J. A. Babb, 2nd vice president; J. C. Kinder, divisional agency vice president; R. L. Benoit, manager-communications, and James M. Partridge, press relations.

From Independent L&A.

Attending the convention as representatives of the home office of Independent Life & Accident are James B. Windham, vice president and director of ordinary agencies, and J. E. Harrison, vice president and director of agencies.

Representing Capitol Life

Leonard T. Prozak, regional director, is attending the annual convention as a representative from the home office of Capitol Life

Indianapolis Life Hosts

Hosts at the dinner held Tuesday night in the Normandy Motor Hotel by Indianapolis Life were Arnold Berg, senior vice president and director of agencies, and George Thomas, superintendent of agencies.

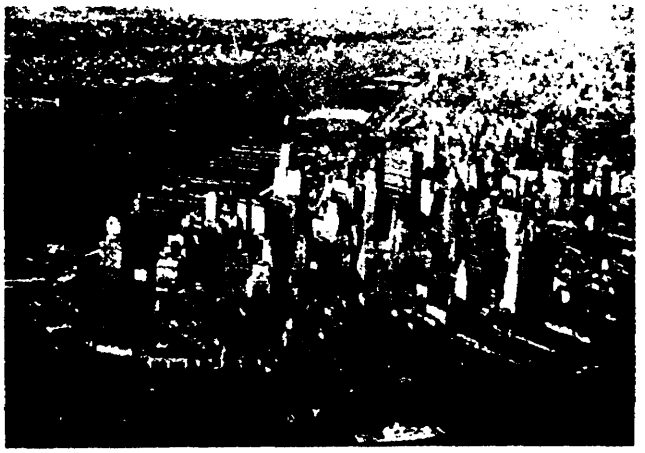
John Hancock Reception

John Hancock held a reception for company people Tuesday night in the Pick-Nicollet Hosts were Merrill W. Kidman, senior vice president; Orville M. Ericksen, 2nd vice president; Harold W. Chader 2nd vice president, and Frank C. Clapp, 2nd vice president

From Maccabees Mutual

M. H. Lundgren, senior vice president, sales, and R. B. Green, director of agencies, are representing Maccabees Mutual Life at the convention.

BEST WISHES TO 81st ANNUAL NALU MEETING from these New York LIFE OFFICES



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the widows study

VOLUME ONE

THE ONSET OF WIDOWHOOD

Filing note to LIAMA member companies:

This report is Research Report 1970-8 in LIAMA's regular research report series.

Its LIAMA file number is 730.

An Opinion and Attitude Study

Introduction

The Onset of Widowhood

A husband dies and a wife begins a new life alone -- with the responsibility for maintaining herself and her family. If she is in good health, the widow may be able to earn an income. She will have the proceeds from her husband's life insurance. While the children are growing and after she reaches retirement age, she will also have social security. But are these resources, together with whatever miscellaneous financial assistance she may receive, sufficient to maintain a semblance of her family's former standard of living?

In spite of the fact that life insurance companies pay out billions of dollars in benefits annually, there is little systematic knowledge of the economic impact of death on the family structure or of the ways in which survivors cope with their changed financial situations. This study was undertaken to examine the economic and social consequences of the death of a husband upon his survivors, the extent of planning for this economic change that is done while the husband is alive, the availability and nature of financial counsel at his death, and the use to which life insurance benefits and funds from other sources are put.

The knowledge gained from this study should help the insurance industry evaluate its success in accomplishing its goal of alleviating the hardships caused by the premature death of the family head. The results may suggest possible changes in coverage, methods of benefit payments, service to policyowners and survivors, and marketing strategy. Most important, the study should provide insurance representatives with realistic information about widowhood so that they may offer improved counseling to their prospects and policyowners and to the survivors.

The information for the study was gathered in a series of personal interviews conducted in late 1968 and early 1969 among a sample of women whose husbands had died in 1966. The sample was drawn from the death certificates of married males under the age of 65 who had lived in the following Standard Metropolitan Statistical Areas: Boston, Chicago, Houston, and San Francisco. Standard Metropolitan Statistical Areas include within their boundaries suburbs, small cities, and open areas, and roughly 2 out of 3 Americans live in SMSA's. Although the sample is not representative of all deceased husbands under 65 years old, the characteristics of the families in the study closely parallel those of families in an age-equivalent segment* of the population.

*An age-equivalent segment is one in which the characteristics of the families or individuals in the total population are adjusted to match the age distribution of males who die between 25 and 64 years old.

Chilton Research Services of Philadelphia was responsible for drawing each of the samples and for the selection, training, and supervision of the staff of interviewers. The methods used are described in detail in the Technical Supplement.

The findings from the study will be presented in two reports. This first report deals with the onset of widowhood. It describes the families before and immediately after the death of the husband; some of the consequences of prolonged terminal illness and disability; final expenses and how they were met; the assistance the widow received from life insurance representatives and others at the time she was settling her husband's affairs and applying for survivor benefits; the survivor benefits that were actually received; and the widow's initial decision regarding the disposition of life insurance proceeds.

The second report will deal with the changes the families underwent during the first two years after the husband's death and will examine the extent of economic hardship that resulted from the death. It will also examine the meaning of life insurance to the surviving families and the role of life insurance and other income maintenance programs in alleviating hardship.

The study is a joint undertaking of the Life Underwriter Training Council and Life Insurance Agency Management Association. The sponsors will not attempt to acknowledge all who contributed to the study, but special mention must be made of the assistance received from the departments of health for the states of California, Illinois, Massachusetts, and Texas. Without permission to sample from their files of death certificates, the study design could not have been implemented. The sponsors also are very appreciative of the assistance received from Dr. Robert D. Grove, Director of the Division of Vital Statistics of the National Center for Health Statistics, in gaining the cooperation of the states.

Finally, the sponsors are deeply grateful to the 1,744 widows for their willingness to reveal very intimate financial details to the interviewers and to the interviewers for their skill and understanding in carrying out their assignments.

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A Summary and Some Implications

This report, the first of two based on the LUTC-LIAMA study of the economic consequences of premature death, discusses some of the conditions that exist at the onset of widowhood. The major findings of this section of the study are:

1. Almost all the families (98 percent) maintained their own households before the husbands died. When interviewed approximately two years later, 95 percent of the widows still maintained independent households.

2. For just over a third of the husbands (34 percent), death had come within a day of the onset of terminal illness or accident. However, more than one half (52 percent) had suffered periods of impairment of at least one month before death, and for 28 percent there was at least a year between the onset of final illness or disability and death.

3. Only 69 percent of the husbands were employed at the time of death. Compared with families with surviving husbands of comparable ages, family income was lower before the husband's death. There was also some suggestion that they had fewer assets in the form of savings and investments and that they were not as well insured. Although perhaps not the only factor, there was strong evidence that the weakening of the family's financial position and the loss of employment resulted from the illnesses or disabilities that preceded death.

4. The median or "typical" widow was faced with final expenses amounting to $2,860. Because some faced exceptionally large expenses, the average final expense was $3,900. Of this amount, $1,740 represented medical costs, $1,510 represented the funeral costs, and $650 represented other costs such as taxes, estate administration, loans that became due and payable, and miscellaneous outlays.

5. Final expenses were strongly related to the duration of the husband's terminal illness and to family income. Among those with illnesses or disabilities of six months' to two years' duration, medical expenses alone averaged $3,600. The per capita final expense ranged from $2,000 among families whose incomes had been less than $3,000 to $7,200 among those with predeath incomes of $15,000 or more. The increase is primarily due to increases in the costs of estate administration, loans that became due, and taxes, rather than to increased funeral costs.

6. Together, life and health insurance paid almost two thirds (64 percent) of the total final expense. Savings that existed at the time of death were the only other source that was used to pay for as much as 10 percent of final expenses.

7. For those widows whose husbands had incurred medical expenses, the average bill was $2,800, and 60 percent of that amount was paid by health insurance.

However, only two thirds (64 percent) with medical bills reported receiving health insurance payments. For them, health insurance paid 77 percent of the total medical bill.

8. The majority of husbands (71 percent) died intestate. Where there were wills, 86 percent of the widows said the will had helped. However, 86 percent of those whose husband died intestate did not believe that the absence of a will was detrimental.

9. One fourth of the widows said that their husband's needs for life insurance had been programmed. When life insurance had been programmed, a majority (64 percent) of the widows said they found the programs either very helpful or fairly helpful because the programs had provided for their needs or had caused their husbands to buy specific types of insurance or because of the information the programs provided. When the programs were not seen as being helpful, it was primarily because the husbands had not bought and only rarely because the programs could not be used as planned or because they were defective.

10. Almost one third of all the widows (32 percent) said that they had encountered some difficulty in managing their family's finances following the husband's death, and almost two thirds (63 percent) encountered difficulty when finances had been handled by the husband before he died. Lack of experience, unsureness, and income reduction were the primary causes of difficulty.

11. More than one half of the widows had contact with morticians, social security officials, and members of their families or close relatives in the course of settling the husband's estate. Some 43 percent said that they had come in contact with life insurance men.

12. Of the persons they dealt with, the widows rated family members and attorneys as being most helpful. Life insurance men were low on the list and were in the middle of a group that included clergymen, social security officials, bankers, and union representatives.

13. Almost all of the widows (96 percent) said that their husbands had been covered under social security, and 93 percent said that some benefits had been received from social security. Almost 6 in every 10 of the widows (59 percent) said that they had received monthly income payments from social security in the period following the husband's death.

14. Ninety-two percent of the widows said that their husbands had been protected by some form of life insurance, and 91 percent had received proceeds from life insurance. However, only 7 percent had received monthly income payments under income options or annuities.

15. Upon the death of their husbands, the widows received, on the average, $11,900 in lump sum payments from all sources, including life insurance, settlements under employee retirement plans, VA and social security funeral

benefits, gifts from friends and co-workers, the sale of possessions or business interests, etc. Of the total lump sum funds received, 69 percent represented life insurance payments while 18 percent represented lump sum settlements of employee retirement plans.

16. The average per capita monthly income payment from all sources was $155. Of this amount, 67 percent came from social security, with retirement plans and VA benefits contributing 15 percent and 12 percent respectively. Life insurance accounted for 5 percent of the aggregate initial monthly income payments.

17. Individually purchased policies from legal reserve life insurance companies had been owned by 70 percent of the husbands. Individual life policies accounted for 46 percent of the total life insurance in force on the lives of the husbands, with group life accounting for an additional 40 percent. Servicemen's life insurance, credit insurance, fraternal insurance, savings bank life insurance, assessment insurance, burial insurance, and death benefit payments from accident insurance accounted for the remainder.

18. Of the widows who received proceeds from individual life insurance policies, over half (52 percent) said that they had received benefit checks within two weeks of the time they filed their claims and only 12 percent said that two or more months had elapsed before they received the first payment. The time it took to receive the first payments increased as the amount of proceeds increased.

19. Of the widows who received monthly income payments from social security, only 23 percent said that they had received the first benefit check within a month of the time the claim was filed, and almost half (46 percent) said that three or more months had elapsed before the first check was received.

20. Of the widows filing claims on life insurance policies, 95 percent said they were satisfied with the way the settlement process was handled; this compares with 87 percent expressing satisfaction among those applying for social security benefits.

21. Only 38 percent of the widows who were beneficiaries of individual life insurance policies said that they had help from an agent in filing their claims, and almost as many, 37 percent, said that no one had helped them.

22. Over 8 in every 10 of the widows who were beneficiaries said that no one had talked with them about the choice of settlement option at the time their claim was being settled. Almost half (47 percent) said that at the time their claim was being settled, they were not aware that they might have been entitled to choose a method of settlement other than an immediate lump sum payment.

23. One third of the widows of insured husbands said it would be wise to receive monthly income payments if there were proceeds beyond the amount needed to meet immediate expenses, and almost as many (28 percent) said it

would be wise if the circumstances were appropriate. Only 39 percent opted for outright lump sum payments.

24. Once the insurance proceeds were received, only 24 percent of the widows with proceeds remaining after the expenses of the immediate postdeath period had been met said that they had talked with anyone about how this money should be saved, invested, or otherwise used. Where there was conversation, the suggestions most frequently offered were to put the proceeds into a bank, into stocks, or into mutual funds. No one other than life insurance agents suggested use of the interest option, and few other than life insurance agents suggested income options or an annuity.

25. Two thirds of all the widows had proceeds remaining from life insurance after meeting their immediate living expenses and paying the final expenses resulting from the husband's death. The proportion with proceeds remaining after the immediate postdeath period was strongly related to the family's former income level and increased from 19 percent among widows whose family income had been less than $3,000 to 85 percent when family income had been at least $15,000.

26. In terms of the aggregate dollars of potential benefits from life insurance, 74 percent remained beyond the immediate postdeath period to be saved, to be invested, or to provide other continuing benefits. Of the amount that remained, half was allocated to savings accounts (including certificates of deposit), with smaller amounts allocated to trust funds, mortgage reductions, annuities, stocks, mutual funds, checking accounts, interest options, savings bonds, or miscellaneous savings and investments, or received as income options.

27. Of the widows who put proceeds into some form of savings or investment, almost half (48 percent) said that at the onset of widowhood they had had no special plans for using the money — that they hoped to keep it for their future security and as a reserve for emergencies. Some 20 percent said that they probably would draw on principal to meet routine living expenses while 9 percent said they hoped to retain the principal while using the interest as income.

Although this report is based on the analysis of only a portion of the data gathered in the study, it highlights a variety of conditions that exist at the onset of widowhood and that have implications for the marketing of insurance.

The Not-So-Obvious Costs of Premature Death

Because death before age 65 is the exception and because sudden death can be particularly shocking to the decedent's friends and associates, there may be a tendency for people to underestimate the frequency with which premature death is preceded by a period of illness or disability of sufficient duration to create substantial medical bills or to affect income and employment. The results of the study, however, clearly point to the potentially injurious effects prolonged terminal illness and disability can have upon the financial strength of the family.

Illness or disability can affect income by limiting the opportunities for normal occupational advancement, by reducing the number of hours per week that can be worked, by causing a shift to a less demanding type of employment, or by causing loss of employment. If employment is affected, savings may be reduced and there may be a loss of group benefits available to the surviving families. As the period of terminal impairment increases, the reduction in the level of family income and particularly the increase in the proportion of families falling below the poverty level suggest that existing income maintenance and disability benefit programs are only partially filling the need for replacement income.

Even before the period of illness or disability becomes so extended that it affects employment and income, sizeable expenditures for health care may be created. The data indicate that health insurance, though covering a majority of the medical expenses that were incurred, is not eliminating expenses that come out of the money left for the surviving family members. With the cost of medical services rising at a rate faster than that of disposable income, the burden on the surviving family may increase unless there is a broadening of health insurance or a radical change in the delivery of health care services.

Effect of Time on Adequacy of Coverage

Judged by any standard, the amounts of life insurance received by the widows were low. Only 8 percent of the widows were beneficiaries of as much as $25,000 of life insurance proceeds, and of these, most were from upper income families. In the absence of a sure bench mark, it is impossible to know with certainty that the husband's coverage differed significantly from that of surviving husbands of comparable ages. Several factors, however, may have combined to reduce the level of ownership for some of the families. For example, fewer of the younger husbands had purchased individual life insurance policies than might be expected on the basis of current ownership figures. Also, fewer may have had group life insurance than might have been expected. In the latter instance, the duration of the terminal illness or disability was directly related to the reduction in the proportion of husbands who had group life insurance coverage. The physical conditions that led to their deaths may also have been responsible for the lowering of individual life insurance ownership at the younger age levels.

It would have been a futile exercise to have asked the widows to reconstruct the histories of their husband's life insurance buying to determine when their last policies had been purchased or whether they had been turned down for additional life insurance because of health factors. Studies of the age distribution of life insurance buyers and of the proportion of men in any given age group who buy during the course of a year indicate that the purchasing of individual life insurance takes place in the years between the time a young man completes his education and takes his first full-time job and the time he reaches age 40 to 45. During the remaining 20 to 25 years before reaching retirement, the probability that he will buy individual insurance on his own life is dimished, partly as a result of increased resistance to buying and partly as a result of not being called on by an agent.* Although all of the husbands in this study

*See LIAMA Research Report 1968-3, The Opportunity to Buy, File 940.

died prematurely, 4 out of 5 of them were in the "insurance-buying blackout" age group of 45 or older.

The years since World War II have seen a rapid increase in the level of family income and, with it, increases in the average size ordinary life policy sold to male adults and in the public's overall level of life insurance ownership. As suggested in Chapter 5, the husband's ownership of life insurance, particularly at the older age levels, may often have reflected purchases made at a time when income and the need for replacement income were substantially lower. ie inflation

Other things being equal, a family's need for life insurance lessens as the children leave to establish homes of their own and as the years before retirement lessen. This relationship is explicitly recognized in the development and marketing of such products as the life-cycle policy or the family income rider. However, to assume that the amount of life insurance required to provide adequate protection for the surviving family also decreases presupposes a stable economy. In a period of rising wages and prices, an older family's life insurance needs may indeed decrease relative to those of a younger family but could conceivably increase in terms of the overall amount of protection required. Periodic monitoring of a family's insurance protection, not only life insurance but disability income and health insurance as well, to make sure that it reflects current economic conditions would appear justified as a valuable social service and as a potential source of additional sales.

Our Responsibility for Family Financial Planning

There are two other areas in which the life insurance industry, through its sales representatives, has unique opportunities to be of service to its policyowners and its beneficiaries. Neither is new, but the results of the Widows Study point to the need for more intensified and widespread effort. The first is the opportunity at the time of the sales interview not only to provide information about the family's insurance needs but also to provide more general financial counsel. The other is the opportunity to provide assistance and counsel to the widow in the period following her husband's death.

In all of society, only the life insurance industry has the opportunity to reach and to provide personal financial planning assistance to the vast majority of American families. In the sales interview the agent has the opportunity to work with the family to establish its financial goals; to discuss the risk of illness, of the loss of employment, and of death; and to describe the importance of insurance. It can also be a time for reviewing other programs such as social security and VA benefits, employee insurance and retirement benefits, etc.

However, the sales interview also provides the agent with an opportunity to counsel the family about other steps that can be taken to prepare for the eventuality of death. Wills can be discussed. If the family has not already done so, the agent can point to the importance of having life insurance policies, birth and marriage certificates, and other essential records brought together and kept in a place that would be accessible to the widow. If the husband is the family financial officer, the agent can talk about the importance of teaching the wife to take over.

Yet while service can provide the basis for a continuing agent-client relationship, only 35 percent of American families can answer "yes" to the question "Has a life insurance salesman ever analyzed your or your spouse's life insurance holdings, social security, and other financial assets, in order to suggest a definite program to cover all of your life insurance needs?"* Only one fourth of the widows said "yes" to a similar question about their husbands' life insurance needs.

Life Insurance in Focus** showed that programming is an appreciated service and that family heads say it increases their motivation to buy life insurance. The widows of men who bought say that the programs were very helpful not only because the life insurance had provided for their needs but also because it had provided them with information and guidance at the onset of widowhood.

In the hours and days following the death of the husband, people in a variety of occupational roles have an opportunity to go out of their way to assist the widow and to make the transition process easier. However, the results of the study indicate that most of these people, including life insurance men, limit themselves to very specific types of assistance. The morticians arrange the funerals; the clergymen say the appropriate words; and the life insurance men and social security clerks file the necessary forms.

Accounts of services performed by agents at the time of the death of their policyowners almost always involve agents who had known the families well and who had sold them their policies. But since half of the husbands died after reaching age 55, the probability is high that the widow's claim will be serviced by strangers. Lacking a sense of personal attachment to the survivors, and aware of the widow's grief, it would be natural for the agent to adopt an impersonal approach.

The agent's performance at the time of claim settlement may also reflect the orientation of the companies. Manuals typically discuss only the internal mechanics of the claim settlement process, i.e., the forms required and how they should be submitted so as to expedite payment. A survey of company beneficiary services practices shows that while almost all companies recommend that the agent discuss with the beneficiary the availability of settlement options, a majority take no position on activities such as advising or assisting the beneficiary in filing claims or other life policies, e.g., the husband's group benefits.*** The "death claims" file in LIAMA's library contains statistics on death claims, specimen copies of death claims forms, articles on company processing of death claims, and articles showing how widows "benefited" when their husbands died after paying but a single premium on a new policy. Not one article showing how agents can provide extended service at a beneficiary's time of bereavement is available for the file.

*See Monitoring Attitudes of the Public: 1969 Survey. Institute of Life Insurance, New York, New York, 1970.

**Volume 1, Attitudes Toward Company, Agent, and Product. RR 1960-5 (File 940).

***LIAMA Products and Services, Bulletin Number 73, July 1970.

Settlement Options and Lump Sum Payments

The findings point to a need for flexibility in the method of paying life insurance proceeds. The need for cash settlements to meet final bills and expenses and the need for a reserve fund at the onset of widowhood were seen to be particularly strong. However, a majority of the widows said that if the conditions were appropriate, a widow would be wise to receive some of the proceeds in the form of monthly income payments.

Final expenses were highly variable. At all income levels, the families were exposed to the risk of large medical expenses resulting from the nature and duration of the husband's terminal illness. Taxes, estate administration, and outstanding loans (primarily from entreprenurial borrowing rather than from installment purchases) contributed to the variations in expense faced by upper income families. The magnitude of the cash sums that might be required to meet final expenses should be made known both to the public and to agents.

The widows were seen to have needs for cash reserves to meet unforeseen emergencies. They were also seen to have need for cash reserves to meet the larger nonrecurring family expenditures such as a wedding for a daughter, paint for the house, replacement of major appliances, taxes and insurance premiums, sewer assessments, a vacation with the children, college costs, etc. Complete husband-wife families typically pay for such expenditures out of savings or current income or by borrowing, and the wife may have earnings to help soften the impact. For the widow, current income may be inadequate, and borrowing -- if available as an alternative -- can create burdensome debt. For the remainder of her lifetime, the reserves created by her husband's life insurance can provide the buffer that will enable her to lead an independent, secure life.

Only 8 percent of the widows of insured husbands said that they had received any of their proceeds under income options. The infrequent use of these options reflects, at least in part, the small amounts of proceeds received by many of the widows and the need for cash to meet final expenses and to create reserve funds. It is also the result of widows being unaware that they may have a choice of options and the fact that agents and other financial advisors often did not mention the options as alternative methods of payment. To some extent, widows may have suspected the motives of the companies in seeking to retain the proceeds under income or interest options.

Discussion of settlement options in relation to the surviving family's needs for reserves and for replacement income should properly begin with the initial purchase of life insurance rather than at the time of claim settlement. As economic conditions change and as the survivors' needs change as the family passes through the various stages of the life cycle, periodic reviews of a client's portfolio would provide additional opportunities to review the methods of benefit payment with the family. Because many years may elapse between the initial purchase of life insurance and the filing of a death claim, it becomes a responsibility of home office and field management to ensure a continuity of service.

However, even if all current sales lead to established agent-client relationships, many claims would continue to be serviced by agents who were strangers to the widows. In such situations it may be difficult for the agent to win the confidence of the widow. As suggested earlier, one solution may be to place more emphasis on the needs of the beneficiaries when agents are being trained to handle death claims. Through such training, agents and the clients they serve may achieve a broader understanding of how variable final expenses can be, how important adequate reserves can be to survivors' well-being, and how important it can be to have a guaranteed income that cannot be dissipated.

Service can build respect -- and sales -- for both the agent and the industry. The results of this study suggest a need to broaden the concept of service at the time of sale to include additional aspects of family financial planning; to ensure a periodic review of clients' insurance portfolios; to guarantee that orphan policyowners will continue to receive the services of agents; and to tailor the payment of proceeds to the needs of the beneficiaries.

Chapter 1

The Sample—Family Characteristics

The typical American male marries shortly after his 23rd birthday and can expect to live until he is 70. In 1966, however, 318,000 husbands died before reaching age 65. This study is concerned with the financial histories of 1,744 of their widows.

For the husbands, the median age at death was 55.6 years. The median age at the onset of widowhood for the women in the study was 51.5 years; 1 in every 4 was under 45 years old.

Although the areas chosen for the study were the Boston, Chicago, Houston, and San Francisco Standard Metropolitan Statistical Areas, it can be seen in the table below that the ages of the husbands at death and of their wives at the onset of widowhood are very close to the estimates derived for the total United States.

Table 1 -- Age of Husband at Death and Age of Wife at Onset of Widowhood

	Husbands		Wives	
Age	Widows Study	Estimated U.S.*	Widows Study	Estimated U.S.*
65 or older	--	--	4%	2%
55--64	53%	51%	33	28
45--54	28	29	38	38
35--44	15	13	18	20
Under 35	4	7	7	12
	100%	100%	100%	100%
Median age	55.6		51.5	

*Sources: HUSBANDS -- U.S. Department of Health, Education and Welfare. Vital Statistics of the United States -- 1966, Part A; and the U.S. Bureau of the Census. Marital Status and Family Status, March 1966. Current Population Reports, Series P-20. WIVES -- U.S. Bureau of the Census. Household and Family Characteristics, March 1968. Current Population Reports, Series P-20, No. 191, October 20, 1969.

Family Structure

There are several ways of looking at the family structure at the time of the husband's death. One is to examine the primary dependent unit, defined as the husband, his wife, and their children under 18 years old -- or under 25 if still dependent and in school. It is a measure of the family's stage in the "life cycle."

In just over half of the families, the wife was the only other member of the primary dependent unit. As can be seen from Table 2, however, the composition of the families is highly related to the age at which the husbands died. Of those who died before age 45, more than a third left a wife and at least one preschool youngster and almost 8 in every 10 had children who had yet to reach eighth grade. On the other hand, of husbands who died after reaching age 55, almost 8 in 10 had primary dependent units that consisted of only the husband and wife.

On a day-to-day basis, change is difficult to perceive. The figures in Table 2, however, show how rapidly family composition changes and how rapidly a widow's need for replacement income might change as the family moves through the life cycle.

Table 2 — Primary Dependent Unit by Age of Husband at Death

Primary Dependent Unit	Under 45	45--54	55--64	Total
Husband-wife only	12%	33%	77%	53%
Youngest child in college or vocational school	1	6	6	5
Youngest child in grades 8 through 12	8	24	8	13
Youngest child in kindergarten through grade 7	42	30	8	20
Youngest child preschool	37	7	1	9
	100%	100%	100%	100%
Number of cases	469	629	646	1,744

In selecting the sample, the death certificates in each SMSA were divided into three groups by age of the deceased (25 to 44, 45 to 54, and 55 to 64). Although the groups differed in the number of certificates they contained, the samples were chosen to yield approximately equal numbers of interviews at each age level. All percentages contained in this report are based on a weighting procedure that corrects for size of SMSA and for the oversampling of the younger decedents. The actual number of cases (unweighted) on which the percentages are based are shown at the bottom of the tables.

Table 3 shows the number of own children under 18 years old in the families in the study compared with an estimate of the number of own children in an age-equivalent segment of all married couples. The table also presents a comparison between total family size for the study and an age-equivalent segment of husband-wife families. In both instances, the two distributions are in close agreement.

Table 3 -- Number of Own Children Under 18 Years Old and Total Family Size in Comparison With Similar Data for Age-Equivalent Segments of the U.S. Population

Own Children Under 18 Years Old	Widows Study	Estimated U.S.*	Total Family Size	Widows Study	Estimated U.S.*
Four or more	9%	7%	Six or more	13%	12%
Three	8	7	Five	12	11
Two	12	12	Four	16	18
One	18	17	Three	22	22
None	53	57	Two	37	37
	100%	100%		100%	100%

*Sources: U.S. Bureau of the Census. Household and Family Characteristics, March 1966 and March 1968. Current Population Reports, Series P-20, No. 164, April 12, 1967, and No. 191, October 20, 1969.

Almost three fourths (72 percent) of the predeath households contained only the husband, his wife, and the children who were part of the primary dependent unit. Some 26 percent of the families had other persons living with them, a majority of whom were their own children who were no longer in school or no longer dependent on the family for their support. Six percent of the families were providing homes for the parents of the husband or the wife, and about half of these parents were dependent on the family for their support.

Two percent of the widows said that they and their husbands had not maintained their own homes and that they had been living with others at the time their husbands died; however, only 3/10 of 1 percent said that the family had been dependent on others for their support (see Table 4). At the time of the interviews, the proportion of widows who said they did not maintain their own homes had increased from 2 percent to 5 percent. Although the numbers are small, those families that were not maintaining their own households at the time the husbands died tended to be young, with either no children or only preschoolers, or to be older families containing only the husband and wife. These were also the two groups in which the widows who ceased to maintain their own households were concentrated.

Table 4 — Household Composition

	Former Household	Widow's Household
Primary family unit only	72%	78%
Primary family unit plus other household members	26	17
Own household not maintained	2	5
	100%	100%
Breakdown of families with nonprimary unit household members*		
At least one dependent other household member	8%	5%
dependent grown child	4	3
dependent parent or other adult	3	2
dependent other child (i.e., grandchild)	2	1
At least one independent other household member	20%	12%
independent grown child	17	11
independent parent or other adult	3	2

*Percents may not add to subtotals because some households fell into more than one category

Of all the children in the primary dependent units at the time of the husband's death, 92 percent were still with their mothers at the time of the interviews. Of those no longer with their mothers, most had been in college or in the final years of high school and, presumably, left to enter the Armed Forces or to start families of their own. Because some of the other members of the household also had left, the proportion of families containing only the widow and her young dependent children increased from 72 percent at the time of the husband's death to 78 percent at the time of the interview.

The fact that the great majority of widows were maintaining their own homes rather than living with their children or parents appears to be an act of preference rather than the result of lack of opportunity. At the time of the husband's death, only 17 percent of the widows had neither grown children nor at least one of their own parents to turn to.

Because there were a number of widows who could not be located and interviewed, the proportion of widows who fail to maintain their own homes may be somewhat higher than the results of this study indicate. It seems fair to conclude, however, not only that most widows are able to keep their children with them but also that the large majority are able to maintain independent households. When the family is broken by the death of the husband, there appears to be very little inclination on the part of the widow to give up her independence to become a part of someone else's household.

Education, Occupation, and Race

Although there was some underrepresentation of families in which the husband's education had been limited to eighth grade or less, the educational attainment of both the husbands and the widows closely approximated the educational distribution for age-equivalent segments of the population: 9 percent of the husbands were college graduates compared with an estimated 11 percent among men of comparable ages; some 48 percent had completed high school compared with 45 percent with high school diplomas among an age-equivalent segment.

Compared with men of similar ages, the sample of husbands in this study had somewhat fewer managers and professionals than might be expected (26 percent vs. 31 percent) and somewhat more foremen and craftsmen (28 percent vs. 22 percent). However, aside from these departures, the sample of decedents drawn from the four Standard Metropolitan Statistical Areas is close to the estimate derived from an age-equivalent segment of the population.

Because the sample was limited to metropolitan areas, it might have been anticipated that it would contain more nonwhites than does the total population. While the sample did, in fact, contain a somewhat higher proportion of nonwhites than might be expected within an age-equivalent segment of married couples, the discrepancy is not large (11 percent vs. 8 percent). Tables showing the educational, occupational, and racial composition of the sample are presented in the Technical Supplement.

Cause of Death and Duration of Terminal Illness or Disability

In examining the characteristics of the families in the study, it quickly became apparent that there were some ways in which they differed markedly from families with surviving husbands and that these differences could be understood only in relation to the conditions resulting from the nature and duration of the husband's terminal illness or disability.

Illness was the cause of death for over 9 in every 10 of the husbands. Even among those dying before reaching age 45, 8 in 10 died of illness. Accidents accounted for 6 percent of the deaths, suicide for 1 percent, and homicide for just over ½ of 1 percent. The cause of death by age of the husband is shown in Table 5.

Table 5 — Cause of Death

Cause	Age of Husband at Death: Under 45	45—54	55—64	Total
Illness	79%	93%	96%	92%
Accident	16	6	3	6
Suicide	3	1	+	1
Homicide	2	+	1	1
	100%	100%	100%	100%
Number of cases	469	629	645	1,743

+Less than ½ of 1 percent

For one third of the husbands (34 percent), death was instantaneous, or nearly so. However, for more than half (52 percent), death was preceded by periods of impairment of one month or more, and for over a fourth of the husbands (28 percent), the periods of impairment had been at least a year.

Death took longer to come to the older husbands than to the younger, but even among the men who died before reaching age 45, over 1 in every 4 had been ill or disabled for at least six months prior to death. Among those dying between age 55 and 64 -- the ages at which more than half of "premature" deaths occur -- 44 percent had been ill or disabled for at least six months, and over one third had been impaired for at least a year preceding death (see Table 6).

Table 6 — Duration of Terminal Illness or Disability (cumulative percentage distribution)

Duration	Age of Husband at Death: Under 45	45—54	55—64	Total
Five years or more	4%	5%	8%	7%
Two years or more	11	12	22	17
One year or more	18	22	35	28
Six months or more	26	31	44	37
One month or more	41	46	58	52
One week or more	52	55	67	60
One day or more	57	61	72	66
Number of cases	465	628	642	1,735

The nature of specific illnesses was not explored; however, within the population covered by the study, heart disease is the most common cause of death from illness. The only other illness that occurs with substantial frequency is cancer.

Employment Status

Despite a sample limited to men who died before reaching age 65, less than 7 in every 10 (69 percent) were employed at the time of death. Some 7 percent of the husbands were reported as having been unemployed, but almost 1 in every 4 (24 percent) were either on leave from their jobs, retired, or on a disability pension when they died.

Employment status was inversely related to the duration of the husband's terminal illness or disability, and strongly so. Of those who died within a week of the onset of their terminal impairment, 90 percent were employed, compared with only 34 percent of those husbands who had been ill or disabled for two years or more (see Table 7).

Table 7 -- Employment Status of Husbands by Duration of Terminal Illness or Disability

Employment Status	Duration of Terminal Illness or Disability: Under 1 week	1 week, but under 6 months	6 months, but under 2 years	2 years or more	Total
Employed	90%	77%	48%	34%	69%
Unemployed	2	5	12	14	7
On leave, retired, on disability pension, etc.	8	18	40	52	24
	100%	100%	100%	100%	100%
Number of cases	711	388	337	299	1,735

Almost half of the widows (47 percent) said that they had worked at some time during the year before their husbands died. This is 7 percentage points higher than for an age-equivalent segment of wives and may be due, at least in part, to the fact that the Bureau of the Census records labor force participation during a week, while the widows were asked about the previous year. However, some wives may have entered the labor market to compensate for a reduction in their husband's income before he died. As the duration of the terminal illness or disability increased, so did the proportion of families in which there was a working wife.

Family Income Before Husband's Death

The incomes of the families during the year prior to the husband's death tended to be lower than for an age-equivalent segment of the population. Only 31 percent of the widows said that their family's income had been $10,000 or more when their husbands died compared with an expected 48 percent among an age-equivalent segment of husband-wife families. Similarly, 21 percent of the widows said that family income during their husband's final year was less than $5,000, compared with an expected 12 percent among families of comparable ages (see Table 8).

Part of the discrepancy can be accounted for by income reductions that occurred during the husband's final year of life. The widows were asked how their family's income during the husband's final year compared with that of the previous year, and if there was a difference, what had caused it. Overall, 21 percent of the widows said that there had been a decline that was directly the result of the husband's illness or disability.

If the family's total income is augmented by the amount lost during the final year as the result of the husband's illness or disability, the result is an estimate of the family's income if the year had been a normal one. This is the income distribution shown in the second column of Table 8. As can be seen, family income adjusted for loss is somewhat closer to the estimated distribution for an age-equivalent segment of families but still remains somewhat lower.

Table 8 -- Family Income

Income	Widows Study: Reported family income	Widows Study: Adjusted for loss*	Estimated U.S. age equivalent**
$25,000 or more	2%	2%	4%
15,000—$24,999	7	9	15
10,000-- 14,999	22	25	29
7,000-- 9,999	27	29	26
5,000-- 6,999	21	20	14
3,000-- 4,999	12	10	8
Under 3,000	8	5	4
	100%	100%	100%

*Reported total family income augmented by the amount of income lost during the final year as a result of husband's terminal illness or injury. Except where specifically noted, this is the value used when the data are analyzed by income level.

**Source: U.S. Bureau of the Census, Supplementary Report on Income in 1967 of Families and Persons in the United States. Series P-60, No. 64, October 6, 1969, Table 11, data for husband-wife families with wife present. Similar data were not available for 1966.

Table 9 shows the adjusted total family income according to the duration of the husband's terminal illness or disability. Forty percent of the husbands died within a week of the onset of the terminal illness or disability and their income distribution closely approximates the estimated age-equivalent distribution of incomes. That it is still somewhat lower may reflect differential mortality by income level or the inclusion in the short terminal illness group of some men who had been disabled but who died suddenly of other causes.

Of those families in which the husband's terminal illness or disability was of two or more years' duration, adjusted total family income is substantially lower than for the projected age-equivalent families. Over three fourths (77 percent) of the families in which there was a long-term illness or disability had incomes of under $10,000, compared with an expected 52 percent in the age-equivalent segment.

Table 9 -- Adjusted Family Income by Duration of Terminal Illness or Disability

Income	Duration of Terminal Illness or Disability: Under 1 week	1 week, but under 6 months	6 months, but under 2 years	2 years or more	Estimated U.S. age equivalent
$15,000 or more	14%	10%	9%	10%	19%
10,000—$14,999	31	25	24	13	29
5,000-- 9,999	44	56	52	47	40
Under 5,000	11	9	15	30	12
	100%	100%	100%	100%	100%
% of husbands in group	39%	24%	20%	17%	
Number of cases	712	388	337	298	

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The analysis of family income suggests that while the families of the deceased husbands were, in most respects, very similar to those of families of comparable ages, some had suffered significant reductions in incomes prior to the husband's death. Others, though perhaps not suffering income reductions, may have failed to receive increases in income because of the conditions that led to the death. Although data for an age-equivalent comparison are not available, the Bureau of the Census has presented figures showing how households in January 1967 said their incomes compared to those of a year ago. A substantially higher proportion of income increases were reported among the cross section of households than were reported by the widows.

Table 10-Family Income Compared with Income the Previous Year

Change in Income	Husband's Final Year	U.S. Households*
Higher	13%	36%
About the same	59	53
Lower	28	11
	100%	100%

*Source: U.S. Bureau of the Census. A Report on the Current Economic Activity of U.S. Households: Recent Purchases of Cars and Household Durables and Expected Expenditures During the Months Ahead, Data Through July 1967. Series P-65, No. 19, September 29, 1967.

The income distributions give some indication of the economic well-being of the families before the death of the husband. However, the level of well-being produced by a given income will vary depending on the composition of the family and the area of the country in which it lives. For example, an income that may produce a comfortable standard of living for an elderly couple with their home paid for and no dependent children can be totally inadequate for a younger family struggling to buy a home and to feed and clothe three growing youngsters.

Recent research by the Bureau of Labor Statistics of the U.S. Department of Labor has provided an answer as to how much income is required to meet a low, a moderate, and a higher standard of living by families that differ in size, age of the family head, and place of residence.** The three standards of living are not specifically labeled, but the moderate level is the amount of income required to achieve a "modest but adequate" standard of living. The lower level is a scaled-down version of the moderate level and the Department of Labor believes it is a more appropriate goal for public assistance and other income-maintenance programs. The higher standard is an attempt to define a more comfortable level or the "American Standard of Living." The Department of Labor says that it may be useful in determining the ability of self-supporting families to pay for fee services, to ascertain their eligibility for scholarships, etc.

The incomes of the families for each of the Standard Metropolitan Statistical Areas were compared with the amounts required to achieve the three standards of living, taking into account the size of the family and the age of the husband.

**U. S. Department of Labor, Bureau of Labor Statistics. Three Standards of Living for an Urban Family of Four Persons. Bulletin No. 1570-5, Washington, D.C. The methods used in applying this information to the data from the Widows Study are discussed in the Technical Supplement.

It was found that one fourth of the sample failed to meet the lower standard and can be considered to have been living below the poverty level prior to the husband's death. Almost as many of the families (23 percent) met the minimum standard but did not have incomes sufficient to meet a modest but adequate standard of living. On the other hand, 52 percent of the families exceeded the modest but adequate standard, and 28 percent exceeded the higher standard.

No data for an age-equivalent segment of husband-wife families is available, but the incidence of poverty among the families in the study is undoubtedly higher than for families with surviving husbands of comparable ages. As can be seen from Table 11, as the duration of the husband's terminal illness increases, so does the proportion of families falling below the poverty line. The difference is particularly marked among those families in which the husband had been ill or disabled for at least six months.

Table 11 -- Standard of Living by Duration of Terminal Illness or Disability

Standard of Living*	1 day	1 day, but under 1 month	1 month, but under 6 months	6 months, but under 2 years	2 years or more	Total
Higher standard or more	39%	30%	31%	16%	18%	28%
Moderate standard, not higher	25	30	26	22	21	24
Lower standard, not moderate	20	22	24	27	21	23
Below lower standard	16	18	19	35	40	25
	100%	100%	100%	100%	100%	100%
Number of cases	566	216	218	315	281	1,603

*The family's standard of living was based on a normal income during the final year, i.e., actual income augmented by the amount lost during the final year because of the husband's illness or accident.

At the time of the husband's death, there were wide differences in the financial strength of the families as judged by their accumulation of savings and investments. Almost 1 widow in every 3 (31 percent) said that her family had no financial assets, and half had total asset holdings of less than $1,000. On the other hand, 8 percent of the widows reported family assets amounting to $25,000 or more prior to the husband's death. Total assets consisted of liquid assets in the form of bank accounts, savings and loan accounts, savings bonds, etc.; investments in stock and mutual funds; the net value of real estate other than the family home; and miscellaneous assets, which were primarily money out on loan and investments in closely-owned corporations.

As family income increased, there was a sharp rise in the level of accumulated assets. At the very lowest income level, 61 percent of the wives entered widowhood without reserves in the form of savings or investments, and 17 percent had less than $1,000 in reserve. Among families with incomes of $15,000 or more, only 5 percent said that there were no financial assets, while almost a third (31 percent) reported that they had reserves amounting to $25,000 or more (see Table 12).

Table 12 -- Total Assets at Time of Husband's Death by Adjusted Total Family Income

Total Predeath Assets*	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
$25,000 or more	5%	2%	3%	5%	11%	31%	8%
10,000—$24,999	3	1	5	6	16	20	10
5,000— 9,999	1	7	7	12	9	10	9
1,000— 4,999	13	16	24	25	26	23	23
1— 999	17	14	17	19	20	11	19
None	61	60	44	33	18	5	31
	100%	100%	100%	100%	100%	100%	100%
Number of cases	76	173	294	441	358	145	1,568
Average with assets	--	$4,750	$5,950	$8,150	$11,850	$36,450	$12,950
Average all families	$2,900	1,900	3,300	5,500	9,700	34,700	8,900

*Predeath assets are the sum of liquid assets, stocks and mutual funds, net value of real estate other than the home, and miscellaneous savings and investments.

Aside from the information that the data on asset-ownership supplies about the financial strength of the families at the onset of widowhood, the figures can also be used to provide additional evidence as to the representativeness of the families. For two of the components of total assets -- liquid assets and investments in stocks and mutual funds -- the amounts reported by the widows were compared with estimates for an age-equivalent segment of families derived from the Survey of Consumer Finances (SCF) conducted by the Survey Research Center of the University of Michigan. While the SCF data include other than complete husband-wife families and asset-ownership was not determined for 1966, the year in which the wives became widows, they are sufficient to uncover any obvious biases in the sample.

The comparison shows that the widows apparently underreported small amounts of liquid asset savings. Whereas 34 percent of the widows said that their families had no liquid assets, only 18 percent of the SCF group was without savings. However, it can also be seen in Table 13 that the surplus in the "none" category is, in large measure, the result of a deficit in the "$1--$999" category. Such a result is not unexpected. Human memories are fallible, particularly when small amounts are involved. The widows were reporting on assets, not as they existed at the time of the interview, but approximately two years earlier -- assets that may have been quickly dissipated by final bills and immediate living expenses. It is probably safe to conclude that somewhat more of the widows had savings than is shown but that the underreporting does not seriously distort the financial strength of the families at the onset of widowhood.

If allowance is made for underreporting of small asset holdings, it would still appear that the financial strength of some of the widows' families was weaker than might be expected in an age-equivalent segment of surviving families. The proportion of families that had liquid assets and that owned stocks or mutual funds was examined controlling on the age of the husband at death and the duration of his final illness. Although there are some inversions in the data as the duration of the terminal illness or disability increased, there was a reduction in the proportion of families with liquid assets and a similar though less marked decline in the proportion with stocks or mutual funds.

A terminal illness can create substantial medical expenses that can draw down savings. A prolonged disability can result not only in income reduction but also in the failure to realize a growth in income, and thereby reduce the means of acquiring savings and investment assets. The comparison would have been disturbing if the asset holdings of the widows' families had equalled or exceeded that of the SCF families.

Table 13

	Liquid Assets		Stocks and Mutual Funds	
Amount	Widows Study	Estimated U.S. age equivalent*	Widows Study	Estimated U.S. age equivalent*
$10,000 or more	10%	12%	5%	7%
5,000--$9,999	9	10	3	4
1,000-- 4,999	24	25	6	7
1-- 999	23	35	3	6
No savings	34	18	83	76
	100%	100%	100%	100%

*Source: George Katona, et al. 1968 Survey of Consumer Finances. Survey Research Center, Institute for Social Research, The University of Michigan, Ann Arbor, Michigan, 1969. Liquid assets are the sum of amounts in checking accounts, savings accounts, and bonds. Estimate based on ten-year age groups for ages 25 through 64 as shown in Table 6-6.

**Source: George Katona, et al. 1967 Survey of Consumer Finances. Stocks are common or preferred stock in a corporation, including companies worked for, or stock ownership through an investment club, or own shares of a mutual fund. Estimate based on ten-year age groups for ages 25 through 64 as shown in Table 6-7.

Summary

This look at some of the main characteristics of the sample has shown that while it was drawn from but four metropolitan areas, the families are quite similar to those of surviving families of comparable ages. It has also shown that the very large majority of families maintained their own homes when the husbands were alive and that almost without exception the widows were able to continue to maintain their homes and to keep their children with them for at least two years into the postdeath period.

Compared with surviving families, however, the incomes of the families in the sample were lower than might be expected in an age-equivalent segment of husband-wife families, their financial strength in terms of accumulated assets was somewhat weakened, and the husbands were less likely to be employed. This does not appear to be the result of bias in the selection of the sample but is evidence of the obvious fact that death is one of the outcomes of a prolonged terminal illness or disability. For some of the widows' families, the economic impact of premature death did not begin suddenly but began months or years prior to the husband's physical death.

Chapter 2

Final Expenses

In addition to the loss of her husband's income, the average widow was faced with $3,900 in final expenses. The median or typical final expense was $2,860.

The average medical expense amounted to $1,740 and the average funeral cost was $1,510. Together, the medical and funeral expenses accounted for 83 percent of the aggregate expense that the widows had to meet. Of the remaining final expenses, taxes contributed an average of $270, estate administration added $160, some $170 in loans became due and payable, and there was $50 of miscellaneous expense for such things as new clothes for the funeral, house guests, and transportation for out-of-town relatives or for the widow to attend a distant burial site.

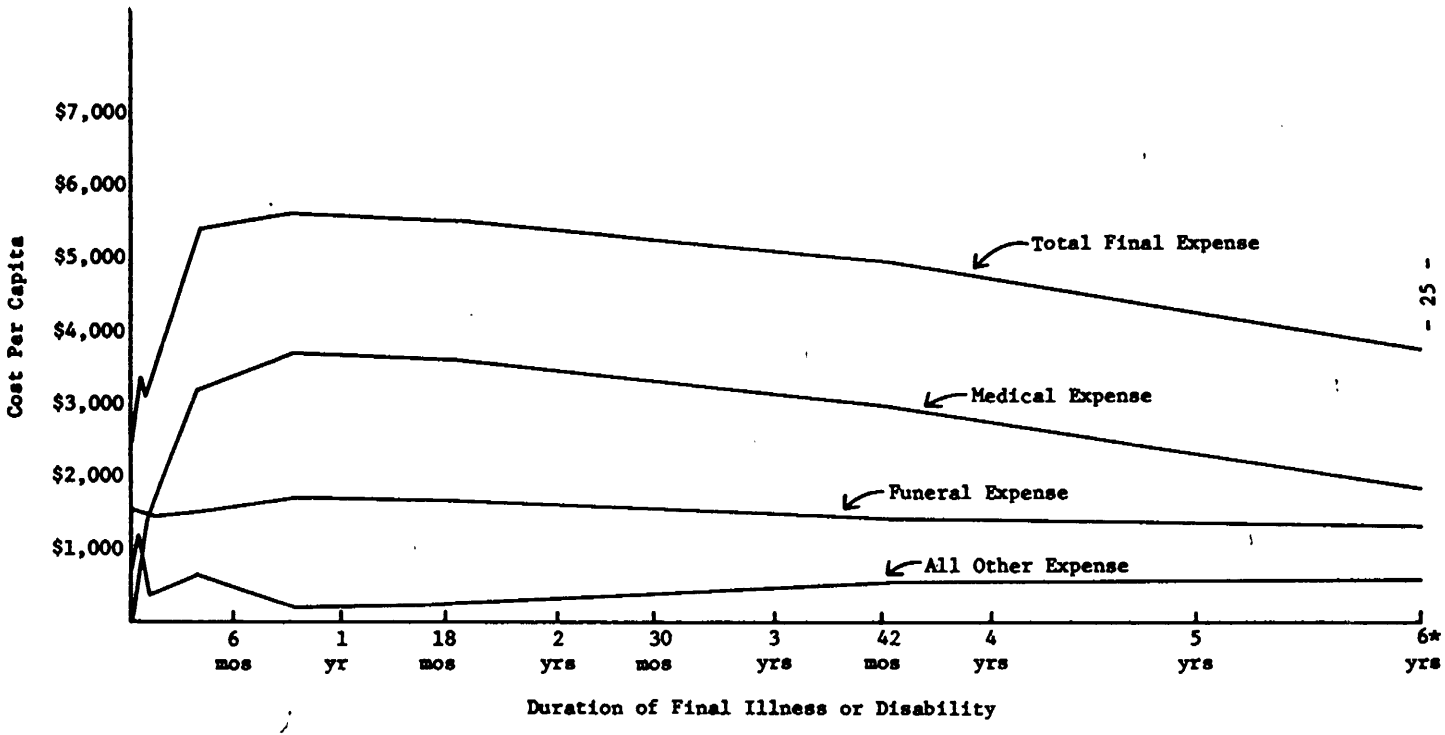
Medical Costs and the Duration of the Final Illness

Medical costs, and therefore the total final expense associated with the death of the husband, varied as a function of the duration of the terminal illness or disability. As can be seen from Figure 1, medical costs rose sharply as the duration of the final illness increased but reached a peak among families in which the husband had been ill or disabled for six months to a year at the time of his death. With more prolonged impairment, medical costs gradually declined. Figure 1 also shows that there is little systematic relationship between the duration of the terminal impairment and the other components of final expense.

As can be seen in Table 14, 37 percent of the widows reported that there were no medical expenses associated with their husband's death, while almost a third (30 percent) reported expenses of $2,000 or more. When the period of illness or disability was of six months to two years in duration, 58 percent said that medical costs amounted to $2,000 or more, and more than one fourth (27 percent) reported medical expenses of at least $5,000.

The decline in final medical expenses among families in which there was a prolonged terminal impairment may have at least two causes. It may be assumed that those illnesses of long duration differed from those illnesses or accidents that produced death within a year and may have required less intensive care. Also, prolonged disabilities and illnesses are associated with lower income and, as will be seen in the following section, there is evidence of some subsidization of medical expenses at the lowest income levels.

Figure 1



*Point plotted is for the category "five years or more."

The fact that some widows reported no medical expenses, even though there had been prolonged terminal illness or disability, may mean their husbands were covered under a prepaid medical plan or had received treatment at a veterans' hospital without producing costs for their families. Conversely, the widows who reported substantial medical costs, even though their husbands had died within a day of the onset of terminal illness or death, may represent situations in which long-standing disability preceded death.

Table 14 — Final Medical Expenses by Duration of Terminal Illness or Disability

Final Medical Expenses	Duration of Terminal Illness or Disability: Under 1 day	1 day, but under 1 month	1 month, but under 6 months	6 months, but under 2 years	2 years or more	Total
$5,000 or more	+	4%	19%	27%	19%	12%
2,000—$4,999	1%	18	36	31	18	18
1,000— 1,999	3	18	15	11	13	10
500— 999	3	19	7	8	10	8
Under $500	19	19	10	8	15	15
None	74	22	13	15	25	37
	100%	100%	100%	100%	100%	100%
Number of cases	604	232	225	323	279	1,671
Average medical expenses	$100	$1,120	$3,210	$3,600	$2,130	$1,740

+Less than ½ of 1 percent

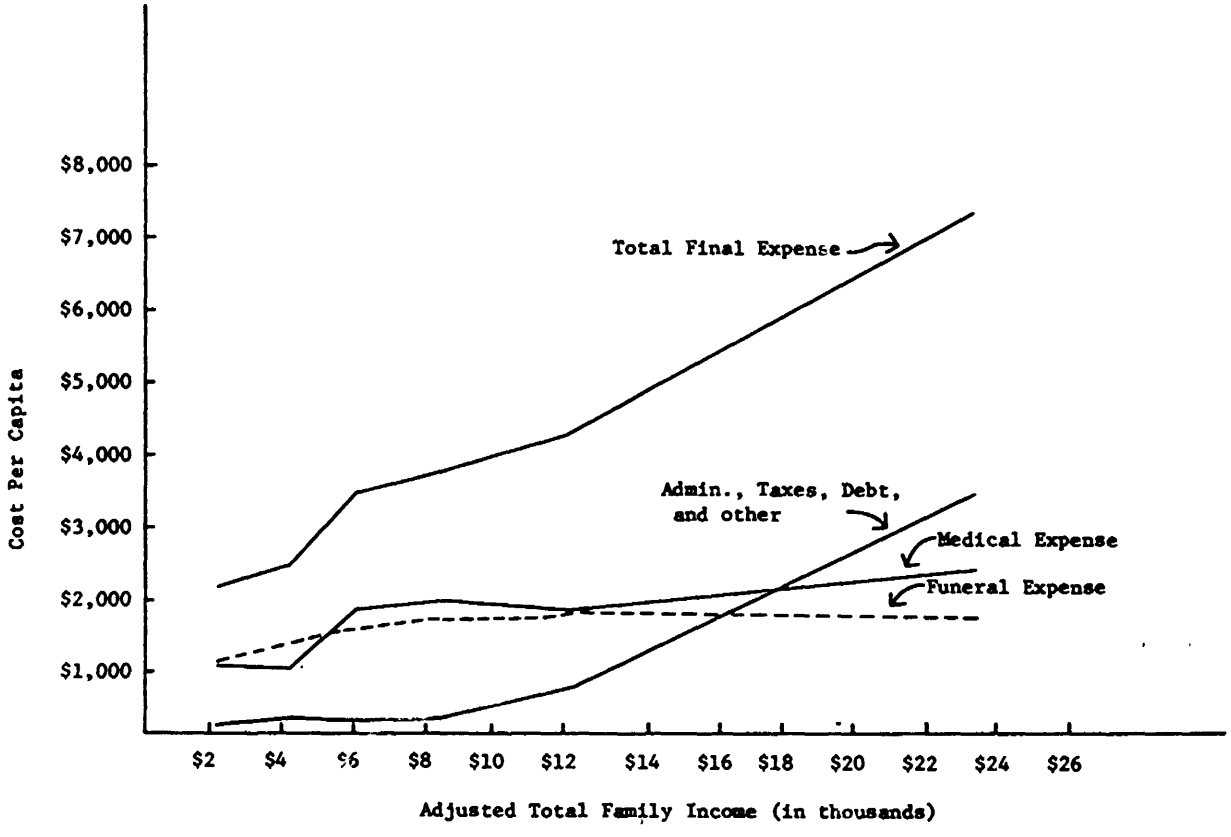
Final Expenses and Family Income

By income level, the average total final expenses ranged from $2,000 among families with incomes of under $3,000 to $7,200 among families that had been in the $15,000-and-over bracket. As can be seen from Figure 2, among families that had incomes of $5,000 or more, medical and funeral expenses show almost no tendency to rise with further increases in income. Below the $5,000 income level, there appears to be either some subsidization of medical expenses or a reluctance to incur medical expenses, as well as a reduction in funeral expenditures.

Loans outstanding, administrative costs, and taxes are the main items of expense causing final costs to increase with increasing income. Below the $10,000 income level, these expenses are, on the average, negligible components of final expense. Above the $10,000 level, they increase sharply, except that the impact of taxes was not noticeable below the $15,000 family income level.

The per capita figures, while showing the variation between income groups, mask the wide variations in expenses faced by the widows within a given income bracket. For example, although the final expenses for families with incomes of $15,000 or more averaged $7,200, almost 1 in every 5 of these families had expenses of at least $10,000 while another fifth had expenses of under $2,000 (see Table 15). At all income levels, some families were able to report final expenses of under $1,000; however, at all income levels, some widows reported that their husbands' final expenses amounted to $10,000 or more.

Figure 2


$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
Cost Per Capita
Total Final Expense
Admin., Taxes, Debt, and other
Medical Expense
Funeral Expense
$2
$4
$6
$8
$10
$12
$14
$16
$18
$20
$22
$24
$26
Adjusted Total Family Income (in thousands)

Medical expenses contributed strongly to the variation in total final expenses. Funeral costs, on the other hand, were less variable: 6 in every 10 of the widows said that the costs were between $1,000 and $1,999; 5 percent said that the funeral costs had been $3,000 or more; and 14 percent said that the costs were under $1,000.

Estate taxes were not a component of final expenses for the great majority of widows. Only 8 percent of all widows and 29 percent of those whose family incomes had been $15,000 or more reported paying estate taxes.

One fourth of the widows (26 percent) said that there had been some costs associated with the administration of the husband's estate. The proportion with administrative costs increased from 10 percent at the lowest income level to 58 percent when family income had been $15,000 or more. At the $15,000 income bracket, almost 1 in every 5 of the widows (18 percent) reported administrative costs of $1,000 or more.

Few of the widows (7 percent) said that there were loans that became due and payable upon their husband's death. However, 3 percent of all widows and 10 percent of those in the $15,000 income bracket reported having to repay loans of $1,000 or more. These larger loans typically were the result of entrepreneurial borrowing and were for substantial amounts.

Miscellaneous expenses were reported by a minority of widows (25 percent), and the amounts were generally small. Included in this category were amounts spent on telephone calls to relatives, mourning clothes, costs associated with house guests, etc. Because these amounts were small, many of the women who said they had no expenses of this type may simply have forgotten them or may have considered them too negligible to mention.

Detailed tables showing distributions of each of the components of final expense by income level are presented in the Technical Supplement.

Table 15 — Final Expenses by Adjusted Total Family Income

	Adjusted Total Family Income						
Final Expenses	Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
$10,000 or more	2%	1%	3%	6%	5%	18%	6%
5,000--$9,999	3	8	14	18	18	17	16
2,000-- 4,999	27	32	44	41	44	44	41
1,000-- 1,999	38	45	32	31	31	20	31
500-- 999	26	11	7	4	2	1	5
200-- 499	3	2	+	+	+	+	1
None	1	1	+	+	0	0	+
	100%	100%	100%	100%	100%	100%	100%
Average per capita	$2,000	$2,300	$3,300	$3,600	$4,100	$7,200	$3,900

+Less than ½ of 1 percent

How Final Expenses Were Met

The widows applied a variety of resources to meet the final expenses created by their husbands' death. The major sources, however, were life and health insurance, which combined paid almost two thirds (64 percent) of total final expenses. The only other source accounting for as much as 10 percent of final expenses was the family's predeath assets, which paid $440 (11 percent) of final expenses.

The following tables (Tables 16 and 17) show the percent of final expenses paid by each source and the percent of widows who utilized each of them.

Across income groups, the per capita amounts of life insurance allocated to final expenses increased from $660 in the lowest group to $2,600 among families that had incomes of $15,000 or more; however, the percent of final expenses paid by life insurance is essentially constant across income groups. The proportion of widows who used life insurance proceeds to meet final expenses was highest in the $7,000-to-$9,999 income bracket, and usage declined at both the higher and lower income levels.

At the lower income levels, the decline in the proportion of widows who used life insurance to meet final expenses may be due, at least in part, to its absence. At the upper income levels, final expenses may sometimes have been low in comparison with the amounts of life insurance received and perhaps the widows saw themselves as paying these expenses out of savings while retaining their life insurance proceeds intact for other investment purposes.

At the $15,000 family income level, the sharp increase in the percent of final expenses paid directly out of the estate is understandable, since taxes and the costs of administration may both have been charged to the estate. It also is seen that although almost three fourths of the widows applied social security benefits to the payment of final expenses, the percent of expenses covered by social security benefits is small.

Table 16 -- Percent of Final Expenses Paid by Source, by Adjusted Total Family Income

Source	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Life insurance	33%	36%	34%	39%	38%	36%	36%
Health insurance	21	27	32	34	25	18	28
Savings or investments	8	5	9	8	11	22	11
The estate	2	4	1	3	7	18	7
Social security	7	8	5	5	5	2	4
Widow's earnings	2	6	3	3	5	1	3
Gifts	8	3	5	2	1	+	2
Veterans' benefits	2	2	2	2	1	1	2
Loans	1	1	1	1	1	+	1
Welfare	7	1	1	1	0	0	1
Still owed	2	1	1	+	1	1	1
Miscellaneous	7	7	6	2	5	1	4
	100%	100%	100%	100%	100%	100%	100%
Total allocated	$2,000	$2,300	$3,300	$3,600	$4,100	$7,200	$3,900

+Less than ½ of 1 percent

Table 17 — Percent of Widows Applying Money from Various Sources to Payment of Final Expenses

Source	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Life insurance	62%	73%	77%	82%	78%	61%	76%
Health insurance	20	33	40	44	39	35	39
Savings or investments	14	14	21	21	24	36	22
The estate	10	9	6	8	6	15	8
Social security	60	73	76	74	73	69	73
Widow's earnings	11	21	9	8	10	10	10
Gifts	14	20	21	14	13	6	14
Veterans' benefits	17	24	24	29	30	18	26
Loans	3	3	4	3	3	2	3
Welfare	4	1	1	1	2	0	1
Still owed	6	1	4	1	2	+	2
Miscellaneous	16	8	10	11	11	5	10

+Less than ½ of 1 percent

Note: Columns will add to more than 100 percent because many widows utilized more than one source of funds.

Health Insurance and Medical Expenses

The burden of medical expenses fell heavily on a relatively small proportion of the widows. Of the aggregate medical expense, 69 percent was borne by the widows who had expenses of $3,500 or more (17 percent) and 91 percent was accounted for by that third of the families (34 percent) that had expenses of $1,500 or more. Because medical costs were so unevenly distributed among the widows and because they were such a highly variable part of total expenses, they were singled out for more extensive analysis.

The average bill for those with medical expenses was $2,800, of which 60 percent was paid by some form of health insurance. For the 64 percent of widows with health insurance payments, insurance covered 77 percent of the total medical costs.

As can be seen from Table 18, as medical expenses increased, so did the proportion of widows who reported health insurance payments: from 38 percent among families whose bills amounted to under $500 to 81 percent among families with medical expenses of $3,500 or more. Although the types of health coverage owned were not explored, the increase undoubtedly reflects the increased probability of hospitalization coverage.

It is also seen that as the insured husband's expenses increased, the proportion of the bill paid by health insurance decreased — from 100 percent payment among those with low expenses to 75 percent payment among those with bills of $3,500 or more. However, because of the increase in the proportion reporting health insurance coverage, the percentage of total medical costs covered by health insurance increased from 50 percent at the low bill level to 62 percent where there were expenses of $3,500 or more.

Table 18 — Relationship Between Final Medical Expenses and Health Insurance Payments

Total Medical Expenses	Average Medical Expenses	Percent of Families with Health Insurance Payments	Percent of Final Medical Expenses Paid by Health Insurance	
			Widows with payments	Widows with expenses
$3,500 or more	$7,600	81%	75%	62%
1,500—$3,499	2,300	77	78	61
500— 1,499	800	56	89	49
1— 499	200	38	100	50
Total with medical	2,800	64%	77%	60%

Summary

In Chapter 1, it was seen that the husband's terminal illness or disability had weakened the financial strength of some of the families prior to the onset of widowhood. In the present chapter, it was seen that in addition to the other expenses created by death, the terminal illness or disability created substantial medical costs. The results pointed to the important role played by both life and health insurance in shielding the wives from the impact of final expenses at the onset of widowhood.

Textbooks frequently treat the risks of loss of employment, medical costs, and loss of life in separate sections; however, they were not separate entities for the widows and their families. All had lost husbands. Almost 4 in every 10 were faced with medical expenses of $1,000 or more. In 3 out of every 10 families, the husband's employment had terminated before death. It seems misplaced to talk of the risk of premature death without talking of the need for protection from the other hazards that often accompany it.

Chapter 3

Preparation for Widowhood

It is impossible for a wife to be completely prepared for the grief and loneliness that will follow the loss of her husband. However, there are steps that can be taken, either in direct anticipation of death or in the course of daily living, to make it easier for her to adjust to her new responsibilities as head of the family. Income needs may be anticipated and a program of life insurance developed; a will can be prepared; social security and employee benefits can be discussed; papers can be put in order and their locations made known; and the wife may gain experience in money management by handling the day-to-day finances of the household. Although not all of these actions were investigated, a sample was chosen to provide an estimate of prior preparation for the responsibilities of widowhood.

Family Money Management

A wife's opportunity to gain experience as a money manager is likely to reflect a style of life rather than conscious planning for widowhood. If she has had that experience, however, one of the problems of adjusting to widowhood may be largely eliminated.

A majority of the widows (59 percent) said that they had handled their family's finances before their husbands died; 26 percent said that their husbands usually had; 13 percent volunteered that the responsibility had been shared; and 2 percent said that it had been done by some other member of the household. Family finances were more likely to have been handled by the husbands in upper income households ($15,000 or more) than in the lower -- 38 percent vs. 23 percent.

Less than 1 widow in 3 (32 percent) said that handling the family's finances was a problem for her in the postdeath period. However, when the husband had been the family member who kept track of the bills and expenses, 63 percent of the widows encountered some difficulty in the transition process; this compares with only 18 percent when the finances had been handled by the wife (see Table 19).

Table 19 -- Percent of Widows Encountering Difficulty Handling Family Finances Following the Death of the Husband

Before husband's death, finances had been managed by:	% Encountering Difficulty	Number of Cases
The husband	63%	462
Shared	37	235
The wife	18	1,015
Total	32%	1,712

As the duration of the husband's terminal illness or disability increased, there was a small increase in the proportion of wives who had handled the bills and expenses in the predeath households -- from 55 percent when the husband's death was sudden to 67 percent when the illness or disability had been of two or more years' duration. The increase may well be the result of wives having to take over the financial duties, rather than evidence of training in preparation for their husband's death.

Among the widows who encountered some difficulty in handling the family finances, inexperience was the primary cause. When the husband had handled the finances, 49 percent of the widows encountered difficulties resulting from the lack of experience compared with only 18 percent who said they acquired the skill without encountering major problems.

Some widows, however, encountered difficulties that were not related to inexperience. One widow in 10 said that she felt unsure of herself without her husband to give advice and to share in decisions, while approximately 1 widow in 12 said she had difficulties directly related to the reduction in family income. Emotional reactions or the added expenses resulting from the husband's death were only rarely cited as factors that created problems in handling family finances.

It can also be seen from Table 20 that only 2 percent of the widows said that a reason why they encountered no difficulty in managing household finances was that their husbands had prepared them to take over. In many instances, of course, the wife was the money manager and needed no preparation; however, in those families in which the husbands had handled the family finances, only 3 percent of the widows said that their difficulties had been minimized by prior preparation.

Wills

Through a properly executed will, a husband can simplify the problems of estate administration that may be faced by his widow. Just under 3 in every 10 of the widows (29 percent) said that their husbands had left wills and, as expected, the leaving of a will was highly related to the predeath level of family income. Of families with incomes of under $5,000, wills were left by 16 percent of the husbands compared with 52 percent in families with incomes of $15,000 or more (see Table 21).

The making of a will was essentially unrelated to the duration of the husband's terminal illness or disability. Of those who died instantaneously, 27 percent left wills, compared with 32 percent among men who had been ill or disabled for six months or more.

The widows of husbands who left wills were asked whether they had found the wills helpful, while those whose husbands died intestate were asked whether a will would have been helpful. The very large majority of widows (86 percent) of husbands who had made wills said that they had been helped. However, the very large majority (86 percent) of those without wills doubted that wills would have been helpful (see Table 22).

Table 20 — Reasons for Difficulty or Lack of Difficulty in Managing Finances Following Husband's Death

	Family financial manager prior to husband's death			
	Husband	Shared*	Wife	Total
Experienced some difficulty	63%	37%	18%	32%
No (recent) experience	49	2	1	13
Unsure of self	9	26	6	10
Income reduction	7	8	9	8
Emotional reaction following husband's death	2	+	2	2
Added expense resulting from husband's death	+	+	+	+
Other reasons	--3	2	1	1
Experienced little difficulty	37%	63%	82%	68%
Had experience	12	56	78	57
Acquired skill without problems	18	4	1	6
Had assistance when needed	5	2	1	3
Husband prepared wife to take over	3	4	1	2
Other reasons	1	1	1	1
	100%	100%	100%	100%
Number of cases	459	235	1,007	1,730

+Less than ½ of 1 percent *Volunteered response

Note: Details within columns will add to more than 100 percent because of multiple answers.

Table 21 — Proportion of Husbands with Wills, by Adjusted Total Family Income

Adjusted total family income	Percent of husbands with wills
$15,000 or more	52%
10,000—$14,999	31
5,000— 9,999	23
Under 5,000	16
All husbands	29%

Since many of the husbands had had limited amounts of property and since there are laws protecting the rights of survivors, it is not too surprising that the widows of most of the men who died intestate did not miss wills. In addition, the design of the study excluded cases where husbands and wives died together so that guardianship of children would be of crucial concern.

The widows were not asked directly about problems encountered in administering the husband's estate, and by the time of the interviews, 93 percent of the estates had been settled. The remaining 7 percent presumably included those causing the greatest problems, and among those who died intestate, the perceived help of a will was strongly related to whether the estate had been settled. Where it had been, 15 percent thought a will might have helped; where it had not, 59 percent thought a will would have helped (see Table 22).

Table 22 — Estate Settlement and the Widow's Perception of the Helpfulness of a Will

Estate Settlement	Husband had will — Widow said will was helpful	Husband had no will — Widow said will would have helped
No estate	*	6%
Estate settled	87%	15
Estate not settled	85	59
Total	86%	14%

*This cell contained only 24 widows.

The widows who said that a will was helpful or would have been helpful were asked to describe how it had or would have assisted them. From the answers shown in Table 23, it is seen that the majority said that the wills had helped facilitate the mechanics of the settlement process (or would have helped had there been one). Much smaller proportions talk of the guidance provided by a will (16 percent) or of the elimination of actual or potential conflict between the widow and her children or other relatives.

Similarly, of those who thought that a will was not helpful or would not have been helpful, the answers reflected the lack of property to transfer or the fact that the transfer had been accomplished with little difficulty.

Table 23 — Reasons for Thinking Will Helpful or Not Helpful

Think will was helpful or would have been helpful	Percent
Facilitated the mechanics of settlement — avoided probate	65%
Eliminated conflict between relatives	18
Gave widow guidance on husband's wishes and business affairs	16
Miscellaneous	7
Do not think will was helpful or would have been helpful	
No property to transfer	53%
Settlement smooth without will	47
No one to contest settlement	1
Miscellaneous	3

Note: Columns will add to more than 100 percent because of multiple answers.

Knowledge of Social Security

Because almost all of the husbands had been covered under social security, this benefit program was selected as a proxy to represent the widows' knowledge of the various governmental plans they might have been entitled to receive. Those whose husbands had been covered by social security (or the railroad retirement program) were asked: "Before your husband died, how would you rate your knowledge of the social security benefits for survivors? Would you say you were well informed, fairly well informed, poorly informed, or not at all informed?"

Just under half of the widows (45 percent) said that they were fairly well informed or better, including 19 percent who said they were well informed. However, almost 3 in every 10 of the widows admitted to having no information about social security benefits (see Table 24).

Knowledge and education are usually closely related, but this was not so in the present study. Widows with eight years of schooling or less had the lowest level of knowledge; however, college graduates did not rate themselves as being better informed than did those who had completed eighth grade but had not finished high school.

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Table 24 — Self-Ratings of Knowledge of Social Security Benefits Prior to Husband's Death

Self-rating of knowledge	Percent
Well informed	19%
Fairly well informed	26
Poorly informed	26
Not at all informed	29
	100%

When the level of information was related to family income, it was found that the widows from families with incomes of $10,000 or more were somewhat better informed than were those with lesser incomes and that the level of knowledge was lowest among those with incomes under $3,000. However, the differences in knowledge between the income groups was so small as to lack operational significance.

Some 55 percent of the widows whose husbands had been ill or disabled for at least two years rated themselves as being fairly well informed or better, compared with 43 percent among those whose husbands had terminal illnesses or disabilities of lesser duration. This increase in knowledge, however, is the result of families who had been receiving disability payments under social security. When these families are removed, no relationship was found between the duration of the terminal illness or disability and the widow's knowledge of her potential social security benefits.

The widows' ratings of their knowledge of social security benefits was lowest for those who received only funeral benefits and also for those who received the largest monthly income payments under social security. In rating her knowledge of social security benefits, a widow could say that she was uninformed if she had had no idea of the benefits to which she was entitled or if she had expected a certain level of benefit and her expectations were not confirmed. The slightly lower knowledge ratings among those widows who received only funeral benefits may reflect disappointment with the size of the benefit received or lack of awareness of the "blackout period." Conversely, the lower knowledge ratings among those who received $200 or more in monthly benefits may reflect pleasant surprise when benefits were larger than anticipated.

Programming

The preparation of a will is evidence that a husband has given some thought to the disposition of his property. However, the purchase of individual life insurance is more direct evidence that he has given thought to the financial needs of his survivors. This is particularly true if, in the sales presentation, there was a discussion of his survivors' various needs and how these needs might be met.

Widows whose husbands had life insurance were asked: "Did an agent ever make a thorough review of your husband's life insurance while he was alive? That is, did he study your family's needs and then drew up a life insurance program for your husband?" One out of every four answered "Yes."

It should be emphasized that the proportion of widows who said that their husband's life insurance needs had been programmed does not reflect the incidence of programming within the present population of husband-wife families. As will be discussed in the section on life insurance ownership, the men who meet premature deaths today may often reflect life insurance sales practices as they existed a generation ago. In the present sample, 40 percent of the widows of insured husbands who died before age 45 said that they had been programmed. However, in the single largest five-year age segment, the one including men who died when they were between 60 and 65 years old, only 14 percent of the widows said that the husband's life insurance needs had been programmed.

Having an opportunity to have had one's life insurance needs programmed is related not only to the age at which the husband died but also to the income level of the family. As can be seen from Table 25, the proportion of widows of insured husbands who said that their life insurance needs had been programmed increased from 8 percent at the very lowest income level to 42 percent at incomes of $15,000 or more.

Table 25 — Incidence of Programming by Adjusted Total Family Income (widows whose husbands had life insurance)

Had husband's life insurance needs been programmed?	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Yes	8%	13%	17%	24%	30%	42%	25%
Don't know	10	14	11	14	9	7	11
No	82	73	72	62	61	51	64
	100%	100%	100%	100%	100%	100%	100%
Number of cases	56	139	266	434	363	154	1,562

The widows whose husbands had been programmed were asked whether the programs had been helpful and, if so, why? Just over 1 in every 3 (36 percent) said that they had found the programs to be very helpful, but an equal proportion said that they had not been helped. A middle group, consisting of 28 percent, said that the programs had been fairly helpful.

The helpfulness of the life insurance programs cannot be compared with the helpfulness of wills. Having his insurance needs programmed does not mean that the husband accepted the program or that he bought life insurance to meet the needs that may have been uncovered. From the answers shown in Table 26, it may be inferred that the helpfulness of the program is directly related to the purchase of life insurance.

Among those who thought their programs were very helpful, a majority (53 percent) said that their needs had been met or their burdens eased. Others (16 percent) found the programs helpful because their husbands had been encouraged to buy specific types of life insurance or insurance to cover specific needs, such as mortgage redemption. A number of other widows referred to the information value of the programs.

Typical comments were:

"Everything was there. It was all arranged to give us a monthly income." (Widow of a physician who died at age 51)

"Very profitable. It gave me a roof over my head and I only have to worry about taxes, insurance, and upkeep." (Widow of a sales manager -- age 47 at his death)

"It enabled me to pay my bills as well as assuring me that the children would have the opportunity to obtain an education." (Widow of a government supervisor who died at age 38)

"I understood it, for one thing, and I knew exactly what money we would have to work with." (Widow of a college administrator who died at age 41)

"I can't say we did all he recommended, but it was good to have a comprehensive picture of where we stood." (Widow of a salesman who died at age 43)

"It helped us to understand the type of policies he had and what to expect when he died." (Widow of a dental technician who died at age 40)

"Because it gave me the money to live on and have some security for myself and the children's future education." (Widow of an executive who died at age 37)

Table 26 — Why Widow Considered Programming of Husband's Insurance Was or Was Not Helpful

Why Program Helpful	Very helpful	Fairly helpful	Not very helpful	All who were programmed
Provided for widow's needs (future needs preplanned)	53%	25%	—	26%
Informed widow (e.g., available benefits)	27	12	—	13
Caused purchase of specific insurance (mortgage, paid-up family, etc.)	16	4	—	7
Caused husband to increase his life insurance coverage	2	3	—	2
Miscellaneous	4	5	--	3
Why Program Not Helpful				
Husband not interested in program (or postponed taking agent's advice)	—	17%	42%	20%
Could not afford to buy, or had to let policy lapse	—	16	24	13
Husband not insurable (health or age factors, etc.)	—	9	17	9
Program inadequate (did not provide enough coverage, etc.)	—	8	8	5
Could not use as planned (spent on business debts, etc.)	—	1	2	1
Miscellaneous	—	2	10	4
Number of cases	162	105	116	383

Note: Columns will add to more than 100 percent because of multiple answers.

Almost all who were not helped said that their husbands had not bought the programs the agents had recommended or had bought but subsequently lapsed the insurance. Of those not buying, husbands who lacked interest in the programs outnumbered those who could not afford them, or who were uninsurable. Only a small group, consisting of but 6 percent of all widows whose husbands had been programmed, said that the programs were inadequate or that they could not be used as planned. Included in this group, for example, were those who found the programs out of date, instances in which proceeds were not paid because of the nature of the death (e.g., in a crash of a private airplane), and those in which the proceeds had to be used to cover large business or medical debts.

Because of limitations imposed by the overall size of the sample, by the relatively small proportion of widows whose husbands had been programmed, and by the tendency of programming to be concentrated among young, upper income families, it is difficult to prove that differences in the amounts of individual life insurance owned by programmed and nonprogrammed families are the result of programming alone. However, for those husbands who had owned individual life insurance, the amount owned was divided by the husband's income to determine the years of income protection that had been purchased up to the time of death.

Table 27 shows the relationship between age and programming to the proportion of husbands who had acquired amounts of individual life insurance equal to at least twice their annual incomes and those who had acquired amounts at least equal to their incomes. (Nonowners are excluded from the tabulation, but if included, would only heighten the differences.)

Table 27 -- Relationship of Individual Life Insurance to Income by Age and Programming

Programming	Ownership equal to one year's income or more		Ownership equal to two years' income or more	
	Under 45 years old	45 or older	Under 45 years old	45 or older
Programmed -- widow found program very helpful	75%	45%	49%	26%
Programmed -- programming fairly, or not very, helpful	37	25	20	6
Not programmed	34	15	8	7

The analysis shows that among widows who said that the husband's program had been very helpful (the buyers), the level of individual life insurance owned was substantially higher than for either the nonprogrammed group or the group who said that programming was less than very helpful (primarily nonbuyers). For example, if the widow said that the program had been very helpful, 49 percent in the younger age group reported that the husband had owned individual life insurance equal to at least twice his income. Only 8 percent of the widows of the nonprogrammed younger husbands reported that level of ownership.

It may also be seen that regardless of programming, the older husbands had less individual life insurance in relation to their incomes than did the younger. The differences in the level of protection at different ages may have important implications for the marketing of life insurance. Possible reasons for the differences are discussed in Chapter 5.

Discussion of Life Insurance

As a final indication of prior planning, each widow was asked whether she and her husband had ever discussed his life insurance and what should be done with the proceeds if he died. While the desire to protect one's dependents is a major reason for buying life insurance, less than 1 widow in every 5 (18 percent) said that they had had such discussions.

When a similar question was asked of a cross section of U.S. household heads in the Life Insurance in Focus study, 17 percent of those with life insurance said that they had ever discussed the use of the proceeds. The similarity of the two results is perhaps best explained by the lack of any relationship between the duration of the husband's terminal illness or disability and whether he had discussed the use of his life insurance proceeds with his wife. That is, among husbands in the present study who presumably had some forewarning, there was no increase in the proportion of those who had discussed the use of their life insurance with their wives. As a result, only 6 percent of the widows whose husbands had life insurance had had an opportunity to talk with their husbands about the use of the proceeds within a year of the husband's death.

Table 28 — Husband-Wife Discussion of the Use of Life Insurance Proceeds
(widows of insured husbands)

Within a month of death	1%
One month, but under six months before death	3
Six months, but under one year before death	2
More than one year before death	12
Never discussed	82
	100%

Summary

From the findings presented in this chapter, it may be inferred that most husbands have not taken systematic steps to help prepare wives for widowhood. The need for income can be crucial, yet more than half of the widows admitted that they had entered widowhood with little or no idea of the level of social security benefits they might receive. Only 1 in 4 said that an agent had ever attempted to program her family's life insurance needs. The use of life insurance proceeds was rarely discussed within the family before the husbands died. Few of the husbands who were their families' money managers had taken steps to show their wives how to perform this function. The lack of planning supports the findings of other research, such as Life Insurance in Focus.

Although death is frequently preceded by a period of terminal illness or disability, the findings indicate that this period is not being used to prepare the wives for widowhood. If death is a taboo topic, it may become even more taboo when it is an imminent probability rather than an abstract possibility. The onset of a terminal illness or disability may preclude further planning with almost as much certainty as does sudden death.

Chapter 4

Those Who Help

Despite her grief, her sense of loss, and the lack of preparation for her new role, the widow must attend to many practical matters in the hours and weeks following her husband's death. The funeral must be arranged, death certificates obtained, insurance claims filed, social security benefits applied for, and many other legal and financial matters attended to. It is a time when others can come forward to help ease her burdens.

The widows were shown a list containing the kinds of people most commonly encountered in the course of settling an estate and of applying for widow's benefits. They were asked to indicate which ones they had been in contact with and which ones had been of most help.

A majority said that they had been in contact with a mortician, a social security official, and a member of their immediate family or other close relative (see Table 29). A life insurance man was mentioned by 43 percent of the widows and an almost equal proportion (42 percent) said they had dealt with a lawyer. Clergymen were the only other institutional representatives to be mentioned by at least a third of the widows.

The figures in the first column of Table 29 reflect differences in opportunities to be of assistance, differences in the widow's willingness to delegate tasks to others, and the fact that some of the transactions could be made without personal contact. If the widow let someone else handle the funeral details, if her husband had not been a veteran, or if the life insurance claim were handled by mail, a mortician, a VA official, and a life insurance man would not have been mentioned.

The third column of Table 29 shows the percent of persons rated as being most helpful among those who were contacted. For example, of the widows who had direct dealings with morticians, approximately 1 in 3 (32 percent) said that he had been one of the persons who had helped the most. Because they may be more deeply involved in the various stages of the settlement and claims process, members of the immediate family and attorneys were the most helpful of the people with whom the widows dealt.

Of the widows who had contact with life insurance men, only 24 percent included them among the people who had helped the most. This percentage is essentially the same as for social security officials and is noticeably lower than for VA officials, the two examples of the so-called "impersonal federal bureaucracy." This does not mean that life insurance agents or social security officials were not helpful. As will be seen in a later section, only a small percentage of widows were dissatisfied with the handling of either their life insurance or their social security claims.

Table 29 — Persons with Whom Widow Had Contact and Persons Who Were Most Helpful During Course of Settling Husband's Estate and in Applying for Widow's Benefits

Widow had contact with:		Person said among most helpful		Most helpful among contacted	
Mortician	72%	Family, close relative	38%	Family, close relative	65%
Social security official	61	Attorney	24	Attorney	56
Family, close relative	58	Mortician	23	Other	40
Life insurance man	43	Social security official	15	Accountant	36
Attorney	42	Life insurance man	10	Friend	35
Clergyman	35	Clergyman	10	Company official	34
Friend	30	Friend	10	Social worker	34
Company official	30	Company official	10	VA official	33
Physician	28	VA official	7	Mortician	32
VA official	22	Physician	4	Clergyman	27
Banker	16	Banker	4	Social security official	25
Union representative	10	Accountant	3	Life insurance man	24
Accountant	8	Union representative	2	Banker	24
Probate judge	5	Social worker	1	Union representative	24
Social worker	4	Other	1	Physician	15
Other	3	Probate judge	+	Probate judge	8

+Less than ½ of 1 percent

The low helpfulness rating given life insurance men suggests that most were only marginally involved in the process of settling the husbands' estates and in assisting the widows in applying for the various survivor benefits. While the nature of the contacts with life insurance men was not explored in detail only 39 percent of those who said that they had been in contact with agents said that the agents had helped file the claims on the husband's life insur This suggests that the contacts may have been limited to the delivery of clai checks or to the sale of insurance on the widow's life.

The "other" category shown in Table 29 comprises individuals with whom the widows had contact but who were not on the prepared list. They included Armed Forces assistance officers, real estate men, welfare officials, the Red Cross, the American Legion, lodge brothers, tax officials, policemen and firemen, florists, cemetery managers, etc. Because of the high helpfulness ratings within this category, it is likely that the widows tended to volunteer others who had gone out of their way to be helpful and, perhaps, they ignored their more casual contacts.

The product of the first and third columns of Table 29 produces the figures in the middle column. That is, of all widows, 38 percent said that members of the family had been among the persons who had helped the most during the course of settling the husband's estate and in applying for widow's benefits. Only 1 in every 10 said that a life insurance man had been among the most helpful. While this compares favorably with some of the other institutional representatives, it is because the life insurance man is seen more frequently and not because of exceptional helpfulness.

It should be emphasized that the data given in Table 29 describe the widow's exposure to various sources of help and her satisfaction with the assistance

received. They provide no basis for judging how well the widows had been served. In many instances the widow would have no basis for determining the quality of the assistance that was rendered -- for example, that a real estate man had sold property at less than the going market value or that a friend knew nothing of settlement options when giving investment advice.

Contacts with morticians, social security officials, and family members were common at all income levels. However, they form the main group of persons seen by widows in low-income families. As income increased, there was a sharp rise in the utilization of the professional services offered by attorneys, bankers, accountants, and physicians. Because coverage under group and individual life insurance are both income-related, dealings with company officials and life insurance men also increased with increasing family income (see Table 30).

Table 30 — Persons with Whom Widow Had Contact During the Course of Settling Her Husband's Estate and in Applying for Her Widow's Benefits, by Family Income

	Adjusted Total Family Income			
	Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Mortician	64%	75%	77%	64%
Social security official	65	61	59	66
Family, close relative	57	59	59	51
Life insurance man	26	42	51	50
Attorney	21	34	53	76
Clergyman	27	35	40	40
Friend	25	29	36	37
Company official	16	27	36	44
Physician	20	27	31	38
VA official	20	23	24	16
Banker	8	10	21	38
Union representative	5	11	12	8
Accountant	2	4	11	27
Probate judge	3	4	4	11
Social worker	7	3	4	+
Other	3	3	4	4
Number of cases	260	770	385	161

+Less than ½ of 1 percent

Given a contact, widows from families whose incomes had been $10,000 or more were less likely to say that any person had been "most helpful" than were widows from lower income families. The only exceptions to the rule were in the case of widows who had dealings with attorneys, accountants, and friends (see Table 31).

The lower helpfulness ratings given by the widows from higher income families could be the result of any of a number of factors. A plausible explanation is that as income increased, not only may the widows have been more capable of applying for their survivor benefits, but also the difficulty of applying may have become a progressively smaller problem in comparison with the legal and other financial complexities involved in settling the husband's affairs -- complexities requiring the specialized skills of an attorney or accountant. Similarly, increased complexity of settling the estate may have reduced the contribution that could have been made by family members, morticians, clergymen, or physicians.

It can also be seen from Table 31 that while life insurance agents were rated as being most helpful by a slightly larger proportion of the widows from lower income families than by those from higher income families, the relative position of life insurance agents in the lower income group is worse than among widows from higher income families.

Table 31 — Of the Persons the Widow Dealt with, the Percent Described as Being Most Helpful, by Family Income

	Adjusted Total Family Income	
	Under $10,000	$10,000 or more
1. Attorney	49%	63%
1. Family, close relative	67	58
Accountant	24	39
6. Friend	32	37
7. Company official	37	31
3. VA official	37	27
5. Mortician	36	27
9. Life insurance agent	9. 25	2. 22
Clergyman	31	21
Banker	24	21
8. Social security official	28	18
6. Union representative	32	15
Physician	16	12

Table 32 shows the proportion of widows who said they had been in contact with a life insurance man in relation to the amounts of individual life insurance their husbands had owned. Given a contact, it also shows the proportion of life insurance men who were rated as being most helpful. As can be seen, both the probability of being in contact with a life insurance man and the rated helpfulness of the life insurance man increase as the amount of individually purchased life insurance increases.

If the husband had owned no individual life insurance or owned some, but less than $5,000, the life insurance man was rated as being less helpful than were any of the other persons the widows commonly came in contact with (i.e., attorneys, family, friends, company officials, morticians, clergymen, or social security officials). Among widows whose husbands had owned $10,000 or more of individual life insurance, life insurance men trailed attorneys and family members by a large margin but were more often seen as being helpful than were the other institutional representatives.

Table 32 — Percent of Widows in Contact with a Life Insurance Agent and Percent of Those Rating the Contacted Agent as Being Most Helpful, by Amount of Individual Life Insurance Owned by Husband

Individual Life Insurance	Percent in contact with life insurance agent	If contact: percent widow said most helpful
$10,000 or more	65%	33%
5,000—$9,999	53	23
1— 4,999	50	23
None	25	15

Contacts with life insurance men were also examined by the age of the husband at death and for widows who said that the premiums on at least one of their husband's individual life insurance policies had been paid directly to an agent as opposed to those who said premiums were not paid directly to an agent. As can be seen in Table 33, the proportion of widows who dealt with a life insurance man was unrelated to the age of the husband at death. However, the proportion of widows who included life insurance men among the persons who had been most helpful was highest for those whose husbands had been in the youngest age brackets. Although the reasons behind this relationship cannot be explored, a reasonable hypothesis is that at the younger age levels, there was a greater probability that the agent who serviced the claim was the agent who sold the policy. However, it may simply reflect the fact that younger husbands owned larger amounts of individual life insurance than did the older ones.

Whether or not premiums on any of the husband's policies had been paid directly to an agent is seen to be unrelated to either the probability that the widow had dealings with a life insurance man or to the proportion of widows with dealings who said that a life insurance man was among those who had been of most help to her.

Table 33

Age of Husband at Death	Had dealings with a life insurance agent	Of those with dealings, said life insurance agent among most helpful
55—64	43%	21%
45—54	42	24
Under 45	43	31
Owners of Individual Life Insurance		
Premiums paid to an agent	55%	24%
Premiums not paid to an agent	52	25

Chapter 5

Survivor Benefits

A variety of survivor benefit programs and other forms of financial assistance became available to the widows at the death of their husbands. Some of these sources provided monthly income payments while others provided cash settlements. The amounts received varied from a few dollars to many thousands of dollars.

Social security and life insurance were the benefits more widely received. Social security benefits were received by 93 percent of the widows with 59 percent receiving monthly income from that source. Almost as many, 91 percent, received some life insurance proceeds, but only 7 percent received at least part of the proceeds under income options or annuities. No other single source of funds was reported by more than one third of the widows. The proportions who received the various types of benefits or funds are summarized in Table 34.

Almost all of the widows received some money in the form of lump-sum settlements, with only 3/10 of 1 percent receiving none. The median or "typical" widow received just over $6,000 in payments from all sources and, by income level, the median amounts received increased from $1,400 at the lowest income level to $20,600 where family income had been $15,000 or more. As can be seen from Table 35, however, the average amount received per family is considerably higher than the median as the result of the relatively small proportion of widows who received exceptionally large amounts of lump-sum assets.

Of all of the dollars received in the form of lump-sum settlements, 69 percent came from life insurance. The proportion coming from life insurance was slightly higher below the $10,000 family income level than it was among families with higher incomes.

In addition to life insurance, lump-sum settlements of retirement plans made a significant contribution to the total amount of lump-sum assets received by the widows. Because the proportion of widows who received such settlements grew as family income increased, there was a corresponding increase in the proportion of funds coming from retirement plans. No other source contributed more than 5 percent to the aggregate supply of lump-sum assets, either because the amounts of the benefits were small (e.g., gifts or the social security funeral benefit) or because they were received by only a small proportion of the widows (e.g., proceeds from the sale of business interest). For a detailed breakdown, see the Technical Supplement.

Below the $7,000 income level, aggregate final expenses not covered by health insurance payments were greater than the aggregate liquid asset savings and investments in stock and mutual funds that these families possessed before the husband's death. However, at all income levels, the amount of assets received in a lump sum at the time of death exceeded final expenses not covered by health insurance payments, with the result that, on the average, there was some strengthening of the widow's asset position.

Table 34 — A Summary of Income Maintenance and Other Financial Assistance Received by the Widows in the Immediate Postdeath Period

	Percent Receiving
Social security	93%
Funeral benefit	90
Monthly income	59
Life insurance	91%
Lump sum	91
Income options or annuities	7
Veterans' benefits	33%
Funeral benefit	31
Monthly income	24
Company retirement plan	31%
Lump sum	18
Monthly income	15
Assistance from family, friends	29%
Gifts	26
Loans	4
Sale of husband's possessions	22%
Sale of husband's business	4%
Workmen's Compensation	3%
Funeral benefit	2
Lump-sum settlement	2
Monthly income	1
Liability payments	1%
Lump sum	1
Monthly income	+

+Less than ½ of 1 percent

Table 35 — Survivor Benefits and Other Lump-Sum Funds Received

Lump-Sum Assets Received*	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
$25,000 or more	1%	1%	3%	5%	15%	44%	11%
15,000--$24,999	1	1	4	11	16	14	9
10,000-- 14,999	3	4	10	15	20	10	13
5,000-- 9,999	5	15	25	25	25	18	22
1,000-- 4,999	58	63	50	39	21	11	37
1-- 999	32	14	8	5	3	3	8
None	—	2	—	—	—	—	—
	100%	100%	100%	100%	100%	100%	100%
Median, all families	$1,400	$1,750	$4,200	$6,100	$10,150	$20,600	$ 6,050
Average, all families	$2,250	$3,350	$6,300	$8,850	$15,800	$33,750	$11,900

*Lump-sum assets include social security and VA funeral benefits, all life insurance other than proceeds paid under income options or annuities, proceeds from retirement plans, gifts from friends and family, proceeds from the sale of businesses or miscellaneous possessions, and lump-sum settlements from Workmen's Compensation or liability claims.

Of the aggregate amount of initial monthly income payments, two thirds (67 percent) came from social security benefits, 15 percent came from retirement plans, and 12 percent represented VA benefits. Monthly income payments from life insurance represented only 5 percent of the aggregate initial monthly benefits. The contribution from both life insurance and employee retirement plans increases with increasing family income; however, even at the $15,000 income level, only 11 cents of every dollar received in monthly income benefits came from life insurance. A detailed table is included in the Technical Supplement.

Life Insurance

Life insurance protection was in force on the lives of 92 percent of the husbands. This figure is very close to the expected value for an age-equivalent segment of American husbands based on ownership studies by LUTC/LIAMA and by the Institute of Life Insurance.

Individual life insurance, exclusive of credit and veterans' life insurance, had been purchased by 70 percent of the husbands, and 51 percent had coverage under group life insurance policies. The proportion of husbands covered by the various types of life insurance is shown in Table 36.

The amounts of life insurance actually received by the widows were, in some instances, less than the husband's total life insurance. One percent of the widows said that they failed to receive any of the proceeds from the husband's life insurance and an additional 5 percent said that only part of the proceeds had been received. In the aggregate, 2.8 percent of the potential proceeds were not received by the widows. The primary reasons for the loss of proceeds were that someone other than the widow was the designated beneficiary or that the proceeds were withheld to repay policy loans. In a few instances, the claims were contested because of alleged misinformation on the application, while in several others, the nature of the husband's death prevented payment (e.g., suicide soon after the policy was issued).

Table 36 — Proportion of Husbands Covered by Various Types of Life Insurance

Type of Insurance	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Individual life	58%	58%	64%	70%	76%	77%	70%
Group life	10	32	48	53	61	65	51
Credit life	5	13	14	18	24	20	18
Veterans' life	1	2	8	10	15	13	11
Fraternal, ~~burial~~, assessment, etc.	12	7	10	8	5	4	8
Accidental death	2	—	1	1	1	1	1
Total insured	76%	82%	90%	94%	96%	94%	92%

Over half of the widows (52 percent) received less than $5,000 in life insurance proceeds as they embarked upon their new responsibilities. At the very lowest income level, 93 percent received less than $5,000 in proceeds; even at the $15,000 income level, 1 widow in 5 had life insurance benefit payments of less than $5,000. It is also seen that only at the $15,000 income level were benefit payments of $25,000 or more received by any substantial proportion of the widows (see Table 37).

Table 37 — Total Life Insurance Received by Widow

Life Insurance Received	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
$50,000 or more	—	—	+	+	2%	15%	2%
25,000—$49,999	1%	2%	2%	3%	8	24	6
10,000— 24,999	4	3	14	25	37	24	22
5,000— 9,999	2	12	18	23	21	17	18
1,000— 4,999	45	52	47	41	26	13	38
1— 999	24	12	7	3	1	—	5
None	24	19	12	5	5	7	9
	100%	100%	100%	100%	100%	100%	100%
Average received, all widows	$1,700	$2,700	$5,000	$7,150	$11,600	$24,850	$9,150
Average for those who received life insurance	$2,150	$3,300	$5,550	$7,550	$12,050	$26,350	$9,900

+Less than ½ of 1 percent

Eight percent of the widowed beneficiaries received some of the husband's life insurance in the form of monthly payments under income options or annuities. The proportion receiving such payments increased from 1 percent at the lowest income level to 14 percent among families with incomes of $15,000 or more. Among widows receiving monthly payments, the median benefit was $110 per month.

The use of the income option varied by the type of life insurance received and by the amount but was primarily confined to beneficiaries of veterans' life insurance and of individual life insurance where the amount paid to the widow totaled $10,000 or more. That is, of widows who were beneficiaries of veterans' life insurance, 22 percent said that they received all or part of those proceeds

under an income option; of widows who were beneficiaries of individual life insurance totaling $10,000 or more, 20 percent said that they received all or part in the form of monthly income payments. Only 2 percent of the widows receiving proceeds from group life insurance policies said that any of the proceeds had been paid under an income option.

Table 38 -- Use of the Income Option by Type of Life Insurance, and Amount Received by Type

Type and Amount of Life Insurance Owned	All or Part of Those Proceeds Received Under Income Options
Veterans' life insurance	22%
Individual life insurance	6%
Under $5,000	2%
$ 5,000—$9,999	6
10,000 or more	20
Group life insurance	2%
Other life insurance	2%

Individual Life Insurance

Table 39 shows the husband's ownership of individual life insurance before adjustment for proceeds withheld or paid to others. Overall, 70 percent of the husbands had owned individual life insurance policies, and the proportion increased from 58 percent at the lowest income levels to 77 percent among families with incomes of $15,000 or more.

Although a substantial majority of husbands owned individual life insurance, a majority of the husbands had less than $5,000 in individual life insurance protection. It is only at the $15,000 income level that over half of the husbands had $5,000 or more of individual life insurance. Only 12 percent of the widows, and just 35 percent of those from families with incomes of $15,000 or more, said that their husbands had as much as $10,000 of individually purchased life insurance at the time of death.

In the aggregate, individual life insurance accounted for 46 percent of the total insurance in force on the lives of the husbands, and group accounted for 40 percent of the total. Veterans' life insurance and credit life accounted for most of the remainder, with only small contributions to the total coming from such sources as fraternal and assessment policies or payments from accident insurance policies.

Life insurance, unfortunately, was one asset for which there were no data from published sources to use in deriving an age-equivalent comparison group. The data that do exist from such sources as Life Insurance in Focus and the Survey of Consumer Finances indicate that the ownership figures reported by the widows were perhaps somewhat lower than might be expected.

Compare with Table 5-32 p.17 Vol. 1 Trans Supp. [all insured lives group] widows and other

Table 39 — An Analysis of the Husband's Individual Life Insurance

Individual Life Insurance*	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
$25,000 or more	--	1%	+	1%	24%	21%	4%
10,000--$24,999	3%	1	4%	8	13	14	8
5,000-- 9,999	1	4	8	13	17	18	12
1,000-- 4,999	36	42	41	45	41	24	41
1-- 999	18	10	11	3	1	+	5
No individual life	42	42	36	30	24	23	30
	100%	100%	100%	100%	100%	100%	100%
Average per capita ownership	$1,100	$1,400	$2,000	$3,100	$5,300	$13,000	$4,200
Average of those with individual life insurance	**	$2,300	$3,100	$4,400	$7,000	$16,900	$6,100
Premium on any policy paid to agent	**	52%	54%	48%	45%	27%	46%
Number of companies in which policies were owned							
Three or more	**	2%	1%	1%	3%	12%	3%
Two	**	19	15	21	22	24	21
One	**	79	84	78	75	64	76
		100%	100%	100%	100%	100%	100%

*Individually purchased life insurance from legal reserve life insurance companies; the amounts shown include payments under double indemnity clauses.

+Less than ½ of 1 percent

**Data not shown when based on fewer than 50 cases

Because there is little overlap between the ages at which men buy their first life insurance policy and the ages at which the husbands died, health and other underwriting considerations should have only a minor effect on the proportion of husbands who owned individual life insurance. Within the sample, no relationship was found between the percent who owned individual life insurance and the duration of the terminal illness or disability, although there was a slight decline in the percent of husbands who owned $10,000 or more.

Ownership studies such as Life Insurance in Focus show that within the age range covered in this study, the proportion of husbands who own individual life insurance is essentially constant with, perhaps, a slight decline in the proportion of owners in the 55-to-64 age group. However, the proportion of husbands in the present study who had purchased individual life insurance increased as age increased, suggesting that some factors may have operated to reduce ownership in the younger age brackets (see Table 40).

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Table 40 — Proportion of Husbands Owning Individual Life Insurance

Age of Husband	Widows Study	Life Insurance in Focus	Difference
55--64	72%	67%	+5%
45--54	70	71	-1
35--44	67	72	-5
Under 35	58	68	-10

There was also evidence that the duration of the husband's terminal illness or disability may have resulted in some loss of group coverage, particularly if the duration had been a year or more and the husbands were 45 years old or over.

Higher premiums, coupled with reductions in income, may have combined to prevent some husbands whose employment was terminated from converting their group insurance to individual plans.

There is a further explanation, however, of why the amounts of life insurance owned by the husbands appear low when compared with the average size policy currently being sold or with ownership statistics for heads of husband-wife families under 65 years. An inspection of life insurance ownership figures shows that with advancing age, there is a general decline in the amount owned. This decline, however, does not mean that men necessarily reduce their coverages as they grow older.

The median or "typical" husband died when he was almost 56 years old and, as a rough projection, probably bought his last policy between 1946 and 1956. Even if he maintained all of his insurance in force, his ownership would look quite different from that of a man who completed his buying under current economic conditions. Given the concentration of life insurance-buying at the younger age levels, in any period marked not only by inflation but also by growth in productivity and real wages, the young will be better insured than the old. Yet it is predominantly the old who die. In the present study, many of the widows were beneficiaries of life insurance policies purchased to meet needs, not as they existed at the time their husbands died, but as they may have existed as much as a generation ago.

Social Security

Almost all of the widows (96 percent) said that their husbands had been covered under social security (or the railroad retirement program). One percent failed to apply for social security, primarily because they believed they were not old enough, thereby losing up to $255 in funeral benefits. In addition, 2 percent said that they had applied for social security but had not received benefits.

Although the amount of social security to which a family is entitled is partly dependent upon the husband's income and years of coverage, the purpose of survivor benefits is to provide a measure of economic security to widowed mothers with young children. As can be seen from Table 41, the receipt of social security benefits was highly related to the nature of the primary dependent unit, or stage in the life cycle, at the time of the husband's death.

The reduction in the proportion of widows receiving $200 or more in monthly benefits at successive stages in the life cycle is a function of progressively smaller family sizes. Income payments to widows without children include those to widows who had reached retirement age, as well as to those who were themselves insured and disabled.

The funeral benefit under social security was received by 90 percent of the widows, and the great majority of those who received it (88 percent) said they had received $250 to $255. The social security funeral benefit accounted for 3 percent of the aggregate of the widows' lump-sum receipts. Among widows from families with incomes of under $3,000, the funeral benefit accounted for 10 percent of the aggregate assets received postdeath, and this proportion declined to 1 percent among families with incomes of $15,000 or more.

Monthly income from social security was received by 59 percent of the widows. Benefits tended to increase with increasing income before declining at the $15,000 income level. This pattern of benefits reflects the underlying family structure and the built-in relationship between earnings and the primary insurance amounts at lower and middle income levels.

Table 41 — Social Security Benefits by Primary Dependent Unit

	Children in Family					
	Youngest preschool child	Youngest K-7th grade	Youngest 8-12th grade	Youngest attending college	Widow only	Total
Monthly Benefits						
$200 or more	67%	60%	25%	9%	2%	23%
100--$199	20	21	38	22	15	20
Under 100	11	13	24	40	14	16
Funeral Benefit Only	+	1	8	24	59	34
No Social Security Received	2	5	5	5	10	7
	100%	100%	100%	100%	100%	100%
Number of cases	240	425	262	75	741	1,743

+Less than ½ of 1 percent

Retirement Plans

Almost half of the widows said that their husbands had been covered under retirement or pension plans, and almost one third (31 percent) said they had received benefits from these plans following their husband's death. As with life insurance, coverage under a retirement plan and the payment of benefits under those plans is strongly related to family income. At the lowest income level, only 7 percent of the widows said they had received benefits compared with 39 percent with benefits when family income was $15,000 or more (see Table 42).

The method of payment of benefits varied as a function of the income, with monthly income payments being most common if the family had been at the lower end of the income scale while lump-sum settlements were most common at the higher income brackets. A small percentage of the plans provided both lump-sum and installment payments.

Table 42 — Benefits from Husband's Retirement or Pension Plans

	Adjusted Total Family Income						
Coverage Under Retirement Plans	Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Yes, received benefits	7%	21%	27%	32%	37%	39%	31%
Yes, did not receive benefits	15	14	17	14	16	16	15
No retirement plan coverage	78	65	56	54	47	45	54
	100%	100%	100%	100%	100%	100%	100%

Table 43 — Method of Paying Benefits from Retirement Plans

Method of Payment	Total
Lump sum only	50%
Installments only	42
Both lump sum and installments	8
	100%
Number of cases	521

Of the widows who received monthly income payments from their husband's retirement plans, two thirds said that they would receive them for life while one third said that they would be received for some specified time interval (e.g., until the youngest child reached 18 years old, or until the widow became eligible for social security). One third of the widows also volunteered that receipt of the benefits would continue only as long as they remained unmarried.

Tables showing amounts of benefits received from retirement plans in the form of lump-sum settlements and monthly income payments are presented in the Technical Supplement.

Veterans' Benefits

The widows of many veterans of the Armed Forces are entitled to several benefits including up to $250 to help defray funeral expenses and, if qualified, a continuing pension for themselves and their dependent children.

Among the widows in the study, 38 percent said that their husbands had been members of the Armed Forces of the United States and 33 percent received at least some veterans' benefits.

Although no direct comparison was possible, the proportion of husbands who were veterans may be somewhat lower than for husbands in general. This may be due in part to health factors associated with premature deaths and in part to the fact that some may have been too old to serve in World War II. For example, the 60-year-old man who died in 1966 was 36 years old in 1942. Almost 3 in every 10 of the husbands (29 percent) were between 60 and 65 years old when they died. It would be expected that in the present decade, as the mortality rate for World War II veterans begins to rise, veterans' benefits will increase in importance.

The veterans' funeral benefit was received by 31 percent of the widows and by 80 percent of the widows of veterans. Most said that they had received $250. Because the amounts were small, the funeral benefits account for just over ½ of 1 percent of the aggregate of funds received lump sum. However, among widows from families with incomes of less than $5,000, the veterans' funeral benefit accounted for 2 percent of the aggregate lump-sum funds.

Almost one fourth of the widows (24 percent), and 62 percent of those whose husbands were veterans, received monthly income benefits from the Veterans' Administration. Although a few of the widows, perhaps those whose husbands died of service-connected disabilities or who died while on active duty, said that they had received more than $150 each month in veterans' benefits; the amounts paid were typically between $50 and $99. (See the Technical Supplement.)

Sales of Business Interests

Within the immediate postdeath period, 4 percent of the widows said they had received funds from the sales of their husband's business interests. Because of a few sales involving substantial amounts (i.e., in excess of $35,000), the sales of business interests account for 5 percent of the aggregate received lump sum and 6 percent of the aggregate received by widows whose families had had incomes of $10,000 or more.

Sales of Other Possessions and Miscellaneous Assets Received

When a husband dies, he may leave a number of possessions that his widow neither wants nor needs and that can be converted into cash during the immediate postdeath period. She may also have received other assets that had not been reported

in other sections of the questionnaire. About one fourth of the widows (22 percent) said that they had such sources of funds, and they primarily were proceeds from the sales of automobiles. Other sales included shop tools, boats, sports and other hobby equipment, etc. None of the widows said that she had sold personal effects such as clothing or jewelry.

Included in the miscellaneous category were a few sales of summer cottages and other real estate; hence, they were conversions of one type of the family's predeath assets. A few widows also reported that they had received benefits under salary continuation plans. Employee benefits and sales of real estate account for most of the larger amounts reported in the miscellaneous category.

The sales of possessions and other miscellaneous assets received account for 3 percent of the total lump-sum assets reported by the widows, and that proportion is essentially equal across income groups.

Gifts

Gifts of money from friends and relatives were reported by 26 percent of the widows and account for 1 percent of the aggregate assets received lump sum. The gifts tend to be small, generally amounting to less than $500, and to be more common among lower income families. However, because other benefits also tend to be small, gifts accounted for 8 percent of the aggregate assets received lump sum by families with incomes of under $3,000 and for 6 percent of those received by widows from families in the $3,000-to-$4,999 income bracket.

As income decreased, there was a steady increase in the proportion of widows who received small gifts of money (i.e., less than $200). Apparently the friends and relatives of widows from lower income families thought that any amount, no matter how small, would be helpful. On the other hand, the proportion of widows who received gifts amounting to $1,000 or more is almost constant across the various income groups. The givers of the gifts were about equally divided between friends (including the husband's co-workers) and relatives.

Workmen's Compensation

Workmen's Compensation for job-related illnesses or accidents was received by 3 percent of the widows and accounted for less than ½ of 1 percent of the aggregate survivors' lump-sum benefits. Because of the small number of recipients, no detailed analysis of Workmen's Compensation could be made.

Almost two thirds of those who received Workmen's Compensation said that they had received funeral benefits from that source. The median size of the benefit, based on 31 widows, was $650.

Workmen's Compensation claims were predominantly settled with lump-sum payments; however, of those widows with claims, 36 percent reported that they had received monthly income benefits from Workmen's Compensation. The lump-sum settlements tended to be small, with 43 percent being for less than $1,000 and 80 percent

for less than $5,000. Of the 17 widows who said that they had received monthly income payments, 11 said that the payments were between $200 and $299. One said she received more than that amount, while five reported lesser amounts.

Liability Payments

The nature of the husband's death led 1 percent of the widows to file suit against other persons or agencies. Although the number of widows was small, liability settlements accounted for 1 percent of the aggregate of all lump-sum benefits received. With only one exception, all of the liability settlements were paid lump sum rather than in monthly income payments.

Welfare

Although income from welfare has not been included among the survivor benefits and other assets received by the widows, 3 percent reported that they had received welfare assistance in the period following their husband's death. The proportion receiving welfare declined from 13 percent among widows from families with incomes of under $3,000 to less than ½ of 1 percent among those whose family incomes had been $15,000 or more.

Chapter 6

The Life Insurance Claim

For many widows, the need for money to meet living expenses, as well as the additional expenses created by their husband's death, can be immediate and pressing. The widows who were beneficiaries of individual life insurance policies were asked how long it had taken from the filing of the claim until each of their individual life policies had been paid.

Over half of the beneficiaries (52 percent) said that the proceeds from at least one of the husband's individual life policies had been paid within two weeks, and only 12 percent said that two or more months had elapsed before they had received a payment. Despite the presence of multiple policies, the record was almost as good in terms of the time that elapsed between the filing of the claim and the payment of all of the proceeds from individual life policies.

As can be seen from Table 44, however, the time to payment on the first policy and the time to final settlement of all policies increased with the amount of individual life insurance the husbands had owned. While the majority of all widows said that they had received a payment in less than two months, those with less than $5,000 of individual life policies typically said that they had received a payment within two weeks and those with $25,000 or more of individual life typically said that it took about a month (two to six weeks). In addition to this shift, which probably reflects differences between payments made from local offices as opposed to home offices, there also is a tendency for protracted settlements of three or more months duration to be associated with higher amounts of individual coverage. As will be seen in the following section, some of these extended delays were probably the result of company investigations.

In order to compare the duration of the settlement processes for individual life insurance and social security, an estimate of time-to-settlement for the "typical" life policy was derived by taking each widow who reported more than one individual policy and randomly selecting one of her policies to represent time-to-settlement. For the widows who reported only one policy, that policy was, by definition, her typical policy. The time-to-settlement for the social security claim is the time that elapsed between applying and the receipt of the first monthly benefit check.

Almost half (46 percent) of the widows who received monthly benefit checks from social security said that three or more months elapsed before they received their first check and, though the figures are not shown, over 1 in every 5 (21 percent) said that the first check had not been received for at least four months.

For many of the widows, life insurance, savings, or other funds were available to assist them during the interval between the husband's death and the arrival of the first social security check. However, as will be seen in the following section, when the interval before social security is received extends to four months or more, there is a sharp increase in dissatisfaction with the social security claims process.

Table 44 — Time-to-Settlement by Amount of Husband's Individual Life Insurance

Time-to-Settlement of First or Only Policy	Amount of Individual Life Insurance Owned: Under $5,000	$5,000-$9,999	$10,000-$24,999	$25,000 or more	All with individual insurance
Three months or more	3%	3%	8%	10%	4%
Two months	7	9	14	7	8
One month	32	43	42	52	36
Under two weeks	58	45	36	31	52
	100%	100%	100%	100%	100%
Time-to-Settlement of All Individual Life Policies					
Three months or more	3%	5%	10%	24%	5%
Two months	8	12	19	8	10
One month	33	45	40	48	36
Under two weeks	56	38	31	20	49
	100%	100%	100%	100%	100%
Number of cases	621	168	139	56	984

Table 45 — Time-to-Settlement of the Life Insurance and Social Security Claims

Time-to-Settlement	"Typical" Individual Life Insurance Policy	Social Security Monthly Benefit
Three months or more	4%	46%
Two months	9	31
One month or less	87	23
	100%	100%
Number of cases	985	1,069

The great majority of widows were satisfied with the way in which their life insurance claims had been handled. Among widows whose husbands had been insured, 95 percent expressed complete satisfaction with the handling of their claims. Satisfaction was highest among those whose husbands had not owned individual life insurance (98 percent satisfied) and it tended to decline as the amount of individual life insurance owned increased -- dropping to 82 percent satisfied among those whose husbands had owned $25,000 or more of individual life insurance (see Table 46).

Table 46 — Satisfaction with the Handling of Life Insurance Claims

Satisfaction with Claims Settlement	Amount of Individual Life Insurance: None, had other insurance	Under $5,000	$5,000-$9,999	$10,000-$24,999	$25,000 or more	All with individual insurance	All with insurance
Completely satisfied	98%	96%	93%	91%	82%	94%	95%
Not completely satisfied	2	4	7	9	18	6	5
	100%	100%	100%	100%	100%	100%	100%
Number of cases	409	641	181	154	71	1,129	1,538

The decline in satisfaction among those whose husbands had owned the largest amounts of individual life insurance appears to be the result of increased wariness on the part of companies as the size of the claim increased. As was seen in the preceding paragraphs, it took longer to settle the larger claims than it did the smaller. As the time-to-settlement became more protracted, satisfaction with the settlement process declined. Of the widows who said that all benefits under individual life insurance policies had been paid within two weeks, 98 percent were satisfied, compared with 84 percent satisfied among those whose claims required two or more months to settle.

Dissatisfaction stemmed from a wide variety of causes. Some were simple annoyances and others resulted in delay in payment but had no effect on the amount of benefit received. However, at least half of the dissatisfied widows described situations in which they faced the loss of all or part of the proceeds from their husbands' life insurance because of contested claims or the designation of other individuals as beneficiaries. Of the 27 widows who reported that their claims had been contested, 11 said that they had fought and won their claims or were still in the process of fighting for payment (see Table 47).

Table 47 — Sources of Dissatisfaction with the Settlement of Life Insurance Claims

Source of Dissatisfaction	Number of Widows
Company contested claim (said death was from illness existing at time of application; age on application incorrect; death not accidental; policy had lapsed; etc.)	27
Company slow in paying (cause of death under investigation; other technicalities; etc.)	14
The agent (did not appear when called; slow in delivering claim check; failed to forward forms to company; misrepresented or failed to discuss settlement options; pressured widow to purchase life insurance; etc.)	13
Widow not designated as the beneficiary	6
Miscellaneous (undertaker appropriated proceeds; check mailed in unsealed envelope; company would not grant income option; company insisted on income option; widow told she and children no longer covered under husband's family policies; etc.)	10

The Social Security Claim

For comparison, satisfaction with the handling of the social security claim also was examined. Of the women who applied for social security benefits, 87 percent said they were completely satisfied, compared with 95 percent of the women who were satisfied with the settlement of life insurance claims. Unlike the life insurance beneficiaries, satisfaction with the social security claim was unrelated to the level of benefits received. However, among widows who received monthly income benefits, satisfaction with the social security claim was directly related to the amount of time that elapsed between applying and the receipt of the first benefit check. Of those who said their monthly benefits had started within four months, 91 percent were satisfied; this compared with 69 percent satisfied who said it took four months or more to receive their first check.

The sources of dissatisfaction with the payment of the social security claim differed for widows who received monthly income benefits and for those who received funeral benefits only. They also differed from the sources of dissatisfaction with the life insurance claim (see Table 48).

Table 48 -- Satisfaction with Handling of Social Security Claim

	Social Security Benefit Received		
	Funeral only	Monthly income	Total
Satisfied (with handling of social security claim)	88%	87%	87%
Dissatisfied (with handling of social security claim)	12	13	13
	100%	100%	100%
Source of Dissatisfaction			
Time between filing and receiving benefits	14%	45%	35%
Level of benefits (expected larger benefits; should be full coverage regardless how long husband covered; etc.)	24	25	25
Mechanics (papers mislaid; etc.)	9	25	20
Personnel handling claim (clerk was impertinent; etc.)	11	6	7
Eligibility rules for dependents	7	5	5
Nature of information requested (would children be placed for adoption; had husband illegitimate children; etc.)	1	1	1
Widow could not supply some information	2	+	1
Miscellaneous	4	1	3
Number of cases	65	147	213

+Less than ½ of 1 percent

Among widows who received monthly benefit payments, the amount of time that elapsed between the filing of the applications and the payment of the first checks was the most common source of dissatisfaction. Also mentioned relatively often were the level of benefits received and the mechanics of applying. Among widows receiving funeral benefits only, dissatisfaction was not so much with the handling of the claim as with the rules establishing the "blackout period" and with the level of the funeral benefits.

Over half of the widows (54 percent) who applied for social security benefits had no help in filing their claims and only 1 percent reported having been helped by a life insurance agent. When help was given, it was most often given by members of the family (17 percent) and morticians (12 percent).

Help With the Life Insurance Claim

A majority of the widows who received life insurance proceeds (61 percent) said that someone had helped them file their claim, but only 30 percent said that they had been helped by a life insurance man. Even among those receiving proceeds from individual life insurance policies, almost as high a proportion of the widows applied without help (37 percent) as said that a life insurance man had assisted them (39 percent). See Table 49.

As the amount of individual life insurance proceeds increased, the proportion of widows who had help in settling their claim increased -- from 58 percent among those with less than $5,000 in individual life insurance to 89 percent among those whose husbands had owned $25,000 or more.

Up to the level of $25,000 in individual life insurance, the increase in the proportion who said they had been helped was the result of the increased presence of life insurance men. However, even among those who received from $10,000 to $24,999 in individual life insurance proceeds, only 50 percent said that a life insurance man helped them file their claim.

Among the widows whose husbands had owned $25,000 or more of individual life, the decline in the proportion who said that a life insurance man had helped them file their claim was not matched by a decline in the proportion who said that they had been in contact with a life insurance man during the course of settling their husband's estate. While the cause of the decline was not explored, difficulties encountered in settling some of the larger policies may have cast the agents in the role of antagonists rather than as the widows' protagonists. The apparent difficulties may also account for the higher proportion of attorneys who helped file the claims for widows who received the largest amounts of individual life insurance.

Table 49 -- Assistance in Filing the Claim(s) on Husband's Life Insurance

Helped File Insurance Claim	Amount of Individual Life Insurance: None, had other ins.	Under $5,000	$5,000-$9,999	$10,000-$24,999	$25,000 or more	All with individual insurance	All insured widows
No one	47%	42%	34%	26%	11%	37%	39%
Life insurance agent	6	34	43	50	39	38	30
Family, close relative	11	12	12	10	18	11	11
Company official	22	5	3	4	4	4	8
Attorney	5	3	5	7	23	5	5
Mortician	3	6	2	2	1	4	4
VA official	4	1	2	1	1	1	1
Friend	1	1	2	3	3	1	1
Banker	1	+	--	2	8	1	1
Union official	3	+	+	--	--	+	1
Other or unspecified	1	+	+	--	3	+	+
Number of cases	419	659	183	154	68	1,148	1,567

+Less than ½ of 1 percent

Note: Columns may not add to 100 percent because of multiple answers.

In addition to asking who had helped them with their life insurance claims, the widows were asked for brief descriptions of the assistance that was given. In most instances, as expected, it was to work with her in filing the claim; however, in a few, it was simply to give advice or to notify the company of the husband's death. Also, a small proportion of the widows, primarily those assisted by family or friends, said that the persons had given moral support or had gone with them when they went to offices to file their claims.

The life insurance agents who gave advice rather than filing the claims were, with only a few exceptions, assisting widows whose husbands had some life insurance but who had not owned individual life.

Not only did a minority of the beneficiaries of individual life insurance receive help from a life insurance man when they filed their claims, but also the service offered by those who did help may often have been marginal. Of the widows who said they had received help from an agent in filing their claims, 1 in every 5 (21 percent) had included a life insurance man as being among the persons who had been of most help to her in the process of settling her husband's estate and in applying for widow's benefits. On the other hand, 4 in every 10 (41 percent) of those who had help from an agent in filing their claims had simply noted that a life insurance man had been among the persons contacted during the course of applying for their benefits. Almost as many (38 percent) of those who said agents had helped file their claims did not include a life insurance man as being among the people they had dealt with in the course of settling the husband's estate and in applying for widow's benefits. Though not direct evidence, the latter finding suggests that some of the help in filing the claim may not have involved personal contacts.

Discussion of Settlement Options

Widows who received life insurance payments were asked whether anyone had talked with them about the method of payment, that is, whether they should take lump-sum settlements, monthly income installments, or leave the proceeds on deposit with the insurance companies. Only 1 in every 6 (16 percent) receiving any life insurance payments could recall having discussed settlement options, and only 18 percent of those who had received proceeds from individual life could.

Among those who received proceeds from individual life insurance policies, the proportions who said they had discussed settlement options increased from 9 percent among those who received under $5,000 from individual life policies to 41 percent among those who received from $10,000 to $25,000. Of those receiving $25,000 or more of individual life, however, the proportion who could recall having discussed settlement options declined to 34 percent. A detailed table is contained in the Technical Supplement.

The opportunity to discuss settlement options depended, of course, on whether anyone helped the widow settle her life insurance claim and if she had help, on whether the person who helped her had talked about the various options. For life insurance agents, employers, attorneys, and family members, the data were examined for the joint occurrence of help with claim settlement and the discussion of settlement options.

As can be seen from Table 50, the pattern for life insurance agents is similar to that for attorneys and company officials, that is, to provide help in settling claims but not to mention settlement options. This tendency is even more marked for family members. Compared with attorneys and company officials, life insurance agents were somewhat more likely to be described as both having helped with the claim and having discussed settlement options; however, the differences are not particularly marked. In other words, the relatively small proportion of widows who reported having discussed settlement options is the result of a combination of those who did not have help with their claims plus the failure of most of those who did help them, including agents, to discuss settlement options.

Table 50 -- Help with Claim Settlement and Discussion of Settlement Option by Persons Giving Assistance

Mentioned in reference-to:	Life ins. agent	Attorney	Company official	Family member
Claim settlement only	72%	71%	74%	93%
Settlement options only	9	15	15	5
Claim settlement and settlement options	19	14	11	2
	100%	100%	100%	100%
Number of cases	509	100	180	175

When settlement options had been discussed, the widows were asked what recommendation had been given. Although the number of cases was small, life insurance men differed from other discussants in terms of the advice given. In particular, life insurance men were less likely to recommend that the widow take a lump-sum settlement than were the other advisors. Also, they were more often seen as making no specific recommendation but rather as describing the choices available and leaving the decision to the widow (see Table 51).

Table 51 -- Advice on Settlement Option by Advisor

Advice given	Life agents	Others	Total
Take lump sum	24%	50%	34%
Take interest option	17	10	14
Take income installments	20	18	19
Combination -- income and lump sum	2	1	2
None; explained and let widow choose	37	21	31
	100%	100%	100%
Number of cases	147	108	255

When a specific suggestion was made, there was increased utilization of the recommended option. That is, 37 percent of the widows who said they had been advised to take at least some of the proceeds under an income option said they had elected such an option and, similarly, 19 percent of those who were advised to choose the interest option did so. As can be seen from Table 52, explaining the options to the widow and letting her choose produced only a slight increase in the use of options. Advising the widow to take a lump-sum settlement is equivalent to offering no advice.

Table 52 -- Settlement Option Advice and Choice of Option by Widow

Advice given	Income option*	Interest option*
Take income option (n=46)	37%	1%
Take interest option (n=38)	13	19
Explained; let widow choose (n=86)	8	6
Take lump-sum settlement (n=84)	3	1
No one advised widow (n=1,270)	2	+

+Less than ½ of 1 percent

*Does not include widows who received proceeds under an income or interest option but who said method had been arranged before husband's death.

Knowledge of Settlement Options

The widows who said they had not discussed settlement options were asked: "At the time the claims were being settled, did you know that most life insurance policies allow you to take the payments in the form of monthly income installments or to leave the money on deposit with the company until you are ready to use it?" Almost 6 in every 10 (58 percent) of the beneficiaries of individual life policies said that they did not know that most policies provide for various methods of payment. The proportion admitting to being uninformed (excluding those who had discussions) decreased from 63 percent among those with proceeds of under $5,000 from individual life policies to 44 percent among those who received $10,000 or more.

If those who discussed settlement options are combined with those who had not, just over half of the beneficiaries of individual life insurance were aware that most policies provide a choice of settlement options and that the level of knowledge increased from 43 percent among the beneficiaries of small policies to 80 percent among those receiving $25,000 or more in individual life proceeds (see Table 53).

Table 53 -- Knowledge of Options at Time of Settlement

Had Knowledge of Settlement Options	Amount of Individual Life Insurance					All with individual insurance	All insured widows
	None, had other ins.	Under $5,000	$5,000-$9,999	$10,000-$24,999	$25,000 or more		
Yes, had knowledge	50%	43%	63%	70%	80%	53%	52%
Had discussed	12	9	25	41	34	18	16
Not discussed	38	34	38	29	46	35	36
Had no knowledge	50%	57%	37%	30%	20%	47%	48%
	100%	100%	100%	100%	100%	100%	100%

Attitude Toward Settlement Options

The recipients of life insurance proceeds were asked: "If a widow is left more life insurance than is needed to pay final expenses, do you think she would be wiser to take this money in a lump-sum settlement or in the form of monthly income payments?" Their answers, of course, are based on two years of experience as widows and may not reflect their beliefs at the time their claims were being settled.

The largest single group, 39 percent, recommended lump-sum settlement; however, almost as many, 33 percent, said that the widow would be wiser to receive monthly income payments. A third group, consisting of 28 percent of the widows, said that the choice would depend on the widow's circumstances. Interestingly, the proportion of widows who said that a lump-sum payment is best was almost totally unrelated to family income. However, in contrast to the actual use of the income option, the proportion of widows who recommended monthly income payments declined as the level of the former family income increased, while the proportion who said that the method of settlement should depend upon the widow's circumstances rose.

When the widows volunteered that the method of payment should depend upon circumstances, they were asked what those circumstances might be. Their answers are shown in Table 54.

The lump-sum method of settlement is recommended in those situations in which the widow is a good money manager, has some knowledge of investment opportunities, and has a regular income from other sources. Conversely, monthly income is recommended for the widow who is less adept at money management and who may lack the knowledge or confidence to handle her own investments. Attitudes such as these probably account for the increasing proportion of widows who unqualifiedly recommend monthly income payments as income declines.

On the other hand, monthly income payments are recommended in those situations in which the widow has an adequate amount of other funds in reserve and the amount of life insurance received is large enough to make monthly income payments worth while. These two restrictions may account for a pattern of settlement option usage that runs counter to the trend in attitudes expressed by the widows. That is, while more of the widows from lower and middle income families than from upper income ones recommended settlement in the form of monthly income payments, this choice may not have been practical for many of these women because of inadequate savings in reserve or because of the small amounts of insurance proceeds that many received.

Widows who received all or part of their life insurance proceeds under an income option were examined to see whether they would recommend this method of settlement to other widows. Only 4 in every 10 (39 percent) said they would recommend an income option without qualifying their answers. Over one fourth (26 percent) said they would recommend lump-sum settlements, while some 35 percent of the widows who received proceeds under an income option said that the method of payment should depend on other factors such as the widow's ability as a money manager, the amount of reserves she has, and the amount of proceeds received.

Table 54 -- Circumstances That Would Affect Method of Paying Life Insurance Proceeds

Lump sum best if . . .	or	Monthly income best if . . .
Widow can manage finances prudently	36%	Widow is a poor money manager
Widow does not have adequate reserves	20	Widow has other money in reserve
Widow has other sources of income	17	Widow has no other sources of income
Widow knows how to invest money	14	Widow does not know how to invest money
A small amount is left after final expenses	8	A large amount is left after final expenses
Other investment returns higher than insurance	7	Insurance returns higher than other investments
Widow is alone	5	Widow has dependents
Widow is sure proceeds go to herself and her heirs	2	--
Widow has dependents	1	Widow is alone
Miscellaneous	4	Miscellaneous
Number of cases	337	

Note: Column will add to more than 100 percent because of multiple answers.

Advice on the Use of Life Insurance Proceeds

Widows who had some life insurance proceeds remaining after meeting final bills and immediate living expenses were asked whether they had talked with anyone about what they should do with the money, that is, how it should be used or how it should be saved or invested. Despite common belief that new widows are besieged with gratuitous offers of advice, only 1 widow in 5 (24 percent of those with proceeds to save or invest) said that she had talked with anyone about the use of her life insurance proceeds. Among widows with less than $1,000 in proceeds remaining, only 6 percent said they discussed the use of this sum with anyone. However, among widows with at least $25,000 in life insurance proceeds remaining to be saved or invested, 59 percent said that they had received advice.

The advice received by the widows was conservative. Almost without exception, the advisors recommended putting the money into some form of savings or investment, or urged the widows to be careful and not let the money slip away. When specific investment advice was given, it was most often to put the money into the bank, to buy stocks, or to purchase mutual funds. Only 3 percent said that they had been advised to spend the proceeds on things they might need, such as furniture or home repairs.

It is also seen in Table 55 that the different types of advisors gave somewhat different advice and that almost no one other than an agent recommended the life insurance alternatives. Although mutual funds would have offered the widows the advantages of diversification of their investments and professional management services, all of the advisors other than mutual fund salesmen and life insurance agents were more likely to recommend stocks than mutual funds.

When the advice was related to the family's total income, there was surprisingly little difference between the widows from families with incomes of under $10,000 and those whose family incomes had been higher. Somewhat higher proportions of the widows from the families with $10,000 income or more were advised to invest in stocks (27 percent vs. 14 percent) and to proceed slowly and wisely (6 percent

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vs. less than ½ of 1 percent), while widows from the under-$10,000 income families were slightly more likely to be told to use the money to buy the things they needed (6 percent vs. 1 percent). However, these were the largest differences between the two income levels.

Because advice on the use of settlement options is advice on the use of life insurance proceeds, the results of these two questions were combined. Of the widows who received life insurance proceeds, over 7 in 10 (71 percent) said that they had neither discussed settlement options nor talked with anyone about the use of their life insurance proceeds, while 7 percent said that they had done both.

With the results of the two questions combined, the life insurance agent is the person mentioned most often. Eleven percent of the insured widows said that they had either discussed settlement options or the use of their life insurance proceeds with an agent. However, of those in contact with an agent, the large majority (75 percent) mentioned him in reference to settlement options only and not as advisors on the use of the proceeds or the ways they should be saved or invested.

Only 4 percent of the widows said that they had discussed settlement options or the use of their life insurance proceeds with an attorney, and a majority (57 percent) of these mentioned the attorney only in regard to advice on the use of the proceeds. As has been seen, when lawyers do discuss settlement options, they recommend taking lump-sum settlements and when they give advice, it is to put the money into a bank, stocks, or some other form of investment. Although the answer cannot be supplied by this study, these findings raise a question as to whether the lawyers do not feel that the settlement options would be advantageous to their clients or whether they are simply not aware of the potential advantages of settlement options.

Among the other persons most often involved in discussions with the widows, company officials were almost always seen as offering only information about settlement options, while friends, relatives, and bankers were almost always seen as advising on the use or investment of the proceeds.

Table 55 — Principal Advisors' Suggestions as to How the Widow Should Use, Save, or Invest the Proceeds from Her Husband's Life Insurance

Advice Given	Advisors: Life Agent	Attorney	Banker	Security Salesman	Friend	Relative	Total
Put it in a bank	8%	34%	44%	--	18%	37%	28%
Invest in stocks	1	20	4	57%	26	16	20
Buy mutual funds	8	2	1	39	8	10	13
Take income option or annuity	27	2	6	--	--	5	6
Buy Government savings bonds	3	--	13	--	4	5	5
Take interest option	23	--	--	--	--	--	4
Buy a house or pay mortgage	--	2	1	--	5	3	3
Invest in a business	3	2	4	--	7	1	3
Invest in life insurance	11	1	--	--	--	+	2
Other investments	--	10	4	--	4	1	3
Seek capital appreciation	--	1	6	--	2	2	2
Save it, no specifics mentioned	1	18	6	2	17	14	14
Retain principal, live on interest	--	--	--	--	1	--	+
Proceed slowly, wisely	3	3	9	2	17	2	3
Buy the things you need	--	1	--	--	5	4	3
Miscellaneous	15	3	2	--	7	3	6
Number of cases	45	49	39	42	63	117	328

+Less than ½ of 1 percent

Note: Percentages will add to more than 100 percent because of multiple answers.

Table 56 -- Occurance of Settlement Option Advice, Advice on the Use of Life Insurance Proceeds, or Both, by Type of Advisor

Advisor	Percentage of widows mentioning advisors in either capacity	Information given: Settlement options only	Investment advice only	Both	Total
Life insurance agent	11%	75%	15%	10%	100%
Family, close relative	7	7	88	5	100
Attorney	4	25	57	18	100
Friend	3	6	89	5	100
Company official	3	90	7	3	100
Banker	2	1	99	--	100

Chapter 7

Disposition of the Life Insurance Proceeds

A number of things happen to life insurance benefits once they have been paid. Some are used to meet final expenses and other bills outstanding at the time of death, while additional amounts may be spent to meet the survivors' immediate living expenses. Other sums may be spent in the immediate postdeath period for automobiles, home remodeling, appliances and other durables, or travel. Although some of these uses may provide continuing benefits in the sense that they eliminate debt or protect other assets, in a larger sense they represent committed funds that can no longer be used to meet future needs.

Approximately 1 widow in every 4 (24 percent) said that while her husband had had life insurance, all of the proceeds were exhausted in the immediate postdeath period (see Table 57). At the lowest income level, in addition to 24 percent without life insurance proceeds, 57 percent of the widows said that they had proceeds but that these proceeds had been exhausted soon after they were received. The proportion that had exhausted their proceeds declined sharply as income increased, dropping to 8 percent among widows from families whose incomes had been $15,000 or more.

Funds also may be saved or invested for future use or to provide a continuing income for the surviving family. Widows were considered to have continuing benefits from proceeds that they had saved or invested, that were received under income options or left with the company under interest options, that were placed in trust funds, or that were used to pay or reduce mortgages. While the latter use represents a commitment of funds, it was considered to be an investment that paid dividends in reduced living costs.

Almost two thirds of the widows said that proceeds from the husband's life insurance remained to provide continuing benefits beyond the immediate postdeath period. The proportion who had continuing benefits was highly related to the predeath income level of the family, increasing from 19 percent of widows whose family incomes had been under $3,000 to 85 percent of those with incomes of $15,000 or more.

Table 57 -- Proportion of Widows Who Retained Life Insurance Proceeds Beyond the Immediate Postdeath Period

Retention of Proceeds	Adjusted Total Family Income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
No life insurance	24%	18%	10%	6%	4%	6%	8%
Insurance -- widow did not receive proceeds	--	1	2	+	1	1	1
Insurance -- proceeds exhausted in immediate postdeath period	59	39	29	21	16	8	24
Insurance -- proceeds saved or invested to provide income	17	42	61	70	79	85	67
	100%	100%	100%	100%	100%	100%	100%

+Less than ½ of 1 percent

Over 8 in every 10 of the widows of insured husbands (83 percent) said that at least some of the proceeds had been used to meet final expenses. The two "Immediate expense" categories that follow final expenses in Table 58 require some explanation. The widows were not asked specifically about the amount of proceeds spent to meet living expenses in the period immediately following the husband's death; hence, it was possible for the amount of proceeds allocated to fall short of the amount received. As can be seen from the table in the Technical Supplement, these amounts were generally small; it is reasonable to assume that most of the widows in the "Immediate uses -- use not specified" category used some proceeds to meet immediate living expenses. This category contained 37 percent of the widows of insured husbands and is essentially unrelated to the predeath income level of the family.

The category "Immediate uses -- use specified" in Table 58 includes widows who said "yes" to the question (which followed a battery of savings and investment questions) "Did you do anything else with the insurance proceeds soon after you received them?" Twenty-six percent of the widows said "yes" to this question. The breakdown of the 26 percent of the widows in this category is shown in Table 59. It also includes those who said "no" but who had payments from credit life insurance covering the type of loan or installment purchase (other than mortgage) that would not automatically become due and payable upon the husband's death.

Because it was a "catchall question," a few widows were included who had, in fact, invested proceeds rather than expending them for immediate uses -- for example, those who bought homes for themselves or undertook remodeling so that they could rent rooms or apartments. The large majority, however, reported expenditures or uses of funds that cannot be considered as saving or investing for the future (see Table 59).

Table 58 -- Proportion of Widows Who Allocated Life Insurance Proceeds to Immediate Uses and to Various Savings and Investment Media in the Immediate Postdeath Period (widows of husbands with life insurance)

	Adjusted Total Family Income						
	Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Proceeds withheld or paid to other beneficiaries	2%	6%	5%	4%	8%	8%	6%
Proceeds went to:							
Final expenses	81	89	86	87	81	66	83
Immediate uses (unspecified)	44	36	43	35	40	35	37
Immediate uses (specified)	13	23	25	31	30	29	27
Savings accounts	11	38	53	58	70	78	59
Checking accounts	11	14	14	16	25	18	18
Mortgage payments	5	2	11	10	17	21	12
Income options	1	2	4	7	11	12	7
Stocks	--	--	--	1	5	17	4
Mutual funds	--	--	1	2	3	11	3
Trust funds	--	--	1	2	2	10	3
Government savings bonds	--	1	1	2	3	7	2
Interest options	--	1	+	2	2	2	1
Other savings or investments	2	2	2	1	3	1	2

+Less than ½ of 1 percent

Table 59 -- Other Immediate Uses of Proceeds (widows of insured husbands)

Use of Proceeds	Percent
Paid outstanding bills, loans, and installment purchases	14%
Used for current living expenses	4
Repaired or remodeled family home	3
Purchased a home	1
Purchased an automobile	1
Purchased appliances	1
Travel or vacation	1
Other	2

~~Note: Column adds to more than 26% because of multiple answers.~~

Of the various methods of saving or investing proceeds, the widows' initial decisions were clearly in favor of savings accounts. This category not only includes widows who put money into regular savings accounts, or accounts with savings and loan associations and similar institutions, but those who purchased certificates of deposit. Overall, 59 percent of the widows of insured husbands initially placed some of the proceeds in savings accounts, with the proportion increasing from 11 percent at the lowest income level to 78 percent among families that had had incomes of $15,000 or more.

As the level of predeath family income increased, so did the proportion of widows utilizing each of the various methods of saving and investing. The increase, of course, is partly a reflection of the increase in the proportion of widows who had proceeds remaining after final bills and immediate living expenses had been met. Therefore, Table 60 shows the proportion of widows who elected each of the various savings and investment media among those using proceeds for savings and investments only (i.e., elimination of those who received no proceeds and those whose proceeds were exhausted in the immediate postdeath period). Because of differences in the amounts of proceeds available for savings or investment and perhaps because of differences in investment preferences, there is still a marked tendency for the variety of financial media used to increase with increasing family income. The exceptions to the trend are the proportions putting money into checking accounts, miscellaneous savings, and interest options. At the $15,000 family income level, there is a noticeable increase in the proportion of widows who utilized stocks, mutual funds, and trust funds.

Table 60 -- Percent of Widows Choosing Various Savings and Investment Media for Life Insurance Proceeds Not Exhausted in the Immediate Postdeath Period (widows with proceeds to save or invest)

	Adjusted Total Family Income					
Savings or Investments	Under $5,000	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Savings accounts	74%	80%	82%	85%	88%	82%
Checking accounts	32	20	22	31	20	25
Mortgage payments	8	17	15	21	23	18
Income options	5	7	10	14	13	11
Stocks	--	--	1	6	19	5
Mutual funds	--	1	3	4	12	4
Trust funds	--	2	3	3	11	4
Government savings bonds	2	2	3	3	8	3
Interest options	1	1	3	2	2	2
Other savings or investments	6	2	2	4	1	3
Number of cases	116	270	438	365	154	1,343

In addition to examining the proportion of widows who allocated funds to various uses or to the various savings or investment media, the data were also examined to determine the proportion of proceeds that were allocated. Although the figures are presented in the form of percents, they may be thought of as the share of each life insurance dollar that was allocated to a particular use or that went to a specific savings or investment medium (see Table 61).

Of each dollar of potential benefits, 3 cents was lost to the widows because of policy loans, contested policies, or the designation of someone other than the widow as the beneficiary. In relative terms, the loss of proceeds struck hardest at the families in the very lowest income group, where 10 cents of every insurance dollar was withheld or paid to someone other than the widow.

Fifteen cents of every dollar was allocated to the payment of final expenses, i.e., burial costs, medical expenses, taxes, etc. At the lowest income level, 35 cents of every dollar was allocated to final expenses, with the amounts gradually declining as family income increased -- at the $15,000 income level, only 10 cents of every insurance dollar went to final expenses. Eight cents of every dollar was allocated to other immediate uses, specified or unspecified.

Of the total life insurance proceeds, 74 percent remained after final expenses and other immediate uses to be saved, invested, or to provide other continuing benefits to the widows. At the lowest income level, 39 cents out of every dollar remained, and the amount increased with increases in the family income level, reaching 82 cents of every dollar at the $15,000 income level. Thirty-seven cents, or half of the proceeds available for saving or investing, was initially allocated to savings accounts. Trust funds captured 9 cents of every dollar, primarily because of the large amounts allocated to trust funds by families with incomes of $15,000 or more.

Table 61 — Distribution of Aggregate Life Insurance Proceeds in the Immediate Postdeath Period (widows of husbands with life insurance)

	Adjusted Total Family Income						
Distribution	Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Proceeds withheld or paid to others	10%	2%	3%	2%	3%	3%	3%
Immediate uses	51%	46%	32%	30%	22%	15%	23%
Final expenses	35	26	21	19	12	10	15
Living and other expenses, or unallocated	16	20	11	11	9	5	8
Saved or invested to provide income	39%	52%	65%	68%	75%	82%	74%
Savings accounts	19	38	40	43	43	30	37
Trust funds	--	--	1	2	2	21	9
Mortgage payments	3	1	7	7	10	6	7
Income options	4	6	6	5	7	5	6
Stocks	—	--	—	+	2	9	4
Mutual funds	--	--	1	2	3	6	4
Checking accounts	7	4	3	4	3	1	3
Interest options	—	1	1	3	2	2	2
Government savings bonds	—	+	5	+	1	2	1
Other savings or investments	6	2	1	2	2	+	1
	100%	100%	100%	100%	100%	100%	100%
Mean dollars distributed	$2,400	$3,400	$5,700	$7,700	$12,500	$27,300	$10,200
Number of cases	58	145	270	438	365	154	1,586

+Less than ½ of 1 percent

Stocks and mutual funds received 8 cents out of every dollar of life insurance proceeds. Again, it was primarily from the funds received by the upper income families. A similar amount, 8 cents out of every dollar of proceeds, was retained by the companies under either the interest or the income option. Unlike stocks and mutual funds, however, the proceeds retained by the companies under options tended to come from families at all levels of income, not from just the most affluent.

The figures in Table 61 are based on the mean amount of proceeds allocated to the various uses. In any category of use, the mean can be distorted by a few widows allocating unusually large amounts of proceeds to it. For example, in the $5,000-to-$6,999 income category, 5 percent of the proceeds were allocated to Government savings bonds, compared with no more than 1 percent in any of the other income brackets; this is the result of one widow who allocated $25,000 of proceeds to Government savings bonds and represents her unitary decision rather than any small strengthening in the appeal of Government bonds peculiar to widows from families in the $5,000-to-$6,999 income bracket. In interpreting the findings for any particular category of use, or any savings or investment category, the overall amount allocated to that category and the consistency of any trend is more important than is the occasional atypical figure.

Detailed tables showing the amounts allocated to various uses and to specific savings and investment media are presented in the Technical Supplement.

The widows who had been able to place some of the proceeds from the husband's life insurance into savings or investments were asked how they thought they might use the money. The largest single group, accounting for 48 percent of those with savings, said that they had no special plans -- that they would try to keep a nest egg for their future security or as a reserve for emergencies (see Table 61).

Many of the answers implied that the widows hoped to retain whatever proceeds were left for some specific future need such as children's education, the purchase of a home, future travel, or retirement. In other words, they did not think of the proceeds as providing continuing income to meet day-to-day living expenses but rather as funds that could be used to meet large, nonrecurring expenditures. While all families need such reserves, to the widows facing a future marked not only by reduced income but by restricted access to credit, the need may assume particular importance.

Some of the widows, however, did anticipate using some of the proceeds from life insurance to meet their ongoing living expenses. Some 20 percent of those with savings said that they anticipated drawing on principal to meet routine living expenses, and 9 percent said they hoped to retain the principal but to use the interest as income.

Of the various answers given, only two were strongly related to the amount of individual life insurance carried by the husbands. These were the use of proceeds to finance children's education and the use of interest as income. Both of these uses require larger amounts of savings than remained for most of the widows.

Table 62 -- Anticipated Use of Life Insurance Proceeds Allocated to Savings or Investments

Anticipated Use	Amount of Individual Life Insurance Owned by Husband: None, had other ins.	Under $5,000	$5,000-$9,999	$10,000-$24,999	$25,000 or more	Total
No special plans (nest egg)	49%	45%	60%	44%	43%	48%
Routine living expenses	17	27	9	22	15	20
Reserve for education	9	9	15	16	28	12
Retain principal -- use interest for income	9	8	3	11	29	9
Reserve for nonroutine expenses	12	10	9	4	7	9
Emergency fund (against unemployment)	5	6	8	6	4	5
Pay outstanding bills	6	3	1	2	2	3
Reserve for retirement	1	--	4	3	--	2
Inheritance for children	2	2	+	3	--	2
Reserve for purchase of home	2	2	1	1	--	2
Reserve for future travel	1	1	1	--	1	1
Miscellaneous	3	3	5	5	10	4
Number of cases	263	335	158	130	56	942

+Less than ½ of 1 percent

A Final Word

The reader is reminded that a description of the survey methods, including a reproduction of the questionnaire, is contained in the Technical Supplement to Volume 1, The Onset of Widowhood. The Supplement also contains tables that document certain of the findings discussed in Volume 1.

The second and concluding volume, Adjustment to Widowhood -- The First Two Years (which will be Research Report 1971-4) examines the potential for financial hardship that existed when the husband died and the extent to which hardship was realized. Particular attention is given to the roles of life insurance and other income maintenance plans in preserving the financial health of the widow and her family.

The LIFE UNDERWRITER TRAINING COUNCIL (LUTC) was created in 1947 through the combined efforts of life insurance company and field organizations. The Council's primary function is to provide practical sales training for life insurance salesmen and to serve as a clearing house for information on life insurance education and training. Over 1,000 class groups, located in communities throughout the United States, participate each year in LUTC programs.

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The Life Insurance AGENCY MANAGEMENT ASSOCIATION was founded by life insurance companies in the United States and Canada to study common problems of agency management through original research and the development and exchange of ideas. Member companies have in force about 95 per cent of the life insurance sold by the United States and Canadian companies. Associate members are located in many other countries in the free world.

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the widows study

VOLUME TWO

ADJUSTMENT TO WIDOWHOOD

The First Two Years

Filing note to LIAMA member companies:

This report is Research Report 1971-4 in LIAMA's regular research report series.

Its LIAMA file number is 730

An Opinion and Attitude Study

Adjustment to Widowhood— The First Two Years

This is the second and final report on the Widows Study, a joint undertaking of The Life Underwriter Training Council and the Life Insurance Agency Management Association.

The first report dealt with the onset of widowhood: the economic situations of the families before and immediately after the death of the husband, the financial decisions the widows faced and the help they received in making them, etc. This second report deals with the adjustment period that followed: the changes in living standards and the factors that dictated these standards -- employment, liquid assets held, and life insurance proceeds -- the effect of the husband's death on the children's lives, and finally, the widows' own descriptions of the problems they face and their recommendations on how future widows might be spared some of these problems.

The summary on the following pages covers both reports on the study. Readers wishing further detail on the first phase of the study are referred to Volume One, The Onset of Widowhood (LIAMA File 730), and to the Technical Supplement to that volume. A technical supplement to this second volume is also available. It contains detailed tables and additional documentation of the findings reported here.

Adjustment to Widowhood—The First Two Years

The Widows Study

A husband dies and a wife begins a new life alone -- with the responsibility for maintaining herself and her family.

If she is in good health, the widow may be able to earn an income. She will have the proceeds from her husband's life insurance; she will also have social security while the children are growing and after she reaches retirement age -- but are these resources, together with whatever miscellaneous financial assistance she may receive, sufficient to maintain a semblance of her family's former standard of living?

The Widows Study was undertaken to help the insurance industry evaluate its success in accomplishing its goal of alleviating the hardships caused by the premature death of the family head and to discover possible ways to improve coverage, methods of benefit payments, service to policyowners and survivors, and marketing strategy. Most important, the study was undertaken to provide insurance representatives with realistic information about widowhood so that they might offer improved counseling to their prospects and policyowners -- and to the survivors.

The results of the study are reported in two volumes: Volume One, The Onset of Widowhood, and Volume Two, Adjustment to Widowhood -- The First Two Years. Supplements to both volumes contain detailed supporting tables and technical information. (Volume One is Research Report 1970-8 and Volume Two is Research Report 1971-4 in LIAMA's regular research report series. Both are LIAMA File 730.)

Method

A description of the survey method, including a reproduction of the questionnaire, is contained in the Technical Supplement to Volume One. In brief, the method was as follows.

The information was gathered in a series of personal interviews conducted in late 1968 and early 1969 among a sample of women whose husbands had died in 1966. This time period of approximately two years after the husband's death was chosen because it was thought to be long enough for the pattern of long-term adjustment to widowhood to be apparent but short enough for the widow to recall with reasonable accuracy her family's financial situation before the death of her husband, as well as her decisions in the immediate postdeath period.

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The sample was drawn from the death certificates of married males under the age of 65 who had lived in the following Standard Metropolitan Statistical Areas: Boston, Chicago, Houston, and San Francisco. Standard Metropolitan Statistical Areas include within their boundaries suburbs, small cities, and open areas, and roughly 2 out of 3 Americans live in SMSA's. Although the sample is not representative of all deceased husbands under 65 years old in the United States as a whole, the characteristics of the families in the study closely parallel those of families in an age-equivalent segment of the population -- that is, the portion of the total population that matches the age distribution of males who die between the ages of 25 and 64.

Chilton Research Services of Philadelphia was responsible for drawing each of the samples and for the selection, training, and supervision of the staff of interviewers.

Acknowledgments

The sponsors will not attempt to acknowledge all who contributed to the study, but special mention must be made of the assistance received from the departments of health for the states of California, Illinois, Massachusetts, and Texas. Without permission to sample from their files of death certificates, the study design could not have been implemented. The sponsors also are very appreciative of the assistance received from Dr. Robert D. Grove, Director of the Division of Vital Statistics of the National Center for Health Statistics, in gaining the cooperation of the states.

Finally, the sponsors are deeply grateful to the 1,744 widows for their willingness to reveal very intimate financial details to the interviewers and to the interviewers for their skill and understanding in carrying out their assignments.

Some Implications of the Study

Can widows, through their own efforts and with help from the various resources provided by personal savings, insurance, employee benefit plans, and Government programs, maintain their living standards following the premature deaths of their husbands?

The results of this study indicate that about one half will be able to do so but that only one fourth will be in a position where they can be considered to be living comfortably and reasonably free from financial worries.

The study points to the importance of life insurance and other survivor benefits in helping to alleviate the financial hardship of widowhood. It also points to the importance of the widow's earnings as a source of replacement income and to the contribution of adequate financial reserves to the maintenance of living standards. However, the fact that a wife faces a 50-50 chance of undergoing a decline in living standards if her husband dies prematurely -- and a 1 in 5 chance of undergoing a serious decline -- should dispel any complacency about the adequacy of existing life insurance benefits.

For the life insurance industry, which is concerned with the aspirations and quality of life of individual families, there are even fewer grounds for complacency. Even when living standards had been maintained, a variety of unmet needs were pointed out by the data. There frequently was a need for replacement income to substitute for the widow's earnings. Although a majority of the widows who were working said that they would continue to do so even if financial need were eliminated, at least a third of the working widows would prefer to stop. The need to remain in the home was particularly acute for those widows with infants, for those with health problems, and for the elderly. A second general area of need was for funds to eliminate debt, particularly mortgage and business debt, at the onset of widowhood. A third area was the need for more adequate reserves to meet contingencies and the needs of retirement.

While a decline in living standards implies that the widows' life insurance proceeds and other security benefits were inadequate, the converse is not necessarily true -- the maintenance of standards of living does not imply that the benefits were adequate.

The full extent of the need for life insurance cannot be estimated from the data; however, the findings clearly suggest that the conditions of widowhood can be improved through improved marketing of life insurance. The following points summarize the major implications for improved marketing based on the results of the Widows Study.

Death: physical and economic -- Only two questions were asked about the nature of the husband's death, whether it was caused by illness or accident and how long the husband had been sick or disabled before he died. Yet the findings give a startlingly clear and consistent picture of the injurious effects of a prolonged terminal illness or disability upon the financial well-being of the family both before and after the husband died.

Illness or disability affects income by limiting the opportunities for normal occupational advancement, by reducing the number of hours per week that one can work, by causing a shift to a less-demanding type of employment, or by causing loss of employment. When employment is affected, savings may be reduced and there may be a loss of both health insurance and life group insurance benefits.

As the period of terminal impairment increases, the reduction in the level of family income in the predeath period indicates that existing income maintenance and disability benefit programs are only partially meeting the family's need for replacement income.

Apart from reducing income, the period of illness or disability often creates sizeable expenditures for health care. Health insurance, though covering a majority of these expenses, only partially prevents this burden for the survivors. The findings of the study reinforce the view that in planning for family security, the need for health insurance and disability income protection cannot be separated from the need for life insurance.

The sale of life insurance -- Various segments of the families had acquired a measure of economic security through a variety of institutional mechanisms. Social security provided for some of the needs of the disabled, the mothers of young children, and the elderly. Some of the families of former servicemen received VA benefits. Half of the husbands had group life insurance, and some of the widows received settlements from retirement plans.

However, because these programs are designed to provide mass coverage, the benefits were often imperfectly correlated with the security needs of the individual families.

The life insurance industry, operating through its sales representatives, had had the opportunity to reach these families before the husbands' deaths and provide them with personal financial planning assistance. In their sales interviews, the agents had had the opportunity to work with the families to establish individual financial goals, to discuss the risks of illness or disability and of death, to describe the importance of insurance, and to coordinate individual insurance with institutional benefits in order to create meaningful security programs.

Yet when asked whether an agent had ever made a thorough review of her husband's life insurance and prepared a program based on the family's needs, only 1 widow in 4 said "yes." Programming has, of course, become more common in recent years, and this was reflected in the answers of the younger widows. It was also more common in higher income families, perhaps reflecting a tendency for agents to think of programming as inappropriate for families of more limited means.

Programming has been discribed as the only valid way of finding out how much and what kind of insurance a family should have.* Life Insurance in Focus showed that it is an appreciated service and that family heads find that it increases their motivation to buy.** The widows of men who bought after being programmed said that the programs had been helpful, not merely because of the proceeds but also because the programs had provided them with information and guidance at the onset of widowhood. The results of this study reinforce the view that need-related selling should be emphasized among all portions of the life insurance public.

While the sale of insurance is the primary service provided by an agent, the study points to an additional opportunity to be of service at the time of th sale. In most families there was little evidence that steps had been taken to prepare the wife for the eventuality of her husband's death. The sales interview gives the agent an opportunity to go beyond information about the family's insurance needs and to provide more general financial counsel. Wills can be discussed. If the family has not already done so, the agent can point to the importance of having life insurance policies, birth and marriage certificates, and other essential records brought together and kept in a place that will be accessible to the widow. If the husband is the family financial officer, the agent can talk about the importance of teaching the wife to take over.

Services such as these can help provide the basis for a continuing agent-client relationship.

Effect of time on adequacy of coverage -- Judged by any standard, the amounts of life insurance received by the widows were low. Only 8 percent were beneficiaries of as much as $25,000 of life insurance and, of these, most were from upper income families. It is impossible to know with certainty whether the coverage on these husbands differed significantly from that of men of comparable ages in the general population; however, several factors may have combined to reduce the level of ownership for some families. For example, fewer may have had group life insurance because of changes in employment status resulting from their illnesses or disabilities. Fewer of the younger husbands had purchased individual life insurance than might be expected, perhaps because of the physical conditions that led to their deaths.

*Robert I. Mehr and Robert W. Osler, Modern Life Insurance, Third Edition, (New York, The Macmillan Company, 1961) p. 337
**Life Insurance in Focus, Volume 1, LIAMA Research Report 1960-5 (File 940)

However, most of the husbands were not young, and there seems to be another factor that accounts for the low level of ownership, not just among the families in the Widows Study but among older families in general.

Unlike most products, which are purchased to meet specific current needs or wants, life insurance is purchased in anticipation of the needs of survivors at some unspecified future date. That these needs change as the family passes through the life cycle is implicitly recognized in the process of programming a husband's life insurance. Unfortunately, the aging process is only one of the variables that affects the need for life insurance. If the value of the dollar changes radically, as it did during the lifetime of the families in the study, the amount of life insurance protection required by the survivors will change. Although it is an inference based on data from a variety of sources, it seems probable that the low level of ownership at older ages is largely the result of families' failing to increase their coverage to reflect the changes in the economy during the last 20 to 25 years of the husbands' lives.

Changing economic conditions alone suggest the need to periodically monitor a family's insurance coverages of life, health, and disability income protection. However, a variety of other factors may change and with them, the family's need for life insurance. For example, occupational advancement may alter the family's living standards, additional dependents may be added, mortgage or other substantial debt may be acquired, the wife's ability to work may become impaired, and so on.

While the needs of his survivors remain in a state of flux, studies show that most purchases of individual life insurance take place between the time a young man takes his first job and the time he reaches age 40 to 45. During the remaining 20 or 25 years before he reaches retirement, the probability that he will buy additional insurance on his life is diminished, partly as a result of increased resistance to buying and partly as a result of not being called on by an agent.* Yet a man in his middle years can be a good buyer. The findings of the Widows Study reinforce the view that more attention should be directed to the "over-40" market, not only as a valuable social service but also as a source of additional sales.

Settlement options and lump-sum payments -- The study findings point to a variety of cash needs. The need for cash settlements to meet final bills is not new, but the study shows how highly variable these needs can be. At all income levels, the families were exposed to the risk of large medical expenses that were not covered by health insurance. Taxes, estate administration, and outstanding loans (primarily business loans rather than installment or other consumer credit) contributed to the variation in expense faced by upper income families. The magnitude of the cash sums that might be required to meet final expenses should be made known to the public as well as to agents.

*See The Opportunity to Buy, LIAMA Research Report 1968-3 (File 940).

The study shows that relatively few of the homeowners had made provision for prepayment of their mortgages through life insurance. Where prepayment is possible, mortgage insurance provides a relatively inexpensive way of eliminating debt and, in effect, increasing the income of the widow.

The widows' needs for cash reserves to meet unforeseen emergencies were seen to be stronger than may previously have been recognized. In common with all families, the widows have need of reserves to meet large, nonrecurring expenditures such as a wedding for the daughter, paint for the house, replacement of major appliances, taxes and insurance premiums, sewer assessments, college costs, medical bills, etc. Others may wish to help their grown children, for example, by giving them the down payment for a home. Funds may also be required for retirement. Once a particular expenditure has been made, however, a complete husband-wife family may be able to replenish its savings in anticipation of future needs -- most widows will not. For the remainder of her lifetime, there will be little opportunity to add to the resources that were available at the onset of widowhood. As her reserves are depleted, so is her security. Recognition of their vulnerability may account for the strong desire on the part of many widows to keep their life insurance proceeds intact and not to use them to supplement their incomes.

Only 8 percent of the widows of insured husbands said that they had received any of their proceeds under income options. The infrequent use of options reflects, at least in part, the small amounts of proceeds received by many of the widows and the need for cash to meet final expenses and to create reserve funds. It also is the result of the widows'being unaware that they may have had the choice of options and the fact that agents and other financial advisors often did not mention options as alternative methods of payment. A few of the widows also may have suspected the motives of the companies in seeking to retain the proceeds under income or interest options. A majority of the widows, however, said that if the conditions were appropriate, a widow would be wise to receive some of her proceeds in the form of monthly income payments; this suggests that there may be somewhat greater demand than current usage indicates.

The findings point to a need for flexibility -- and caution -- in determining the method of paying life insurance proceeds. Discussion of settlement options as a way of meeting the surviving family members' needs for reserves and replacement income should properly begin with the initial purchase of life insurance rather than at the time of claim settlement. It should continue as an integral part of the on-going programming procedure. As there are changes in the survivors' needs as the family passes through the various stages of the life cycle and as there are changes in economic conditions, periodic reviews of a client's portfolio provide additional opportunities to review the methods of benefit payment with the family so that the method of settlement, as well as the amount of coverage, fits the family's changing situation -- and so that the wife understands the program's purposes. Because many years may elapse between the initial purchase and the filing of a death claim, it becomes a responsibility of home office and field management to ensure a continuity of service.

Claim settlement -- In the hours and days following the death of the husband, people in a variety of occupational roles had an opportunity to assist the widow and to make the transition process easier. However, the results of the study indicate that most, including life insurance men, limit themselves to very specific types of assistance. The morticians arrange the funerals; the clergymen say the appropriate words; and the life insurance men and social security clerks file the necessary forms.

Because half of the husbands died after reaching age 55, and in light of the lack of recent agent contact among men in this age group, the probability is high that the widows' claims were serviced by strangers. It would be natural for an agent, lacking a sense of personal attachment to the survivors and aware of the widow's grief, to adopt an impersonal approach. Lack of training in methods of claim settlement also may have played a part. Company manuals typically discuss only the internal mechanics of the settlement process, i.e., the forms required and how they should be submitted so as to expedite payment. A recent survey of company beneficiary services practices showed that while almost all companies recommend that the agent discuss the availability of settlement options, a majority take no position on activities such as advising or assisting the beneficiary in filing claims on other life policies or the husband's group benefits.* The "death claims" file in the LIAMA library contains not a single article discussing extended service at a beneficiary's time of bereavement.

In addition to the simple courtesy of offering to help the widow file her claim and assisting in the other paper work created by her husband's death, agents can serve in other ways. At no other time in her life is a woman likely to have as much cash at her disposal as when her claim checks are delivered. She must then decide what portion to spend and how much to save and invest, and where. Although frequently she will have had no experience in making large financial decisions, the study shows that the great majority of widows will make these decisions alone. These conditions suggest the need for trained financial counselors to work with widows in the postdeath period -- even if a family has had on-going services of an agent while the husband lived.

A further area of service suggested by the study is a review of the widows' insurance needs. The amount of life insurance owned by most widows, particularly those with children, points to unfilled needs. While the ownership of other types of insurance was not explored, the widows' dependence on their own earning capacity, when coupled with the small amount of financial reserves possessed by most widows, points to a need for a thorough review of their health and disability income protection.

*LIAMA Products and Services Bulletin Number 73, July 1970

Summary

The following 40 points highlight the major findings from the two volumes. In a very real sense, however, they mask the great variety of conditions that existed, both at the onset of widowhood and after two years. For a fuller appreciation of the consequences of premature death, the reader is directed to the more detailed presentation in the reports.

1. For just over a third of the husbands (34 percent), death had come within a day of the onset of the terminal illness or accident. More than half (52 percent) had suffered periods of impairment of at least one month before death, and for 28 percent there was at least a year between the onset of final illness or disability and death. (Volume One)

2. There was strong evidence that prolonged terminal illnesses or disabilities weakened the families' financial positions before the husbands died: Many were unemployed, income was down, and savings and investments were reduced. The adjustment to the loss of the husband's earning capacity had already begun for some widows and for others it had been completed before the husbands died. (Volume One)

3. The median, or "typical," widow was faced with final expenses amounting to $2,860. The average (mean) final expense was $3,900, of which $1,740 represented medical bills, $1,510 the cost of the funeral, and $650 for taxes, estate administration, and miscellaneous items. (Volume One)

4. Per capita final expense ranged from $2,000 for families whose annual incomes had been less than $3,000 to $7,200 for those who had had predeath incomes of $15,000 or more. The costs of estate administration, loans that became due, and taxes were the primary cause of the difference between the income groups. (Volume One)

5. When medical expenses were incurred, the average bill was $2,800, and when the illness or disability had been of six months' to two years' duration, the average bill increased to $3,600. Health insurance paid for 60 percent of the aggregate medical expense; however, only two thirds (64 percent) of the widows with medical bills said they had received health insurance payments. For them, health insurance paid 77 percent of the total medical bill. (Volume One)

6. Together, life and health insurance paid for almost two thirds (64 percent) of the total final expense. Savings that existed at the time of death was

the only other source used to pay for as much as 10 percent of final expenses. (Volume One)

7. In the course of settling their husbands' estates, more than half of the widows came in contact with morticians, social security officials, and family members or close friends. Some 43 percent said they had come in contact with life insurance men. (Volume One)

8. The widows rated family members and attorneys as being the most helpful persons with whom they had dealt. Life insurance men were low on the list and were in the middle of a group that included clergymen, social security officials, bankers, and union representatives. (Volume One)

9. The majority of the husbands (71 percent) died intestate. Where there were wills, 86 percent of the widows said that the wills had helped. When there were no wills, 86 percent of the widows doubted that one would have been helpful. (Volume One)

10. Upon the death of their husbands, the widows received an average of $11,900 in lump-sum payments from all sources including life insurance, retirement plans, social security and VA funeral benefits, gifts, the sale of possessions, etc. Life insurance accounted for 69 percent of the lump-sum assets received, while 18 percent came from retirement plans. (Volume One)

11. Despite the demands of the first two years of widowhood, lump-sum assets received at the husband's death produced a net increase in the asset strength of the families. Whereas just under 7 in every 10 of the families had had some financial assets in the predeath period, almost 8 in every 10 of the widows' families had some assets in reserve two years after the husbands died. Families with $10,000 or more in assets increased from 18 percent to 33 percent, while the median holding increased from $1,000 to $3,800. The greater her financial assets, the more likely the widow was to say that her former standard of living had been maintained. (Volume Two)

12. The average per capita monthly survivor benefit was $155, of which 67 percent came from social security, 15 percent from retirement plans 12 percent from VA benefits, 5 percent from life insurance, and 1 percent from miscellaneous sources. (Volume One)

13. Ninety-two percent of the widows said that their husbands had had some form of life insurance, and 91 percent received proceeds. However, only 7 percent received monthly benefit payments from income options or annuities. (Volume One)

14. Individual policies purchased from legal reserve life insurance companies had been owned by 70 percent of the husbands. These policies accounted for 46 percent of the total life insurance in force on the lives of the husbands, with group life insurance accounting for an additional 40 percent.

Servicemen's life insurance, credit insurance, fraternal insurance, etc., accounted for the remainder. (Volume One)

15. Only 38 percent of the widows who were beneficiaries of individual life insurance said that agents had helped them file their claims; however, almost all (95 percent) were satisfied with the way their claims had been handled. Over half of the beneficiaries of individual policies (52 percent) said that they had received their first checks within two weeks, and only 12 percent waited for two months or more. (Volume One)

16. Almost all of the husbands (96 percent) had been covered by social security, and 59 percent of the widows had received monthly income payments from that source. Of those receiving monthly benefits, 46 percent said that it took three months or more for their first checks to arrive, and only 23 percent received their first checks within a month of filing their applications. Of those receiving monthly benefits, 87 percent were satisfied with the way their social security claims had been handled. (Volume One)

17. Over 8 in every 10 of the beneficiaries of life insurance said that no one had talked with them about the choice of settlement options and almost half (47 percent) did not know that they might have had a choice. Yet one third of the beneficiaries said they thought a widow would be wise to receive monthly income payments if proceeds remained after paying immediate expenses and 28 percent said it would be wise if the circumstances were appropriate. Only 39 percent opted for outright lump-sum settlements. (Volume One)

18. Two thirds of all the widows had some proceeds remaining from life insurance after meeting their final bills and immediate living expenses. The proportion with proceeds remaining was strongly related to the family's former income level and increased from 19 percent when family income had been less than $3,000 to 85 percent when it had been $15,000 or more. (Volume One)

19. Of the total life insurance dollars received, almost one fourth (24 percent) was used to pay final bills and the widows' immediate living expenses, 22 percent was committed to income options, mortgage prepayment, or trust funds, while 54 percent was allocated to liquid savings or investments. (Volumes One and Two)

20. When the widow had been able to save or invest some of her life insurance proceeds -- 61 percent had done so -- the average amount was $8,100. Three fourths of those with proceeds remaining said that they had neither sought nor received advice before making their initial savings or investment decisions. (Volumes One and Two)

21. Almost half (48 percent) of the widows who had saved or invested some of the proceeds from their husbands' life insurance said that at the onset of

widowhood, they had had no special plans for these funds and that they hoped to keep them intact as a nest egg or reserve for unforeseen contingencies. Only 1 in 5 initially planned to draw on her savings to meet routine living expenses; however, almost twice as many (36 percent) said that at least some of the proceeds had been claimed by routine living expenses during the first two years of widowhood. (Volumes One and Two)

22. On the average, one fifth of the proceeds that had been saved or invested at the onset of widowhood were exhausted within two years of the husband's death. While 42 percent of the widows had not touched their savings or investments during this interval, 44 percent had used part, and 14 percent had used all. (Volume Two)

23. Despite the fact that many had received only modest amounts, 77 percent of the beneficiaries said that their husbands' life insurance had been of great help to them. Even when all proceeds had been used to pay final bills and other immediate expenses, 63 percent described life insurance as having been of great help. For those who had proceeds to save or invest, 85 percent said life insurance had been of great help. By comparison, 79 percent of the widows who received monthly income from social security said that these payments were a great help. (Volume Two)

24. Life insurance and social security (monthly income) were valued for somewhat different reasons. In describing how their lives would have been different without social security, the widows talked of having to go to work, of having their children's education affected, and of hardship more often than they did when talking of life insurance. When speaking of what their lives would have been like had they not received the life insurance, more references were made to being burdened with debt and of lacking a sense of financial security than when they talked of what their lives would have been like without social security. (Volume Two)

25. In describing what their lives might have been without life insurance, references to debt were highest among widows who had used all of their proceeds to meet immediate postdeath expenses. When at least $15,000 remained beyond the immediate postdeath period, life without life insurance most often would have meant going to work, hardship, altered living arrangements, and the absence of a sense of financial security. (Volume Two)

26. One fourth of the widows said that an agent had prepared a program outlining her husband's life insurance needs, and a majority (64 percent) of these said that the programs had proved to be very, or fairly, helpful. When helpful, it was because the programs provided for the widow's needs, because their husbands had bought specific types of insurance (e.g., mortgage insurance), or because of the information the programs provided. When not helpful, primarily it was because the husbands had not purchased

the insurance that had been recommended and only rarely because the programs could not be used as planned or because they were defective. (Volume One)

27. The incomes of the widows' families were down an average of 44 percent from the predeath levels. The change varied from an increase of 4 percent when family income had been less than $3,000 to a decrease of 57 percent when family income had been $15,000 or more. Almost 6 in every 10 (58 percent) of the widows had incomes that fell below the estimated amount that would have been needed to maintain their families' former standards of living. (Volume Two)

28. Of the aggregate income received by the widows, 40 percent came from their own earnings; 35 percent came from monthly income maintenance benefits (social security, VA, life insurance, etc.); 17 percent came from interest, investments, and rentals; and 8 percent came from members of the family or friends. Monthly income maintenance benefits were the primary source of income for widows from lower income families (former income less than $7,000), for those with children of less than high school age, and for widows at retirement age. For all others, earnings were the primary source. (Volume Two)

29. One half of the widows said that their living standards had declined following the death of their husbands, and 1 in every 5 described her living standards as being much lower than before. Although suffering the greatest average decline in income, widows from families whose incomes had been $15,000 or more were the ones most likely to say that their living standards had been maintained. However, maintenance of living standards was not strongly related to former income level or to the stage in the life cycle at which the wife was widowed. (Volume Two)

30. Among widows who maintained their living standards, 57 percent said that they could not have done so without life insurance and 50 percent said they could not have done so without social security. Compared with social security, life insurance was cited more often by widows from upper and upper middle income families (former income of $10,000 or more) and by those without dependent children. Social security was mentioned more often by widows from low-income families (incomes less than $5,000) and to those with children of less than high school age. (Volume Two)

31. While the widows believed that life insurance, social security and, of course, their own earnings and abilities as money managers had helped them maintain their standards of living, whether they were successful often depended on a combination of factors. A detailed statistical analysis pointed not only to the importance of income but also to the widow's education, to her former income, her age, and the number of her dependents -- the conditions that determined her need for replacement income -- to her reserves, either in the form of assets accumulated before the husband's

death or received from life insurance and other survivor benefits, and to the effects of the terminal illness. (Volume Two)

32. The most common manifestation of a lowered standard of living was a pervasive sense of concern about money, e.g., of the need to cut back all unnecessary spending and of the fear of acquiring debt. Clothing, social and recreational activities, and food were the specific areas in which cutbacks were most often reported. (Volume Two)

33. Almost half of the families (47 percent) had dependent children, and 37 percent of the widowed mothers said that their financial situations had had an effect on their children's lives, 23 percent saying that the plans for their children's education had been, or would be, affected, and 24 percent saying that their lives had been affected in other ways. (Volume Two)

34. When a change in educational plans was foreseen, the widows spoke most often of altered financing -- in particular, that the children would bear more of the cost themselves. However, among those who had had children in college or other programs beyond high school when the husbands died, almost as many spoke of interruption or termination of education as said that other financing was required. When the effect was in other areas, the widows spoke most often of general deprivation, i.e., of the children having to do without many things. Curtailed social and recreational activities and less clothing were the specific effects mentioned most often. (Volume Two)

35. Just under half of the widows (47 percent) worked during the year that preceded their husbands' deaths, while two years later 56 percent were working. During the two-year interval, 18 percent went to work, 8 percent stopped working, and 9 percent changed jobs. A disproportionately large share of the widows who went to work came from upper and upper middle income families ($10,000 or more). Among widows 60 or older and among those with dependent children from low-income families (less than $5,000), there were net decreases in the proportions working. (Volume Two)

36. Almost all (93 percent) of the working widows said that they needed the income from their work; however, two thirds would continue to work even if the financial need were eliminated. The proportion who would stop was highest (42 percent) for mothers of preschool children. (Volume Two)

37. Just under 6 in every 10 (59 percent) of the homeowning families had mortgage debt at the time the husbands died. One fourth of the widows who inherited mortgages used life insurance proceeds to prepay them, either in full or in part; however, less than 1 family in 8 had made provision for prepayment before the husband died. (Volume Two)

38. Over 8 in every 10 of the widows (81 percent) had insurance on their own lives, but the median coverage for insured widows was only $1,750. Widows with children owned the largest amounts -- yet even among those with preschool youngsters, fewer than 1 in 6 had as much as $10,000 of life insurance protection. The most common reason given for owning life insurance was to provide funds to meet burial expenses. (Volume Two)

39. One third of the widows (32 percent) encountered some difficulty managing their family's finances following the husband's death, but difficulty was encountered by almost two thirds (63 percent) of those whose husbands had handled the family finances before they died. Lack of experience, unsureness, and income reductions were the primary causes of difficulty. (Volume One)

40. Loneliness was the most serious problem of widowhood, followed by financial problems and the problems of raising children without a father. The problems of raising the children were the predominant concern of mothers with children of less than high school age. Financial problems were felt most heavily by the widows from lower income families, by those whose living standards had undergone the greatest declines, and by those who received little or no life insurance. (Volume Two)

Chapter 1

Widows' Incomes

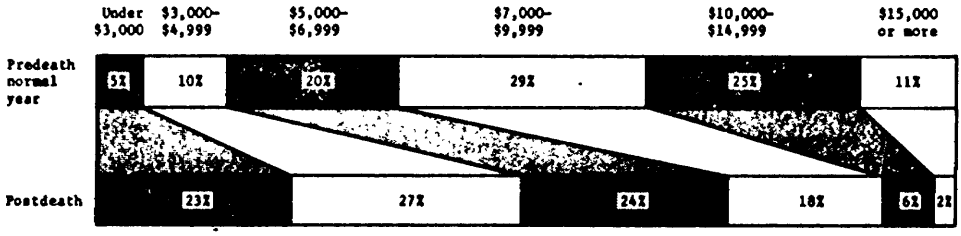
The widows' financial histories give a partial answer to the kinds of income changes that families experience when a husband dies. It is only a partial answer because a prolonged terminal illness or disability can have a profound effect on a family's income structure before the physical death of the husband. One husband in every 6 had been ill or disabled for at least two years before he died. For many of their families, the adjustment to the loss of income had begun, and for some it may have been completed, before the wife became a widow.

It would have been meaningless to have asked the widows of men who suffered long periods of terminal impairment to estimate what their families' incomes might otherwise have been. Each widow, however, was asked her family's income for the year that ended with her husband's death and whether it had been reduced that year as a result of his terminal illness. If she said that there had been a reduction, as over 1 in every 5 of the widows did, the amount of the reduction was added to her family's actual income to arrive at an estimate of family income had the final year been a "normal" one. This adjustment reduces, but does not eliminate, the difference between the incomes of the families in the study and those of families of comparable ages in the general population.*

The distribution of family incomes in the predeath and postdeath periods is shown graphically in Figure 1. The predeath amounts are based on the "normal" year and the postdeath ones on family incomes at the time of the interviews or,

Figure 1

Distribution of Family Income in the Predeath and Postdeath Periods



*See Volume One, pages 19 and 20, for a discussion of these differences.

for the 5 percent of the widows who had remarried, on the family incomes immediately before they remarried. As may be seen, there is a marked downward shift after the husband's death. In numerical terms, the average "normal" year's income for the families had been $9,540. At the time the widows were interviewed two years later, the average income of the widows' families was $5,380 -- a decline of 44 percent; in terms of median income, the drop was from $8,420 to $4,910.*

Changes in living standards

Taken by itself, the decline in family income following the death of the husband is an interesting descriptive statistic; however, the survivors should be able to tolerate some decline, if for no other reason than the elimination of the husband's living expenses. The more realistic comparison is the one between the widow's income and the amounts that would enable her to maintain her former standard of living.

There are various ways of removing a husband's living expenses in estimating the income his survivors would need in order to maintain their living standard. In the absence of estimates developed from families themselves through techniques such as programming, the traditional methods have been either to apply a straight percentage factor (to assume, for example, that the survivors need about 70 percent of former income) or to reduce family income by some constant number of dollars. However, neither of these methods can produce an accurate estimate of the replacement income needs of families that differ in terms of predeath income or that differ in terms of the wife's stage in the life cycle at the onset of widowhood.

Two criteria were used to evaluate the adequacy of the widows' incomes. One was the widow's own perceptions of the changes that had taken place in her circumstances during the two years that followed the husband's death. Each was asked: "Compared with your standard of living when your husband was alive, would you say you are living better, just the same, slightly lower, or much lower now?" Half of the widows said that they had been able to maintain their former standards of living, including 6 percent who said that there had been some improvement. On the other hand, 30 percent said that their living standards were slightly lower and 20 percent -- 1 widow in every 5 -- said that their living standards were much lower.

The second criterion was based on a study of family living costs conducted by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor.** This

*No adjustment has been made in these figures for the national changes in family income between the two periods.

**Sources: U.S. Department of Labor, Bureau of Labor Statistics. Three Standards of Living for an Urban Family of Four Persons. Bulletin No. 1570-5, and Revised Equivalence Scale for Estimating Equivalent Incomes or Budget Costs by Family Type. Bulletin No. 1570-2, Washington, D. C.

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study made it possible to estimate the amount of income each of the widows would need in order to maintain her previous standard of living. These estimates took account not only of the differences in living costs between the four SMSA's but also of the widow's age, the number of her dependents and their ages, the family's former income level, and whether the family had owned its home.

Within the framework of the criterion developed from the BLS data, it is estimated that 42 percent of the widows had been able to achieve incomes that equaled or exceeded their replacement income needs while over one third (35 percent) were at less than 75 percent of need.

Thus, according to the widows' estimates, half had maintained or improved their living standards, while according to the BLS estimates, 42 percent had. There is no reason, of course, why the two criteria should provide identical estimates of the proportions of widows with incomes "sufficient" to maintain their former living standards. In comparing their current and former standards of living, the widows are making psychological judgments that include not only the changes in income but also their reactions to those changes. In addition, they may be maintaining their standards by planned or unplanned reductions of capital (dissavings) or by equivalent income, e.g., having had their home mortgages paid off at the onset of widowhood. Neither dissavings nor equivalent income were counted when the widows' current incomes were compared with their estimated replacement income needs based on the BLS data.

The methods used to derive the widows' estimated replacement income needs are discussed in the Technical Supplement to this volume. Two assumptions are made, however, that have a bearing on the outcome of the analyses. One assumption involves families who, before the husbands died, had had incomes below the poverty line as defined in the BLS study. For these families, the widows were assigned replacement income values that were at the dividing line between poverty and nonpoverty, even though these values were sometimes higher than the predeath incomes had been.

The other assumption deals with the widows from the upper income segment of the population. When family income increases beyond the level required to provide normal comforts, an increasing proportion will be devoted to such purposes as the accumulation of investment assets, the husband's special interests and hobbies, and the purchase of luxuries. Short of programming, it is difficult to determine how much of this expense a family would feel it could eliminate and still provide adequately for the needs of the survivors. In addition to the poverty level income, the BLS study defined what was called a higher, or "American," standard of living. It defines a level, for example, beyond which a family might reasonably be expected to send its children to college without requiring scholarship aid. For a husband-wife family with three children living in their own home in Boston in 1966, an income of $18,600 was required to achieve this higher standard of living. On the other hand, a childless couple would have needed an income of only $8,800 to reach the same standard.

When a family's income exceeded the higher BLS standard while the husband was alive, the higher standard for a one-parent family of similar composition was set as the survivors' replacement income needs. For some of the 28 percent of the families whose incomes had been above the upper standard, this ceiling may underestimate the survivors' perceptions of their needs. However, without a ceiling, the needs of others in this group might have been grossly overestimated.

Changes in living standards according to former "normal" income

Income changes and the widows' perceptions of their living standards are summarized in Table 1 for families that had been at the several income levels. When incomes had been lowest -- "normal" income of less than $3,000 a year -- the average income of the widows' families was 4 percent higher than it had been when the husbands were alive. As the level of former family income increased, so did the mean income of the widows' families -- but at a lower rate. In other words, the higher the former family income had been, the greater the percentage decline for the widows' families. Among families whose "normal" incomes had been $15,000 or more a year, the widows had an average family income of $7,510, just 43 percent of their former level.

The fact that as former family income increases there is a progressively greater reduction in the widows' incomes, both in absolute and relative dollar amounts, might suggest a progressive lowering of living standards. However, as may also be seen from Table 1, the families' needs for replacement income, as estimated from the BLS studies, are proportionately less for the higher income families than for the lower. Rather than paralleling former family income, the mean estimated replacement income need parallels the widows' income but, except for the top income bracket, at a slightly higher level.

The highest and lowest income categories show the effects of the definitions that imposed a ceiling and a floor on the amount of replacement income that was estimated to be required to maintain the survivors' former standards of living. In other words, that only 24 percent of the very low income widows were able to achieve incomes equal to their estimated needs is at least partly the result of setting their needs at a level sufficient to bring them out of poverty rather than at a level sufficient to maintain their former standards. Conversely, the needs established for the families at the upper end of the continuum may have been too lenient; however, it is the widows from families whose "normal" incomes had been $15,000 or more who were most likely to say that their living standards had been maintained. Of these upper income widows, 62 percent said that they had been able to maintain their former standards of living and only 11 percent described their circumstances as being much lower.

Three fourths of the families (74 percent) had had "normal" incomes of between $5,000 and $15,000. Within the three categories of this range, the widows' incomes drop from 69 percent to 53 percent of their former levels, but the proportion who believe that they maintained their living standards is almost constant at about 46 percent. Similarly, the proportion who had incomes that equaled or exceeded their estimated replacement income needs based on the BLS estimates is quite constant at about 38 percent.

Below the $5,000 income level, there again is an increase in the proportion of widows who believe that they had maintained their living standards. On the other hand, those whose incomes had been under $3,000 were the ones most likely to say that their circumstances were much lower than before. It seems probable that many of the husbands of these widows suffered long terminal illnesses, since even when adjusted to "normal," the predeath family incomes were this low. When asked to compare their current living standards with those maintained while their husbands were alive, some of these widows may have made their comparisons with the periods when their husbands were well rather than with the final periods of the husbands' lives.

Table 1

Widow's Financial Situation According to Normal Former Family Income

	Normal former family income*						
	Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Average:							
Normal former family income	$2,040	$4,050	$5,830	$8,210	$11,790	$21,730	$9,540
Widow's income	2,120	3,280	4,010	5,330	6,280	9,310	5,380
BLS estimated replacement income need	2,830	3,590	4,420	5,810	7,240	7,510	5,740
Average widow's income as a percent of average former family income	104%	81%	69%	65%	53%	43%	56%
Distributions of widows according to:							
Percent of BLS estimated replacement income need provided by widow's income							
100% or more	24%	46%	38%	40%	37%	66%	42%
75 — 99%	16	19	22	27	26	13	23
Under 75	60	35	40	33	37	21	35
	100%	100%	100%	100%	100%	100%	100%
Widow's estimate of how current living standard compares with former one							
Same or better	58%	54%	46%	45%	47%	62%	50%
Slightly lower	11	26	31	33	33	27	30
Much lower	31	20	23	22	20	11	20
	100%	100%	100%	100%	100%	100%	100%
Number of cases**	78	182	304	466	385	161	1,744

*Also called "adjusted total family income" (in Volume One) or "normal" predeath income
**The total column includes 168 widows whose normal former family income could not be determined. In all columns, some of the bases for the individual means and percentage distributions are somewhat smaller than the number of cases shown because of the exclusion of other unknown data.

Changes in living standards according to stage in life cycle

When incomes are examined by the stage in the life cycle at which the wife was widowed, former family income is found to be highest for those families in which the youngest child was in the eighth grade or beyond (see Table 2). However, it is the older widows without dependent children who had undergone the greatest percentage decline in income (current income only 42 percent of former family income). As can be seen, the younger families with preschool children have the smallest decline (current income 69 percent of former income), and at each successive stage in the life cycle, the percent of former income grows smaller.

Table 2

Widow's Financial Situation According to Stage in Life Cycle at Onset of Widowhood

	Stage in life cycle at onset of widowhood				
	Dependent children, youngest child:			No dependent children -- widow's age:	
	Pre-school	Kindergarten through grade 7	Grade 8 or beyond	Under 55	55 or older
Average:					
Normal former family income	$8,880	$9,940	$11,130	$9,570	$8,220
Widow's income	6,150	6,780	6,440	4,780	3,430
BLS estimated replacement income need	7,900	7,570	6,760	4,470	3,710
Average widow's income as a percent of average former family income	69%	68%	58%	50%	42%
Distribution of widows according to:					
Percent of BLS estimated replacement income need provided by widow's income					
100% or more	25%	36%	44%	50%	38%
75 -- 99%	26	28	27	19	17
Under 75	49	36	29	31	45
	100%	100%	100%	100%	100%
Widow's estimate of how current living standard compares with former one					
Same or better	48%	51%	42%	49%	52%
Slightly lower	32	30	38	27	28
Much lower	20	19	20	24	20
	100%	100%	100%	100%	100%
Number of cases*	240	426	337	346	395

*Some bases for the individual means and percentage distributions are somewhat smaller because of the exclusion of unknown data.

Although the incomes of the families are highest in the middle stages of the life cycle, the estimated replacement income needs based on the BLS data are highest for families with preschool youngsters. The needs of these families are high because of family size. Additional analyses not presented here showed that where there were preschool youngsters, the median number of dependent

children at the onset of widowhood was 3.4 compared with 2.5 when the youngest child was in kindergarten through seventh grade and 1.2 when the youngest child was in the eighth grade or beyond. As family size declines, so does the BLS estimated replacement income need, with the sharpest drop occurring between the families with older dependent children and those whose children, if any, were no longer dependent.

As Table 2 shows, there is essentially no relationship between the widows' stages in the life cycle and the proportion who feel that they have been able to maintain their former living standards. If anything, the widows' own ratings indicate that those whose youngest child was in the eighth grade or beyond may have felt the financial impact most heavily. However, when the BLS-derived estimates of replacement income needs are the criterion, this group more often met its needs (44 percent) than any except the younger of the two groups of widows without dependent children.

It is seen that the gap between current income and estimated need is greatest for the families with young children and for widows at the other end of the life-cycle scale. The discrepant results obtained from the two measures are due, at least in part, to setting the estimated replacement income needs of poor families at levels that would bring them up to the poverty line. Across the life-cycle groups, the proportions of families with incomes below their estimated needs parallel the proportions who were below the poverty level before the husbands died.

The reasons that a relatively high proportion of the young families had poverty-level incomes before the husbands died are that fewer of the husbands had reached their full earning potentials, fewer of the wives were working to help supplement inadequate incomes, and income demands were high because of the size of the families. The families with young children also were the ones most likely to report that life insurance had been applied to mortgage payments; had the reduction of housing costs been added in as income, the gap between current income and estimated replacement income would undoubtedly have been reduced. At the most advanced end of the life-cycle continuum, poverty was also relatively high in the predeath families, at least partly because of the lower percentage of working wives and because of income reductions resulting from prolonged terminal illnesses.

The apparent explanation of the discrepant findings produced by the two criteria is that while the widows from low-income families may have felt that they had been able to maintain their former standards of living, those standards, as judged by the BLS budgets, are inadequate.

Actual standards of living before and after the deaths

The discussion so far has centered on the comparison of the widows' incomes, their perceptions of their standards of living, and their BLS-derived estimates of replacement income needs. The BLS figures, however, can also be used as

they were originally intended, that is, as bench marks to judge the standards of living that the families have achieved. Although only two standards have been discussed, three standards were actually defined: the lower or near-poverty budget, the traditional modest-but-adequate budget, and the higher budget. Table 3 shows the proportions of families who met the various standards when the husbands were alive and the proportions who met them afterwards. Before the husbands' deaths, over half of the families (52 percent) had incomes equal to or greater than the amounts required to meet the modest-but-adequate standard of living. After the deaths of the husbands, 42 percent of the widows had been able to meet or exceed that standard. On the other hand, one fourth of the families had been below the poverty level (below the lower BLS standard) before the deaths of the husbands, whereas almost one third (32 percent) of the widows' families had poverty-level incomes.*

Table 3

Estimated BLS Living Standards Based on Actual Income in the Predeath and Postdeath Periods According to Duration of Husband's Terminal Illness

BLS-Defined Standard	Duration of husband's terminal illness: Less than 6 months		6 months or more		All families	
	Predeath	Postdeath	Predeath	Postdeath	Predeath	Postdeath
Higher standard	35%	23%	17%	23%	28%	23%
Adequate standard	26	19	22	19	24	19
Lower standard	22	26	24	26	23	26
Below lower standard	17	32	37	32	25	32
	100%	100%	100%	100%	100%	100%
Number of cases	1,000		596		1,603	

The shifts between the predeath and postdeath periods may appear to be relatively small; however, the predeath standards reflect the full impact of income reductions that resulted from the husbands' terminal illnesses or disabilities. For example, when the illness had been of less than six months' duration, the proportion of families with incomes below the modest-but-adequate level increases from 39 percent in the predeath year to 58 percent for the widows' families. However, when the duration was six months or more, the percent below the modest-but-adequate level decreases from 61 percent to 58 percent. In other words, when the terminal illness was prolonged, death produced a small net improvement in the widows' circumstances as judged by the BLS figures. It may also be seen that while the financial status of the two terminal illness groups was quite different in the predeath period, identical proportions of the widows are at each of the BLS budget levels two years after the deaths. Thus it is clear that long-term illnesses or disabilities result in modifications in living standards before death, with many families experiencing little further downward adjustment afterwards.

*For the predeath families, the standard of living was based on actual income received during the husband's final year of life. The footnote to Table 11, Volume One, stating that normal family income was used, is in error.

Sources of income before and after the deaths

Table 4 shows the composition of family income in the predeath and postdeath periods for families that had been at the several income levels before the husbands died.

Table 4

Average Income from Various Sources in the Predeath and Postdeath Periods According to Normal Former Family Income

Source	Normal former family income: Under $3,000	$3,000-$4,999	$5,000-$6,999	$7,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Normal former family income -- averages							
Husband's earnings	$ 450	$2,040	$3,890	$6,060	$ 8,280	$17,260	$6,890
Wife's earnings	160	520	850	1,220	2,370	2,570	1,440
Income maintenance*	1,220	1,300	740	440	520	400	630
Interest, investments, and rentals**	150	90	180	310	500	1,410	450
Others in family (living in or outside of household)	60	100	170	180	120	90	130
	$2,040	$4,050	$5,830	$8,210	$11,790	$21,730	$9,540
Widow's income -- averages							
Widow's earnings	$ 410	$ 900	$1,430	$2,110	$2,840	$4,000	$2,170
Income maintenance*	1,200	1,610	1,760	1,950	1,990	2,060	1,840
Interest, investments, and rentals**	230	260	490	750	980	2,730	910
Others in family and friends	200	390	310	480	460	520	420
Welfare	80	120	20	40	10	0	40
	$2,120	$3,280	$4,010	$5,330	$6,280	$9,310	$5,380
Median widow's total income	$1,650	$2,860	$3,880	$5,050	$6,130	$8,580	$4,910

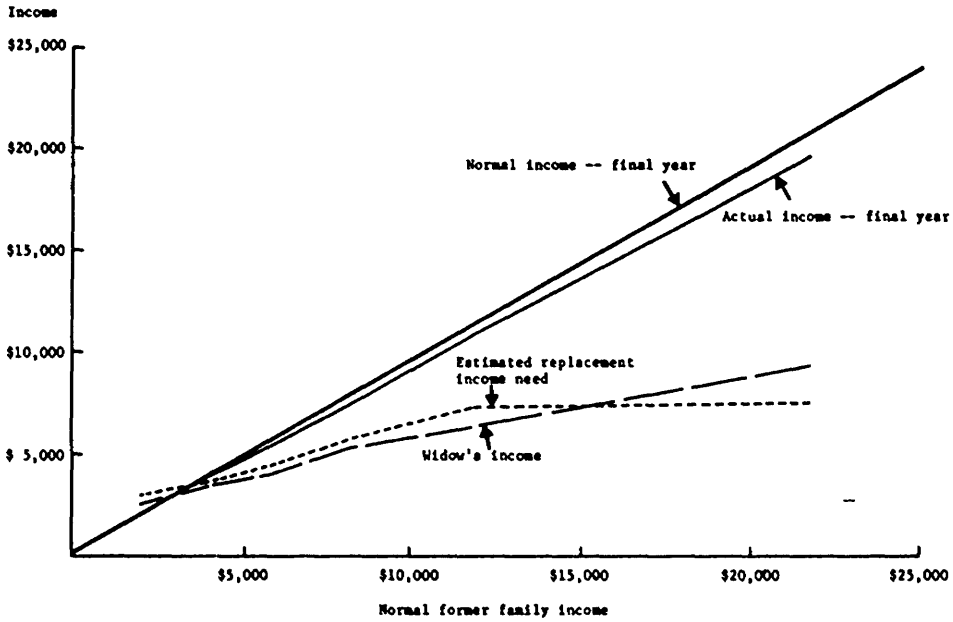
*Includes social security disability and survivors' benefits, pension and other retirement income, disability income, veterans' benefits, life insurance income options and annuities, Workmen's Compensation, and for the husband, unemployment insurance

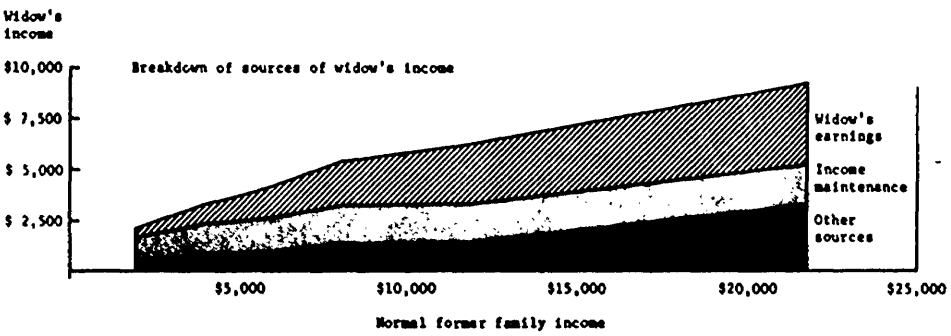
**Except for life insurance income options and annuities, reduction of savings or investments are not considered as income.

Except for the very lowest income group, the husbands' earnings provided the largest single component of family income, and as would be expected, his earnings taken as a percent of family income also increase as family income increases. The very low income families tend to be those in which the husbands' earnings had ceased and in which maintenance income such as pensions, unemployment compensation, disability income payments, etc., were the major source of support. Income maintenance benefits for the widows provide the largest single source of income for those whose families had been below the $7,000 level before their husbands died. Above the $7,000 predeath level, there is essentially no further increase in the mean income maintenance benefits received and the widows' own earnings become the largest single source of income for the survivors. The widows' earnings continue to rise as the level of former family income increases -- but at a lower rate. The figures for the widows' incomes are summarized graphically in Figure 2.

Figure 2

Widow's Income According to Normal Former Family Income





The line at 45 degrees on Figure 2 represents the families' incomes for the final year assuming that there had been no reductions in income resulting fro the terminal illness or disability. The dotted line just below it shows the incomes as they actually had been that year.

At all levels of former family income, the widows received more income from interest, investments, and rentals than their families had received when their husbands were alive. At the $15,000 predeath income level, however, income from interest, investments, and rentals become a significant component of the widows' incomes. Much of the increase in interest and investment earnings can be attributed to the life insurance proceeds since, as was seen in Volume One, these proceeds provided 69 percent of the aggregate lump-sum assets received by the widows following the deaths of their husbands.

Detailed tables showing the amounts received from the various sources and the percent of widows with incomes from each are contained in the Technical Supplement to this volume.

Sources of widows' incomes according to stage in life cycle

Table 5 and Figure 3 show the components of the widows' incomes by the stages in the life cycle at which they were widowed. For those who had preschool or elementary school children, income maintenance -- primarily social security -- is the largest component. For widows with preschcol children, income maintenance accounts for approximately two thirds of the aggregate income received. At more advanced stages, family size and income maintenance benefits decrease and the widows' own earnings become the largest component of income. For widows in their middle years, grown children help provide support; as the detailed tables in the Technical Supplement show, this help is primarily from children still living in the widows' homes rather than from those who have left to start homes of their own. For the widows who were 55 years old or over, earnings decrease in relative importance and income maintenance benefits again become the major component of income.

Table 5

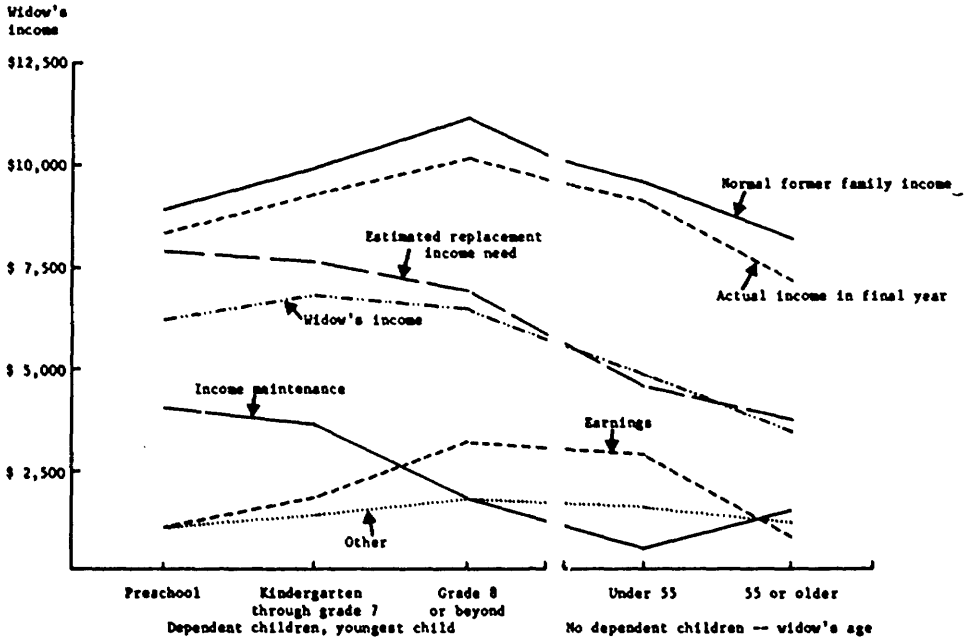
Average Widow's Income from Various Sources
According to Stage in Life Cycle at Onset of Widowhood

	Stage in life cycle at onset of widowhood				
	Dependent children, youngest child:			No dependent children -- widow's age:	
Source	Pre-school	Kindergarten through grade 7	Grade 8 or beyond	Under 55	55 or older
Widow's earnings	$1,080	$1,850	$3,120	$2,800	$ 820
Income maintenance	4,010	3,580	1,640	520	1,500
Interest, investments, and rentals	700	960	1,020	900	930
Others in family and friends	280	370	620	540	120
Welfare	80	20	40	20	60
	$6,150	$6,780	$6,440	$4,780	$3,430
Normal former family income	$8,880	$9,940	$11,130	$9,570	$8,220

Interest, investments, and rentals -- although never the major components of income -- contribute significantly to the aggregate income at all stages in the life cycle. Their proportionate contribution, however, is greater for the older widows than for the younger. Income from these sources includes only actual earnings, not the reduction of capital to meet ongoing living expenses.

Figure 3

Widow's Income According to Stage in Life Cycle at Onset of Widowhood



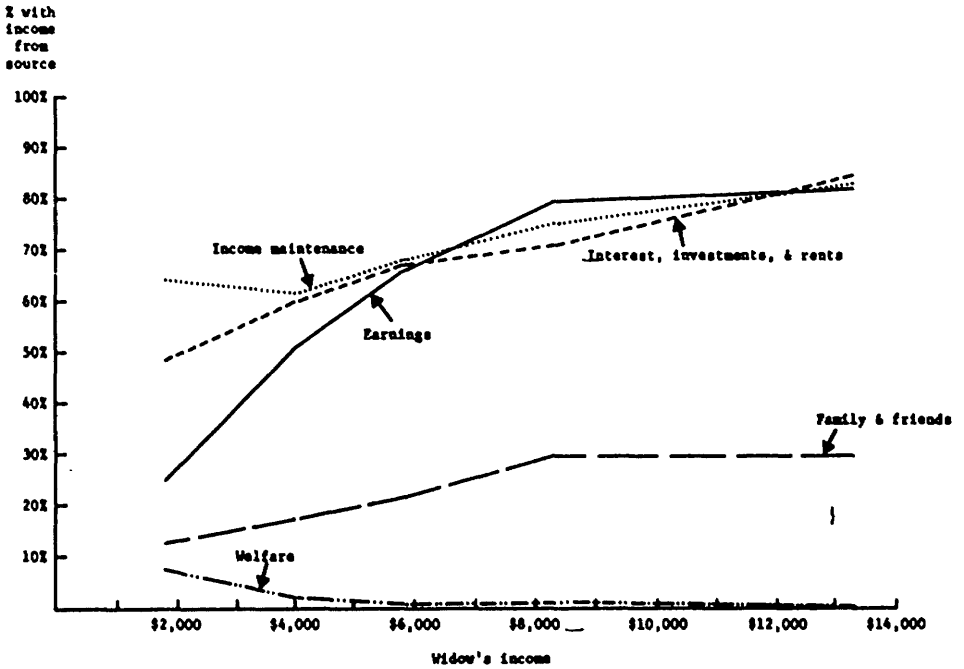
Frequency of the various sources of widows' incomes

So far, the analyses of the sources of the widows' incomes have been based on average amounts. The average for a source is, of course, based on all widows, including those not receiving any income from that source. Another way of looking at the data is to examine the proportions receiving income from each of the various sources. Overall, the most commonly reported source was income maintenance benefits; more than two thirds of the widows (68 percent) said that they were receiving such benefits. Almost as many (64 percent) were able to report at least some income from interest, investments, or rentals, while 56 percent said that they had income from work. Just under one fourth of the widows (22 percent) received some help from family or friends and 3 percent reported welfare payments.

Figure 4 shows that except for welfare payments, the higher the widows' incomes, the higher the percentages that report income from each of the various sources. However, the most striking difference between the low income and upper income widows is in the proportion with income from earnings. Only 25 percent of the widows with incomes below $3,000 said that they had had income from earnings in the preceding year compared with 83 percent of those with incomes of $10,000 or more. Similarly, the proportion with income from interest, investments, or rentals increased from 49 percent at the lowest income level to 86 percent among widows with incomes of $10,000 or more.

Figure 4

Percent of Widows with Income from Various Sources



Another analysis carried the exmination of the sources of the widows' incomes still further. The relationship between predeath and postdeath living standards on the basis of the BLS data was examined in relation to the sources of the postdeath income. A striking relationship was found regarding earnings. At the lower end of the predeath living standard scale, the widows who improved their living standards following their husbands' deaths reported income from

earnings considerably more frequently than did those whose standards of living remained low. Among those who had had high standards of living while their husbands lived, those who had maintained these standards generally reported employment earnings and those whose standards had lowered generally reported no earnings.

Thus, working or not working appears to have been one of the major determinants of whether the widows were maintaining (or, at the lower income levels, raising) their former standards of living. There is no suggestion that those who had found employment had done so "to keep busy." Rather, it seems that when the security benefits provided by the Government and by the husbands' employers and those voluntarily acquired by the husbands proved insufficient, they had actively sought to correct the imbalance.

In fact, the data suggest that some ingenuity was exercised by most of the widows. Work was an unattractive, if not impossible, solution for many, particularly those with young children, those with disabilities, and those who were approaching or had reached retirement age. Other solutions, such as seeking help from the children or from welfare, partitioning the home in order to rent rooms or apartments, etc., were adopted but most often adopted reluctantly.

Depending on the estimate used, some 42 percent or 50 percent of the widows did manage to maintain their previous standards of living, but this fact says nothing of the sacrifice or disruption of family life that may have been required to maintain them. For the remaining widows, lowered standards of living resulted -- even though these widows, too, generally combined their own efforts with the security benefits received.

Subsequent chapters will explore the change in living standards in more detail, the effects of the deaths on the work histories of the widows, other effects of the loss of income on the manner of living, and what life insurance meant to the widows.

Chapter 2

Factors in Maintaining Standards of Living

Widows who felt they had maintained their standards of living

Two years after the onset of widowhood, half of the widows said that they believed they had been able to maintain their former standards of living. They were asked how this had been accomplished. As may be seen in Table 1, a variety of conditions were mentioned but the most frequent was "by working." Other answers given by at least 10 percent of those who said they had maintained their living standards were "social security," "life insurance," and "careful money management."

Table 1

Factors that Helped Widows Maintain (or Improve) Their Living Standards -- Volunteered in Answer to the Free-Response Question

Factor volunteered	% of the widows who maintained (or improved) their living standards
Work	42%
Social security	22
Life insurance	13
Careful money management	13
Help from family	9
Elimination of husband's living expenses	8
Savings	8
Pension (other than social security or V.A.)	7
V.A. benefits	5
Home paid for	5
Income from investments	5
Elimination of husband's medical expenses	4
Living arrangements shared	4
Business income	3
Have always been thrifty	3
One or more dependents are now self-supporting	3
Life style altered	1
Home sold	1
Welfare	1
Standard reduced before husband's death	1
Miscellaneous	4
Number of cases	777

Note: Will add to more than 100 percent because many widows cited more than one factor

As the following comments illustrate, the widows often cited several factors as having helped them maintain their living standards. As the comments also show, having maintained her family's living standard does not imply that the widow and her family were necessarily living "the same as before."

"My wages have gone up $1 per hour, and we have social security and V.A. If I run low, I use the life insurance money that I put in the credit union -- and then I put it back."

"I'm more careful now. I'm nervous about bills and I try not to get any. I'm more careful about buying for myself."

"Actually, I have the same income through life insurance and social security."

"Well, through God and my benefits. I work and manage my money to get us by."

"With social security, V.A. benefits, and by working six days a week I have been able to keep up."

"Well, I work and watch my money. Also, I'm alone now and don't have the doctor's bills anymore. I just finished paying off the last one."

"By continuing to work past the age of 65."

"My son helps and I get social security. My daughter quit college and she's working now, too."

Since the question asking how the widows had maintained their living standards was a free-response one, the answers reflect only those factors that they thought of at the time of the interview. To provide a more direct measure of the role of life insurance, the widows who said that they had maintained their former living standards were asked whether they could have done so without life insurance. For comparison, a similar question was asked about social security.

Table 2 on the following page shows the proportions of widows with various characteristics who volunteered that work, social security, or life insurance had helped them maintain their living standards and the proportions who, in answer to the direct question, said that they could not have maintained their living standards without social security or life insurance.

Life insurance and social security -- In answer to the free-response question, social security was mentioned more often than was life insurance (22 percent vs. 13 percent) as a factor that had helped the widows maintain their living standards. The rankings are reversed, however, when the direct question was asked; as can be seen, 57 percent of the widows said that they could not have maintained their living standards without life insurance compared with 50 percent for social security.

Table 2

The Role of Work, Social Security, and Life Insurance in the Maintenance of Living Standards Among Widows Who Felt that They Had Maintained (or Improved) Their Standards

	% of sample saying standard of living maintained (or improved)	% of widows who maintained standards answering: Free-response question			Direct question	
		Work	Social security	Life insurance	Social security	Life insurance
All widows	50%	42%	22%	13%	50%	57%
Normal former family income						
$15,000 or more	62%	49%	19%	25%	31%	63%
10,000 — $14,999	46	50	18	15	46	65
5,000 — 9,999	45	42	24	10	57	56
Under 5,000	55	22	28	6	69	47
Stage in life cycle at onset of widowhood						
Dependent children, youngest child:						
Preschool	48%	28%	42%	14%	88%	65%
Kindergarten through grade 7	51	36	44	23	84	68
Grade 8 or beyond	42	53	19	11	59	62
No dependent children -- widow's age:						
Under 55	49	52	5	13	7	46
55 or older	52	38	16	7	41	51
Life insurance proceeds remaining after final and other immediate expenses						
$15,000 or more	63%	35%	31%	35%	53%	85%
5,000 — $14,999	52	45	21	15	50	71
Under 5,000	44	47	24	8	56	59
None remaining	43	40	17	3	45	41
No insurance	53	44	19	-	60	-
Social security benefits						
$200 or more per month	51%	34%	44%	21%	83%	69%
100 — $199 " "	51	29	33	14	72	64
Under 100 " "	41	41	22	8	73	49
Funeral benefit only	50	56	5	10	14	48
Widow's earnings						
$200 or more per month	55%	69%	14%	10%	37%	50%
100 — $199 " "	45	49	32	24	73	69
Under 100 " "	38	45	30	12	82	80
None	44	7	30	15	62	63
Percent of BLS estimated replacement income need provided by widow's income						
100%	61%	51%	16%	10%	47%	50%
75 — 99%	46	46	30	17	62	62
Under 75	36	20	27	14	60	71

The reversal in rankings reflects the different roles that these two benefit programs played in the lives of the widows. To anticipate the discussion in Chapter 5, two of the more important uses of life insurance were the elimination of debt at the onset of widowhood and as a source of funds to draw upon for unforeseen expenditures. In answering the direct question, many may have been saying that they could not have maintained their living standards had they not had life insurance to eliminate or lessen the burden of debt or to draw upon in-

emergencies, while in answering the free-response question, they may have been thinking about budgeting and the ways they meet their day-to-day expenses.

Former family income -- The results of both the free-response and the direct questions show that as the level of former family income increases, life insurance plays an increasingly important role in the maintenance of living standards. The higher income families, of course, owned larger amounts of life insurance and, as is seen in Table 2, the importance of life insurance increases markedly as the amount remaining after final expenses increases.

Unlike the figures for life insurance, the proportion of widows who said that social security had helped them to maintain their living standards declines as the level of former family income increases. The decline cannot be attributed to differences in the proportions of widows receiving social security benefits (see Technical Supplement to Volume One), but it may be a function of a variety of factors, including the fact that as income increases, so does the variety of sources of replacement income -- and thus the importance of any single source declines.

Stage in life cycle -- The answers to the free-response question show the importance of social security to families with young children, i.e., of elementary school age or younger. For these families, almost all of whom received monthly benefit payments, social security was volunteered more often than was work as being a factor that had enabled them to maintain their living standards.

In answer to the direct question, life insurance also reaches its highest importance among families with young children, but as may be seen, it does not reach the level attained by social security. That the older widows mentioned life insurance less often than did the younger reflects the difference in the amounts of life insurance the widows received (see Chapter 5) rather than signifying a decline in the older widows' need for life insurance.

Amount of life insurance proceeds -- As the amount of life insurance proceeds remaining after immediate expenses increases, so does the proportion of widows who said that they had managed to maintain their former living standards. The only reversal to this trend occurs among widows who said that their husbands had not carried life insurance. However, it may be seen from Table 2 that similar reversals also occur when social security and the widows' earnings are related to the maintenance of living standards.

As the amount of remaining life insurance proceeds increases, there is a steady upward progression in the proportion of widows who volunteered, in answer to the free-response question, that life insurance had helped them maintain their living standards. The proportion jumps to 36 percent among those with $15,000 or more remaining after final expenses. Among widows in this top category, life insurance was mentioned as often as was work as a factor in the maintenance of living standards, and it was mentioned more often than was social security.

It may also be seen in Table 2, from the response to the direct question, that there is a steady upward progression in the proportion of widows who said that

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they could not have maintained their living standards without life insurance -- increasing from 41 percent among those whose proceeds were exhausted in the immediate postdeath period to 85 percent among those with $15,000 or more of proceeds remaining.

Social security benefits received -- When $100 or more in monthly income benefits were received, social security was mentioned more often than was work as a factor in maintaining living standards. When any monthly income benefits were received, a higher proportion of the widows said that they could not have maintained their living standards without social security than said that they could not have done so without life insurance.*

Earnings -- Except for those widows who had no earnings, social security and life insurance both decline in importance (in response to the direct question) as the level of the widows' earnings increases. Widows with the highest earnings, however, tended to be those without dependent children and hence they were not eligible for social security benefits.

BLS estimate of adequacy of income -- As was seen in Chapter 1, there is some relationship between the two criteria that were used to evaluate the adequacy of the widows' incomes, but this relationship is not as strong as might be expected. In other words, of those widows with incomes that equaled or exceeded their estimated replacement income needs on the basis of the BLS data, only 61 percent said that they had maintained their living standards whereas 36 percent said that they had maintained their living standards while having incomes of less than 75 percent of estimated need. In part, the failure to find a higher relationship is due to the subjective nature of the widows' ratings and to the floor and ceiling placed on the amount of estimated replacement income needed to maintain standards. However, the fact, based on the response to the direct question that the importance of life insurance increases as the ratio of current income to estimated need declines suggests that dissaving may have been a factor in the maintenance of some widows' living standards.

Changes in spending

As further measures of the economic impact of premature death, all of the widows were asked a few brief questions about changes in their families' spending and shopping habits.

*That, on the basis of the answers to the direct question, life insurance exceeds social security in the aggregate (57 percent vs. 50 percent) is due to the fact that 41 percent of the widows received no monthly income from social security while only 9 percent received no life insurance benefits. As has been seen, a substantial minority of widows (41 percent) attached importance to life insurance even though all proceeds were exhausted in the immediate postdeath period; in contrast, among those who received the $255 funeral benefit only, only 14 percent attached importance to social security.

Almost half of the widows (45 percent) said that there had been changes in spending patterns following the deaths of their husbands. As may be seen in Table 3, 19 percent said that they were spending more in certain areas while 32 percent said that they were spending less because of changed interests and activities. (These percentages add to more than the 45 percent reporting changed patterns because some widows said that expenditures were up in some areas while being down in others.)

The widows whose former family incomes had been high were more likely to report changes in spending patterns, both upward and downward, than were those whose former family incomes had been lower. However, it may also be seen in Table 3 that increased expenditures are associated with the maintenance of living standards while decreased expenditures are associated with declines in living standards.

Table 3

Changes in Spending Because of Changed Interests and Activities

	Some expenditures have: Increased	Decreased
All widows	19%	32%
Normal former family income		
$15,000 or more	32%	49%
10,000 -- $14,999	21	38
5,000 -- 9,999	17	29
Under 5,000	17	24
Widow's estimate of how current living standard compares with former one		
Same or better	25%	26%
Slightly lower	14	38
Much lower	10	40

Table 4

Changes in Spending Patterns for Various Types of Expenditure

Area of expenditure	Spending in area has: Increased	Decreased
Recreation and social activities	6%	18%
Clothing	7	8
Food	2	11
Travel	3	5
Home repairs	3	1
Automobile	1	3
Personal care	1	1
Utilities	-	1
Child care	1	-
Children's activities	1	-
Miscellaneous	1	2
Total	19%	32%

Note: Will add to more than total percents shown because of multiple answers

Table 4 shows the proportion of all widows who said that a particular item of expense was either up or down. For example, 7 percent of all widows said that expenditures for clothing were up, frequently because they had gone to work and housedresses would no longer suffice.

Increased expenditures -- Despite the fact that these widows tended to report decreased expenditures for social and recreational activities, 6 percent said that they had increased their expenditures in this area. These widows said that rather than entertaining, they went to movies, concerts, and plays more often than they had when their husbands were alive.

A variety of other reasons were cited as causes of increases in expenditures. One widow who had nursed a husband through a 12-year illness said that she now made it a point to get out and take an annual vacation. Another said she now had to pay to have all the repairs made that her husband had taken care of himself. One widow said that she and her daughter ate many TV dinners and other quickly prepared meals that cost more than the meals she had formerly prepared. One admitted that many costs were up because she could not budget as well as her husband had.

Increased expenditures were more characteristic of widows who were raising children than of those without dependent children. The data are not shown in tabular form, but 38 percent of the widows with preschool children said that at least some of their expenditures had increased, and the proportion declines to only 14 percent among those without dependent children. Comparing the two extremes, the major differences between widows with preschool children and those who did not have any dependent children were in increased expenditures for clothing (18 percent vs. 5 percent), children's activities (8 percent vs. less than ½ of 1 percent), and child care (4 percent vs. less than ½ of 1 percent). Some of the mothers were apparently trying to compensate for the loss of the husband by doing more for their children. However, others were describing the increased costs of raising a growing family. As one widow put it, *"We spend more on food, the price of living is up, and the children are older and eat much more now."*

Decreased expenditures -- Expenditure reductions resulting from changes in interests and activities were most common in the areas of social and recreational activities, food, clothing, and travel. Decreases in spending for social and recreational activities and, to a lesser extent, travel account for the fact that the widows from upper income families were more likely to say that some expenditures had declined than were those widows whose incomes had been lower. For example, when normal family income had been $10,000 or more, 29 percent of the widows said that they were spending less for social and recreational activities compared with only 5 percent when incomes had been under $5,000. Similarly, the proportions mentioning decline in travel expenditures in the two groups were 10 percent and 2 percent respectively. Otherwise there are only minor differences between the proportions of widows from the several income levels who said that specific areas of expenditure had declined.

Reductions in expenditures for social and recreational activities and for clothing are associated with lowered standards of living. Of those who maintained their living standards, 13 percent reported spending less in the area of social and recreational activities compared with 24 percent of those who said that their circumstances had been reduced. Similarly, of those who maintained their living standards, only 4 percent mentioned spending less on clothes compared with 11 percent among those whose standards had been reduced.

Aside from these two areas, there is little or no association between reduced expenditures and reduced living standards.

Changes in shopping habits and in major expenditures -- The widows were also asked whether they had changed their shopping habits, whether they had had to postpone any major purchases or repairs, and whether they were doing more for themselves than they had before their husbands died. It is seen in Table 5 that 45 percent of the widows said they had changed their shopping habits, e.g., had become more attentive to sales and to prices than they had been. Although only two years had passed since their husbands died, 3 out of every 10 of the widows said that they had had to postpone making repairs or purchasing specific major items, such as the replacement of furniture, appliances, or the automobile. One widow in every 4 said that she now did more things for herself, such as sewing her own clothes.

Table 5

Changes in Shopping and Spending Patterns

	Shopping habits have changed	Major purchases have been postponed	Widow does more for herself
All widows	45%	30%	25%
Normal former family income			
$15,000 or more	31%	18%	18%
10,000 -- $14,999	45	31	22
5,000 -- 9,999	49	31	28
Under 5,000	51	36	33
Widow's estimate of how current living standard compares with former one			
Same or better	27%	12%	16%
Slightly lower	57	42	33
Much lower	73	55	37

It might be hypothesized that changed shopping habits, doing more for oneself, and postponing various replacement expenditures would be ways of maintaining living standards in the face of reduced income. However, as can be seen from Table 5, each of these changes is strongly associated with a reduced standard of living. For most widows, maintaining their former standards means that they do not have to make major alterations in their shopping habits, become home craftsmen, or postpone needed repairs and major purchases.

The changes in spending patterns among the half of the widows who admitted that their standards of living had declined were examined separately.

Spending patterns associated with lowered standards of living -- As would be expected from the previous analysis, when specific cutbacks were mentioned, they centered on clothing (32 percent), recreation and social activities (29 percent), and food (22 percent). As also would be expected from the previous analysis, there are substantial differences in the ways in which widows from families at different income levels said that their circumstances had declined. The difference between widows of high-income and low-income families in the percent saying that their spending habits had changed is even more pronounced than it is among the total sample of widows: At the highest income level, half of the widows said that the decline was noticeable in the area of recreation and social activities compared with only 9 percent of the widows from families whose incomes had been under $5,000. Conversely, widows from lower income families were more likely to say that they had had to reduce expenditures for food, clothing, and utilities.

The most common way, however, that the widows said their lowered standards of living were noticeable did not deal with cutbacks in specific areas. It concerned the problem of budgeting on a reduced income -- having to watch every penny, to cut out all unnecessary expenditures in every area, etc. This answer was given by almost half (46 percent) of the widows whose standards of living had lowered. Although it was frequently mentioned by widows from all income groups, those in the middle groups (normal former family income $5,000 to $14,999) mentioned it most often.

The frequency with which the various manifestations of lowered standards of living were mentioned is surprisingly similar for the widows who described their living standards as being only slightly lower and for those who said they were much lower than before. Some differences are noted for the "money management," "clothing," and "food" categories, but even these are relatively small. In other words, if there is a difference, it must be in the degree of deprivation rather than in the kind of deprivation that was experienced.

Table 6 shows the replies to the question about the ways in which the lowered standard of living had been most noticeable for various groups: for those who said that their standards were slightly lower, for those who said they were much lower, and for each of the normal former family income groups.

The following are representative answers given by widows who described their standards of living as being only slightly lower than before.

> *"Your whole life changes. You don't entertain, you don't vacation, and you can't save like you did."*

> *"I'm not suffering, but sometimes when we need clothes and I charge them I find it hard to meet the bills. I could afford a couple of luxuries before, but not now."*

> *"I don't have as many clothes, and I never watched what I spent as closely as I do now."*

"We used to take trips, which I absolutely have not been able to do. We had an active social life -- I don't have. Being alone makes a lot of difference, you can't do the things and entertain as you-used to."

"My middle boy had to go to work instead of college. I am afraid to spend because I have my little boy to raise and educate."

"I need to have work done on my house. Things that I would have had done so fast before I think about twice now that I am alone."

"I had to give up my lovely apartment. I don't go out to dinner as we did before. I can't afford things for myself that I once could."

"One thing is food. You don't have the luxury in food. I can't go out and I don't take vacations."

"I pulled in my horns and economized on clothes, household expenses and my social life."

Table 6

Manifestations of Lowered Standards of Living

	Widow says standard is		Normal former family income				
	Slightly lower	Much lower	Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more	Total
Money management ("Reduce all unnecessary spending," "Budget very carefully," "Nothing for extras," "Accumulating debts")	42%	50%	37%	48%	48%	40%	46%
Less for clothing	28	37	36	32	30	25	32
Less for recreation, social activities	30	27	9	27	32	50	29
Less for food	20	24	30	24	18	11	22
Less for travel, vacations	13	12	4	10	17	30	13
Cut back on home maintenance, repairs	11	8	10	11	10	5	9
Cut back on appliances, home furnishings	7	6	7	8	5	2	7
Cut back on utilities (keep heat low, no telephone, etc.)	4	4	7	4	4	1	4
Less for medicine, doctors	3	5	4	6	4	-	4
Had to go to work, increase earnings	4	4	3	4	4	3	4
Lack sense of security, fear of future	4	4	5	3	5	-	4
Had to move from house, apartment	2	2	2	1	3	7	2
Unable to save	2	2	1	2	2	3	2
Loss of independence	1	3	3	2	-	-	2
Less for gifts, charities	1	2	3	2	1	2	2
Have to share living arrangements	1	3	2	2	1	1	2
Cut back on insurance	1	1	1	2	-	-	1
Less for children's education	1	1	2	+	1	1	1
Miscellaneous	7	7	13	6	6	8	7
Number of cases	476	384	121	396	202	61	860

Note: Will add to more than 100 percent because of multiple answers

+Less than ½ of 1 percent

The comments suggest differences in the severity of deprivation among widows who described their circumstances as being "only slightly lower." The following comments from widows who said that their standards were much lower than before touch on many of the same themes, but some seem to contain an additional overtone of desperation.

> *"I don't have the clothes I used to have. No transportation. I don't have the right food anymore."*
>
> *"Well, I think the first is that I'm not able to meet taxes. I'm not able to do the things we did together. We went to church and were always going somewhere for the union. I didn't have to work before, and we used to take vacations to visit the children. We did things for other people then."*
>
> *"We don't have the money to go out to eat. We had a car and used to travel a bit. I just don't have the income to do a lot of things we used to take for granted."*
>
> *"When I want to go out and buy some extra things, like toys or clothes, or go into a restaurant, I get scared and I don't do it."*
>
> *"Well, I haven't been able to buy anything we didn't need for daily living. We buy just what we need to get by from day to day."*
>
> *"We have less clothes and we go less. My husband kept the repairs up on the house and kept the yard nice. We don't have those things now."*
>
> *"We have less entertainment, less household goods, and the children don't have enough clothes. It is expensive to buy shoes and clothes for four children."*

Combinations of characteristics associated with widows' living standards

The relationship between having maintained living standards and each of several variables, such as the amount of life insurance remaining after immediate expenses, was shown in Table 2. However, no process as complex as the change in living standards can be understood by examining only one variable at a time. Factors may combine in a variety of ways to produce groups of widows who were particularly advantaged or disadvantaged. In order to identify those combinations of characteristics that were most highly associated with the maintenance or reduction of living standards, a multivariate analysis was performed.*

*The method used was AID (Automatic Interaction Detector) developed by survey research specialists at the University of Michigan. See: John Sonquist and James Morgan, The Detection of Interaction Effects, Monograph 35, Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor 1964.

The analysis was based on the following 10 explanatory variables, listed in order of their ability to predict the maintenance of living standards when considered by themselves. A more complete description of these variables is contained in the Technical Supplement.

1. Widow's education
2. Widow's earnings
3. Amount of life insurance remaining beyond the immediate postdeath period
4. Duration of the husband's terminal illness
5. Family's financial assets before the husband died
6. Widow's monthly income maintenance benefits
7. Ownership of the widow's home
8. Stage in the life cycle at the onset of widowhood
9. Husband's income
10. Whether monthly income is received from family or friends

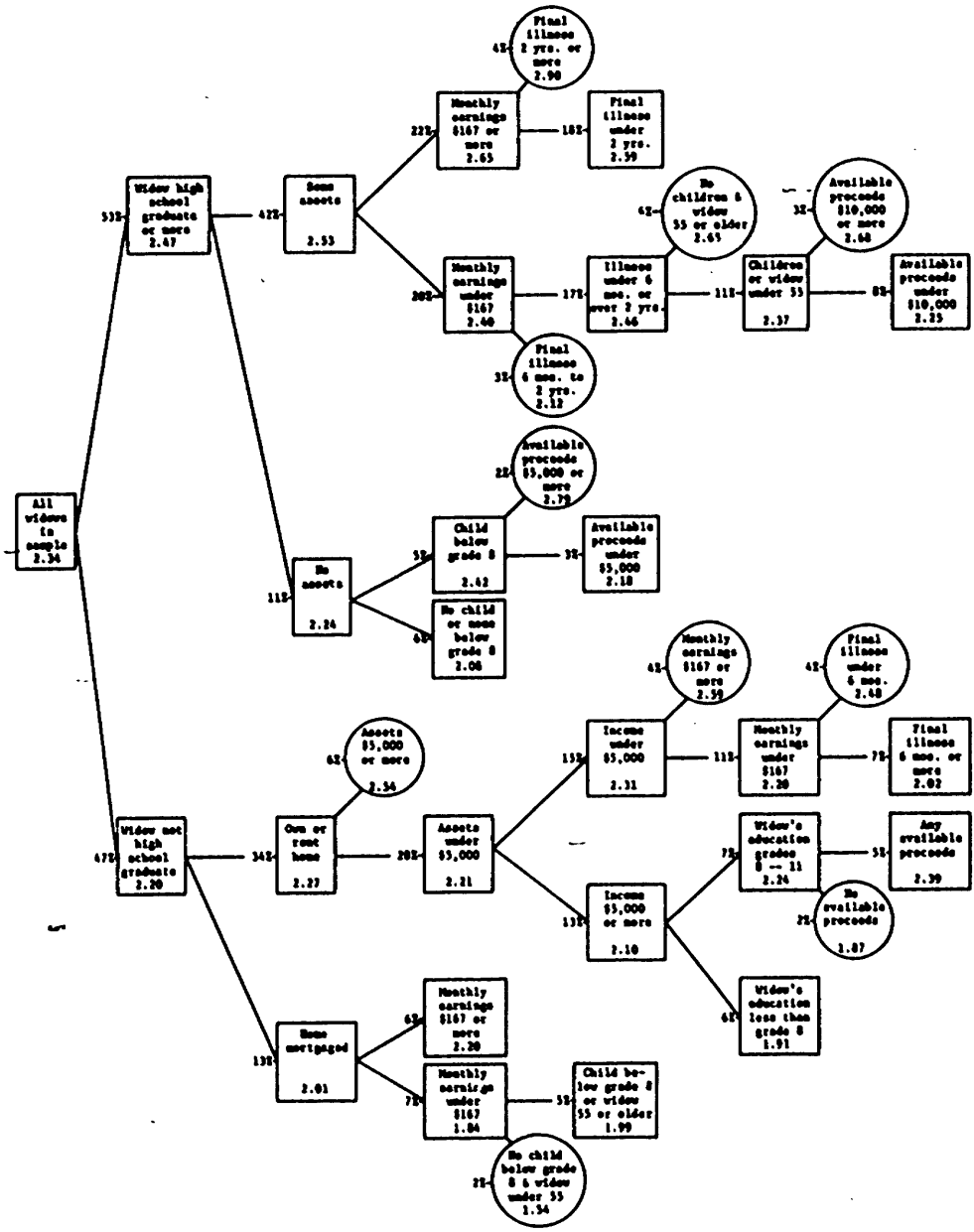
The responses to the question concerning living standards were given scores ranging from 1 through 4, with a high of 4 assigned when the widow said that her living standard had improved and a low of 1 assigned when she said that her living standard was much lower. The average score for the total sample of widows was 2.34.

Starting with the total sample, the analysis begins by examining all of the possible ways of using each of the explanatory variables to split the sample into two subgroups and selecting the "best split." The "best split" is the one that provides the greatest separation between those widows who maintained or improved their standards of living (scores of 3 and 4) and those whose circumstances had declined (scores of 1 and 2). Each of the two subgroups is divided according to the "best split," and so on until no greater separation can be achieved by adding variables.

The results are presented diagrammatically in the chart on the following page, which should be read beginning with the box at the left-hand side of the page. It shows that when the total sample is examined, the best job of predicting the maintenance of living standards is achieved when the widows who were high school graduates or better (53 percent of the sample) are separated from those who had not completed high school. The average standard-of-living score for those widows who were high school graduates or better is 2.47 compared with 2.20 for those who had not completed high school.

When the analysis was repeated for the better educated widows, the importance of having had some financial assets accumulated before the husband died became apparent.* The mean score for those with at least some financial assets is 2.53 compared with 2.24 for widows whose families had not been able to accumulate financial assets in the predeath period.

*Assets included savings, investments, and real estate other than owner-occupied homes.


All widows in sample 2.34
53%
Widow high school graduate or more 2.47
47%
Widow not high school graduate 2.20
42%
Some assets 2.53
11%
No assets 2.24
34%
Own or rent home 2.27
13%
Home mortgaged 2.01
22%
Monthly earnings $167 or more 2.65
28%
Monthly earnings under $167 2.40
4%
Final illness 2 yrs. or more 2.90
18%
Final illness under 2 yrs. 2.59
17%
Illness under 6 mos. or over 2 yrs. 2.46
3%
Final illness 6 mos. to 2 yrs. 2.12
6%
No children & widow 55 or older 2.65
11%
Children or widow under 55 2.37
3%
Available proceeds $10,000 or more 2.68
8%
Available proceeds under $10,000 2.25
2%
Available proceeds $5,000 or more 2.79
5%
Child below grade 8 2.42
3%
Available proceeds under $5,000 2.18
6%
No child or none below grade 8 2.08
6%
Assets $5,000 or more 2.54
20%
Assets under $5,000 2.21
15%
Income under $5,000 2.31
4%
Monthly earnings $167 or more 2.59
11%
Monthly earnings under $167 2.20
4%
Final illness under 6 mos. 2.48
7%
Final illness 6 mos. or more 2.02
13%
Income $5,000 or more 2.10
7%
Widow's education grades 8 -- 11 2.24
5%
Any available proceeds 2.39
2%
No available proceeds 2.07
6%
Widow's education less than grade 8 1.91
6%
Monthly earnings $167 or more 2.20
7%
Monthly earnings under $167 1.84
5%
Child below grade 8 or widow 55 or older 1.99
2%
No child below grade 8 & widow under 55 1.54

The widows who had the combined advantages of a high school education or better and assets accumulated in the predeath period differ in a variety of ways from the remainder of the sample. Although this group contains only 42 percent of the widows in the total sample, it includes 76 percent of the widows whose husbands had earned $10,000 or more a year before they died, 74 percent of those who had $10,000 or more of life insurance proceeds remaining beyond the immediate postdeath period, and 66 percent of those whose families had been able to accumulate at least $5,000 in assets before the husband died. In other words, while education may have provided some of the widows with the background and skills to deal intelligently with their new roles as family heads, the combination of education and predeath assets has defined (granting some overlap with the remaining groups) the most affluent and highly insured segment of the widowed population.

When the widow had a high school education or better and had assets accumulated in the predeath period, those with earnings of $167 or more a month have a higher standard-of-living score (2.65) than do those who either were not working or who had lesser earnings (2.40). For a small group of the widows with the higher earnings, an additional "advantage" is created when the husband's terminal illness had been of two or more years' duration. While this may appear to be an anomaly, the long-term terminal illnesses may have forced the wives to begin their adjustment before the husbands died, hence their tendency to say that their standards had been maintained in the postdeath period.

The analysis was terminated for those widows who had the advantages of education, predeath assets, and monthly earnings of $167 or more because no further division of this subgroup could produce a marked discrimination between those who had maintained their living standards and those whose circumstances had declined.*

Education and assets without $167 earnings -- Although there was overlap between the groups, widows who had the combined advantages of education, predeath assets, and earnings of $167 or more tended to be in the middle stages of the life cycle, i.e., their youngest children were of junior high school age or beyond or the widow had no dependent children and was under 55 years old. Those with the same advantages except for earnings of $167 tended to have young children in the home or to be over 54 years old. Although they received substantially higher income maintenance benefits than did the widows with the higher earnings and also had, on the average, higher amounts of life insurance remaining beyond the immediate postdeath period, the mean standard-of-living score is 2.40, just slightly better than the 2.34 for the sample as a whole.

Within this subgroup, the analysis identified two conditions that are associated with higher-than-average standard-of-living scores and one that is associated with a substantially lower one.

*See the Technical Supplement for a discussion of the criteria used in the decision to terminate the analysis for the various subgroups.

The lower standard occurs in a relatively small group whose husbands had suffered terminal illnesses of six months' to two years' duration. Data presented in Volume One showed that medical expenses and total final expenses were highest for illnesses of this duration.

When the widows whose husbands had had terminal illnesses of under six months or over two years are broken down into subgroups, it is an advantage to have been 55 years old or over (almost all received some income maintenance benefits and, by inference, had relatively low replacement income needs) or, if younger, to have had at least $10,000 in life insurance proceeds remaining after final expenses. Those younger widows with at least $10,000 available beyond the immediate postdeath period have an average standard-of-living score of 2.68 compared with 2.25 when lesser amounts remained.

Education but no assets -- Compared with the group just discussed, the widows who had the advantage of education but who lacked the advantage of assets accumulated in the predeath period also tended to be the ones with young children in the home. However, in addition to not having assets in the predeath period, they had less life insurance available beyond the immediate postdeath period.

As can be seen in the chart, within this group (i.e., high school education or better but no predeath financial assets) those widows who had preschool or elementary school children (all but one of whom were receiving some income maintenance benefits) had higher scores than did those without children in this age group. However, of those with young children (elementary school or preschool), only those who, in addition, had $5,000 or more in life insurance proceeds remaining beyond the immediate postdeath period were able to obtain standard-of-living scores that are better than average.

Less than high school education -- Almost half of the widows (47 percent) had stopped their formal education before completing high school. This proportion may seem high, but it is identical to the expected value based on Bureau of the Census data for United States women of comparable ages. The "typical" widow in the sample was almost 52 years old when her husband died and would have completed high school in 1932. At that time, a much smaller proportion of girls completed secondary school than is true today.

Perhaps somewhat surprisingly, the analysis found that the most predictive split for the widows with lesser educational attainment is on home ownership, with those who inherited mortgages experiencing greater declines in living standards (mean score of 2.01) than did those who rented their dwellings or who owned their homes outright (mean score of 2.27). When compared with the other widows who were less than high school graduates, an inspection of the data shows that those with mortgages tended to be younger (56 percent had dependent children compared with only 34 percent among the others) and to have had husbands with higher incomes. In other words, the presence of a mortgage may have defined a group with higher needs for replacement income than was true for the other widows who had not completed high school.

Given a mortgage, it helps somewhat if the widow had earnings of at least $167 a month (mean score of 2.20). If she did not have this level of earnings, it is particularly disadvantageous to have been widowed in the middle stage of the life cycle, when she had not reached age 55 but had no children below high school (mean score of 1.54). This is the stage in which the smallest amounts of income maintenance benefits are received.

Home owners or renters -- Just over 1 widow in every 3 (34 percent) had less than a complete high school education and either owned her home outright or rented. Within this group, if the family had been able to accumulate as much as $5,000 in assets before the husband died, the widows have a mean standard-of-living score of 2.54; somewhat better than average.

If she did not have this level of predeath assets, it is a advantage if her husband had earned less than $5,000 a year and she had earnings as a widow of at least $167 per month (mean score of 2.59). If she did not have this level of earnings, it is an advantage if her husband's terminal illness lasted less than six months (mean score of 2.48). If the family lacked assets of as much as $5,000 in the predeath period and the husband had had an income of $5,000 or more, the widow is at a particular disadvantage if her education had not extended beyond eighth grade or if she had somewhat more education but was left with no life insurance proceeds remaining beyond the immediate postdeath period.

* * *

In all, the multivariate analysis is able to account for only 12 percent of the variation in the standard-of-living scores. That more of the variation could not be "explained" is at least partly due to the subjective nature of the widows' perceptions of how their living standards had changed. However, it also reflects reality. To ask which widows will maintain their living standards is, in a sense, the counterpart of asking, "How much life insurance is enough?" The answer depends on many factors including the family's living standard before the husband dies, the nature and duration of his terminal illness, the debts the widow inherits and the benefits that become available to her, and the constraints on her ability to work and upon her financial responsibility. Because the combination of possibilities is almost limitless, no simple rule of thumb can suffice.

When asked how they had maintained their living standards, the widows tended to cite their sources of income and their skills as money managers. The multivariate analysis, however, shows that not only is income important but so are the conditions, such as the widow's stage in the life cycle, that help determine the need for replacement income. Further, the analysis points to the importance of reserves, either in the form of assets accumulated before death or received from life insurance. Finally, it points not only to the beneficial effects of having a good education but also to the potentially harmful effect of the husband's terminal illness upon the widow's well-being.

Chapter 3

The Children

The husband was lost through premature death at a time when almost half of the families (47 percent) still had children to raise and educate. In these families the typical widow was left with two children (median), and 1 in every 5 was caring for at least four. As was mentioned in Volume One, 92 percent of all the children were still living with the mother two years after the death of the father, and those who had left home, almost without exception, had been in college or in their final years of high school when the father died and presumably had left to start homes of their own or to fulfill their service obligations.

Changes in education plans

As one measure of the financial impact of the death upon the lives of the children, each of the widows was asked about the plans she and her husband had had for their children's education and whether those plans had changed because of her husband's death.

Three out of every 4 said that they had hoped that at least one of their children would receive a college degree, including 2 percent who talked of advanced degrees. When only those families in which the oldest child had yet to graduate from high school are considered, 71 percent said that they had hoped for a college degree. Having had college plans, as would be expected, was related to the income level of the family, with the proportion increasing from 57 percent when normal income had been less than $5,000 to 90 percent when it had been $15,000 or more. There was no relationship, however, between college plans and the number of children in the family or the grade in school of the oldest child.

In almost one fourth of the families with children (23 percent), the oldest child was enrolled in college or other training beyond high school at the time the husband died. When these mothers were asked whether the death had affected the children's education, over 1 in every 4 (26 percent) said "yes." Similarly, when the oldest child had been in grades 8 through 12 at the time of the death, 25 percent of the widows said that their educational plans had been affected. When the oldest child had yet to reach eighth grade, only 20 percent of the widows believed that the death would have an effect upon their plans for their children's education.

There can be a variety of reasons other than financial why a widow might say that her husband's death had not had an effect on her children's education. For example, the fact noted above that widows with younger children were less

likely to say that their education would be affected suggests that some may have been unable to anticipate the ultimate impact of the loss of the husband's income.

Another reason is suggested by the fact that modest plans were less likely to be affected than were those that were more ambitious. When the family had planned to send one or more of their children to college, 28 percent said that their children's education would be (or had been) affected compared with only 6 percent when there were no specific plans or when the family had not expected to send a child beyond high school. Furthermore, even when college was planned, some families may have expected that the children would have to bear most of the costs themselves, even if the husbands had lived.

The survey showed, however, that there was a direct association between the disruption of educational plans and the widow's financial situation. When the widow said that her former standard of living had been improved or maintained, only 12 percent said that their children's educational plans had been altered compared with 27 percent when standards were slightly lower and 46 percent when the widows described their living standards as being much lower than before.

Use of life insurance to implement plans -- The widows were also asked whether any of the proceeds from their husband's life insurance would be (or had been) used to help finance their children's education. Overall, 35 percent of the widows with children said that some life insurance would be (or had been) used, and the figure rose to 40 percent among widows who had children in college or other training beyond high school at the time the husband died. When a widow said that life insurance would be (or had been) used to help pay the costs, she was more likely than the others to say that the plans she and her husband had had for their children's education has not been altered.

Table 1 shows that when the oldest child had been a student beyond the high school level at the time the father died, only 18 percent of the widows who had used (or would use) life insurance to help pay the costs said that their children's education had been affected. When life insurance had not been (or would not be) used, 32 percent reported changes in plans.

Table 1

Percent of Widows Saying Children's Educational Plans Would Be (Had Been) Altered According to Use of Life Insurance to Help Pay Costs and Grade in School of Oldest Child

Grade in school of oldest child	Children's education would be (had been) altered: Life insurance to help finance education	Children's education would be (had been) altered: Life insurance not to help finance education[a]
College or other training beyond high school	18%	32%
Grade 8 through grade 12	17	28
Preschool through grade 7	13	24

[a]Includes families in which the husband was not insured, those in which all proceeds were used to meet final expenses, and those with some proceeds remaining beyond the immediate postdeath period.

The same relationship holds for families with younger children (13 percent vs. 24 percent) despite the fact that here those who would not use life insurance include both the families expecting to send a child beyond high school and those with more modest educational plans.

How plans changed -- The widows were asked about the ways in which their children's education had been, or would be, affected by the husbands' death. Although the answers shown in Table 2 are classified by the grade in school of the oldest child at the time of the death, it should be borne in mind that the widows were describing the effects of the death on all of their children, not necessarily the oldest. The families most likely to have been affected were those in which the oldest child had been enrolled in some form of training beyond high school at the time of the death. While this category contains families in which the child was in business school or other vocational training, in over 9 in every 10 of these families the child was in college. Of the widows in this category, 12 percent said that the change involved the method of financing their children's education. When the method was specified, it was most typically that the child would have to work more to pay for his education -- although some mentioned loans and other nonscholarship aid and a few mentioned scholarships. However, it is also seen that 1 widow in every 10 said that the death had caused one or more of her children to interrupt or terminate his education.

Most of the widows whose oldest children were in grades 8 through 12 at the time of the death also were in a position to assess the impact of the death upon their children's education. Again, 12 percent mentioned altered financing. However, 7 percent of the widows said that because of the death their children would not go beyond high school and 2 percent said that a child had dropped out of high school following the death.

Among widows whose oldest children had yet to reach eighth grade at the time of the death, 14 percent recognized that altered financing would be required if their children were to go as far in school as the families had hoped. However, compared with those who had children of high school age, the mothers of the younger children were less likely to believe that the death might mean a reduction of goals.

Widows from families whose incomes had been $15,000 or more a year were somewhat less likely than were the remainder of the sample to say that the death had affected their children's education (15 percent vs. 26 percent), and the data suggest that when income was less than $10,000, there was a somewhat higher probability that the widows would say that their children's education had been interrupted or that they would not go beyond high school. However, there was not a marked relationship between the families' former income and the way the widows said the effects on education would be (or had been) manifested.

Table 2

Effect of the Death on the Children's Educational Plans According to Grade in School of Oldest Child

	Grade in school of oldest child at time of husband's death		
	College or other training beyond high school	Grade 8 through grade 12	Preschool through grade 7
% of widows saying that plans for children's education had been affected by the husband's death	26%	25%	20%
Ways in which plans were adversely affected:			
Education terminated or interrupted			
Did not continue college	9%	1%	-
" " " other training beyond high school	1	+	-
" " " high school	-	2	+
Total education terminated or interrupted	10%	3%	+
Goals lowered			
Will (did) not go to professional or graduate school	+	-	-
" " " " " vocational school or junior college	1%	1%	+
" " " " beyond high school	1	7	3%
Total goals lowered	2%	8%	3%
Expenses reduced			
Will go (went) to a less-expensive college than planned	1%	2%	+
" " " " public high school rather than private or parochial school	2	1	1%
Total expenses reduced	2%	3%	1%
Altered financing			
Child does (will) depend more on own earnings	7%	5%	6%
" " " need loan or other aid	2	3	1
" " " " scholarship	1	+	1
Not specified	3	4	6
Total altered financing	12%	12%	14%
Miscellaneous adverse effects	-	1%	-
Death will have advantageous effect on plans	-	+	1%
Number of cases	186	474	313

Note: Because of multiple answers, percents within categories may add to more than the subtotals and the subtotals add to more than the percent of widows saying their plans were affected.

+Less than ½ of 1 percent

Other financial effects on the children

The widows with children also were asked, "Besides education, have your children's lives been affected in any way because of your financial situation since your husband's death?" One in every 4 (24 percent) said "yes." As can be seen from Table 3, the proportion of mothers who said that their children's lives had been affected in ways other than education is also associated with the

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maintenance of living standards, increasing from 11 percent when the family's living standard had been maintained to 49 percent when the family's circumstances were much lower.

In describing how their children's lives had been affected by their financial situations, the widows frequently were unspecific, citing general deprivation in a variety of areas. One mother said, *"The realization that Daddy's not here. They don't ask for things because Daddy's paycheck isn't here every month."* Another said, *"When they ask me for a bicycle, or a big gift, or more clothes, or [money for] going out, I don't give it to them. Maybe we wouldn't buy the bicycle if my husband were here, but now I feel I'm depriving them."* When specific effects were mentioned, they tended to be in the areas of the children's social and recreational activities, including vacations, and in their dress. In the recreational area, the widows were concerned not only about the children having to curtail their activities but also about their own inability to do things with their children, such as taking them to dinner. Recreation and clothing, together with general deprivation, account for much

Table 3

Ways Other Than Education That Children's Lives Were Affected by Widow's Financial Situation According to Maintenance of Standard of Living

	All widows with children	Widow's estimate of current living standard compared with former one: Same or better	Slightly lower	Much lower
% of widows saying that children were affected by the death other than in plans for education	24%	11%	27%	49%
Ways in which children were adversely affected:				
Do without -- no specific reference (e.g., "Do without so many things," "Can buy only necessities," etc.)	8%	3%	8%	21%
Social activities, vacations curtailed	6	1	9	11
Cannot dress as well	5	1	5	15
Went to work to support (or help support) self or family	3	2	4	3
Cannot have an automobile	1	+	4	1
Alone more because widow is working	1	-	1	3
Less medical and/or dental care	1	+	1	3
Cannot eat as well	1	+	+	3
Lower school grades because of working	1	+	+	1
Marriage postponed	+	-	1	1
Must live with others	+	-	+	1
Miscellaneous harmful effects	2	1	3	3
Effects were beneficial	1%	2%	-	2%
Number of cases	988	474	309	199

Note: Will add to more than the total percent of families in which children were affected other than in plans for education because of multiple answers

+Less than ½ of 1 percent

of the difference between the widows who had maintained their living standards and those who described their standards as being much lower. The only other specific effect mentioned by as many as 1 percent of the widows with children was that one or more of the children had gone to work to help support himself or the family.

Relatively few widows admitted that they had had to cut back on more basic expenditures, such as food or medical care, although occasionally one did. The mother of a 12-year-old son, for example, said *"He does not have the things the other kids do. I do my best, but he always needs clothing and it's so expensive. He's not eating as well because I don't have the money to spend on food."* This widow fit one of the sets of conditions that the multivariate analysis (see Chapter 2) shows to be associated with a lowered standard of living. That is, she was not a high school graduate, her home was mortgaged and, though she received $221 a month from social security, she had an income of only $65 a month from her own earnings. The husband had died as the result of a heart attack when he was 51 years old and the family's income that year had been $10,500. While he undoubtedly was earning less when he purchased his life insurance, the husband owned but a single $1,000 policy -- the agent had sold a $1,000 policy on the wife at the same time -- and all of the proceeds had been used to help pay $1,300 in funeral bills.

Total financial effects -- When the educational and other effects were combined, it was found that just under 4 out of every 10 of the mothers (37 percent) said that their financial situations had had an impact on the lives of their children. For a few of these families, the deaths had brought an improvement in the financial situation and the widows found they could do more for their children; however, the effect was overwhelmingly negative. It also was strongly related to the maintenance of living standards. In families in which the widows said they had maintained their standards, only 20 percent said that their financial situations had adversely affected their children's lives compared with 43 percent when standards were slightly lower and 71 percent when the widows described their circumstances as being much lower than before.

Because life insurance is one of the factors associated with the maintenance of living standards, it is not surprising that it is also related to the proportion of families in which children's lives were affected. As may be seen in Table 4, as the amount of life insurance proceeds available to the widow in the form of liquid savings or investments increases, the proportion of widows who said that their children's lives were affected shows a steady decline.

No systematic relationship was found between the proportion of families in which children were affected and either the wife's stage in the life cycle at the onset of widowhood or the number of children in the family. Except for families whose incomes had been $15,000 or more a year -- widows from these families were somewhat less likely than the others to say that their financial situations had affected their children's lives -- there was no relationship between the family's normal income and the proportion of families with children affected in any way by the widow's financial situation.

Table 4

How Children's Lives Were Affected by the Widow's Financial Situation According to Amount of Life Insurance Proceeds Saved or Invested

	All widows	No proceeds saved or invested or no insurance	Life insurance proceeds saved or invested: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Way children affected:						
Education	23%	30%	25%	22%	16%	10%
Other ways	24	28	25	21	16	12
Total with children affected	37%	46%	38%	33%	26%	20%
Children not affected	63	54	62	67	74	80
	100%	100%	100%	100%	100%	100%
Number of cases	982	172	238	126	79	121

Chapter 4

Work

The largest single source of income for the surviving families came from the widows' own earnings. Because work so often is the response to pressing financial needs and because it can also provide at least a partial answer to the most common problem of widowhood -- that of loneliness -- the work histories of the women during their first two years of widowhood was examined in some detail.*

Just under half of the widows (47 percent) had worked, either full or part time, during the year that ended with the husband's death. Two years later, 56 percent reported income from their own earnings.** This net difference of 9 percentage points, however, grossly underestimates the full impact of the death upon the work experience of the widows.

In measuring the economic impact of premature death, it has been seen that the time of physical death is not always an appropriate reference point. Half of the husbands had shown one or more signs of income impairment before they died; that is, they were not employed or they were receiving some form of disability or retirement income, or they had been ill or disabled for at least six months. Table 1 shows that in every age group, the proportion of wives who were working was noticeably higher in families in which one or more of these signs of income impairment was present than in those in which there were no signs of impairment. Much of this increase may be the result of wives entering the labor market before the husband's physical death but after the onset of "economic death." If all of the families had resembled the unimpaired group, only 41 percent of the wives would have worked during the final year of the husband's life and the net increase in the proportion of wives with work experience between the predeath and postdeath periods would have been 15 percentage points rather than 9.

*Throughout this report it is assumed that the changes between the predeath and postdeath periods are the result of the death of the husband. However, some changes might be expected if we had aged a sample of surviving families by two years. In terms of work histories, the changes would reflect not only the general level of employment at the two points in time but also those resulting from the normal flow of wives into and out of the labor market. Restricting the study to the two years following the husband's death, however, minimizes the effects of time as a producer of change in comparison with the death of the husband as the producer of change.

**For the 5 percent of the widows who had remarried, work experience in the postdeath period refers to the period before remarriage.

Table 1

Percent of Wives Employed During Husband's Final Year According to Impairment of the Husband's Income and Wife's Age at Onset of Widowhood

Wife's age at onset of widowhood	Husband's income impaired	Husband's income not impaired
Under 35	41%	30%
35 -- 44	52	45
45 -- 54	56	51
55 -- 64	50	34
65 or older	30	*

*Only 12 widows in this category

The overall difference between the predeath and postdeath periods reflects only the net change in the proportion of the widows with earnings. While some of the widows went to work following the deaths of their husbands, others stopped working. In addition, some changed jobs; some changed from part-time to full-time employment, or vice versa. When the widows had changed jobs, there was a trend toward increased intensity of employment; that is, 50 percent of the job-changers had been working full time before their husbands died compared with 76 percent working full time afterward.

The major changes in work experience between the predeath and postdeath periods are summarized in Table 2. It is seen that just over 1 widow in 3 (35 percent) had experienced some change in employment status during her first two years of widowhood.

Table 2

Shifts in Employment from the Predeath to the Postdeath Period

	Percent of all widows
Continued in same job held before husband's death	29%
Changed jobs	9
Started working	18
Stopped working	8
Did not work at either point in time	36
	100%

Because the widows who had stopped working after their husbands died run counter to the trend toward increased employment, they were asked why they had stopped. Among those who had stopped, there was a disproportionate share from families in which there were preschool or elementary school children and from those in which the widow was at least 60 years old at the onset of widowhood.

These conditions are reflected in their answers. As can be seen from Table 3, one third said that they had stopped because of their health and 12 percent said that they had reached retirement age. Almost one fourth (24 percent) said that they had stopped working to care for their children. Social security and other survivor or pension benefits had enabled many of these widows to stop working, but only 4 percent said that they had stopped because they thought it was more advantageous to receive those benefits than to work.

Twenty-two percent gave answers that fell into the miscellaneous category. About half of these were references to involuntary cessations of work, that is, the widow had been laid off because a business had closed or had cut back on employment. Some quit because of job dissatisfaction, while a few said that they had stopped because they needed to rest after caring for their husbands through the prolonged terminal illnesses.

Table 3

Working Wives' Reasons for Stopping Work After Their Husbands Died

Poor health	33%
To care for children	24
Reached retirement age	12
Remarried	6
Had stopped before husband's death to care for him	6
More advantageous to receive social security or other survivor benefits	4
To further education	1
Miscellaneous	22
Number of cases	156

Note: Will add to more than 100 percent because of multiple answers

One out of every 3 of the wives (33 percent) who had not been working at the time of the husband's death had gone to work afterwards. Although few went to work immediately (i.e., within the first month of widowhood) 40 percent had done so within the first six months. An almost equal number (41 percent) were able to postpone going to work until the second year of widowhood.

The typical, or median, widow who went to work was 50 years old at the onset of widowhood, and almost three fourths (72 percent) were between 45 and 64 years old. The remaining 28 percent were under 45 -- none of the women who were 65 or older at the beginning of widowhood went to work. Almost all of those who went to work (90 percent) said that they had worked at some time during their lives, but only one third said that they had worked in the previous 10 years.

Though the question was not asked, the data suggest that about half of the wives with previous work experience had not worked since the early years of their marriages. Because of their ages and the lack of recent work experience, it might be anticipated that the widows would have had difficulty finding jobs; yet only 15 percent said that they had encountered any problems. Although the older widows and those whose previous work experience was most remote were the ones most likely to have encountered problems, they did not differ markedly from the others. For example, of those who were under 45 years old, 9 percent said that they had had problems finding jobs compared with 18 percent of those who were 55 or older. Similarly, of those who had worked within the previous 10 years, 14 percent had had problems finding jobs compared with 19 percent of those who had not worked for at least 20 years. (It is possible, of course, that age and lack of experience had caused some widows not to seek employment or to seek and not find it; the question was asked only of those who had actually gone to work.)

While neither age nor lack of recent work experience had proved to be a handicap to the large majority of the widows who had taken jobs, these factors were the most common sources of the problems that were encountered. Other factors that caused problems for some widows were their health, lack of transportation, lack of facility in English, preemployment tests, and the unavailability of part-time jobs. Several widows said that they had had to settle for jobs that they felt were beneath their qualifications.

Husband's income

In addition to actual former family income and former family income for a "normal" year, the survey obtained information about the husband's own income before he died -- the amount that death took from the family income.

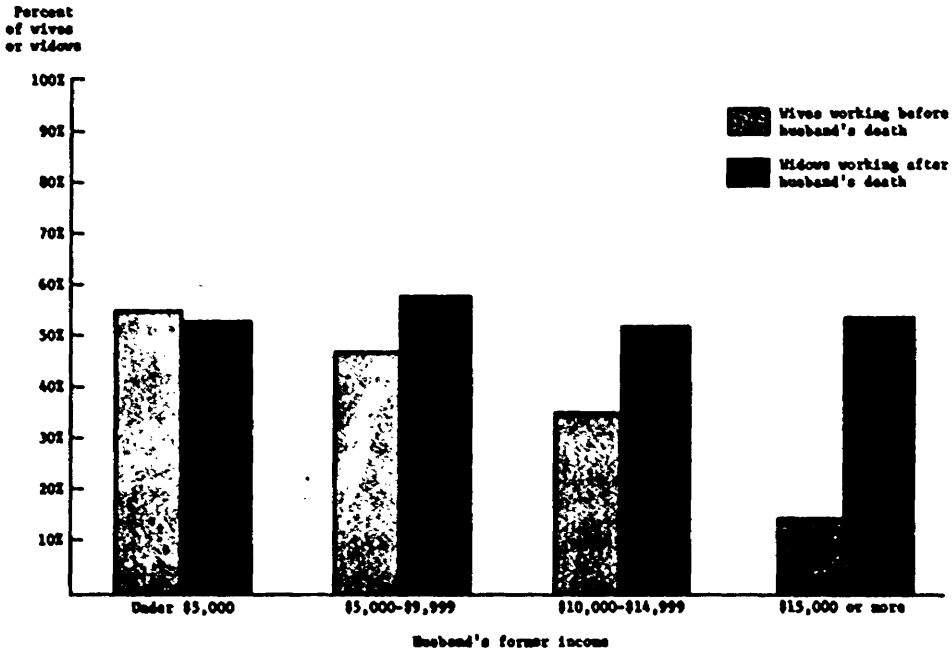
Before the death of the husband, there was a strong inverse relationship between the husband's income level and the employment status of the wife. The decline in the proportion of wives at work as income increases is the type of relationship usually found in studies of working wives and reflects the fact that wives go to work primarily in response to their families' economic needs.*

It is seen in Figure 1 that with the loss of the husband's income, a disproportionately large share of the widows from upper income families went to work. When the husbands had had incomes of $15,000 or more a year, only 15 percent of the wives worked in the predeath period compared with 55 percent at work postdeath -- an increase of 267 percent. When the husbands had earned less than $5,000, 56 percent of the wives were working predeath while in the postdeath period the proportion had decreased to 54 percent.

*U.S. Department of Labor, Bureau of Labor Statistics: Special Labor Force Report No. 59.

Figure 1

Percent of Widows Working in the Predeath and Postdeath Periods According to Husband's Former Income



The net result of these changes is that there is no relationship between what the husband's income had been and the probability that the widow was working in the postdeath period.

Stage in life cycle

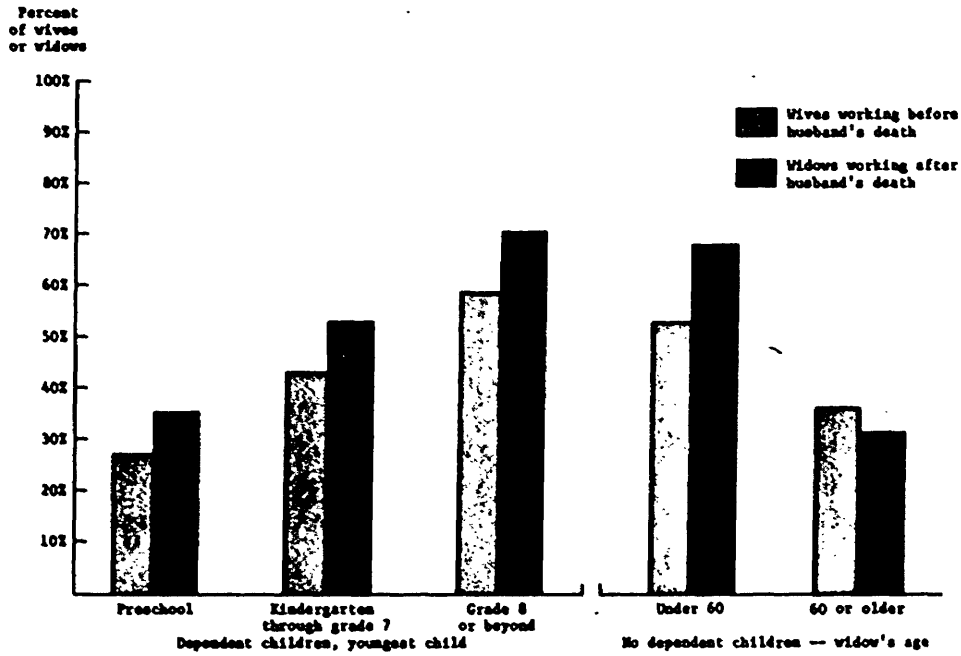
The relationship between work and the wife's stage in the life cycle at the onset of widowhood is also a familiar one. The proportion of working wives is highest in the middle years, when the youngest child is beyond elementary school age or when the children are no longer dependent and the wife is relatively young. They tend not to work when there are young children in the family, particularly preschool children, or after the wife reaches age 60.

After the death of the husbands, there was an increase in the proportion of widows at work in each of the life cycle groups except for the very oldest. Unlike the relationship between husband's income and work, the relationship be-

tween life cycle and work not only is maintained in the postdeath period but is even somewhat accentuated (see Figure 2).

Figure 2

Percent of Widows Working in the Predeath and Postdeath Periods According to Stage in Life Cycle at Onset of Widowhood



While work may often be a response to economic necessity, advanced age or the presence of young children are counterpressures. This can be seen more clearly when the effects of income and life cycle upon the work histories of the widows are examined jointly. As can be seen from Table 4, within each life cycle group, the proportion of widows who were working in the predeath households is highest when the husband's income is lowest. Within an income level, the proportion at work in the predeath period continues to be lowest when there were no dependent children and the wife was 60 years old or over and, although the details are not shown, when there were preschool children in the home.

In the oldest life cycle group, the net decrease in the proportion at work following the death of the husband holds in the two income groups having enough cases to examine. There was also a net decrease among lower income families with dependent children. While all other groups showed net gains in the proportions of widows at work, the increase was greatest among those families in

which the husband's income had been at least $10,000. Among these higher income families, the net gain in employment was as great for those with preschool children (a net gain of 25 percentage points) as for those in which the youngest child was of junior high school age or older (a 26 percentage point gain).

Table 4

Percent of Widows Working in the Predeath and Postdeath Periods According to Husband's Former Income and Stage in Life Cycle at the Onset of Widowhood

Stage in life cycle at the onset of widowhood	Husband's former income: Under $5,000 — % of wives working predeath	Under $5,000 — % of widows working postdeath	$5,000-$9,999 — % of wives working predeath	$5,000-$9,999 — % of widows working postdeath	$10,000 or more — % of wives working predeath	$10,000 or more — % of widows working postdeath
Dependent children	62%	58%	48%	57%	27%	51%
No dependent children -- widow's age:						
Under 60	62	71	52	70	32	59
60 or older	40	22	39	34	-	-

Survivor benefits

As would be expected from the preceeding analyses, the availability of survivor benefits in the form of monthly income payments was related to the change in the proportion of widows at work between the predeath and postdeath periods.*

Table 5 shows the proportion of wives at work in the predeath households and the proportion of widows at work according to the husband's former income and the amount of monthly survivor benefits received. It is seen that if the widow received some monthly income benefits and if her husband had an income of less than $5,000, there was a net decline in the proportion of widows at work. For all others, there was a net increase in the percent working and the higher the husband's income had been, the greater the increase in the proportion of widows at work.

Table 5

Percent of Widows Working in the Predeath and Postdeath Periods According to Amount of Monthly Income Survivor Benefits Received and Husband's Former Income

Husband's former income	Monthly survivor benefit payment: None — % of wives working predeath	None — % of widows working postdeath	$1-$249 — % of wives working predeath	$1-$249 — % of widows working postdeath	$250 or more — % of wives working predeath	$250 or more — % of widows working postdeath
$10,000 or more	-	-	32%	55%	19%	48%
5,000 — $9,999	61%	79%	47	61	37	38
Under 5,000	72	83	47	38	51	36

*These benefits include social security, veterans' benefits, and income settlements of the husband's retirement plan and life insurance.

No evidence was found that the amounts of life insurance benefits received in the form of lump-sum payments were related to the proportions of widows who were working. This is due in part to the fact that as the amount of income required to maintain the former standard of living increases, a progressively smaller share is provided by monthly income survivor benefits. Although the total lump-sum amounts of life insurance received tend to increase with increasing need for replacement income and, therefore, might reduce the motivation to work, it is seen that most widows tend not to think of their proceeds as a source of capital for meeting routine living expenses. It appears that as the gap between monthly income survivor benefits and income required widens, there is increased motivation to work as a means of providing the income necessary to maintain a semblance of former standards.

To test the relationship between the amount of proceeds received and subsequent work experience, it would be necessary to compare widows who had equivalent background characteristics and needs for replacement income but who differed in the amount of life insurance received. A sample of 1,744 widows does not permit this degree of control.

Reasons for working

Not all of the widows who eventually would go to work had done so within the first two years of widowhood. As a measure of their intentions, the widows who were not working were asked whether they planned to work at some time in the future. Of these not working, 29 percent said that they did anticipate going to work, 16 percent were not sure, while 55 percent said that they did not expect to work. As a result, some 75 percent of all the widows either were working at the time the survey was conducted, were planning to enter the job market, or were not sure. For 1 widow in 4, work was neither a current reality nor a future prospect.

As would be expected, the widows who planned either to work or who were not sure were concentrated among the families with young children. There was also a tendency, though less marked, for the future workers to come from homes in which the husbands' incomes had been the highest.

It is impossible to know how many of the widows who expected to go to work would have done so even if their husbands had lived. Many undoubtedly would have gone to work at some time regardless of what happened to the husband. While the full impact of death upon the work experience of the widows cannot be stated, the net impact over their lifetime will be greater than the net difference of 9 percentage points between the predeath and postdeath periods that was described in the initial paragraphs of this chapter.

In discussing the need for replacement income, the proportion of widows who, because of economic necessity, are involuntary participants in the labor market is of more importance than is the absolute percentage who are working. To get an estimate of why they worked, the widows were asked, "Many widows work because they need the money to help support themselves and their families. Is this one

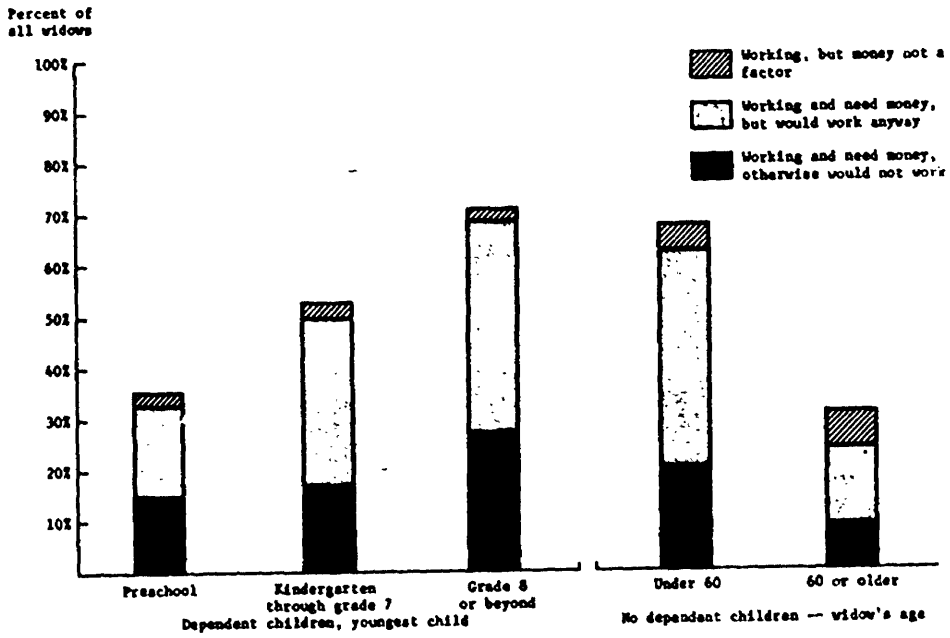
of your reasons for working?" Only 7 in every 100 said that money was not a factor. The 93 percent who said that money was indeed a reason were asked, "Do you think you would continue to work even if you didn't need the money?" A similar set of questions was asked of those who planned to go to work or who were not sure.

Of the widows who were working, 1 in every 3 was a reluctant or involuntary worker; that is, they said that money was a reason for working and that they would quit if the need were eliminated. As can be seen in Table 6, the widows who went to work did not differ appreciably from those who had been working before their husbands died. Of those with plans to work, 4 in every 10 indicated that they would prefer not to, while 15 percent said that money would not be a factor if they decided to work.

Among all the widows in the study, approximately 1 in every 5 (19 percent) could be classed as a reluctant worker. The work attitudes of the women who were widowed at various stages in the life cycle are shown in Figure 3. The

Figure 3

Money as a Reason for Working According to Stage in Life Cycle at Onset of Widowhood



proportions of each group working reluctantly follow the total proportions at work -- increasing to a peak of 27 percent among widows in their middle years and then declining. However, the proportion of workers who would prefer to quit if there were other income is highest among those who had preschool children in the home (42 percent) and lowest among those 60 or older without dependent children (28 percent). At no stage in the life cycle did a significant proportion of widows say that money was not a factor in their decisions to work, although there is some increase in nonfinancially motivated work at the older age levels.

Table 6

Money as a Reason for Working

	Continued working from predeath period	Went to work	Total currently working	May work in future
Need money, otherwise would not work	33%	33%	33%	40%
Need money, would work anyway	61	57	60	45
Money not a factor	6	10	7	15
	100%	100%	100%	100%
Number of cases	669	271	940	378

Figure 4

Money as a Reason for Working or Planning to Work According to Stage in Life Cycle at Onset of Widowhood

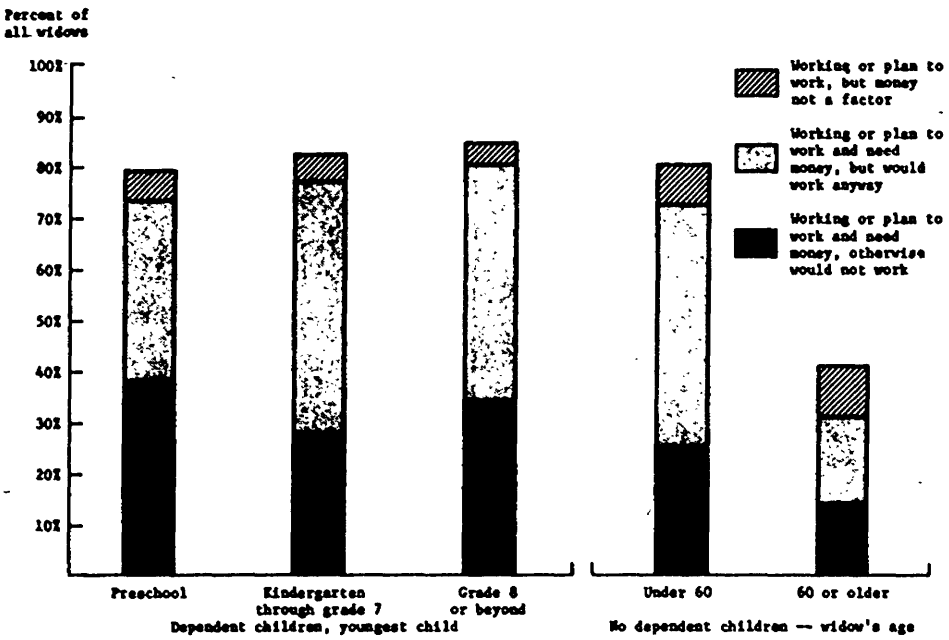


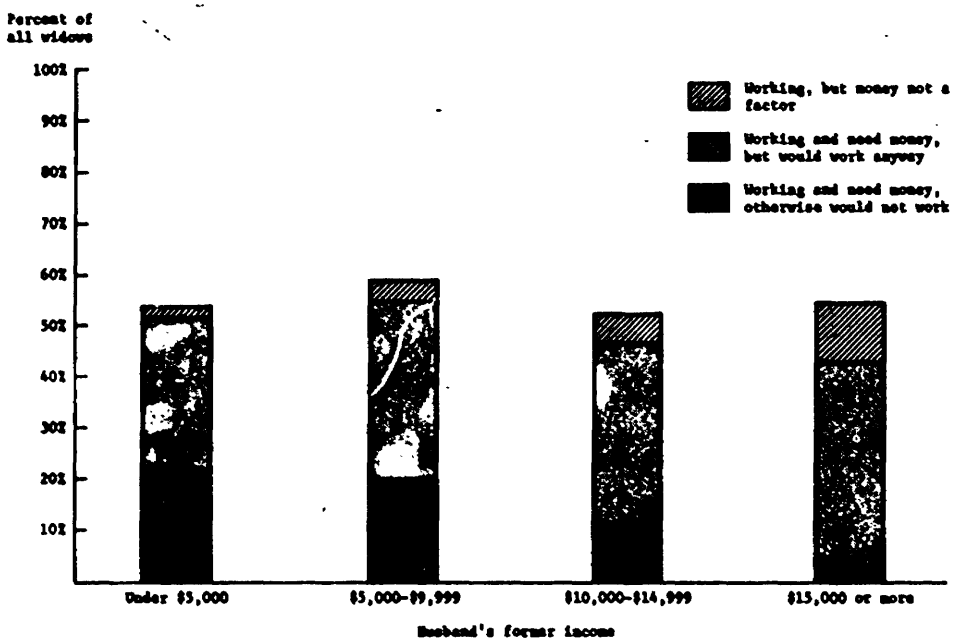
Figure 4 shows the work attitudes for the various life-cycle groups when the attitudes of widows currently working are combined with those of the widows who expected to work (or who were not sure). This should not be interpreted as a projection of the percent of widows who will be working at some future date because some of the plans will not be realized and because some of those currently at work may leave the job market or change their attitudes toward work.

As can be seen, at each stage in the life cycle except for the very oldest, at least 8 in every 10 of the widows either were working or had some expectation of going to work. For all but a small minority, financial need played a part. If financial need were eliminated, a substantial minority of widows, particularly if there are children in the home, would prefer to leave or not to enter the labor market.

The relationship of the husband's income level to the work attitudes of the widow is shown in Figure 5. While the proportion of widows working is essentially unrelated to the husband's former income, the proportion of widows working reluctantly is. When the husband's income had been less than $10,000, just

Figure 5

Money as a Reason for Working According to Husband's Former Income



over 1 in every 5 of the widows said that she was working only because of economic necessity. This compares with but 4 percent of the widows of men in the higher income bracket. Also, a larger proportion of the widows of upper income husbands than was true of widows of husbands with lower incomes said that money had not motivated their decisions to work.

A similar picture emerges when the widows currently at work are combined with those who might become workers. In the top husband's-former-income bracket, the proportion of widows who were reluctant workers, current or anticipated, was 15 percent compared with almost 3 in every 10 (29 percent) among those whose husbands had been below the $10,000 income level. Conversely, a higher percentage of the upper income widows said that the decision to work would not be dictated by financial need.

More detailed tables showing the relationship between income, life cycle, and the widows' work experience and attitudes are contained in the Technical Supplement.

Occupation

A variety of factors may account for the fact that when they worked, a smaller proportion of the widows of upper income husbands could be classed as reluctant workers than was true of those whose husbands had earned lesser amounts. It may be due in part to underlying differences in attitudes toward work as a proper activity for women or in willingness to admit that work was a necessity. At least part of the difference, however, can be attributed to the kinds of jobs the widows held.

Table 7 shows the occupational distribution of widows of husbands of various income levels. Compared with the widows of men who had had incomes of less than $5,000, the widows of men with incomes of $10,000 or more were more likely to hold professional or clerical jobs and were less likely to be operatives or service workers.

Table 7

Widow's Occupation According to Husband's Former Income

Widow's occupation	Husband's former income: Under $5,000	$5,000-$9,999	$10,000 or more	Total
Professional or semiprofessional	5%	10%	20%	11%
Executive or semiexecutive	4	4	6	5
Clerk	25	38	44	37
Sales person	4	11	11	9
Foreman, craftsman, or operative	24	17	6	15
Service worker or laborer	38	20	13	23
	100%	100%	100%	100%
Number of cases	408	473	150	1,101

As a further refinement, the proportion of working widows who would prefer to quit was calculated controlling on the husband's income and the widow's occupation (see Table 8). Within a given occupational category, it can be seen that there is still a strong tendency for the proportion of widows working reluctantly to be highest at the lower income levels. However, within a given income level, there are also differences between occupations. Regardless of income, widows in jobs that fall under the heading of professional or executive are least likely to say that they would stop working if the need for income were eliminated, while those working as foremen, craftsmen, or operatives are most likely to say they would quit. An unexpected finding was the relatively low proportion of reluctant workers in service occupations (although laborers are included, almost none of the widows held jobs in the "laborer" category). There is no ready explanation of this trend other than the observation that this category includes babysitting and, perhaps, similar types of employment that could be arranged at the convenience of the widow.

Table 8

Percent of Working Widows Who Would Prefer to Stop Working According to Husband's Former Income and Widow's Occupation

Widow's occupation	Husband's former income: Under $5,000	$5,000-$9,999	$10,000 or more
Professional, semiprofessional, executive, or semiexecutive	32%	26%	5%
Clerk or sales person	41	32	16
Foreman, craftsman, or operative	53	47	-
Service worker or laborer	36	26	-

Vocational training

For many of the widows who had been working when their husbands died, for those who went to work, and for those yet to enter the labor market, vocational training could be important not only to help them qualify for better paying positions but, equally important, to prepare them for the kinds of jobs that provide the most satisfying careers. Yet of all the widows in the study, only 10 percent said that they had taken any form of training in the two years that they had been widowed -- 7 percent said that they had completed courses and 3 percent said that they were currently enrolled.

Among those who had gone to work following the husband's death, 1 in every 5 (20 percent) reported further training. This compares with 10 percent among those planning to go to work, 9 percent among those who continued at work through the postdeath period, and 4 percent among those with no plans to enter the labor market.

In terms of biographical characteristics, widows who had taken some form of training tended to be better educated (19 percent of those with at least some college training versus the 10 percent in the total sample), to be young (17 percent of those under 45 years old), and to be from the higher income families (13 percent of those whose former family incomes had been $10,000 or more).

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The relatively small proportion of widows who had taken courses may only partially reflect the demand for vocational training. While many of those who went to work may have felt no need for additional training, two thirds of these widows had not been in the labor market for at least 10 years and it seems probable that some would have liked "brush-up" or new training, but felt that they had to go to work immediately. Similarly, while it may have been through preference that some of the 29 percent of the widows were in the same jobs that they had held as working wives, others may have felt that they could not afford to stop working while they upgraded their skills.

The ultimate objective of a program of income maintenance is not to predetermine how a widow should live but, rather, to provide her with funds so that she has some freedom of choice in planning her life and that of her family. The data presented in this chapter have indicated that work, rather than being freely chosen, too often has been forced upon the widow by economic necessity, perhaps even before she has had an opportunity to develop the skills that would enable her to work most effectively.

Chapter 5

Life Insurance: How It Is Used and What It Means

Life insurance is a complex product, evolving to meet a variety of human needs. For the family, however, it is thought of as serving two basic purposes: to provide the survivors with funds to pay funeral expenses and the other costs associated with a death; and if the insured is the family head, to provide the survivors with a continuing income and the funds to meet future contingencies such as the costs of education. This chapter will examine the ways in which the cross section of widows had used the proceeds from life insurance in the two years following their husbands' deaths, their plans for the money received from life insurance, and what these proceeds had meant to them.

Some of the immediate uses that were made of life insurance proceeds were reported in Volume One, The Onset of Widowhood. It was seen that over 9 in every 10 of the widows (91 percent) had received proceeds from some form of life insurance but that often the amounts received were very small. Including those who received none, less than half of the widows (48 percent) had as much as $5,000 in life insurance to allocate among their immediate and future needs.

Three out of every 4 widows (83 percent of those whose husbands had been insured) applied life insurance benefits to the payment of final expenses. Overall, final expenses claimed 15 percent of the aggregate proceeds, while an additional 8 percent was spent in the immediate postdeath period, primarily to meet the widow's immediate living expenses and to pay outstanding bills and loans. For 24 percent of the widows, these expenses consumed all of the life insurance benefits received.

Although two thirds of the widows (67 percent) had proceeds to be saved or invested, some said that rather than putting it in savings, they had used at least part of this money to buy appliances, to take vacations, to make repairs to their homes, etc. These expenditures, most of which could be classed as immediate uses of life insurance, exhausted the remaining proceeds of an additional 2 percent of the widows. When these widows are included with the 9 percent who had received no proceeds and the 24 percent who had used all of their benefits for the funerals, for final bills, and for their own immediate living expenses, the proportion of widows for whom life insurance could be a source of income and funds for future contingencies is reduced to 65 percent.

In analyzing the widows' savings and investments, a distinction was made between proceeds that were committed and those over which the widows could exercise some degree of control, i.e., their liquid savings and investments. Committed proceeds included those that were allocated to the repayment of mortgages, those that were paid under income options (including payments from family income policies) or annuities, and those that were held in trust for the widow or

for her children. Controllable, or liquid, savings and investments included monies placed in savings accounts (including certificates of deposit), checking accounts, savings bonds, stocks and mutual funds, miscellaneous investments, and the proceeds that had been left with the insurers under the interest option.

Overall, just over 6 in every 10 of the widows placed proceeds in liquid savings and investments, 11 percent reported at least some proceeds committed for mortgage redemption, 7 percent reported some committed under income options and annuities, and 3 percent had committed proceeds in trust for themselves or for their children. Table 1 shows the breakdowns according to former family income, life cycle, and amount of husband's life insurance.

Committed proceeds

Widows from the higher income families and those with dependent children were the ones most likely to report each of the various committed uses. These uses are even more directly related to the total amount of life insurance the husband had owned, increasing quite consistently with increases in the amount of insurance that had been held.

There is, however, one reversal. While, up to the $25,000 level of coverage, the proportion of widows who received monthly payments from income options does increase as the amount of the husband's life insurance increases, when the husband had owned $25,000 or more, the proportion of widows receiving such payments declines to 18 percent (from 25 percent at the $15,000-to-$24,999 level). Because of the relatively small number of widows involved (only 164 said that their husbands had owned as much as $25,000 of life insurance), this reversal may be the result of chance variation in the data. On the other hand, at the $25,000-or-more level, there is a sharp jump in the proportion of widows who said that proceeds had been left in trust. This pattern suggests that among men who had owned the largest amounts of life insurance, there may have been a real shift in preference away from life insurance companies and toward trust departments of banks.

Liquid savings or investments

The proportion of widows with liquid savings or investments is related, as would be expected, to the amount of life insurance the husbands had owned. However, as can be seen from Table 1, there is a sharp dividing line between widows whose husbands had owned less than $5,000 of insurance and those who had owned larger amounts. When the amount owned was less than $5,000, some 60 percent of the widows said that all of their proceeds had been consumed in the process of meeting final bills and other immediate expenses and only 39 percent had been able to allocate proceeds to some form of committed and/or liquid savings. On the other hand, when the husband had owned $5,000 or more, over 90 percent of the widows had had some proceeds to provide continuing benefits beyond the immediate postdeath period.

Table 1

Widow's Savings and Investment Uses of Life Insurance Proceeds

	All widows	Normal former family income: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Received no proceeds	9%	21%	8%	5%	7%
Final and immediate expenses consumed proceeds	26*	48	28	18	9
Some proceeds left for continuing benefits	65	31	64	77	84
	100%	100%	100%	100%	100%
% of widows with proceeds:					
Committed in					
Trust funds	3%	-	2%	2%	9%
Income options	7	1%	6	11	11
Mortgage payments	11	2	10	17	20
In liquid savings or investments --					
At onset of widowhood	61%	30%	60%	74%	80%
After 2 years	52	21	50	64	75
Number of cases	1,743	260	770	385	161

	Stage in life cycle at onset of widowhood: Dependent children, youngest child: Pre-school	Kindergarten through grade 7	Grade 8 or beyond	No dependent children -- widow's age: Under 55	55 or older
Received no proceeds	14%	7%	6%	11%	10%
Final and immediate expenses consumed proceeds	16	23	23	32	30
Some proceeds left for continuing benefits	70	70	71	57	60
	100%	100%	100%	100%	100%
% of widows with proceeds:					
Committed in					
Trust funds	6%	5%	3%	1%	1%
Income options	8	10	9	8	3
Mortgage payments	17	17	11	8	8
In liquid savings or investments --					
At onset of widowhood	64%	65%	68%	54%	59%
After 2 years	53	55	58	46	50
Number of cases	240	426	337	346	395

	Husband's total life insurance: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000-$24,999	$25,000 or more
Received no proceeds	1%	1%	1%	+	+
Final and immediate expenses consumed proceeds	60	8	4	3%	1%
Some proceeds left for continuing benefits	39	91	96	97	99
	100%	100%	100%	100%	100%
% of widows with proceeds:					
Committed in					
Trust funds	+	1%	2%	5%	15%
Income options	+	8	11	25	18
Mortgage payments	3%	12	20	26	29
In liquid savings or investments --					
At onset of widowhood	38%	86%	89%	93%	91%
After 2 years	28	74	78	82	89
Number of cases	613	283	231	158	164

*Includes 2 percent who had proceeds remaining but had allocated them entirely to expenditures not related to saving or investing

+Less than ½ of 1 percent

Because their husbands tended to be either uninsured or owners of only small amounts of life insurance, only 3 in every 10 of the widows from families with incomes of less than $5,000 had had proceeds to assist them beyond the immediate postdeath period. However, in the $5,000-to-$9,999 income bracket, 64 percent had proceeds available to provide continuing benefits, and at the top income bracket, 84 percent had continuing benefits.

Compared with widows without dependent children, those with children were somewhat more likely to have had continuing benefits from life insurance at the onset of widowhood (approximately 70 percent vs. 60 percent). This, again, is a reflection in differences in the amounts of life insurance the husbands had owned.

We have seen that just over 6 in every 10 of the widows had proceeds and had placed at least part of them into some form of liquid savings or investment at the onset of widowhood. Just over half of the widows (52 percent) said that some of these proceeds remained in liquid savings or investments two years later. This represents 85 percent of the widows who had put proceeds into liquid savings or investments at the time of widowhood, and again those at the top of the former-family-income and husband's-life-insurance scales were more likely than were those at the bottom to still have some of their proceeds in liquid savings or investments at the end of two years.

Amount of proceeds

For the widows who received life insurance proceeds, the average payment was $9,950.* Approximately $2,350, or 24 percent, of the proceeds received were expended in the immediate postdeath period. However, $7,600 remained to provide continuing benefits, of which $5,450 (54 percent of the total dollars received) was placed into some form of liquid savings or investment; the other $2,150, or 22 percent, of the average benefit received was allocated to payments under income options or annuities or to repayment of mortgages or was held in trust for the widow or for her children.**

Table 2 shows both the average amounts of life insurance proceeds received by the widows and the percent of proceeds received that were allocated to the several broad categories of use in the immediate postdeath period. In terms of the amounts of life insurance received, there are wide differences not only between

*On the bottom line of Table 37, Volume One, a figure of $9,900 was reported. The labeling for the averages reported on that line should read: "Average amount received by widows of insured husbands." The figure of $9,950 is the average excluding that 1 percent of the widows whose husbands had been insured but who did not receive proceeds.

**For clarity, the amount of proceeds received and the amounts allocated to various uses have been rounded to the nearest $50. Percentages, however, are calculated before rounding.

Table 2

Distribution of Life Insurance Proceeds -- Widows Receiving Proceeds

	All with proceeds		Normal former family income							
			Average amount				Percent of proceeds			
	Average amount	% of widows	Under $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 or more	Under $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 or more
Proceeds received	$9,950	100%	$3,000	$6,800	$12,100	$26,750	100%	100%	100%	100%
Put to immediate uses	2,350	24	1,350	2,050	2,750	4,450	45	30	23	17
Left for continuing benefits	7,600	76	1,650	4,750	9,350	22,300	55	70	77	83
In committed proceeds	$2,150	22%	$300	$1,000	$2,450	$8,450	10%	15%	20%	31%
In liquid savings and investments:										
At onset of widowhood	$5,450	54%	$1,350	$3,750	$6,900	$13,850	45%	55%	57%	52%
After 2 years	4,300	43	1,000	2,750	5,450	11,550	34	40	45	43
Number of cases	1,449		193	678	344	143				

	Stage in life cycle at onset of widowhood									
	Average amount					Percent of proceeds				
	Dependent children, youngest child:			No dependent children -- widow's age:		Dependent children, youngest child:			No dependent children -- widow's age:	
	Pre-school	Kinder-garten -- grade 7	Grade 8 or beyond	under 55	55 or older	Pre-school	Kinder-garten -- grade 7	Grade 8 or beyond	under 55	55 or older
Proceeds received	$15,050	$13,100	$9,650	$7,700	$7,700	100%	100%	100%	100%	100%
Put to immediate uses	2,550	2,650	2,600	2,350	2,100	17	20	27	30	27
Left for continuing benefits	12,500	10,450	7,050	5,350	5,600	83	80	73	70	73
In committed proceeds	$4,600	$3,550	$1,650	$1,250	$1,200	30%	27%	17%	16%	16%
In liquid savings and investments:										
At onset of widowhood	$7,900	$6,900	$5,400	$4,100	$4,400	53%	53%	56%	54%	57%
After 2 years	6,050	5,450	3,850	3,100	3,700	40	42	40	41	48
Number of cases	199	354	291	276	329					

	Husband's total life insurance									
	Average amount					Percent of proceeds				
	Under $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $24,999	$25,000 or more	Under $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $24,999	$25,000 or more
Proceeds received	$2,150	$6,550	$11,400	$18,250	$42,600	100%	100%	100%	100%	100%
Put to immediate uses	1,600	2,400	2,600	3,650	5,000	74	37	23	20	12
Left for continuing benefits	550	4,150	8,800	14,600	37,400	26	63	77	80	88
In committed proceeds	$50	$700	$1,650	$4,500	$13,100	3%	11%	14%	25%	31%
In liquid savings and investments:										
At onset of widowhood	$500	$3,450	$7,150	$10,100	$24,300	23%	52%	63%	55%	57%
After 2 years	300	2,450	5,200	8,000	21,050	15	38	45	44	50
Number of cases	613	283	231	158	164					

widows from homes at different income levels but also between women who were widowed at different stages in the life cycle. For example, widows who had preschool children received, on the average, almost twice as much as was paid to widows without dependent children. Some possible reasons for these differences were discussed in Volume One. In particular, it was suggested that the major cause of the lower coverage among older widows was their husbands' failure to increase coverage to meet changing economic conditions (see Volume One, page 8).

As would be expected, the smaller the amount of life insurance owned by the husband, the higher the proportion that was used to meet final bills and other immediate expenses. Conversely, the larger the amount received, the greater the share committed to payments under income options, to mortgage payments, and to trust funds. Perhaps somewhat surprising are the relatively constant shares of proceeds that were allocated to liquid savings or investments and also the relatively constant shares that remained after two years. Except for the recipients of small amounts of proceeds (i.e., less than $5,000), the proportion of proceeds initially allocated to liquid savings and investments varied between 50 and 60 percent, while the proportion remaining after two years varied between 40 and 50 percent. (No adjustment was made for interest earnings or changes in the value of the various savings or investments.)

In contrast with the $5,450 initially put into liquid savings and investments by the average widow receiving proceeds, the figure rises to an average of $8,100 among the 61 percent who used any of their proceeds in this manner. Nevertheless, this average is affected by a few large investors or savers. Although the average amount was $8,100, Table 3 shows that exactly half of the widows with liquid savings or investments had saved less than $5,000 and only 27 percent had as much as $10,000 of savings. Even among the highest income families, where the average amount of savings was $16,200, almost half (47 percent) had less than $10,000 saved or invested. The picture becomes even more bleak when one considers the widows who did not receive proceeds and those who used all of their proceeds in the immediate postdeath period.

Table 3

Distribution of Amount of Proceeds Saved or Invested by Widows with Any Savings or Investments According to Normal Former Family Income

Amount of proceeds saved or invested	All widows with proceeds in savings or investments at end of immediate postdeath period	Normal former family income: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
$25,000 or more	6%	-	2%	5%	24%
15,000 -- $24,999	8	3%	5	11	13
10,000 -- 14,999	13	7	10	19	16
5,000 -- 9,999	23	16	23	25	21
1 -- 4,999	50	74	60	40	26
	100%	100%	100%	100%	100%
Number of cases	935	74	420	270	120

Proceeds remaining after two years

Table 4 shows the liquid savings and investment history for these widows. As has been noted, these widows had, on the average, placed $8,100 into liquid savings or investments. During the two years that followed, 42 percent said that they had not touched these savings, 44 percent said that some had been used, and 14 percent said that all had been used. Of the $8,100, some $6,350, or 79 percent, initially placed in liquid savings or investment remained after two years.

It might be presumed that because their needs for replacement income were greater, widows from upper income families would have made the greatest use of proceeds in the two years following the deaths of their husbands. While this was true in terms of absolute dollar amounts used, the proportion of widows who had not touched their proceeds was highest at the upper income levels. Widows at these income levels also had the highest percentage of proceeds remaining.

Table 4

Savings and Investments Used in the First Two Years of Widowhood --
Widows Who Had Put Any Life Insurance Proceeds into Liquid Savings or Investments

	All widows with proceeds in savings and investments at end of immediate postdeath period	Normal former family income: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Average amount initially saved or invested	$8,100	$3,600	$5,800	$8,850	$16,200
Savings and investments after 2 years					
% of widows who had exhausted them	14%	29%	17%	13%	5%
" " " " " used some but not all	44	36	43	46	48
" " " " " left them intact	42	35	40	41	47
	100%	100%	100%	100%	100%
Average amount remaining after 2 years	$6,350	$2,700	$4,250	$7,000	$13,500
% of total initial savings and investments remaining after 2 years	79%	75%	73%	79%	83%
Number of cases	903	67	412	265	115

	Stage in life cycle at onset of widowhood: Dependent children, youngest child: Pre-school	Kindergarten through grade 7	Grade 8 or beyond	No dependent children -- widow's age: Under 55	55 or older
Average amount initially saved or invested	$10,600	$9,950	$7,550	$6,850	$6,750
Savings and investments after 2 years					
% of widows who had exhausted them	16%	15%	14%	13%	15%
" " " " " used some but not all	52	45	49	41	37
" " " " " left them intact	32	40	37	46	48
	100%	100%	100%	100%	100%
Average amount remaining after 2 years	$8,150	$7,850	$5,350	$5,200	$5,650
% of total initial savings and investments remaining after 2 years	77%	79%	71%	76%	84%
Number of cases	139	234	191	156	183

When widows were examined by their stage in the life cycle at the onset of widowhood, it is seen that those without dependent children were less likely to have touched their savings than were those who had dependent children. In terms of the percent of savings used, the greatest drain occurred among those widows who had children of junior high school through college ages.

Were the proceeds used as planned?

When they first placed their proceeds into liquid savings or investments, fewer than 3 out of every 10 widows said that they had planned to use these funds as sources of income to meet the day-to-day expenses of living, i.e., food, shelter, clothing, etc. -- it is seen in Table 5 that 20 percent said they had expected to draw upon their savings to meet these routine living expenses, while an additional 9 percent said they had hoped to retain the principal and to use the interest as income. The widows who had planned to draw upon their savings to meet their current living expenses tended to be those with the smaller amounts saved and, as would be expected, those who had planned to use the interest as income were those with larger amounts.

Table 5

Anticipated Uses of Life Insurance Proceeds That Were Allocated to Savings and Investments--
Widows with Proceeds Saved or Invested

	All with proceeds so allocated	Amount of proceeds saved or invested: Under $5,000	$5,000-$14,999	$15,000 or more	Widow has dependent children	Widow has no dependent children
No special plans, as a nest egg	48%	52%	45%	46%	44%	49%
Routine living expenses	20	24	18	12	15	25
Reserve for education	11	9	13	17	22	-
Reserve for nonroutine living expenses	9	10	10	6	10	8
Retain principal; use interest for income	9	3	11	18	9	9
Reserve for future living expenses	6	5	8	7	5	7
Pay outstanding bills	3	3	2	3	3	3
Inheritance for children	2	1	3	3	2	2
Reserve for retirement	1	1	3	1	2	1
Reserve for purchase of a home	1	1	2	+	2	1
Reserve for future travel	1	1	+	+	+	1
Miscellaneous	4	3	6	5	4	5
Number of cases	1,008	411	317	157	627	381

+Less than ½ of 1 percent

Note: Will add to more than 100 percent because of multiple answers

The largest single group, accounting for almost half (48 percent) of the widows with liquid savings or investments, said that they had had no special plans for these proceeds at the onset of widowhood. Representative replies were:

"For security. God forbid that something should happen to me, but there is money so I shouldn't be a burden to my children."

"That's all I wanted to do. To salt it away. It's not very much, but it's my security."

"I thought I might need it later for emergencies, such as an illness or something like that."

"To use as my nest egg."

"Just let it sit there until I would want to do something with it."

"Nothing. I just figured I'd put the $10,000 away where I couldn't get it."

"Just keep it as long as I could. I might have to live on it one of these days."

"Just save it. During his illness, I got so worried about cash to meet payments that I haven't learned to feel secure yet."

When they placed their money into savings, 9 percent of the widows had anticipated using some of it for such nonroutine living expenditures as new furniture, repairs and remodeling, orthodontics, etc. Others said that they had hoped to retain their savings to meet such future contingencies as their children's education (11 percent), inheritance for the children (2 percent), retirement (1 percent), the purchase of a home (1 percent), and travel (1 percent). Although perhaps not as specific, 6 percent said that they had hoped to retain their proceeds as sources of future income should they become unable to work or should they decide to stop working.

Except for the difference in those planning to draw upon savings to meet current living expenses and those planning to use interest as income, the only other use that shows a marked relationship to the amount of proceeds saved is that of education. Among widows with small amounts saved, 9 percent said that they had planned to use some of their proceeds to meet educational expenses compared with 17 percent among widows with $15,000 of proceeds saved. When the widows had dependent children, education ranks high among the anticipated uses, falling just below the proportion that had planned to use principal or interest for income (22 percent vs. 24 percent).

As seen in Table 4, over 4 in every 10 of the widows (42 percent) who had placed some of the proceeds from their husbands' life insurance into liquid savings or investments at the onset of widowhood had not touched these proceeds in the two years that followed. However, among those who had, the following reflect the ways in which life insurance was put to work:

"Dentists' bills. I needed some extra money for that."

"If I get low, I need money and I can't make it on the money I have coming in."

"For taxes and just living. I have to keep my tractor up so I can have a garden."

"Everyday expenses, a stone for my husband, a cemetery lot for myself, and to send my son to school."

"Home repairs, I added a room for the children."

"I had to pay to bury my brother back East."

"For my son. He had a breakdown and spent nine months in the state hospital. I used some of the money to pay his bills."

"Bills, taxes, repairs on the house, things for the children."

"Paying tuition for myself and my children."

"My two daughters and I went to Chicago for my other daughter's wedding."

"I remodeled the house."

"I didn't work for six months. I had to supplement my additional costs over social security and the pension plan with savings."

"A hospital bill for myself, daily living, my daughter's wedding, college fees."

"Just to live on and to tide me over until I went back to work."

"Taxes and repairs."

"Just ordinary living expenses, and I had the house painted."

When survivor benefits are paid in a lump sum, one of the risks is that the beneficiary will spend the money unwisely and fail to make adequate provision for future needs. Although very much the exception, this risk occasionally may have been realized. For example, one widow said, *"I bought a new car and lots of clothes. I redecorated the house, took some trips, and ran around like*

crazy." She described her husband as very domineering, and although all of her proceeds had been spent, she said they had provided her and her children with a necessary period of release.

In terms of percentages, Table 6 shows that 36 percent of the widows who had allocated life insurance proceeds to some form of liquid savings or investment had drawn upon these funds to meet routine living expenses. Home repairs and remodeling were reported by 11 percent, medical expenses were mentioned by 7 percent, the purchase of an automobile was mentioned by 6 percent, and 6 percent said that some savings had been used for education. Fewer than 1 in every 20 of the widows with savings or investments said that some of this money had been used for travel or vacations, to purchase appliances or other durables, to provide assistance to children or relatives, or to purchase a home. The uses are not highly related to the amount of proceeds saved or invested, and except for expenditures for education and, possibly, for automobiles, there are only minor differences between widows with and without dependent children.

Table 6

Actual Postdeath Uses of Life Insurance Proceeds That Were Allocated to Savings and Investments—Widows with Proceeds Saved or Invested

	All with proceeds so allocated	Amount of proceeds saved or invested: Under $5,000	$5,000–$14,999	$15,000 or more	Widow has dependent children	Widow has no dependent children
None of the proceeds allocated to savings and investments has been used	42%	42%	38%	40%	37%	47%
Routine living expenses	36%	40%	34%	34%	37%	35%
Home repairs, remodeling	11	10	14	11	12	10
Family medical expenses	7	7	7	5	6	8
Purchase of automobile	6	6	7	7	9	3
Education for children	6	5	7	8	12	-
Travel, vacation	5	2	8	7	5	5
Assist children or relatives	4	3	4	8	5	4
Purchase appliances, furniture, durables	3	4	3	4	5	2
Purchase home	2	2	2	4	3	1
Miscellaneous	4	2	5	6	4	4
Number of cases	1,046	429	329	166	654	398

Note: Will add to more than 100 percent because of multiple answers

Many of the widows were able to make clear distinctions between what they had planned to do with their proceeds when they were placed in savings and how those proceeds had actually been used in the two years that followed. For example, the widow who had hoped to retain her savings so that she would not be a burden to her children should something happen to her had used $800 of the $3,000 initially saved. *"When money runs short and there is nowhere to turn, I have to use some of my funds,"* she said. Of the widows who had drawn upon their proceeds to meet routine living expenses in the first two years of widowhood, only 38 percent had stated that this was one of the uses they were thinking of when they first put their proceeds into liquid savings or investments. Similarly, of the 54 widows who had used money from their savings to pay for trips or vacations, only 3 said that this had been a planned use of savings.

What life insurance and social security meant to the widows

Because many of the widows had received only moderate or small amounts of life insurance, a question might be raised as to the importance of these benefits to the economic well-being of the widows. To provide at least a partial answer, the beneficiares of life insurance policies were asked, "What did your husband's life insurance mean to you? Would you say it was of great help, some help, or no help at all?" For comparison, a similar question was asked of widows who had received social security benefits.

The results of these two questions should not be construed as an evaluation of the true economic or social contributions of these two survivor benefit programs to the overall welfare of widows. It also should be emphasized that the answers were obtained only at one point in time -- two years after the deaths of the husbands. As they grow older, some of the widows will enter the social security "blackout period," while others will become eligible for social security retirement benefits. Additional life insurance benefits will be exhausted to meet the widows' living expenses, to pay for education, and to help them absorb the impact of various emergencies -- and the memory of the role life insurance played in their husbands' final expenses may weaken. The purpose of the questions was simply to see whether widows do attach importance to life insurance and, because most life insurance is paid in the form of lump-sum settlements while social security is paid in the form of monthly income, to obtain an estimate of what these two types of payments mean to widows.

Very simply, most widows do believe that the life insurance benefits they received were of great help. Overall, 77 percent of the widows who had received life insurance proceeds said that these benefits had been of great help. If at least $15,000 of proceeds remained after meeting the immediate expenses of the postdeath period, 93 percent said that their insurance had been of great help, and even when no proceeds remained beyond the immediate postdeath period, 63 percent of the widows described their insurance benefits as having been of great help (see Table 7).

Table 7

Widows' Ratings of the Helpfulness of Their Life Insurance Benefits

	All widows	All receiving proceeds	Proceeds consumed in immediate postdeath period	All with proceeds remaining	Amount of proceeds remaining: Under $5,000	$5,000-$14,999	$15,000 or more
Great help	71%	77%	63%	85%	77%	89%	93%
Some help	19	22	35	15	22	11	6
Not much help	1	1	2	+	1	-	1
		100%	100%	100%	100%	100%	100%
No life insurance	9						
	100%						
Number of cases	1,718	1,551	400	999	384	371	244

	Widows receiving proceeds: Stage in life cycle at onset of widowhood: Dependent children, youngest child: Pre-school	Kindergarten through grade 7	Grade 8 or beyond	No dependent children -- widow's age: Under 55	55 or older	Normal former family income: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Great help	83%	82%	80%	75%	73%	86%	79%	79%	77%
Some help	16	17	19	25	26	14	20	21	22
Not much help	1	1	1	+	1	-	1	+	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of cases	204	385	317	296	349	192	697	363	153

+Less than ½ of 1 percent

The proportion of widows who said that they had been greatly helped by life insurance is somewhat higher for the younger widows than for the older, probably because the younger widows had been beneficiaries of larger amounts of life insurance. However, it is also seen that the proportion of widows who said that life insurance had been of great help is highest among the lower income families. For many of the low-income families, life insurance may have been the only source of funds to help the widows meet outstanding bills and their husbands' final expenses.

Of the widows who received social security, 57 percent said that these benefits were of great help, 29 percent said they were of some help, while 14 percent said that these benefits had not been of much help. However, as can be seen in Table 8, the ratings given by widows who received monthly income benefits from social security are considerably more favorable than are those given by widows who received only the lump-sum funeral benefit. Of the widows who received only the funeral benefit, 17 percent said it had been of great help; these are primarily widows from families whose incomes had been low before the husbands died. When monthly income payments were received, 79 percent said that these benefits had been of great help to them. As with life insurance, the proportions of widows who said that their monthly income payments from social security were of great help are highest among those receiving the largest benefits, those with the youngest children in the home, and those from the lower income families. The helpfulness ratings given to life insurance and to monthly income from social security are not only parallel but are almost identical

Table 8

Widows' Ratings of the Helpfulness of Their Social Security Benefits

	All widows	All with social security	Funeral benefit only	All with monthly income	Amount of monthly income: Under $100	$100-$199	$200 or more
Great help	53%	57%	17%	79%	71%	76%	87%
Some help	27	29	50	17	21	21	12
Not much help	13	14	33	4	8	3	1
		100%	100%	100%	100%	100%	100%
No social security	7						
	100%						
Number of cases	1,714	1,605	409	1,116	263	358	495

	Widows receiving monthly income benefits: Stage in life cycle at onset of widowhood: Dependent children, youngest child: Pre-school	Kindergarten through grade 7	Grade 8 or beyond	No dependent children	Normal former family income: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Great help	83%	86%	77%	73%	87%	82%	82%	66%
Some help	16	11	20	22	12	16	15	22
Not much help	1	3	3	5	1	2	3	12
	100%	100%	100%	100%	100%	100%	100%	100%
Number of cases	233	407	282	192	109	244	500	166

for widows at each stage in the life cycle and at each of the various income levels. Perhaps the major difference occurs among widows from the highest income families, where 12 percent said that their income benefits from social security were not of much help.

To probe the meaning of the two benefit programs in somewhat more detail, the widows were asked to describe the ways in which their lives might have been different had they not had life insurance or monthly income from social security. Representative comments of widows who said they had been greatly helped by both life insurance and social security:

WITHOUT SOCIAL SECURITY	AND	WITHOUT LIFE INSURANCE
$92 a month: *"I would have had to immediate go out to get a job. But I was in such a state of shock that I couldn't work."*	and	$2,000: *"I just wouldn't have been able to give him a good burial. It would have been such a heavy burden."*
$170 a month: *"I would not be able to save any money for educational purposes, or at least not that much."*	and	$21,000: *"I wouldn't be able to foresee the day when I wouldn't have to work -- after my daughters are both educated."*
$186 a month: *"I would have had to ask my children to help me. I would not have had anything to live on. I don't get much as it is, but so far I have not asked my kids for anything. They have all offered to help me."*	and	$5,000: *"I would have been deep in debt because I had to bury my husband and my mother just four months apart."*

WITHOUT SOCIAL SECURITY	AND	WITHOUT LIFE INSURANCE
$196 a month: *"I don't think I could have kept the house. I've used it for house payments mostly."*	and	$6,000: *"Skip probably couldn't have finished school. I'd have had debts, and this way I was free of all bills."*
$200 a month: *"I would have lost everything I had because I couldn't have fed and clothed my daughter."*	and	$13,300, of which $9,000 was used to repay mortgage: *"I would have lost my house. I would have had to pay $9,000 out of my pocket that I didn't have. I bought groceries due to the long wait for social security payments. I couldn't have done it."*
$202 a month: *"I would be in an awfully bad financial condition. I don't see how I could have made it. The little boy and I live on it. That's nearly all we have; I just don't know how we'd live without it."*	and	$4,000 mortgage insurance: *"I'd have lost my home. My little boy and I would not have a home."*
$206 a month: *"My standard of living would have decreased. My youngest daughter was still at boarding school, and we couldn't have afforded the apartment and the house we bought now."*	and	$9,000: *"We would be renting in a cheaper district and the children would be attending a public school and I would be much more in debt."*
$300 a month: *"I would have changed our standard of living. I would have had to spend a great deal of the insurance money instead of investing it."*	and	$48,000: *"It would have been a great difference in the children's college and education. I wouldn't have been able to pay off the mortgage on the house or pay for the car all at once."*
$300 a month: *"I would have gone to work to be able to make house payments. I work now to supplement social security and the pension, but I have an easier job and work less hours than before."*	and	$11,500: *"I'd still be working. Bills wouldn't have gotten paid as quickly as they did. I'd still be paying for the funeral out of my paycheck."*
$326 a month: *"To me there would be no way of taking care of my family, especially because I was hospitalized for five months from the accident that killed my husband."*	and	$43,000: *I would have no security for my family. Because of it, I am able to raise my children the way I was supposed to."*
$337 a month: *"I would have had to go out to work. At that time my daughter was only nine. Even now I want to work only the hours they are in school."*	and	$3,000: *"It would have taken much longer to pay his funeral expenses and I would have had a hard time starting out with debts and a low income."*

Life insurance, of course, was also of great help to many widows who were in the social security blackout period. A few representative comments were:

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$6,000: *"We were always short of cash. He hadn't had that good a job for very long. I couldn't have paid for the funeral without it. Now I have something, even if I lose my job. I feel safe."*

$10,000: *"I wouldn't have been able to pay expenses. It gives me a nest egg to fall back on when I retire."*

$15,000: *"I could not have met the bills. It took the pressure off. I had 19 months of worry, and I have not recovered yet. It's a comfort to know I can keep the house."*

$2,000: *"I'd have had to go to work sooner and start paying what I could on my bills. It would sure have taken a long time to pay them."*

$12,600: *"Well, I would have had to sell my land to pay off the funeral and a $2,500 business loan that didn't have credit life insurance."*

$12,000: *"I won't even let myself think about what might, or could, have happened."*

How their lives might have differed without the monthly income

The widows' overall impressions of how their lives might have differed had they not had life insurance proceeds or monthly income benefits from social security are summarized in Table 9. Although in many ways their reactions to these two forms of survivor benefits are similar, it is seen that when talking of their social security benefits, more references were made to work, to education, to child care, and to the elimination of hardship than there were when they talked of life insurance. When speaking of life insurance, more references were made to the elimination of debt, payment of funeral costs, security, and nest eggs than there were when they talked of social security.

The meaning of both types of benefits, however, is strongly related to the stage in the life cycle at which a woman is widowed, to her family's former income level, and to the amount of benefits received. Table 10, for example, shows the major variation in answers to the question of how their lives might have differed related to the stage in the life cycle at which the wife was widowed. A major intent of the widow's benefit under social security was to provide young mothers the option of remaining at home with their children rather than being forced to work to support themselves and their families. As can be seen, work is the predominant answer of the mothers who had at least one child of preschool or elementary school age at the time they were widowed. References to child care are also concentrated among widows with young children. When the children are older or when the widow is alone, the option of not working apparently declines in importance; however, for widows with children of high school or college age, there is a sharp rise in the proportion who said that the monthly checks from social security help them to educate their children.

Table 9

How Life Would Have Been Different Without Life Insurance or Monthly Social Security Payments

What would have been different without life insurance or monthly social security payments	Life insurance -- widows with any life insurance proceeds	Social security -- widows with monthly income from social security
Debt *(would have been in debt, deeper in debt, etc.)*	26%	2%
Financial hardship *(life would have been more difficult, etc.)*	20	26
Work pattern *(would have had to go to work, to work full time, to change jobs to increase earnings, etc.)*	19	35
Funeral arrangements *(would have had to use other money, to have borrowed to pay for it, to have had less expensive one, etc.)*	16	1
Living arrangements *(would have had to give up house, apartment, etc.)*	11	10
Feeling of financial security	11	2
Ability to keep or build up savings or reserve	8	+
Ability to retain savings	4	5
Children's education	4	10
Living standard	4	4
Dependence on family	3	3
Need for welfare	2	5
Home maintenance	1	+
Child care *(children left alone, necessary to hire babysitter, etc.)*	1	8
Feeling of independence	1	+
Own medical, dental care	+	1
Children's medical, dental care	+	+
Feeling of dignity	+	+
Ability to keep life insurance proceeds	-	1
Miscellaneous	2	2
Life would not have been different	4%	7%
Number of cases	1,519	1,104

+Less than ½ of 1 percent

Note: Columns will add to more than 100 percent because of multiple answers

Table 10

Selected Areas in Which Life Would Have Been Different Without Life Insurance or Monthly Social Security Payments According to Stage in Life Cycle at Onset of Widowhood -- Widows with Life Insurance or Social Security*

What would have been different	Dependent children, youngest child: Preschool		Kindergarten through grade 7		Grade 8 or beyond		No dependent children	
	Life ins.	Soc. sec.	Life ins.	Soc. sec.	Life ins.	Soc. sec.	Life ins.	Soc. sec.
Work pattern	26%	54%	26%	46%	15%	20%	17%	25%
Children's education	7	2	11	7	8	29	-	1
Child care	4	21	2	14	-	1	-	-
Life would not have been different	1%	2%	2%	5%	5%	10%	5%	11%
Number of cases	201	231	375	406	313	280	630	187

*A complete tabulation showing all areas is included in the Technical Supplement.

For some of the young mothers, life insurance also had eased the need to work, and for some it had helped with education; however, the proportions of widows who gave these answers regarding life insurance is substantially lower than the proportions giving them regarding monthly income benefits from social security. It is also seen that at the more advanced stages in the life cycle, there is an increase in the proportions who said that their lives would not have been different had they had no life insurance or monthly income from social security, perhaps reflecting a decline in the level of benefits received.

Table 11 shows the major variations associated with the widows' former family income levels. It is immediately obvious that widows from the higher income homes view both benefit programs quite differently than do those whose former family incomes had been lower.

Table 11

Selected Areas in Which Life Would Have Been Different Without Life Insurance or Monthly Social Security Payments According to Normal Former Family Income -- Widows with Life Insurance or Social Security[a]

What would have been different	Under $5,000		$5,000-$9,999		$10,000-$14,999		$15,000 or more	
	Life ins.	Soc. sec.	Life ins.	Soc. sec.	Life ins.	Soc. sec.	Life ins.	Soc. sec.
Debt	33%	1%	30%	2%	23%	3%	11%	+
Financial hardship	22	41	19	28	19	22	14	11%
Work pattern	15	26	18	42	19	35	26	27
Funeral arrangements	30	-	18	1	12	2	7	4
Living arrangements	8	10	10	12	19	14	17	14
Feeling of financial security	2	3	10	2	13	1	20	6
Children's education	+	1	4	8	5	17	12	20
Living standard	2	3	3	3	5	4	13	8
Need for welfare	3	10	3	6	2	2	-	+
Life would not have been different	3%	2%	3%	5%	4%	6%	6%	22%
Number of cases	187	166	679	500	358	244	151	109

[a]A complete tabulation showing all areas is included in the Technical Supplement
+Less than ½ of 1 percent

Without life insurance, widows from low-income families see themselves as having been burdened by the cost of the funeral and by other debts at the onset of widowhood. Somewhat smaller proportions talk of hardship and of having had to go to work or to increase their working hours. As the level of former family income increases, the proportions who mention debt, funeral costs, and hardship decline, while the percentages who talk of life insurance as having enabled them to limit work, to maintain their living arrangements, to educate their children, to maintain their standards of living, and to have a sense of security all tend to rise.

Without monthly income from social security, the widows from low-income families see themselves most often as having faced hardship, not knowing what they would have done, and having had to go to work or to increase their earnings by working longer hours. The proportion mentioning hardship decreases sharply as the level of former family income increases. It also may be seen in Table 11 that the proportion of widows who said they would have had to work or to increase their earnings had they not had the monthly income from social security is highest among widows from middle-income families (i.e., former family income $5,000 to $14,999), while the proportion who said that their children's education would have been affected is highest among the upper income families. It is interesting to note that at the $15,000 former family income level, 22 percent of the widows who received monthly income checks from social security said that their lives would not have been different had the checks been eliminated.

In describing their lives without monthly income from social security, most of the widows gave answers that were unrelated to the amounts of benefits received. Two exceptions were in the proportions mentioning work and child care, both of which increased in frequency of mention as the amount of the benefit increased. For example, of the widows receiving less than $100 a month, only 21 percent mentioned work compared with 49 percent among widows receiving $200 or more per month. The difference undoubtedly reflects the differences in family size, the presence of younger children, and the inclusion in the low-benefit group of retired widows. A third exception was in the opposite direction; the proportion who said that the loss of the monthly income benefit would have made no difference declines from 14 percent among those receiving less than $100 a month to just 2 percent among those receiving $200 or more. A detailed table is contained in the Technical Supplement.

Table 12

Selected Areas in Which Life Would Have Been Different Without Life Insurance According to Amount of Proceeds Remaining Beyond Immediate Postdeath Period -- Widows Receiving Life Insurance Proceeds*

What would have been different	None remaining	Under $5,000	$5,000-$14,999	$15,000 or more
Debt	43%	29%	15%	9%
Financial hardship	13	22	18	24
Work pattern	8	16	26	31
Funeral arrangements	31	23	5	2
Living arrangements	6	8	19	25
Feeling of financial security	1	6	20	21
Children's education	+	2	8	14
Living standard	1	2	5	12
Life would not have been different	5%	5%	2%	1%
Number of cases	385	379	367	243

*A complete tabulation showing all areas is included in the Technical Supplement
+Less than ½ of 1 percent

When describing their lives without life insurance, a variety of answers were related to the amount of proceeds that remained after final bills and other immediate expenditures had been made. It is seen in Table 12 that the proportion of widows who mentioned that they would have been unable to pay debts and funeral expenses is highest among those who expended all of their proceeds in the immediate postdeath period and declines sharply as the amount of remaining proceeds increases. For widows with at least $15,000 of proceeds remaining beyond the immediate postdeath period, life without life insurance most often would have meant going to work or increasing working hours, hardship, altered living arrangements, and the absence of a feeling of security.

Chapter 6

The Widows' Financial Assets, Housing, and Life Insurance

The uses of life insurance were explored in some detail in the preceding chapter. No attempt was made to trace in similar detail the ways in which other assets had been used. However, to fully assess the financial strength of the families, it is important to examine their asset holdings after the first two years of widowhood.

The families' predeath assets were discussed in Chapter 1 of Volume One. It was seen that these assets tended to be somewhat smaller than might be expected of families of comparable ages in the total population and that at least part of the difference could be attributed to the detrimental effects on savings of prolonged terminal illness. It was also seen that at the time of the husbands' deaths, there were wide differences in the financial strength of the families.

When the husbands died, their widows received cash -- in the form of lump-sum settlements from various survivor benefit programs, from gifts, and from the sales of businesses and other possessions -- that exceeded the aggregated value of their families' predeath asset holdings (see Volume One, Chapter 5). Whereas the mean predeath asset holding was $8,900, the mean amount of cash received in the immediate postdeath period was $11,900. Even more marked is the difference in the medians -- a median of $1,000 in predeath assets compared with a median of $6,050 in cash benefits received. The majority of the cash benefits, 69 percent, came from the settlement of life insurance policies, with 18 percent coming from lump-sum settlements of retirement plans. The remaining 13 percent came from the sale of possessions or businesses and from such sources as gifts, social security and VA funeral benefits. (See Technical Supplement to Volume One, Table S-22.)

Although various demands had been placed on the widows' asset holdings in the two years following the deaths of their husbands (or to the time they remarried), the lump-sum assets received at the time of death produced a net increase in the financial strength of the families when compared with the predeath period. Table 1 shows that whereas just under 7 in every 10 of the widows said that the family had had some financial assets in the predeath period, just under 8 in every 10 said that their families currently had some assets in reserve.* The proportion of families with $10,000 or more in financial assets increased from 18 percent to 33 percent, while the median holding increased from $1,000 to $3,000.

Table 1

Family Financial Assets in the Predeath Period and Two Years After the Death According to Normal Former Family Income

Financial assets	All widows		Normal former family income: Under $5,000		$5,000-$9,999		$10,000-$14,999		$15,000 or more	
	Pre-death	Post-death	Pre-death	Post-death	Pre-death	Post-death	Pre-death	Post-death	Pre-death	Post-death
$35,000 or more	6%	10%	2%	2%	2%	4%	9%	15%	24%	41%
10,000 — $34,999	12	23	2	3	8	18	18	36	28	32
Under 10,000	51	46	36	44	52	55	55	38	43	26
Have some assets	69%	79%	40%	49%	62%	77%	82%	89%	95%	99%
Number of cases for median with assets	986	1,082	84	103	435	492	284	305	138	138

Median	All widows	Normal former family income: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Families with assets					
Predeath	$3,500	$1,850	$2,700	$ 3,950	$13,800
Postdeath	7,400	1,400	4,650	12,500	28,200
All families					
Predeath	$1,000	$ 0	$ 600	$ 2,200	$11,600
Lump sum at death	6,050	1,650	4,950	10,150	20,600
Postdeath	3,800	0	2,950	10,200	28,350

Assets according to former family income

The low-income group, i.e., families whose normal incomes had been less than $5,000, contained 14 percent of the widows and showed very little change between the predeath and postdeath periods. This group received only small amounts of assets at the time of death and most of the assets were exhausted in the process of meeting final bills and the widows' immediate living expenses. While the proportion of widows with some assets increased by 9 percentage points, more than half of the widows in this group (51 percent) said that they had no assets to provide security against emergencies or, if needed, to supplement their incomes. Among those who did have assets, the median holding was only $1,400.

*Financial assets include liquid savings in the form of savings accounts, certificates of savings, checking accounts and savings bonds; equity investments in the form of stocks and mutual funds; real estate other than owner occupied homes; life insurance proceeds retained under interest options, etc. In calculating postdeath assets, it was assumed that life insurance proceeds placed in trust funds had remained in trust and that the value had not changed. Life insurance proceeds retained under income options or annuities were not included as financial assets, nor were the values of owner-occupied homes.

Just under half of the families (49 percent) had had normal incomes in the $5,000-to-$9,999 bracket when the husbands died. At this level, the upward shift between the predeath and postdeath periods is the most marked, with the median holding increasing from $600 to $2,950. However, the median amount received from all sources at the time of death was just under $5,000, and the asset holdings of this group two years later are modest. While 77 percent of the widows said that they had some financial assets, only 1 in every 5 (22 percent) could claim as much as $10,000.

One fourth of the widows were from families whose incomes had been at the $10,000-to-$14,999 level. As can be seen, in this group the proportion of families with at least $10,000 in reserve jumped from 27 percent in the predeath period to 51 percent two years after the onset of widowhood; however, few (15 percent) had asset holdings of $35,000 or more. In other words, while most widows at this income level did not have assets sufficient to be a major source of income, the typical widow did have a reserve equal to about one and two-thirds times her current income. The financial strength of these families depended heavily on assets received at the time of the husbands' deaths.

The $15,000-and-over category contained 12 percent of the sample, and 41 percent of these families had $35,000 or more in assets two years after the husbands died compared with 24 percent in the predeath period. The median asset holding had increased from $11,600 to $28,350. Because many of these widows from upper income families had substantial asset holdings, the per capita income from investments, savings, and trusts for this group exceeded the amount received from income maintenance plans and was second only to work as a source of income.

Assets according to stage in life cycle

Table 2 shows the distribution of assets according to the widow's stage in the life cycle at the time her husband died. In the predeath families, both the proportions of families with assets and the median amounts of assets held shows a small but consistent rise from the youngest life cycle group through the oldest.

In terms of lump-sum assets received at the time of death, however, the reverse trend is found, i.e., families with preschool youngsters received a median of $9,000 in lump-sum assets, and this declines to $4,500 for the widows 55 years old or over without dependent children. Because of the difference in the amount of assets received after the husbands' deaths, much of the systematic progression that existed in the predeath households is eliminated. The group with preschool children still has the smallest proportion of widows with any financial assets (70 percent), yet the proportion with $10,000 or more in assets (30 percent) is not appreciably different from that of the other life-cycle groups, nor is the proportion with $35,000 or more. In other words, while there was some strengthening of the asset position of the widows at each stage in the life cycle, assets received by the younger families after the

death -- the bulk of which came from life insurance — enabled them to overcome the advantage held by the older families in the predeath period. On the other hand, regardless of the stage in the life cycle at which she was widowed, the typical widow had only modest assets to draw on other than her own earning capacity and whatever income maintenance benefits she was receiving.

Table 2

Family Financial Assets in the Predeath Period and Two Years After the Death According to Stage in Life Cycle at Onset of Widowhood

	Stage in life cycle at onset of widowhood									
	Dependent children, youngest child:						No dependent children -- widow's age:			
	Pre-school		Kindergarten through grade 7		Grade 8 or beyond		Under 55		55 or older	
Financial assets	Pre-death	Post-death	Pre-death	Post-death	Pre-death	Post-death	Pre-death	Post-death	Pre-death	Post-death
$35,000 or more	4%	10%	6%	10%	9%	11%	3%	7%	8%	13%
10,000 — $34,999	5	20	7	20	12	21	15	24	16	22
Under 10,000	29	40	37	48	48	48	54	49	52	46
Have some assets	59%	70%	67%	78%	69%	80%	72%	80%	76%	81%
Number of cases for median with assets	129	152	239	258	193	219	192	209	233	246

	Stage in life cycle at onset of widowhood				
	Dependent children, youngest child:			No dependent children -- widow's age:	
Median	Pre-school	Kindergarten through grade 7	Grade 8 or beyond	Under 55	55 or older
Families with assets					
Predeath	$1,600	$2,150	$3,000	$3,350	$4,950
Postdeath	8,000	6,050	7,200	6,250	6,800
All families					
Predeath	$ 400	$ 750	$ 900	$1,300	$2,350
Lump sum at death	9,000	7,350	7,000	4,700	4,500
Postdeath	2,700	2,950	4,850	3,550	3,950

Types of assets

Of the various assets, liquid assets* were the ones most commonly held. As can be seen in Table 3, 66 percent of the families had held some form of liquid assets in the predeath period, and this increases to 77 percent among the widows' families. In terms of share of total assets, liquid assets account for 35 percent in the predeath period and 48 percent of the widows' holdings. At least part of this shift may reflect the widows' desire to seek the safety of banks and similar savings institutions as opposed to more risky types of investment that might also require specialized investment knowledge. At least part of it, however, may result only because savings were abnormally low when the husbands died, having been used to supplement income or to meet expenses during the husband's terminal illness or disability.

*Liquid assets include savings and checking accounts, certificate of deposit, and savings bonds.

The proportion of families owning stocks or mutual funds increases from 17 percent to 22 percent and, while there is a 40 percent increase in aggregate dollars invested, the share of total assets allocated to these forms of equity investment declines from 24 percent to 21 percent. Detailed tables showing the percent of families with liquid assets and the percent who had investments in stocks and mutual funds in the predeath and postdeath periods are shown in the Technical Supplement of this volume.

The proportion of families who owned real estate other than their own homes declines from 15 percent among the predeath families to 13 percent among the widows' families. The aggregate amount of these real estate investments remains almost constant between the two periods, but their share of total assets declines from 32 percent to 20 percent, indicating that this was a relatively unattractive form of investment for the funds received after the death of the husband.

The proportion with miscellaneous investments increased from 3 percent to 7 percent. Part of the increase represents investments in family-owned businesses, loans to children and other relatives, etc. However, this category also includes the life insurance proceeds remaining with the companies under interest options -- 1 percent of the widows had funds under interest options -- and amounts held in trust for the widow or children. The monies allocated to trust funds account for this category's showing an increased share of total assets in the postdeath period.

Table 3

Components of Total Financial Assets

	Percent of all widows owning each class of asset		Percent of total assets	
	Predeath	Postdeath	Predeath	Postdeath
Liquid assets	66%	77%	35%	48%
Stocks and mutual funds	17	22	24	21
Real estate other than owner-occupied homes	15	13	32	20
Other savings and investments	3	7	9	11
			100%	100%

Assets in relation to maintenance of standard of living

The widows' liquid assets represent the funds most readily available for use in emergencies or to supplement current income. There is evidence that the availability of these assets is associated with the widows' beliefs that they had been able to maintain their standards of living. As can be seen in Table 4, 61 percent of the widows who had $10,000 in savings after the two years of widowhood said that they had maintained their living standards and this declines to 38 percent among those who had no liquid assets by then.

Similarly, when the widow's current income equaled or exceeded her estimated replacement income need derived from the BLS data (see Chapter 1), 71 percent of those with $10,000 in savings said that their living standards had been

maintained compared with 48 percent of those with no liquid assets. It is also seen that the same relationship holds for widows with incomes that were between 70 percent and 99 percent of estimated need. The relationship tends to be obscured for those whose incomes fell below 70 percent of the estimated need. This may be the result, at least in part, of the inclusion in the low-savings, low-income group of some widows who had not maintained their own homes and who were dependent on others in both the predeath and postdeath periods; thus they said that their living standards had been "maintained."*

Table 4

Percent of Widows Who Said that They Had Maintained Their Former Standards of Living According to BLS Estimate of Adequacy of Current Income and Amount of Liquid Asset Holdings

Widow's asset holdings	All widows	Ratio of widow's income to BLS estimated income need		
		100% or more	70% to 99%	Less than 70%
$10,000 or more	61%	71%	63%	37%
2,000 -- $9,999	51	62	49	36
Under 2,000	45	65	39	27
None	38	48	34	34
Total	50%	61%	45%	35%

Home ownership

The interviewers' efforts to locate widows from the information provided by the death certificates indicated that as many as 44 percent of the widows may have moved in the two years that followed the loss of their husbands (see Technical Supplement to Volume One). Many of those who moved could not be interviewed because they were no longer living in the areas covered by the study or because they could not be traced to their new addresses. As a result, the widows who were interviewed are overrepresentative of those who remained in their former homes.

Moving is clearly related to whether the family had owned its home in the predeath period. Overall, 15 percent of the widows in the sample had moved, but only 9 percent of the homeowners had moved compared with 31 percent of those who had been renters. These differential rates of moving mean that the sample not only overrepresents widows who had remained in the homes they had shared with their husbands but also that it is overrepresentative of the level of home ownership in the four SMSA's. For these reasons, trends such as the shift away from home ownership to apartment dwelling, the increase in the proportion of widows who were sharing living quarters with others, etc., are understated in the data and the contribution of equity in owner-occupied homes to the financial strength of the families is overstated.

*Although the data are not shown, the relationship is not obscured for those who said that their living standards were much lower. When income fell below 70 percent of estimated need, 45 percent of the widows without liquid assets said that their standards were much lower compared with only 23 percent when the widows had $2,000 or more in savings.

In one area, however, the potential distortion created by the inability to locate many of the movers is at a minimum, and that area concerns the use of life insurance proceeds to prepay mortgages outstanding at the time of the husbands' deaths.

Among families that had been homeowners, approximately 6 in every 10 had had mortgages at the time of the husbands' deaths.* When there had been mortgages, one fourth of the widows (26 percent) said that life insurance proceeds had been used, either voluntarily or contractually, to pay off the mortgage in full (18 percent of those with mortgages) or in part (8 percent of those with mortgages). As may be seen in Table 5, the higher the family income had been, the higher the proportion of families that had been homeowners, the higher the proportion of owners that had had mortgages, the higher the proportion of widows who said that life insurance proceeds had been used to pay off their mortgages in part or in full. However, the increase in the last -- the percentage of widows who used life insurance proceeds to prepay part or all of their mortgage loans -- is small, from 15 percent at the low end of the income scale to 33 percent at the upper end.

As would be expected, the proportion of homeowners with mortgages declines at successively more advanced stages in the life cycle. With the exception of the most advanced group (i.e., those widows without dependent children who were 55 or over when their husbands died), the proportion of widows with mortgages who used life insurance proceeds to prepay their loans also declines as successively more advanced stages are reached. The reversal in trend among the oldest group may reflect the widows' decisions to use some of their proceeds to eliminate their mortgages because the outstanding balances were small and may not reflect insurance purchased specifically for mortgage redemption. The increased use of life insurance for mortgage payment among the younger widows seems to reflect more modern sales practices and the purchase of policies specifically intended for mortgage redemption. Even at younger levels, however, approximately 7 in every 10 of the widows with mortgages had not used life insurance to eliminate or reduce their outstanding loans. In addition, of the widows who applied life insurance proceeds to mortgage payments, less than half (45 percent) said that the money had been earmarked for that purpose.

In other words, in families with mortgages, less than 1 in every 8 had made provision before the husband died for prepaying their mortgage through life insurance. These data clearly indicate a market for mortgage insurance that is largely untapped.

*For widows who had neither moved nor used life insurance to prepay mortgages, mortgage indebtedness was determined at the time of the interview rather than at the time of the husbands' deaths. Because some mortgages may have been scheduled to retire during the two-year interval or because other monies received by the widow following the death may have been used to prepay them, the proportion of families with mortgages at the time of death may be slightly higher than this.

Table 5

Home Ownership, Mortgage Indebtedness, and the Use of Life Insurance to Pay Mortgages

	All widows	Normal former family income: Under $5,000	$5,000-$9,999	$10,000-$14,999	$15,000 or more
Percent of all widows owning their own homes	73%	49%	69%	84%	87%
Percent of homeowners with mortgage debt when the husband died	59%	34%	59%	67%	59%
Percent of those with mortgage debt					
Life insurance used to pay off all mortgage	18%	8%	15%	23%	26%
" " " " " part of "	8	7	9	7	7
" " not used to pay on "	74	85	76	70	67
	100%	100%	100%	100%	100%
Number of widows with mortgage debt	844	56	364	243	108

	Stage in life cycle at onset of widowhood: Dependent children, youngest child: Pre-school	Kindergarten through grade 7	Grade 8 or beyond	No dependent children -- widow's age: Under 55	55 or older
Percent of all widows owning their own homes	67%	78%	80%	71%	68%
Percent of homeowners with mortgage debt when the husband died	84%	74%	59%	59%	40%
Percent of those with mortgage debt					
Life insurance used to pay off all mortgage	22%	21%	17%	13%	19%
" " " " " part of "	9	9	6	6	9
" " not used to pay on "	69	70	77	81	72
	100%	100%	100%	100%	100%
Number of widows with mortgage debt	139	267	167	153	118

Insurance on themselves

In addition to their other financial assets, just over 8 in every 10 of the widows (81 percent) had some insurance on their own lives. However, as can be seen in Table 6, most owned relatively small amounts. The median ownership for all widows was only $1,050, while the median coverage for insured widows was but $1,750. Widows who had preschool children tended to have the largest amounts of life insurance, with the level of coverage (mean) decreasing at successively more advanced stages in the life cycle. Yet even among the widows with preschool youngsters to raise and educate, less than 1 in 6 had as much as $10,000 in life insurance protection.

Although 8 in every 10 of the widows were insured, when they were asked why they owned life insurance, just over half (53 percent) could give reasons that were specifically related to the need for life insurance. One in every four (26 percent), though insured, gave answers unrelated to need, such as the policy having been bought long ago, that it had been bought by someone else, or that it was part of her employment fringe benefit package (see Table 7).

Table 6

Amount of Life Insurance Owned by the Widow According to Stage in Life Cycle at Onset of Widowhood

	All widows	Stage in life cycle at onset of widowhood: Dependent children, youngest child: Pre-school	Kindergarten through grade 7	Grade 8 or beyond	No dependent children -- widow's age: Under 55	55 or older
Amount owned:						
$10,000 or more	9%	16%	13%	11%	8%	2%
5,000 -- $9,999	10	18	13	10	10	6
2,000 -- 4,999	19	20	23	20	25	12
1,000 -- 1,999	35	20	32	34	33	45
Under 1,000	8	3	5	7	7	12
Total insured	81%	77%	86%	82%	83%	77%
None owned	19	23	14	18	17	23
	100%	100%	100%	100%	100%	100%
Median amount owned:						
Insured widows	$1,750	$3,000	$2,000	$1,900	$1,950	$1,050
All widows	1,050	2,000	1,800	1,100	1,350	1,000
Average amount owned:						
Insured widows	$4,350	$6,100	$4,750	$4,500	$3,600	$4,050
All widows	3,550	4,750	4,050	3,650	2,950	3,100
Number of cases for median and average with insurance	1,328	182	339	262	259	286

Table 7

Widows' Reasons for Owning Life Insurance According to Stage in Life Cycle at Onset of Widowhood

	All widows	Stage in life cycle at onset of widowhood: Dependent children, youngest child: Pre-school	Kindergarten through grade 7	Grade 8 or beyond	No dependent children
Total owning life insurance	81%	77%	86%	82%	79%
Reasons related to need					
Burial, final expenses	42%	33%	43%	39%	44%
Provide for the children	8	29	19	6	1
Necessary, the thing to do	4	3	2	3	4
Inheritance for the children	2	1	1	5	2
Children's education	+	1	1	1	-
Total giving reasons related to need*	53%	56%	62%	49%	50%
Reason not related to need:					
Have had it for years	10%	3%	7%	10%	12%
Group insurance at place of employment	9	3	6	12	10
Purchased by someone else	5	11	7	6	3
Don't know, no answer	2	2	1	1	1
	26%	19%	21%	29%	28%
Miscellaneous reasons	2%	2%	3%	4%	1%
Number of cases	1,741	240	425	337	739

*The sum of the individual reasons in this category is larger than this total because some widows gave more than one need-related reason.

As would be expected, when a widow without dependent children specified a need, it was most often for funds to provide for her burial and for other final expenses. Only negligible proportions gave other specific reasons for having life insurance. However, even among families with children, insurance to meet final expenses was mentioned more often as a reason for owning than was the need to provide money for the children's continued care and support. The proportion who said they owned life insurance for the support of their children is highest (29 percent) when there were preschool youngsters in the home, and it declines to 6 percent among those whose youngest child was of high school age or older. A few widows mentioned owning life insurance as a form of savings, but the number is too small to warrant a separate category.

The widows' needs for life insurance, of course, cannot be compared with those of other family heads. Many had no one dependent on their earning capacities, while for a few, income maintenance benefits, together with the estates created by the husbands, would provide for the dependent survivors in the event the widows should die. However, the modest nature of the widows' financial assets and life insurance coverage suggests that many dependents, and their potential guardians, were being exposed to unnecessary risk.

Chapter 7

Widowhood in Context

The interviews were held with the widows approximately two years after the husbands died, but this choice of a two-year interval was an arbitrary one. This time period was chosen because it was thought to be long enough for the pattern of long-term adjustment to widowhood to be apparent but short enough for the widow to recall with reasonable accuracy her family's financial situation before the death of her husband as well as her decisions in the immediate postdeath period.

Economic adjustments

To determine whether the way of life after two years of widowhood did, in fact, provide a reasonable estimate of her long-term adjustment, the widow was asked to make a series of ratings. Each widow was given a card containing circles numbered from 1 through 10 and was told that the number 10 represented the situation where a family is living comfortably and has no real financial worries. Circle number 1, on the other hand, was defined as representing the other extreme, i.e., a family not living comfortably and very worried about its financial situation. Using this scale, the widow was asked to rate her family's financial situation before her husband died, in the period following his death, currently, and as she estimated it might be five years in the future. The widows who had remarried were asked to rate their situations both immediately before remarriage and currently. The results are shown in Figure 1.

As may be seen, almost half of the widows (47 percent) rated their families' financial situations as being 8 or better in the predeath period. Although only the two ends of the scale were defined, it can be assumed that in the predeath period, these families were living comfortably and were reasonably free of financial worries. Only 12 percent rated their predeath situations as being 4 or less, i.e., a rating suggesting serious financial problems. The group in between -- those who gave ratings of 5 through 7 and who may be assumed to have had moderate financial problems -- includes 41 percent of the predeath families.

In the postdeath period, the proportion of families living in relative freedom from financial worries, i.e., ratings of 8 or better, drops from 47 percent to 24 percent, while the proportion reporting serious financial problems jumps from 12 percent to 38 percent, an increase that is more than twofold. It may also be seen in Figure 1 that the ratings for the immediate postdeath period are similar to those given for their current financial situations (or before remarriage).

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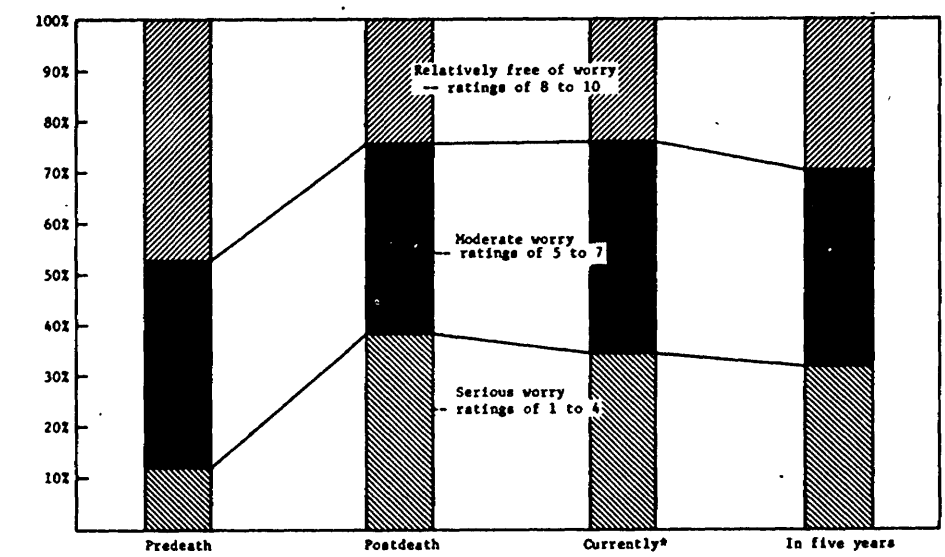
In terms of the future, there is seen to be some slight improvement. The proportion of widows who see themselves as being relatively free of financial worries increases from a current level of 24 percent to 30 percent when they estimated their situations five years in the future. Similarly, the percent whose ratings indicate serious financial problems drops from 35 percent to 32 percent.

This optimism about the future, however, is almost entirely due to the ratings given by widows who had remarried or who expected to remarry. Table 1 shows the median current and in-five-years ratings according to marriage plans. For those who had remarried, the median current rating shown in this table is based on the ratings after remarriage rather than on the ratings for the period immediately before remarriage used in Figure 1. As can be seen, 5 percent of the widows had remarried, and their median after-remarriage and future ratings are 8.0 and 8.6 respectively, while widows who said that they definitely would remarry or probably would (12 percent of the sample) have median ratings of 5.5 and 6.6. For those women who either were not sure or had little expectation of remarriage (83 percent of the sample), there is only a negligible increase when the ratings for the future are compared with those for the present.

Figure 1

Ratings of Financial Worry for Various Time Periods
— Percent of All Widows



	Predeath	Postdeath	Currently*	In five years
75th percentile:	9.35	7.38	7.37	7.94
median:	7.27	5.14	5.27	5.55
25th percentile:	5.31	3.43	3.62	3.84

*For widows who had remarried, immediately before remarriage

In other words, except for those prospects of remarriage, financial worries increased almost immediately after the death of the husband, stabilized at this new level, and are expected to continue at that level into the foreseeable future.

Table 1

Widows' Ratings of Their Current and Future Financial Situations According to Expectation of Remarriage

	Percent of sample	Median ratings of freedom from financial care	
		Current*	In five years
Already remarried	5%	8.0	8.6
Probably will remarry, have definite plans to	12	5.5	6.6
Not sure	26	5.6	5.7
Probably will not remarry, definitely plan not to	57	5.1	5.2
	100%		

*For widows who had remarried, rating is of the financial situations after remarriage

The apparent stability of the median ratings at all postdeath levels might, of course, be masking much individual variation in the widows' financial situations. For example, if the proportion expecting improvement and the proportion expecting deterioration were approximately in balance, the overall median rating for the future would be the same as that for the present. To test for this possibility, correlations were computed between the ratings given for each of the time periods by the individual widows (using the ratings immediately before the remarriage as the "present" ratings for the widows who had remarried). All correlations were positive, indicating that the widows who gave ratings among the highest (or lowest) tended to also be among those giving the highest (or lowest) for the other periods. The correlation between the immediate postdeath ratings and those for the present was high (.89), as was that between the current and in-five-years ratings (.85). In other words, the correlations showed that the consistency of the medians for the periods after the husband died did indeed reflect consistency among the individual widows.*

Additional evidence of the stability of the widow's financial situation was obtained from the following questions. "Looking into the future, can you see any changes in your financial situation, or do you think you probably will continue on as you are now?" A change for the better was foreseen by 17 percent, just over half of whom said that they would be getting more income by going to work, by getting better jobs or promotions, or by shifting from part-time to full-time employment. The only other major source of improvement was through remarriage, which was mentioned by one fifth of the 17 percent. A few expected improvement from such sources as their children becoming old

*The correlations between the predeath ratings and the others were: immediate postdeath, .52; current (or before remarriage), .47; and in-five-years, .43. The correlation between immediate postdeath and in-five-years was .67.

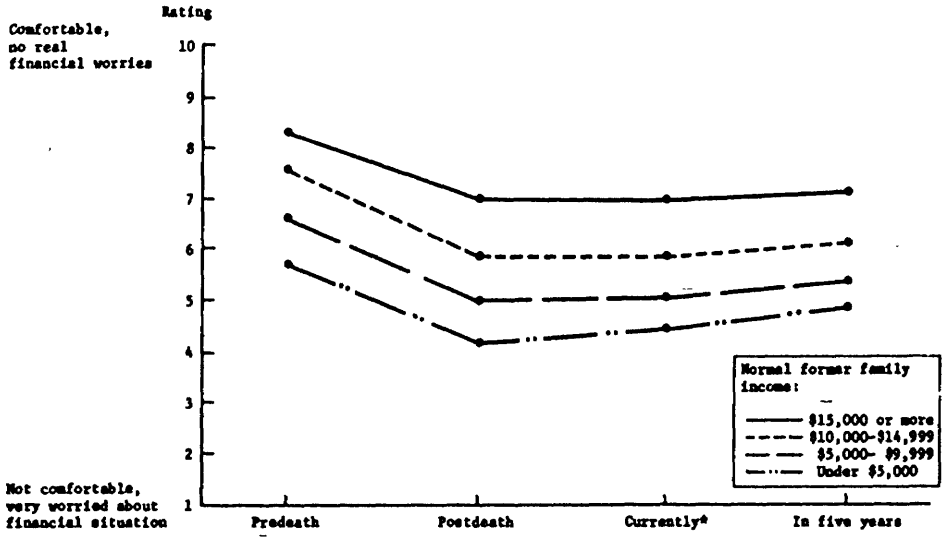
enough to contribute to family income, the settlement of the husband's estate, increased investment income, etc. Only 7 percent foresaw changes that would worsen their financial situations, and this was primarily from loss of income, either social security benefits as they entered the blackout period or in earnings because of illness or having reached retirement age. The remaining 76 percent foresaw no changes that would materially alter their current financial situations.

Figure 2 shows the ratings of financial worry given by widows from families who had been at different income levels before the husbands died. As may be seen, freedom from financial care is associated with higher predeath income status. After the deaths, the widows from each of the income groups show greater financial worries than before, but the advantages imparted by higher income in the predeath period tend to be maintained.

Figure 3 shows the ratings given by widows who had had various amounts of life insurance proceeds left for savings or investment after final bills and their immediate living expenses had been met. The trends are similar to those in Figure 2, with one interesting exception. For the various income groups, the declines in financial well-being that followed the deaths of the husbands were

Figure 2

Average Ratings of Financial Worry for Various Time Periods According to Normal Former Family Income



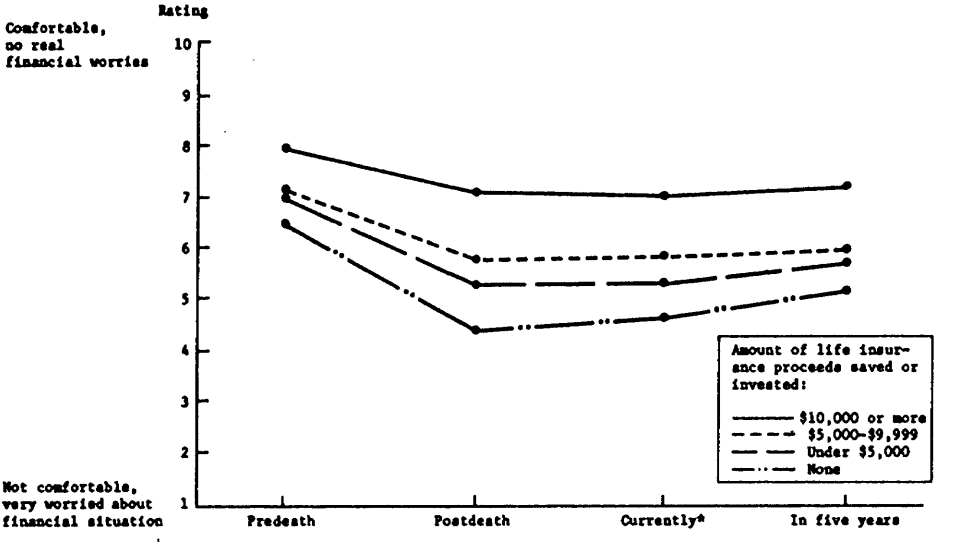
*For widows who had remarried, immediately before remarriage

of similar magnitude; however, widows with no proceeds to save or invest underwent a greater decline than did those who had some proceeds remaining beyond the immediate postdeath period; in addition, the larger the amount of proceeds that remained to save or invest, the smaller the decline in financial well-being. In other words, having life insurance proceeds in reserve helped cushion the economic impact of the husband's death, while the absence of proceeds may have accentuated it.

The changes in the families' living standards were examined in Chapter 2. Figure 4 shows the ratings of the families' financial situations given by widows who said that they had maintained (or bettered) their living standards, those who said that their standards were slightly lower, and those who said that their standards were much lower than before. For each of these groups, the mean ratings of the predeath period are essentially equal, and the ratings of the postdeath periods are in agreement with the widows' statements describing the changes in their living standards. Those who said that their living standards are now much lower are, in fact, describing a condition in which they are not living comfortably and obviously are concerned about their financial situations.

Figure 3

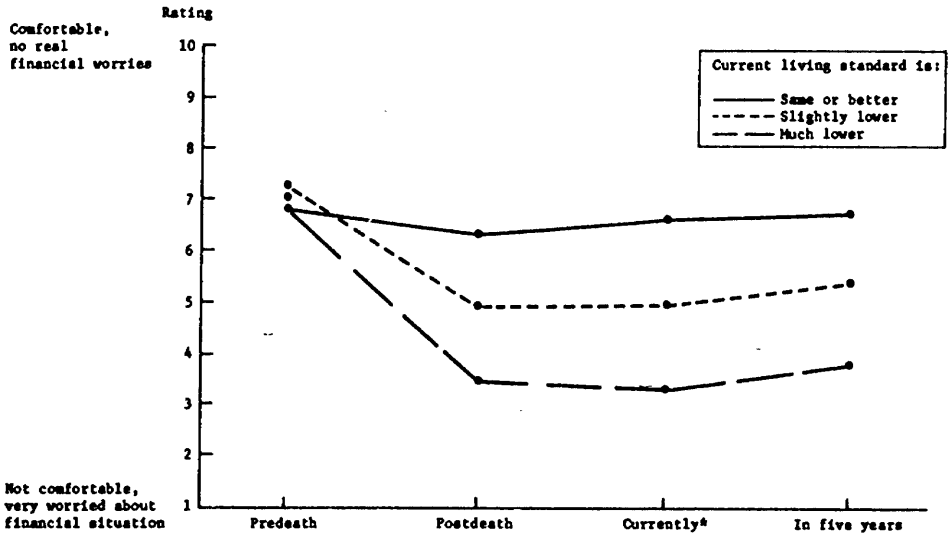
Average Ratings of Financial Worry for Various Time Periods According to Amount of Life Insurance Proceeds Saved or Invested



*For widows who had remarried, immediately before remarriage

Figure 4

Average Ratings of Financial Worry for Various Time Periods According to Widow's Estimate of How Current Living Standard Compares With Former One



*For widows who had remarried, immediately before remarriage

Problems of widowhood

This study has concentrated on the financial aspects of widowhood and on the ways in which the widow's life had been affected by her new financial situation. To place this aspect of widowhood in perspective, each of the widows was asked: "What do you consider your most serious problem since your husband died?" As can be seen in Table 2, almost 4 in every 10 (39 percent) included the loneliness of widowhood among their answers. Some spoke directly about the husband:

> *"Just missing him."*
>
> *"Trying to get along without him. It's funny but it's love and companionship. You don't get someone out of your system so easy after 26 years."*
>
> *"Well, just being alone, I guess. I miss him so much."*

Others spoke of loneliness in terms of lack of contacts with other adults:

"Companionship. My children talk children-talk, so I go into my room and spend so much time alone. This is not good."

"It was trying to adjust to a new way of life. I found after a while I was not included in the things we were when we were a couple. People were nice, but I just didn't fit."

Most, however, spoke simply of being alone:

"Being all alone."

"Loneliness, but I have a nice family with four lovely children and I feel very lucky."

"Being lonesome. A complete big void that cannot be filled."

Table 2

Most Serious Problems of Widowhood

Loneliness *(miss husband, being on the outside, etc.)*	39%
Financial *(living on reduced income, trying to make ends meet, etc.)*	23
Raising the children without their father	19
Maintaining the house and yard *(husband not there to care for and fix things, etc.)*	9
Health	8
Money management and financial decision-making	8
The future	4
Emotional *(nervous, upset, hard to get functioning again, etc.)*	4
Working *(going to work, facing a lifetime of work, etc.)*	3
Not working *(not being able to work, to find steady work, etc.)*	2
Managing husband's business	1
Miscellaneous	5
No serious problems	9%
Number of cases	1,739

Note: Adds to more than 100 percent because of multiple answers

Almost 1 widow in 4 (23 percent) included some aspect of family finances as being among her most serious problems. Typical of these answers:

"Finances and my daughter having to help me."

"Money. There's never enough to do what I really need to do. My salary is just too little."

"The financial end. Meeting the bills. I find it hard to get by on what I get."

"Well, just worrying about making my money cover all the bills. I am afraid without my husband to depend on."

"Money is one. If there is not enough money, it can sure be a problem."

"Worrying about how I'm going to meet the expense and upkeep of the house. I can get by day and day, but if anything serious crops up, it's not going to be easy."

One widow in every 5 (19 percent) talked of the problems of raising the children without a father, and their answers suggest that the problem may have been particularly acute where there were boys in the family.

"It's raising two boys. I have the full responsiblity of trying to teach them right from wrong and how they should choose their friends. I want them to learn good manners and how to act in public, which is why I take them out to dinner as often as I can."

"The boys need a male influence. It's very hard for a mother to do it alone."

"Raising the children and not having a man's opinion. They need a father."

"Well, golly, that can cover a lot of territory. Managing the house and raising the children is a problem. When he was here I had someone to lean on and tell the boys the dos and don'ts. I find this harder to do as I get older and they grow older."

"Just being without a husband. My husband took charge of raising the children and the responsibility of raising them all alone with no help and no one to discuss things with, really. I don't like being the head of the household."

"The children's problems. Knowing how to direct them. They are good kids basically, but I wish I could have the confidence I was doing right."

Most of the mothers did not specifically link the problems of raising their children with the financial aspects of widowhood, although occasionally one did:

"Lack of control of my children. I have to be away in order to sustain us. Also, I have had one baby-sitting problem after another -- this is my greatest expense next to my house payment."

"It's financial and my children. You can't buy what you want, and you can't buy the children what they like."

The problems of maintaining the home, i.e., the difficulty and expense of finding someone to do the routine chores and repairs that the husband had done, were mentioned by 1 in every 10 of the widows.

"All those miserable little repair jobs that amount to nothing but cost you a fortune if you have to call somebody in to do them. You take those things so for granted."

"Keeping up my home. I love it and I don't want to give it up, but it's hard for me to keep it up by myself. There are certain things you cannot do by or for yourself and it's expensive to have everything done for you."

"The entire responsibility for the upkeep on the home. I have to pay someone to do everything that needs to be done around the house, whereas my husband did everything himself."

Approximately 1 widow in every 12 (8 percent) made some reference to her health. These frequently were linked with financial problems, in part because they limited the widow's ability to work, and sometimes because of the expense of the illness itself.

"Security, because I am subject to cancer -- my bill was $5,000 this year -- and I worry if I can keep going."

"I can't go to work because I am disabled."

"My health is so bad and I have to let my children do so much for me. But I'm lucky because they say they want to."

In Volume One (pages 32 and 33) it was seen that a widow tended to have difficulty with finances when her husband had handled all of the family's finances before he died. The problems of financial decision-making were included among their most serious problems by 8 percent of the widows.

"I'm now head of the house and have to do all of the worrying. I'm responsible for everything."

"Handling the finances of the home and everything. I'm not a good manager and have no experience of handling financial situations."

For a few widows, however, taking over from the husband had provided an opportunity for growth:

"I suppose it would be having to learn to think for myself. It has been a good experience in some ways. I didn't know I was this independent."

As can be seen from Table 2, relatively few of the widows (4 percent) specifically mentioned that fear of the future was among their most serious problems. When fear was mentioned, it tended to be linked with health and financial problems:

> *"Fear of becoming sick and having it eat up my money."*

> *"Worrying about the future and what will happen if I can't cope with things like illness. Fear of not being independent."*

Four percent of the widows made direct reference to emotional problems. When mentioned, the widows tended to talk of lack of motivation or the inability to come to grips with their other problems. A few told of acute disturbances requiring medical treatment and sometimes hospitalization. Much of the loneliness, of course, may have represented emotional withdrawal.

Only 3 percent said that having to work was one of their most serious problems, while almost as many (2 percent) said that the inability to work was a problem. One percent said that they encountered difficulty in attempting to take over and manage businesses that their husbands had had.

Interestingly, when asked to name their most serious problem, almost 1 in every 10 (9 percent) of the widows denied that they had any. The conditions that allowed these women to feel that they had escaped the problems of widowhood were not explored. Some, however, said that they had no problems because they had made their adjustments to being alone, while for a few, the adjustment may have been made before they were widowed:

> *"This is hard for me to answer because my most serious problems were when he was ill. He was ill for such a long time and I had many problems to resolve then, such as learning to reapportion my time."*

Table 3 shows how the problems of widowhood are related to several characteristics, such as the family's former income level and the stage in the life cycle at which the wife was widowed. Loneliness, as can be seen, was mentioned most often by widows from upper income families and by the older widows who had no dependent children. This does not mean that the widows from lower income homes or those who have children were less lonely or missed their husbands any less. What it does show is that for widows from lower income families, or perhaps more directly, for widows suffering the greatest declines in living standards, the financial problems of widowhood often are of overriding importance. As was seen in Chapter 2, these widows tended to come from families who had the smallest financial resources before the husbands died, tended to have received less life insurance, and tended to have less income from work and from income maintenance programs. Although life insurance is only one factor in helping widows maintain their living standards and although it tends to be associated with other sources of financial strength, it is seen that as the amount of life insurance proceeds that were allocated to liquid savings and investments increases, there is a marked reduction in the proportion of widows mentioning financial problems.

Table 3

Most Serious Problems of Widowhood

	Loneliness	Financial	Not working	Managing husband's business	Child care	Health	Money management	No serious problems
Normal former family income								
$15,000 or more	50%	12%	+	4%	*	5%	*	*
10,000 -- $14,999	44	19	1%	+	*	5	*	*
5,000 -- 9,999	36	26	2	1	*	8	*	*
Under 5,000	34	33	3	-	*	16	*	*
Stage in life cycle at onset of widowhood								
Dependent children, youngest child:								
Preschool	24%	*	*	*	56%	2%	*	*
Kindergarten through grade 7	28	*	*	*	46	2	*	*
Grade 8 or beyond	39	*	*	*	19	7	*	*
No dependent children	46	*	*	*	1	11	*	*
Widow's estimate of how current living standard compares with former one								
Same or better	43%	10%	+	*	*	7%	*	13%
Slightly lower	41	29	2%	*	*	7	*	5
Much lower	28	46	4	*	*	12	*	5
Life insurance proceeds allocated to liquid savings and investments								
$10,000 or more	47%	10%	*	*	28%	7%	12%	*
Less than $10,000	42	21	*	*	20	6	7	*
None	34	32	*	*	14	12	5	*

*Problems not significantly related to characteristic at the 1 percent level are not shown.

+Less than ½ of 1 percent

Among families in which there were children, the problems of raising the children without their fathers are seen to dominate either loneliness or the financial problems of widowhood. The fact that concern is highest among widows with the youngest children undoubtedly reflects the recognition on the part of these mothers that they will be responsible for providing guidance throughout most of their children's formative years. The only other problem significantly related to the stage in the life cycle at which the wife was widowed is health.

In the present study, life insurance proceeds are associated both with youth and with upper income status. Because the young families tended to own larger amounts of life insurance, the proportion of widows mentioning child care problems increases as amount of proceeds increase. There is also an increase in the proportion mentioning that they had problems managing money, perhaps in part because they had the proceeds to manage but probably also because upper income husbands are more likely to leave complicated estates and be-

cause wives in upper income families are less likely to be involved in handling family finances when the husbands are alive.*

Advice to wives on preparing for widowhood

At the end of the interview, each of the widows was asked, "Can you think of anything that could be done to help or make it easier for widows to adjust to a new way of life?" As can be seen from the answers in Table 4, many of the widows used the question as an opportunity to offer advice to other widows, and frequently it was advice on how to adjust to the emotional shock that followed the death of their husbands. This tendency to respond in terms of their bereavement, rather than addressing themselves to the range of problems that they may have faced, may also account for the high proportion of "don't know" answers (23 percent) and for those who denied that anything could be done to help. For example, one widow said, *"I wouldn't know what to suggest. Some say to go to work, but if you can't, you can't. Getting away from home helps, but you're faced with the same thing (grief) when you come back."*

Another said, *"There is no answer. It is terrible, but that's the way it is and you have to get used to it."* Or, *"I really don't know. It is a personal thing and everyone is different; some have to talk out their problems and some don't."* Or, *"I don't think anyone can help -- no one could help me. You have to work things out for yourself. Just don't give up, keep your chin up is all."*

Although many felt that the problems of bereavement were ones that the widow has to work through by herself, almost one third (32 percent) stressed the importance of keeping active and alert. *"Keep many friends to help pass the hours, and do church work. You must convince yourself that you aren't going to see your husband again as long as you are alive, so you must go on doing the normal everyday things."* Often the advice to keep active included getting a job, not necessarily as a solution to the economic problems of widowhood, but more as a way of easing the psychological burdens. For example, *"If they can work, it's the best therapy there is, whether they need the money or not."* Another said, *"Well, if they've never worked, go out to work. It gives you the incentive to go out and be with the public. It puts something else on your mind."* Similarly, *"Go to work if that's possible, because I figure the tireder you are, the less time you have to think."*

A smaller group, composed of 6 percent of the widows, stressed the need to be optimistic and to have faith. These answers had a strong religious component:

> *"Have faith that God will give you the strength and comfort to come through."*

*The Family Financial Officer, Research Report 1966-5 (File 940)

Table 4

Things That Widows Believe Could Be Done to Help or Make It Easier for Other Widows to Adjust to a New Way of Life

Be active *(keep busy, get a job, join a club, don't withdraw, etc.)*	32%
Be optimistic, have faith	6
Tell friends and relatives not to forget widow	4
Create a counseling service *(clinics to discuss problems of widowhood, a telephone service like Alcoholics Anonymous, etc.)*	4
Seek competent financial, legal aid *(get honest advisors, etc.)*	3
Seek competent help for emotional problems	1
Remarry	1
Broaden social security *(eliminate blackout period, lower retirement age, eliminate earnings requirement, etc.)*	5
Increase social security benefits	4
Broaden Medicare coverage	1
Liberalize eligibility rules for disability income under social security	+
Increase V.A. benefits	1
Job training or retraining programs	2
Better job opportunities *(help widows find jobs, employers more willing to hire older women, etc.)*	2
Day care centers for children	+
Relief from Federal, state, or local taxes	1
Increased educational aid for widows' children	1
Prepare wives for widowhood *(have them learn family finances, know what to expect, etc.)*	4
Carry life insurance *(have mortgage insurance, make group insurance compulsory, etc.)*	3
Miscellaneous	7
Nothing can be done:	
Widow must work things out herself	11%
Each situation is unique	6
Don't know, no answer	23%
Number of cases	1,744

+Less than ½ of 1 percent

> *"The only thing I can think of is religion; you've got to have it in order to survive. My faith in God and his understanding pulled me through; I couldn't have done it alone."*

Although the large majority talked of the widow's need to solve the problems of bereavement herself, 4 percent asked that friends and relatives not forget them. One percent urged widows to get competent help with their emotional problems from medical and social agencies.

Four percent of the widows suggested the creation of a widows' counseling service. Although this frequently involved creation of an agency that a widow could go to or telephone for advice on handling her emotional problems, others would include provision for advice on investments and family finance. More directly in the financial area, 3 percent would advise a new widow to seek competent financial and legal counsel from existing sources before making major investment or financial decisions.

In thinking of the solutions to the financial problems of widowhood, a number of widows suggested changes in social security. As can be seen in Table 4, 5 percent suggested broadening social security by eliminating the blackout period entirely, by lowering the age of eligibility for retirement benefits, or by eliminating the earnings requirement. An increase in the level of social security benefits -- primarily the monthly benefit although occasionally the lump-sum funeral benefit was included -- was mentioned by 4 percent. One percent asked for a broadening of Medicare coverage to include younger widows.

A need for job training, or retraining, programs was mentioned by 2 percent of the widows, while 2 percent spoke of the need for help in finding jobs, including a change in attitude on the part of employers toward hiring older women. A small group, consisting of less than ½ of 1 percent, talked of the need for day-care centers. Tax relief for widows and assistance in educating widows' children were each mentioned by 1 percent of the sample.

Because of their bereavement, and perhaps because of the way the question was asked, most of the answers might be considered as advice to other widows or suggestions for solving the problems that widows encounter after the death of the husband. However, some did offer suggestions that were directed to wives and husbands.

Some widows stressed the importance of preparing wives for widowhood (4 percent of the sample).

> *"If women knew what their benefits were before the husband died, they could plan and it would not work such a hardship. They should plan and have insurance."*

> *"I would think wives should receive some form of education as to what might be expected of them in this event and should take a more active part in making fir cial decisions and sharing of responsibilities."*

> *"A husband should inform his wife of where their assets are and what their financial situation is."*

> *"Women should know what is going on in the financial area in their family. I work in a bank and see the situations women get themselves into simply because their husbands have, by design or accident, kept them in the dark about monthly income, checking accounts, etc."*

> *"Every woman should know about her financial situation. If she doesn't know what the light bill is, she's got a problem. There could be education through the news media, and husbands could tell their wives what to do and warn them to beware of investment schemes."*

Or simply,

> *"Men should prepare their wives to handle finances. Women should prepare themselves emotionally for the adjustment."*

Despite the importance of life insurance to the majority of the widows studied, only 3 percent touched on life insurance in their answers. This may have been because of the reasons already mentioned or perhaps because they felt that if they had mentioned life insurance, it might have implied criticism of the husband. Those who did urge families to carry life insurance tended to be widows whose husbands had carried either no regular life insurance or only small amounts. One widow admitted: *"I wish now we hadn't waited so long about the life insurance we meant to take out, but we just put it off."* Another said, *"For one thing, if there could just be more insurance so there could be some left over from funeral expenses to help get the wife started on her own."* Or, *"A husband should have more insurance so his widow could carry on and keep her home."* Or, *"Everybody should have enough insurance to protect their loved ones."* Except for one who was the beneficiary of a $10,000 NSLI policy, each of these widows received less than $5,000 in benefits.

Of the answers in the miscellaneous category, only two were mentioned often enough to possibly have deserved categories of their own. One was the suggestion that there be social clubs where widows could meet. The other was a general reference to the need for more money but with no source specified. As the widow of an accountant put it:

> *"Nothing but money. If we only had a little more to live on things would be a lot easier."*

The LIFE UNDERWRITER TRAINING COUNCIL (LUTC) was created in 1947 through the combined efforts of life insurance company and field organizations. The Council's primary function is to provide practical sales training for life insurance salesmen and to serve as a clearing house for information on life insurance education and training. Over 1,000 class groups, located in communities throughout the United States, participate each year in LUTC programs.

The LIFE INSURANCE AGENCY MANAGEMENT ASSOCIATION was founded by life insurance companies in the United States and Canada to study common problems of agency management through original research and the development and exchange of ideas. Member companies have over 90 percent of the life insurance in force in the United States and Canada. Associate members are located in many other countries in the free world.

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CONSTITUTION and BYLAWS

of the

MILLION DOLLAR ROUND TABLE

Part 1 and Part 2

As Amended through June 23, 1971

MILLION
DOLLAR
ROUND
TABLE

36 South Wabash Avenue, Chicago, Illinois 60603
(312) 332-1662

CODE OF ETHICS

of the

NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

The position of the Life Underwriter is unique in that he is the liaison between his client and his company. As a life insurance advisor he owes a high professional duty toward his client, while, at the same time, he also occupies a position of trust and loyalty to his company. Only by observing the highest ethical balance can he avoid any conflict between these two obligations. Therefore:

I BELIEVE IT TO BE MY RESPONSIBILITY:

To hold my business in high esteem and strive to maintain its prestige.

To keep the needs of my clients always uppermost.

To respect my clients' confidence and hold in trust personal information.

To render continuous service to my clients and their beneficiaries.

To employ every proper and legitimate means to persuade my clients to protect insurable obligations; but to rigidly adhere to the observance of the highest standards of business and professional conduct.

To present accurately, honestly and completely every fact essential to my clients' decisions.

To perfect my skill and to add to my knowledge through continuous thought and study.

To conduct my business on such a high plane that others emulating my example may help the standards of our vocation.

To keep myself informed with respect to insurance laws and regulations and to observe them in both letter and spirit.

To respect the prerogatives and cooperate with all others whose services are constructively related to ours in meeting the needs of our clients.

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Part 1

Part 1

PART 2

PREAMBLE

In the belief that development of an organization for outstanding life insurance underwriters who produce large volumes of business will result in substantial benefits to the general public, to the institution of life insurance and to such underwriters themselves, the Million Dollar Round Table of the National Association of Life Underwriters has been formed.

ARTICLE I
NAME

The organization is an Illinois Not For Profit Corporation, the full name of which is the Million Dollar Round Table of the National Association of Life Underwriters.

ARTICLE II
PURPOSES

The purposes for which this organization has been formed and will be operated are as follows:

(1) To provide an incentive for all life insurance salesmen to reach their full potential in professional development, technical competence and sales performance.

(2) To elevate the professional standards and prestige of life insurance salesmen.

(3) To promote the public understanding of the professional approach to the full time career of life insurance selling.

(4) To provide a program for the continuing education and enlightenment of its members in all phases of life underwriting and other related fields of knowledge.

(5) To promote the Code of Ethics of the National Association of Life Underwriters, which is hereby made a part of this Constitution and Bylaws.

(6) To study selected problems affecting life insurance and the techniques of life underwriting to benefit the institution of life insurance and the public.

(7) To foster and develop understanding and cooperation with the law and accounting professions, fiduciary institutions and other organizations.

(8) To serve the public by supporting the general principles of legal reserve life insurance and to acquaint the public with its services and advantages.

ARTICLE III
EXECUTIVE COMMITTEE

Section 3.1 ***Governing Body***

The Million Dollar Round Table shall be governed and managed by an Executive Committee duly elected by the membership.

Section 3.2 ***Composition***

The Executive Committee shall consist of five persons of whom four shall be elected. The fifth shall be the retiring President.

Section 3.3 ***Inability to Serve***

(a) *Past President* — If the member who is a Past President shall be unable to serve or complete his term of office or is functioning as President pro tempore, then the next most recent Past President who is available shall fill the vacancy for the unexpired term.

(b) *President* — If the President shall be unable to complete his term of office, the immediate Past President shall function as President pro tempore for the unexpired term.

(c) *Other Elected Members* — If any other elected member shall be unable to serve or complete his term of office, his unexpired term shall be filled by a member who is selected by unanimous vote of the remaining members of the Executive Committee.

Section 3.4 ***Membership Requirement***

Each member of the Executive Committee shall be either a Life member or a Qualifying and Life member.

Section 3.5 ***Duration of Office***

The members of the Executive Committee shall take office on September 1 following the Annual Meeting or, if no Annual Meeting, September 1 following the completion of a mail ballot. Members of the Executive Committee shall hold office through August 31 of the following year or until their duly-elected successors take office.

Section 3.6 ***Authority***

The Executive Committee shall have full authority to interpret and implement all the provisions of this Constitution and Bylaws. All such interpretations shall be by unanimous vote of the Executive Committee and shall be final and conclusive.

Section 3.7 ***Meetings - Quorum***

The President shall call such meetings of the Executive Committee as required or upon request of three members of the Executive Committee. A majority of the Executive Committee shall constitute a quorum.

Section 3.8 ***Voting***

Three affirmative votes of the Executive Committee shall be necessary to carry any motion or action except where a unanimous vote is specified in this Constitution and Bylaws.

Section 3.9 ***Officers***

The officers of the Million Dollar Round Table shall be the elected members of the Executive Committee, with titles of President, First Vice President, Second Vice President, Secretary and the Immediate Past President.

Section 3.10 ***Duties of Officers***

The President shall be the chief executive officer and shall preside at all meetings of the Executive Committee. The duties of the other officers shall be determined by the Executive Committee.

Section 3.11 ***Limitation on Re-election***

No officer shall be elected twice to the same office.

Section 3.12 ***Annual Election***

The Executive Committee and officers shall be elected annually at the Annual Meeting or, if none, by mail ballot.

Section 3.13 ***Regular Nominations***

Nominations for the Executive Committee and officers thereof may be made either by the Nominating Committee or by the members as hereinafter pro-

vided. Only members duly nominated may be submitted for election.

Section 3.14 ***Nominating Committee Report***

The report of the Nominating Committee shall be submitted to the members at least thirty days prior to the Annual Meeting. Should there be no Annual Meeting, the election shall be conducted by mail ballot on a date designated by the President but no later than August 31. The report of the Nominating Committee shall be submitted to the members at least thirty days prior to the date designated for the mail ballot.

Section 3.15 ***Additional Nominations by Written Petition***

Additional nominations may be made by written petitions signed by at least twenty percent (20%) of the then total membership, provided such nominations are received by the President at least ten days prior to the Annual Meeting or in the absence of such meeting, at least ten days prior to the day designated for a mail ballot.

Section 3.16 ***Election Procedure***

If there shall be two or more candidates for any office of the Executive Committee, the person receiving the largest number of votes shall be elected to such office. In the event of a tie for election to the Executive Committee and for office therein, the Nominating Committee shall choose from those receiving the same number of votes and such choice shall constitute election to the Executive Committee and such office.

ARTICLE IV
MEMBERSHIPS

Section 4.1 ***Classes***

There shall be three classes of membership: (1) Qualifying, (2) Qualifying and Life, and (3) Life. Each class of membership shall be a privilege which may be granted or withheld each year by the Executive Committee.

Section 4.2 ***Duration***

All classes of membership are granted for one year only. Membership shall extend from the date of approval of the application by the Executive Committee to either (a) the end of the current calendar year if approval is granted on or after January 1, or (b) the end of the next following calendar year if approval is granted prior to January 1.

Section 4.3 ***Privileges***

Privileges of membership as determined by the Executive Committee shall apply to all classes of members.

Section 4.4 ***Qualifying Membership***

An applicant for Qualifying membership shall become a Qualifying member for the first time when he has met all the production, filing, service and other requirements and conditions.

Section 4.5 ***Production Requirements***

Each applicant for Qualifying membership shall establish the fact that he has paid for at least ten separate lives or cases, or any combination thereof, and either has personally received and retained, or is personally entitled to receive and retain, the full standard first year and renewal commissions on at least one million dollars of credited business which shall be determined annually by and in accordance with:

(a) Article XX — Credits for Qualifying Membership and Official MDRT Converter and Guide;

(b) All other applicable provisions of this Constitution and Bylaws; and

(c) Such interpretive rules as may be unanimously voted by the Executive Committee.

Section 4.6 ***Service Requirements***

An applicant shall have met all production, filing and other requirements for (a) each of two successive years or (b) each of any three years within a period of five consecutive years in order to attain Qualifying membership.

Section 4.7 ***Prior Qualifying Membership***

An applicant who attained one or more years of Qualifying membership prior to January 1, 1963, is not required to meet the service requirement as set forth in Section 4.6.

Section 4.8 ***Life Membership***

Each applicant for Life membership shall meet, in addition to all other requirements, the additional requirement that he has been approved as a Qualifying member for six consecutive years or for an aggregate of ten years. However, this additional requirement shall be waived for Life memberships obtained for or prior to the year 1962.

Effective for qualifying as a Life member or Qualifying and Life member of the 1976 and subsequent Million Dollar Round Tables, the Chartered Life Underwriter (CLU) designation shall be an additional requirement except that the CLU designation requirement shall not apply to the following:

(a) An applicant who attained Life membership or Qualifying and Life membership prior to the 1976 Million Dollar Round Table;

(b) An applicant who signed his initial contract as a life insurance agent after attaining age 45; and

(c) An applicant who is a citizen of a country other than the United States or Canada.

Section 4.9 ***Credit for Provisional Applicant Year(s)***

The number of years for which a member was approved as a Provisional Applicant shall be counted as qualifying years for the purpose of his Life membership.

Section 4.10 ***Waiver of Production Credits for Life Membership***

A Life member must meet all of the requirements for Qualifying membership except the production credits as provided in Section 4.5.

Section 4.11 ***Life Membership — Age 65***

Each applicant who has attained his 65th birthday and who has completed 15 years of qualification or 20 years of membership, may apply for Life membership — Age 65 — upon the completion of such forms and the payment of such dues as the Executive Committee may determine.

Section 4.12 ***Qualifying and Life Membership***

Each applicant for Qualifying and Life membership shall establish the fact that he has met all the requirements for and is entitled to both Qualifying membership and Life membership.

Section 4.13 ***Qualifying and Life or Life Membership — Past President***

Each applicant who is a Past President may be approved for Qualifying and Life or Life membership — Past President, upon completion of such forms and the payment of such dues as the Executive Committee may determine.

ARTICLE V
PROVISIONAL APPLICANT STATUS

Section 5.1 ***Definition***

Provisional Applicant status is one which is obtained by an applicant who applies subsequent to January 1, 1963, when he has met all the production, filing, service and other requirements but has not met these in each of two consecutive years or each of any three years in a period of five consecutive years.

ARTICLE VI
INACTIVE STATUS

Section 6.1 ***How Obtained***

A member who resigns his membership due to circumstances which in the opinion of the Executive Committee are of exceptional nature may be classified to Inactive Status. Exceptional circumstances may include but not be limited to military service and other such service as may be approved by the Executive Committee as determined on an individual basis. Those in an Inactive Status shall pay no dues for the period of such service and shall not have any privileges of membership.

ARTICLE VII
APPLICATION PROCEDURES & RULES

Section 7.1 ***Application Form and Supporting Documents***

Applications for any class of membership shall be submitted to the Executive Committee in such form and accompanied by such supporting documents as the Executive Committee may determine.

Section 7.2 ***Additional Information***

The Executive Committee shall have the unrestricted right and power to require the furnishing of such additional data and information as it may deem advisable.

Section 7.3 ***Approval and Disapproval of Applications***

The Executive Committee shall approve each such application for membership which meets all stated requirements unless the Executive Committee unanimously votes for disapproval. Where an applicant for membership or provisional status has previously violated established insignia rules or rules of conduct, his application may be declined by unanimous vote of the Executive Committee. The Executive Committee shall not be required to disclose its reasons for such disapproval to the applicant or anyone else. No member of the Executive Committee shall vote on his own application for membership.

Section 7.4 ***Dates for Submitting Application***

Applications for membership shall be submitted after October 31st but not later than March 1st.

Section 7.5 ***Applicant's Certifications***

Each applicant for membership shall sign and submit, as part of his application, a certificate in such form as the Executive Committee may require and establishing these facts:

(a) That he attained his 21st birthday not later than the last day of his qualification period.

(b) That he was and is a dues paid member in good standing of an accredited local life underwriters association. However, the Executive Committee may waive this requirement by unanimous vote in the case of (i) an applicant other than a resident of the U.S. or Canada, (ii) an applicant who was not a member of such association during his entire qualification period which fell within the applicant's first twelve months under his initial contract as a life insurance agent, and (iii) an applicant who is a Qualifying and Life or Life member who has become totally and permanently disabled.

(c) That no complaint or proceeding of any nature has ever been brought against him by or through (i) any life underwriters association, or (ii) any governmental body or representative thereof having jurisdiction over his license(s). If any such complaint or proceeding has been brought, the fact thereof shall be marked on or attached to such certificate.

Section 7.6 ***Insurance Company Certification***

In order to establish the facts of his paid business, each applicant for membership shall furnish the Executive Committee with a statement (in such form as the Executive Committee may require) from a home office official of each insurance company in which such applicant claims production credit, certifying to the production for which credit is claimed, together with such other pertinent information as the Executive Committee may require.

Section 7.7 ***Right of Executive Committee to Approve Membership***

Each Executive Committee shall grant membership or Provisional Applicant status for only the year for which application is made except as provided in Article IX on Membership Reinstatement.

ARTICLE VIII
TERMINATION OF MEMBERSHIP AND PROVISIONAL APPLICANT STATUS

Section 8.1 ***By Revocation***

The Executive Committee may revoke, rescind, or otherwise terminate by unanimous vote any membership or any Provisional Applicant status granted currently or in the prior three qualification years to any applicant, but only if the Executive Committee has additional information which in its sole discretion would have caused it to vote unanimously to disapprove such applicant if such additional information had been known at the time such application was approved.

Section 8.2 ***By Loss of Association Membership***

The membership or Provisional Applicant status granted to any applicant shall automatically terminate if his membership in a life underwriters association has been revoked, terminated or suspended.

Section 8.3 ***By Unauthorized Affiliations***

No member or Provisional Applicant shall join any group or organization which uses or authorizes the use of (a) any insignia adopted by the Million Dollar Round Table, or (b) the words Million

Dollar Round Table or any combination thereof, or (c) any words which have substantially the same import, — unless the Executive Committee shall expressly authorize such use by such group or organization. The membership or Provisional Applicant status granted to any applicant who violates this provision may be revoked by unanimous vote of the Executive Committee. However, this Section 8.3 shall not be construed to prohibit or discourage members of the Million Dollar Round Table from forming any local discussion or study group which does not violate the above prohibition.

Section 8.4 ***By Violation of Rules of Insignia or Conduct***

Any member or Provisional Applicant who fails or refuses to comply with the insignia rules or the rules of conduct established by the Executive Committee shall be subject to denial, suspension or revocation of his membership or status by unanimous vote of the Executive Committee.

ARTICLE IX

MEMBERSHIP REINSTATEMENT

Section 9.1 ***By Retroactive Approval***

Within two years from the date of revocation, rescission, or other termination of any class of membership, the Executive Committee by unanimous vote, may reinstate such membership if it has additional information which in its sole discretion would have caused it to approve such membership if such additional information had been known at the time of such termination.

Section 9.2 ***Life Membership Reinstatement***

Should a Life member fail to renew his Life membership by nonpayment of dues or by noncompliance with the requirements for Life membership for one or two consecutive years, he may be reinstated only upon payment of an amount equal to his unpaid dues for such year or years, and by his meeting the then current requirements for Life membership. Should a Life member similarly fail to renew his Life membership for three or more consecutive years, he shall cease to be eligible for membership of any kind unless and until he again meets all the requirements for Qualifying membership in the year immediately preceding his application for reinstatement, and upon payment by him of an amount equal to unpaid dues for a maximum period of three years on the basis of current dues at the time of such reinstatement.

Section 9.3 ***Reinstatement from Inactive Status***

A former member in an Inactive Status shall be eligible for reinstatement, by unanimous vote of the Executive Committee, to the class of membership he held at the time of resignation. The period of time spent in Inactive Status shall be omitted from all calculations of time required in the Constitution and Bylaws for consecutive years.

ARTICLE X

INSIGNIA

Section 10.1 ***Authorized Insignia***

The official insignia of the Million Dollar Round Table shall be determined by the Executive Committee.

Section 10.2 ***Rules Governing Use***

The right to use the insignia at any time shall be subject to such rules and prohibitions as the Executive Committee may determine.

ARTICLE XI

DUES AND CHARGES

Section 11.1 ***Applicants***

Each applicant shall pay such filing fees, dues, and other charges as the Executive Committee may determine.

Section 11.2 ***Members***

Each member shall pay such annual dues and assessments as the Executive Committee may determine.

Section 11.3 ***Other Fees and Charges***

Each member and each Provisional Applicant shall pay such registration fees for meetings and activities, and such charges for materials and insignia, as the Executive Committee may determine.

Section 11.4 ***Payment in U. S. Funds***

All dues and charges shall be payable and paid in United States funds.

ARTICLE XII

MEETINGS AND VOTING

Section 12.1 ***Annual Meeting***

The Annual Meeting of the Million Dollar Round Table shall be held at such time and place as the Executive Committee may determine. Written notice of said meeting shall be given not less than thirty days prior to the date thereof.

Section 12.2 ***Special Meetings***

Special meetings of the Million Dollar Round Table may be called by the Executive Committee at its discretion. Written notice of said meetings shall be given not less than thirty days prior to the date thereof.

Section 12.3 ***Voting***

At an annual or special meeting of the Million Dollar Round Table each member shall have one vote, which vote may be cast in person only. Unless otherwise specifically provided by this Constitution and Bylaws a majority vote of those members present and voting shall govern.

Section 12.4 ***Voting by Mail***

On any mail vote, no less than thirty percent (30%) of all members shall cast a ballot to constitute a valid vote. Unless otherwise specifically provided by this Constitution and Bylaws a majority vote of those members voting shall govern.

Section 12.5 ***Quorum***

At an annual or special meeting of the Million Dollar Round Table a quorum shall consist of at least thirty percent (30%) of those members registered for said meeting.

Section 12.6 ***Rules of Conduct***

Members and Provisional Applicants shall accept and conform to the Code of Ethics and to those rules of conduct which the Executive Committee may determine and publish for the conduct of those attending any such meeting.

Section 12.7 ***Parliamentary Guide***

Roberts' Rules of Order Revised shall be the official parliamentary guide for all business sessions.

ARTICLE XIII
COMMITTEES

Section 13.1 ***Appointment***

The President, with the approval of the Executive Committee, shall annually appoint such standing committees as provided in this Constitution and By-laws and such other committees as the Executive Committee may deem advisable.

Section 13.2 ***Nominating Committee***

At least six months prior to each Annual Meeting, the President shall appoint a Nominating Committee which shall consist of five members, one of whom shall be designated by him as chairman. The President and two available Past Presidents shall be members of the Nominating Committee, but the other two members shall not be members of the Executive Committee or Past Presidents.

Section 13.3 ***Finance Committee***

The President shall appoint a Finance Committee to review finances of the Million Dollar Round Table and report annually to the membership.

Section 13.4 ***Membership Committee***

The President shall appoint a Membership Committee to assist the Executive Committee in the qualification of applicants for membership.

Section 13.5 ***Insignia Committee***

The President shall appoint an Insignia Committee to assist the Executive Committee in the administration of the insignia, publicity and advertising rules.

Section 13.6 ***Constitution and Bylaws Committee***

The President shall appoint a Constitution and By-laws Committee to advise the Executive Committee and membership in the interpretation of this Constitution and Bylaws and in drafting any amendments thereto.

ARTICLE XIV
EXECUTIVE DIRECTOR

Section 14.1 ***Employment***

There shall be an Executive Director whose employment shall be made by a unanimous vote of the Executive Committee.

Section 14.2 ***Compensation***

Compensation of the Executive Director shall be determined by the Executive Committee.

Section 14.3 ***Duties***

The Executive Director shall manage, supervise and direct the operations of the Million Dollar Round Table within the authority delegated to him by the Executive Committee. He shall be an ex-officio member of the Executive Committee without vote.

ARTICLE XV
FISCAL PROCEDURE

Section 15.1 ***Fiscal Year***

The fiscal year of the Million Dollar Round Table shall be fixed by the Executive Committee.

Section 15.2 ***Annual Budget***

The Executive Committee shall, by such procedure as it may prescribe, adopt a budget each fiscal year appropriating and authorizing expenditures of funds for the operation of the Million Dollar Round Table. Funds to meet this budget are provided by the members' dues or otherwise.

Section 15.3 ***Non-Compensation***

No member of the Million Dollar Round Table or of the Executive Committee, or of any other committee, shall receive any compensation for services rendered.

ARTICLE XVI
LIMITATION ON LIABILITIES

Section 16.1 ***Limitation on Liabilities***

The Million Dollar Round Table shall indemnify and hold harmless each person who has, is now, or shall hereafter serve as an officer of the Million Dollar Round Table, as a member of the Executive Committee, the Membership Committee, or any other authorized committee of the Million Dollar Round Table, or as an employee of the Million Dollar Round Table, or any person who renders services as a result of having been retained or employed by the Executive Committee for such purposes, from and against any and all claims and liability, whether the same are settled or proceed to judgment, to which such person shall have become subject by reason of his having acted in the capacity or capacities heretofore enumerated, or by reason of any action alleged to have been heretofore or hereafter taken or omitted by him in such capacity, and shall reimburse (to the extent not otherwise reimbursed) each such person for all legal and other expenses, including the cost of settlement, reasonably incurred by him in connection with any such claim, liability, suit, action or proceeding; provided, however, that no such person shall be indemnified against, or be reimbursed for, any claims, liabilities, costs or expenses incurred in connection with any claim or liability, or threat or prospect thereof, based upon or arising out of his own willful misconduct, in the performance of his duties. The rights accruing to any person under the provisions of this section shall not exclude any other right to which he may be lawfully entitled, nor shall anything herein contained restrict the right of the Million Dollar Round Table to indemnify or reimburse such person in any case even though not specifically herein provided for.

ARTICLE XVII
AMENDMENTS

Section 17.1 ***At Annual Meeting***

The Constitution and Bylaws may be amended at any Annual Meeting but no amendment shall be voted upon and adopted unless such amendment has been sent to each member at least thirty days prior to the Annual Meeting and received the affirmative vote of two-thirds of the members present and voting.

Section 17.2 ***Between Annual Meetings***

In the absence of or between Annual Meetings, amendments to the Constitution and Bylaws may be submitted to the membership by a mail ballot conducted by the Executive Committee provided further that a period of at least thirty days shall be given between the date the ballots are mailed

and a date fixed for the close of voting thereon. To be adopted, each such amendment shall have received the affirmative vote of two-thirds of the members voting by mail.

Section 17.3 ***By Written Petition***
Amendments to the Constitution and Bylaws may be proposed by written petition signed by at least twenty percent (20%) of the then total membership and delivered to the Executive Committee not less than forty-five days prior to the date of any Annual Meeting so that notice thereof may be sent to each member at least thirty days prior to the Annual Meeting.

ARTICLE XVIII

MILLION DOLLAR ROUND TABLE FOUNDATION DIRECTORS

Section 18.1 ***Nominate Three Directors***
The Nominating Committee shall nominate three regular Directors of the Million Dollar Round Table Foundation, who shall be chosen from Life or Qualifying and Life members, none of whom is either a current member of the Nominating or Executive Committees, nor a Past President of the Million Dollar Round Table.

Section 18.2 ***Annual Election***
The three regular Directors of the Million Dollar Round Table Foundation shall be elected annually at the Annual Meeting of the Million Dollar Round Table or, if none, by mail ballot.

Section 18.3 ***Regular Nominations***
Nominations for three regular Directors of the Million Dollar Round Table Foundation may be made by the Nominating Committee or by the members as hereinafter provided. Only members duly nominated may be submitted for election.

Section 18.4 ***Nominating Committee Report***
The report of the Nominating Committee shall be submitted to the members at least thirty days prior to the Annual Meeting. Should there be no Annual Meeting, the election shall be conducted by mail ballot on a date designated by the President but no later than August 31. The report of the Nominating Committee shall be submitted to the members at least thirty days prior to the date designated for the mail ballot.

Section 18.5 ***Additional Nominations by Written Petition***
Additional nominations may be made by written petitions signed by at least twenty percent (20%) of the then total membership, provided such nominations are received by the President at least ten days prior to the Annual Meeting or in the absence of such meeting, at least ten days prior to the day designated for a mail ballot.

Section 18.6 ***Election Procedure***
If there shall be more than three candidates for the three regular Directorships of the Million Dollar Round Table Foundation, the three persons receiving the largest number of votes shall be elected. In the event of a tie, the Nominating Committee shall choose from those receiving the same number of votes and such choice shall constitute election to the Million Dollar Round Table Foundation Board of Directors.

ARTICLE XIX

MISCELLANEOUS

Section 19.1 ***Dissolution of the Million Dollar Round Table***
On dissolution of the Million Dollar Round Table, any funds remaining shall be distributed to one or more organized and qualified educational, scientific or philanthropic organizations to be selected by the Executive Committee.

Section 19.2 ***Previous Constitution and Bylaws Superseded***
All provisions of the previous Constitution and Bylaws of the Million Dollar Round Table are hereby replaced by the provisions hereof.

PART 2

ARTICLE XX

CREDITS TOWARD QUALIFYING MEMBERSHIP AND OFFICIAL MDRT CONVERTER AND GUIDE

FORM A—MDRT CREDIT CONVERTER

Section 20.1

To simplify the calculation of credits for all types of policies written by a life insurance company and eligible for MDRT credit, the MDRT has developed a credit converter by which the company is to classify its policies according to Groups A, B, C, and D.

EACH COMPANY WILL INSERT ITS OWN POLICIES BY NAME ON THE MDRT CONVERTER FORM B DEVELOPED FROM A STANDARD BASED UPON THE INITIAL PREMIUM PER THOUSAND FOR ITS LEVEL PREMIUM $100,000 ORDINARY LIFE POLICY AT AGE 35. WHEN A COMPANY ISSUES BOTH PARTICIPATING AND NON-PARTICIPATING POLICIES, TWO STANDARDS WILL BE NECESSARY. HOWEVER, ONLY ONE CONVERTER FORM FOR CLASSIFYING POLICIES WILL BE NEEDED. FOR EXAMPLE:

Age 35, male, $100,000 Ordinary Life Level Premium, participating.....$2,174
Age 35, male, $100,000 Ordinary Life Level Premium, non-participating.....$1,777

After each company selects its STANDARD(S), it will determine the ratio of initial premium per thousand of all other policies at age 35 (excluding term, annuity and group insurance) to the STANDARD (Ordinary Life premium at age 35).

GROUP A — CLASSIFICATION OF COMPANY POLICIES

Where the initial premium ratio of a policy at age 35 is 70-100% or more of the STANDARD, the name of the policy shall be entered under Group A (see Form B). All such policies, classified and entered by name under Group A, will receive 100% face value credit for MDRT purposes regardless of the age when written.

GROUP B — CLASSIFICATION OF COMPANY POLICIES

Where the initial premium ratio of a policy at age 35 is at least 35% but less than 70% of the STANDARD, the name of the policy shall be entered under Group B (see Form B). All such policies classified and entered by name under Group B will receive 70% face value credit for MDRT purposes regardless of the age when written.

GROUP C — CLASSIFICATION OF COMPANY POLICIES

All term (level, increasing and decreasing) policies and term riders shall be classified and entered by name under Group C (see Form B). All graded premium (whole life or other) policies whose initial premiums are less than 35% of the STANDARD shall be classified and entered by name under Group C. All such policies will be credited at 15% of face value or commuted value.

SEE MDRT CONVERTER GUIDE FOR SPECIAL RULES PERTAINING TO TERM CONVERTED TO PERMANENT INSURANCE.

GROUP D — CLASSIFICATION OF COMPANY POLICIES

All Group Life insurance, Group Annuities (including Deposit Administration) and Individual Annuities, both annual and single premium including "jumping juvenile" and other individual policies not classified under Groups A, B, or C (see Form B) shall be credited as follows:

(1) On Group D individual contracts of any kind, credit will be based on $1,000 of volume credit for each $15.00 of annualized first year commissions which have become payable.

(2) On Group D group coverages, credit will be based on $1,000 of volume credit for each $15.00 of first year commissions actually received.

(Credits for individual or group health insurance coverages are not allowed.)

COMPANY NOTE:

Upon completion of classifying its policies on Form B, as discussed above, each company is requested to reproduce its completed Form B and mail it to its MDRT member agents and those agents who may be potential MDRT applicants. Completed Form B is essential to an applicant for the recording of his production on his Form C — MDRT Converter Record (see copy enclosed).

Section 20.2

FORM B—OFFICIAL MDRT COMPANY CONVERTER

For use by COMPANIES in classifying policies for MDRT credit.

(Enter life insurance company name)

IMPORTANT: Upon completion of this Form B, companies are requested to reproduce and forward it to MDRT members and potential applicants.

Our initial level premium per $1,000 at age 35 for a $100,000 Ordinary Life policy is the STANDARD. The initial premiums per $1,000 of all other of our company policies at age 35 have been calculated (excluding term, term riders and annuities) and compared to our STANDARD. The policies have been classified and entered by name in the proper group below as instructed. See Constitution and Bylaws Article XX, Section 20.6, page 18, for business excluded from receiving MDRT credit.

All policies entered under Group A and Group B will be considered as written at age 35 regardless of the age at issue.

	GROUP A	GROUP B	GROUP C	GROUP D
Description	Enter name of policies if initial premium is 70-100% or more of STANDARD	Enter name of policies if initial premium is 35%, but less than 70% of STANDARD	Enter names of (a) all term policies and term riders (b) all policies if initial premium is less than 35% of STANDARD	Enter names of all group life policies (health insurance is excluded) and all annuity (annual and single premium) policies
MDRT CREDIT	100% of face value	70% of face value	15% of face or commuted value	$1,000 per ea. $15.00 1st year comm. Credit group policies on comm. rec'd. Credit individual policies on comm. payable.
Company List Policies By Name Under Proper Group	1. 2. 3. 4. 5. 6. 7. etc.	1. 2. 3. 4. 5. 6. 7. etc.	1. 2. 3. 4. 5. 6. 7. etc.	1. 2. 3. 4. 5. 6. 7. etc.

Section 20.3

FORM C—APPLICANTS CONVERTER RECORD

(Name and address of agent)

(Name of company)

This Form C is to be used by applicants to record policies for MDRT credits according to company Form B which classifies policies as to credit allowed and is available upon request from the company on which the policies were placed. A separate Form C must be prepared for each company on which MDRT credit, for business placed, is claimed. When all policies have been entered and totaled on Form C, transfer the column totals for Group A, Group B, Group C and Group D to the Certifying Letter—Part V. Forward the Certifying Letter—Part V. to the company for certification. Be sure to send a copy of your Form C with the Certifying Letter to the company. This will help the company in its certification process. When the company completes its certification and signs the Certifying Letter, the green and yellow copies are returned to you. Send the green copy along with your other application papers to the MDRT office, 36 South Wabash Avenue, Chicago, Illinois 60603. See Constitution and Bylaws Article XX, Section 20.6, page 18, for business excluded from receiving MDRT credit.

Certifying Letter—Part V must be postmarked by March 1 of the year for which application is made.

Name of Insured and/or Policy Number or Case Number. Effective Date	Face Amount of Policy or Commissions Received (whichever applicable)	GROUP A 100% CREDIT of face value	GROUP B 70% CREDIT of face value	GROUP C 15% CREDIT of face or commuted value	GROUP D $1,000 per ea. $15.00 1st year comm. Credit group policies on comm. rec'd. Credit individual policies on comm. payable
	MDRT CREDIT TOTALS*				

(*To be transferred to Certifying Letter — Part V)

Section 20.4

PART V
CERTIFYING LETTER

MILLION DOLLAR ROUND TABLE
36 South Wabash Avenue
Chicago, Illinois 60603

PART V
CERTIFYING LETTER

INSTRUCTIONS

COMPLETE IN QUADRUPLICATE. Send all completed copies of Certifying Letters to the proper home office. The home office checks and verifies your production, and if it is correct will sign the Certifying Letter and return two copies to you, and one copy to the MDRT office. When you receive the two copies from the home office attach the GREEN copy to your other application papers and forward all to the MDRT office in one complete, stapled package. (See instruction sheet accompanying your application kit for more detailed instructions.)

NAME & ADDRESS

THIS IS TO CERTIFY THAT

HOME OFFICE INSTRUCTIONS

After you have signed this Certifying Letter, send the PINK copy to the MDRT office and return the GREEN and YELLOW copies to the applicant. Keep the WHITE copy for your records.

is entitled to the credits shown below, calculated in accordance with the MDRT Constitution & Bylaws (as last amended) and as referred to herein. See Article XX, Section 20.7 regarding EFFECTIVE DATE OF BUSINESS PAID FOR.

QUALIFICATION PERIOD BEGINNING _____ 19__, through _____ 19__
(Qualification period *CANNOT END* before October 31 or after December 31 of the year for which production is submitted.)

	Number of Lives or Cases	Total Volume
GROUP A		
1. All policies of this company which receive 100% of face value credit under the MDRT Converter.	_____	$_____*
GROUP B		
1. All policies of this company which receive 70% of face value credit under the MDRT Converter. a. List converted value only.	_____	$_____*
GROUP C		
1. All policies of this company which receive 35% of face or commuted value under the MDRT Converter. a. List converted value only.	_____	$_____*
GROUP D		
1. All group coverages, single and annual premium annuities and "jumping" juvenile and similar policies, based on $1,000 of MDRT credit for each $15.00 of first year commission received. a. Enter first year commissions received on group coverages plus first year commissions payable in individual contracts $_____ (*Transfer totals from MDRT Converter Form)	_____	$_____*
TOTAL		
Million Dollar Round Table Credits—Lives/Cases and Volume	_____	$_____*

It is understood that this certifying letter constitutes Part V of your application and must be postmarked on or before March 1, 1970, the same as other necessary parts to your application.

Date | Name of Company | Home Office Official (Signature and Title)

Complete Home Office Address

I certify that this business was IN FORCE as of the last day of the above Qualification Period except for business terminated by death or term conversion.

Section 20.5

GUIDELINE FOR CLASSIFYING AND CREDITING LIFE INSURANCE POLICIES UNDER THE MILLION DOLLAR ROUND TABLE CONVERTER

JUVENILE ENDOWMENT POLICIES

Because these policies have a maximum age of issue less than age 35, it is impossible to compare premiums per thousand to the STANDARD at age 35. So, in lieu of using the age 35 ratio, compare the initial premium per thousand at the maximum age of issue of the endowment policy with the initial premium per thousand of your STANDARD at the same age. If the ratio is 70-100% or more of the STANDARD, classify all such policies regardless of the age of issue in Group A, if 35% but less than 70% of the STANDARD, classify all such policies regardless of the age of issue in Group B.

"JUMPING JUVENILE" POLICIES

"Jumping juvenile" and similar policies which provide for one or more automatic increases in face value shall be credited under Group D and receive $1,000 of volume credit for each $15.00 of net first year commissions which have become payable.

"JUNIOR" ESTATE BUILDER POLICIES

Such policies which provide for a maximum age of issue of less than age 35, plus increases in premiums and face value make it impossible to compare initial premiums per thousand to the STANDARD at age 35. So in lieu of using the age 35 ratio, compare the initial premium per thousand at the maximum age of issue with the initial premium per thousand of your STANDARD at the same age. Classify all such policies regardless of the age of issue in Group C, B or A according to the relationship of the ratio to the STANDARD.

TERM CONVERSIONS TO PERMANENT INSURANCE

TERM CONVERSIONS AFTER TWELVE MONTHS

Classify the new policy in Group A or B according to its relationship to the STANDARD. If the new policy falls in Group A enter full face amount (100%) under Group A for credit. If the policy falls into Group B multiply the face value times 70% and enter the results under Group B.

TERM CONVERSIONS WITHIN ONE MDRT QUALIFICATION PERIOD

A term policy written in one qualification period for an initial period of one year or more but converted in less than twelve months in the same qualification period shall not receive term credit. Credit shall be given on the basis of the new policy which is in effect at the time of certification by the company. Classify the new policy in Group A or B according to its relationship to the STANDARD and credit accordingly.

TERM CONVERSIONS WITHIN TWELVE MONTHS WHICH COVER TWO MDRT QUALIFICATION PERIODS

A term policy written in one MDRT qualification period and converted in less than twelve months but falling into the next MDRT qualification period shall be credited as follows:

The face amount of the converted policy, less 15% for the term credit allowable in the prior MDRT qualification period, shall be entered in either Group A or Group B of the Converter, according to its relationship to the STANDARD.

For example, a $10,000 term policy written in November, 1967, and converted in February, 1968, to a $10,000 permanent policy which is classified in Group A would be credited as $8,500 under Group A. If the policy is classified in Group B, $5,500 would be credited under Group B. Group B provides for a normal credit of 70% of face value. However, because of the prior allowable 15% credit, this becomes 55%.

Note: The 85% Group A credit and 55% Group B credit referred to above is the maximum MDRT credit allowed for the converted policy whether or not the 15% allowable term credit was taken in the prior MDRT qualification period.

Section 20.6 ***Excluded Credits***

(a) Any business which has been or could have been used in any previous qualification period.

(b) Business, in excess of an aggregate of $25,000 MDRT credit in any one Qualification Period on the life of the applicant for membership in this organization, or his/her spouse or any other person who is a dependent for federal income tax purposes, any portion of the premiums for which are paid, directly or indirectly, by such applicant or his/her spouse.

(c) Accident and health insurance, and/or hospital, surgical and medical expense insurance written for individuals.

(d) Any form of group accidental death and dismemberment, accident and health and/or hospital, surgical and medical expense insurance.

(e) Any form of "creditors group insurance."

(f) Conversions from group or wholesale life insurance to any permanent plans of single or annual premium life insurance, unless full standard first year commissions are paid.

(g) Conversions from permanent plans of life insurance to any other plans of single or annual premium life insurance.

(h) Additions to the initial face value of any insurance policy, whether arising from dividends (or other refunds) or special coupons or otherwise.

(i) Initial, interim, or preliminary term insurance which is written for a period of less than twelve months.

(j) "Industrial" or "Intermediate" business.

(k) Term insurance on the life of any child or wife under any type of "Family" policy or similar policy or combination of policies.

(l) Business submitted for qualification by either an elected or an appointed officer in the life insurance company or companies in which he is an elected or appointed officer.

(m) Business of any type issued as part of, or in connection with, any transaction which results in or may be reasonably expected to result in (i) the cancellation or surrender of any existing policy of a type which would normally be eligible for MDRT credit, or in (ii) the election of paid-up insurance or extended term insurance under any such existing policy — except that this paragraph (m) shall not apply to that portion of any such issued business which is in excess of the original face amount of such existing policy or policies.

(n) Renewable term insurance policies when they are renewed, automatically or otherwise.

Section 20.7 ***Definitions and Interpretations***

(a) *Persistency Requirement.* Credited business shall include only business which has not been terminated on or before the last day of the qualification period except for business terminated by death or term conversion.

(b) *Business Paid For and Underwritten.* Business to be credited shall be paid for during the qualification period. Business shall be considered to have been paid for as of the date when the coverage first became fully effective with home office approval from the standpoint of payment of a claim (regardless of company practice or the distance between home and field office). However, no credit shall be allowed until the home office has finally accepted the premium (without any agreement to refund all, or substantially all, thereof) and also until first year commissions have become payable without any right reserved to the insurance company to recover same, except in case of recall under the contestable provisions of the contract.

(c) *Qualification Period.* The qualification period for which business will be credited shall consist of a period of twelve consecutive months or less preceding the period for which membership is granted. Such consecutive months shall begin on or after January 1st and shall end on any selected date on or after October 31st but not later than December 31st.

(d) *Case Definition.* A case shall be either one group policy or a pension or profit sharing trust involving policies for which credit is allowed. All the lives thereunder shall count as only one separate individual life. Each group of employees becoming eligible on the annual anniversary date of an existing pension or profit sharing trust shall count as a separate case if the essential characteristics of new business are then present.

(e) *Joint, Partnership, Brokerage Business.* On joint or partnership business, or on brokerage business placed in the name of an applicant by another underwriter, credit shall be given for only that proportion of the business for which an applicant has actually received and retained, or is entitled to receive and retain, the full standard first year and renewal commissions.

(f) *Compensation Equivalent of Commissions.* The Executive Committee, by unanimous vote, may allow credit for business paid for by an applicant exclusively for his own personal account even though he is compensated on a basis of other than commissions, but only if the aggregate compensation payable to the applicant on account of such paid business shall be at least the approximate equivalent of the full standard first year and renewal commissions paid with respect to such paid business.

(g) *Minimum Number of Lives or Cases.* No applicant shall be eligible for Qualifying membership unless he has paid for at least ten separate lives or cases, or any combination thereof.

(h) *Overriding Commissions.* Business shall not count if the only interest of the applicant in such business is in the form of overriding commissions or the equivalent. Furthermore, the proporton of the business for which an applicant shall receive credit shall not include any proportion based on overriding commissions or the equivalent.

(i) *Foreign Business.* Credit shall be allowed for the business of an applicant for membership who resides outside the United States or its territories. However, all such business paid for in foreign funds shall be credited on the basis of the mean rate of exchange converted to United States dollars on the last day of the applicant's qualification period except that no such adjustments shall be made in the case of Canadian business.

Senator HART. Our next witness is Dr. Joseph M. Belth, professor of insurance of the Graduate School of Business, Indiana University.

In discussion with our opening witness, Dr. Belth's activities and contributions in the subject area have been commented on.

The committee bids you welcome. You may proceed, as you like.

STATEMENT OF DR. JOSEPH M. BELTH, GRADUATE SCHOOL OF BUSINESS, INDIANA UNIVERSITY

Dr. BELTH. Thank you, Mr. Chairman.

I am Joseph M. Belth, professor of insurance, Graduate School of Business, Indiana University, Bloomington.

I am also president-elect of the American Risk and Insurance Association, an organization of insurance professors and others interested in insurance education.

I am author of "Life Insurance: A Consumer's Handbook," and various other books and articles on life insurance.

I am not being compensated for the preparation of this statement. The views expressed are my own, and not necessarily those of any institution, organization, or other individual.

I would like to express my appreciation, Mr. Chairman, for the invitation to present my views at these hearings.

The purposes of my statement are to describe, first, the general nature of the market problems that have spurred the truth in life insurance movement; second, the specific nature of a variety of deceptive sales practices that are widespread in the life insurance market, third, the developments of the past 5 years that have led up to these hearings; and, fourth, a proposed method by which adequate information disclosure to the consumer might be achieved.

Mr. Chairman, my formal statement is quite lengthy. As you suggested in your letter of invitation, I have prepared a brief, oral statement that summarizes the main points in my full statement. And I might mention, Mr. Chairman, that during the statement we may need a slight interruption because I plan to utilize the overhead projector, and we may need a few moments to get it set up.

Senator HART. Mr. Sharp alerted us to that. The prepared statement will be printed in full.

[See material received for the record at the end of Dr. Belth's testimony.]

Dr. BELTH. Thank you.

The market for individual life insurance in the United States is characterized by ignorance, complexity, and apathy. Buyers are ignorant about the amount of life insurance they need, about the kinds of policies that are appropriate for them, and about the large price differences among life insurance companies.

Many life insurance agents, also, are ignorant of these things, because State licensing examinations generally require only a minimum of knowledge, and because most company and industry training programs place the emphasis on sales techniques rather than technical knowledge.

Some of the complexity associated with life insurance are unavoidable because of the nature of the life insurance transaction, but much of the complexity stems from the fantastic proliferation of policy types.

This proliferation has gone far beyond reasonable bounds, and operates primarily to confuse and frustrate the life insurance consumer.

Buyers are apathetic about life insurance because it is associated with the unpleasant subject of death. Most life insurance, therefore, is bought because a life insurance agent persuades the buyer to take action rather than procrastinate.

To overcome the apathy of buyers, agents must be highly trained in the techniques of salesmanship. The necessity for this type of training leads to the frequent omission of adequate technical training, and to the development of a wide variety of deceptive sales practices.

I would like to explain what I mean by the word "deceptive." In my view, a presentation is deceptive if it tends to give the recipient an erroneous impression of important relationships. The emphasis in this definition is on the recipient. When I describe a life insurance advertisement or sales presentation as deceptive, I do not intend to suggest that the deception is necessarily deliberate on the part of the life insurance company or agent.

In an atmosphere of ignorance, complexity, and apathy, there are ample opportunities for the exploitation of consumers. Many policyholders are overcharged for their life insurance, in the sense that they could have bought comparable coverage at much lower prices.

One might ask how large price differences can exist. The market for individual life insurance is characterized by an absence of reliable price information. As long as buyers think all life insurance companies charge about the same price, companies that charge high prices can sell just as successfully as companies that charge low prices.

Many sales presentations involve little, if any, price information. Often the presentation is based on emotional considerations, and about the only kind of price information that enters into the presentation is the size of the first premium.

The life insurance market is characterized not only by an absence of reliable price information, but also by the presence of deceptive price information. In my opinion, Mr. Chairman, the deceptive sales practices found in the life insurance industry constitute a national scandal.

For the purposes of analysis, I have divided deceptive life insurance sales practices into three categories. In order to illustrate these three categories, I ask your indulgence, Mr. Chairman, for just a few moments while we attempt to get the machinery in operation.

[At this point the projector was set up and slides shown.]

Dr. BELTH. Mr. Chairman, class A practices are those involving a misallocation of the interest factor. Please consider an analogy. This table shows the growth of a 5-percent savings account in which $1,000 is deposited at the beginning of each year.

In the 10th year, $629 of interest is credited to the account. Suppose someone says, "You are earning $629 of interest on your 10th year deposit of $1,000. That's a 62.9 percent rate of return. Isn't that fantastic?"

The problem here stems from a misallocation of the interest. Only $50 of it should be attributed to the 10th year deposit of $1,000. This kind of misallocation is the basic ingredient of class A deceptive sales practices.

Mr. Chairman, I have a few examples of the results of class A deceptive practices. In each instance I will show a paraphrase of a

sales statement, and then I will show a translation based upon a reasonable allocation of the interest factor.

Statement: By buying policy A—an American General straight life policy—instead of policy B—an American General term policy—you would be investing the premium difference in the 10th year at about 44-percent interest.

Translation: By buying policy A instead of policy B, you would be investing the premium difference in the 10th year at about 3.8-percent interest.

Statment: The third-year cost of this $100,000 Provident life and accident policy is minus $11.

Translation: Under reasonable assumptions, the 3-year cost of this policy is $163.

Statement: The 10th-year cost of this $100,000 Acacia Mutual policy is minus $87.

Translation: Under reasonable assumptions, the 10th-year cost of this policy is $880.

Mr. Chairman, class B practices are those involving comparisons based upon the simple addition of dollar amounts payable at different points in time.

Please consider an analogy. Jones retains Smith to do a particular job, with the understanding that upon completion Smith would be paid $1,000 per year for 40 years, a total of $40,000. After the job is completed, Jones says:

> Smith, you've done such a great job that I'm going to pay you 10 percent more than we agreed upon. I'm going to pay you $600 per year for the first 30 years, and then $2,600 per year for the final ten years. That's a total of $44,000, which is 10 percent more than the $40,000 I originally agreed to pay you. Isn't that generous of me?

The problem here stems from a failure to take account of interest. Under a reasonable interest assumption, Jones is proposing to pay substantially less to Smith than originally agreed upon, not more. This kind of failure to take interest into account is the basic ingredient of class B deceptive sales practices.

Mr. Chairman, I have a few examples of the results of class B deceptive practices. Again, I will show a sales statement followed by a translation based upon reasonable assumption.

Statement: The average yearly cost of policy A—New England Mutual life paid up at 65 policy—is about half the average yearly cost of policy B—a Travelers term policy.

Translation: Under reasonable assumptions the average yearly costs of policies A and B are about the same.

Statement: Policy A (a $100,000 Metropolitan policy) is lower in cost than policy B (a $100,000 Connecticut Mutual policy) by about $900.

Translation: Under reasonable assumptions policy A is higher in cost than policy B by about $1,500.

Statement: Policy A (a $100,000 New York Life straight life policy) enjoys a price superiority over policy B (a $100,000 Manufacturers Life term policy) of about $66,000.

Translation: Under reasonable assumptions, the prices of policies A and B are about the same.

Mr. CHUMBRIS. Mr. Chairman, I have one question. When you use the term "reasonable assumptions" throughout these charts, would you define that reasonable assumption?

Dr. BELTH. Yes, Mr. Chumbris. They are carefully spelled out in the full text of my statement.

Mr. CHUMBRIS. Yes, I understand that.

I think you give it context, in watching these pictures, if you put it in at this point. Read your "reasonable assumption" at this point, so we'll have it in the printed hearings.

Dr. BELTH. Yes. The reasonable assumptions used in the last comparison between the New York Life straight life policy and the Manufacturers Life term policy, as I recall, were 5 percent interest, the 1957–60 ultimate basic mortality table for males aged 35, and Moorhead's table R for lapse rates with certain modifications that are carefully explained.

Mr. CHUMBRIS. Those reasonable assumptions that you just defined, they are subject to dispute among the 12 so-called methods in adjusting costs; isn't that true?

Dr. BELTH. There has been very little discussion, Mr. Chumbris, of these assumptions. In fact, there has been very little discussion of this whole area, and I would be very encouraged if you would promote discussion of what constitutes reasonable assumptions during the course of these hearings.

Mr. CHUMBRIS. Mr. Moorhead, who follows you, has put out the joint committee report which cites, I think beginning on page 15 or 16, the 12 methods in determining costs. Yours is just 1 of those 12. Is that correct?

Dr. BELTH. That is correct.

Mr. CHUMBRIS. That is correct?

Dr. BELTH. That is correct. May I continue?

Mr. CHUMBRIS. Yes.

Dr. BELTH. Mr. Chairman, class C practices are those involving presentations that are simply false. Their falsity usually is difficult to detect because they are complex and tricky.

I have a couple of examples of the results of class C deceptive sales practices.

Statement: The cost of this $50,000 Massachusetts Mutual policy is about $40 per year.

Translation: Under reasonable assumption, the cost of this policy is about $250 per year.

Statement: The first-year cost of the $20,000 of life insurance protection in this Hartford Life plan is only $53.

Translation: The first-year cost of the life insurance protection in this plan is about $246.

Mr. Chairman, that completes the slides, and I ask your indulgence for just a moment while we remove the machinery.

[The slide projector was removed.]

Dr. BELTH. Mr. Chairman, the technology for accomplishing adequate disclosure is available, and all that is needed is the legislation to implement an information disclosure system.

In my formal statement, I have included a detailed description of one such disclosure system. The proposed system is based on the policyholder's receiving information from two sources: first, a two-page form

that contains prescribed information to be given to the policyholder at or prior to delivery of the policy; and second, the premium notice that the policyholder receives on each yearly anniversary of his policy.

The first page of the two-page form would contain annual information about the policy, and the second page would contain summary information. The yearly premium notice would contain information in addition to that which companies already provide routinely.

The proposed information disclosure system would provide the following information to the consumer at the point of sale: First, the annual premium to be paid each year; second, the amount payable on death in any year; third, the amount payable on discontinuation of the policy in any year; fourth, the dividends payable each year under the company's current dividend scale; fifth, the amount of life insurance protection in effect each year; sixth, the price of each $1,000 of life insurance protection each year; seventh, summary information allowing the policyholder to see the extent to which he is buying protection and the extent to which he is accumulating savings; eighth, summary information allowing the policyholder to make comparisons among similar policies issued by different companies, if he wishes to do so; and ninth, certain other important information, including the cost of policy loans and the cost of paying premiums other than annually.

A possible alternative to a rigorous system of information disclosure such as the one I have outlined would be the standardization of life insurance policies and a drastic reduction in the number of policy types. In my opinion, only two policy types would be needed: straight life and either 1-year renewable term or 5-year renewable term. The difficulty with this approach is that it would tend to place the life insurance industry in a straitjacket. Furthermore, I have more faith in the ability of consumers to make decisions for themselves then in the ability of regulators to make decisions for consumers.

However, in order to be able to make decisions for themselves, consumers must have access to reliable information. The purpose of the information disclosure system I have proposed would be to require life insurance companies and their agents to give consumers reliable information at the point of sale.

Truth-in-life insurance legislation would benefit all consumers of life insurance. Among the identifiable groups that would be greatly aided are the following: First, young married couples who are just beginning to develop a life insurance program; second, returning veterans who have, in connection with their Servicemen's Group Life Insurance, a conversion privilege exercisable in any one of hundreds of converter companies; third, college students who are constantly being solicited on the basis of razzle-dazzle proposals usually involving the use of a promissory note for all or a major part of the first annual premium; fourth, persons who are constantly being solicited through the use of newspapers, magazines, or direct mail; and fifth, persons who may have purchased life insurance policies carelessly, and who wish to find out if replacement with new policies would be of substantial benefit to them.

The life insurance industry and the State regulatory agencies did nothing in this area prior to your public statement, Mr. Chairman, more than 4 years ago. In that statement, you referred to the possibility of truth in life insurance legislation. Since then, there has been

some activity, but very little has been accomplished of direct benefit to life insurance consumers.

In my opinion, there is an urgent need for truth in life insurance legislation at the Federal level. Such legislation could be drafted so as not to preclude the States from adopting their own disclosure requirements, but rather to have the effect of establishing minimum standards and putting disclosure requirements into effect in those States that fail to take action.

Thank you, Mr. Chairman.

Senator HART. Thank you, professor.

I did have an opportunity last night to read a summary of your full testimony, which, together with your oral presentation this morning, makes me reasonably comfortable to ask you some questions.

The disclosure that you suggested, the information disclosure that you outlined here this morning, has been presented by you to insurance industry groups.

Have you gone to insurance industry sources and suggested the disclosure that you talked about this morning?

Dr. BELTH. Yes, sir.

Actually, I have presented certain parts of this, some of the technical aspects and so forth, in various papers and at various meetings over a period of approximately 11½ years. This total disclosure system that I presented this morning was first presented last May at a symposium cosponsored by the University of Wisconsin and the Wisconsin Insurance Department. Since that time, I have presented this to a couple of other groups.

Senator HART. Now, what kind of reaction have you gotten, either at the Wisconsin symposium or in your other more technical presentations to the industry?

Dr. BELTH. I would have answered that question, Mr. Chairman, prior to this last Saturday, by saying there has been no informed reaction of any kind. On Saturday morning, I received a 19-page, double-spaced letter from a very distinguished actuary concerning the system; but, frankly, I haven't had enough time to fully digest his comments. I do plan to fully digest them and respond thoroughly.

Senator HART. Well, the reaction has not been overwhelming.

Dr. BELTH. The reaction can be described simply as silence.

Senator HART. Have you heard specifically from the National Association of Insurance Commissioners Task Force?

Dr. BELTH. The reaction from the task force concerning the specific proposal has been silence.

Senator HART. Then turn to the second subject matter in your testimony, the deceptive sales practices. I know that we can't repeat the definition that you give in your paper.

The caption "deceptive sales practices" is much harsher than the definition that you have included in your paper saying that. What reaction have you had from insurance industry groups to these criticisms?

Dr. BELTH. Mr. Chairman, I have commented rather extensively in statements that I submitted for the record at two different hearings of the Consumer Subcommittee of the Senate Commerce Committee, the first one of which was in March 1970. And I have also made several talks to agent groups and to industry groups and to insurance home

office groups and to actuarial groups about these practices. The reaction of the industry has been silence.

Senator HART. What have you heard from State insurance commissioners?

Dr. BELTH. The reaction from State insurance commissioners has been total silence.

Senator HART. If the information disclosure system that you have outlined this morning was put into effect, what is your opinion as to the consequences this would have on life insurance agents?

Dr. BELTH. The effect on agents, Mr. Chairman, would be extremely difficult to predict, and it's an extremely sensitive and emotional issue. I know that much from watching at least the facial expressions when I present these ideas, even though there are no comments forthcoming.

I sincerely believe that the most important function of this kind of information disclosure system would be the educational function, and I believe there would be important educational effects not only on agents but also on consumers over a period of time. It would not be immediate; it would take time for them to be educated to the implications of the information they are being given; but it would have, I think, a tremendous educational effect on agents.

I have already received a small amount of reaction to my new book, which some agents have told me is a little bit harsh on agents—at least, that's what they read between the line—and some of the reaction has been furious reaction from agents, and others have shown a very enlightened kind of reaction. They felt that they learned a great deal from examining the book and showed that they are reasonably interested in the material.

Just to illustrate the problem of getting this information out, I plan within the next week or so to write a letter to the American College of Life Underwriters, which administers the national Chartered Life Underwriter, or CLU, program, which is the most advanced educational program for life insurance agents in the country. They have a very substantial body of material that the candidate must master in order to pass the series of 10 examinations to qualify for the CLU designation.

I plan to formally request the college to include my book in its required material for the education of agents. I hold no hope of having anything other than laughter in response, but the problem of getting the agents to read this material and digest it is tremendous.

If there were a system of mandatory disclosure, the kind of information that is needed, I think, for the consumer to make an intelligent decision is exactly the same kind of information the agent should be presenting to the consumer so that both of them will thoroughly understand what the insurance is, not only what is being bought, but also what is being offered. So I believe that the educational function would be tremendous.

Now, another aspect of the educational function involves learning something about, for example, the very substantial differences in price among companies.

This could become a very serious problem. I must disagree with one point that was made earlier. I'm not sure whether it was made by Mr. Nader or by Mr. Petkas. I do not think agents can go rushing from one company to another quite so freely as suggested in that response,

and the reason that they will find that very difficult is because of certain commissions that they receive after the first year of a policy, commissions that are not fully the property of the agent.

We sometimes refer to them as "nonvested commissions," which would be forfeited in the event that the agent were to shift his allegiance to another company, and the value of the nonvested commissions that have been earned by many agents is enormous, so that they would have to think many times before making a quick shift, and I must say that this would create problems.

However, I believe also the very fact that they could not shift quickly or without substantial loss means that they might very well bring strong pressure to bear upon the companies with which they are contracted, to try to get the company to be more competitive.

And it seems to me that if a company whose prices are out of line based on a reasonable system of disclosure were pressured to bring their prices more into line with the competition, it would be very healthy, would be consistent with the enterprise system, and certainly would be of benefit to consumers.

Senator HART. You referred to the third category, and I asked you the consequences on agents. You responded, and included in it references, consequences to companies.

Do I understand you, as far as companies are concerned, to suggest that this kind of disclosure information would make difficult the sale of a policy which appeared to have a higher cost? Is that correct?

Dr. BELTH. Yes. I believe that it would make more difficult the sale of relatively high priced contracts, not only because the information would be disclosed to the consumer, but also because the information would be disclosed to the agents.

Senator HART. Is the insurance buyer able to make a judgment as to whether he is comparing apples and apples or apples and oranges? You know a bargain price may not be a bargain price at all.

Dr. BELTH. Mr. Chairman, we have indicated that there is just a lot of complexity inherent in life insurance contracts, and I do believe that the kind of disclosure that I have suggested would, in certain aspects, allow comparisons even among different kinds of policies.

However, it would be my hope that the disclosure system over a period of time would gradually lead to the point where consumers would make the decision on the amount of life insurance they need and what kind of life insurance they feel is appropriate for their circumstances before they ever got into the question of price.

And then the disclosure would involve essentially comparable offerings of different companies, so that consumers would be making preliminary decisions on need and price and then be comparing essentially comparable contracts.

Senator HART. The disclosure system that you've outlined for us calls for a two-page illustration of dividends to be given the potential buyer. How will that work?

Dr. BELTH. The two pages of information, at least one possible layout of the information, is contained in the full text of my testimony.

I would assume that the form it would actually take in practice would be two pages, 8½ by 11, white paper, with computer output on it. It would be machine handled, probably, and the information would be prepared at the home office, in many cases at the same time the policy

is prepared, and then the disclosure statement would be available at the time of delivery of the policy.

However, I indicated that the disclosure statement would be given to the consumer at or prior to delivery of the policy, which means that if the consumer wanted the disclosure statement ahead of time the request could be made of the agent, who could easily request the information from the company, and the company could send the disclosure statement on ahead of the policy itself.

Senator HART. What I had in mind was the problem, and perhaps it isn't a problem, in the handling of the dividends which would be included in this illustration.

Does this introduce a factor that contributes toward identification of the true purchase price, or does it introduce a further confusion?

Dr. BELTH. In my opinion, Mr. Chairman, the inclusion of what probably should be called illustrated dividends is extremely important and necessary. It also creates a problem or a number of problems.

I think first I should attempt as best I can to explain what the phrase "illustrated dividends" means.

When a company issues a participating policy, which is one in which the company contemplates the payment of periodic dividends, which are really generally classified as "refunds," they frequently——

Senator HART. Have you just described dividends?

Dr. BELTH. A life insurance policy dividend is generally viewed as a refund.

When the company publishes a listing of illustrated dividends at the time of sale, what this really is is an illustration of the formula and the assumptions used by the company in calculating its dividends on policies currently being issued.

Actually, if they were to publish the formula and the assumptions, this would be very complex and no one would understand it. So instead of publishing the formula and the assumptions, they publish an illustration of the formula and the assumptions, what the formula and assumtpions would produce on this policy in the form of, let's say, annual dividends.

That's why I think the best name for it is illustrated dividends. These are not guaranteed, they are not estimates even. They are precise. They are exactly what the company will pay, provided they make no change in the formula or the assumptions that go into the formula.

I sometimes have described it in class as being what the company would pay if they never touched the computer. It would just automatically pay these amounts.

But the fact is they do touch the computer, and so the dividends paid in the future can deviate upward or downward from what was illustrated at the time of sale, and that creates the problem.

My attempt to at least forestall part of the problem created by this is a certain piece of information that I suggest be included in the annual premium notice.

Today companies show on the premium notice the dividend payable this year. What I have suggested is that they show not only the dividend payable this year but also the dividend that would have been paid this year under the illustration used for sales purposes at the time of sale. Thus the consumer would be given a reminder of what the illustrated figure was on the two-page disclosure form that was

given to him at the point of sale. Then he's also told what dividend the company is currently paying.

The reason that I think this would have a beneficial effect is that this would make companies that might be so inclined, hesitant about illustrating, let us say, overly generous dividends at the time of sale in order to show unreasonably low-cost figures.

It would cause them to be quite hesitant because they know that every year when the premium notice goes to the policyholder they would have to remind the policyholder what it is that they illustrated for sale purposes at the point of sale. This is merely a kind of disclosure attempt to discourage companies from being what some people refer to as "overly optimistic" at the time of sale.

Senator HART. Since you are here, and you have a rich background and an academic distinction, let me ask you this very broad question. What do you consider to be the major problems in the life insurance market?

Dr. BELTH. That is a big question, and Mr. Chairman, I think that I should admit that I probably have certain biases. My feeling on this is that the major problem, as far as life insurance consumers are concerned, is the lack of good, solid, reliable information at the point of sale concerning the benefits and prices of the insurance they are proposing to buy.

Senator HART. Mr. Chumbris.

Mr. CHUMBRIS. Thank you very much, Mr. Chairman.

Professor Belth, I read with great interest your book.

Dr. BELTH. Thank you for the "plug," Mr. Chumbris.

Mr. CHUMBRIS. And without a doubt it has many of the issues we are discussing during the course of these hearings. We actually made a digest of your 200-page book, trying to break it down to about 20 pages so we can get to the point that you have made in your book if we need it during the course of these hearings.

These questions that I will ask you at this time will be asked of several other witnesses who will appear—discussing costs—and we would like to have reactions to these questions as we go in the next few days from the other witnesses.

Your testimony about the method or methods of comparing life insurance policies of different companies brings this inquiry.

I understand that there have been at least 12 methods suggested by the various experts. I now ask you if there is general agreement among the experts that any particular method is superior for this purpose, or is there much disagreement on this issue?

Dr. BELTH. Mr. Chumbris, I suppose that, to the extent that there have been some comments in the insurance press, and so forth, there is rather substantial evidence of disagreement.

However, in my judgment, there has not been really open, informed discussion of any of the proposals. The industry committee, for which I have the highest regard, did not at any time invite any participation in its deliberation by anyone representing agents or anyone in the marketing end of the business, nor did they invite any kind of participation by anyone representing the consumers point of view.

The discussions that were held by the committee were never made available for public scrutiny. There have not been open discussions and there have been no industry forums that could be described as

truly informed discussions with all points of view represented. As far as informed discussion about this whole issue is concerned, there has been silence.

Mr. CHUMBRIS. But we are not bound by that caveat that you just stated. Our purpose is to find out about those 12 different methods, and to find out if there is a superior method, and if a superior method or one method could be agreed upon, whether that method would help the consumer in being able to determine which is the best policy for his needs and his family's needs. That is the purpose of this hearing.

The second question: Does the preferred method, which is your method, the Belth method, require assumptions such as interest rates, mortality, and lapse of policy?

Dr. BELTH. Yes, it does.

Mr. CHUMBRIS. How about the other proposed methods? Do they require the use of different assumptions, and please name them if they are different assumptions.

Dr. BELTH. Mr. Chumbris, of course this is my own summary capsule description of all the other methods. All of the methods involve assumptions. The so-called traditional net cost method, which I described in somewhat more detail in the full text of my statement, involves the simple addition of dollar amounts payable at different points in time. This very definitely involves assumptions. The assumptions specifically are zero percent interest, zero mortality rates every year, and zero lapse rates every year, and those are assumptions.

All of the other methods similarly require assumptions, but there has been no—I emphasize no—informed public discussion of what the assumptions should be in a good system.

The whole reason for the presentation I made at Madison last year was to attempt to stimulate some open discussion, not only of assumptions but also of methods. The results of my attempt to stimulate open and public discussion have, at least so far, been futile.

Mr. CHUMBRIS. You mentioned the traditional method, which is the method that has been used in the past. As I understand it, Mr. Moorhead, who is going to testify next, in his report comes up with a method which is the so-called traditional method with interest added to it. Is that correct?

Dr. BELTH. That is correct.

Mr. CHUMBRIS. That would take care of two, and there are nine other variations, not including yours, is that correct?

Dr. BELTH. That's correct.

Mr. CHUMBRIS. We hope during the course of these hearings that we may be able to get full explanation of each of those 12 methods.

Now, I ask you this question. If other experts use your preferred method, do they assume different rates of interest than you do, different mortality tables, or different interpretations of lapses of policies?

Dr. BELTH. To my knowledge, no one, expert or otherwise, has been utilizing the method I have recommended.

Mr. CHUMBRIS. Thank you.

A review of expert data indicates that these assumptions take on different significances over a 10-year period, a 20-year period, a 30-year period, or possibly more. Would not a significant difference between the assumptions and the actual experience over such periods as 20 years result in a material difference between the costs you project and the actual costs or the costs that someone else may project?

Dr. BELTH. Let me see if I understand the question.

Mr. CHUMBRIS. Yes. I'll read it again, if you wish.

Dr. BELTH. Yes.

Mr. CHUMBRIS. A review of expert data indicates that these assumptions take on a different significance over a 10-year period or let's assume they use a chart for a 20-year period or a 30-year period, and so on, because you book those as far as 50 years, is that correct?

You have one from 35 to 85 in your book, in one of your charts.

Would not a significant difference between the assumptions and the actual experience over such periods as 20 years result in a material difference between the costs that you project and the actual costs?

Now let's assume that you used the 5 percent that you mentioned in the showing of the pictures, and someone else uses 6 percent or 4 percent or 3½ percent.

Dr. BELTH. The answer to your question, Mr. Chumbris, is yes. The longer the period of time over which the analysis is performed, the more powerful and significant the assumptions become.

The important point to note, however, is the purpose of making the assumptions. The assumptions that I am suggesting in the proposed system are made at the point of sale. They are made at a time when the consumer does not know what the future holds. He does not know what a reasonable interest assumption would be 15 or 20 years from now. He doesn't know when he's going to die, and so forth, so the whole idea of making assumptions at the point of sale is to help him evaluate different alternatives, and the only purchase of the evaluation is to help him make a decision at the point of sale.

I would be the first one to say that making the assumptions, does not guarantee that he has made good assumptions, based on what kind of experience actually unfolds in the future, but he's got to make some assumptions. He even makes them under the traditional method. He assumes zero percent interest, zero possibility of death, and so on.

For example, in the analogy that I gave in one of my slides about Smith and Jones, an offer is made to pay $1,000 a year for 40 years after completion of the job. But then Jones comes along and offers $600 a year for the first 30 years and $2,600 a year for the last 10 years, adding up to $44,000, or, on the basis of simple totals, 10 percent more than under the original contract.

I mentioned that the modified offer is actually less under reasonable assumptions. My statement was based on a 5-percent interest assumption. If zero percent had been used, the 10-percent statement would be correct. Jones simply added up the figures so the recipient of this proposal, for an alternative way of receiving payments under the contract, has to make an assumption.

So what's a reasonable assumption? Perhaps a reasonable assumption is what he could do with the money if he got more of it now rather than later, and he looks at the savings bank down the street or the savings and loan down the street and finds he could earn 5 percent, so he says let's assume 5 percent for the moment and see what it looks like.

When he does that, under that Jones-Smith thing, it turns out that he's been offered 19 percent less, rather than 10 percent more under a 5-percent interest assumption, but if we made some other interest assumption the figures are different.

This does not mean that Jones should simply go ahead and accept this new offer without doing something, so he tries to evaluate it on the basis of reasonable assumption.

And what I've been attempting to do, by putting out this system hopefully for discussion, is to include not only the system but also the assumptions and try to stimulate discussion among informed people in the life insurance industry about what reasonable assumptions would be.

And we have not so far been able to obtain informed discussion on the entire subject.

Mr. CHUMBRIS. I want to assure you, Professor Belth, I am not going to debate the issue. I'm going to ask these questions. We are going to ask the same questions of the other two experts that we have listed as witnesses this week and let the record be evaluated in light of the entire record.

Dr. BELTH. Forgive me, Mr. Chumbris, if I get enthusiastic. It's been 12 years that we've been working on this.

Mr. CHUMBRIS. Yes.

Let's go to this other point, on the same point but another possible differentiation.

In participating policies we have the issue of dividends. How do you compute the costs based on dividends of a company; and if the dividends actually paid over the next 20 years differ materially from your scale, would there be a material difference between the costs you project and the actual costs?

Dr. BELTH. Yes.

Mr. CHUMBRIS. With the use of computers, one suggested cost comparison method would have an expert rank the 1,800 companies from the lowest to the highest.

Are there not possibilities that Company A might rank higher than Company B on one type of policy but lower than Company B on another?

Dr. BELTH. Yes; very definitely. As a matter of fact, this is one of the very serious problems, even with my book, because it only contains the information for certain policies.

And there is a big caveat in there that the figures pertain only to the policies shown, so that this, or Commissioner Denenberg's Shoppers' Guide have had very interesting impact on the industry. They are merely based on certain policies.

Any kind of listing has got to be out of date the minute it's published; in fact, it's out of date even prior to the publication date and furthermore applies only to the policies shown.

That is why the whole idea of shoppers' guides or listings or consumers' handbooks, or anything like that, is not an adequate substitute for a full system of information disclosure to the consumer at the point of sale.

Mr. CHUMBRIS. Thank you.

That same possibility could occur also on a $25,000 policy of A as to a $10,000 policy of B, of the same type of insurance policy.

Dr. BELTH. That is correct.

Mr. CHUMBRIS. And Company A may rank above Company B on a policy issued at the age of 35, but below Company B on a policy issued at the age of 25.

Dr. BELTH. That is correct.

Mr. CHUMBRIS. Hence, if the consumer used the wrong ranking on a different policy or a different amount or a different issue, he would then be possibly misled or seriously misled.

Dr. BELTH. That is correct and is precisely the reason why listings of price figures are not an adequate substitute for full information disclosure to the consumer at the point of sale in regard to the precise amount and type of policy being considered.

Mr. CHUMBRIS. You have already answered this, but would a multitude of rankings among 1,800 companies be necessary to protect that consumer?

Dr. BELTH. No, sir, it would not.

Mr. CHUMBRIS. Now let us relate to another use of cost comparison methods as it would apply to the consumer.

In making comparisons among similar policies used by the different companies, I must say, from what I have heard from these various methods, that I do not see how the ordinary consumer could make logical comparisons.

What is your reaction to that comment?

Dr. BELTH. I believe I responded to that in connection with the chairman's question concerning the tremendous educational function that the disclosure would perform.

I do believe that initially when the disclosure, when the system is first adopted, if it were ever adopted, and made available to consumers, at first there would not be immediate ability to absorb the information.

I feel that it would be an educational process; it would take many, many years. Gradually consumers would become aware of the nature of the information being made available.

Once there is agreement among people about the nature of the information that should be disclosed, and the assumptions that should be used, and the method that should be used, then we can get on with the business of educating agents and consumers about what the life insurance contract benefits are and what their costs are.

Mr. CHUMBRIS. Thus far we have been discussing costs. It seems to me that there are a number of other considerations more important to the consumer than costs in deciding his decision to buy life insurance.

Your preferred method will not help the consumer in deciding whether to buy a term insurance or ordinary life insurance.

Dr. BELTH. Yes, sir, it would.

Mr. CHUMBRIS. How?

Dr. BELTH. This is very carefully spelled out in my book and I hope it got into your 22-page condensation.

Mr. CHUMBRIS. I'm sure it did. I'm going to give you a copy of the 22-page item.

Dr. BELTH. Once an information disclosure system, a reasonable information disclosure system is made available, it then becomes possible for the consumer to see the extent to which he is buying protection, the extent to which he is accumulating savings, in a policy he might be considering.

And he can then begin to make an intelligent decision about how much he would like to put into this kind of a savings program, if indeed, he wishes to put any in.

But I don't see that it's the function of regulators or insurance commissioners or anyone else to tell the consumer whether he should put his money into this kind of a savings program.

But I am suggesting that he desperately needs reliable information about the amount to which—the extent to which—he is buying protection, and the extent to which he is accumulating savings when he buys a cash value policy, and then he can make a decision on how much straight life, how much term, and so forth.

Mr. CHUMBRIS. Would that answer be the same in determining whether he should buy participating insurance or nonparticipating, and may I define the difference, or let you define the difference between the two in answering that question?

Dr. BELTH. It would be a great help to him in making the distinction between participating and nonparticipating.

A participating policy, as I indicated before, is a policy in which the company contemplates payment of the periodic, so-called "dividend."

A nonparticipating policy is one in which at the time of issue they do not contemplate the payment of any periodic so-called "dividend."

If he gets a reasonable presentation of the value, among other things, the value of the illustrated dividends, he could see the extent to which the higher premium usually associated with participating policies—usually, but not always associated with participating policies—is offset by the presence of these illustrated dividends.

The point is that under the present system of lack of reliable information he generally pays a higher premium for participating insurance, but he has no way of judging in any reasonable context whether the additional premium he pays in order to have a participating is being reasonably offset by the payment of dividends.

He has no way of making any kind of an evaluation, and so under the present system I'm proposing the premium would be evaluated and the dividends would be evaluated, among other things, and he would be able to see, you know, whether he is getting reasonable value for the additional premium paid.

Mr. CHUMBRIS. So that the record will be clear on this, let me ask you this. When I prefaced my question, I was referring to your using the Belth method of costs. Would you be able to make these differences; are you bringing in the element of the system of disclosure?

Did I read that into your last answer you were discussing?

Dr. BELTH. I don't understand your question, Mr. Chumbris.

Mr. CHUMBRIS. When I asked you these series of questions, I prefaced it with the remark that thus far we have been discussing costs. It seems to me that there are a number of other considerations more important to the consumer than just costs in deciding which policy to buy.

Your preferred method of costs—would they, or would they not help a person in determining whether to buy term insurance or ordinary life insurance?

Dr. BELTH. Yes.

Mr. CHUMBRIS. OK.

Now what about your method of costs in helping a person determine what company to buy from or what agent to choose?

Dr. BELTH. I think it would be extremely valuable in deciding what company to do business with, and it would also be of great help in deciding what agent to do business with; and the whole problem of the relationship of the agent to the company and to the consumer I think I dealt with in response to questions from the chairman.

Mr. CHUMBRIS. Well, thank you very much, Professor. You have been very patient with these questions, but I think that they are the key questions that we must get some basic information on.

Thank you, Mr. Chairman.

Senator HART. Well, because of another committee meeting which happens to meet around the luncheon table, we are compelled to recess. We will resume at 2:30. I understand you are going to be in the city the next day.

Dr. BELTH. Yes.

Senator HART. Very well, we will recess to resume at 2:30.

[Whereupon, the hearing recessed at 12:35 p.m. to resume at 2:30 the same day.]

AFTERNOON SESSION

Senator HART. The committee will be in order.

At the recess Mr. Chumbris was questioning.

Mr. CHUMBRIS. I have just one question.

Earlier Mr. Nader was the witness, and I brought up the point that the Consumers Union book really pushes term insurance, there is no doubt about it. But there were occasions where they agreed that part term insurance and part ordinary life would be appropriate.

I believe in your book you give some examples which would indicate that, under certain circumstances, a $50,000 policy could be divided between term and ordinary life to meet the problems of that particular family.

STATEMENT OF DR. JOSEPH M. BELTH, GRADUATE SCHOOL OF BUSINESS, INDIANA UNIVERSITY—Resumed

Dr. BELTH. That is right.

That was in a situation where the individual had made a decision that he wanted to accumulate some savings through the life insurance mechanism, so he wound up buying some term insurance and some cash value insurance.

Mr. CHUMBRIS. Thank you very much.

Senator HART. Mr. Sharp.

Mr. SHARP. Thank you, Senator.

Senator Hart has mentioned, Professor Belth, your academic background. In addition, we understand that you also have some practical background, you were a life insurance agent

Is that correct?

Dr. BELTH. That's correct.

Mr. SHARP. For how long?

Dr. BELTH. Approximately 5 years.

Mr. SHARP. I have here a table which shows the rankings of straight life policies issued by 10 large companies under the traditional net cost method, and under your retention method.

In it there are dramatic shifts in ranks. For example, the Metropolitan policy shifts from second under the traditional method to

eighth under the retention method; and the Bankers Life of Iowa policy shifts from seventh under the traditional method to first under your retention method.

Do you have a copy of that table?

Dr. BELTH. I know what table you are referring to.

Mr. SHARP. Would you please explain the reasons for such dramatic shifts? I would like to preface, before you do, that you do not list prices. You are just listing the rank.

Dr. BELTH. This is a listing taken from a table that was in the statement I submitted in connection with the SEC hearings on variable life insurance.

The 10 companies were selected nonrandomly. They were specifically chosen to illustrate the dramatic shifts in rank. They are companies that tend to shift dramatically, either upward or downward, when shifting from a traditional net cost method to a more refined method.

The companies that shift and turn out substantially worse under a more refined method, such as the Metropolitan Life in the case you referred to, the policies are characterized generally by relatively high premiums, relatively steep dividend scales, which I will explain in just a moment, relatively large cash values, and the presence of terminal dividends.

Now, the steep dividend scale is one in which the early year dividends are relatively very small, and the later year dividends are relatively very large. So if you plotted them on a sheet of graph paper, there would be a very steep slope to the illustrated dividends.

The companies with such a scale, under the traditional method, tend to look relatively good because when you add up the simple total, the relatively large dividends in the later years get the same essential weight as the early year dividends, even though they are paid much later.

Now, when a refined method is brought into the picture, which takes into account such things as interest and the probabilities of payment, then the large dividends in the later years are given more appropriate weight.

As a result, the companies that have these steep dividend scales tend to substantially worsen in their rank position.

Now, the other companies that tend to dramatically improve their position, such as the Bankers of Iowa that you cited which moved from seventh to first, the reason for that is that these policies are generally characterized by relatively small premiums, relatively low premiums, relatively small cash values, relatively flat dividend scales. There is still an upward slope, but it is much less steep. And usually there is an absence of these terminal dividends which are payable on surrender of the policy.

As a result, those are the companies that tend to dramatically improve their position when a refined method is used.

Mr. SHARP. Mr. Chairman, I would like to offer for the record this particular table that we were discussing. I believe Mr. Chumbris has a copy of that table.

Senator HART. Without objection.

[The table follows:]

COMPARISON OF RANKINGS UNDER TRADITIONAL NET-COST METHOD AND BELTH RETENTION METHOD FOR $25,000 PARTICIPATING STRAIGHT LIFE POLICIES ISSUED IN 1970 TO MEN AGED 35 BY 10 LARGE LIFE INSURERS

Company	Rank under traditional net cost method	Rank under Belth retention method
Phoenix Mutual	1	6
Metropolitan Life	2	8
Aetna Life	3	9
Mutual of New York	4	7
Confederation Life	5	2
Prudential	6	10
Bankers Life (Iowa)	7	1
Provident Mutual	8	4
Crown Life	9	3
Manufacturers Life	10	5

Source: U.S. Senate Antitrust and Monopoly Subcommittee. Derived from: Statement of Joseph M. Belth to Securities and Exchange Commission proceedings on variable life insurance, May, 1972: Belth, "Life Insurance: A Consumer's Handbook" (Bloomington, Ind., Indiana University Press, 1973) table 4-1, pp. 64-65.

Mr. SHARP. Professor Belth, I have here the statement which you submitted to the Security Exchange Commission in connection with their hearings on variable life insurance.

In your statement you commented in some detail on the fact that the life insurance trade association, in their petition, referred to the savings element of the life insurance policy as "an incidental outgrowth of the level premium system," and "a relatively small, if not insignificant, consideration when compared with the chief purpose of a policy: to provide protection against the risk of death by the pooling of funds."

Would you please explain your comments on these statements by the trade association?

Dr. BELTH. Well, I indicated that it is correct, that the savings element of a conventional level premium policy is an outgrowth of the level premium system. But I expressed the opinion that the savings element is not minor, incidental, relatively small, or insignificant, to use the words that were in the petition submitted by the trade association.

To illustrate that, I took a policy. It happened to be a $25,000 participating straight life policy issued by the Northwestern Mutual. I did the kind of analysis that I have suggested in the full text of my testimony for the second page of the two-page form.

In the results of that I evaluate the protection portion of the contract, I evaluate the savings portion of the contract.

The way it turned out was that, according to the system of evaluation that I have suggested, the savings element had a value roughly double the value of the protection element.

As a result of that information, I concluded that it would be inappropriate to refer to the savings element as minor, incidental, relatively small, or insignificant.

Mr. SHARP. Mr. Chairman, I would like to offer Dr. Belth's full statement to the Security Exchange Commission, so that we may have the benefit of that statement as well as the petition of the trade association and any rebuttal on this point.

Was there any rebuttal on this point?

Dr. BELTH. No; there was not. To my knowledge, the reply brief made no reference whatever to this point.

Senator HART. Without objection.

[The document follows. Testimony resumes on p. 553.]

STATEMENT OF JOSEPH M. BELTH BEFORE THE SECURITIES AND EXCHANGE COMMISSION

I am Joseph M. Belth, professor of insurance, Graduate School of Business, Indiana University, Bloomington, Indiana. I am author of "The Retail Price Structure in American Life Insurance" and various other life insurance studies. I am not being compensated for the preparation of this statement. The views expressed in the statement are my own and not necessarily those of any institution, organization, or other individual. I am representing neither the life insurance industry nor the mutual fund industry; the statement is written from the viewpoint of the life insurance consumer.

I. INTRODUCTION

Except at very young ages, the likelihood of death increases as age increases, and with increasing rapidity. Life insurance sometimes is written on a one-year renewable term basis, with premiums increasing in a manner designed to offset the increasing likelihood of death. Under such an arrangement, however, the insurance company experiences a phenomenon called "adverse selection," in which policyholders with deteriorating health tend to renew their policies and policyholders in good health tend to discontinue their policies. This adverse selection leads to a deterioration in the "quality" of the group, and to a larger than anticipated number of death claims relative to premium payments. Attempts to anticipate the adverse selection by more rapid premium increases tend to aggravate rather than solve the problem.

Level-premium life insurance, under which the premium remains constant, is a technique adopted by the life insurance industry in an attempt to minimize adverse selection and at the same time make it financially feasible for policyholders to continue their protection even to advanced ages. Such an arrangement, however, requires that the policyholder be overcharged (relative to mortality costs, expenses, and profit) in the early policy years to offset the inadequacy of premiums in the later policy years. The level-premium arrangement makes life insurance companies major financial institutions and transforms what would otherwise be an insurance transaction into a combination or package transaction involving both insurance protection and a savings medium.

In conventional, level-premium life insurance, the face amounts and the cash values are guaranteed in the contract. The result of the guaranteed cash values is a savings element that resembles a savings account or a savings bond in many of its major characteristics.

In the type of variable life insurance described in the petition filed by the American Life Convention (ALC) and the Life Insurance Association of America (LIAA), the face amounts and cash values would fluctuate in accordance with the performance of a separate investment account, with the face amount guaranteed not to decline below its initial level at the time the contract was issued. The assets behind variable life insurance are likely to be invested primarily in equities, and the result would be an investment element that resembles a mutual fund whose assets are invested primarily in equities.

Thus variable life insurance involves both insurance protection and an investment element, just as conventional, level-premium life insurance involves both insurance protection and a savings medium. Therefore, it can be argued that variable life insurance should be regulated under the state insurance laws because it involves insurance protection. On the other hand, it can be argued that variable life insurance should be regulated under the federal securities laws because it involves a substantial investment element.

II. THE SAVINGS ELEMENT

In the ALC–LIAA petition, the statement is made that "the nonforfeiture benefits are invariably minor for many years in relation to the death benefit under the policy." Similarly, the statement is made that "the 'investment element' of the policy, an incidental outgrowth of the level premium system, is a relatively small, if not insignificant, consideration when compared with the chief purpose

of the policy—to provide protection against the risk of death by the pooling of funds."

It is true that the savings element of a conventional, level-premium life insurance policy is an "outgrowth of the level premium system." In my opinion, however, the savings element is not "minor," "incidental," "relatively small," or "insignificant."

To illustrate, figures are shown below for a $25,000 participating life paid-up at age 90 policy issued in 1970 to men aged 35 by The Northwestern Mutual Life Insurance Company. The annual premium is $578, so the face amount is about 43 times the annual premium—a figure well in excess of the minimum multiple of 33 proposed in the ALC–LIAA petition.

In the calculation of the figures shown below, an assumed interest rate of 5 percent is used. The mortality rates used in the calculations are those in the 1957–60 ultimate basic table for males. The lapse rates are those in Moorhead's Table R, with certain modifications. The formulas used in the calculations are shown in my article, "The Relationship Between Benefits and Premiums in Life Insurance," which appeared in the March 1969 issue of The Journal of Risk and Insurance.

The components of the annual premium for the illustrative policy, on the basis of the specified assumptions, are as follows:

Protection element	$96.28
Savings element	181.94
Illustrated dividends	209.73
Company retention	90.05
Total	578.00

Thus, on the basis of the specified assumptions, the savings element of the illustrative policy has a value almost twice that of the protection element. And the savings element of the policy is of even greater importance in the case of higher premium policies, such as the life paid-up at age 65 plan that served as the basis for the schedule of minimum multiples contained in the ALC–LIAA petition.

III. DECEPTIVE SALES PRACTICES

The sales and advertising practices of life insurance companies sometimes are deceptive. To provide a glimpse of what can be expected in the sale of variable life insurance, this section describes certain practices that are used in the sale of conventional life insurance.

At the outset, I would like to explain what I mean by the word "deceptive." In my view, a presentation is deceptive if it tends to give the recipient an erroneous impression of important relationships. The emphasis in this definition is on the recipient. When I describe a life insurance advertisement or sales presentation as deceptive, I do not intend to suggest that the deception is necessarily deliberate on the part of the life insurance company or agent.

For the purposes of discussion, the various practices described here may be divided into three categories. Class A deceptive practices are those that involve a misallocation of the interest factor. Class B deceptive practices are those that involve comparisons based upon the simple addition of dollar amounts payable at different points in time. Class C deceptive practices are those involving presentations that are simply false.

Class A practices

Because of the package aspect of cash-value life insurance contracts, it is necessary to distinguish between the "premium" for the contract and the "price" of the protection element of the contract. To compute the price of the protection element, it is necessary to separate the protection element of the policy from the savings element, at least in a theoretical sense. Since the separation involves the making of assumptions, no single price figure can be established as the price; rather, any price figure must be accompanied by a statement concerning the assumptions used in computing that figure.

The nature of a life insurance price figure may be illustrated by an analogy. Assume that an individual is purchasing a package AB that consists of an item A and an item B. When only the price of the package AB is given, no single figure can be established as the price of either A or B alone. To calculate the price of A, it is necessary to make an assumption about the price of B, and vice versa. Thus, any figure established as the price of A must be accompanied by a statement about the assumed price of B, and vice versa.

In cash-value life insurance, the two parts of the package are protection and savings, and any figure established as the price of the protection must be accompanied by a statement about the assumed rate of return on the savings element. Conversely, it is possible to make a statement about the rate of return on the savings element only if an assumption is made about the price of the protection. In short, the price of the protection and the rate of return on the savings element are two sides of the same coin, and either can be used to make comparisons among policies.

Class A practices are those that involve a misallocation of the interest factor. Since the complexity of life insurance is a major barrier to an understanding of the full implications of Class A practices, I have developed a simple analogy that strips away the complexity and illustrates the fundamental problem.

The savings account analogy.—Assume that an individual puts $1,000 per year into a savings account, and that the account is credited annually with 5 percent interest. The saver would start the tenth year with $11,578 and add $1,000 to it. At the end of the tenth year, his account would be credited with interest of $629 (5 percent of $12,578), making his account $13,207 at the end of the tenth year. Of the $629 interest in the tenth year, $50 would be attributable to the tenth year deposit of $1,000, and the other $579 would be attributable to the previous deposits made during the first nine years.

In my opinion, it is deceptive to state, suggest, or imply that the $629 of interest in the tenth year is attributable in its entirety to the tenth year deposit of $1,000. In other words, the rate of return here is 5 percent, and I regard as deceptive any presentation that states, suggests, or implies that the saver is earning 62.9 percent interest on his tenth year deposit of $1,000. This form of deception is the basic characteristic of Class A practices.

The Harris article.—In the February 1970 issue of Life Insurance Selling magazine, there is an article by Richard F. Harris, Jr., entitled "I Tell Corporations, 'Put the Difference in Permanent.'" In this article, $989 per year is the difference between a decreasing term premium and a straight life premium. Mr. Harris attributes the full amount of the cash-value increase in any given year to the $989 difference paid in that year. For example, in the tenth year, he shows an "annual increase in assets" of $1,427. He attributes that increase to the $989 difference paid in the tenth year, and then he shows the "annual % tax free profit" that year as 44.3 percent.

The cash value of the straight life policy at the end of thirty years is $45,134. Implicit in the relationship between a $989 annual deposit and an accumulation of $45,134 at the end of thirty years is an annual interest rate of about 2.6 percent. If an adjustment were made for the different amounts of protection under the decreasing term policy and the straight life policy, the implicit annual interest rate would be about 3.8 percent. Such rate-of-return figures are not mentioned in the Harris article. Instead, after a negative figure in the first year, the "annual % tax free profit" figures range from 15.6 percent in the second year to 77.5 percent in the thirtieth year.

The rate-of-return figures in the Harris article correspond to the figure of 62.9 percent used in the savings account analogy. In this instance, the misallocation of the interest factor results in an overstatement of the rate of return on the savings element.

The ledger statement.—Many companies utilize the so-called ledger statemnt as a part of their sales material. In the typical ledger statement, the dividend for any given year and the cash-value increase for the year are subtracted from the annual premium in order to arrive at a cost for the year.

In a 1971 ledger statement prepared by the Acacia Mutual Life Insurance Company, for example, the annual premium for a $100,000 straight life policy issued to a man aged 40 was $2,448. In the tenth year, the dividend was $435, the cash-value increase was $2,100, and the cost for the year was minus $87.

The effect of this presentation is similar to the effect of the Harris article described above. Actually, a portion of the $2,100 cash-value increase in the tenth year is attributable to interest on the savings element developed during the first nine years. When a reasonable allocation of the interest factor is made (by assuming 5 percent interest, for example), the cost of insurance in the tenth year is $880 rather than minus $87. Thus, the misallocation of the interest factor in the typical ledger statement results in an understatement of the cost of the protection.

Class B practices

Class B practices are those that involve comparisons based upon the simple addition of dollar amounts payable at different points in time. Here again, an analogy may be used to illustrate the fundamental problem.

The work contract analogy.—Let's assume that Jones retained Smith to do a particular job, with the understanding that upon completion Smith would be paid $1,000 per year for forty years, a total of $40,000. After the job is completed, Smith asks Jones to begin the payments, and Jones says: "Smith, you've done such a great job that I'm going to pay you 10 percent more than we had agreed upon. I'm going to pay you $600 per year for thirty years and then $2,600 per year for the final ten years. That's a total of $44,000, which is 10 percent more than the $40,000 I originally agreed to pay you."

Hopefully, Smith would see that Jones failed to take interest into account. For example, let's compare the two payment plans with an assumed interest rate of 5 percent. The present value of the original payment plan ($1,000 per year for forty years) would be $18,017. The present value of the modified payment plan that Jones proposed, however, would be $14,562.

In my opinion, it is deceptive to state, suggest, or imply that the original payment plan is 10 percent better than the modified payment plan. In other words, what Jones described as an arrangement providing 10 percent more for Smith actually provides 19 percent less, assuming 5 percent interest. This form of deception is the basic characteristic of Class B practices.

The Brinton talk.—In September 1970, at the annual meeting of the National Association of Life Underwriters, Dilworth C. Brinton, C.L.U., gave a talk on the advantages of straight life over term insurance. An article describing the talk appeared in the September 16, 1970, issue of the life insurance edition of The National Underwriter.

Mr. Brinton indicated that, for a $100,000 straight life policy issued at age 25 and continued to age 65, the "net return over cost" is $30,923. Then he indicated that, for a $100,000 one-year renewable term policy over the same period, the "cost of term insurance" is $34,579. Finally, he stated that the "total difference" in favor of the straight life policy is $65,502. (The above "cost of term insurance" and "total difference" figures differ from those in Mr. Brinton's talk by $35, because I was unable to reproduce precisely his "cost of term insurance" figure.)

Mr. Brinton's analysis does not take interest into account. His straight life "net return over cost" figure was calculated by adding up the forty years' premiums, subtracting the simple total of the forty years' dividends, subtracting the cash value at the end of the forty years, and subtracting the surrender dividend payable at the end of the forty years. His "cost of term insurance" figure was calculated by adding up the forty years' premiums and subtracting the simple total of the forty years' dividends.

When an assumed interest rate of 5 percent is applied to this situation, the "cost" of the straight life policy in present-value terms is $9,163, and the "cost" of the term policy is $9,733. These figures still favor the straight life policy, but by $570 in contrast to Mr. Brinton's figure of $65,502. The comparison used by Mr. Brinton fails to consider the interest factor and thereby distorts the relationship between two markedly different kinds of life insurance contracts.

The traditional net cost method.—The most frequently used technique for illustrating the price of life insurance is the traditional net cost method. This method serves as the basis for the price information contained in the most widely disseminated volume of life insurance policy data—A. M. Best Company's Flitcraft Compend.

Frequently a twenty-year period of analysis is used. The simple total of the dividends for the twenty-year period and the cash value payable at the end of the twentieth year are subtracted from the simple total of the premiums for the period. The remainder is divided by 20 (the number of years in the period of analysis), and the result is the twenty-year average net cost.

The method may be illustrated with the Acacia Mutual figures referred to earlier. The premiums are $2,448 per year; thus the simple total of twenty years' premiums is $48,960. The simple total of the first twenty years' dividends is $8,441, and the cash value at the end of the twentieth year is $39,500. The twenty-year average net cost, determined by subtracting the dividends and the cash value from the premiums and dividing the remainder by 20, is $50.95, or 51 cents per $1,000 of face amount.

The traditional net cost method distorts comparisons among policies. For example, since the simple total of dividends is used in the calculations, com-

panies are encouraged to "steepen" their dividend scales. A company is said to have a steeper scale than another company when the former pays smaller dividends in the early policy years and larger dividends in the later policy years than the other company. When a company steepens its dividend scale, it benefits not only from increased interest earnings by deferring the payment of larger dividends, but also from the fact that many policyholders will either die or discontinue their policies before receiving the larger dividends in the later years.

To illustrate the manner in which the traditional net cost method distorts comparisons, consider Table 1. Figures are shown there for $25,000 participating straight life policies issued in 1970 to men aged 35 by ten large companies. These policies were not chosen at random; rather, they were selected because they tend to shift markedly in rank (either upward or downward) when moving from the traditional net cost method to the interest adjusted method. The only difference between the traditional net cost method and the interest adjusted method is that the latter takes account of interest. In this illustration, the assumed interest rate in the interest adjusted cost calculations is 5 percent.

TABLE 1.—TRADITIONAL NET COSTS AND INTEREST ADJUSTED COSTS FOR $25,000 PARTICIPATING STRAIGHT LIFE POLICIES ISSUED IN 1970 TO MEN AGED 35 BY 10 LARGE COMPANIES

[Ranks, from low to high]

Company	Traditional net cost	Rank	Interest adjusted cost (5 percent)	Rank
Phoenix Mutual	−$3.46	1	$6.34	7
Metropolitan Life	−3.09	2	6.33	6
Aetna Life	−3.00	3	6.66	9
Mutual of New York	−2.92	4	6.43	8
Confederation Life	−2.33	5	5.97	2
Prudential	−2.22	6	7.17	10
Bankers Life (Iowa)	−2.21	7	5.49	1
Provident Mutual	−1.92	8	6.07	3
Crown Life	−1.25	9	6.08	4
Manufacturers Life	−1.19	10	6.31	5

The policies of the five companies whose ranks improved when moving from the traditional net cost method to the interest adjusted method—Confederation Life, Bankers Life (Iowa), Provident Mutual, Crown Life, and Manufacturers Life—are characterized generally by relatively low premiums, relatively flat dividend scales, relatively low cash values, and no termination dividends. The policies of the five companies whose ranks worsened when moving from the traditional net cost method to the interest adjusted method—Phoenix Mutual, Metropolitan Life, Aetna Life, Mutual of New York, and Prudential—are characterized generally by relatively high premiums, relatively steep dividend scales, relatively high cash values, and termination dividends. The traditional net cost method, which involves the simple addition of dollar amounts payable at different points in time, distorts comparisons among policies.

Class C practices

Class C practices are those involving presentations that are simply false. Although such practices do not involve a misallocation of the interest factor or a failure to take account of the interest factor, their falsity usually is difficult to detect because they are complex and tricky. Two examples of such practices are presented below.

The Paul article.—In the November 1969 issue of The Radiator (the magazine of the Massachusetts Mutual Life Insurance Company), there is an article by Raymond L. Paul, C.L.U., entitled "Why Get Complicated?" Mr. Paul suggests the following technique for handling the question of investment return when it arises in the sales interview:

Ask the prospect what kind of return he would expect to get if he invested $1,000 a year. Assume he answers 8 percent. Then ask him what kind of return he would expect to get if he invested the $1,000 a year in a life insurance contract. Assume he answers 4 percent.

What would it cost the prospect to buy the life insurance? Wouldn't it be the difference between what he would have earned on the 8 percent investment and what he would earn on the life insurance investment? This difference amounts to $40 a year.

If the prospect invests $1,000 a year in a straight life contract at his age of 30, his family would get $50,000 when he dies. "Mr. Prospect, that's $50,000 of death protection for $40 a year. Can you really afford to invest in anything else?"

Under Mr. Paul's assumptions, the life insurance buyer would forgo $40 of interest each year for each $1,000 invested in the life insurance policy. In the first year the amount forgone would be $40. In the second year, however, even disregarding compound interest, the amount forgone would be $80, because he would be forgoing the extra interest on the first year's $1,000 as well as the second year's $1,000. By the same token, and again disregarding compound interest, he would forgo $120 in the third year. In other words, while the technique suggested by Mr. Paul refers to "$50,000 of death protection for $40 a year," the actual figures (disregarding compound interest) should be $40 in the the first year, $80 in the second year, $120 in the third year, $400 in the tenth year, $800 in the twentieth year, and so forth.

The Wolfe technique.—In his book See You Next Week (published by The Research & Review Service of America, Inc.), Wayne W. Wolfe suggests the following technique to persuade a term insurance policyholder to convert to straight life:

Mr. Client, you have a lot of protection in that term policy for the $300 it costs. You know, of course, there is no cash value in it. It's the kind of policy you have to die to beat. Did you know, Mr. Client, that the permanent kind of life insurance can be so arranged that you eventually get all of your money back if you don't die? [Wait for answer.]

Since you get all of your money back, the cost of permanent insurance is really just the interest on your money, isn't it? [Wait for answer.]

Now, here's an intriguing point. Since the term premium pays just for the insurance, with no return, isn't that term premium just like interest on the permanent premium that buys the same amount of insurance? [Wait for answer. Repeat if necessary.]

In that case, you are paying about 30 percent interest, Mr. Client. Let me show you what I mean. At your age of 30, your $50,000 term policy costs you $300 per year. Whole life, which would return all of your money eventually, would cost you $1,000 a year for the same amount. The term premium is interest on the permanent. That's where I got the 30 percent interest figure. Don't you think that is pretty high? Can you invest money anywhere for that much return? [Wait for answer.]

Well, you can make just such an investment here, by converting that term to permanent life insurance!

Under Mr. Wolfe's assumptions, the $300 term premium would be 30 percent of the straight life premium in the first year following conversion. In the second year, however, even disregarding compound interest, the $300 term premium would be 15 percent of the $2,000 total paid into the straight life policy. By the same token, and again disregarding compound interest, the figures would be 10 percent in the third year, 3 percent in the tenth year, 1½ percent in the twentieth year, and so forth.

IV. DISCLOSURE REQUIREMENTS

The problems of price measurement and disclosure in connection with conventional, level-premium life insurance have been discussed for many years. In 1966, in my book "The Retail Price Structure in American Life Insurance," I concluded that there is a lack of effective price competition in the life insurance industry and suggested a rigorous system of price disclosure. On September 5, 1967, the subject was treated in a front page story in The Wall Street Journal.

In 1968, the Washington State insurance department promulgated an administrative rule requiring that certain price information be disclosed to the buyer when an agent recommends the replacement of one policy with another. Although the rule pertained only to replacement situations, it was significant because it represented the first strong life insurance price disclosure requirement by a regulatory agency.

Also in 1968, Senator Philip A. Hart, chairman of the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, engaged in an important exchange of correspondence with William J. Driver, then the top official of the Veterans Administration (VA). The correspondence grew out of Senator Hart's concern about the situation of Vietnam veterans with regard to their life insurance. The federal government made a limited amount of low-priced life insurance available to veterans of World War I, World War II, and the Korean War. In 1965, a program known as Servicemen's Group Life Insurance was established

on a cooperative basis with the life insurance industry. The serviceman is provided with a limited amount of low-priced coverage, and the veteran has the privilege of converting it without evidence of insurability within 120 days following discharge. To exercise the conversion privilege, the veteran buys a regular policy from any one of a substantial number of companies operating in his state of residence. For example, if a recently discharged veteran inquires about his conversion privilege, he is furnished with a long, alphabetical list of companies—perhaps 200 or more of them—and no price guidance. In his correspondence with Mr. Driver, Senator Hart urged the VA to assemble life insurance price information and make it available to Vietnam veterans. Mr. Driver declined to do so.

On October 15, 1968, Senator Hart referred publicly to the possibility of "truth in life insurance" legislation. In a speech before a life insurance industry group, he made the following statements:

Obviously, if it makes sense to tell consumers how much of what is in a package on a supermarket shelf, or how much interest they will pay for using someone else's money, it makes sense to tell them how much they are paying for death protection and how much they are saving when they plunk down a life insurance premium.

Hopefully your industry will think so too—and start supplying the information.

If not—watch for Truth in Life Insurance to follow Truth in Packaging and Truth in Lending through the legislative mill.

Because that's the way people are thinking in consumerland.

On November 25, 1968, similar comments were made by Wilbur J. Cohen, then the Secretary of Health, Education, and Welfare. In his testimony at a Federal Trade Commission hearing, Secretary Cohen suggested the need for "more uniformity, more comprehensive protection, and more price comparison" in various areas of insurance, including life insurance.

Early in 1968, as a direct result of Senator Hart's admonition and Secretary Cohen's comment, three life insurance trade associations—the ALC, the LIAA, and the Institute of Life Insurance (ILI)—appointed a prestigious industry committee to look into the price disclosure problem. The committee was chaired by E. J. Moorhead, then the president-elect of the Society of Actuaries. The report of the committee was released in May 1970. The major recommendation of the committee was that the interest adjusted method be used in making cost comparisons instead of the traditional net cost method. Thus, if the major recommendation of the report were implemented, a major step would have been taken in the direction of overcoming the problem of the Class B deceptive practices referred to earlier in this statement.

Developments since the release of the industry report, however, suggest that whatever progress is made on a voluntary basis is going to be painfully slow. The three trade associations that formed the special committee "received" the report and authorized its publication. They did not approve or endorse the report, however, apparently out of a fear of violating the antitrust laws.

A major insurance trade publisher—The National Underwriter Company—developed a comprehensive volume of price information based on the interest adjusted method recommended by the committee. However, the other major insurance trade publisher—A. M. Best Company—apparently is planning to do nothing.

The recognition of the interest adjusted method by the life insurance companies has been slow. One company—Bankers Life (Iowa)—supported the committee's recommendation quickly by making interest adjusted costs for its policies available as a part of its sales material. A few other companies placed interest adjusted cost figures in their rate books. At the urging of Mr. Moorhead, and as a result of publicity given to the problem by Virginia H. Knauer, President Nixon's special assistant for consumer affairs, many more companies are planning to make interest adjusted cost figures available to their agents. Even so, many major companies apparently are still planning to do nothing. In a letter dated March 3, 1972, Blake T. Newton, Jr., president of the ILI, sent Mrs. Knauer a list of eighty-four companies that "either have taken action or are shortly planning action in informing their agents about the interest adjusted method of policy cost comparison." Among the forty-four United States companies with at least $3 billion of ordinary life insurance in force at the end of 1971, for example, twenty-five were shown on the list as having taken or planning to take action to provide interest adjusted cost figures to their agents. However, six companies in that size category—Aetna Life, Connecticut General, Continental Assurance, Northwestern Mutual, Southwestern Life, and United Benefit—were shown in the list as having taken or planning to take action to inform their agents about the interest adjusted method, but "without figures." And thirteen companies in that

size category—Allstate Life, Franklin Life, Home Life (New York), Investors Syndicate Life, Liberty National, Lincoln National, National Life & Accident, Nationwide Life, Provident Life and Accident, Republic National, State Farm Life, Travelers, and Western and Southern—were missing from the list.

Even if all companies were to make interest adjusted cost figures available to their agents, such information would not necessarily reach prospective buyers. Furthermore, the availability of interest adjusted cost figures would not eliminate the use of the discredited traditional net cost method or other Class B deceptive practices.

There have been sharply negative reactions to the committee report from persons representing life insurance agents. Here are a few such comments: "The whole theory of 'lost interest' will never be acceptable to the field force." "I do not see the reason for including an interest factor in the purported cost of life insurance only, when life insurance is obviously in competition with other spending and saving vehicles to which this method of 'costing' is not applied." "While we deplore misleading statistics as much as anyone does, we are getting fed up with the whole doctrine of lost, or negative, interest." "Adoption of the interest adjusted method would just lead to confusion and would inhibit the sale of life insurance." "It [the interest adjusted method] would not work and it probably is illegal."

The committee report is silent on the subject of price information for one policy year at a time—a problem that is even more serious than the one to which the committee addressed itself. In other words, the committee report is silent on what have been described in this statement as Class A deceptive practices. Nor does anything in the committee report relate to the problem of Class C deceptive practices.

The committee report fails to deal with a major aspect of Senator Hart's admonition. The interest adjusted method provides the buyer with no information on the extent to which he is buying protection and the extent to which he is putting away savings when he buys a cash-value life insurance policy.

In February 1972, the Wisconsin insurance department promulgated an administrative rule to take effect June 1, 1972, relating to disclosure requirements and deceptive practices in the sale of life insurance. The rule does not require disclosure of price information, although it does require disclosure of certain premium and face amount information. As for deceptive practices, the rule defines deception in such a way as to appear to encompass many of the deceptive practices referred to in this statement. However, the effect that the rule will have on life insurance sales practices remains to be seen. In my opinion, its effect will be inconsequential.

In March 1972, a task force on price illustrations was formed by the National Association of Insurance Commissioners (NAIC). Presumably the task force is considering the possibility of developing a model bill or model rule providing for disclosure of information on the costs and benefits of life insurance policies. What the task force will recommend, what the NAIC will do with the recommendation, and what the states will do subsequently even if the NAIC adopts a model bill or model rule remains to be seen.

In April 1972, the Wisconsin insurance department proposed an administrative rule relating to price disclosure in life insurance. The rule would require that certain policy information, including interest adjusted cost figures, be furnished by each company to its agents, and that the information be furnished to any policyholder or prospective buyer upon request. The information that is the subject of the proposed rule would not constitute adequate disclosure even if required. But the provision that the information be furnished to prospective buyers only upon request means that the proposed rule was emasculated even before it was disseminated to interested parties for comment. A hearing on the proposed rule is to be held on June 2, 1972.

Also in April 1972, the Pennsylvania insurance department published "A Shopper's Guide to Life Insurance." It contains some suggestions for life insurance buyers and some premium and interest adjusted cost figures for certain policies issued by major companies operating in Pennsylvania. Although publication of the guide is a commendable effort by the Pennsylvania insurance department, the information is not an adequate substitute for required price disclosure to the consumer at the point of sale.

V. CONCLUSION

Deceptive sales practices flourish in the sale of conventional life insurance, and thus far the states have not shown the willingness to take strong, affirmative action to eradicate such practices. The potential for deception in the sale of the even more complex variable life insurance is frightening to contemplate.

Despite the strong movement toward disclosure in other areas of business in recent decades, the states have not shown the willingness to require any substantial disclosure to the consumer at the point of sale in connection with conventional life insurance. The technical problems of disclosure have long since been solved, but no implementation has been accomplished.

In 1970, the NAIC adopted a Model Variable Contract Law and a Model Variable Contracts Regulation. These documents, which are referred to in the ALC–LIAA petition, provide for certain information to be included in variable life insurance contracts and for certain information to be disclosed to policyholders and prospective buyers. However, neither of them provides anything approaching adequate disclosure to the consumer at the point of sale. Even if the NAIC should adopt a strong model bill or model rule, which is unlikely, such bill or rule probably would not be put into effect in more than a handful of states.

Because of the greater complexity of variable life insurance, adequate disclosure is even more urgent than in the case of conventional life insurance. But the performance of the states in connection with conventional life insurance suggests that there is little chance of adequate disclosure requirements being adopted by the states for variable life insurance.

It can be argued that variable life insurance should be regulated under the state insurance laws because it involves insurance protection. It is to be expected that the life insurance industry would argue for regulation of variable life under the state insurance laws, since such regulation probably would be less rigorous than regulation under the federal securities laws.

On the other hand, it can be argued that variable life insurance should be regulated under the federal securities laws because it involves a substantial investment element. It is to be expected that the mutual fund industry (at least that portion of the mutual fund industry not affiliated with life insurance companies) would argue for regulation of variable life insurance under the federal securities laws, since mutual funds are so regulated.

Thus the Securities and Exchange Commission could go either way in respect to the regulation of variable life insurance. And subsequently the courts could go either way. Squarely in the middle of this debate is the life insurance consumer.

Should the ALC–LIAA petition be denied, and should variable life insurance be subjected to regulation under the federal securities laws, presumably the Commission would develop special disclosure rules and other requirements relative to variable life insurance so as to protect the interests of consumers. Should the petition be approved, however, and should variable life insurance be subjected to regulation under the state insurance laws, the interests of consumers probably would not be protected adequately. The states have failed to protect adequately the interests of consumers in the sale of conventional life insurance. Under such circumstances, it is unlikely that the states would protect adequately the interests of consumers in the sale of variable life insurance.

Thank you.

Mr. SHARP. Dr. Belth, you discussed earlier this morning in reply to Senator Hart's question about the impact of information disclosure, the impact it would have on consumers, agents and companies.

Now, with regard to agents, you stated, I believe, that in many instances life insurance agents' contracts provide for nonvested commissions, is that correct?

Dr. BELTH. Yes, that is correct.

Mr. SHARP. Are you saying that if the company has advanced an agent, during his training period, for example, $10,000, and that agent after 7 years has renewal commissions due him of $30,000 let us say, and he then leaves that company or he dies, does he forfeit the entire

$30,000? Or does he just forfeit the amount of the $10,000 advanced during his training course?

Then, of course, in the case of death—what does his widow receive? Do you have any comment on that?

Dr. BELTH. Well, first of all, the $30,000 you are referring to—you mean the value of the nonvested commisisons?

Mr. SHARP. Yes, the value of the nonvested commissions.

Dr. BELTH. It might be useful to distinguish between a situation where the agent leaves the company and where the agent dies.

I have not made any systematic study of agents' contracts. I might mention that I am not familiar with any really extensive discussions. There may be such, but I have not seen an extensive discussion of an analysis of agents' contracts.

But it is my understanding that on nonvested commissions, where the agent leaves the company and either goes with another company or leaves the insurance business entirely, that he would forfeit all of his nonvested commissions, regardless of their amount and regardless of their relationship to what might have been invested in the man during the early years of his training, under some advance or salary arrangement.

I believe that there are differences with regard to what would happen if he died. I am not familiar with that sufficiently to respond carefully.

I think in some cases some of what we might call nonvested might actually go to the family of the deceased agent, where they would not go to the agent if he survived but merely terminated the relationship with the company.

Mr. SHARP. Does that, in your opinion, tend to make the agent a captive of the company, and would the result be restricting agents' competition?

Mr. Nader testified this morning that and you make allusion in your statement that perhaps the competition in the industry is for agents.

The question really is: Does this make the agent a captive of the particular company, locked into the system? I think that was what was expressed this morning. And would the ultimate result be to restrict competition? Would this be acting as a restraint on competition in the marketplace?

Dr. BELTH. Yes. I believe very definitely that the effect of nonvested commissions is to tend to lock in many agents with their primary company.

I should point out that my understanding is that in the earlier days, sometimes called the days of rugged individualism, the agent was given no advance, no salary. It was a straight commission business, and if he didn't make it, he just simply starved.

In those days, it is my understanding that typically contracts were fully vested, commissions were fully vested. They were fully the property of the agent. If he left the company, he took them with him. If he left the company, even died, his family would receive what he would have received.

But as the need developed for financing of agents, at the same time there developed the idea of nonvested commissions so that the company would be in a position to recoup its investment in agents who failed. He would forfeit the nonvested commissions, and they would thereby

recoup what they had—or at least part or more than they had—invested in his early years.

So we should understand the content of this. But I think the effect of nonvested commissions is that it tends to lock in an agent; and I do believe it has very, very strong anticompetitive effects because it means, if the disclosure gets to the agent, he gets very unhappy with his company. It makes it extremely expensive for him to shift his allegiance.

I think this restricts competition very seriously because—and I think I agree with what Mr. Nader and Mr. Petkas said this morning—the competition is very keen for agents. The company that wants to sell life insurance, what they have to do is recruit agents, and then the agents will sell their life insurance.

Mr. SHARP. Would a law protecting the agents by preventing the forfeiture of what are now nonvested commissions make sense, at least to the extent of any commissions due him in the future, beyond what the company costs of training him or advances to him were?

Would such a law make sense in your view?

Dr. BELTH. I have never given careful consideration to this. It is an intriguing idea.

The idea of limiting the amount of forfeiture perhaps to the amount invested in the agent in terms of salary and draw or some combination, together with interest—we could take interest into account in the calculation and then limit the amount of forfeiture—it is an intriguing idea. I think it perhaps deserves some exploration.

Mr. SHARP. Well, along those lines, we have, of course, nonforfeiture of cash values in life insurance contracts. Is there any correlation?

Dr. BELTH. There might be a correlary of some kind between nonforfeiture laws so that if a policy holder pays the level premium for a number of years, there would be laws requiring the payment of cash surrender values.

This would, in effect, limit to some extent the amount of forfeiture involved if he should discontinue the contract. That is for the buyer.

It is an interesting notion, nonforfeiture of nonvested commissions for agents. As I say, it is a very intriguing idea.

Mr. SHARP. Now, you have had some experience with the National Association of Insurance Commissioners meetings and proceedings over the years. Do you know, of your own knowledge, has any such idea been considered, either by the industry or the National Association of Insurance Commissioners?

Dr. BELTH. I do not recall ever having seen it.

Mr. SHARP. Mr. Chairman, that is all the questions I have. I would like to take a few minutes to put in some documents.

First, I would like to submit for the record—I do not know if Dr. Belth has done this already—an article he wrote for the Antitrust Bulletin with Prof. W. J. Maxwell, called "The State of Competition in the Life Insurance Industry."

This is a reprint, and I will make copies available to minority.

I would also like to offer for the record a copy of the January issue article from Money magazine, entitled "What Life Insurance Really Costs," a review of Dr. Belth's book, if minority would have no objection.

Also, this is a "Communication," I take it. It is reprinted from the Journal of Risks in Insurance, voluume 37, No. 2, June 1970, pages 313 to 315, entitled "Further Comments by an FSA (Fellow of the Society of Actuaries)" by Murray Projector.

It deals with Dr. Belth's benefits premium method, which I believe, Doctor, is the retention method.

Dr. BELTH. It is the same thing as the retention method.

Mr. SHARP. I offer this for the record.

[The documents referred to were received for the record and appear at the end of Dr. Belth's testimony.]

The last series of documents deal with the question of a "dividend" on a participating policy. Here we have pages taken from a book of Dr. Dan McGill, who is the Ecker professor of Life Insurance and executive director of the S. S. Huebner Foundation for Insurance Education, University of Pennsylvania, Wharton School.

This is from his book on life insurance, a textbook called "Life Insurance," published by Richard Irvin, 1959; and it is two pages from chapter 16, dealing with the question of dividends.

Also, two pages from the book, "Life Insurance," by MacLean, 9th edition, McGraw-Hill, 1962, pages 142 and 143, chapter 8 entitled "Dividends."

[The documents follow. Testimony resumes on p. 558.]

[From "Life Insurance" McGill (Irwin, 1959)]

CHAPTER XVI—SURPLUS AND DIVIDENDS

CONCEPT OF GAINS AND LOSSES

It has been stressed in earlier chapters that the long-term obligation assumed by a life insurance company, coupled with the fixed terms of its contracts, forces the company to calculate its premium charges on a conservative basis. The nature of mutual life insurance is such that the adequacy of the gross premium can be given the highest priority; and consequently, it is found that mutual companies incorporate ample margins of safety into each of the basic assumptions entering into their gross premiums. The premiums of stock life companies must likewise meet the test of adequacy; but careful consideration must also be given to the competitiveness of the premiums, since no adjustments in the charges are made after the policy is issued. The margins in stock company premiums will be narrower, therefore, but still present. Thus, it is to be expected that both mutual and stock companies will normally show a gain from each year's operations.

The immediate result of a gain is to increase the surplus of the company; that is, the assets of the company will show a greater increase than the liabilities. The disposition of the gain, however, will depend upon whether it was realized by a stock or a mutual company. The gain in the case of a stock company will have been realized from either a specific margin for profit in the gross premium or favorable deviations of actual experience from assumed experience, or both. Irrespective of the source, the gain is analogous to the net earnings of an ordinary commercial organization and is available for distribution to the stockholders as compensation for the use of their capital. However, only a portion of the gain will normally be distributed to stockholders in cash, the remainder being left in surplus to finance the acquisition of new business and to provide a financial buffer against adverse contingencies.

The addition to surplus in the case of a mutual company will likewise come predominantly from favorable deviations of actual experience from assumed experience, but they cannot be regarded as earnings in the usual sense. They represent overcharges made for the sake of safety, and it is understood by all concerned that adjustments in the company's charges will be made on the basis of actual experience. The basis for calling the deviations of actual from assumed experience "earnings" in the case of stock companies and merely "overcharges" in the case of mutual companies is that, in the one case, the gains go to third parties (stockholders) while, in the other case, they go back to the persons from whom they originated. Aggregate gains in a participating company are essen-

tially a yardstick for measuring the proper proportion of the gross premiums to be returned to the policyholders and are in no sense a measure of the profitability of the business.

The refund to mutual policyholders is called a "dividend." This is an unfortunate term, since only with respect to the excess of actual over assumed investment earnings can such a refund be regarded as a return on invested capital—the usual connotation of the word. It is nothing more than a refund of a deliberate overcharge and should not be confused with ordinary dividends payable to corporate stockholders.

[From Life Insurance, MacLean, 9th Ed. (McGraw-Hill) (1962)]

DIVIDENDS

In life insurance, dividends are the parts of the company's surplus allotted, usually annually, either in cash or in some other form, as explained later, to the holders of participating policies. The word "dividend" is, to some extent, a misnomer, such an allotment being more in the nature of a refund of part of the premium paid rather than a return on capital invested—the usual meaning in other commercial transactions.

Surplus. In the operation of an insurance company the various assumptions involved in the premium calculations are not exactly realized. Because of the conservative view of the future generally adopted in the calculation of premium rates for participating policies, the actual conditions experienced usually prove to be more favorable than those assumed. Owing to medical selection and the general trend toward lower mortality rates, deaths do not take place at so high a rate as is indicated in an ultimate mortality table based on past experience. Surplus funds, therefore, result from saving in mortality. The rate of interest[1] realized on investments is usually greater than that assumed, and in that case the funds of the company are further increased by excess interest. Again, the loadings may be more than sufficient to provide for expenses and contingencies, so that a saving from loading results.

Surplus may also rise from capital gains. These may result either from writing up (increasing) the book value of an asset or from the sale of an asset for more than the value at which it is currently being carried on the company's books—the "book value."

Losses (decreasing surplus) may, of course, also be incurred at times from any of the above-mentioned sources. Thus the actual mortality may exceed that "expected," as it did in some companies during the influenza epidemic in 1918. The rate of interest earned may be less than that assumed, as was the case in many companies in the middle 1940s. Expenses may exceed loadings, and capital losses may be incurred by the necessity of writing down the book value of an asset or from its sale at less than book value.

The surplus funds may also be increased in other ways. Thus if the amount paid as a cash-surrender value is less than the amount of the reserve held against a policy at the date of lapse, surplus will be increased. Such a "profit" frequently represents, in whole or in part, money returned to surplus which was originally taken from it in order to establish the reserve (as was explained in Chapter 7). To that extent it is not a true profit. Nevertheless, the reserve is released, and the excess of the reserve held over the amount allowed as a surrender value increases the surplus as of that date.

It will be seen, therefore, that under practical conditions the actual assets arising from the accumulation of premiums less expenses and claims will differ from the amount of the reserves required and that normally a surplus will result.

When a company makes up a financial statement, the surplus may appear in one or more of three classifications: (1) funds not representing actual liabilities but held for special purposes, such as the "mandatory security reserves" required by some states; (2) funds set aside for the purpose of paying dividends in the ensuing or in future years; (3) unassigned funds not specifically "earmarked" but available for any purpose and to meet any contingency. The first and third of these items may be considered as the net surplus and the total of the three items as the gross surplus. The surplus which has arisen during the past year from the various sources mentioned above may, in * * *

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[1] The term "interest" is conventionally used to mean "income on investment," although a portion of that income is in other forms, such as dividends on stocks and rents from real estate owned.

Mr. SHARP. Also a court decision, *Wells* vs. *Metropolitan Life Insurance Co.*, City Court, City of New York, February 9, 1939, cited as 101 New York Law Journal 661.

It was held that "the so-called 'dividends' in a mutual company are not dividends in the ordinary sense of the word, but merely represent an excess premium or overcharge to the policyholder."

[The document was received for the record and appears at the end of Dr. Belth's testimony.]

I also would like to submit for the record the decision of the Treasury Department, Office of Commissioner of Internal Revenue, referred to by Mr. Nader this morning. This is Treasury Department Decision 1743, dealing with the question of "dividends declared by insurance companies as not being deductible from gross income, and when such dividends are applied to the payment of renewal premiums, to shorten the endowment or premium paying period," et cetera.

In the decision the Treasury Department declared that they are not dividends "in the commercial sense of the word, but are simply refunds to the policyholder of a portion of the overcharge."

I would like to put those in the record.

Thank you, Mr. Chairman.

Senator HART. Without objection.

[The Treasury decision follows. Testimony resumes on p. 561.]

(T.D. 1743.)

SPECIAL EXCISE TAX ON CORPORATIONS

Dividends declared

Dividends declared by insurance companies are the dividends referred to in section 38, act of August 5, 1909, as not being deductible from gross income, and when such dividends are applied to the payment of renewal premiums, to shorten the endowment or premium paying period, to purchase paid-up additions and annuities, etc., they must be included in and accounted for as income.

TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,
Washington, D.C., December 16, 1911.

SIR: Section 38 of the act of August 5, 1909, provides that every insurance company now or hereafter organized under the laws of the United States, or of any State or Territory of the United States, or under the acts of Congress applicable to Alaska or the District of Columbia, or now or hereafter organized under the laws of any foreign country and engaged in business in any State or Territory of the United States or in Alaska or in the District of Columbia, shall be subject to pay annually a special excise tax with respect to the carrying on or doing business by such insurance company equivalent to 1 per cent upon the entire net income over and above $5,000 received by it from all sources during such year. The act referred to provides that such net income shall be ascertained by deducting from gross income received within the year from all sources (first) all the ordinary and necessary expenses actually paid within the year out of income in the maintenance and operation of its business and properties, including all charges, such as rentals or franchise payments, required to be made as a condition to the continued use or possession of property; (second) all losses actually sustained within the year and not compensated by insurance or otherwise, including a reasonable allowance for depreciation of property, if any, and, in the case of insurance companies, the sums other than dividends paid within the year on policy and annuity contracts, etc.

In the administration of this law the questions of what was meant by the use of the word "dividend" and the status of dividends declared by insurance companies have arisen. These questions have been receiving most careful consideration in this office for the past six months. Many hearings have been had on this subject, at which have appeared officers and counsel representing nearly all of

the insurance companies interested. In addition to elaborate arguments, a number of briefs have been filed and this office has on its own account made careful and painstaking investigations.

Reduced to final analysis, the contentions of the various companies are chiefly two:

First. That dividends declared by mutual and participating companies are not dividends in the commercial sense of the word but are simply refunds to the policy holder at the time the annual premium of the policy contract is collected, which overcharge is merely held in trust by the company issuing the policy, and annually or at stated periods all, or a portion thereof, is returned to the person holding the policy.

A careful consideration of the language used by Congress on this subject, a consideration of the provisions in the policy contracts relating to dividends; the statements of the insurance companies to their policy holders; the statements made by the insurance companies to the public generally through their authorized advertisements, their literature, and by their agents; and the sworn reports of the insurance companies made to the various State authorities show that this contention is untenable.

The language in the various policies differs a little, but the contract itself sets out specifically that the policy shall entitle the holder annually or at stated periods to a divided which shall be the distributive share of the policy in the surplus of the company, the amount thereof being fixed by the board of directors or in some other designated method.

In the authorized literature sent out by each of the various companies the amount of the dividend is in general made the most prominent feature, and, as a matter of common knowledge of every person who has reached the age of maturity, each and every one of the agents of these companies presents a mass of alleged facts and figures showing the financial benefits to be derived by taking a policy in any given company on account of its large annual surplus and the dividend to be declared on the policy as a result thereof. In fact, in the current magazines, street-car advertisements, etc., one is confronted with allegations set forth in attractive type of the dividends earned and declared on the policies of one or another of these companies.

In all of the policy contracts and in the literature and representations of the agents and officers of the respective companies the amounts thus paid to the policy holder are designated dividends, are treated as dividends so far as appears both by the companies and the policy holders receiving them, and an examination of the sworn reports furnished by these insurance companies to the various State officers discloses the fact that these amounts are still called dividends, and in the face of these facts it becomes an impossibility for this office to rule that such dividends should be considered under any other designation or that the amounts so paid should be deductible from gross income in making the returns of annual net income.

It was vigorously contended by counsel, representing certain of these companies, that it was necessary at the outlet to disregard entirely the policy contracts, the published literature, the representations of officers and agents, the sworn returns to State authorities, and to consider the proposition only after these items had been eliminated; that owing to the exigencies of business and the competition of insurance companies it was necessary, in order to secure new business, to convince the prospective policy holder of the desirability of the same and that this commercial necessity, had resulted in the companies making misrepresentations of facts as to dividends to their prospective purchasers of insurance, and that names and designations having a single specific meaning in the commercial world, and which were therefore attractive to prospective policy holders, had been adopted to represent transactions which they now hold are entirely different from what their name implies and represents, and from that which the policy holder himself believed he was receiving, and that business necessities had caused a continuance of these misnomers. It was represented that, in fact, there were no dividends, but merely a refund of overcharges, which, for reasons above stated, were usually referred to as dividends.

It appears, however, from the investigations of the books themselves that in many cases the earnings of the companies from previous investment and holdings are nearly, if not quite, as large as the amounts which are annually distributed as dividends, and while it may be true that the dividends in whole or in part might be distributed from premiums rather than from these earnings, it does not appear that a separation of sources of income is made for the

purpose of ascertaining the funds available for dividends. The insured is not promised a refund, but a participation in the surplus or profits is promised and the plea that the dividend declared is a refund of a portion of the premium heretofore paid, rather than a distribution of the actual surplus of a company derived from all sources, does not appear to be consistent.

It does not appear, therefore, that the facts warrant the contention of the counsel that dividends are refunds of premium payments, but on the contrary it appears that most of the companies are in a position to declare a dividend which will conform to the commercial definition of dividends urged by counsel as the correct definition.

The language of Congress relative to deductions from gross income is as follows: "And in the case of insurance companies the sums other than dividends paid within the year on policy and annuity contracts," and there is no clearer or more reasonable rule of construction than that every clause or word of a law should be presumed to have been intended to have some force and effect.

When all the facts are borne in mind and it is remembered that such facts were all before Congress at the time the specific language was adopted that an insurance company should be entitled to deduct "the sums other than dividends paid within the year on policy and annuity contracts and the next additions, if any, required by law to be made within the year to reserve funds," it is clear that by "dividends" Congress had in mind the same thing that the insurance companies themselves have been designating as dividends, and that whether such dividends are dividends in the commercial sense or not they constitute what Congress specifically prohibited from being deducted.

Second. The second contention, and the one most vigorously advanced by many of the companies, is that granting that dividends paid to policy holders in cash are dividends within the intent of the statute, when such dividends are applied to (*a*) the payment of renewal premiums; (*b*) applied to shorten the endowment of premium-paying period; (*c*) applied to purchase paidup additions and annuities, they are not dividends but refunds applied as stated. The contention is that the company does not actually receive the money and that it is not, therefore, to be taken up in the income accounts, but that owing to provisions of local statutes over which they have no control they are forced against their will to take up these items on their ledger accounts and on their sworn statements as income.

A careful consideration would appear to show the complete fallacy of this contention. It is not disputed that when the dividends shall have been declared and the ratable distribution determined by the duly constituted authority of the company, the title to the ratable share is thereby vested in the policy holder. Such being the fact, the company is thereafter the mere custodian of the amount of dividend thus declared and agrees as agent to make disposition of such amount in accordance with the direction of the owner thereof. This is specifically set out in the policy contracts, and the disposition of the dividend is determined solely by the election of the policy holder himself.

The insurance company declares a dividend and the policy contract gives the insured, in whose favor the dividend is declared, the absolute direction of its disposal. He may direct that it be paid to him in cash or he may direct its disposal as hereinbefore stated, by the company, which acts as the agent of the policy holder in applying the dividend as he may direct. The dividend having been regularly declared, the amount belonging to each policy holder is entirely within his control in accordance with the terms of his contract, and he may and must direct its disposal as stated. For purpose of illustration, suppose a policy holder elects to direct the disposition of his dividend to the part payment of his next renewal premium. The company contends that such an election on the part of the policy holder is a debate on the part of the company. When we consider, however, that the title to this dividend has already vested in the policy holder, it would appear that there is no abatement of premium, but that the policy holder who pays a continuing annual premium, remits to the company a certain portion of that premium in cash and directs that the company take the amount of dividend due and payable to him and add it to the amount remitted in cash in payment of the premium then due to the company. The policy contracts of the companies themselves, the receipts for premium payments, and the whole transaction appear to establish this beyond any question.

The contention that the company does not receive the amount of money belonging to thypolicy holder which is in the physical possession of the company, and which the policy holder directs to be taken and added to the amount which he

remits and thus pay his premium liability, is, moreover, not acceptable as an accounting proposition.

Nor can this office concur in the proposition that the company can, at the direction of the owner or a sum of money in its custody, take such sum and make a part payment on an obligation therewith and then contend that out of its liberality it has abated a portion of the obligation exactly equal to the amount of money in its possession thus applied at the direction of the policy holder.

The second and third allegations as to disposition of dividends declared fall identically within the reasons set forth, and a further detailed discussion thereof does not appear necessary. It appears clear, therefore, that under the language of the law the dividends excepted from deductions are the amounts disbursed annually by the various companies as dividends and that after the dividends are once declared, and by the direction of the policy holder are transferred back to the company for the purpose of paying premiums, purchasing additional insurance, or shortening the term of insurance, the amount of dividends so re-transferred to the company constitutes income in every sense identically as though the actual cash was paid therefor, and such items shall be so treated and accounted for. The contention of the insurance companies that their ledger accounts and sworn statements are untrue and incorrect as to the item of dividends can not be accepted.

Certain decisions of State courts appear to lend color to the position assumed by the various companies. It should be borne in mind, however, that the various statutes construed or referred to in these decisions differ both in language and intent from the statute now under consideration, and without raising the question as to the extent to which these various State decisions are under consideration, and without raising the question as to the extent to which these various State decisions are binding, it is clear from a careful consideration thereof that they do not furnish a safe guide to follow in determining the intent of Congress as evidenced by the language now under consideration.

The various agents will, therefore, continue to make up the returns from the ledger accounts of the insurance companies, recommend disallowance of any deduction claimed on account of dividends, and report as items of income all dividends declared by insurance companies and repaid to the insurance companies by direction of the owner thereof, even though the physical possession of such dividends shall have continued with the company.

The matter of amortization of bonds has already been the subject of an official ruling. The various items of depreciation claims and of certain questions relative to reserves are not sufficiently general for a ruling to be made thereon, and such questions will, for the present, be made the subject of individual consideration.

Respectfully,

ROYAL E. CABELL,
Commissioner.

Mr. JOHN W. SINSEL,
Internal Revenue Agent, New York.

Senator HART. Senator Hruska will preside. I have an appointment with the mayor of Detroit.

Senator HRUSKA. Thank you, Mr. Chairman.

Dr. Belth, I am very sorry not to have been here this morning when you testified. I understand you also answered some questions. I do not know what questions were asked of you and what your answers were, but I have one or two observations and maybe a question or two.

I noted in your statement that you so kindly furnished the committee in advance—I refer particularly to that part of your statement in which you describe and discuss deceptive sales practices.

You defined the word or described it, deceptive, as a presentation which tends to give the recipient an erroneous impression about important relationships.

Now, section 5 of the Federal Trade Commission Act makes deceptiveness and deception a criminal act and, therefore, whenever it is found, it is subject to a penalty of $5,000 a day for each day that deception continues, if it does.

Was it in the sense of that Federal Trade Commission provision that you use and discuss this deceptive sales practice in your statement?

Dr. BELTH. Senator Hruska, the way in which I used the word, I will have to confess that I have no formal legal background, so that the way in which I used the word was with rather heavy alliance on the third edition of Webster's Dictionary.

The word there, as I read the definition in the third edition, conveys the idea that the word "deception," in and of itself, does not necessarily connote intent. That was the reason for the choice of that word.

I did not have any particular idea in mind concerning whether deception—or the kind I was describing—would be actionable under the Federal Trade Commission Act or any other, as a matter of fact, even under State insurance laws, rules prohibiting deceptive practices.

I just expressed the opinion that if it gives an erroneous impression, it involvs deception, as defined in Webster's third; and indicated that it is this matter of erroneous impressions being conveyed by the presentation.

Senator HRUSKA. So it was in a lay sense that you used the word, rather than a legal sense or statutory sense.

Dr. BELTH. That is correct.

Senator HRUSKA. You do say in your statement that, when you described deceptive, you say, "I do not intend to suggest that the deception is necessarily deliberate."

Dr. BELTH. That is correct.

Senator HRUSKA. On the part of the life insurance company or the agents.

As a matter of fact, if we took that page, I guess it is, table 1, the annual information sheet that you prepared for your talk in Madison last night, that would be vulnerable a little bit, would it not, on the basis of deceptiveness in this respect—and I ask the question—you used the factor there of 5 percent in order to arrive at your figure.

Dr. BELTH. That is right.

Senator HRUSKA. In truth and in fact isn't this what you are saying there that, if the insurers would take their amounts of money and put it away someplace themselves, they would get 5 percent; and, therefore, it is all right to use that figure in the computations for the purpose of that table?

Isn't that what you are trying to convey?

Dr. BELTH. In a way, yes. But I prefer to explain it in terms of this notion of allocation of the interest, rather than in terms of what he could earn if he put the money somewhere else.

It has the same effect, but I really do prefer to explain it more recently in terms of the allocation question.

Now, it is an assumption, and it is a way of allocating the interest in what I would hope is a reasonable way, so that the results would convey—give a reasonable idea to the consumer of important relationships.

Of course, one of the reasons I do this is to try to stimulate, if at all possible, open public discussion of the subject.

As I indicated this morning, probably on more than one question that was asked, there has been a total absence of open public discussion of this subject by the insurance industry.

Senator HRUSKA. Well, of course, that allocation business you describe and you discuss very thoroughly in your statement that you filed with the committee.

I was referring to the table, the annual information sheet that you suggested as being one of the methods of being able to get specific information that someone could understand.

Now, of course, immediately, when you say 5 percent, you say, "I am assuming a rate."

Now, somebody else would say 4 percent, some would say 6, some maybe 3. But at any rate, whatever it is, is the consumer in truth and in fact given 5 percent on the money that he has in the policy if he used it himself and invested it himself?

Suppose, instead of leaving it in this insurance policy, he would invest it, presumably, in a private concern. But is it in truth and in fact 5 percent which would result in a certain amount of income to him upon which he would have to pay taxes, which he does not pay on the money that is left in policy. Isn't that true?

He would not net 5 percent that you are talking about. Could it be suggested by a critic who would not be kindly disposed to you that you, yourself, are engaging in some sort of deception; namely, an erroneous impression?

Dr. BELTH. When the question is phrased "in truth," I have extreme difficulty with it, because the whole idea of an assumption is not intended to convey truth.

An assumption is what the individual or some reasonably expert people think would be a reasonable assumption. It is not a matter of truth or falsity.

So let us start on that basis.

Now, the question of whether he invested it—it is quite true that he might, if he were to invest the money, he might invest it somewhere in which he would receive some income that was taxable. He might also invest it somewhere and receive income that was not taxable.

But what I did attempt to do in the disclosure system that I propose for discussion, as a basis for discussion, I attempted to completely omit the entire question of taxation, on the grounds that the tax question is separate and should not be part of the disclosure system.

For example, if—I understand that there was a bill—I did not study it carefully, but I understand there has been a bill from time to time introduced called truth in savings, which would involve disclosure of interest rates on various kinds of savings media.

I believe that the disclosure there would be in terms of the interest rate, without regard to its tax treatment. Perhaps this is at least partially parallel to that. We leave the question of taxation out of the disclosure system.

Now, it would be possible to develop a disclosure system which would be based on two additional assumptions, beyond the rate of interest to be assumed.

There could be an assumption (a) whether it would be taxable or not. You could assume that, yes, it is taxable. There could be a further assumption about, if it is taxable, what the tax bracket, the applicable tax bracket would be of the individual or policy owner.

This would introduce two additional assumptions that would have to be made.

I simply propose that we not make assumptions in that area.

Senator HRUSKA. Well, I know that is what you mean and that is the basis upon which you say that you are leaving out this assumption, the question of taxation.

That is not something that the insured sees, you see. He does not have the opportunity to ask you the question that I have, that I am asking you. He has this sheet of information, and it says that the interest rate is calculated at 5 percent to arrive at the net value of the policy.

Well now, you cannot give him a credit for 5 percent. He is never going to get 5 percent. He is going to get 5 percent less his tax rate; and that 5 percent would be on top of the taxes, on top of the net revenue which he is getting. So it would be the highest rate which he pays.

I just raise that as just one of the things. I wonder if sometimes there is not too great a facility to refer to somebody else's product as deceptive. Then say, "Well, now, I was not deceptive, because I assumed this and I did this for these reasons," and so forth.

I am confident that if we had—and in due time we will—a simple way of determining the value of a policy, I imagine we are going to get an explanation something like this: Even though interest is not mentioned, even though the factor of money can keep inviting investment by the insurance company and the proceeds therefrom of that income are added to their reserves to make payment possible in due time—I imagine it will be said, and I think with some justification, anyone who pays an insurance premium knows that that money does earn interest, anyone, because all you have to do is figure out the number of years times the premium he pays each year, and he knows he cannot get that money back in the form of $1,000 endowment or even $1,000 death benefit unless something was added to it.

Therefore, the basis of saying, inasmuch as this is not computed, therefore—and it is not stated—therefore, it is deceptive.

Well, I would think it would not take any amount of great intelligence to deduce that there is value to money that is on deposit. Most people know that when money is on deposit it earns dividends.

That is the point that I am trying to drive at. It is the factor of interest not paid, and yet I would doubt seriously that there would be anyone who would not understand that interest is being earned by the insurance company.

In the absence of that mentioned, expressly referred to, to call that deceptive, I do not think it is deception at all. Do you really?

Dr. BELTH. Yes, sir; I do.

Senator HRUSKA. Then would you give us your reasons, if there is any justification, for saying that the normal insurance buyer and policyholder does not know that when money is in the hands of someone it earns interest.

Would you deny him that bit of knowledge and understanding?

Dr. BELTH. The reason that I feel that the omission of the reasonable attempt to allocate the interest with a reasonable interest assumption constitutes deception is that the life insurance contract is so complex that even though a person might have an idea that interest is somewhere floating about, he simply has no conception of the effect of this interest that is floating about on the results presented.

I went to some pains to present the class A deception that I refer to in the statement with some slides this morning to show the effect of changing from what amounts to what I think is a misallocation of the interest to a reasonable allocation.

The differences are quite astounding.

I just simply feel that unless a reasonable attempt is made to make a reasonable allocation, then deception is involved.

But, having said all that, I would simply welcome open public discussion of precisely the points you are raising by the life insurance industry.

Senator HRUSKA. Well, I suppose that is a way of looking at it; that life insurance is complex. But certainly if over the kitchen table the life insurance agent is taking to his customer and he says, "Here is a 20-year paid-up insurance contract. You will pay a little rate here, but you will pay only 20 years and then you are all done and you can put it away. In due time you can take the cash out, or upon your decease, your wife or widow will get the money."

And if the premium is, say, $30 a year and there are 20 years, that comes to $600. Most people would know that they are paying in only $600, but if he should die, he is going to get $1,000. Or, if it is going to ripen into value in 20 years, he is going to get $1,000 in cash or $850.

Most people would know that his money is earning interest in the insurance company's hands, don't you think so?

Doesn't it appeal to one's sense of reason?

Dr. BELTH. Yes, sir, I do believe they would know that interest is somehow floating about, but they would have no conception of its magnitude.

Senator HRUSKA. Perhaps not, perhaps not. And I do not know how much. It is difficult.

At any rate, when I saw that word "deception," I thought of it in terms of the law. I believe the provisions of the legislation on this subject say that deception will be considered, in section 5 of the Federal Trade Commission Act, for fine of $5,000 for every day that it is practiced.

That is a pretty severe penalty. Maybe we would not have as many life insurance agents if we had that type of penalty.

Counsel, have you any further questions?

Mr. SHARP. No questions.

Senator HRUSKA. Thank you very much for coming and testifying.

Dr. BELTH. Thank you for the opportunity.

[The following material relating to Dr. Belth's testimony was received for the record. For further material see appendix. Testimony resumes on p. 690.]

STATEMENT OF JOSEPH M. BELTH

I am Joseph M. Belth, professor of insurance, Graduate School of Business, Indiana University, Bloomington, Indiana. I am also president-elect of the American Risk and Insurance Association, an organization of insurance professors and others interested in insurance education. I am author of Life Insurance: A Consumer's Handbook and various other books and articles on life insurance. I am not being compensated for the preparation of this statement. The views expressed in this statement are my own and not necessarily those of any institution, organization, or other individual.

The purposes of this statement are to describe (1) the general nature of the market problems that have spurred the truth-in-life-insurance movement, (2) the specific nature of a variety of deceptive sales practices that are widespread in the life insurance market, (3) the developments of the past five years that have led up to these hearings, and (4) a proposed method by which adequate information disclosure to the consumer might be achieved.

I. Market Problems

Ignorance, complexity, and apathy are the three words that best characterize the life insurance market. Their combined effect produces fertile ground for the exploitation of consumers.

Ignorance

Most prospective buyers do not understand the different kinds of life insurance policies. They do not know there are large differences in price among life insurance companies for essentially the same coverage.

Nor is ignorance confined to life insurance buyers. Many if not most life insurance agents are ill-equipped to provide reliable financial advice to their customers. State licensing examinations require a minimum of knowledge about life insurance. Company training programs and most industry-wide training programs place the emphasis on sales skill rather than technical knowledge.

Nor is ignorance confined to life insurance buyers and life insurance agents. Many life insurance company home office executives have only a superficial knowledge of life insurance. Life insurance company investment officers and many life insurance company attorneys are engaged in specialized work that has only an indirect effect on the life insurance market. And those responsible for sales development generally have come up through the sales ranks. Many of these sales executives were successful in the field, but sales success is not synonymous with technical knowledge. Indeed, it is often argued that technical knowledge tends to hamper sales efforts.

Complexity

The complexity of life insurance reinforces the ignorance referred to above. There are two kinds of life insurance complexity, however, that relate directly to consumers.

The first of these is the complexity that is inherent in life insurance because of its nature and purpose. Death rates increase with advancing age; therefore, in the absence of special arrangements, premiums increase with advancing age. When special arrangements are made to avoid increasing premiums, the resulting level premiums involve an overcharge in the early policy years that gives rise to a savings element. The life insurance policy is thus transformed into a complex package consisting of life insurance protection and a savings medium.

The second kind of life insurance complexity stems from the proliferation of policy types. It is not surprising that there is virtually an infinite variety of life insurance policy types, because businesses in many industries engage in product differentiation in an attempt to avoid price competition.

But the proliferation in life insurance has reached large proportions. There are many so-called specialty policies. These usually are designed to fit an elaborate sales presentation, rather than to perform real services for the buyer. There are also many different policies of the so-called conventional type -- so many, indeed, that it is difficult to distinguish between conventional policies and specialty policies.

Apathy

The apathy in the life insurance market is widespread. It is also important in at least two respects.

First, apathy on the part of buyers is at least partially responsible for what happens in the life insurance market. The typical person does not like to talk about life insurance, because it forces him to think about his own death. People would rather spend their leisure time discussing automobiles, sports, politics, social problems, or the state of the economy.

The effect of the apathy is to make life insurance very difficult to sell. This difficulty, in turn, makes it necessary for life insurance

companies to provide intensive sales training for their agents. Since the companies want to get their agents into production quickly, there is not enough time to give them a thorough grounding in the technical aspectsof life insurance. Moreover, there is a strong feeling that technical knowledge does not assist, and may actually hinder, sales efforts.

Once an agent starts to sell, he is likely to encounter difficulty in maintaining satisfactory production. His selling problems usually stem from apathy on the part of prospective buyers. So he must be provided with constant encouragement and more sales training. The constant emphasis on sales techniques, moreover, probably tends to harden the resistance of buyers. So the agents are given more and more sales training to overcome the sales resistance of their prospects. In short, apathy on the part of buyers is at least partially responsible for the emphasis on sales tactics and for the kind of sales tactics employed by life insurance companies and their agents.

The second important effect of apathy on the life insurance market is that it tends to perpetuate ignorance. When people are not interested in discussing life insurance, they do not find out how it operates or how it can be useful to them. They do not learn of major differences among policies and among companies. They get the idea that all life insurance is the same.

Thus, there is a circular characteristic to the ignorance, complexity, and apathy that permeate the life insurance market. The apathy fosters ignorance and complexity, because consumers generally are not interested enough in life insurance to try to dispel their ignorance and cut through the complexity. At the same time, ignorance and complexity foster apathy, because consumers generally do not realize the extent to which they are being penalized by ignorance and complexity and therefore are not interested in life insurance.

The Results

In such an atmosphere of ignorance, complexity, and apathy, there are ample opportunities for the exploitation of consumers. Some companies train their agents to use a single sales presentation designed to sell one particular policy, without consideration of the suitability of the policy for a particular buyer. Many such policies are high-priced as well as unsuitable, and their primary redeeming virtues are a large agent's commission and an even larger profit for the insurance company.

Many policyholders are overcharged for their life insurance, in the sense that they could have bought comparable coverage at much lower prices. How can large price differences exist? The market for individual life insurance is characterized by an absence of reliable price information. As long as buyers do not have good information, and as long as buyers think all life insurance companies charge about the same price, companies that charge high prices can sell just as successfully as companies that charge low prices.

The life insurance market is characterized not only by an absence of reliable price information, but also by the presence of deceptive price information. The specific nature of these practices is described in the next section of this statement.

II. Deceptive Sales Practices

Life insurance contracts generally are long-term financial instruments that perform useful functions in our society. In my opinion, however, the sales and advertising practices of life insurance companies sometimes are deceptive. In this section of the statement, I will illustrate and comment upon a variety of such practices.

I would like to explain what I mean by the word "deceptive." In my view, a presentation is deceptive if it tends to give the recipient an erroneous impression of important relationships. The emphasis in this definition is on the recipient. When I describe a life insurance advertisement or sales presentation as deceptive, I do not intend to suggest that the deception is necessarily deliberate on the part of the life insurance company or agent.

Background

Except at very young ages, the likelihood of death increases as age increases, and with increasing rapidity. Life insurance sometimes is written on a one-year renewable term basis, with premiums increasing in a manner designed to offset the increasing likelihood of death. Under such an arrangement, the insurance company experiences a phenomenon called "adverse selection," in which policyholders with deteriorating health tend to renew their policies and policyholders in good health tend to discontinue their policies. This adverse selection leads to a deterioration in the "quality" of the group, and to a larger than anticipated number of death claims relative to premium payments. An attempt to anticipate the adverse selection by more rapid premium increases tends to aggravate rather than solve the problem.

Level-premium life insurance, under which the premium remains constant, is a technique adopted by the life insurance industry in an attempt to minimize adverse selection and at the same time make it financially feasible for policyholders to continue their protection even to advanced ages. Such an arrangement requires that the policyholder be overcharged (relative to mortality costs, expenses, and profit) in the early policy years to offset the inadequacy of premiums in the later policy years. The level-premium arrangement and the legislation requiring cash values make life insurance companies major financial institutions and transform what otherwise would be an insurance transaction into a combination or package transaction involving both insurance protection and a savings medium.

Because of the package aspect of cash-value life insurance contracts, it is necessary to distinguish between the "premium" for the contract and the "price" of the protection element of the contract. To compute the price of the protection element, it is necessary to separate the protection element of the policy from the savings element, at least in a theoretical sense. Since the separation involves the making of assumptions, no single price figure can be established as the price; rather, any price figure must be accompanied by a statement concerning the assumptions used in computing that figure.

The nature of a life insurance price figure may be illustrated by an analogy. Assume that an individual is purchasing a package that consists of an item A and an item B. When only the price of the package is given, no single figure can be established as the price of either A or B alone. To calculate the price of A, it is necessary to make an assumption about the price of B, and vice versa. Thus, any figure established as the price of A must be accompanied by a statement about the assumed price of B, and vice versa.

In life insurance, the two parts of the package are protection and savings, and any figure established as the price of the protection must be accompanied by a statement about the assumed rate of return on the savings element. Conversely, it is possible to make a statement about the rate of return on the savings element only if an assumption is made about the price of the protection. In short, the price of protection and the rate of return on the savings element are two sides of the same coin, and either can be used to make comparisons among policies.

Class A Deceptive Practices

For the purposes of discussion, I have divided the various practices described here into three categories. I have designated these as Class A, Class B, and Class C deceptive practices.

Class A practices are those involving a misallocation of the interest factor. Since the complexity of life insurance is a major barrier to an understanding of the full implications of Class A practices, I have developed a simple analogy that strips away the complexity and illustrates the fundamental problem.

The savings-account analogy.--Assume that an individual puts $1,000 per year into a savings account, and that the account is credited annually with 5 percent interest. The growth of the account over a period of ten years is shown in Table 1, with the figures rounded to the nearest dollar.

Consider the tenth year. The saver starts the year with $11,578 and adds $1,000 to it. At the end of the year, his account is credited with interest of $629 (5 percent of $12,578), making his account $13,207 at the end of the year. Of the $629 interest in the tenth year, $50 is attributable to the tenth year's deposit of $1,000, and the other $579 is attributable to the previous deposits made during the first nine years.

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TABLE 1

GROWTH OF $1,000 PER YEAR AT 5 PERCENT INTEREST

Year	Deposit at Beginning of Year	Interest Credited for Year	Amount in Account at End of Year
1	$1,000	$ 50	$ 1,050
2	1,000	103	2,153
3	1,000	158	3,310
4	1,000	216	4,526
5	1,000	276	5,802
6	1,000	340	7,142
7	1,000	407	8,549
8	1,000	477	10,027
9	1,000	551	11,578
10	1,000	629	13,207

In my opinion, it is deceptive to state or imply that the $629 of interest in the tenth year is attributable in its entirety to the tenth year deposit of $1,000. In other words, the rate of return here is 5 percent, and I regard as deceptive any presentation that states or implies that the saver is earning 62.9 percent interest on his tenth year deposit of $1,000. This form of deception is the basic characteristic of each of the Class A practices described below.

The Harris article.--In the February 1970 issue of Life Insurance Selling magazine, there is an article by Richard F. Harris, Jr., entitled "I Tell Corporations, 'Put the Difference in Permanent.'" The article is reproduced in Appendix A.

In this article, $989 per year is the difference between a decreasing term premium and a straight life premium. Harris attributes the full amount of the cash-value increase in any given year to the $989 difference paid in that year. For example, in the tenth year, he shows an "annual increase in assets" of $1,427. He attributes that increase to the $989 difference paid in the tenth year, and then he shows the "annual % tax free profit" that year as 44.3 percent.

The cash surrender value of the straight life policy at the end of thirty years is $45,134. Implicit in the relationship between a $989 annual deposit and an accumulation of $45,134 at the end of thirty years is an annual interest rate of about 2.6 percent. If an adjustment were made for the different amounts of protection under the decreasing term policy and the straight life policy, the implicit annual interest rate would be about 3.8 percent. Such rate-of-return figures are not mentioned in the Harris article. Instead, after a negative figure in the first year, the "annual % tax free profit" figures range from 15.6 percent in the second year to

77.5 percent in the thirtieth year. These figures correspond to the figure of 62.9 percent used in the savings account analogy.

Harris denies that he is discussing compound interest. Actually, the question of simple versus compound interest is a relatively minor part of the problem here. Consider the savings account analogy. Of the $629 interest in the tenth year, $500 is attributable to the ten deposits themselves (5 percent of $10,000), and $129 is attributable to interest on the interest on the nine previous years' deposits. In other words, about one fifth of the interest in the tenth year is attributable to the effect of compound interest.

The Provident Life and Accident advertisement.--In the April 1970 issue of Life Insurance Selling magazine, there is an advertisement by the Provident Life and Accident Insurance Company of Chattanooga, Tennessee. The advertisement is reproduced in Appendix B.

Consider the third policy year. The annual premium is $1,689. The cash value increases by $1,700 -- from $1,800 at the end of the second year to $3,500 at the end of the third year. The cash-value increase is subtracted from the annual premium, and the advertisement shows a third year net cost of minus $11.

Comparing the full amount of one year's cash-value increase with that year's premium is similar to comparing the full amount of one year's increase in a savings account with that year's deposit. When a reasonable allocation of the interest factor is made (by assuming 5 percent, for example), the third year price of the protection is $163 rather than minus $11. In the seventh year, the price of the protection (again assuming 5 percent interest) is $403 rather than minus $111. The manner in which the above figures of $163 and $403 are calculated is explained later.

The American General advertisements.--In the January 28, 1967, issue of The National Underwriter (life insurance edition), there is an advertisement for the American General group of companies. One of a series of "Back Page" advertisements written by Benjamin N. Woodson, American General's president, the article is entitled "Policy #367,285 Revisited." The advertisement is reproduced in Appendix C.

In this advertisement, Woodson discusses the thirty-seventh policy year of his contract. He states:

> . . .the increase in value from 1966 to 1967 amounted to $85.90, which grew out of the payment, just made, of an annual premium less dividend of only $60.26. . . .which means that my cash value increased this year at the rate of $142.54 for each $100 deposited! [Emphasis in original.]

Woodson attributes the entire cash-value increase of $85.90 in the thirty-seventh year to the payment of $60.26 in that year, although a substantial part of the $85.90 increase is attributable to interest on the savings element developed during the preceding thirty-six years.

The effect of this advertisement is to imply that the rate of return on the $60.26 deposit in the thirty-seventh year is 42.5 percent above and beyond the price of the protection that year. On the other side of the coin, the effect is to suggest that the price of the protection that year is minus $25.64. When a reasonable allocation of the interest factor is made (by assuming 5 percent, for example), the price of the protection in that year is $90.97 rather than minus $25.64.

In March 1970, I criticized the above advertisement in a statement prepared for the Consumer Subcommittee of the Senate Commerce Committee. Woodson responded to my criticism in another "Back Page" advertisement that appeared in several places including the August 1970 issue of The

Insurance Salesman. In the more recent advertisement, which is reproduced in Appendix D, Woodson indicated that he was wrong when he attributed the increase in cash value solely to the current premium payment. Woodson also alluded to another aspect of the problem. The situation may be summarized by considering the following three statements and their truth or falsity:

(1) "The premium payment in the thirty-seventh year is $60." True.

(2) "The cash-value increase in the thirty-seventh year is $86." True.

(3) "The $86 cash-value increase grew out of the $60 premium payment." False.

Now, suppose one substitutes for the third item the statement that "the $86 cash-value increase grew in part out of the $60 premium payment and in part out of interest on the accumulation of the previous thirty-six years." All three statements are now true, and the use of deception has been avoided, in my opinion.

But suppose one makes only the first two true statements and omits the third statement entirely. In my opinion, deception is now involved, because unless the listener is extremely familiar with life insurance and adept at handling financial reasoning, he is apt to infer that the $86 cash-value increase grew out of the $60 premium payment. In other words, if one makes the statement about the cash-value increase, I feel he must go one step further and make the correct statement about the sources of the increase.

The Northwestern Mutual advertisement.--In the April 1964 issue of Successful Farming magazine, there is an advertisement by The Northwestern Mutual Life Insurance Company. The advertisement is reproduced in Appendix E.

In this advertisement, the price of the policyholder's $72,600 of "protection" is determined by making a comparison between the current year's

premium and the current year's increase in cash value (including the increase in his dividend account). The result is "only $97 a year."

The effect of this advertisement is similar to the effect of the Harris article and the advertisements described above. Actually, a substantial portion of the $1,548 cash-value increase is attributable to interest on the savings element developed during earlier years.

The ledger statement.--Many companies utilize the so-called ledger statement as a part of their sales material. An example is reproduced in Appendix F, which shows the form of ledger statement used by the Acacia Mutual Life Insurance Company.

In this case, the "annual net payment" each year is determined by subtracting the annual dividend from the annual premium. Then the "cash value increase during the year" is subtracted to arrive at the "annual net cost or gain." By the tenth year, the latter figure is a "gain," or negative cost. In that year, for example, the "annual net cost or gain" is a "gain" of $87 (or, stated another way, an "annual net cost" of minus $87).

The effect of this presentation is similar to the effect of the Harris article and the advertisements described above. Actually, a substantial portion of the $2,100 cash-value increase in the tenth year is attributable to interest on the savings element developed during the first nine years. When a reasonable allocation of the interest factor is made (by assuming 5 percent, for example), the price of the protection in the tenth year is $880 rather than minus $87. The manner in which the figure of $880 is calculated is explained later.

An alternative.--Since the price-of-protection understatement (or rate-of-return overstatement) in the above illustrations results from a

misallocation of the interest factor, all that is needed is a reasonable allocation of the interest factor. This can be accomplished easily. Consider, for example, the tenth year in the Acacia Mutual ledger statement. The minus $87 cost shown in the statement can be calculated by the following formula:

$$P + CVP - CVC - D = C$$

where P is the premium for the year, CVP is the cash value at the end of the preceding year, CVC is the cash value at the end of the current year, D is the dividend for the year, and C is the cost for the year. In other words,

$$\$2,448 + \$16,900 - \$19,000 - \$435 = \$-87.$$

A reasonable allocation of the interest factor may be accomplished by changing the formula to read as follows:

$$(P + CVP)(1 + i) - CVC - D = C$$

where i is the assumed interest rate expressed as a decimal, and all the other items are the same as in the earlier formula. For example, if 5 percent is the assumed interest rate,

$$(\$2,448 + \$16,900)(1 + .05) - \$19,000 - \$435 = \$880.$$

It would be necessary to identify the interest rate associated with such yearly cost figures. For example, the above figure of $880 should be identified as the tenth year's price of protection, assuming 5 percent interest. I feel that this is a reasonable way in which to illustrate the price of protection, and that such an approach would remove the deception inherent in Class A practices.

Class B Deceptive Practices

Class B practices are those that involve comparisons based upon the simple addition of dollar amounts payable at different points in time. Here again, an analogy may be used to illustrate the fundamental problem.

The work contract analogy.--Assume that Jones retained Smith to do a particular job, with the understanding that upon completion Smith would be paid $1,000 per year for forty years, a total of $40,000. After the job is completed, Smith asks Jones to begin the payments, and Jones says:

> Smith, you've done such a great job that I'm going to pay you 10 percent more than we agreed upon. I'm going to pay you $600 per year for thirty years and then $2,600 per year for the final ten years. That's a total of $44,000, which is 10 percent more than the $40,000 I originally agreed to pay you.

Hopefully Smith would see that Jones has failed to take interest into account. For example, assume that Smith puts each payment into a savings account that earns 5 percent, compounded annually. Under the original payment plan ($1,000 per year for forty years), he would have $126,840 in the account at the end of the forty years. Under the modified payment plan that Jones proposed, however, Smith would have only $102,518 in the account at the end of the forty years.

In my opinion, it is deceptive to state or imply that the original payment plan is 10 percent better than the modified payment plan. In other words, what Jones described as an arrangement providing 10 percent more for Smith actually provides 19 percent less, assuming 5 percent interest. This form of deception is the basic characteristic of each of the Class B practices described below.

The Cooley article.--In the May 1970 issue of Life Insurance Selling magazine, Harold P. Cooley provides some suggested responses to a number of common objections encountered in the sale of life insurance. In one part of the article, Cooley describes a possible response to the statement that "I believe in buying term and investing the difference." The article is reproduced in Appendix G.

Cooley compares a $10,000 level term to 65 contract for a man aged 30 with a $10,000 life paid-up at 65 contract. The policies have annual premiums of $99.70 and $224.20, respectively. Cooley assumes that the premiums for the life paid-up at 65 contract are paid for ten years and that the policy then goes on extended term insurance for an additional twenty-four and a fraction years. For purposes of the discussion that follows, I assumed that the period of extended term is exactly twenty-five years.

Cooley adds up the ten premiums for the life paid-up at 65 contract, subtracts the simple total of the first ten years' dividends, and then divides the remainder by 35 in order to obtain an average yearly cost. The result is $52.71 per year -- a figure that Mr. Cooley describes as "about half the [$99.70] cost of term to 65."

Cooley's analysis does not take interest into account. When an assumed interest rate of 5 percent is applied to this situation, the average yearly cost of the ten years' premiums (minus the ten years' dividends) for the life paid-up at 65 contract and the twenty-five years of extended term insurance is $89.04. This is in contrast to Cooley's figure of $52.71. Although the interest-adjusted figure of $89.04 is below the $99.70 term premium, the difference is much smaller than suggested by Cooley.

The Brinton talk.--In September 1970, at the annual meeting of the National Association of Life Underwriters, Dilworth C. Brinton, C.L.U., gave a talk on the advantages of straight life over term insurance. An article describing the talk appeared in the September 16, 1970, issue of The National Underwriter (life insurance edition). The article is reproduced in Appendix H.

Brinton indicated that, for a $100,000 straight life policy issued at age 25 and continued to age 65, the "net return over cost" is $30,923. Then he indicated that, for a $100,000 one-year renewable term policy over the same period, the "cost of term insurance" is $34,579. Finally, he stated that the "total difference" in favor of the straight life policy is $65,502. (The above "cost of term insurance" and "total difference" figures differ from those in Brinton's talk by $35, because I was unable to reproduce precisely his "cost of term insurance" figure.)

Brinton's analysis does not take interest into account. His straight life "net return over cost" figure was calculated by adding up the forty years' premiums, subtracting the simple total of the forty years' dividends, subtracting the cash value at the end of the forty years, and subtracting the surrender dividend payable at the end of the forty years. His "cost of term insurance" figure was calculated by adding up the forty years' premiums and subtracting the simple total of the forty years' dividends.

When an assumed interest rate of 5 percent is applied to this situation, the "cost" of the straight life policy in present-value terms is $9,163, and the "cost" of the term policy is $9,733. These figures still favor the straight life policy, but by $570, as compared with Brinton's figure of $65,502.

The Better Homes and Gardens article.--In the April 15, 1967, issue of The National Underwriter (life insurance edition), an advertisement covering three full pages was run by Better Homes and Gardens magazine. Two of the pages are a reproduction of an article that had appeared earlier in BH&G. The article deals with various misunderstandings about life insurance, and one section contains a comparison between a $10,000 nonparticipating five-

year renewable term policy and a $10,000 nonparticipating straight life policy. The page containing that section is reproduced in Appendix I.

The comparison is at issue age 25. I do not know what company's figures are used in the BH&G article, which refers to the company as a typical one, but in this discussion I am using data for policies issued at that time by the Connecticut General Life Insurance Company. The figures are similar to those in the article.

The article points out that the premiums from age 25 to age 65 for the term policy add up to $5,049. Then it is pointed out that the premiums over the same period for a straight life policy in the same company would be $5,308, but that there would then be a cash value of $5,730. The article concludes that the policyholder's "net gain" in the case of the straight life policy is $422, which might be referred to as a negative cost. The article implies that the straight life policy enjoys a cost superiority of $5,471 over the term policy.

The analysis above fails to take interest into account. When an interest rate of 5 percent is applied to this situation, the present value of the term premiums is $1,622. The present value of the straight life premiums is $2,391. The present value of the cash value at 65 is $814. The cost of the straight life policy is now $1,577. In short, when 5 percent interest is taken into account, the apparent cost superiority of the straight life policy is only $45, as compared with $5,471 when the BH&G procedure is used.

The Wisconsin National advertisement.--In the August 1970 issue of Life Insurance Selling magazine, the Wisconsin National Life Insurance Company ran a half-page advertisement concerning a new family income rider "at industry's lowest rates." The advertisement is reproduced in Appendix J.

The advertisement cites several examples, including an annual premium of $127.60 for a twenty-year, $400 per month family income rider for a person aged 25. This is indeed a low premium. A similar rider in the Connecticut General Life Insurance Company, for example, requires a premium of $172.80.

The reason for the low premium is the fact that the Wisconsin National now uses 8 percent interest in calculating commuted values for its family income riders. Although the advertisement makes reference to the "maximum income" of $96,000 payable under the rider, no reference is made to commuted values or to the 8 percent commutation rate.

The initial commuted value of the rider at 8 percent interest is $49,160. The initial commuted value of the Connecticut General rider, in which 3 percent interest is used, is $72,560. These widely differing initial amounts of decreasing term explain the premium differential. Indeed, when the premiums mentioned above are divided by the respective amounts of decreasing term (expressed in thousands of dollars), one finds that the Wisconsin National rate is $2.60 per $1,000 of initial coverage, while the Connecticut General rate is $2.38.

The Wisconsin National does have something to offer here. After all, the beneficiary who is in a position to take the $400 per month enjoys what amounts to a settlement option that guarantees 8 percent interest. But the advertisement omits reference to the interest factor and implies that Wisconsin National's twenty-year, $400 per month rider (a maximum of $96,000 in the event of death immediately) is the same as any other company's twenty-year, $400 per month rider.

Following my public criticism, the Wisconsin National revised its advertisement to reduce the emphasis on cost and refer specifically to

the 8 percent commutation rate. A copy of the revised advertisement is reproduced in Appendix K.

The traditional net cost method.--The most frequently used technique for illustrating the price of life insurance is the traditional net cost method. This method serves as the basis for the price information contained in the most widely disseminated volume of life insurance policy data -- A. M. Best Company's Flitcraft Compend.

Frequently a twenty-year period of analysis is used. The simple total of the dividends for the twenty-year period and the cash surrender value payable at the end of the twentieth year are subtracted from the simple total of the premiums for the period. The remainder is divided by 20 (the number of years in the period of analysis), and the result is the twenty-year average net cost.

The method may be illustrated with the figures shown in Appendix F. The premiums are $2,448 per year; thus the simple total of twenty years' premiums is $48,960. The simple total of the first twenty years' dividends is $8,441, and the cash value at the end of the twentieth year is $39,500. The twenty-year average net cost, determined by subtracting the dividends and the cash value from the premiums and dividing the remainder by 20, is $50.95, or 51 cents per $1,000 of face amount.

The twenty-year average net cost also may be calculated by adding the first twenty "annual net cost or gain" figures in Appendix F, and then dividing by 20. In this sense, the twenty-year average net cost figure embodies the entire series of price understatements reflected in the "annual net cost or gain" figures.

The traditional net cost method does not simply understate the price of protection. It also distorts comparisons. For example, since the simple

total of dividends is used in the calculations, companies are encouraged to "steepen" their dividend scales. One company is said to have a steeper scale than a second company when the first company pays smaller dividends in the early policy years and larger dividends in the later policy years than the second company. When a company steepens its dividend scale, it benefits not only from increased interest earnings by deferring the payment of larger dividends, but also from the fact that many policyholders will either die or discontinue their policies before receiving the larger dividends in the later years.

To illustrate the manner in which the traditional net cost method distorts comparisons, consider Table 2. Figures are shown there for $25,000 participating straight life policies issued in 1970 to men aged 35 by ten large companies. These policies were not chosen at random; rather, they were selected because they tend to shift markedly in rank (either upward or downward) when moving from the traditional net cost method to the interest adjusted method. The only difference between the traditional net cost method and the interest adjusted method is that the latter takes account of interest. In this illustration, the assumed interest rate in the interest adjusted price calculations is 5 percent.

The policies of the five companies whose ranks improved when moving from the traditional net cost method to the interest adjusted method -- Confederation Life, Bankers Life (Iowa), Provident Mutual, Crown Life, and Manufacturers Life -- are characterized generally by relatively low premiums, relatively flat dividend scales, relatively small cash values, and the absence of terminal dividends. The policies of the five companies whose ranks worsened when moving from the traditional net cost method to the interest adjusted method -- Phoenix Mutual, Metropolitan Life, Aetna Life,

TABLE 2

TRADITIONAL NET COSTS AND INTEREST ADJUSTED COSTS FOR $25,000 PARTICIPATING STRAIGHT LIFE POLICIES ISSUED IN 1970 TO MEN AGED 35 BY TEN LARGE COMPANIES

(Ranks, from low to high, shown in parentheses)

Company	Traditional Net Cost	Interest Adjusted Cost (5%)
Phoenix Mutual	$-3.46 (1)	$6.34 (7)
Metropolitan Life	-3.09 (2)	6.33 (6)
Aetna Life	-3.00 (3)	6.66 (9)
Mutual of New York	-2.92 (4)	6.43 (8)
Confederation Life	-2.33 (5)	5.97 (2)
Prudential	-2.22 (6)	7.17 (10)
Bankers Life (Iowa)	-2.21 (7)	5.49 (1)
Provident Mutual	-1.92 (8)	6.07 (3)
Crown Life	-1.25 (9)	6.08 (4)
Manufacturers Life	-1.19 (10)	6.31 (5)

Mutual of New York, and Prudential -- are characterized generally by relatively high premiums, relatively steep dividend scales, relatively large cash values, and the presence of terminal dividends.

The alternatives.--The various Class B practices involve comparisons based upon the simple addition of dollar amounts payable at different points in time. The results are an understatement of the price of protection and a distortion of the relationships among policies. The problems stem from a failure to consider the interest factor and a failure to consider the relative probabilities of the various dollar amounts being paid or received by the policyholder.

One alternative is to recognize just the interest factor. The Report of the Joint Special Committee on Life Insurance Costs, which was released in May 1970, contained such a recommendation. The committee concluded that "Allowance should, in our opinion, be made in the cost index for time because the value of money in terms of the interest it can earn is too important to ignore." The committee recommended the use of the interest adjusted method, which differs from the traditional net cost method in that the interest factor is taken into account.

Another alternative is to recognize not only the interest factor but also the relative probabilities of the various dollar amounts being paid or received by the policyholder. The above-mentioned committee concluded that such probabilities should not be introduced into the calculations, but it is feasible to do so. In my opinion, the second of the two alternatives is preferable.

Class C Deceptive Practices

Class C practices are those involving presentations that are simply false. Although they do not involve a misallocation or an omission of the

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interest factor, their falsity usually is difficult to detect because they are complex and tricky. Several examples of such practices are presented below.

The Paul article.--In the November 1969 issue of The Radiator (the magazine of the Massachusetts Mutual Life Insurance Company), there is an article by Raymond L. Paul, C.L.U., entitled "Why Get Complicated?" The article is reproduced in Appendix L.

Paul suggests a technique for handling the question of investment return when it arises in the sales interview. He concludes that the buyer of a straight life policy is getting "$50,000 of death protection for $40 a year."

There are several flaws in Paul's suggested technique, but I will mention only the major one. If the assumptions in the article are accepted, the life insurance buyer would forgo $40 of interest each year for each $1,000 invested in the life insurance policy. In the first year the amount forgone would be $40. In the second year, however, even disregarding compound interest, the amount forgone would be $80, because he would be forgoing the extra interest on the first year's $1,000 as well as the second year's $1,000. By the same token, and again disregarding compound interest, he would forgo $120 in the third year. In other words, while the technique suggested by Paul refers to $50,000 of death protection for $40 a year, the actual figures (disregarding compound interest) should be $40 in the first year, $80 in the second year, $120 in the third year, $400 in the tenth year, $800 in the twentieth year, and so forth.

The Wolfe technique.--In his book See You Next Week (published by The Research & Review Service of America, Inc.), Wayne W. Wolfe suggests a technique to persuade a term insurance policyholder to convert to straight life. The presentation is reproduced in Appendix M.

Assume that the policyholder is aged 30, that he is paying $300 per year for $50,000 of term insurance, and that he would pay $1,000 per year for straight life if he converts. With these figures, Wolfe suggests that the policyholder would be investing his money at 30 percent interest if he converts the term policy to straight life.

The major flaw in Wolfe's suggested technique is similar to the one in Paul's presentation. In the first year, the $300 term premium would be 30 percent of the straight life premium. In the second year, however, even disregarding compound interest, the $300 term premium would be 15 percent of the $2,000 paid into the straight life policy. By the same token, and again disregarding compound interest, the figures would be 10 percent in the third year, 3 percent in the tenth year, 1½ percent in the twentieth year, and so forth.

The Hartford Life advertisement.--In December 1972, The Hartford Life Insurance Company ran a two-page advertisement in several publications, including Best's Review (life insurance edition), Life Insurance Selling magazine, and The National Underwriter (life insurance edition). One page of the advertisement is reproduced in Appendix N (the other page shows a picture of a man and his young child).

The advertisement states that, for $20,000 of term coverage for a 26-year-old man, the "first-year premium will only be $53!" There is a strong implication that the first-year price of the protection is $53. What is not pointed out in the advertisement is that split life is a package arrangement, consisting of term insurance and an annual premium annuity, under which all or a substantial portion of the expense loading is built into the annuity portion of the package.

The illustration in the advertisement involves $20,000 of term insurance and a $600 annual premium annuity. It should be noted that only a $200 annual premium annuity would be needed in order to obtain $20,000 of term insurance in the split life package. For a package consisting of $20,000 of term insurance and a $200 annual premium annuity issued to a man aged 26, the first-year price of the protection in the entire package would be $246, assuming 5 percent interest, and using the formula mentioned earlier as an alternative to Class A deceptive practices.

There is another way of looking at this situation. The advertisement mentions that the $600 annual premium for the annuity will amount to "a nice tidy sum" of $10,482 by the end of fifteen years. This translates into an average annual rate of return of about 1.9 percent -- a rather dismal figure at a time when United States savings bonds are paying 5.5 percent when held to maturity in less than six years. Thus, the low price of the term insurance portion of the split life package is made possible by the low rate of return associated with the annuity portion.

The Wabash Life brochure.--A few years ago, the Wabash Life Insurance Company offered a specialty policy called the Jet 9-C, for which the annual premium was $500 per unit. The contract was participating and contained a conventional dividend clause. According to the company's dividend scale at the time, the dividends for policy years 2 through 8 were $50, $60, $70, $80, $95, $100, and $110, respectively.

In the sales brochure describing the policy, there was the usual indication that the "illustrated dividends are neither projections nor guarantees," and then the dividend scale was shown as "10% upon the payment of the second annual deposit in full, 12% upon the payment of the third annual deposit in full," and so forth. The relevant page of the brochure is reproduced in Appendix O.

There was no specific indication that the second year's dividend, for example, was $50. Nor was there a specific indication that the second year's dividend was 10 percent of that one year's annual premium. Although it may have been obvious to some people that the dividend was 10 percent of that one year's premium, it was not obvious to everyone. In a hearing before the Oregon insurance commissioner, several of the company's policyholders testified that they bought the policy by withdrawing funds from other savings because they thought they would achieve a higher rate of return by buying the policy.

III. Recent Developments

October 1, 1968 was the effective date of an administrative rule promulgated by the Washington State insurance department requiring that certain price information be disclosed to the buyer when an agent recommends the replacement of one policy with another. The rule required only a few year-by-year price figures for the original policy and the proposed replacement policy. Also, there were certain technical problems with the rule. Despite the problems, and although the rule pertained only to replacement situations, it was significant because it represented the first strong life insurance price disclosure requirement by a regulatory agency. The rule has since been superseded by a regulation that is similar to the model developed by the National Association of Insurance Commissioners. Neither the new Washington State regulation nor the NAIC model contains a price disclosure requirement.

On October 15, 1968, Senator Philip A. Hart referred publicly to the possibility of "truth-in-life-insurance" legislation. In a speech before a life insurance industry group, he made the following statements:

> Obviously, if it makes sense to tell consumers how much of what is in a package on a supermarket shelf, or how much interest they will pay for using someone else's money, it makes sense to tell them how much they are paying for death protection and how much they are saving when they plunk down a life insurance premium.
>
> Hopefully your industry will think so too -- and start supplying the information.
>
> If not -- watch for Truth in Life Insurance to follow Truth in Packaging and Truth in Lending through the legislative mill.
>
> Because that's the way people are thinking in consumerland.

Similar comments were made by Wilbur A. Cohen, then the Secretary of Health, Education, and Welfare, on November 25, 1968. In his testimony at a Federal Trade Commission hearing, Secretary Cohen suggested the need for "more uniformity, more comprehensive protection, and more price comparison" in various areas of insurance, including life insurance.

Early in 1969, as a direct result of Senator Hart's admonition and Secretary Cohen's comment, three life insurance trade associations appointed a prestigious industry committee to examine the price disclosure problem. The chairman of the committee was E. J. Moorhead, then president-elect of the Society of Actuaries. The report of the committee was released in May 1970. While the report contains suggestions that, if implemented, would represent a major forward step, several crucial areas were left untouched.

The major recommendation of the committee was that the interest adjusted method be used in making cost comparisons among similar policies issued by different companies. This method, as its name implies, takes interest into account in evaluating the premiums that the policyholder pays to the insurance company and in evaluating the payments made to the policyholder by the insurance company. It differs from the traditional net cost method, which involves the simple addition of amounts payable at different points in time. The latter method is widely used in the life insurance industry, but understates the price of life insurance and distorts comparisons even among similar policies.

The report is silent, however, on the problems of price information for one policy year at a time and what are referred to in this statement as Class A deceptive practices -- problems that are even more serious than those to which the committee addressed itself. Furthermore, the report fails to deal with a major aspect of Senator Hart's admonition -- the need to inform the buyer about the extent to which he is buying protection and the extent to which he is accumulating savings when he buys a cash-value life insurance policy.

Effective action by the life insurance industry in response to the report has been minimal. The three trade associations that formed the special committee "received" the report and authorized its publication. They did not

approve or endorse the report, however, apparently out of a fear of violating the antitrust laws. A major insurance trade publisher -- The National Underwriter Company -- developed a comprehensive volume of price information based on the interest adjusted method recommended by the committee. The other major insurance trade publisher -- the A. M. Best Company -- has done nothing. One life insurance company -- Bankers Life Company (Des Moines, Iowa) -- has supported the committee's recommendation by including the interest adjusted method in some of its sales material. A few other companies have placed interest adjusted cost figures in the rate books they furnish to their agents. At the urging of Virginia H. Knauer, President Nixon's special assistant for consumer affairs, a number of additional companies have indicated that they plan to place interest adjusted cost figures in their rate books. The reaction of most of the rest of the industry has been silence. A few persons -- mostly agents and others representing the agents' point of view -- have reacted with hostility. The rest of the industry -- about 1,700 companies and about 200,000 agents -- have not reacted at all.

In the face of the life insurance industry's apathy, and perhaps in part because of it, price disclosure legislation has now burst upon the scene. Commissioner Stanley C. DuRose of Wisconsin has promulgated an administrative rule requiring life insurance companies operating in Wisconsin to make interest adjusted price figures available to buyers at or prior to delivery of the policy. The rule took effect January 1, 1973. Unfortunately, the rule refers to the required figure as a "life insurance surrender value comparison index," a name that is likely to obscure the fact that the figure is an index designed to facilitate price comparisons. Also, the rule exempts from its requirements a long list of policies, such as policies smaller than $5,000 in face amount, policies issued on substandard risks, term policies, and policies with face amounts that vary with duration.

In a letter accompanying the announcement of the rule, Commissioner DuRose suggested that the rule is merely a first step and that more comprehensive techniques may be developed under the auspices of the National Association of Insurance Commissioners.

The Pennsylvania insurance department has issued "A Shopper's Guide to Life Insurance," which shows interest adjusted price figures for numerous major companies that operate in Pennsylvania. The guide and several supplements to it are being made available to the public.

The National Association of Insurance Commissioners is studying the problem. Initially, the task force working on the problem was comprised of individuals one notch below the commissioner level. In late July, 1972, in a move recognizing the importance of the problem and the substantial policy questions involved, the NAIC president changed the group to a commissioners' task force. Commissioner DuRose is the chairman of the new task force.

IV. A Proposed Information Disclosure System

Although the first life insurance price disclosure requirement has been promulgated in Wisconsin, the precise form that such disclosure will take on a broader scale is not yet known. In this section of my statement, one possible approach is presented. It could serve as a basis for truth-in-life-insurance legislation either at the state level or at the federal level.

The proposed system is based on the policyholder's receiving information from two sources: (1) a two-page form that contains prescribed information to be given to the policyholder at or prior to delivery of the policy, and (2) the premium notice that the policyholder receives on each yearly anniversary of his policy. The first page of the two-page form would contain annual information about the policy, and the second page would contain summary information. The yearly premium notice would contain information in addition to that which companies already provide routinely.

The First Page

The first page of the two-page form would consist of seven columns of information. The arrangement of this page is illustrated in Table 3.

The first column shows the policy year. Information would be shown for each of the first twenty policy years, and for each fifth policy year thereafter until the policyholder's age 85, or until the policy is scheduled to terminate, if sooner. By the age of 85, most policyholders have either died or discontinued their policies, so information beyond that point would be of little value. Information should be provided to that point, however. Traditionally, information is given only for twenty years, but many policyholders utilize their coverage longer than that. And some companies tailor their policies so as to look attractive for the first twenty policy years.

TABLE 3

ANNUAL INFORMATION

The following annual information pertains to a $25,000 participating life paid-up at age 90 policy issued in 1970 to a man aged 35 by The Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.

(1) Policy Year	(2) Annual Premium	(3) Face Amount	(4) Cash Value	(5) Illustrated Dividend	(6) Amount of Protection (Col. 3 - Col. 4)	(7) Price of Protection per $1,000*
1	$578	$25,000	$ 0	$ 86	$25,000	$ 20.85
2	578	25,000	449	92	24,551	2.69
3	578	25,000	912	99	24,088	2.77
4	578	25,000	1,384	107	23,616	3.13
5	578	25,000	1,864	120	23,136	3.28
6	578	25,000	2,352	134	22,648	3.46
7	578	25,000	2,848	148	22,152	3.66
8	578	25,000	3,351	162	21,649	3.88
9	578	25,000	3,862	176	21,138	4.15
10	578	25,000	4,331	190	20,669	6.86
11	578	25,000	4,807	203	20,193	7.13
12	578	25,000	5,291	217	19,709	7.43
13	578	25,000	5,781	231	19,219	7.80
14	578	25,000	6,278	245	18,722	8.22
15	578	25,000	6,781	254	18,219	9.03
16	578	25,000	7,290	262	17,710	9.89
17	578	25,000	7,804	271	17,196	10.85
18	578	25,000	8,324	279	16,676	11.89
19	578	25,000	8,848	288	16,152	13.05
20	578	25,000	9,379	296	15,621	14.28
25	578	25,000	11,622	422	13,378	22.11
30	578	25,000	13,820	464	11,180	34.04
35	578	25,000	15,879	503	9,121	53.03
40	578	25,000	17,734	537	7,266	79.74
45	578	25,000	19,448	561	5,552	121.61
50	578	25,000	20,992	576	4,008	189.13

*The interest rate assumed in the calculation of these figures is 5 percent.

The second column shows the annual premium. This is the amount that the policyholder pays to the insurance company at the beginning of each policy year to cover the basic policy and any supplementary life insurance coverages that might be attached as riders. In the illustration, the premium is constant, but in many policies it fluctuates. In five-year renewable term policies, for example, the premium rises every five years. In "modified" policies, the premium for the first few years is lower than the premium in subsequent years. And in some policies, the premium declines periodically.

The third column shows the face amount. This is the amount that the insurance company pays upon the death of the policyholder in any given year, not including any dividends that may have been left with the insurance company, and assuming that there is no policy loan outstanding at the time of the policyholder's death. In the illustration, the face amount is constant, but in many policies it fluctuates. In some policies, for example, the face amount drops by one-half at age 65. Some policies provide additional decreasing term coverage for twenty years, so that the face amount declines for twenty years and then levels out. Some policies provide additional increasing term coverage for twenty years, so that the face amount increases for twenty years and then drops back to the original figure. And there are many other possible arrangements.

The fourth column shows the cash values. This is the amount that the insurance company pays to the policyholder when he discontinues the contract, not including any dividends that may have been left with the insurance company, and assuming that there is no policy loan outstanding at the time the policy is discontinued.

The fifth column shows the annual dividends. These are the amounts that the insurance company would pay to the policyholder each year on the basis of its dividend scale at the time the policy is issued. These figures are not guaranteed, and they are not estimates. They are simply illustrations -- what the company would pay if no change were made in the company's dividend formula or in the assumptions that go into that formula.

The information referred to in the preceding paragraphs may be described as "basic data" or "raw data." The figures are yearly amounts paid to or by insurance companies, and are not combinations of other figures. The information referred to in the paragraphs that follow, however, are not basic data, but rather are derived from the basic data.

The sixth column shows the amount of protection. Since the face amount is payable on death, and since the cash value is payable on discontinuation of the policy, the difference between these two figures represents the amount of life insurance protection enjoyed by the policyholder each year. Also, the amount of protection is based on the protection-savings view of cash-value life insurance, under which it is assumed that the cash value is an asset of the policyholder.

The seventh column shows the price for each $1,000 of protection. This figure for any given policy year is calculated by the following formula:

$$\frac{(P + CVP)(1 + i) - CVC - D}{AMT}$$

where P is the annual premium for the given year, CVP is the cash value at the end of the preceding year, i is the assumed interest rate expressed as a decimal, CVC is the cash value at the end of the given year, D is the annual dividend for the given year, and AMT is the amount of protection for the given year expressed in thousands of dollars.

In Table 3, the figures are based on an assumed interest rate of 5 percent. For example, the $6.86 price per $1,000 of protection in the tenth policy year was calculated as follows:

$$\frac{(\$578 + \$3,862.25)(1 + .05) - \$4,331 - \$189.50}{20.669} = \$6.86.$$

The figures shown above are accurate to the nearest cent, whereas the figures in columns 4 through 6 in Table 3 are accurate to the nearest dollar. The 5 percent interest rate was used because it is the rate currently paid on many savings accounts, and the savings element of cash-value life insurance is similar to a savings account in many of its major characteristics.

Some observers have criticized the above formula because the price calculation includes an interest factor. Their argument is that the calculation unfairly enlarges the price of life insurance, because interest is not added to the price of other commodities and services. This argument is without merit. The above formula does not add interest to the price of the protection; rather, it introduces an interest factor in order to allocate the interest element and produce an appropriate price figure. It should be noted that the numerator of the formula is precisely the same as the formula mentioned earlier as an alternative to Class A deceptive practices.

To illustrate, suppose a "net" $25,000 nonparticipating straight life policy is constructed for a man aged 35. The word "net" in this context refers to a policy whose premiums and cash values reflect only interest and mortality assumptions, and make no provision for expenses or profit. When such a policy is constructed using 5 percent interest and the 1957-60 ultimate basic mortality table for male lives, the annual premium is $264.06, the cash value at the end of the ninth policy year is $2,545.25, and the cash value at the end of the tenth policy year is $2,873.43.

The price per $1,000 of protection in the tenth year of this hypothetical policy, using the above formula and a 5 percent interest assumption, is calculated as follows:

$$\frac{(\$264.06 + \$2,545.25)(1 + .05) - \$2,873.43}{22.12657} = \$3.45.$$

The figure of $3.45 corresponds precisely to the pure mortality cost of the protection in the tenth policy year, with no provision for expenses or profit. The policyholder would be aged 44 in that year, and the death rate at age 44 in the 1957-60 ultimate basic mortality table for male lives is 3.45 per 1,000.

If the interest factor were omitted from the formula, the price in this case would be minus $2.90 per $1,000 of protection -- an absurd result. In other words, the introduction of the interest factor into the formula simply allocates the interest element so as to produce an appropriate price figure.

The Second Page

The second page of the two-page form would consist of summary information. The arrangement of this page is illustrated in Table 4.

The first figure is the present expected value of the annual premiums. This is the single sum equivalent of the annual premiums for the fifty-year period, expressed as of the policy's issue date. The calculation takes into account not only 5 percent interest, but also the probabilities of payment. Since the only reasons for nonpayment of future premiums are death and policy discontinuation, the payment probabilities are based on a mortality table (which shows probabilities of death) and a lapse table (which shows probabilities of policy discontinuation).

The second figure is the present expected value of the protection element. The value of any given year's protection is determined by multiplying the amount of protection in that year by the probability of death in that year according to the assumed mortality table. Then the present expected value

TABLE 4

SUMMARY INFORMATION

The following summary information pertains to a $25,000 participating life paid-up at age 90 policy issued in 1970 to a man aged 35 by The Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.

Present expected values:*		
Premiums		$7,240
Components of the premiums:		
Protection element	$1,206	
Savings element	2,279	
Illustrated dividends	2,627	
Company retention	1,128	
Total		$7,240
Supplementary premiums:		
Waiver-of-premium provision	$ 113	
Ratio of benefits to premiums**		75.5%
Annual percentage rates:		
Semi-annual premiums		8.2%
Quarterly premiums		8.0%
Monthly premiums		7.0%
Loan clause		6.0%

*The assumptions used in the calculation of these figures are 5 percent interest, the 1957-60 ultimate basic mortality table for males with select data for the first fifteen years, and Moorhead's R lapse table with certain modifications.

**The numerator of the ratio is the sum of the present expected values of the protection element and the savings element. The denominator of the ratio is the difference between the present expected values of the premiums and the illustrated dividends.

of the year's protection is determined by taking into account both interest and probabilities of payment. Finally, the present expected value of the protection element, or single sum equivalent of the protection element, is the combined present expected values of the protection for the fifty-year period.

The third figure is the present expected value of the savings element. This is the single sum equivalent of the annual increments in cash value for the fifty-year period, expressed as of the policy's issue date. Interest, mortality, and lapse again are taken into account.

The fourth figure is the present expected value of the illustrated dividends. This is the single sum equivalent of the illustrated dividends for the fifty-year period, expressed as of the policy's issue date. Interest, mortality, and lapse again are taken into account.

The fifth figure is the present expected value of the company retention -- what the company keeps to cover its expenses and make a profit -- from the policyholder's point of view. This is the difference between what the policyholder pays in (the present expected value of the premiums) and what he gets back (the sum of the present expected values of the protection element, savings element, and illustrated dividends). When comparing similar policies issued by different companies, a buyer should be interested in policies with relatively small retentions.

The price of the protection in a policy is the sum of two items: the present expected value of the protection element and the present expected value of the company retention. When comparing similar policies issued by different companies, the buyer should be interested in policies with relatively low prices of protection. However, since the present expected value of the protection element tends to differ slightly even among similar policies, it is slightly better for the buyer to rely upon the company retention figures rather than the price figures.

The next item is a listing of the present expected values of the premiums for various supplementary provisions, such as waiver of premium, accidental death, or guaranteed insurability. Of these, the illustrative policy includes only a waiver-of-premium provision.

Various benefits-premiums ratios can be constructed using the above present-expected-value figures. One such ratio is shown in Table 4. In this instance, the "benefits" are considered to be the protection element and the savings element, so the numerator of the ratio is the sum of the present expected values of these two items. The "premiums" are considered to be the premiums minus the illustrated dividends, so the denominator of the ratio is the difference between the present expected values of these two items. Generally, the buyer would prefer policies with relatively high benefits-premiums ratios, although comparisons based on ratios sometimes are difficult to interpret. Thus, no ratio should be considered as a substitute for the dollar figures shown in Table 4.

The present expected value of the premiums and the benefits-premiums ratio in Table 4 are based on the assumption that premiums are paid annually. When premiums are paid more frequently, the life insurance company imposes carrying charges. Since the size of the carrying charges differs widely among companies, the added cost of semi-annual, quarterly, and monthly premium payments should be disclosed. The information is shown in Table 4 in terms of annual percentage rates calculated with the tables provided by the Federal Reserve System for use in connection with the Truth-in-Lending law.

The final item in Table 4 is the annual percentage rate provided for in the policy's loan clause. This is important because the policies of some companies provide for interest to be paid in advance. A stated interest rate of 6 percent payable in advance, for example, is equal to an annual percentage rate of 6.4 percent.

The Premium Notice

Premium notices on the anniversary of the issue date of a policy routinely show the premium currently due and the current dividend being paid by the company. In addition, however, it is essential that the premium notice show the dividend that would have been paid under the company's dividend scale at the time the policy was issued. Since dividends are not guaranteed, it would be possible for a company to illustrate large dividends at the time of issue in order to show a small retention. To reduce the likelihood of such activity, the illustration used at the time of sale should be disclosed to the policyholder along with the current dividend being paid by the company.

Some companies' premium notices show the amount by which the cash value of the policy increases during the current year. Such information should not be shown, because of the possibility that erroneous inferences might be drawn by the policyholder. Instead, the yearly premium notice should disclose the price per $1,000 of protection in the past year, using the currently prescribed interest rate assumption and the current dividend being paid by the company.

The premium notice should also show information concerning any dividends left with the company. For example, the amount of accumulated dividends should be shown, and the annual percentage rate currently being paid on such dividend accumulations should be disclosed.

The premium notice should also show information concerning any policy loan that is outstanding. For example, the principal and interest currently payable should be shown, and the annual percentage rate on policy loans should be disclosed.

V. Conclusion

The market for individual life insurance in the United States is characterized by ignorance, complexity, and apathy. Buyers are ignorant about the amount of life insurance they need, about the kinds of policies that are appropriate for them, and about the large price differences among life insurance companies. Many life insurance agents also are ignorant of these things, because state licensing examinations generally require only a minimum of knowledge, and because most company and industry training programs place the emphasis on sales techniques rather than technical knowledge.

Some of the complexity associated with life insurance is unavoidable because of the nature of the life insurance transaction. But much of the complexity stems from the fantastic proliferation of policy types. This proliferation has gone far beyond reasonable bounds, and operates primarily to confuse and frustrate the life insurance consumer.

Buyers are apathethic about life insurance because it is associated with the unpleasant subject of death. Most life insurance, therefore, is bought because a life insurance agent persuades the buyer to take action rather than procrastinate. To overcome the apathy of buyers, agents must be highly trained in the techniques of salesmanship. The necessity for this type of training leads to the frequent omission of adequate technical training, and to the development of a wide variety of deceptive sales practices.

In an atmosphere of ignorance, complexity, and apathy, there are ample opportunities for the exploitation of consumers. Many policyholders are overcharged for their life insurance, in the sense that they could have bought comparable coverage at much lower prices. How can large price differences exist? The market for individual life insurance is characterized

by an absence of reliable price information. As long as buyers think all life insurance companies charge about the same price, companies that charge high prices can sell just as successfully as companies that charge low prices.

Many sales presentations involve little if any price information. Often the presentation is based on emotional considerations, and about the only kind of price information that enters into the presentation is the size of the first premium.

The life insurance market is characterized not only by an absence of reliable price information, but also by the presence of deceptive price information. In my opinion, the deceptive sales practices found in the life insurance industry constitute a national scandal.

The technology for accomplishing adequate disclosure is available, and all that is needed is the legislation to implement a disclosure system. In this statement I have included a detailed description of one such disclosure system.

A possible alternative to a rigorous system of information disclosure such as the one I have outlined would be the standardization of life insurance policies and a drastic reduction in the number of policy types. In my opinion, only two policy types would be needed -- straight life and either one-year renewable term or five-year renewable term. The difficulty with this approach is that it would tend to place the life insurance industry in a straitjacket. Furthermore, I have more faith in the ability of consumers to make decisions for themselves than in the ability of regulators to make decisions for consumers. However, in order to be able to make decisions for themselves, consumers must have access to reliable information. The purpose of the information disclosure system I have proposed is to require life insurance companies and their agents to give consumers reliable information at the point of sale.

Truth-in-life-insurance legislation would benefit all consumers of life insurance. Among the identifiable groups that would be greatly aided are the following: (1) young married couples who are just beginning to develop a life insurance program; (2) returning veterans who have, in connection with their servicemen's group life insurance, a conversion privilege exercisable in any one of hundreds of converter companies; (3) college students who are constantly being solicited on the basis of razzle dazzle proposals usually involving the use of a promissory note for all or a major part of the first annual premium; (4) persons who are constantly being solicited through the use of newspapers, magazines, or direct mail; and (5) persons who may have purchased life insurance policies carelessly and who wish to find out if replacement with new policies would be of substantial benefit to them.

The life insurance industry and the state regulatory agencies did nothing in this area prior to Senator Hart's public reference more than four years ago to the possibility of truth-in-life-insurance legislation. Since that time, there has been some activity, but very little has been accomplished of direct benefit to life insurance consumers.

In my opinion, there is an urgent need for truth-in-life-insurance legislation at the federal level. Such legislation could be drafted so as not to preclude the states from adopting their own disclosure requirements, but rather to have the effect of establishing minimum standards and putting disclosure requirements into effect in those states that fail to take action.

Thank you.

APPENDIX A

By R. F. "DICK" HARRIS, JR.
American General Life Insurance Company
Houston

"Buy term and invest the difference"

I Tell Corporations, "Put the 'Difference' in Permanent"

IN RECENT months I have received a number of inquiries—some have been almost attacks—concerning a concept I have developed and presented in speeches and sales congresses around the country.

I call the concept "corporations should buy term and invest the difference . . . in permanent," and the difficulty arises in the part of the presentation that deals with a corporation's return on capital.

In order to set the record straight, and also to share the idea with additional life underwriters, I would like to present the concept here with special emphasis on the "return on capital" portion.

The concept grows out of the evolution that is taking place in our business, including the evolution taking place in marketing concepts. One example is that of the corporation head who says, "We're going to buy term and invest the difference." We've always heard that, but in years gone by I attempted to change the executive's mind. Now, however, I let the corporation have the term, rather than attempting to argue with the head of the company. Then when I deliver the term policy, I begin the following discussion:

"Sir, does your corporation intend to keep that term policy?"

In Texas he replies, "Is a bluebird blue?"

Then I say, "Now that your corporation has bought the term insurance, where are you going to invest the difference?"

His answer is, "In our corporation,

Richard F. "Dick" Harris, Jr., better known in the life insurance business as "$Cash$," entered the business in Atlanta following his graduation from the University of Georgia in 1939 with a BS in commerce. He moved to Charlotte, North Carolina, where he was an agent and manager for Pilot Life until he became a Texan by moving to Houston in 1961. He joined American General in 1963 and has been a member of the company's Presidents Club five of the six years he has been eligible. A life and qualifying member of the Million Dollar Round Table, he has been a participant in MDRT programs and is a sought-after speaker. As manager of the Business Planning Division of American General's Houston City Agency he engages in much joint work, which together with his individual production accounts for approximately $1,000,000 in permanent life insurance premiums each year (yes, that says premiums!). In addition to his industry activities, he is an active member of the Episcopal Church, the Masons, and other civic and service organizations.

Reprinted from Life Insurance Selling, Vol. 45, No. 2 (February, 1970), pp. 24-26, 28.

that's where, because we can make more on that difference *each year* than your permanent insurance policy will provide." (Please note that he said "each year.")

I say, "Sir, how much *annual* net yield—net after all expenses and taxes—does your corporation earn on its capital?"

He says, "Fifteen per cent," or whatever the actual figure is.

I then ask, "How do you arrive at that figure?" to which he replies, "Well, we divide our capital into our annual net income after all expenses and taxes, and we arrive at the 15%-net-yield figure."

Then I say, "That's remarkable!"

"You're darned right it is," he says, "and that's a heck of a lot more than your insurance company will give us, which is why our corporation bought the term insurance instead of that permanent insurance."

I respond with, "I congratulate you on your wisdom and on your idea of having your corporation purchase term and invest the difference in your corporation. Your corporation is doing well and will continue to do so with your keen business acumen.

Exchange the Term

"You've given my company a great idea on buying term and investing the difference, and in appreciation for that idea let me tell you what we're going to do for you. We have designed a special policy called 'Executive 50,' and here it is, right here. I've been authorized by my company to let your corporation have it, provided you exchange that 'Super 100' decreasing term insurance policy for it."

He objects, "But we want and have paid for that decreasing term policy!"

I say, "Sir, this Executive 50 is also super, it's also for $100,000, and it has decreasing term insurance built into it.

"You're age 30, so your 'Super 100' term insurance costs you $300 a year. You said you wanted it, and your corporation bought it, and you said you were doing to keep it. But look, if your corporation will exchange that term policy for this Executive 50 and

CORPORATIONS SHOULD BUY TERM AND INVEST THE DIFFERENCE—IN PERMANENT

Male Age 30

	SUPER 100 TERM INSURANCE		EXEC. 50 (*) PERMANENT INSURANCE *(ANNUAL PREMIUM—$1,289.00)				
Year	(1) Decreasing Term Insurance	(2) Term Ins. Premium	(3) Invest the Difference In Exec. 50	(4) Annual Increase in Assets	(5) Annual % Tax Free Profit	(6) Cumulative Available Asset	(7) Net Amount Death Proceeds (Decreasing Term Ins.)
1	$100,000	$300	$989	$ 840	15.1	$ 840	$99,160
2	97,900	300	989	1,143	15.6	1,983	98,017
3	95,700	300	989	1,180	19.3	3,163	96,837
4	93,500	300	989	1,217	23.1	4,380	95,620
5	91,200	300	989	1,254	26.8	5,634	94,366
6	88,800	300	989	1,292	30.6	6,926	93,074
7	86,400	300	989	1,327	34.2	8,253	91,747
8	83,900	300	989	1,362	37.8	9,615	90,385
9	81,300	300	989	1,395	41.1	11,010	88,990
10	78,700	300	989	1,427	44.3	12,437	87,563
11	75,900	300	989	1,424	44.0	13,861	86,139
12	73,100	300	989	1,451	46.7	15,312	84,688
13	70,200	300	989	1,480	49.7	16,792	83,208
14	67,200	300	989	1,508	52.5	18,300	81,700
15	64,100	300	989	1,536	55.3	19,836	80,164
16	60,900	300	989	1,561	57.8	21,397	78,603
17	57,600	300	989	1,587	60.5	22,984	77,016
18	54,300	300	989	1,611	62.9	24,595	75,405
19	50,800	300	989	1,633	65.1	26,228	73,772
20	47,200	300	989	1,652	67.0	27,880	72,120
21	43,500	300	989	1,671	69.0	29,551	70,449
22	39,700	300	989	1,687	70.6	31,238	68,762
23	35,800	300	989	1,703	72.2	32,841	67,059
24	31,800	300	989	1,716	73.5	34,657	65,343
25	27,700	300	989	1,729	74.8	36,386	63,614
26	23,300	300	989	1,739	75.8	38,125	61,875
27	19,000	300	989	1,747	76.6	39,872	60,128
28	14,400	300	989	1,752	77.2	41,624	58,376
29	9,700	300	989	1,755	77.5	43,379	56,621
30	4,900	300	989	1,755	77.5	45,134	54,866

This is the illustration Mr. Harris uses to show the annual profitability of "investing the difference" in permanent insurance.

invest the difference—$989 a year—with my company, we will guarantee to credit to your corporation account an average annual amount of $1,505 for 30 years."

He says, "Man, how can you do that?"

My answer is, "Let me show you," and then I refer to the illustration of "corporations should buy term and invest the difference . . . in permanent," which is shown on page 25.

I then explain the illustration in this way:

"Column (1) shows your Super 100 decreasing term insurance. Compare that column with Column (7) for each year.

"Column (2) is your premium for the Super 100 decreasing term—$300 each year.

"Column (3) is the $989 annual difference between the premium for our Executive 50 at age 30 ($1,289) and the $300 annual premium for the decreasing term.

"Column (4) is the guaranteed annual increase in corporate assets attributable directly to that $989 difference in premium, because your corporation will be paying the $300 each year in either case.

"Column (5) is the corporation's annual percentage of tax-free gain on the $989. Sir, your corporation will not and does not make that kind of annual percentage of tax-free gain on its own capital. To arrive at the percentages in Column (5), subtract Column (3) from Column (4) (except year one) and divide the $989 into that difference. For example, in year five, Column (4) is $1,254. Subtract the $989 difference, which leaves $265. Divide the $265 by $989, and the result is .268 or 26.8% return in *that year* on the $989.

"Column (6) is the corporation's cumulative asset.

"Column (7) is the Executive 50's net amount of death proceeds (the decreasing term insurance built in). To arrive at those figures, subtract Column (6) from the face amount. Again for year five, the face amount is $100,000, the cumulative asset in Column (6) is $5,634, leaving net death proceeds of $94,366 as reflected in Column (7).

"Now, I said earlier that we would guarantee to credit your corporation account with an average annual amount of $1,505 for the deposit of that $989 with my company each year. If you will divide the 30th-year cumulative asset figure in Column (6)—$45,134—by 30 years, the result will be $1,505 average annual available cash for the corporation directly attributable to the $989 difference invested in the permanent policy."

Annual Return

At the start of this article I indicated that I have been challenged on this illustration by a number of life underwriters, and invariably the challenge grows out of a misunderstanding of what it is I'm illustrating. *We are not talking about compound interest—we are talking about a corporation's annual return on its capital!* This concept is about corporations, not about personal investments. It has nothing to do with what individuals can do with their private funds placed in their investment programs. That's a different subject altogether. This is apparently where some people get lost—they attempt to relate the net annual yield on the $989 "difference" to compound interest.

Corporate owners and those whose responsibility it is to make corporate annual reports to shareholders are concerned primarily with the year at hand—the one year for which they must account. They think in terms of an *annual* percentage return on their corporation's capital for that year, and they think in terms of one year at a time. Of course, they make plans for more than one year, but when they think in terms of the profitability of the corporation, it is always in terms of *annual* profitability.

I am not naive enough to think that large corporations don't have investment income as well as income from sales, or that they don't consider compound interest on those investments, because they do. However, smaller corporations and closely held corporations seldom have investment income, and therefore their executives are not concerned with compound interest.

But whether they have investment income or not is beside the point; this illustration simply has nothing to do with compound interest. It is an illustration of a corporate net annual return on a capital asset—the $989 "difference," which the corporate head told me he was going to invest in the business.

Compare Profitability

It is important that this point be understood, because an accountant to whom this illustration is shown is likely to talk in terms of compound interest, and the life underwriter who hopes to sell with it must be able to satisfy the accountant that no attempt is being made to compare this return with any form of long-term investment return; it is to be compared with the corporation's profitability, its return on its capital on an annual basis.

Well, back to the presentation:

After the corporate client analyzes all the columns for each year, he usually says, "Well, I'll be doggoned," and I say, "Me too!"

He agrees his corporation does not earn that kind of annual return on its capital, and I always point out again that for the $989 each year (because we fixed in his mind that he would be paying the $300 each year anyway) his corporation has available an average of $1,505 a year.

This concept and the illustration will answer the constant, "Our corporation is going to buy term and invest the difference." The corporate client will buy term with little or no delay, because of the great difference in premium, so I sell him the term with no argument. But I order the permanent policy as an alternate, and I take both policies to the delivery interview. I explain the term policy carefully, and I fix in his mind that his corporation will be paying the term premium—that's the key to this sale. Then I show him the illustration and the permanent policy, and he will exchange the term for the permanent

APPENDIX B

WHY SETTLE FOR ORDINARY "ORDINARY LIFE?"

Provident Ordinary Life isn't ordinary. Look at the rates, compare the cash values, study the net cost. Extra-ordinary? It certainly is!

WHOLE LIFE — MALES

AGE
34

ANNUAL PREMIUM
$1,689

AMOUNT
$100,000

NOTICE THIS THIRD YEAR NET COST!

Year	Annual Premium	Cash Value Increase	Cost for the Year	Cash Value	Paid Up Value
1	$1,689	$ 200	$1,489.00	$ 200	$ 600
2	1,689	1,600	89.00	1,800	4,900
3	1,689	1,700	— 11.00	3,500	9,300
4	1,689	1,700	— 11.00	5,200	13,500
5	1,689	1,700	— 11.00	6,900	17,400
6	1,689	1,700	— 11.00	8,600	21,200
7	1,689	1,800	— 111.00	10,400	25,000

Life With Provident

Provident
LIFE AND ACCIDENT
CHATTANOOGA

Reprinted from Life Insurance Selling, Vol. 45, No. 4 (April, 1970), p. 42.

APPENDIX C

the Back Page

An advertisement of the life companies of the Maryland American General Group, presented regularly in this space for the inspiration and enlightenment of life underwriters everywhere.

POLICY #367,285 REVISITED

AN HOUR AGO I wrote a check in payment of the 38th annual premium on my oldest life insurance policy.

This event brought the policy into my thoughts, and suggested that even though good old #367,285 has already been the subject of discussion on this page, it might be timely to report again on the splendid services which it has rendered me across the years. For this policy, I feel, exemplifies life insurance in action, even though it has been only *silently* at work. No death claim has been paid, no disability income paid or premiums waived, no maturity or surrender value paid, yet Policy 367,285 has been constantly in action—serving to give peace of mind, serving as an investment fund, serving to encourage and indeed force me to save, serving to build my credit and my net worth.

And now it serves also to give a realistic view of life insurance property *in being*, which is much more meaningful than a picture of what a given policy *will do* in the future. There is, for most of us, far more good tangible meaning to the words, *"Here is what this policy has done, and this is what it is today,"* than in the phrase, *"Starting today, this policy will do so-and-so for you in the years to come."*

We are always at a disadvantage when we ask our prospective buyer to look ahead two or three or four decades or more, because the years of the future seem so remote. But the passing of time will convince him that they aren't!

It often strikes me that the difference between looking ahead in life and looking back upon the years gone by is a good deal like looking at the road ahead through the "wrong" end of a telescope, and then using the right end of the glass to look back at the path already traveled. The telescope exaggerates the length of the miles ahead, and foreshortens those behind . . . and, similarly, life itself causes us to feel that the years ahead will be ages and eons in the coming, while the years gone by seem compressed into ever-decreasing length.

Thus it is easier to appreciate what life insurance can do by looking at a policy *in being*, and noting what it *has done*, than by talking about one yet to be conceived and delivered. Therefore I invite you now to look at a 37-year-old policy which seems to its owner to be nearer to 3" months in age, so speedily does time flash past.

• • •

POLICY 367,285, a $5,000 participating whole life contract, was issued on December 4, 1929 to Benjamin Nelson Woodson, age 21, of Chicago, Illinois. The policy was payable to Grace M. Cook, Intended Wife of the Insured. Some seven weeks later, on the following January 29, it became payable to Grace Cook Woodson, Wife of the Insured, as it still is. The policy was applied for and dated the last day before age-change—the last day in all eternity when this particular applicant could buy life insurance at age 21—and it is interesting to note that this was a reason for action quite as impelling 37 years ago as it is today.

Now hear this. Policy 367,285 was bought less than six weeks after that historic Black Tuesday, October 29, 1929, when the stock market collapsed virtually in a single day and precipitated the Great Depression . . . at a time when it seemed that the world had come to its end, when it seemed that the economic future of the nation was as black as the bottom of a well in the middle of the night, when it seemed that no financial promise could be made or trusted.

Yet Policy 367,285 made promises to me from which it has never wavered—even though it could not foresee the decade of depression which lay ahead, nor the decrease in interest rates almost to the vanishing point, nor World War II and Korea and Viet Nam, nor the inflationary increase in operating costs which would drive rents and wages and postage and printing and almost every other item of expense to levels then unimaginable.

For example, the policy promised me on December 4, 1929, that it would stand ready to pay me or lend me $2,319.70 on December 4, 1966. It promised to be ready to pay me or lend me $2,405.60 on that same day of 1967. The 37th-year values were ready and waiting when the date rolled around. The 38th-year values will be waiting for me on the coming anniversary if I want them.

And—not so incidentally—the *increase* in value from 1966 to 1967 amounted to $85.90, which grew out of the payment, just made, of an annual premium less dividend of only $60.26 . . . which means that my cash value increased this year at the rate of $142.54 for each $100 deposited!

• • •

THE VALUES IN the intervening years have been in proportion, of course. They have grown without fail from year to year, and have served me times without number.

The markings on the policy tell eloquently of the several occasions when #367,285 has served me as collateral—*prime* collateral which entitled me to say to my banker (as I *did* say!) "I'm *going* to borrow some money" and not merely "I'd *like* to borrow some money."

Each of those occasions was a profitable one. Once I saved an amount equal to a year's premium on the policy by using it as collateral to finance the purchase of a new automobile at bank rates instead of instalment rates. Later I made a substantial profit on the sale of our first home, when it came time to move, which we were able to buy in the first place only because of the guaranteed borrowing power which was ours. Still later it enabled me to take advantage of an investment opportunity which returned a profit greater than the entire amount I have deposited in the policy to this day.

So my total investment in Policy 367,285 is now a negative figure: that is, my policy's guaranteed borrowing power has brought me more than my total investment in the policy, *and I still have the policy!*

• • •

THE PREMIUM RECEIPTS and dividend memos tell an interesting story, too. They show that my 37 dividends have averaged $24.83, ranging from an early high of $28.90 in 1932 to a low of $19.96 in 1950 and up again to a new high of $31.74 in 1966. Since the annual premium is $92.00, the net premium has averaged $67.17, or some $13.43 per thousand. This interestingly, is just about the amount which would have bought a good guaranteed-cost policy in 1929, and is actually somewhat more than the outlay which would be required today . . . which emphasizes the fact that life insurance is virtually the only commodity or service on earth which hasn't doubled its price in the past quarter century.

These facts also bear out what you and I and all good life insurance men know, namely, that there isn't enough difference either way between good participating life insurance and good guaranteed-cost life insurance to hurt if it were stuck in your eye.

The important thing, as this actual history dramatizes, is not *which* you choose, but that you have one or the other!

In the case at hand it is of no earthly consequence to me whether this old friend which has served me so well for thirty-seven years is participating or non-participating. (I knew thirty-seven years ago that the results couldn't be far apart, and this has not been.) But it is of enormous consequence to me that the policy has been mine—that I have experienced this compulsion to save, that I have possessed this peace of mind, this growing and guaranteed asset, this unencumbered and indeed untouched bit of collateral, this guardian of my family's welfare and my own!

• • •

AM I GLAD, DO YOU THINK, that I had that age-change on December 4, 1929, and therefore pushed myself around to buy Policy 367,285? *Well, indeed I am!* It was one of the best decisions in economic matters which I have ever made.

. . . Yet, on reflection, perhaps it wasn't such a good decision, after all.

I should have bought ten thousand, not five!

Best wishes,

B. Woodson

AMERICAN GENERAL

Houston Oklahoma City Pittsburgh *Hawaiian Life*, Honolulu *Patriot Life*, New York

Insurance in Force January 1, 1967 . . . Three Billion, Eight Hundred Fifty-Six Million Dollars

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Reprinted from The National Underwriter (Life & Health Insurance Edition), January 28, 1967, p. 19.

APPENDIX D

A life insurance advertisement of the American General Companies presented regularly in this space for the edification and inspiration of insurance men & women everywhere

the Back Page

CONSUMERISM

THIS IS THE ERA when "consumerism" is the word of the day. This is an age when every warranty, every guarantee, every representation, is minutely examined by guardians of the public welfare. It is an age of so-called truth-in-lending laws, which require that the borrower or installment buyer must be told in simple terms and in words of one syllable the precise rate of interest which applies to his transaction.

In this environment, challenges are occasionally thrown at our age-old custom of contrasting, for the edification of our policyholder or prospective buyer, annual premium outlays and year-to-year increases in cash surrender values.

I feel that those who question this practice are competent and sincere, and that they speak with constructive intent, in the advocacy of accuracy and precise presentation. And after considering the matter for a time, I conclude that those who raise this question have a point. They are *right*, I conclude, when they say we should not make this comparison in language which indicates that the increase in cash value grows out of the premium paid *in that one year*. I think we must agree that this implies, quite improperly of course, that the policy prints its own money, or gets it by bucketfuls free at the town pump.

But on the other hand, the life underwriter who directs attention to that increasing value has a point, too. When he notes that the increase in cash surrender value of a given policy was, or is, or will be, a given amount in a given year, he is reporting a *fact!*

It seems to me, after considerable reflection on the subject, that the central question is not the fact itself but is, rather, a matter of the *language in which the fact is presented.*

• • •

FOR EXAMPLE, LOOKING BACK on what I myself have said and written on the subject, I find that sometimes (though not always) I have carelessly said something to the effect that the $140 increase in my total withdrawal value for a given policy year "grew out of" or "arose from" the $100 premium I paid that year.

When I said it that way, I was wrong. I stand corrected. The fact is that my $140 increase in cash value that particular year grew *in part* from the $100 of new money I paid into my policy and in part from interest on the cash value (or, more accurately, the reserve) which I had accumulated previously over a period of years.

So we are wrong when we say that this year's $1,400 increase in withdrawal value "grows out of" this year's $1,000 premium payment. (A life insurance company can't *create* money, let us remember; it only *conserves* the policyholder's resources, and *improves* them by the miracle of compound interest.)

But surely we are *not* wrong when we point out that a given year's premium is or will be $1,000, and that in that same year, from one policy anniversary to the next, the cash surrender value will increase by $1,400.

• • •

WE ARE RIGHT when we point this out, for this is a simple fact.

It is a *fact* that the increase in cash value *does occur*. When we tell the owner of a $100,000 whole life policy issued ten years previously, at age 35, that his cash surrender value increased in that tenth policy year by $2,011, while his premium outlay for that same year was $1,772, we speak the *literal truth*. When we tell our 30-year-old prospective buyer of a $50,000 life-paid-up-at-65 contract that his equity *will* increase $1,302.50 in the nineteenth contract year, while his premium outlay that same year will be only $852.50, we are telling him with complete veracity exactly what will happen if he is still alive, and still has the policy, and does indeed pay that nineteenth premium.

If we were imprudently to say or imply that the increase "grows out of" the payment of the current annual premium, we would mislead. And we should be on guard against carelessness of expression in this sensitive area.

But when we present in accurate language the simple fact that the insured's equity did, or will, increase thirteen hundred dollars in the year in question, and note by contrast that the premium paid in that same year was, or will be, only eight hundred and fifty dollars, we speak the simple truth.

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WITH EQUAL ACCURACY, we can point out to the owner of a $900 savings account that after he deposits another $100 on January 1, and lets interest accrue for a year, his balance on December 31 will be $1,045, an increase of $145 for the year, of which he contributed only $100 in new money.

This is fully analogous to the fact that our 45-year-old owner of a ten-year-old whole life policy enjoyed an increase in his life insurance equity that year of $2,011, while paying a premium of $1,772. And in the case of the life policy, we can explore more deeply, and find that his equity would have increased by $582.44 *even if he had not paid the tenth premium*—that is, if he had taken $28,100 of reduced paid-up insurance and let its cash value grow as it is guaranteed to do—which only adds to the dramatic impact of our original statement.

We add still more drama, and still more precision, if we probe still further: If we want to be as technical and erudite as all that, we may undertake to tell our policyowner exactly how his cash values grow, and precisely what he gets for his money and for the use of his money.

We will tell him that his mean amount at risk in that tenth policy year is $85,964. We will explain that out of his current premium must come the purchase price of that one year's protection in his forty-fourth year of life. To compute this we will use a figure of $5.97 per $1,000, which is just about the lowest retail price for one-year term insurance for that age and amount we can readily find in an assortment of statistical compends. We will take his previous year's cash value of $14,041, augmented by the $1,258.79 which remains out of the tenth annual premium after deducting the value of the year's protection, and will find that this amount grows at the rate of 5.3% per annum that year (tax-free or tax-favored) over and above the insurance company's expenses of operation, in order to produce that guaranteed year-end cash value!

And this, too, if a *fact* — and a pleasant one to contemplate.

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I WOULD LIKE to carry this dissertation further, but you don't have time to read more, and I don't have time to write, because I must stop now, to pay another premium on one of my own life policies. Doing so will cause me almost no pain at all, even though I have no idea what the cash-value increase may be for that particular policy in this particular year. I don't need to know the exact score for any one of my policies; I am comforted by the realization that when I lump all my policies together, old and new, large and small, whole life and limited-pay, participating and guaranteed-cost, my equity increases something in the neighborhood of $116 in the year 1970 each time I pay $100 in premiums.

And even though much of the $116 arises from interest on my accumulated values, and only part of it grows out of the $100 of new money paid in, my awareness of this increase nevertheless serves to make the payment of premiums pleasant rather than painful, heartening rather than worrisome, and comforting rather than irksome.

Best wishes,

AMERICAN GENERAL COMPANIES

American General Insurance Company, *Houston* • American General Equipment Leasing Corporation, *Houston* • American General Life Insurance Company, *Houston-Nashville-Oklahoma City* • American General Investment Corporation, *Houston* • American General Realty Company, *Houston* • Assurance Company of America, *New York* • Fidelity and Deposit Company of Maryland, *Baltimore* • Hawaiian Life Insurance Co., Ltd., *Honolulu* • Life and Casualty Insurance Company of Tennessee, *Nashville* • Maine Bonding and Casualty Company, *Portland* • Maryland American General Insurance Company, *Houston* • Maryland Casualty Company, *Baltimore* • National Standard Insurance Company, *Houston* • Northern Insurance Company of New York, *New York* • Patriot Life Insurance Company, *New York* • The Title Guarantee Company, *Baltimore*

Fire and Casualty Premiums . . . $567 million *July 1970* *Life Insurance In Force . . . $9.8 billion*

Reprinted from The Insurance Salesman, Vol. 113, No. 8 (August, 1970), p. 95.

"I protect my family with $72,600 worth of Northwestern Mutual insurance and my net cost last year was only $97."

William P. Schany, Northwestern Mutual policyowner from West Bend, Iowa, has run a 400 acre farm on a share crop basis for the past 10 years. He feeds 500 head of hogs and 210 head of cattle a year; owns a good supply of machinery.

"In 1954, my Northwestern Mutual agent started me on a program of permanent life insurance. Right now, I pay premiums of $1,645 a year. But the cash values, including the exceptionally high interest and dividends paid by Northwestern Mutual, increased last year at the rate of $1,548 a year. So the $72,600 of protection for my wife and seven children cost me only $97 a year. Besides the protection, part of those policies will provide the $10,000 I'll need for a down payment on my own farm in a few years." ★ ★ ★ ★ ★ New features from Northwestern Mutual can help improve your insurance programs—Owner-option plan allows additional policy purchases without physical examination—Quantity-earned-savings plan provides worthwhile premium reduction in many cases—New budget-type payments of premiums at remarkably low cost. For detailed information about all our new features, talk to the NML agent nearest you. He's listed in your local telephone directory under "Northwestern Mutual."

The NORTHWESTERN MUTUAL LIFE Insurance Company

MILWAUKEE, WISCONSIN

"BECAUSE THERE IS A DIFFERENCE"

Reprinted from Successful Farming, Vol. 62, No. 4 (April, 1964), p. 111.

ILLUSTRATION PREPARED FOR
JOHN P CLIENT

PLAN HI VAL WHOLE LIFE
AGE 40
AMOUNT $ 100000

PREMIUMS: STANDARD — **Annual** 2448.00 — **Special** 208.28

Policy Year	Annual Dividend	Annual Net Payment	Cash Value Increase During Year	Annual Net Cost or Gain (*)	Cash Value End of Year	ALTERNATE DIVIDEND OPTIONS: Paid-Up Additions: Insurance	Paid-Up Additions: Cash Value	Accumulation at Interest	1 Year Term for Following Year
1	51.00	2397.00	1000	1397.00	1000	119	51	51	12911
2	84.00	2364.00	1900	464.00	2900	312	137	137	19580
3	117.00	2331.00	1900	431.00	4800	578	259	260	25107
4	152.00	2296.00	2000	296.00	6800	918	422	425	30039
5	187.00	2261.00	2000	261.00	8800	1330	627	632	33333
6	222.00	2226.00	2000	226.00	10800	1814	875	884	37000
7	257.00	2191.00	2000	191.00	12800	2365	1168	1183	39176
8	294.00	2154.00	2100	54.00	14900	2988	1509	1533	41004
9	329.00	2119.00	2000	119.00	16900	3677	1900	1935	41964
10	435.00	2013.00	2100	87.00*	19000	4564	2411	2462	50640
11	470.00	1978.00	2000	22.00*	21000	5514	2978	3049	50053
12	506.00	1942.00	2100	158.00*	23100	6528	3602	3700	49269
13	541.00	1907.00	2000	93.00*	25100	7603	4285	4417	48174
14	576.00	1872.00	2000	128.00*	27100	8737	5029	5203	46982
15	613.00	1835.00	2100	265.00*	29200	9935	5837	6063	45746
16	650.00	1798.00	2100	302.00*	31300	11196	6712	7001	44368
17	685.00	1763.00	2000	237.00*	33300	12516	7653	8018	42732
18	722.00	1726.00	2100	374.00*	35400	13898	8664	9121	41186
19	757.00	1691.00	2000	309.00*	37400	15339	9746	10311	39488
20	793.00	1655.00	2100	445.00*	39500	16840	10901	11594	37815
20 Yr. Avg.	422.05	2025.95		50.95					38828
a60	793.00	1655.00	2100	445.00*	39500	16840	10901	11594	37815
a65	968.00	1480.00	2000	520.00*	43500	25249	17816	19542	29575

MONTHLY INCOME—10 Years Certain and Life

Attained Age	Guaranteed Income	Special Life Income Option: Including Paid-Up Additions Cash Value	Special Life Income Option: Including Accumulated Dividends
a60	223.96	363.39	363.39
a65	316.90	533.32	547.50

POLICY MAY BECOME PAID UP:

In 27 years with Paid-Up Additions Option

In 25 years with Accumulation Option

Acacia Mutual Life

Dividends, interest, term insurance and special life options are based on the current scale and rates and are not a guarantee or estimate for the future

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APPENDIX G

WHY DON'T YOU TRY THIS?

By HAROLD P. COOLEY

Objections and How to Answer Them

We were happy to have Allan Kent as our house guest a while back, and you may be sure that the life insurance business and its personnel got a good going-over. In recounting some past experiences with agents, I told him about a fellow who developed an intriguing way of disposing of "objections."

No matter which one of the routine objections the prospect came up with, the agent would counter with this: "Now, look, before we get into that, let me tell you something. I've been in this business long enough to know that there are a dozen 'objections' a man can come up with the minute I open my mouth about life insurance. I've not only encountered every one of them, but I've made a study of them to the point of having a real, honest answer to every one. I'm sure that both of us have too much to do to spend a lot of time sparring with each other. Do you mind if I get on with my business—for a few minutes?"

My friend used this method successfully enough to make a good living, and I have an idea that some of our readers might take a leaf out of his book.

Ordinarily, canned sales talks don't work in this business as well as in commodity selling, but I think you can "can" a carefully considered answer to any of the usual "objections" that are offered, after all, as a means of killing off the interview. I'm going to give you my idea of an answer to a few of these roadblocks that you encounter.

"I'm not interested in any more life insurance." Don't be too cute in handling this one. It's a little too "smarty" to ask, "What is it about life insurance you're not interested in?" That just encourages a smart retort. Try this: "I can understand your lack of interest in any more life insurance *of the kind you know about*. I suspect I've got a *different kind* in mind. Let me show it to you."

If you don't like that, try this: "I'm not surprised at your lack of interest in any more life insurance. It's a pretty damn dull subject and seems to be more concerned with death than life. The only part of life insurance you're likely to be interested in is *what it pays*—to you if you live and to your family if you don't, and that can be a helluva contrast to what you pay. There could be a lot you haven't discovered about that. I'd like to show you something. I probably should start by asking you, rather than telling you. You refer to more life insurance. Could I ask, 'more than what'?"

"I have all the life insurance I can afford." The answer to this statement can begin a good deal like the previous one—"you could easily have all the insurance you can afford of the kind you know about. What I want to show you could be quite different."

Remind him, in a kind way, that there are a number of things he *can't afford* but is currently paying for. He might trade some of them for things he *can't afford to be without*. He may be one of the great majority whose yearly outgo about equals his income,

Reprinted from Life Insurance Selling, Vol. 45, No. 5 (May, 1970), pp. 12, 14.

and it's quite possible that he will have to buy the life insurance he needs with the money he spent last year for things he can do quite nicely without - the things he *really* can't afford. Only rarely does a man finance new life insurance from a raise in pay.

"I have [illegible] the [illegible]." My answer would probably be, Good for him; he's in a good business. Would you mind telling me what company he represents? If he prefers "not to say," you can make up your mind that the friend is either [illegible] of no consequence and [illegible] for the interview. Your chances aren't worth too much, so you have little to lose by asking him if he'll give you a chance to tell him just why you have called. You might call his attention to something his "friend" ever looked. If he insists that his friend has done a good job for him and that he wouldn't want to buy from any other agent, I'd move on to the next prospect.

"I can invest my money to better advantage than giving it to a life insurance company." Of course, there are two key questions you will ask--*what money* invested in *what?* You've got to ask the question in your gentlest manner. If you stir him up, he'll refuse to talk. If you know your man is in the middle-income class, you can be quite certain that he's not talking about investing capital but has probably been called on by a mutual fund salesman with growth ideas. If your opening question doesn't smoke him out, make it plain to him that it's quite impossible to draw fair comparisons between the contractual guarantees of the life insurance contract and the variable results of buying tiny pieces of some mammoth business that *promises* nothing. Tell him that what you're offering comes first and that an adequate life insurance program represents sort of a "spending or investing license" for the rest of his surplus income.

"Life insurance costs too much at my age." "That's a natural assumption on your part, but let me show you something you never heard of." Open your rate manual and show him the figures that correspond with these that I've taken out of a stock life company book:

"You, at 45, can buy $10,000 of ordinary life at an annual premium of $275.80, but if you had bought it 15 years ago at age 30, the annual premium would have been $160. However, by now, at the end of 15 years, $4,250 of your $10,000 would have become fully paid-up—so you would be paying that $160 annual premium for the $5,750 unpaid balance. That figures out to be $27.80 per thousand against the basic premium of $27.58 at age 45. See what I mean?"

"I believe in buying term insurance and investing the difference."

I'm not going to dispute that belief, because there's absolutely no basis for fair debate. You see, you don't know anyone who has actually *adequately* insured his life with term insurance and then *consistently and regularly* invested the difference between his annual premium and that of ordinary life. It's a most intriguing theory, but it just isn't being *done*. However, I'd like to show you something about term insurance that I'm sure you've never seen.

"Suppose a man 30 years old buys $10,000 term to 65 for an annual premium of $99.70. Incidentally, that's a lot cheaper than buying short term policies and renewing at increasing premium rates. Let's suppose our man lives to 65 and pays his 35 annual premiums totalling $3,490 with nothing for anyone at 65.

"On the other hand, he could have bought $10,000 life paid up at 65 for a gross annual premium - in a mutual company - of $221.20, and in 10 years, using his dividends to reduce the premium, would have paid in a net total of $1,845. At this point, if he still likes the term idea, he can elect the extended insurance provision in his contract and be guaranteed that his full $10,000 of life insurance will continue in force for a term of 24 years and 157 days – with no further premium payments. When you add this 24 years and 157 days of insurance to the 10 years he paid $1,845 for, it works out to be 34.43 years of $10,000 insurance at an average of $53.59 a year--about half the cost of term to 65."

At age 40, our friend is going to be older and, hopefully, smarter than at age 30, and he's likely to forget all about that brilliant "investment of the difference" and continue to pay his premiums and have his whole $10,000 fully paid-up at 65 with a guaranteed cash value of $7,399—along with a probable terminal dividend of $199.

There's absolutely no evidence that points to his being able to equal that by "investing" any "difference" in anything.

Correspondence may be addressed to Harold P. Cooley at 40 Elm St., Kingston, Mass. 02360.

Counters Buy Term Invest The Rest Argument At NALU Annual

The shortcomings of term insurance were contrasted with the advantages of whole life in a talk by Dilworth C. Brinton, New York Life, Mesa, Ariz., during the annual meeting of National Assn. of Life Underwriters at Minneapolis. Mr. Brinton countered the "buy term and invest the difference" argument in his talk, which was presented on Sunday evening during a sales workshop session, a new feature at the NALU convention. His talk appears here in an excerpted form.

Dilworth C Brinton

By DILWORTH C. BRINTON

This is not an against talk. It is not against term insurance which I sell. It is not against variable annuities which I sell. It is not against mutual funds which I am licensed to sell. It is not against owning stocks, which I buy.

It is a for talk. It is for understanding whole life. It is for understanding the relationship of term insurance to whole life. It is for keeping old policies in force. It is for understanding how the rate of return increases as your policy grows older. It is for determining how to tell accurately what the "difference to invest" is. It is for understanding the built-in-hedge against inflation we have in participating whole life. It is for showing how term insurance plays into the hands of inflation. It is for showing why you should buy as much as you can as soon as you can.

Let's look again at the term-whole life picture. Many of us are guilty of supposing that just because we understand what we are talking about that our client understands also. We must be sure he understands whole life before we discuss differences.

I use a whole life ledger sheet with several important things I show every client. I want him to be so well informed he can answer the "twisters," because I won't be there when the "twister" calls. The columns in red are the most important columns on this summary because they show when you are getting more out of your policy than you are putting into it. It shows that you never risk more than $2,600 when you buy $100,000 protection for your family at age 35. It shows you can get all your money back by the 13th year. This is because interest works for you in whole life.

Relationship Of Types

Now that we see some things whole life can do let's study the relationship of term and whole life.

Isn't it wonderful to know we can show this relationship for all ages on a single sheet. Here's what we learn about term insurance.

1. Very few people ever collect on term insurance because life expectancy is over age 70 for any person presently older than 15. Therefore term insurance is temporary. insurance and temporary insurance should not be used for permanent Insurance needs, except in emergency situations.

2. Because of extremely low initial premiums very few people know how expensive term is over a long period of time.

3. Term insurance and inflation have exactly the same definition. Each and every year you pay a higher price for the same thing. People who are worried about inflation should not buy term insurance. Term insurance is "creeping inflation" to age 45 and "galloping inflation" thereafter. We will discuss this in detail when we discuss relationships.

4. We learn that for a healthy person, term can be lapsed and then reinstated without a financial penalty—indeed there is a gain—if you live. I have seen men under financial pressure drop term insurance because they can pick it up a few months later at the same price and save the premium in the meantime. This is another reason term insurance doesn't pay off. It often isn't in force when it's needed.

Deciding whether to buy term or permanent insurance is somewhat like deciding whether to rent or buy a farm. If you need it for 30 or 40 years it is usually better to buy, (if you are a good farmer) as the value of the farm will increase as you care for it.

If you rent a farm or rent insurance for 40 years all you have is rent receipts. If you buy it, you own it. If you own it you can sell it. We will guarantee to buy it back if you don't want it. From 25 to 65 a $100,000 whole life policy shows a net return over cost of $30,923.00, add the $34,614,00 cost of term insurance and the total difference is $65,537.00. At age 35 term shows a cost of $32,364.00 and whole life a net return of $16,792.00. Total difference $49,156.00.

Another interesting relationship is shown here. Term insurance goes up every year after you buy it. Whole life goes down every year after you buy it. (Current dividend scales not guaranteed.) The saddest man I can imagine is the man

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on the red line after it crosses the blue line. He is then paying more for term than his wiser neighbor is for whole life. The wise man is then in a position to buy whole life and invest the difference.

Inflation Hurt Term

We mentioned term insurance should be avoided by those who fear inflation—what should they buy? Whole life! Today's participating Whole life has a built in hedge against inflation because every year you pay a lower premium (with presumably cheaper dollars) for the same amount of protection! (An agent who sells primarily non-par usually has participating insurance in his portfolio for those who want it.)

Let's explore this hedge against inflation a little more, using age 25. The total whole life premium to age 65 is only $29,277.00 for $100,000.00 of protection. Even if all of that were paid at once—which it isn't, less than 30 cents on the dollar is being paid in. This means you still have a lot of room for inflation before the total dollars returned would have less purchasing power than the dollars paid in. There is another factor that's very important that can't be measured. Dollars received from insurance are almost always higher utility dollars than those paid in.

Another hedge is built into participating whole life. As interest earnings go up or mortality goes down, this too is reflected in participating whole life and the cost is reduced again.

Note Of Caution

A note of caution is that we do not use decreasing or disappearing term for our demonstration (showing "difference to invest") because the rate of decline in coverage is too rapid to permit its use.

The usual presentation of the "buy term, etc." group is to take the initial difference of whole life and decreasing term and compound it for the life of the policy or to age 65. This will not work if the calculations are made on a year to year basis.

This brings out a very important point of procedure. Do not deal in generalities—be sure everything is figured out on a basis that actually works. If you are checking a plan that has insurance and an equity product combined then separate it into its component parts.

Have you ever considered that the cost of money for a business is usually higher for term insurance than for whole life? When you buy whole life the cost of the money for the premium can never exceed 5% because you can borrow the cash value for that amount anytime you have a business opportunity or emergency. What is the cost of money for term insurance? What happens when you buy term insurance? It diminishes your cash and doesn't result in a corresponding increase in credit elsewhere.

If you are earning 10% on your assets then the cost of money used for term insurance is 10% because it would have earned that if you hadn't put it into term insurance. When you buy term insurance you reduce the net worth of your company thus reduce your borrowing power.

Increase In Value

On the other hand when your company buys whole life—particularly under the new ratable system of accounting you have a corresponding increase in value under other assets to offset the decrease in cash.

You may have noticed that the "invest the difference" group (who all have 20-20 hindsight) use 12% or even 15% as the annual growth rate for their investment.

My comment on this is that money is entitled to a wage but is not entitled to a profit.

If our client can borrow at 8% (or 5% if he owns cash value life insurance) then that is all money is worth. His net cost of borrowing started a voluntary investment program in mutual funds were still in the program at the end of 10 years, 87% had failed.

Earnings Increase

The important thing to note is that every year you keep a whole life it becomes better. The rate of earnings increases. Should you cash in a two year old policy to "buy term, etc," the correct interest earning figure has now risen from 4.5% to 6% interest net after taxes.

Should you cash in a 10-year-old policy to "buy term and invest the difference?" I think this is where most of the controversy has arisen and I also think this is where many equity fund salesmen have made serious errors of fact in their presentations because they do not understand the wonderful things that have happened to a whole life policy by the time it is 10 years old.

It doesn't seem quite fair to me that the "twister" should be able to take the dollars we have so carefully saved and use them to work against us. The very fact that he has no other liquid assets than our life insurance cash values indicates the odds are against his successfully following an "invest the difference" plan.

Therefore, recognizing the fact that if he cashes in his policy he will have $17,300 in cash to put into an investment plan, how do we proceed? If we cash in the insurance we have nothing left to compare with, so the solution I use is to keep the whole life insurance; let him borrow the loan value, put it into the market and charge the net interest against us. The net interest cost after the tax deduction is approximately 3% (40% income tax bracket and 5% insurance loan interest rate). Remember at this point that we are not discussing whether or not we should buy equities, we are concerned with whether to use our ten-year-old whole life policy or cash it in and "buy term and invest the difference."

There are additional plus features for the whole life plan. Here they are:

1. You can keep the whole life at

an increasingly lower premium or the term another five years at an increasingly higher premium.

2. You can repay the whole life loan from the investment fund and then use the policy for a retirement income based on today's guaranteed annuity rates.

3. You can repay the loan and have a paid up policy of approximately $75,000 with no further premium payments.

4. You can repay the loan, keep the $100,000 protection in force and let the dividends pay all or almost all the premiums.

5. You have had the safety and compulsion and automatic premium loan provision in the whole life over the 20 year period. You can't measure this in dollars but I feel it is extremely important.

Deferring Payment

How many of you have ever received a large insurance premium notice and said, "Oh no, not this month, how can I possibly pay it." But somehow you do and you keep the protection. Can't you just hear yourself saying this under the other plan. "Boy, this term insurance is too high this month. Am I over thankful I don't have whole life. I'll defer my investment payment till next month and try to catch up then." And that's the beginning of the end.

6. When you buy whole life, waiver of premium can be added which waives the whole life gross premium of $2,294 rather than the lesser term premium.

7. When you buy whole life you can deduct the insurance premiums when figuring your net gain at age 65. Term insurance premiums cannot be deducted from your investment when you buy term and invest the difference. When planning your retirement would you rather be spending deductible or non deductible dollars? I'll take whole life with its tax-free build-up as it grows and the deductibility of premiums from the annuity income.

TEN MOST MISUNDERSTOOD FACTS ABOUT LIFE INSURANCE

By George Bush, Eastern Editor

Every year, millions of prospective insurance buyers—and many long-time policyholders—rely on myths about life insurance. They buy (or don't buy) thousands of dollars worth of policies, using Model-T notions about insurance. Because insurance costs constitute a major portion of any family's finances, Better Homes and Gardens presents this article to help demolish ten of the most plaguing insurance myths.

1. YOU HAVE TO DIE TO COLLECT

Not true. Almost 58 percent of life insurance payments go to policyholders while they live. That's because most life insurance is of the "permanent" kind—policies that build up a substantial cash value over the years. This cash value is a guaranteed asset which you can draw on whenever the need arises, such as when the time comes to pay your youngsters' college bills or when you retire.

Of course, life insurance is bought basically as financial protection in case of death, and indeed one type of policy—"term" insurance which covers you only for a specified period of time and does not accumulate a cash value—is written only with that purpose in mind. But the beauty of *permanent insurance* is that it offers not only protection in death but real usefulness in life.

There are many different ways you can put your permanent insurance to use during your lifetime. These include:

- The possibility of borrowing against the cash value of your policy at extremely favorable interest rates.
- Conversion of the cash value into a guaranteed life-long retirement income.
- Surrender of the policy for its cash value to meet a financial emergency or when insurance protection is no longer needed.
- "Endowments" that enable you to accomplish a savings goal while your protection is in force, and which is paid out to you in cash or in lifetime installments when the policy reaches maturity after a specified number of years.

2. TERM INSURANCE IS ALWAYS CHEAPER

It's cheaper only if you die within the period of the policy's term—and that's not likely to happen in younger families. If you live, then it is certainly not cheaper:

With one typical insurance company, you'll have to count on paying out about $5,300 in total premiums over the years to maintain a $10,000 renewable and convertible term policy from age 25 to 65. Your premiums will go up every five years, you can't renew the policy after age 65, and when it ends there won't be any cash value for you to draw on. Your net expenditure: $5,300.

On the other hand, a permanent "straight" life policy bought at age 25 from the very same company will cost you about $5,400 in premiums through age 65, but at that point you'll have $5,700 in cash value. Your net gain: $300. What's more, you can then continue this policy at the same annual cost for as long as you like, or use the cash value to convert it to an $8,300 policy completely paid up; or continue the full $10,000 for another 15 years without further cost; or take the cash value in cash or in the form of a guaranteed monthly income.

3. YOUNG COUPLES CANNOT AFFORD ENOUGH INSURANCE AT THE TIME THEY NEED IT MOST

Again, not true. There are any number of ways for young couples to get life insurance that covers their needs without making them insurance-poor. Such a program usually involves a combination of permanent and term insurance: permanent insurance as the nucleus of family protection for the long haul; term insurance to provide additional coverage for that financially crucial period while the kids grow up.

One popular combination is the "family income policy" whose term portion gradually reduces over a period of 10 to 20 years, according to your choice. Another is the "level term rider" which you can add to a permanent policy to double or even triple your basic protection for a given number of years. And there is the "family plan," where the straight life insurance is on the father, and additional units of term insurance cover the mother and each child up to a certain age, usually 21.

In addition, young families can buy reducing term insurance to cover the declining balance of their mortgage, or to back up short-term loans. Some young couples buy convertible term insurance, planning to change over to permanent insurance as their increasing income permits. And one approach often used by young professional families is through so-called "modified" life insurance which provides permanent coverage on an arrangement where premiums start low and rise at a fixed rate in later years, in anticipation of increased income. A good insurance agent can advise you which program is best for you, and he will then tailor the policy to your specific needs.

4. YOUR GROUP INSURANCE IS ENOUGH

Better check your fringe benefits. Most group life insurance plans provide only about one year's income, or even less. This is far from enough backing for any family that has lost its breadwinner. Also remember that group insurance is term insurance and has no cash value: it's not a source of emergency funds. And although your group insurance may continue after retirement, the amount then is considerably reduced. In short, you can figure on your group insurance as a valuable *extra protection* in your family's overall financial program, but don't count on it to carry the load all by itself.

5. IF YOU MISS A PREMIUM YOU LOSE YOUR POLICY

Don't worry: there's always a grace period of one month, and your insurance remains in force at least that long (sometimes even

Continued on next page

WHY SOME POLICIES PAY DIVIDENDS AND OTHERS DON'T

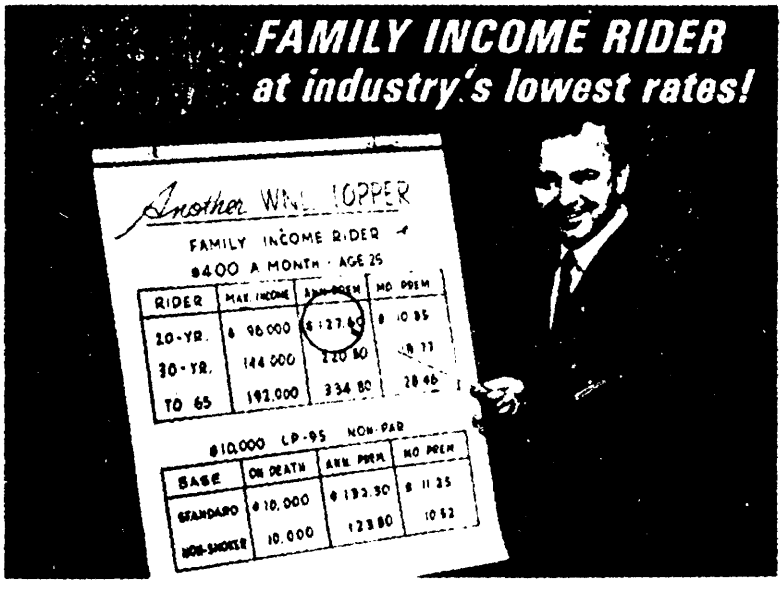
With some policies you participate in the insurance company's business experience, and with others you don't.

The "participating" policy—whether permanent or term—requires a higher premium, and then, depending on the company's investment income, operating expenses, and the claims paid, you get a refund in the form of so called "dividends" which are tax-free. Your real net cost for any given year is the premium minus the dividend. Of course, the dividends can't be guaranteed and they can rise and fall over the years.

With "nonparticipating" policies, the insurance company fixes its premiums as closely as possible to what it expects will be the actual cost of your policy and consequently there are no dividends. Here the premium is your actual cost.

Reprinted from The National Underwriter (Life & Health Insurance Edition), April 15, 1967, p. 12.

APPENDIX J



CHECK YOUR OWN RATE BOOK WITH FIGURES SHOWN ON CHART ABOVE!

Score WNL's Family Income Rider as another industry first! Age 25 featured — other ages at proportional savings. Along with the LP-95 non-par, non-smoker policy, it's a solid example why G.A.'s who want sales action look to Wisconsin National. Want more reasons?

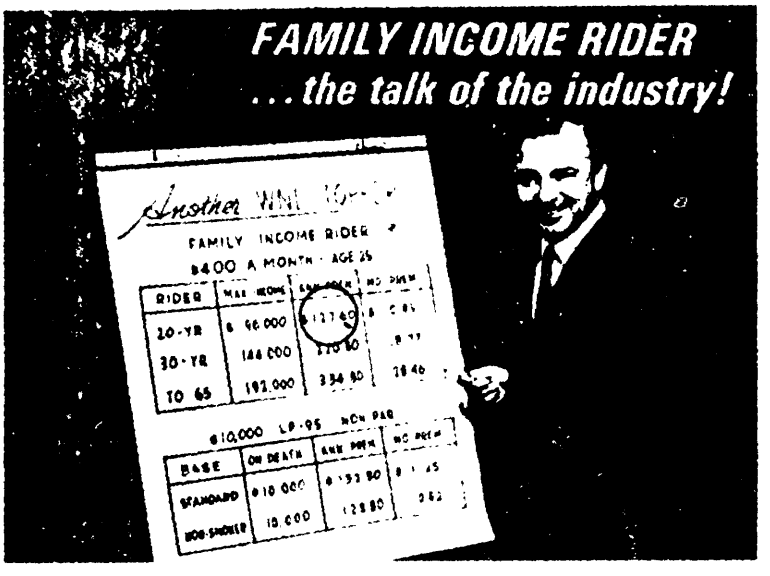
- Non-par and par available.
- Policy rates based on prospect's LAST birthday.
- Outstanding health portfolio.
- 5-year agent financing; recruiting and training assistance.
- S&H Green Stamp incentive program.
- Top contract combined with rich production bonus for P.P.G.A.'s.
- Fully vested HR-10 retirement plan.

Interested? Write or call Tom McDougall, (414-235-0800), WNL's sales vice president. Ask about G.A. opportunities in Ky., Ill., Ind., Minn., Neb., N. Dak., Ohio, Pa., S. Dak., Wis. — and our Security Planning Center in Milwaukee. You'll get the straight facts — fast — and we'll bet you'll like 'em!

Quality Service Since 1908
WISCONSIN NATIONAL LIFE INSURANCE COMPANY
P.O. Box 740 ● Oshkosh, Wisconsin 54901

Reprinted from Life Insurance Selling, Vol. 45, No. 8 (August, 1970), p. 70.

APPENDIX K



CHECK YOUR OWN RATE BOOK WITH FIGURES SHOWN ON CHART ABOVE!

Score WNL's Family Income Rider as another industry first, with ultra-low rates by using 8% interest on commuted value. Along with the LP-95 non-par, non-smoker policy, it's a solid example why G.A.'s who want sales action look to Wisconsin National. Want more reasons?

- **Non-par and par available.**
- **Policy rates based on prospect's LAST birthday.**
- **Outstanding health portfolio.**
- **5-year agent financing; recruiting and training assistance.**
- **S&H Green Stamp incentive program.**
- **Top contract combined with rich production bonus for P.P.G.A.'s.**
- **Fully vested HR-10 retirement plan.**

Interested? Write or call Tom McDougall, (414-235-0800), WNL's sales vice president. Ask about G.A. opportunities in Ky., Ill., Ind., Minn., Neb., N. Dak., Ohio, Pa., S. Dak., Wis. — and our Security Planning Center in Milwaukee. You'll get the straight facts — fast — and we'll bet you'll like 'em!

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WISCONSIN NATIONAL LIFE INSURANCE COMPANY
P.O. Box 740 ● Oshkosh, Wisconsin 54901

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Reprinted from Best's Review (Life & Health Insurance Edition), Vol. 71, No. 9 (January, 1971), p. 58.

APPENDIX L

Why Get Complicated?

by Raymond L. Paul, CLU
Rockford

If you view your role as a life insurance salesman as an opportunity to expose your prospect to your expertise as a logician, or if the object of your interviews is to display your technical knowledge, then read no farther. However, if you are looking for a concise yet simple explanation of the return on a life insurance contract versus the return on other investments, read on. I sold $530,000 of Convertible Life in 25s, 30s, 50s and on up to $125,000 in the first six months of this year, applying this idea.

When the issue of return enters the selling interviews, ask the prospect, "If you had a $1,000 a year to invest in any investment, what kind of return do you think you would get on your money?"

ASSUME he answers 8 percent. "In other words, Mr. Prospect, for every $1,000 you invested you would earn $80 a year in interest. Isn't that right? Now, Mr. Prospect, if you were to invest that same $1,000 in a life insurance contract, what kind of a return would you expect to get?" Most men normally say 4 percent. Regardless of what he says, I will not quibble over either of the percentage figures he chooses. "Therefore, Mr. Prospect, for every $1,000 you invest in life insurance you will get $40 a year in interest. What would it cost you to buy the life insurance? Wouldn't it cost you the difference between what you would have earned on your 8 percent investment and what you would earn on your life insurance investment? This amounts to $40 a year. Would $40 a year in additional earnings have any effect on your family's standard of living?"

Next, I explore what he gets for his $40 a year. First, he gets a semi-compulsory savings plan which forces him to save regularly and consistently over a long period of time. This is money he would normally fritter away. Two, he gets an absolutely safe investment; and, three, if he is around the age of 30 and invests $1,000 a year in a Convertible Life contract, his family will get $50,000 when he dies. "Mr. Prospect, that's $50,000 worth of death protection for $40 a year. Can you really afford to invest in anything else?"

Mr. Paul

Raymond L. Paul, CLU, joined the Rockford Agency in 1958 following graduation from the University of Wisconsin where he had majored in insurance. The Illinois associate, who earned his Chartered Life Underwriter designation in 1960, has been a continuing qualifier for the company's President's and Leaders Clubs, as well as an annual recipient of the industry's National Quality Award. He is also a certified applicant of the Million Dollar Round Table.

AS A FOOTNOTE, the sophisticated prospect may say that I am overlooking the fact that we are using compound interest. My answer to him is that we also overlooked the income tax consequences of each method of investing. Also, how much would he actually have to invest each year after he has purchased $50,000 worth of term insurance to protect his family?

After digesting this sales idea, I would hope that any knowledgeable Mass Mutual agent could poke holes in my logic. However, I have found that, for me at least, sophisticated Mass Mutual agents historically have been a very poor market. My prospects are just as rich but not as sophisticated.

Reprinted from The Radiator (Massachusetts Mutual Life Insurance Company), Vol. 57, No. 10 (November, 1969, p. 4.

APPENDIX M

You get protection but no cash value in term.

"... , you do have a lot of protection in that term policy for the $ it costs. You know, of course, that there is no cash value in it. It's the kind of policy you have to die to beat.

Permanent can give money back if you don't die.

"Did you know, , that the permanent kind of life insurance can be so arranged that you eventually get all of your money back if you don't die?"

(WAIT FOR ANSWER)

Since you get all your money back, cost is interest on your money.

"Since you get all of your money back, the cost of permanent insurance is really just the interest on your money, isn't it?"

(WAIT FOR ANSWER.)

Isn't term premium like interest on permanent premium?

"Now, here's an intriguing point. Since term premium pays just for the insurance, with no return, isn't that term premium just like interest on the permanent premium that buys the same amount of insurance?"

(WAIT FOR ANSWER. REPEAT IF NECESSARY.)

You're paying about 30% interest. Let me show you what I mean.

"In that case, you are paying about 30% interest.

"Let me show you what I mean: At you age, , your $. term policy costs you $. per year. Whole life, which would return all of your money eventually, would cost you $ a year for the same amount. The term premium is interest on the permanent. That's where I got the 30% interest figure. Don't you think that is pretty high? Can you invest money anywhere for that much return?"

(WAIT FOR ANSWER)

"Well, you can make just such an investment here, by converting that term to permanent life insurance!"

Reprinted from Wayne W. Wolfe, See You Next Week (Indianapolis: The Research and Review Service of America, Inc., 1968), pp. 74-75.

With Split Life, a father doesn't have to die to send his son to college.

Say a 26-year-old man wants life insurance and also wants to make sure his 3-year-old will have money when it comes time to go to college.

Split Life is the sensible, flexible insurance that can fill both needs. At once. And at low cost. Here's how: the father can take out a $600 annual premium annuity which over 15 years will build up to a nice tidy sum. ($10,482 to be exact.) After buying the annuity, the father has the right to cover *himself* (and/or other members of his family) with as much as $60,000 worth of annual renewable term life insurance. Painlessly. For example, say he takes $20,000 worth of coverage. His first-year premium will only be $53!

So now whether the father lives or dies, money will be available to his son. And if he lives and doesn't really need term insurance later on, he might want to transfer some of it to his son who will.* Not a bad wedding or graduation gift!

Split Life is good for the consumer and good for the agent. In fact, it's the greatest new product to hit the life insurance industry in decades. And it all boils down to economics and flexibility. Especially because Split Life can insure two or more people instead of one. For less than the price of most other policies.

Find out more about Split Life and its many uses by writing us—The Hartford Life Insurance Company, Hartford Plaza, Hartford, Conn. 06115. And the sooner the better. Because if it's good for the consumer and good for you the agent, it's got to be good for us.

Insurance by The Hartford. You are our business.

THE HARTFORD

*Term coverage is in effect only if the annuity is in effect and is subject to the son's insurability. (Split Life is not available in all states.)

Reprinted from Best's Review (Life & Health Insurance Edition), Vol. 73, No. 8 (December, 1972), p. 41.

APPENDIX O

THE WABASH

DIVIDENDS are provided and illustrated in writing as follows:

"While this policy is continued in force, except as extended term insurance, it shall be credited with such share of the divisible surplus of the company as may be determined and allotted as a dividend at the end of the second policy year and annually thereafter."

The following illustrated dividends are neither projections nor guarantees but are consistent with the present dividend scale. Future Dividends cannot be guaranteed and will depend on the condition of the company and the action of the Board of Directors.

10% upon the payment of the second annual deposit in full.
12% upon the payment of the third annual deposit in full.
14% upon the payment of the fourth annual deposit in full.
16% upon the payment of the fifth annual deposit in full.
19% upon the payment of the sixth annual deposit in full.
20% upon the payment of the seventh annual deposit in full.
22% upon the payment of the eighth annual deposit in full.

Dividends as annually declared may be paid to the owner in any of the following elections, the OWNER of this contract reserving the right to be paid in ONE of the following manners;

(1) Cash:
(2) Left with Company to accumulate *Interest* of not less than 3%.
(3) Apply dividends declared toward subsequent premium payments.
(4) Purchase paid up additions.

Here is a Powerful Idea - It helps you accumulate more money

Here is how it works for you

[Excerpted From Money Magazine, Vol. 2, No. 1, Jan. 1973]

What Life Insurance Really Costs

A new study discloses hefty hidden differences that sometimes upend the industry's "traditional" computations.

Insurance agents teach their customers to judge the cost of life insurance by comparing premiums and other data in the agent's rate book. The lesson needs to be unlearned, for independent researchers have lately discovered sizable hidden differences in the cost of policies—differences often at great variance with those shown in agents' books.

This revelation has put the mind-numbing subject of life insurance in the political spotlight. Senator Philip A. Hart of Michigan and Virginia H. Knauer, the President's special assistant for consumer affairs, are pressuring the insurance companies to publish more reliable cost figures. Herbert S. Denenberg, the Pennsylvania insurance commissioner, jolted the industry and alerted the public last year with a shopper's guide ranking a good many companies by cost.

The man whose research over the past decade has led to this heightened cost consciousness is Joseph M. Belth, professor of insurance at Indiana University. Next month, in a new book called Life Insurance: A Consumer's Handbook (Indiana University Press, $6.95), Belth will publish the most revealing analysis yet devised. It shows that by selecting a low-cost policy, a buyer can save hundreds or even thousands of dollars over 20 years.

Analyzing various $100,000 straight life policies of 25 very large U.S. companies with the highest financial standing, Belth discovers, for example, that a 35-year-old man can save more than $3,100 if he buys his insurance from Bankers Life, of Iowa, rather than Republic National, of Texas. Twice that saving is possible when smaller companies are thrown into the comparison. The tables at right give Belth's cost comparisons of $100,000 policies of participating (or dividend-paying) straight life, nonparticipating straight life and five-year renewable term insurance from major companies. On any of these types of plans, big cost savings are available.

Professor Belth

Money discussed Belth's appraisals with actuaries and other responsible officials of seven of the companies whose policies he analyzed. Those whose policies are shown as low in cost generally applauded, and nobody questioned Belth's analytic methods or, for that matter, his professional competence. Theodore E. Stein, associate director of marketing services for Connecticut Mutual Life, calls Belth "a guy in many ways ahead of his time." Robert N. Houser, senior vice president and chief actuary of Bankers Life, finds Belth's approach overly complicated but agrees that it separates the high-cost companies from the low-cost companies.

Robert C. Winters, a vice president and actuary of Prudential, whose policies are shown to range from high to medium in cost, says Belth's method solves some problems and creates others. "I see no glaring error in Belth's work," Winters says, "but you can't make a difficult subject simple by saying something simple about it. Price comparison is a complex and difficult subject. Thus far, for instance, no one has found a way of marketing in lower-income markets with as much cost effectiveness as in richer markets."

An industry committee headed by E.J. Moorhead, a vice president of Integon Life, of North Carolina, has recommended the addition to rate books of cost figures including a major hidden element, the interest a policyholder's money could be earning elsewhere, but leaving out other cost factors. Moorhead stands by this so-called interest-adjusted method because of its simplicity, but acknowledges that "fairness increases with complexity."

Straight life insurance, perhaps the most ornate financial product most people will ever buy, makes an especially pertinent subject for Belth's inquiry. Like other policies, straight life pays off at death. But while you live the policy also provides an automatic savings accumulation, a tax shelter for the interest on your savings, low-interest loans, a

Comparing the costs of $100,000 policies

From the buyer's point of view, a life insurance company should use up as little of his money on overhead and profit as it safely can, because then it will give the greatest possible value for premiums paid. There is no way for most people to compare policies against that standard of value; premium payments alone are not a valid basis for comparison. But insurance companies do report the kind of raw information that enables outside experts to make highly educated cost comparisons. The rankings here are derived from an analysis by Joseph M. Belth of Indiana University. They apply to $100,000 term life and straight life policies issued in 1970 to a 35-year-old man or, in most cases, a 35-year-old woman. Selected for comparison are policies offered by large U.S.-based life insurance companies, all with top ratings for financial solidity in the independent publication Best's Insurance Reports.

Belth has calculated how much value the policyholder can expect to get in the form of insurance protection, plus dividends and cash values, if any, from the premiums he will pay over 20 years, and how much value his premiums represent when interest and other factors are included. The difference between the two values is the operative figure: how much the company can be expected to retain. The less kept by the company, the cheaper the insurance will be for the buyer. Our tables rank policies in ascending order of cost.

T. Itch, the author of *Life Insurance: A Consumer's Handbook*, says that the policies analyzed will usually, though by no means always, stack up in about the same order if bought in larger or smaller sizes or by people of other ages. Past performance indicates that the order probably won't change much in the next few years, even though dividend illustrations and premium rates surely will. But because there are variables, Belth recommends that anything less than a $750 difference be ignored.

Here is some additional cautionary advice:

☞ Don't judge all the policies of a company by the ranking of those listed here. Some companies specialize in particular policies while letting other policies carry a high expense load. They may even offer loss leaders. Furthermore, some big companies sell two or more straight life policies with different names and costs. Where Belth analyzed two $100,000 policies from the same company, the tables list only the cheaper.

☞ Don't try to compare the values of different types of policies. A choice between term and straight life or between participating and nonparticipating straight life should be based on other considerations, discussed overleaf.

☞ Participating and nonparticipating term policies can be compared safely; dividends on term insurance are relatively small. But since the term policies can be converted later to straight life, it makes good sense to buy one from a company that also offers cheap straight life.

Five-year renewable term

POLICIES MARKED (NP) ARE NONPARTICIPATING

COMPANY	CONVERTIBLE TO AGE	CONVERTIBLE TO AGE	WHAT THE COMPANY WOULD REFUND OVER 20 YEARS
State Farm Life	65	65	$3,[illegible]
New York Life	70	70	[illegible]
John Hancock	65	65	[illegible]
National Life (Vermont)	65	65	[illegible]
Bankers Life (Iowa)	70	65	[illegible]
Massachusetts Mutual	65	65	[illegible]
New England Life	65	65	[illegible]
Metropolitan Life	70	65	[illegible]
Mutual of New York	65	65	[illegible]
Pilgrim Mutual	65	65	[illegible]
Occidental of California (NP)	70	65	[illegible]
Republic Life Assurance	70	65	[illegible]
Pilot Mutual	65	65	[illegible]
United Benefit (NP)	65	65	[illegible]
Connecticut Mutual	70	65	[illegible]
Provident Life & Accident (NP)	65	65	[illegible]
Mutual Benefit	65	65	[illegible]
Connecticut General (NP)	70	70	[illegible]
Republic National (NP)	65	65	[illegible]
Lincoln National (NP)	65	65	[illegible]
Southwestern Life (NP)	70	65	[illegible]
Prudential	70	65	[illegible]
Travelers (NP)	70	70	[illegible]
Continental Assurance (NP)	70	65	[illegible]
Aetna Life (NP)	65	65	[illegible]
Business Men's Assurance (NP)	65	65	4,110
National Life & Accident (NP)	65	65	[illegible]
Jefferson Standard (NP)	65	65	[illegible]
American National (NP)	65	65	4,771

Participating straight life

COMPANY	POLICY	WHAT THE COMPANY WOULD REFUND OVER 20 YEARS
Bankers Life (Iowa)	Preferred whole life	$3,[illegible]
Connecticut Mutual	Whole life	[illegible]
Northwestern Mutual	Life paid-up at 90	[illegible]
Massachusetts Mutual	Convertible life	[illegible]
John Hancock	Preferred whole life modified 3	[illegible]
New England Life	Ordinary life	[illegible]
National Life (Vermont)	Ordinary life	[illegible]
Mutual Benefit	Ordinary life	[illegible]
Lincoln National	Executive ordinary life	[illegible]
Aetna Life	Endowment at 90	[illegible]
State Farm Life	Special ordinary life	[illegible]
New York Life	Whole life	[illegible]
Prudential	Ensko 90 whole life	[illegible]
Continental Assurance	Whole life	[illegible]
Phoenix Mutual	Ordinary life	[illegible]
Mutual of New York	Whole life	[illegible]
Occidental of California	Preferred whole life	[illegible]
Penn Mutual	Whole life	[illegible]
Franklin Life	Executive select whole life	[illegible]
Republic Life Assurance	Adjustable whole life	[illegible]
Metropolitan Life	Preferred life paid-up at 90	[illegible]
Connecticut General	Life paid-up at 90	[illegible]
Western & Southern	Select ordinary	[illegible]
American National	Ordinary life	[illegible]
Republic National	Life paid-up at 90	[illegible]

Nonparticipating straight life

COMPANY	POLICY	WHAT THE COMPANY WOULD REFUND OVER 20 YEARS
Southwestern Life	Executive special	$3,[illegible]
Travelers	Presidential plan	[illegible]
Jefferson Standard	Life paid-up at 90	[illegible]
Aetna Life	Whole life	[illegible]
Provident Life & Accident	Whole life	[illegible]
Franklin Life	Professional preferred	[illegible]
American National	Executive whole life	[illegible]
Occidental of California	Commercial 65	[illegible]
Lincoln National	Life paid-up at 65	[illegible]
National Life & Accident	Whole life preferred	[illegible]
Republic National	Life paid-up at 90	[illegible]
Continental Assurance	Whole life	[illegible]
Business Men's Assurance	Preferred whole life	[illegible]
Connecticut General	Ordinary life	[illegible]
United Benefit	Executive plan	[illegible]

retirement annuity and other estate-planning embellishments.

Straight life also solves an insurance underwriter's problem called "adverse selection." An unblinkable fact about anyone is that after adjustment for the perils of infancy, his death becomes more probable every year. It follows that as policyholders grow older, more money must be reserved to pay claims, and that the cost of insuring people must go up every year of their lives. If the increase is reflected in higher premiums, policyholders of sound body tend to discontinue their insurance, while those in poor health hang onto theirs. Inevitably, the mortality rate among the group still insured runs higher than normal. As a consequence, premium rates get steeper, hastening the grimly selective process.

To decelerate the process calls for a policy with the same premium every year. Straight life levels the premium with rococo elegance—in effect, by disguising a yearly decline in the amount of insurance protection. The premium is much larger than needed to pay death benefits in the early years, when few will die. The overcharge goes into the cash value of the policy, analogous to a savings account. With each contribution to cash value, the insurance portion of the policy is reduced. If the policyholder dies, the money his beneficiaries get consists partly of his own savings and partly of insurance. But the policyholder need not die to get the cash out of his policy; he can pocket the money by surrendering his insurance, or he can borrow most of it.

Life insurance agents are apt to claim that after 20 years the cost of straight life is zero or negative. Their rate books give what is known in the industry as a "traditional" 20-year net-cost illustration. This cost method, by subtracting dividends and cash value from total premiums paid, often leads to the magical conclusion that the policyholder can look forward over the years to getting back hundreds or thousands of dollars more than he pays in.

There are many false traditions, and this is one of them. Referring to implications of zero cost or profits from straight life, Stanley C. DuRose, Wisconsin's insurance commissioner, says: "These things just are not true." DuRose, who is chairman of a task force of the National Association of Insurance Commissioners looking into new ways of expressing costs, states the group's objective: "We want to get the consumer something that is more understandable, more accurate and not misrepresentative."

Crucial items of cost are omitted from the traditional 20-year illustration. Compound interest, for one: the premiums and cash value have earning power of at least 5% a year at current savings account rates. Probabilities of payment, for another: there is a chance that the policyholder may die in less than 20 years; there is a much greater chance that he will let his insurance lapse, effectively shortchanging himself of the greater cash benefits timed for later years, especially in straight life. As Belth sees it, these factors must be given mathematical weight in any fair statement of the cost of life insurance. Most insurance actuaries agree—as well they should, since Belth is merely applying basic principles of cash flow and present values.

The essence of these principles can be seen in a simple hypothetical example from outside the realm of insurance. Suppose the Ajax Co. offers to pay you (for services rendered) $100 ten years from now and $200 additional in 20 years. Its competitor, the Baxter Co., offers you $30 in ten years and $300 in 20 years. With no knowledge of present values or intuition about such things, you might grab Baxter's offer as $30 higher. But suppose you took into account a 5% return on the money. And since small firms like Ajax and Baxter sometimes go bankrupt, suppose that you reckoned on an 80% chance that either company would make the ten-year payment and a 60% chance it would make the 20-year payment. On those assumptions, Ajax's offer blossoms forth as the better one. Its present value is $94.34. Baxter's is $82.57.

In a life insurance policy, payments come in the form of various benefits. One is the death protection itself—the financial security of knowing that a guaranteed sum of money will go to your beneficiary. A participating policy also pays annual dividends. The policyholder pays higher premiums than in nonparticipating plans, and in return the company pays him back an annual share of its operating surplus, if any. In this way, he participates in the success of the company's operations. Dividends illustrated for sales purposes are those that would be paid over the next 20 years if the company did not change any of its current assumptions about operating results or its payout strategy. Dividends usually increase each year on existing policies, but some companies withhold more dividends than others until later policy years. The timing helps determine the dividends' present value to the policyholder. In straight life policies, companies also vary the rates at which cash values build up. So the present worth of future cash values is another variable cost factor.

Insurance companies do not disclose the portion of each premium earmarked for insurance protection, cash values, expenses and profit. They do report enough raw data, however—premiums, annual cash values and dividend illustrations—to permit outside experts like Belth to make reasonable inferences about the value of both the premiums and the benefits and hence about the amount of money the company retains for expenses and profit.

Belth assumes a 5% interest rate. He figures the probability of payments by using industry-wide mortality rates and policy-lapse rates. These assumptions are made from the average customer's point of view, not any particular company's. As far as the customer is concerned, the lowest-cost policy of a given type and size is the one that gives him the most present value and the company the least.

Belth's technique shows how the insurance agent's traditional presentation can throw the customer for a loss. A Metropolitan Life agent's analysis of his company's $100,000 straight life policy for a 35-year-old man points out that after 20 years the policyholder can cash in his policy and take home $6,800 more than he paid in. In that light, Metropolitan's policy looks like a better deal than Connecticut Mutual Life's $100,000 straight life, which shows a cash "profit" of only $5,900. Belth's more penetrating searchlight radically alters the perspective. The Connecticut Mutual policy is revealed as costing $1,496 less:

	METROPOLITAN	CONNECTICUT MUTUAL
PREMIUM	$21,487	$20,756
minus INSURANCE PROTECTION	2,611	2,609
minus DIVIDENDS	4,133	5,448
minus CASH VALUE	10,342	9,794
equals AMOUNT RETAINED BY COMPANY	4,401	2,905
DIFFERENCE IN COST	$1,496	

Such comparisons demand exquisite attention to detail. Metropolitan's straight life premium, for instance, includes a

disability benefit. If the policyholder cannot work for six months because of illness or injury, he need pay no further premiums until he recovers. Belth subtracts the price of this premium waiver from the Metropolitan premium before making his calculations. In a few other policies, he adjusts for the fact that in some policies the premium is based on the buyer's age at his last birthday rather than his nearest birthday.

Most policies hold their approximate order of cost in Belth's comparisons regardless of the amount of insurance or the age of the person buying it. But a few big shifts do occur. For example, Prudential's policy ranks a middling 13th among 25 policies in our table of participating straight life policies with $100,000 face values. Among $25,000 policies of the same companies, Prudential's ranks as one of the costliest. Franklin Life's $100,000 straight life ranks fairly low in cost among 15 policies in our table of nonparticipating policies. Its $25,000 policy is one of the most expensive.

Knowing the cost of life insurance helps a buyer select a policy of a given type but definitely does not tell him which type to buy. Although participating straight life has tended to cost less than nonparticipating, the cost difference in the end will depend heavily on investment results and therefore on economic conditions. In prosperous times, participating policies may prove the better deal. Bearish policyholders—and those who would settle for the certainty of a guaranteed price—will prefer nonparticipating.

Straight life, for those who can afford enough of it, provides the discipline of automatic savings. The tax law encourages this discipline. Taxes are levied only on the excess of cash value and dividends over premiums paid and only after a policy has been cashed in. But the premium at first is four times as large as for five-year renewable term insurance.

Term insurance is a plan with no savings element. Because it is pure and undisguised insurance protection, its premium goes up as the policyholder grows older. In five-year term insurance, increases come every five years. From age 35 to 39, a man will pay $497, less dividends, for State Farm Mutual's $100,000 policy; he will pay $2,219, less dividends, for Bankers Life straight life. After approximately 20 years, the premiums for the two policies pull even. Later, the term premiums are higher.

Renewable term suits the breadwinner who wants as much family protection as possible for his premium dollar—a typical need in child-rearing years. This plan also appeals to investors who wish to handle their own money or turn it over to a mutual fund, rather than putting it in an insurance policy, whose rate of return is impossible to pin down either beforehand or in retrospect. Five-year renewable term takes its name from a guarantee that the policyholder can renew it every five years until age 65 or 70 at preset premium rates no matter how poor his health. Along with renewability goes convertibility to straight life, also without proof of good health. This privilege stops between ages 60 and 70. Our table gives each policy's cutoff dates for renewal and convertibility.

The choice of an insurance plan should precede the choice of a policy, but once a choice has been made, the policy with lowest cost gives the most for the premium dollar. Belth makes a good beginning in the search for low-cost insurance. But no lone private investigator can analyze more than a few of the thousands of available straight life and five-year renewable term policies. Nor can he hope to make a dent in the many other insurance plans. Omitted from Belth's studies, for instance, is decreasing term, a plan widely used for mortgage insurance. The insurance shopper must have complete cost data before he can deal on anything like even terms with an agent. He can expect to know the facts only when the entire life insurance industry agrees—or is forced—to adopt Belth's or some other trustworthy method of stating the relative costs of all available policies. END

The cheapest and the dearest

The tables on page 53 provide valuable cost information on policies available nationally from most of the biggest and strongest U.S. life insurance companies. Much wider extremes of cost can be found, however, if the analysis is broadened to include smaller insurers, regional ones and those that do business only with specially qualified policyholders. People in certain walks of life and certain states, for instance, can buy coverage at costs far below what most people must pay. The savings are attributable largely to the elimination of sales agents, whose training and commissions add substantially to the cost of conventionally marketed policies.

Savings banks in Connecticut, Massachusetts and New York are authorized by state law to sell a kind of no-load life insurance through tellers' windows. Connecticut banks are limited to selling $5,000 of insurance to each customer—a pittance in terms of most people's needs. But Massachusetts banks can sell up to $41,000 of protection, and in New York the ceiling is $30,000. Residents of those states and people employed there are eligible to buy savings bank life insurance. Others are not.

Joseph Belth's analysis of $25,000 participating straight life policies makes it possible to compare 1970 costs of savings bank policies with those of the major insurance companies in our table. The amount of a 35-year-old policyholder's money retained by these companies over 20 years for participating straight life ranged from a low of $652 at Bankers Life, of Iowa, to a high of $1,455 at Republic National Life, of Texas. Massachusetts banks retained $319—less than half as much as Bankers Life—and New York banks retained $590. (Big cuts in New York bank premiums last year have brought the costs more nearly in line with Massachusetts'.)

Clergymen and others employed by religious groups can turn to Ministers Life & Casualty Union, of Minneapolis, for special low-cost coverage. On $25,000 of straight life, Ministers Life retains $457.

The best deal by far, however, goes to policyholders of the Teachers Insurance & Annuity Association of America. Austerely run TIAA, with hardly any sales costs, retains a minuscule $49 over 20 years of straight life coverage. The only eligible customers are employees of colleges and certain other educational institutions. They can buy as much TIAA insurance as they need.

An example of policies at the high-cost extreme is the Pyramid III $25,000 straight life policy issued by Alexander Hamilton Life Insurance Co. of America. The policy has a high premium and pays back small guaranteed amounts each year in addition to dividends. Belth's analysis shows that the company retains $2,724. That's almost twice as much retained as in the most expensive policies of companies in our table and 55 times the cost of a TIAA policy.

[From the Antitrust Bulletin, Vol. 15, Summer 1970]

THE STATE OF COMPETITION IN THE LIFE INSURANCE INDUSTRY

by

JOSEPH M. BELTH and W. DAVID MAXWELL*

I. INTRODUCTION

In terms of number of firms, income, and assets, the life insurance industry is huge. At the end of 1968 there were approximately 1,775 life insurance companies in the United States. Premium income for these companies in 1968 totaled approximately $31 billion, investment income approximately $9 billion, and other income approximately $2 billion. "Admitted" assets (those assets that the companies may legally include on their balance sheets in the determination of their solvency positions) totaled approximately $189 billion at the end of 1968, and life insurance in force was about $1.2 trillion.[1]

A conventional concentration-ratio approach suggests that the industry is relatively concentrated. At the end of 1968 the two largest companies (by admitted assets) accounted for about 28 percent of the industry's admitted assets, the four largest about 40 percent, the eight largest (Prudential, Metropolitan Life, Equitable of New York, New York Life, John Hancock, Aetna Life, Northwestern Mutual, and Connecticut

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The authors wish to acknowledge the assistance of several colleagues—Professors J. Fred Bateman, James D. Foust, John D. Long, and James M. Patterson—who commented on a preliminary draft of the article. Also, the draft was distributed to the sixteen life insurance companies referred to in the article, and several suggestions were received from the companies. The authors are grateful for the comments—some of which have been reflected in the article—but the authors alone assume full responsibility for the views expressed in the article and for any errors that may remain.

[1] *Life Insurance Fact Book 1969* (annual; New York: Institute of Life Insurance), pp. 53, 68, 102.

General) about 54 percent, the twenty-five largest about 74 percent, and the fifty largest about 84 percent.[2]

A major contention of this article, however, is that the state of competition in this industry cannot be judged adequately by the extent of its concentration. Life insurance is an unusual economic good. Both its peculiarities and the conditions under which it is sold give rise to a number of practices that reduce the level of effective price competition. These peculiarities and conditions obscure the effective price. The primary purposes of this article are to discuss these peculiarities and conditions, illustrate certain measures of effective price that take them into account insofar as possible, and then use those measures to provide insights concerning the degree of price competition in the industry.

II. Life Insurance and Ignorance

The degree of competition in an industry is not simply a function of the number of firms. In pure competition, for example, the crucial assumptions for the firm concern its behavior. The type of behavior assumed simply becomes more plausible when accompanied by a further assumption of a large number of firms.[3] Furthermore, even if an industry is comprised of a large number of firms, the industry cannot

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[2] *Best's Flitcraft Compend 1969* (annual; Morristown, N. J.: A. M. Best Co.). For comparison with various other industries, see *Concentration Ratios in Manufacturing Industry 1958* (Report Prepared by the Bureau of the Census for the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, United States Senate, 87th Cong., 2d Sess.) (Washington: U. S. Government Printing Office, 1963); and Edwin Mansfield (ed.), *Monopoly Power and Economic Performance* (New York: W. W. Norton & Co., Inc., 1964), pp. vii-xiii, 65-68.

[3] Cf. Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1963), p. 39, n. 34; Fritz Machlup, *The Economics of Sellers' Competition* (Baltimore: The Johns Hopkins Press, 1952), p. 137; and Robert L. Bishop, "Market Classification Again," *Southern Economic Journal,* Vol. XXVIII, No. 1 (July, 1961), p. 45, n. 8.

be regarded as highly competitive despite its numbers, if collusion is present.[4]

Less often emphasized are a number of other factors that influence significantly the degree of price competition in an industry or market. These factors generally allow firms to resort to various forms of nonprice competition that they find less rigorous than simple price competition. One of these factors is the ignorance of buyers concerning the comparative value of product qualities. This consumer ignorance encourages product differentiation, which in turn weakens price competition (particularly where price itself is taken as an index of quality). Given this ignorance on the part of buyers, the advantage to firms of product differentiation is increased and the ability of the buyer to make meaningful price comparisons is reduced.[5]

Still other aspects of an economic good, or conditions surrounding its sale, may decrease the ability of the typical consumer to make meaningful price comparisons and thus encourage further resort to nonprice competition. For example, the purchase of durables by periodic payments obscures the price actually paid and may lead rival sellers to attempt to make buyers judge the purchase solely in terms of the magnitude of the individual payment—a single aspect of the transaction. That buyer ignorance is a significant impediment to meaningful price comparisons in installment buying is implicit in recent consumer legislation of the "truth in lending" variety.

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[4] An outstanding example of (government-sponsored) collusion among a large number of firms is provided by the motor-carrier industry. See W. David Maxwell, "The Regulation of Motor-Carrier Rates by the Interstate Commerce Commission," *Land Economics*, Vol. XXXVI, No. 1 (February, 1960), pp. 79-91.

[5] Tibor Scitovsky, "Ignorance as a Source of Oligopoly Power," *American Economic Review*, Vol. XL, No. 2 (May, 1950), pp. 49-53. This is not to suggest that the motive for product differentiation is always to make price comparisons more difficult. Whatever the motivation, difficulty in making price comparisons is one of the results of product differentiation.

In purchases of items such as automobiles and houses, the seller, by not stating the price while seeming to do so, can then engage in price discrimination based in part on the relative ignorance of particular customers. And again legislation such as that requiring the posting of the "list" price on automobile windows is, at least in part, an attempt to compensate for the buyer ignorance that hampers effective price comparisons.

Another factor that makes effective price comparisons difficult and encourages resort to the use of substitutes for price competition is the trade-in, which is a prominent feature of many transactions. Also, "package pricing"—a single price for a razor with blades, a bag of charcoal briquets with lighter fluid, an appliance with service contract—makes price comparisons more difficult and can be used to exploit buyer ignorance.[6] Finally, effective price comparisons are obscured in purchases such as those made by cooperative association members, who will receive dividends the exact magnitude of which cannot be known at the time of purchase.

In the marketing of life insurance, "product" differentiation reaches large proportions. Even the multiplicity of clauses and contingencies embodied in the typical life insurance contract permits the insurance company to emphasize particular features of a given policy with little or no fear that the relative desirability of these and other features of this policy can be easily compared with similar features of other companies' policies.[7] Thus, even if the relative prices of various policies were known to the buyer, he still could not make meaningful price comparisons.

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[6] This is not to imply that all package pricing is designed to take advantage of consumer ignorance.

[7] In conventional life insurance policies, the settlement options are extremely complex and difficult to compare, and differences abound in connection with the definition of disability in the waiver-of-premium clause, policy loan interest rates, the length of the period specified in the suicide and incontestable clauses, policy change provisions, carrying charges for the payment of premiums other than annually, and many other items.

But the relative prices are not known. The typical purchaser of life insurance does not know the effective price of that which he is purchasing, particularly in the case of cash-value life insurance. In part this is because the cash-value policy is a "package" of protection and savings, the relative proportions of the components not being clearly evident.[8] Thus even if he paid a given price at a given point in time for the package, the typical consumer still would not know how much he was paying for the individual components. By analogy he would be purchasing charcoal and lighter fluid at a package price without knowing the relative quantities of each in the package. The effective price is also obscured because life insurance is typically purchased by periodic payments through time, obscuring the effective price as in other instances of installment purchasing. Thus, the analogy becomes

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[8] The reasonable division of a cash-value life insurance policy into its protection and savings components requires a number of assumptions and extensive computations. In a recent attempt in this area, the first-named coauthor found the present expected value of the protection element of the $10,000 participating straight life policy issued in 1969 to standard males aged 35 by The Northwestern Mutual Life Insurance Company to be equal to about 19 percent of the present expected value of the premiums, and the present expected value of the savings element to be equal to about 36 percent of the present expected value of the premiums. These figures are based on 4 percent interest and certain mortality and lapse assumptions. When the interest assumption is changed to 5 percent (and with the mortality and lapse assumptions left unchanged), the present expected value of the protection element of the same policy is equal to about 17 percent of the present expected value of the premiums, and the present expected value of the savings element is equal to about 30 percent of the present expected value of the premiums. Not only are the protection and savings components of cash-value life insurance dependent upon various assumptions, but also some life insurance industry spokesmen even deny that it is appropriate to view cash-value life insurance as a combination of protection and savings. See *Annual Meeting and Staff Reports 1968* (annual; New York: Institute of Life Insurance), pp. 11, 57; "Belth Comments on Newton, Pillsbury Talks at ILI Annual," *National Underwriter* (Life ed.), January 18, 1969, p. 2; and Joseph M. Belth, *The Retail Price Structure in American Life Insurance* (Bloomington, Ind.: Bureau of Business Research, Graduate School of Business, Indiana University, 1966), pp. 33-35. The latter book is cited hereafter as *Retail Price Structure.*

that of an installment purchase of a refrigerator with service contract, the dimensions of neither the refrigerator nor the contract being clearly evident.

The "trade-in," or surrender, value of insurance, like that of a durable, is recognized by the seller and has the same result of obscuring the effective price and rendering price comparisons more difficult. Despite the ambiguity of the "package," this recognition is more formal than in the case of durables and is a recognition of appreciation rather than depreciation of the economic good involved. Thus, by analogy, our seller of the refrigerator plus maintenance stipulates, in selling the package (on the installment plan), a schedule of the increasing prices through time at which he will purchase the increasingly valuable refrigerator from the consumer. The latter, however, cannot trade in the refrigerator on other makes and its increase in value is recognized only by the company that sells it.[9] Finally, in purchasing a participating policy, the effective price is further obscured and price comparisons rendered more difficult by the existence of dividends.[10]

Thus, in transactions involving insurance, ignorance has many more dimensions than the ignorance of product quality stressed by Scitovsky. Ignorance extends even to the price itself, the question of "What is the price?" being quite com-

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[9] The insurance consumer, however, does not have to make a further purchase from the seller in order to secure the value of his "trade-in." For a discussion of the reasons for the existence of cash surrender values in level-premium life insurance policies, see Appendix A in this article.

[10] Most life insurance policies are of the participating variety, under which periodic dividends are paid by the company. The word "dividend" in the context of life insurance usually is considered a misnomer, since most observers regard such a payment essentially as a refund of a deliberate overcharge in the premium. Note that this overcharge is separate and distinct from the overcharge inherent in level-premium policies relative to one-year renewable term (increasing premium) policies. For a discussion of the development of participating policies, see Joseph M. Belth, *Participating Life Insurance Sold by Stock Companies* (Homewood, Ill.: Richard D. Irwin, Inc., 1965), pp. 5-25.

plex.[11] Consequently, the seller has great latitude in stressing features of the good other than its effective price, and price competition may be avoided. Because of buyer ignorance, "product" differentiation at times involves the use of complex policy provisions that tend to confuse the customer and render comparisons infeasible.[12] Not surprisingly, premium competition is used as a substitute for price competition and customers are also appealed to (in the case of participating policies) on the basis of dividends.

Finally, the insurance company may show the prospective customer the traditional "net cost," which is calculated by subtracting the cash value at the end of some chosen period and the sum of the dividends payable during the period from the sum of the premiums payable during the period. But since interest is ignored in the calculation and since the mix of protection and savings changes through time, the customer is little closer to comparability than he was before the calculation—though he may think he is. To indicate but a single aspect of the problem, since in the traditional net cost method all dollars have equal weights despite different present values, steepening the dividend scale (diverting a disproportionate share of dividends to the later portions of the period) does not affect the net cost. Thus, two participating policies having identical net costs and alike in every respect except the

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[11] Even when computer facilities are available and prepared to perform price calculations, the procurement of the necessary policy data presents incredibly difficult and complex problems. Indeed, the difficulties are so great that few if any life insurance companies are likely to have enough detailed price information about other companies so as to be fully cognizant of their own and the others' relative price positions. For a detailed discussion of the policy data problem, see *Retail Price Structure*, pp. 62-69.

[12] Some policies fit an elaborate sales talk and at the same time make analysis extremely difficult. These are sometimes referred to as "specialty policies." For a comprehensive treatment of this subject, see Spencer L. Kimball and Jon S. Hanson, "The Regulation of Specialty Policies in Life Insurance," *Michigan Law Review*, Vol. LXII, No. 2 (December, 1963), pp. 167-258. An example of an unusually complex policy is the K-1832-B contract issued in recent years by the Life Insurance Company of Kentucky. For a detailed description of this contract, see Appendix B in this article.

temporal distribution of dividends are not directly comparable.[13]

Given the many dimensions of ignorance in transactions involving insurance (and the practices that substitute for overt price competition), it is perhaps apparent that the extent of the industry's departure from the ideal of perfect competition is not fully reflected by concentration ratios. The shortcomings of these ratios in this regard may well be greater in this major industry than in any other. Casting further light on the state of competition in the industry, however, is far from simple. A major problem is to devise a defensible method of determining effective price—a method that permits valid comparisons to be made.

If such a method of determining effective price were developed, the extent of variation in the effective price charged by different companies in the same market (for policies that can be reduced essentially to a comparable basis) would provide some indication of the extent of departure from perfect competition. And, in the absence of any evidence to the contrary, the variation in effective prices can be attributed to buyer ignorance. As Stigler has observed,

> Price dispersion is a manifestation—and indeed it is the measure—of ignorance in the market. Dispersion is a biased measure of ignorance because there is never absolute homogeneity in the commodity. . . . But it would be metaphysical, and fruitless, to assert that all dispersion is due to heterogeneity.[14]

In the sections that follow, two methods of price measurement are presented. Then the methods are applied, first to several fairly large samples of participating and nonparticipating policies for which data are available, and then to certain participating policies issued by the fifteen largest United States companies that sell such policies.

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[13] For a discussion of dividend scale steepening, see Appendix C in this article.

[14] George J. Stigler, "The Economics of Information," *The Journal of Political Economy,* Vol. LXIX, No. 3 (June, 1961), p. 214.

III. Life Insurance Price Measurement

In this section, two methods of life insurance price measurement are presented. The first is referred to as the "level-price method," and the second is referred to as the "benefits-premiums method."

The Level-Price Method

As previously argued, a cash-value life insurance policy is a "package deal" comprised of savings and protection. The unique portion of the package, however, is the protection component. Savings can be "purchased" by the consumer from a number of (noninsurance) sources at known (usually negative) prices, but the sources from which protection can be purchased are more limited and the comparability of prices much less.

In a "package deal" such as this, it is possible to ascertain the effective price paid for one component only by making some assumption concerning the effective price of the other. Given the presumption that life insurance usually is purchased primarily for the death protection it provides, the better approach in evaluating a life insurance policy would appear to be that of assuming that the consumer pays an effective price for savings comparable to the price of savings purchased from an alternative (noninsurance) source.[15]

Simply stated, the effective price of protection for any given policy year is the premium for the year, plus the interest "forgone" by the policyholder in the year on the savings element of the policy, minus the increase in the savings element of the policy in the year, minus the dividend (if any) for the year. The amount of protection in any given year is

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[15] For a description of the opposite approach, in which the objective is to calculate the rate of return on the savings element of the policy, see Joseph M. Belth, "The Rate of Return on the Savings Element in Cash-Value Life Insurance," *Journal of Risk and Insurance,* Vol. XXXV, No. 4 (December, 1968), pp. 569-81.

the face amount of the policy less the savings element in that year. Then, the level price per $1,000 of protection is an average of the yearly prices per $1,000 of protection, weighted by the amounts of protection, recognizing the interest factor, and also recognizing the probabilities of the policyholder's surviving and continuing the policy in order to incur the respective yearly prices.[16]

The level-price method may be illustrated by applying it to an actual policy. The data shown here pertain to a $10,000 participating straight life policy issued in 1969 by The Northwestern Mutual Life Insurance Company. The annual premium is $238.90 (including the charge for the waiver-of-premium clause), the cash value at the end of the fifth policy year is $745.50, the cash value at the end of the sixth policy year is $940.70, and the dividend payable at the end of the sixth policy year (according to the Company's 1969 dividend scale) is $53.50. It is assumed in the calculations that the policyholder would earn a net interest rate of 4 percent if the savings element of the policy were invested elsewhere. Under these assumptions, the three steps in the calculation of the $3.29 yearly price per $1,000 of protection in the sixth policy year are shown in Table 1.

TABLE 1

ILLUSTRATIVE CALCULATION OF YEARLY PRICE PER $1,000 OF PROTECTION IN SIXTH POLICY YEAR

Data and Assumptions:

Annual premium: $238.90
Cash value at end of fifth year: $745.50
Cash value at end of sixth year: $940.70
Dividend payable at end of sixth year: $53.50
Face amount: $10,000.00
Interest rate: 4 percent

[16] For a detailed description of the level-price method, see *Retail Price Structure*, pp. 35-43.

Illustrative Calculation:

1. Price of protection in sixth year:

Cash value at end of fifth year	$ 745.50
Add premium for sixth year	238.90
Total "investment" at beginning of sixth year	$ 984.40
Add 4 percent interest	39.38
Total "investment" at end of sixth year	$ 1,023.78
Subtract cash value at end of sixth year	940.70
	$ 83.08
Subtract dividend at end of sixth year	53.50
Price of protection in sixth year	$ 29.58

2. Average amount of protection in sixth year:

Face amount at beginning of sixth year	$10,000.00
Subtract "investment" at beginning of sixth year	984.40
Amount of protection at beginning of sixth year	$ 9,015.60
Face amount at end of sixth year	$10,000.00
Subtract "investment" at end of sixth year	1,023.78
Amount of protection at end of sixth year	$ 8,976.22
Average amount of protection in sixth year	$ 8,995.91

3. Price per $1,000 of protection in sixth year:

Price of protection in sixth year	$ 29.58
Divide by average amount of protection in sixth year, expressed in thousands of dollars	8.99591
Price per $1,000 of protection in sixth year	$ 3.29.

Similar calculations are made for each policy year in the period of analysis. The figures for selected policy years for the illustrative policy are shown in Table 2.

Two points should be noted about the figures in Table 2. First, the price per $1,000 of protection in the first year is high relative to the corresponding figures for the other early policy years. This is a reflection of the "front-end load," which is typical of cash-value life insurance policies.

Second, after the first year, the trend in the yearly prices per $1,000 of protection is upward. Indeed, the shape of the yearly-price curve resembles a mortality-rate curve. This illustrates the point that the yearly price per $1,000 of life insurance protection tends to increase with increasing age not only in the case of term policies, but also in the case of level-premium, cash-value policies.

TABLE 2

YEARLY PRICES PER $1,000 OF PROTECTION IN SELECTED POLICY YEARS FOR ILLUSTRATIVE $10,000 PARTICIPATING STRAIGHT LIFE POLICY

Policy Year	Attained Age	Yearly Price*
1	35	$ 21.95
2	36	3.30
3	37	3.20
4	38	3.37
5	39	3.32
10	44	5.74
15	49	6.45
20	54	9.69
30	64	23.29
40	74	61.27
50	84	167.98

* Yearly prices per $1,000 of protection, assuming 4 percent interest.

The calculation of the level price may be illustrated by reference to the yearly prices per $1,000 of protection shown in Table 2. When the fifty yearly prices per $1,000 of protection are "leveled" using a 4 percent interest rate, one particular set of mortality and lapse assumptions,[17] and the appropriate amount weights, the resulting fifty-year level price per $1,000 of protection is $8.69.

The Benefits-Premiums Method

Another approach to the evaluation of a life insurance policy is to (1) compute the present expected value of the benefits under the policy, (2) compute the present expected value of the premiums for the policy, and (3) examine the relationship between the two present-expected-value figures. The results of this approach are shown here, using the data for the Northwestern Mutual policy referred to earlier.

Simply stated, four elements enter into the relationship between benefits and premiums—the protection element, the savings element, the premiums, and, in the case of participating policies, the dividends. The present expected value of the protection element of the illustrative policy for the fifty-year period of analysis—using the same interest, mortality, and lapse assumptions referred to earlier—is $636.26; the present expected value of the savings element is $1,192.31; the present expected value of the premiums is $3,333.07; and the present expected value of the dividends is $1,237.25.[18]

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[17] The mortality rates are those in the 1957-60 ultimate basic table for male lives. See "1962 Reports of Mortality and Morbidity Experience," *Transactions of the Society of Actuaries,* Vol. XIV (1962), p. 48. The lapse rates are those in Moorhead's Table R. See Ernest J. Moorhead, "The Construction of Persistency Tables," *Transactions of the Society of Actuaries,* Vol. XII (1960), p. 553. Table R shows lapse rates only for the first thirty policy years, so the table has been extended arbitrarily for the purposes of this article.

[18] For a detailed description of the benefits-premiums method, see Joseph M. Belth, "The Relationship Between Benefits and Premiums in Life Insurance," *Journal of Risk and Insurance,* Vol. XXXVI, No. 1 (March, 1969), pp. 19-39.

One of the ways in which to construct a ratio of benefits to premiums is to treat the present expected value of the protection element and the present expected value of the savings element as "benefits" under the policy, and to treat the present expected value of the premiums less the present expected value of the dividends as the "premiums" for the policy.[19] Using this approach, the ratio of benefits to premiums for the fifty-year period of the illustrative policy is calculated as follows:

$$\text{Ratio} = \frac{\$636.26 + \$1{,}192.31}{\$3{,}333.07 - \$1{,}237.25} = .872.$$

An absolute measure of the relationship between benefits and premiums is simply the difference between these two items. Thus, if E is designated as the absolute measure, then E is equal to the present expected value of the premiums minus the present expected value of the benefits.[20] Using this approach, and defining "premiums" and "benefits" as indicated in the preceding paragraph, the value of E for the fifty-year period of the illustrative policy is calculated as follows:

$$E = \$3{,}333.07 - \$1{,}237.25 - \$636.26 - \$1{,}192.31 = \$267.26.$$[21]

IV. Price and Premium Variation

In this section, the price measurement techniques described in the preceding section are applied to two sets of data. First, results are shown for a fairly large sample of

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[19] For a discussion of various other ratios of benefits to premiums, see *ibid.*

[20] The letter "E" was selected to represent the "excess" of the present expected value of the premiums over the present expected value of the benefits. It also may be viewed as the present expected value of the "expense" (including contingency margins and profit) factor of the policy from the buyer's point of view.

[21] All of the figures shown in the article are accurate to the nearest cent. Errors produced by rounding are the cause of the occasional one-cent discrepancies between the value of E and the values of the elements that enter into the calculation of the value of E.

policies issued in 1962. Second, results are shown for a smaller sample consisting of certain participating policies issued in 1968 by the fifteen largest United States companies that sell such policies.

The Larger Samples[22]

Price data in the form of twenty-year level prices per $1,000 of protection for eighty-eight participating and sixty nonparticipating straight life policies issued in 1962 to standard males aged 35 are shown in Table 3. While the sample cannot be established statistically as representative, no known bias in the direction of greater price variation was involved in its selection.[23] Among the participating policies, the mean level price was $7.55, the standard deviation was $1.52, and the coefficient of variation (the standard deviation expressed as a percentage of the mean) was 20.1 percent. Among the nonparticipating policies, the mean level price was $8.80, the standard deviation was $0.71, and the coefficient of variation was 8.1 percent.[24]

Similar price data were assembled for $10,000 twenty-payment life policies issued in 1962 to standard males aged

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[22] For a detailed description of the manner in which these data were assembled, see *Retail Price Structure,* pp. 4-6, 71-81, 101-04.

[23] There is a possibility that a bias in the opposite direction was present. Some of the information was obtained directly from companies by means of a comprehensive questionnaire (all usable returns were included), and there may have been a tendency for companies with relatively high prices to refrain from furnishing data. Thus, there may have been less price variation among the policies studied than would have been found if all of the companies had furnished data. For a discussion of this point, see Joseph M. Belth, *A Report on Life Insurance* (Bloomington, Ind.: Bureau of Business Research, Graduate School of Business, Indiana University, 1967), pp. 44-49.

[24] Interpreting the absolute differences in price between participating policies and nonparticipating policies is difficult. For example, the prices of the former reflect the companies' nonguaranteed 1962 dividend scales, while the prices of the latter are based entirely on contractual guarantees. Comparisons of coefficients of variation, however, are not fully subject to the same difficulties. For a discussion of the relationship between prices of participating policies and prices of nonparticipating policies, see *Retail Price Structure,* pp. 165-66.

35. The price data were twenty-year level prices per $1,000 of protection, and the assumptions used in the price calculations were the same as those shown in the footnote to Table 3. Among the fifty-four participating policies studied, the mean level price was $9.73, the standard deviation was $2.37, and the coefficient of variation was 24.4 percent. Among the thirty-nine nonparticipating policies studied, the mean level price was $12.19, the standard deviation was $1.51, and the coefficient of variation was 12.4 percent.[25]

TABLE 3

DISTRIBUTION OF VARIOUS COMPANIES BY PRICES OF $10,000 STRAIGHT LIFE POLICIES ISSUED IN 1962 TO STANDARD MALES AGED 35

Level Prices*	Number of Companies	
	Participating	Nonparticipating
$ 4.00-$ 4.99	1	
5.00- 5.99	10	
6.00- 6.99	22	
7.00- 7.99	26	9
8.00- 8.99	18	30
9.00- 9.99	3	17
10.00- 10.99	5	4
11.00- 11.99	2	
12.00- 12.99	0	
13.00- 13.99	1	
Total number of companies	88	60
Mean	$7.55	$8.80
Standard deviation	$1.52	$0.71
Coefficient of variation	20.1%	8.1%

* Twenty-year level prices per $1,000 of protection, using 3 percent interest, X_{18} mortality rates with Buck's select modification, and one-half Linton's A lapse rates.

[25] Interpreting the absolute differences in price between straight life policies and twenty-payment life policies is also subject to many

Similar price data also were assembled for $10,000 five-year term policies issued in 1962 to standard males aged 35. All of the term policies included in the analysis were renewable to at least age 65 and convertible to at least age 60. The price data were twenty-year level prices per $1,000 of protection, and the assumptions used in the price calculations were the same as those shown in the footnote to Table 3. Among the twenty-six participating policies studied, the mean level price was $9.24, the standard deviation was $0.75, and the coefficient of variation was 8.1 percent. Among the thirty-one nonparticipating policies studied, the mean level price was $9.84, the standard deviation was $0.91, and the coefficient of variation was 9.2 percent.[26]

The results of the analysis of the effective prices paid for protection support the arguments presented earlier. First, variations in price are large, as indicated by coefficients of variation ranging from 8.1 percent to 24.4 percent.[27]

Second, also strengthened is another result that might be expected on the basis of the earlier arguments. Because of the added element of dividends, comparisons of participating policies are probably more difficult for the typical consumer than comparisons of nonparticipating policies. Accordingly,

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more reservations than is the comparison of coefficients of variation. For a discussion of the relationship between prices of straight life policies and prices of twenty-payment life policies, see *ibid.*, pp. 81-100.

[26] Care must be taken in attempting to interpret the absolute differences in price between term policies and cash-value policies. For a discussion of this subject, see *ibid.*, pp. 104-21.

[27] Some appreciation of the meaning of the magnitudes of these coefficients of variation can be secured by comparison with the price variations in other industries. In a study of twenty-eight retail food outlets in Indianapolis, for example, price variations of the food component of the Bureau of Labor Statistics' Consumer Price Index yield (for the two different days studied) coefficients of variation of 4.2 percent and 4.0 percent. See Albert Haring and Wallace O. Yoder (eds.), *Trading Stamp Practice and Pricing Policy* (Bloomington, Ind.: Bureau of Business Research, Graduate School of Business, Indiana University, 1958), p. 239.

one might expect larger coefficients of price variation in the case of participating policies. Except for the five-year term policies, this was, indeed, the case. Thus, analysis of 241 of the 298 policies yielded the expected result.[28]

Third, because of the "package" aspect of cash-value life insurance, comparisons of cash-value policies are probably more difficult for the typical consumer than comparisons of term policies. Accordingly, one might expect larger coefficients of price variation in the case of cash-value policies. Generally, this was the case, except that the coefficients of price variation among the five-year term policies were equal to or slightly greater than those of the nonparticipating straight life policies. Thus, analysis of 181 of the cash-value policies relative to the term policies yielded the expected results, while analysis of 60 of them did not. One of the four coefficients that could be expected to be greater than those of the term policies was not.

Fourth, it is also to be expected on the basis of previous arguments that premium variation would be smaller than price variation—that premium competition would be substituted for price competition. Analysis of the premium variation among the same companies for which the preceding analysis of price variation was made tended to fulfill this expectation. The sample of straight life policies (eighty-eight participating and sixty nonparticipating) yielded coefficients of *premium* variation of only 5.1 percent and 3.3 percent, respectively, as compared to the corresponding coefficients of *price* variation of 20.1 percent and 8.1 percent. The twenty-payment life policies (fifty-four participating and thirty-nine nonparticipating) had coefficients of premium variation of, respectively, 5.7 percent and 5.3 percent, as compared to the corresponding coefficients of price variation of 24.4 percent

[28] Nonetheless, one of the three comparisons of coefficients of price variation did not yield the expected result. The samples of five-year term policies, however, were the smallest samples and had the smallest difference between coefficients.

and 12.4 percent. The five-year term policies (twenty-six participating and thirty-one nonparticipating) had coefficients of premium variation of 10.1 percent and 8.9 percent, respectively, as compared to the corresponding coefficients of price variation of 8.1 percent and 9.2 percent. Thus, only the five-year participating term policies failed to fulfill the expectation of smaller relative variation among premiums than among prices. As suggested earlier, however, the absence of a savings element in term policies tends to make comparisons more feasible, and also tends to make premiums a more reliable measure of relative prices than in the case of cash-value policies. It should perhaps also be noted that the differences in these measures of relative variation are, in general, larger when occurring in the expected direction.

The Sample of Fifteen Policies[29]

Certain data on $10,000 participating straight life policies issued in 1968 to standard males aged 35 by the fifteen largest (measured by admitted assets) United States companies that sell such policies were assembled for more intensive analysis. As might be expected on the basis of previous arguments, premium variation was minuscule, yielding a coefficient of variation of only 1.9 percent, as shown in Table 4. Variation in benefits-premiums ratios was relatively small, yielding a coefficient of variation of 4.8 percent. Predictably, however, variation in level prices and in E-values was large, yielding coefficients of variation of, respectively, 11.8 percent and 20.0 percent. Thus, the results suggest that the degree of price competition is relatively small among industry leaders.

Decomposition of the fifteen policies into their constituent elements yields the information shown in Table 5. The

[29] For a description of the manner in which these data were assembled, see Joseph M. Belth, "Life Insurance Price Measurement," *Kentucky Law Journal,* Vol. LVII, No. 4 (Summer, 1968-69), pp. 687-711.

E-values shown, it will be recalled, are the results of subtracting the values shown in the intervening columns from the present expected value of the premiums. As Table 5 indicates, there is considerable variation among companies in the present expected value of dividends (reflected in a coefficient of variation of 15.5 percent), this variation largely accounting for the (also considerable) variation in E-values.

TABLE 4

PREMIUMS AND VARIOUS PRICE MEASURES FOR $10,000 PARTICIPATING STRAIGHT LIFE POLICIES ISSUED IN 1968 TO STANDARD MALES AGED 35 BY FIFTEEN MAJOR COMPANIES

Company	Premium	Level Price	Ratio	E-Value
Aetna Life	$246.20	$ 9.86	.723	$588.89
Connecticut General	230.10	9.17	.754	517.33
Connecticut Mutual	240.40	6.98	.827	326.68
Equitable of New York	239.00	8.52	.769	463.48
John Hancock	240.80	8.82	.761	491.57
Lincoln National	242.00	9.10	.748	516.67
Massachusetts Mutual	242.90	7.71	.800	390.33
Metropolitan Life	244.10	10.06	.715	617.98
Mutual Benefit	246.00	8.21	.786	430.85
Mutual of New York	234.10	8.98	.754	505.97
New England Mutual	238.50	8.05	.786	422.38
New York Life	238.60	8.13	.779	428.51
Northwestern Mutual	238.90	6.41	.853	276.64
Penn Mutual	241.60	8.56	.770	465.86
Prudential	249.75	10.04	.718	611.65
Mean	$240.86	$ 8.57	.770	$470.32
Standard deviation	$ 4.69	$ 1.01	.037	$ 93.85
Coefficient of variation	1.9%	11.8%	4.8%	20.0%

Assumptions: 4 percent interest, 1957-60 ultimate basic male mortality rates, and Moorhead's R lapse rates. Premiums shown include the cost of the waiver-of-premium provision. Level prices shown are twenty-year level prices per $1,000 of protection. Ratios shown are twenty-year benefits-premiums ratios. E-values shown are twenty-year E-values. For a detailed discussion of the manner in which these results were obtained, see the paper cited in footnote 29.

TABLE 5

COMPONENTS OF $10,000 PARTICIPATING STRAIGHT LIFE POLICIES ISSUED IN 1968 TO STANDARD MALES AGED 35 BY FIFTEEN MAJOR COMPANIES (EXPRESSED IN TERMS OF PRESENT EXPECTED VALUES)

Company	Premiums	Dividends	Protection	Savings	E-Value
Aetna Life	$2,652.31	$528.53	$299.58	$1,235.32	$588.89
Connecticut General	2,478.86	371.79	290.31	1,299.44	517.33
Connecticut Mutual	2,589.83	700.30	292.19	1,270.65	326.68
Equitable of New York	2,574.74	564.80	294.75	1,251.71	463.48
John Hancock	2,594.13	534.04	294.59	1,273.94	491.57
Lincoln National	2,607.06	556.06	295.45	1,238.88	516.67
Massachusetts Mutual	2,616.76	662.75	292.08	1,271.60	390.33
Metropolitan Life	2,632.19	464.86	283.11	1,266.25	617.98
Mutual Benefit	2,650.15	639.19	291.35	1,288.77	430.85
Mutual of New York	2,521.96	462.59	296.27	1,257.13	505.97
New England Mutual	2,569.36	592.81	294.22	1,259.96	422.38
New York Life	2,570.43	632.32	297.26	1,212.34	428.51
Northwestern Mutual	2,573.67	690.66	290.14	1,316.22	276.64
Penn Mutual	2,602.75	577.73	292.39	1,266.78	465.86
Prudential	2,693.11	527.64	282.80	1,271.03	611.65
Mean	$2,595.15	$567.07	$292.43	$1,265.33	$470.32
Standard deviation	$ 50.98	$ 88.00	$ 4.49	$ 24.72	$ 93.85
Coefficient of variation	2.0%	15.5%	1.5%	2.0%	20.0%

Assumptions: 4 percent interest, 1957-60 ultimate basic male mortality rates, and Moorhead's R lapse rates. For a detailed discussion of the manner in which these results were obtained, see the paper cited in footnote 29.

V. SUMMARY AND CONCLUSIONS

When there are a large number of sellers of a standardized product, it normally can be assumed that there will be little difference in the prices charged by the various sellers. Price-conscious customers would desert a seller who attempted to charge a price substantially above the market price, and there would be little incentive for an individual seller to charge a lower price—since it is unlikely that a lower price would be more profitable for him but not for others.

Given consumer ignorance, however, sellers are encouraged to differentiate their products, thereby making price comparisons difficult and offsetting the tendency toward price

uniformity that would otherwise occur. If the product is typically purchased by periodic payments, if "trade-ins" are involved, if the product is a "package deal" comprised of two or more separate goods but priced as one, or if an uncertain portion of the price is returned in the form of dividends, the effective price can be further obscured and sizable variations in the effective prices charged by even a large number of sellers can be maintained.

Product differentiation in the sale of life insurance is so highly developed that few consumers can make meaningful price comparisons. By the conditions under which it is sold, it is paid for by periodic payments. Cash-value life insurance is a "package deal" of protection and savings, the relative magnitudes of the components not being clearly evident to the consumer, and the savings element manifests itself in a "trade-in" or cash surrender value that obscures the effective price. In the case of participating policies, the existence of dividends also obscures the effective price. Thus, variations in effective prices can be expected to be substantial—reflecting the substitution of product differentiation, premium competition, and other practices for overt price competition.

Life insurance and the conditions under which it is sold are so complex that a major obstacle for the researcher (as well as the consumer) is determining the effective price. In the present article the level-price method of measuring the price of protection is presented, along with the benefits-premiums method. The level-price method is used in an analysis of three relatively large samples of insurance policies (straight life, twenty-payment life, and five-year term policies constituting the three samples), and both methods are utilized in a more intensive examination of the participating straight life policies of fifteen large life insurance firms.

In the three larger samples there are large variations in level prices, as indicated by coefficients of variation ranging from 8.1 percent to 24.4 percent. In all instances except that of five-year participating term policies, there is greater relative variation in prices than in premiums. With the same exception, there is greater relative variation in the level prices

of participating policies than in the corresponding non-participating policies.

In the more intensive examination of comparable policies issued by the fifteen industry leaders, premiums are almost identical, yielding a coefficient of variation of only 1.9 percent. Variation in benefits-premiums ratios is also small. Variation in level prices and in E-values, however, is quite large, yielding coefficients of variation of, respectively, 11.8 percent and 20.0 percent. An examination of the variation in the constituent elements of the policies suggests that the major source of variation in E-values is variation in dividends.

While the results of the analyses do not permit a precise statement of the degree of competition in the life insurance industry, they do support the contention that the industry is less competitive, in terms of price, than the number of firms in the industry—or even concentration ratios—might suggest. While the factors to which this is attributable are present in the sale of other economic goods, it is seldom the case that all are found in the sale of a single good, as in insurance. This raises the question of whether the interests of the consumer, in the case of insurance, need further safeguards than those provided by the market mechanism.

In recent years at least two public policy suggestions have been offered. One is the suggestion that a rigorous system of price disclosure be mandated for the life insurance industry.[30] Another is the suggestion that consumers purchase term insurance and place their savings elsewhere so as to avoid the complexities of cash-value life insurance.[31] It is outside the purpose of this paper to comment on these and other possible alternatives to the status quo, but hopefully the material in this paper will provide sustenance for the debate.

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[30] See, e.g., *Retail Price Structure*, pp. 217-29, 236-50. See also "Hart Warns of 'Truth in Life Insurance' Bill," *National Underwriter* (Life ed.), October 26, 1968, pp. 15, 20-21.

[31] See, e.g., *The Consumers Union Report on Life Insurance* (Mount Vernon, N. Y.: Consumers Union, 1967), pp. 85-90.

APPENDIX A

The Background of Cash Values

Except at very young ages, the probability of death increases as age increases, and with increasing rapidity. Life insurance is sometimes written on a one-year renewable term basis, with annual premiums necessarily increasing in a manner designed to offset the increasing probability of death. Under such an arrangement, however, the insurance company tends to experience a phenomenon referred to by the insurance industry as "adverse selection," in which the policyholders with deteriorating health tend to renew their policies and the policyholders in good health tend to discontinue their policies. This leads to a deterioration in the "quality" of the group, and to a larger than anticipated number of death claims relative to premium payments. Attempts to anticipate the adverse selection by more rapid annual premium increases tend to aggravate rather than solve the problem.

Level-premium life insurance, under which the annual premium remains unchanged, is a technique adopted by the life insurance industry in an attempt to minimize adverse selection while at the same time making it financially feasible for policyholders to continue their protection even to advanced ages. Such an arrangement, however, requires that the policyholder be overcharged (relative to mortality costs, expenses, and profit) in the early policy years to offset inadequate premiums in the later years.[32] The level-premium arrangement and the legislation requiring cash values are what make the life insurance industry a financial institution of gigantic proportions. At the same time, the level-premium arrangement transforms what would otherwise be an insurance transaction into a combination or package transaction involving both insurance protection and a savings medium.

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[32] For a discussion of adverse selection and the principles underlying level-premium, cash-value life insurance, see Dan M. McGill, *Life Insurance* (Rev. ed.; Homewood, Ill.: Richard D. Irwin, Inc., 1967), pp. 25-39.

In the early days of level-premium life insurance, many companies offered no cash values, so that the policyholder who discontinued his policy after paying level premiums for a number of years might receive nothing upon termination of his policy. Today, however, all states have "nonforfeiture laws" that require companies to provide cash values equal to or greater than certain specified minima.

Today's system of nonforfeiture legislation generally is attributed to Elizur Wright, the first insurance commissioner in Massachusetts. Wright, who had earlier been active in the anti-slavery movement, turned his reforming zeal to life insurance when he learned that level-premium life insurance without cash values could result in situations that were in some respects even more distasteful than slave auctions. It is said that Wright's transformation into an advocate of cash values stemmed from an experience he underwent during a visit to London. He witnessed the operation of an organized market for the life insurance policies of elderly men who were in need of money. Since the life insurance companies provided no cash values, policyholders who needed money offered their policies to the highest bidder. In such a situation, the bidders were interested not only in the terms of the policy contract but also in the state of health of the insured. After the highest bidder assumed ownership of a policy and became its beneficiary, he then had a keen interest in the early death of the insured. From the viewpoint of the insured, this has been described aptly as "a very dangerous situation." [33]

[33] For a discussion of this subject, see Philip Green Wright and Elizabeth Q. Wright, *Elizur Wright: The Father of Life Insurance* (Chicago: University of Chicago Press, 1937), pp. 220-23.

APPENDIX B

The Anatomy of a Specialty Policy

The simplest of insurance policies is a contract of considerable complexity to the typical consumer. A really complex policy is unfathomable to most consumers, negating any possibility of meaningful comparisons. Even a careful scrutiny of a complex policy is apt to leave the consumer in no position to weigh this alternative against others.

An analysis of a highly complex policy, the K-1832-B contract, is offered as an illustration. Basically it is a twenty-payment life contract; that is, the premium payments are level for twenty years and zero thereafter, and the contract runs for the lifetime of the policyholder (in this case, to age 100).

In the event of the policyholder's death during the first twenty policy years, the following benefits are provided: (1) a lump sum payment of $5,000, called the "immediate benefit"; (2) an income of $100 per month for a number of years equal to twenty-one minus the policy year of death, called the "monthly income benefit"; (3) a lump sum payment equal to the simple total of the annual premiums paid between the issue date and the date of death, called the "return of premium benefit"; and (4) a lump sum payment of $5,000 payable on the twentieth anniversary of the issue date, called the "twentieth anniversary benefit." In addition, the policy is participating, so that any dividends left with the company serve to increase the amount payable on death. The policy also contains a conventional waiver-of-premium benefit, under which premiums are waived during the continuance of a lengthy, total disability. Finally, the policy contains an accidental death benefit provision, under which an accidental death (as defined in the contract) results in a doubling of the size of both the immediate benefit and the twentieth anniversary benefit.

In the event of the policyholder's death between the end of the first twenty policy years and the attainment of age 65,

a $15,000 lump sum benefit is provided. This is increased by any dividends left with the company. No monthly income benefit, return of premium benefit, twentieth anniversary benefit, or accidental death benefit are provided in the event of death during this period.

In the event of the policyholder's death after the attainment of age 65, a $5,000 lump sum benefit is provided. This is increased by any dividends left with the company. Again, no monthly income benefit, return of premium benefit, twentieth anniversary benefit, or accidental death benefit are provided in the event of death during this period.

In the event that the policyholder terminates the policy prior to death, the policy provides for cash values. For issue age 35, the pattern of cash values is a steady increase to $4,410 at the end of the twentieth policy year, then a steady decline to $3,450 at the end of the thirtieth policy year (attained age 65), and then a steady increase to $5,000 at the end of the sixty-fifth policy year (attained age 100).

One particularly misleading aspect of the contract is the fact that the monthly income benefit is referred to as providing initial coverage of $24,000. Indeed, the policy contains a table showing the "aggregate amount" of the monthly income benefit in the event of death at various points. These figures are derived by multiplying the $100 monthly income benefit by the number of monthly payments to be made. However, another policy provision gives the policyholder the right to elect a lump sum settlement (or commutation) of the monthly income benefit. If elected, such a settlement would be based on commutation at an annual interest rate of 3 percent. This means that the initial coverage provided by the monthly income benefit—in lump sum terms—is actually $18,142 rather than $24,000. Nowhere in the contract is a table of commuted values, although it is customary to include such tables in policies providing monthly income benefits.

Similarly, the twentieth anniversary benefit is referred to in the contract as providing initial coverage of $5,000. Here again, the commutation provision gives the policyholder the

right to elect a lump sum settlement based on commutation at 3 percent interest. This means that the initial coverage provided by the twentieth anniversary benefit actually is $2,768 rather than $5,000. Again, no table of commuted values is contained in the contract.

The front page of the contract refers to the "initial sum insured" as $34,000. This misleading figure is derived by adding together the $5,000 immediate benefit, the $24,000 monthly income benefit, and the $5,000 twentieth anniversary benefit. As noted above, the actual "initial sum insured" is the $5,000 immediate benefit, the $18,142 commuted value of the monthly income benefit, and the $2,768 commuted value of the twentieth anniversary benefit, or a total of $25,910—more than $8,000 less than the figure shown in the contract.

It is possible to evaluate this type of contract, provided that the necessary data can be obtained. Using the same interest, mortality, and lapse assumptions as those underlying the data in Tables 4 and 5, the first-named coauthor found the present expected value of the premiums at issue age 35 to be $4,255; the present expected value of the protection element, including all of the various death benefits provided in the contract, to be $1,163; and the present expected value of the savings element to be $921. Any reliable conclusion about the price position of the contract was rendered impossible, however, by the lack of information concerning policy dividends.

APPENDIX C

Dividend Scale Steepening

The impact of the shape of the dividend scale may be illustrated by a comparison of the $10,000 participating straight life policies issued in 1968 to standard males aged 35 by the Aetna Life Insurance Company and the Massachusetts Mutual Life Insurance Company. The simple totals of the first twenty years' premiums are $4,924 for the Aetna policy and $4,858 for the Massachusetts Mutual policy. The simple totals of the first twenty years' dividends, as used in traditional net cost calculations, are $1,536 for both policies. Thus, the premiums less the dividends, disregarding the temporal distribution of the dividends, are $3,388 for the Aetna policy and $3,322 for the Massachusetts Mutual policy, a difference of $66. When the oversimplified techniques of the traditional net cost method are used, this difference of $66 for $10,000 policies is divided by ten to arrive at a twenty-year figure of $6.60 per $1,000 of face amount. Then the $6.60 is divided by twenty to arrive at a figure of 33 cents per year per $1,000 of face amount.

That the difference is much larger than this may be demonstrated by using present expected values rather than simple totals. The present expected values of the first twenty years' premiums, using 4 percent interest and certain mortality and lapse assumptions, are $2,652 for the Aetna policy and $2,617 for the Massachusetts Mutual policy. The present expected values of the first twenty years' dividends, using the same assumptions, are $529 for the Aetna policy and $663 for the Massachusetts Mutual policy. Thus, the premiums less the dividends, using present expected values, are $2,123 for the Aetna policy and $1,954 for the Massachusetts Mutual policy, a difference of $169, in contrast to the earlier figure of $66. Furthermore, if it were desired to express this difference per year per $1,000 of face amount, and if the same interest, mortality, and lapse assumptions

were used in the calculations, the figure would be $1.57, in contrast to the earlier figure of 33 cents.

Another way in which to illustrate the impact of the shape of the dividend scale is to employ a "steepness index." One such index is a ratio in which the numerator is the simple total of the first twenty years' dividends (as used in traditional net cost calculations), and in which the denominator is the present expected value of the first twenty years' dividends. In an analysis of the $10,000 participating straight life policies issued in 1968 to standard males aged 35 by fifteen major United States companies,[34] the first-named coauthor found that their steepness indexes ranged from 2.23 to 2.97, with a mean of 2.56 and a standard deviation of .24.

In general, a policy with a relatively low steepness index will tend to show up better on a reasonably sophisticated method of price analysis, and a policy with a relatively high steepness index will tend to show up better on an unrefined method such as the traditional net cost method. The Aetna policy referred to earlier has a steepness index of 2.91, using the same assumptions mentioned earlier, and the Massachusetts Mutual policy has a steepness index of 2.32. Among the fifteen policies, the Aetna policy is ninth lowest in price under the traditional net cost method and thirteenth lowest under a reasonably refined method. On the other hand, the Massachusetts Mutual policy is seventh lowest under the traditional net cost method and third lowest under a reasonably refined method.

[34] For a detailed report on this study of certain policies issued by fifteen major companies, see the paper cited in footnote 29.

ARTICLE: "FURTHER COMMENTS BY AN FSA," JOURNAL OF RISK AND INSURANCE

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FURTHER COMMENT

MURRAY PROJECTOR*

In the introductory footnote to a recent article in this *Journal*,[1] Professor Belth listed eight associates to whom he is indebted, and then added that he ". . . assumes full responsibility for the views expressed in the paper and for any errors that may remain . . ."

To some extent the indebtedness is a reciprocal relationship. The purpose of this communication is to continue this two way debtor-creditor relationship, by identifying views that we share, and errors that remain.

Truth in Spending

Consumerism may be an ill-defined word, but its progress is well defined. Life insurance marketing has been little affected so far, but creeping consumerism will eventually have a significant effect on market practices.

Pseudo-consumerism has long been with us. The traditional twenty-year net cost method has been canonized by inclusion in the annual life insurance reference services. Unfortunately, these published comparisons have done little to reduce life insurance premiums, but have done much to increase ingenuity in policy design. Profit margins have been maintained while cash values and/or dividends redistributed to produce so-called lower net costs.

Analysts and consultants may have been dissatisfied with the situation, but marketing organizations and executives were very much satisfied. The dissidents were few and diffused, and without influence on sales practices. They may still be few and diffused, but since Professor Belth's seminal publication[2] their lack of influence is no longer guaranteed.

To Dream the Impossible Dream

The traditional twenty-year net cost method has survived for several reasons, one of which is its simplicity. The arithmetic can be done without a computer, and can be done by the agent or policyholder. Why not correct its deficiencies while retaining its simplicity?

Professor Belth's answer to this question was to assume that computers will continue to become increasingly available and that extensive arithmetic will steadily decline in importance as a barrier to the use of a highly refined method of price analysis. A simple *and* equitable system is just not possible, no matter how desirable. It's one or the other. And events have confirmed the correctness of Professor Belth's decision. Computer policy analyses are routinely made available by home offices to agents, and are also available from computer service organizations. Ex-

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[1] Joseph M. Belth, "The Relationship Between Benefits and Premiums in Life Insurance," *Journal of Risk and Insurance*, Vol. XXXVI, No. 1 (March, 1969), pp. 19-39.

[2] Joseph M. Belth, *The Retail Price Structure in American Life Insurance* (Bloomington, Ind.: Bureau of Business Research, Graduate School of Business, Indiana University, 1966).

tensive arithmetic is no barrier to extensive use of a refined or equitable cost analysis.

The Tragic Flaw

How equitable is the level-price method of policy analysis? The subject article lists correlations between benefits-premiums ratios and level prices. Rank correlation coefficients of about .99 are reported for straight life policies, as well as for twenty-payment life policies.

This near perfect rank correlation implies the existence of two policies, which are ranked in one order according to the ratios of present values (benefits-premiums ratio) but are misranked according to their level prices. Details of these two policies, with such anomalous rankings, are not given but their existence is certain.

It is possible to produce two nonparticipating policies with equal premiums, where the policy with the higher cash values (better benefits-premiums ratio) has the poorer level price ranking. This possibility follows from the preceding paragraph, and is also confirmed by a modification of an example presented by Gould.[3] The suggested modification is to use one-third of the lapse rates assumed in Gould's original example. With this modification, we have an example of equal-premium policies, where the higher cash value policy (with the better benefits-premiums ratio ranking) has the poorer level-price ranking.

The Not-So-Tragic Flaw

Rank correlation coefficients of .99 must be treated with respect. The misrankings are possible, but most unlikely. The level-price method produces acceptable rankings with acceptable reliability.

The level price itself may still be faulted as an absolute measure. Yet its ability as a ranking technique may not be so faulted. From the consumer's viewpoint, policy ranking is relevant, absolute price irrelevant. The low price of a policy is seldom a sufficient inducement to buy, as opposed to not buying at all. But policy rankings are often sufficient for policy selection, once the decision to buy has been made.

The Real World of Mathematics

The level price of a policy is a measure of something, even if that something is not readily understandable by policyholders or acceptable to other analysts or actuaries. It exists, even if not yet fully understood. It would be interesting, for example, to know more of the misranking potential inherent in the level price. It would be interesting, but not relevant to the marketing of life insurance.

The concept of the level price is understandable to analysts and actuaries, but is not likely to penetrate the consumer market. The consumer does not necessarily need to know how a measure is calculated, but he does need to know what it means after someone else does the calculating. Without that understanding, price competition (or non-competition) in the Disneyland of policyholder behavior will be unaffected.

Of course, policy rankings that result from level prices might penetrate. These rankings are valid, using the benefits-premiums ratio rankings as the measure of validity. But then why not use benefits-premiums ratios and rankings in the first place?

While Standing on One Foot

Professor Belth writes that the benefits-premiums ratio would be simpler to ex-

[3] William Gould, "Dr. Belth's 'Price' Theory," *The Actuary*, Vol. III, No. 3 (March, 1969), pp. 4-5. For Professor Belth's discussion of Mr. Gould's article, see Joseph M. Belth, "More About the 'Price' Theory," *The Actuary*, Vol. III, No. 6 (June, 1969), pp. 1, 5-6.

plain and more easily understood than the level-price approach. An analogy with loss ratios is presented. An analogy with "retention" as used in group insurance sales could also be used. And an analogy with mutual fund "sales load" is also possible.

The ease of explaining the result should not make us forget the difficulty in choosing the assumptions required for calculation. The choices of interest, mortality, and lapse assumptions will be difficult, and abrasive, as they are now with the level price. But the explanation of the result will be easier, within the traditional injunction of doing so "while standing on one foot."

To Right the Unwriteable Wrong

The benefits-premiums ratio method was mentioned and explained in Professor Belth's 1966 publication,[4] as one of several price measurement approaches. The method was then avoided in the remaining 280 pages, and in subsequent *Journal* articles, until publication of the article under discussion. The consequent papers on level prices have been bountiful for analysts and actuaries, but have had inconsequential effect on sales practices.

I do not mean that buyer cost consciousness is necessarily all for the good. I do mean, though, that if we wish to promote cost consciousness and comparisons among buyers then we should encourage the use of the benefits-premiums ratio (ratio of present value of benefits to present value of premiums).

I have confidence that if Professor Belth now gives the benefits-premiums method the same zealous support heretofore given the level-price method, then he will have the significant effect on marketing practices heretofore denied.

[4] Joseph M. Belth, *The Retail Price Structure in American Life Insurance*, *op. cit.*, pp. 7-20.

INDIANA UNIVERSITY
Graduate School of Business
SCHOOL OF BUSINESS BUILDING
BLOOMINGTON, INDIANA 47401

July 13, 1973

TEL. NO. 812—337- 3297

Mr. Dean E. Sharp
Senate Antitrust and Monopoly Subcommittee
104 Senate Annex Building
Washington, D. C. 20510

Dear Dean:

Enclosed is a copy of a letter written by Mr. Cavanaugh to the editor of Life Insurance Selling for publication in that magazine. Also enclosed is a copy of my response. I would suggest that Mr. Cavanaugh's letter and my response be included as a part of the hearing record.

Best personal regards.

Sincerely yours,

Joseph M. Belth
Professor of Insurance

JMB/ss

John Hancock Mutual Life Insurance Company

Joe, I will send an edited version of this letter to L.I.S. Would you like to have a response at the same time? AH.

RECEIVED JUN 25 1973

Walter R. Cavanaugh, C.L.U.

17190 Denver
Detroit, Michigan 48224
Business: 886-7700

June 22, 1973

Life Insurance Selling
408 Olive
St. Louis, MO 63102

To The Editor:

Re: Deceptive Practices of University Professors

Professor Joseph M. Belth has been writing articles and making speeches about his imagined deceptive practices of life insurance salesmen.

The system that he has recommended to explain a life insurance policy is so confusing - even to students of life insurance - that it would leave any prospective buyer so bewildered that he wouldn't buy anything. There seems to be a conserted effort on the part of Chartered Life Underwriters and most agents who have the true concern of the buyer at heart to keep things as simple as possible. If we listen to Joe Belth, we'll change our old motto, "Keep It Simple, Stupid" to "Keep It Stupid, Simple".

University professors, politicians and consumer activists don't give the public credit for having a brain in their heads. The public knows the use of money has a cost. Joe Belth would have us spell it out on a six page proposal to sell a $10,000 policy. Professors and politicians are so steeped in paperwork that they can't understand giving the time-of-day to anything less than a six page report with ten copies. Now they want to get in the act and carry so much information around with us that we would look like newsboys rather than life insurance salesmen.

University professors should talk about deceptive practices of others. How does Joe Belth justivy using his position as Professor of Insurance at Indiana University to promote the sale of his books and articles plus garnering fees for speeches based primarily on his positon as Professor of Insurance. I don't believe he could get a handful of people to walk across the street to hear him if a free dinner was thrown in -- if he didn't hang on to the Pro-

Life Insurance Selling
June 22, 1973

fessor of Insurance title.

It is ironical that our critics should come from the two worst-run institutions in the country, our universities, and the government. If Joe Belth wants to get into something that would save a lot of money for the consumer, he could start on the cost of education that has priced everyone out of the market except those who get it free and those who are wealthy. He could use some of the time when he is supposed to be on the job at the university to do something constructive in the nature of training better informed citizens in the proper use of insurance and creating more skilled agents.

I believe the insurance profession should start a net cost study of what it costs in our taxes to pay university professors who can't find time to do their teaching because they are so busy with well-paid extracurricular activities. The professors should talk about "deceptive Practices"--the universities had a threatened strike on their hands when it was proposed that professors put in an 8 or 9 hour classroom week for at least six months a year. This would have overworked them so badly that they wouldn't have had time for outside interests nor the energy for those much needed paid sabbatical leaves.

I personally think that any insurance organization putting Joe Belth on a platform are out of their mind. Anyone who buys his books and subsidizes his garbage also should have their heads examined.

I'll sit back and wait now until Joe takes another four weeks of university time to rebut this article.

Sincerely,

W. R. Cavanaugh, C.L.U.

WRC/nc

To the Editor:

When I testified at the life insurance hearings in Washington in February of this year, Senator Hart asked me the following question: "If the information disclosure system that you have outlined this morning was put into effect, what is your opinion as to the consequences this would have on life insurance agents?"

My response was as follows: "The effect on agents, Mr. Chairman, would be extremely difficult to predict, and it's an extremely sensitive and emotional issue."

In my opinion, Mr. Cavanaugh's letter is a good example of an emotional reaction to my criticism of certain life insurance sales practices. For that reason, I am sending a copy of his letter to Senator Hart, with the suggestion that it be included in the published record of the hearings.

JOSEPH M. BELTH
Professor of Insurance
Indiana University
Bloomington, Indiana

March 5, 1973

Dr. Joseph M. Belth
Professor of Insurance
Indiana University
School of Business Bldg.
Bloomington, Indiana 47401

Dear Dr. Belth:

We appreciated your testimony at the Life Insurance hearings.

Subsequent to your testimony, Commissioner Stanley DuRose and Mr. Edwin Matz testified.

On the second day of the hearings, the Subcommittee received a prepared statement which was submitted by Commissioner DuRose on behalf of the NAIC as Chairman of its Task Force. According to that prepared statement at page 4, Exhibit 4 was attached by Commissioner DuRose "as evidence of the complexity of the problem" and to show that "no less than 21 different attempts have been made to solve this problem" (the "problem"--cost disclosure).

On the third day of the hearings, the Subcommittee heard Mr. Edwin Matz who testified on behalf of the American Life Insurance Association (ALIA) "whose 350 member companies write 90% of the life insurance written by United States companies." Mr. Matz appeared specifically "to present our views concerning cost information currently available to purchasers of life insurance and the various price indicies that have been developed." On page 2 of his prepared statement, Mr. Matz said: "That report (i.e. of the Joint Special Committee on Life Insurance Costs) reviewed some 12 different methods for constructing price indices..."

We would appreciate for the record your response and comments to the following questions:

(1) Are the 12 methods in the report of the Joint Special Committee on Life Insurance Costs all different methods for comparing costs? Please explain.

(2) Are the 21 methods listed in Exhibit 4 to the prepared statement of Commissioner DuRose on behalf of the NAIC all different methods for comparing costs? Please explain.

We would appreciate receiving this information as soon as possible.

Sincerely,

Philip A. Hart
Chairman

DES:CMM

INDIANA UNIVERSITY
Graduate School of Business
SCHOOL OF BUSINESS BUILDING
BLOOMINGTON, INDIANA 47401

July 5, 1973

TEL. NO. 812—337- 3297

Senator Philip A. Hart, Chairman
Subcommittee on Antitrust and Monopoly
Russell Office Building
Washington, D.C.

Dear Senator Hart:

This is in response to your letter of March 5, in which you asked whether the various methods of price comparison that have been suggested are all different methods. In my opinion, they are not. I believe that they all should be considered as one method, but with different assumptions and different approaches to their presentation.

Any measure of the price of life insurance over a period of time is simply the difference between what the policyholder pays to the insurance company and what the policyholder gets back from the insurance company. To evaluate what the policyholder pays in and what he gets back, it is necessary to make interest, mortality, and lapsation assumptions. In my opinion, changing the assumptions does not constitute a change in method.

Furthermore, the value of the difference between what the policyholder pays in and what he gets back may be expressed as of the policy issue date, as of the end of some time period, or as an average annual figure. Similarly, it is possible to express what the policyholder gets back as a percentage of what he pays in. In my opinion, changing the manner of presentation does not constitute a change in method.

With the above as background, let us consider some of the "methods" referred to in the Report of the Joint Special Committee on Life Insurance Costs and in Exhibit 4 of Commissioner DuRose's testimony.

1. Company retention. The difference between what the policyholder pays in and what he gets back is expressed as of the policy's issue date, and interest, mortality, and lapsation assumptions are used in the valuation process.

2. E-value. This is the same as the company retention.

3. Benefits-premiums ratio. This is the same as the company retention, except that the value of what the policyholder gets back is expressed as a percentage of the value of what the policyholder pays in.

4. Benefits cost. This is the same as the company retention, except that the result is expressed as an average annual figure rather than as a lump sum at the policy's issue date.

Senator Philip A. Hart
July 5, 1973
Page 2

5. Lewis modification of the level price. This is the same as the benefits cost.

6. Present value of premiums. This is the same as the company retention, except that zero lapse rates are used in the valuation process, and cash values are not considered as a part of what the policyholder gets back.

7. Interest adjusted. This is the same as the company retention, except that the result is expressed as an average annual figure, zero mortality rates are used in the valuation process, and it is assumed that the lapse rate is zero in every year but the last and 100 percent in the last year of the analysis.

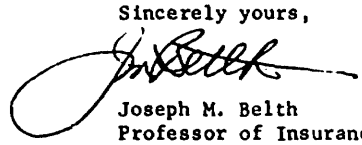
8. Accumulated premiums. This is the same as the interest adjusted method, except that the result is expressed as of the end of the period of analysis.

9. One thirtieth. This is a shortcut device for approximating the results achieved under the interest adjusted method.

10. Traditional. This is the same as the interest adjusted method, except that 0 percent is used in the valuation process.

It would be possible but not fruitful to analyze the various other "methods" in this manner. The point is that the only differences among them are differences in the assumptions used in the valuation process and differences in the manner of expressing the results. In my judgment it is inappropriate to argue that a vast number of different "methods" constitutes a barrier to life insurance price disclosure when there are no fundamental differences among the various methods.

Sincerely yours,



Joseph M. Belth
Professor of Insurance

JMB/ss
cc: Commissioner Stanley C. DuRose
Mr. E. J. Moorhead
Mr. Armand C. Stalnaker

INDIANA UNIVERSITY
Graduate School of Business
SCHOOL OF BUSINESS BUILDING
BLOOMINGTON, INDIANA 47401

June 26, 1973

TEL. NO. 812 337-3297

Hon. Stanley C. DuRose
Commissioner of Insurance
State of Wisconsin
201 East Washington Avenue
Madison, Wisconsin 53702

Subject: NAIC Model Rules on Price Disclosure and Deceptive Practices

Dear Commissioner DuRose:

You and your Life Insurance Cost Comparisons Task Force are to be commended, as are the members of the National Association of Insurance Commissioners, for the actions taken in the price disclosure area at the recent NAIC meeting in Washington. It is encouraging that the Association has now endorsed the interest adjusted method on an interim basis until such time as the results of several ongoing research projects may point up the need for more elaborate disclosure requirements.

Several questions are raised by the model rules that have been adopted. Since the commissioners of the various states may soon be considering the adoption of one or both of the model rules, I felt that it would be appropriate to raise the questions publicly, so I am sending a copy of this letter to each of the commissioners.

An extremely important question is raised by Section 5 of the model rule on the "Life Insurance Interest Adjusted Cost Comparison Index." The rule states that the index must be furnished by the agent or insurance company "upon request of a sales prospect at or prior to delivery of the policy." Presumably this means that there is no requirement to furnish the index if the buyer requests it subsequent to delivery of the policy. More important, however, is the fact that the index does not have to be furnished at all unless the prospect requests it.

Certain life insurance industry associations, companies, and individuals have argued for the "on request" approach on the grounds that there should be no requirement of disclosure to buyers who do not want the information. Certain consumer representatives and others, however, have argued that an "on request" disclosure requirement is not a disclosure requirement at all. It means that the buyer must know of the availability of the information and take positive action in order to get it. Presumably he would even have to know enough to ask specifically for the "life insurance interest adjusted cost index."

It is true that individual states could take the mandatory route by modifying the model rule, but it would seem reasonable to have the model rule take the stronger approach and let the states weaken it if they choose. The question is this: Why did the task force recommend the "on request" approach?

Section 3 of the same rule exempts certain types of life insurance policies. One of the exclusions is term life insurance. An important reason for the interest adjusted index is the differing slopes of the dividend schedules of participating policies issued by different companies. It would seem that the interest adjusted index would be similarly useful in the case of term policies because of the differing slopes of the premium schedules. Why did the task force recommend the term insurance exemption?

Section 3 also exempts policies with a face amount of $5,000 or less. It would seem that the small buyer is the person who can least afford to be denied price information. Why did the task force recommend the small policy exemption?

Section 3 also exempts substandard policies. Why did the task force recommend the substandard policy exemption?

Section 4 requires that an interest rate of 4 percent be used in constructing the index. Neither the task force report nor the model rule discusses the interest rate. While the industry committee and certain companies and individuals have suggested 4 percent, certain others have suggested higher rates. Why did the task force recommend 4 percent?

My final question has to do with Section 5 of the model rule on "Deceptive Practices in Life Insurance." Section 5(d) and the wording of the task force report make it clear that the traditional net cost method should be prohibited as a deceptive sales practice. Neither the rule nor the report, however, refers specifically to the kind of yearly cost figures found in many ledger statements; that is, cost figures calculated by subtracting the cash value increase and the dividend, if any, from the annual premium.

The effect of such calculations is to allocate the entire interest factor to the current year instead of allocating a substantial portion of the interest to the accumulation of previous years, and the result is a substantial understatement of the cost for the year. Section 5(c) would prohibit "the manipulation of amounts and numbers in such a way as to mislead the prospective purchaser concerning the cost of the insurance protection," but it is not clear whether that subsection was intended to include traditional yearly ledger net cost figures. Did the task force intend to define such figures as deceptive and thereby prohibit them?

Sincerely yours,

Joseph M. Belth
Professor of Insurance

JMB/ag

cc: Jon S. Hanson, Senator Philip A. Hart, Spencer L. Kimball, Virginia H. Knauer, E. J. Moorhead, Bartley L. Munson, Armand C. Stalnaker

LETTER TO JOSEPH BELTH FROM C. L. TROWBRIDGE, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, WASHINGTON, D.C., DATED APRIL 13, 1973

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION
WASHINGTON, D.C. 20201

REFER TO

April 13, 1973

Professor Joseph M. Belth
Graduate School of Business
Indiana University
Bloomington, Indiana 47401

Dear Joe:

I have your letter of April 6, replying to mine of March 8. Since I wrote you last, I have also obtained a copy of your Life Insurance: A Consumer's Handbook. I have a few questions or further comments, inspired either by your letter or by a reasonably close reading of the book. I will try to handle your letter first, and some tie-ups with the book later.

Don't read too much into my comment about Sections I through III of your testimony, only Section II of which has to do with deceptive practices. My comment about "more importance than I would give" was not directed at deceptive practices per se, but rather at the whole issue with which the Committee is concerned. The subject is important; but it is possible to make too much out of it.

Of the two alternatives in your third paragraph, I too prefer assuming a rate of return and forcing out a price of protection. However, I am not particularly enamored with doing either. I would like to see a good price measure of the insurance-savings package. In buying an automobile, for example, it doesn't do much for me to assume a price for the chassis, and force out a price for the body--because I don't care about buying either separately. I am interested in the total price, and being able to compare with similar body-chassis packages.

Until I read your book, I had the idea that the purpose of column (7) of Table 3 (of your statement) was to make comparisons with individually offered term insurance, to see whether one did better to split the combination. After reading your book, with its emphasis on only trying to make price comparisons on similar policies, I begin to wonder whether column (7) has any worthwhile purpose, from the consumer's point of view. In the last paragraph on page 2 of your letter you try to justify column (7). The only argument that makes much sense to me is that about

comparing with a mortality table. In the first place you don't make such a comparison, and in the second, how the comparison will look depends so heavily on the interest rate assumed.

This leads to the interest rate sensitivity issue, and my use of the word "arbitrary" in connection with the interest assumption. In the case before us an interest assumption is being used for one purpose only--the split of a price into insurance and investment elements. We have seen that the split is very sensitive to the interest assumption, and that two reasonable and informed persons (we hope) can't even agree on whether a before tax or an after tax interest rate is appropriate. Probably my use of the word "arbitrary" should apply more to the split than to the interest assumption.

Incidentally, you keep referring to the mathematical techniques for combining the price elements as a "disclosure system". It seems to me that all of the elements of price disclosure are satisfied by columns (1) through (5) of your Table 3. Columns (6) and (7) and all of Table 4 are hardly "disclosure" matters. Instead, they are the results of manipulating the elements disclosed in a fashion that one hopes will make price comparison meaningful.

I wish I could agree with you that the interest, mortality, and lapse assumptions, used in your context, are no more arbitrary than they are when an insurance company employs such assumptions in setting premium rates, cash values, and dividends. The way you use these assumptions, they are needed for individual decision making, and involve a personal view of interest, of mortality, and of lapse. If a price system designer, or a regulatory body, sets these for the individual, he must necessarily be arbitrary. On the other hand, an insurance company socializes by the use of broad averages based on experience. I thought you pointed out the difference pretty well in your letter to the New Hampshire Commissioner.

Fractional premiums seem to be handled by various companies in three different ways:

1. Premiums charged to end of policy year of death, no matter how premiums paid.

   In this case your formulae appear to be correct, for annual case and for fractional premium case.

2. Premium charged to end of premium period in which death occurs.

   In this case, formula for annual case OK, but interest rate in fractional premium case overstated.

3. Premium charged to date of death.

   In this case, formula for annual case slightly understates value of protection, but interest rate in fractional premium case OK.

Your book recognizes the slight error for Case 3, and shows it to be almost insignificant. A correction for Case 2 can be made by subtracting from the interest rate imputed to the fractional premium extra the mortality rate, expressed as a percentage and averaged over the period considered. For the case in your statement to the Committee, the mortality rate above age 35 might average about 5 per thousand, or ½%; and the interest rates imputed to fractional premiums in Table 4 would then become 7.7%, 7.5%, and 6.5%--assuming Northwestern Mutual handles as in Case 2 above.

There is one rather peculiar thing about the above. A Case 3 company, the most liberal of all, would get credit for its liberality in neither formula if the above were followed. For this reason, you might want to treat Case 3 like Case 2.

Turning now to your book, I am struck by one of the poor effects of using a uniform mortality assumption over all policies. In an earlier letter I pointed out that substandard policies can hardly be treated in such a fashion, because the protection element would clearly be badly understated, and the retention therefore overstated. On page 76 of your book, in discussing non-smoker discounts, you suggest the subtraction of the discount from both the premium and the retention. If the non-smoker discount is because of lighter mortality among non-smokers, the second subtraction should be from the protection element rather than from the retention.

Also note the Banker's Life (Iowa) PWL policy in Table 4-1 of your book. This policy has the lowest "retention" of any policy on the page, $100 lower than the BLC SPWL just above it.

The Preferred Whole Life policy is a super-standard policy, with unusually strict underwriting standards, such that Bankers Life expects only about 85% (of standard) mortality, and prices the product accordingly. If so, the protection element is overstated by $100 or so, and the retention understated similarly. How many other policies of a similar nature appear in your list, I have no way of knowing.

I also note that Table 4 of your statement illustrates (presumably) the same NW Mutual policy as shown in Table 4-1 of the book, but most of the numbers are higher. Am I correct that the book looks at the first 20 years only, whereas your statement to the Committee looks over the entire future lifetime? Which do you really intend?

The ratio of benefits to premiums is shown as 75.5%, whereas a similar calculation from the book is $\frac{638 + 2687}{5666 - 1533} = 80.5\%$. I can't believe that the ratio should go down as more years are included. Moreover, the saving element in the book is $2,687, but only $2,279 (for a longer period?) in the statement. Could one of these be wrong?

Have you possibly changed the mortality or lapse assumptions? Table H-2 in the book looks like an ultimate mortality table, while Table 4 of the statement is based on a select table (according to the footnote).

Back when I was working on this problem, I had the idea that a good index might be the present value of future premiums less dividends. This idea got a lot of consideration in the industry committee, but was finally thought inferior to the interest adjusted method. I enclose an analysis showing that this idea is a simplification of your concept, with (I think) many of the troubles with your concept eliminated.

This isn't really my field today, but I seem to have gotten back into it. I guess I have no real objection to your passing our correspondence around--but I don't feel that it needs to be a formal part of the Committee record.

Sincerely yours,

Trow

Enclosure

C. L. Trowbridge, F.S.A.
Chief Actuary

ANALYSIS

The analysis of Professor Belth, illustrated in Table 4 of his testimony before Senator Hart's Subcommittee, and in Table 4-1 of his book, is essentially a split of the present value of all future premiums into four smaller present values. The present values are computed on the basis of three assumptions, an interest assumption, a mortality assumption, and a withdrawal assumption.

The sum and its four parts are illustrated in Table 4 as follows:

a)	The "protection" element	$1,206
b)	The "savings" element	2,279
c)	Retention	1,128
d)	Illustrated dividends	2,627
e)	Premiums	$7,240

In his ratio of benefits to premiums, the illustrated dividends are considered to be return of premium (or negative premium), so the analysis is slightly recast by breaking "premiums less dividends" into three parts as follows:

a)	The "protection" element	$1,206
b)	The "savings" element	2,279
c)	Retention	1,128
d)	Premiums less dividends	$4,613

Then the first two parts are considered benefits, and the ratio of benefits to premiums less dividends is computed as

$$\frac{1206 + 2279}{4613} = 75.5\%$$

The retention is thus $\frac{1128}{4613}$ of net premiums, or 24.5%.

It is of importance to note that the premiums less dividends figure ($4,613) is in itself a "price" for the combined savings protection package, including all of the mark-up for commissions, taxes, administrative expenses, and profit. It could well serve the purpose of a price comparison method without breakdown into its three parts, as long as policies with similar face amount and with similar period of insurance are being compared.

The breakdown of the "premiums less dividends" into the three smaller elements is confusing to the public, and will lead to endless controversy because of its sensitivity to the actuarial assumptions made. In particular:

a) The "protection" element is less than the present value of all death claims, and the "savings" element is more than the present value of all withdrawal benefits, because Professor Belth has chosen to view the cash value portion of any death claim paid as a withdrawal from savings instead of a part of protection. The opposite choice is at least as good, and perhaps more in keeping with the way the public usually looks at life insurance.

b) The three-way split depends almost entirely on the actuarial assumptions. In particular, a lower interest rate assumption would increase the savings element substantially, and lower the retention. A higher mortality rate would increase the protection, and lower the retention. Changes in all three assumptions affect the premiums less dividends figure (the higher the interest, the mortality, and the withdrawal assumptions the lower the present values); but they affect all policies about the same way, and do not distort relative positions to any great extent. On the other hand, relatively small changes in the assumptions (particularly the interest assumption) greatly affect the split, and hence give the public a greatly varying view of the relative size of protection, savings, and retention.

Use of the premium less dividend figure as a measure of price has the important advantage that it looks at the policy as a whole, rather than as a sum of its indivisible parts. Moreover,

it neither exaggerates or hides price differences when expressed as a percent. Its only real weakness is that it gives the company with higher cash values no credit for such higher values. A rank of companies by premium less dividend, instead of by retention, is taken from Table 4-1 of Professor Belth's book (every fifth policy for simplicity) as follows:

		Prem. less Div.	Rank	Retention	Rank
Aetna Life	WL	5722-1245 = 4477	(9)	1296	(9)
Bankers Life (Iowa)	PWL	5406-1529 = 3877	(1)	652	(1)
Connecticut General	L90	5254-642 = 4612	(10)	1283	(8)
Franklin	ESWL	5457-1127 = 4330	(7)	1213	(7)
Jefferson Standard	L90	5401-1027 = 4374	(8)	1311	(10)
Mass. Mutual	CL	5668-1530 = 4138	(5)	853	(4)
National Life (Vt)	PEP	5428-1269 = 4159	(6)	919	(6)
Northwestern Mutual	L90	5666-1533 = 4133	(4)	808	(2)
Provident Mutual	PML2	4994-1046 = 3948	(2)	846	(3)
Sun Life (Canada)	WL	5612-1577 = 4035	(3)	902	(5)

Ratio--highest/lowest $\frac{4612}{3877} = 1.19$ $\frac{1311}{652} = 2.01$

Note price differences appear to be 19% from low cost to high cost when measured by net premiums, 100% when measured by retention. Even more exaggeration of price differences (when measured by retention) would occur if lower interest assumed.

[From Commerce Clearinghouse, Inc., Life Cases, vol. 1]

[¶ 500,137] WELLS v. METROPOLITAN LIFE INSURANCE CO.

City Court of the City of New York, County of Kings. February 9, 1939.
101 New York Law Journal 661.

Dividends; Participating Mutual Life Policy; Non-participating extended term insurance.—In a suit on a participating mutual life policy, the controversy was whether the policy had lapsed for non-payment of premiums of whether its cash value was sufficient to purchase extended term insurance for a period beyond the date of death. This was dependent on whether or not insured was entitled to a certain dividend. It was held that the so-called "dividends" in a mutual company are not dividends in the ordinary sense of the word, but merely represent an excess premium or over-charge by the policyholder. Consequently, insured could not be deprived of a "dividend" which had been ascertained and apportioned while his policy was in full force and effect, even though it was not payable until after the policy had lapsed.

Anschel E. Barshay and Phillip Hoffman, for plaintiff.

Tanner, Sillcocks & Friend, for defendant.

STATEMENT OF FACTS

Goldstein, J.: The facts here are not in dispute. On January 1, 1931, the defendant issued its insurance policy in the amount of $2,000 to Ernest J. Wells, in which policy the plaintiff, Florence S. Wells, his wife, was designated as beneficiary. The premiums were paid regularly by the policyholder until July 1, 1936, when the policy was in default because of nonpayment of premium. By the terms of the policy he was from that date on entitled to "extended term insurance," which was to be paid for by the cash value or net equity of the policy as of that date. If that cash value or net equity was $24.73, it would have continued the policy up to the care of the death of the insured, December 16, 1937. If the net equity for cash value was only $19.12 the extended term insurance would not have continued the policy to that date. Consequently, the determination of the actual cash value or net equity in the policy is of controlling significance.

DIVIDENDS RECEIVED

After 1931 the policy holder received so-called "dividends" on his policy as follows: For the year 1932 the sum of $9.88; for the years 1933 and 1934, $9.88 in each year. For the year 1935, a dividend in the sum of $9.88 was set aside and allocated but never paid over to him. The defendant concedes that, if this dividend had been credited to the insured's account, the equity with the defendant would have been more than sufficient to purchase extended term insurance down to the date of his death. It is also admitted that all other policyholders whose policies were in force during the year 1935 received their proportionate share of the "dividend" for that year. The deceased, however, was deprived of them by the defendant and the reasons offered for such action by the defendant are these:

ARGUMENT FOR NON-PAYMENT OF DIVIDENDS

Dividends for the year 1932 were not paid until January, 1934. Dividends for the year 1933 were not paid until January, 1935. Dividends for the year 1934 were not paid until January, 1936. The dividend for 1935 was retained by the defendant because it claims that the dividend was not payable until the next anniversary of the policy following the next succeeding 30th day of April, and since the policy lapsed in July 1936, the alleged dividend for 1935 was not payable until January, 1937. By that time the deceased had already died. The argument is based upon paragraph "12" of the policy, which reads as follows:

"This policy is a participating contract except when continued as nonparticipating paid-up Term Insurance, and the Company will annually as of the thirty-first day of December of each year, ascertain and apportion any divisible sum plus accruing hereon. Such Divisible surplus except as stated in the next succeeding paragraph, will be payable on the next anniversary of this policy following the next succeeding thirtieth day of April and May, at the option of the Insured, or of the Assignee of record, if any, be either (a) paid in cash; or, (b) applied within the grace period towards the payment of any premium or premiums; or

(c) applied to the purchase of a participating paid-up addition to the sum insured; or, (d) left to accumulate to the credit of this policy * * *".

The defendant's argument then proceeds thus: If a dividend were, ascertained and apportioned as of December 31, 1935, it would not be payable according to the terms of the policy before quoted until January 1, 1937, which is the anniversary date of the policy next succeeding April 30, 1936. As mentioned hereinabove, on January 1, 1937 the policy was operating upon a *non-participating* extended term basis and the insured was therefore not entitled to receive the dividend, payable on that date. The policy provides specifically that participating in divisible surplus is available only to "participating" policies, that is to say, those under which premiums have been currently paid. The court observes, therefore, that strictly according to the terms of the policy this alleged dividend which the plaintiff now claims should be credited to the policy was not payable. If not, then the term of the extended insurance had expired prior to the death of the insured and at that time the policy was wholly out of benefit and had no value whatever.

The defendant then urges that this policy is governed by the provisions of section 83 of the Insurance Law, subdivision 2 thereof, which refers to term and industrial policies. Finally, says the defendant, a resolution of the 1935 dividend contingent upon payment of future premiums.

INTERPRETATION BY STATE DEPARTMENT OF INSURANCE

Before commencing this action the widow's attorney wrote to the State Department of Insurance requiring its opinion. He was advised that although the department agreed with his interpretation of the policy, the department could only recommend favorable action on the art of the defendant. It could not *compel* favorable consideration of the claim. This was followed by a letter to the president of the defendant. That resulted, apparently, in an offer to repay the $9.88, but not the amount of the policy.

STATUTORY LAW

None of the arguments advanced by the defendant appeals to the court, either in logic or in law. The second argument is disposed of by the defendant itself in its opposing affidavit where it distinctly and unequivocally declares that the policy in suit is an "Ordinary" policy and not a term or industrial policy. It is difficult to understand the defendant's attempt at confusing the policy in suit with "term" or "industrial" policies. Furthermore, this policy is plainly governed by subdivision 1 of section 83 of the Insurance Law, as well as by sections 88, 89 and 101, subdivision 5. These sections of the Insurance Law require that the proportion of surplus accruing upon such a policy "shall be ascertained and distributed *annually* and not otherwise" (sec. 83). Furthermore, "such apportionment in the case of any policy shall not after the first policy year be made contingent upon the payment of the whole or any part of the premium for the subsequent policy year." (Idem.).

It is further provided in that same section that the share of the surplus so apportioned shall "be applicable to the payment of any premium or premiums upon said policy or to the purchase of a paid-up addiction thereto. * * *."

Section 101, subdivision 5, plainly requires that each ordinary life policy contain a provision "that the policy shall participate in the surplus of the company *annually*." Section 89 prohibits discrimination between individuals of the same class in the amount or payment or return of premiums or rates charged for the policies of insurance or in the dividends or other benefits payable thereon. Section 88 clearly indicates that the defendant's interpretation concerning "participation" is inaccurate.

ACCRUED RIGHT TO PARTICIPATE

After the so-called equity of the policy is applied to purchase extended term insurance, *that extended term insurance* is without participation. But that does not mean that a policyholder is thereby deprived of a right to participate which had already accrued prior to the lapse of the policy. In other words, at the end of the year 1935 the plaintiff was entitled to participate in the surplus for the year 1935 to the same extent as any other policyholder in good standing at the end of that year. Of that dividend he could not be deprived by any subsequent act of the insurance company. A forfeiture of the policy in 1936 in no wise affected his right to that dividend for 1935, and he was, therefore, entitled to be credited with the additional sum of $9.88 as a dividend for the year 1935—a year in which

his policy was in full force and effect and for which he had paid the agreed premium in full. The provision concerning "non-participation" begins to operate from the date of lapse of the policy and applies only to "dividends" declared thereafter. It does not destroy a right theretofore accrued. Since other policyholders who had paid the same premium and were in a similar position received their dividend for that year, the deceased policyholder, too, was entitled to it.

BOARD OF DIRECTORS' RESOLUTION

The resolution of the board of directors, urged as a defense, is equally insufficient. In the first place, the resolution by no means clearly applies to the policy in suit. It is to be doubted whether the board had before it for consideration the claim here sued upon. Since only a fragment of the resolution has been presented to this court, that doubt must be resolved against the defendant. Secondly, even if it were clearly applicable, it would be void to the extent that it purports to vary the terms of the policy itself, because the policy contains no such condition to the payment of dividends as is contained in the resolution.

Nor may the board lawfully withhold such a "dividend" if the facts warrants its distribution. Furthermore, section 83 of the Insurance Law distinctly requires that the apportionment of dividends in the case of any policy shall not, after the first policy year "be made contingent upon the payment of the whole or any part of the premium for the subsequent policy year." Therefore, even if there were such a provision in the policy itself, it would, in my opinion, be void, because it would contravene section 83 of the Insurance Law.

Finally, in so far as the resolution attempts to incorporate a condition or stipulation not contained in the contract of insurance itself, it violates 58 of the Insurance Law which requires the entire contract between the parties to be incorporated in the policy and prohibits the incorporation therein, by reference, of any by-laws or other rules not physically made a part of the policy at the time when it is issued (see *Atlantic Life Ins. Co. v. Pharr*, 59 F. 2. 1024, certiorari denied 287 U. S. 647).

"DIVIDENDS" IN A MUTUAL COMPANY

But all of the arguments of the defendant are fallacious for a more fundamental reason. They overlook the essential nature of the "dividends" to which every policyholder in a mutual company is entitled. The average policyholder purchasing a participating policy in a mutual company believes that his policy represents an investment and that he will share in the "profits" of the company. That, however, is not the fact. The so-called "dividends" are not dividends at all, in the accepted and ordinary sense of the word. In fact, they represent an excess premium or overcharge paid by the policyholder, and then returned to him, without interest, less the costs attendant upon collection and administration and various other deductions. In *Rhine v. New York Life Ins. Co.* (248 App. Div. 120, aff'd 273 N. Y. 1), Mr. Justice Dore, writing for a unanimous Appellate Division, said, at page 123:

"As the policyholders in a mutual life insurance company have paid in more than was necessary, they are entitled to a return of such overpayments. *The dividends of a mutual life insurance company are, accordingly, strictly speaking, not profits as in the case of an ordinary corporation, but really constitute a return to the policyholder of the amount he has been overcharged for his insurance.* In life insurance companies operating on the mutual plan the whole of the divisible surplus is distributed among the members annually as equality as may be in the proportions in which they have contributed to it."

In other words, the policyholder creates his own surplus, by paying more for his insurance in advance than it should actually cost, based upon the mortality tables. At the end of the year, the exact amount of this excess is calculated by the company and returned pro rata to the policyholders. As Judge Lehman of the Court of Appeals said in the *Rhine* case, at page 13:

"The declaration of a dividend upon a policy reduces *pro tanta* the cost of insurance to the holder of the policy. That is its purpose and effect."

Viewed in this light, the defendant's contention appears to be most unreasonable. In effect it is saying that unless the policyholder continued to make overpayments of premium for 1936 and 1937 as well, he was not entitled to a return of his overpayment of premium for 1935. Ceretainly the policy does not so provide and the statute specifically prohibits that interpretation. It is plainly inequitable and unconscionable.

OVERPAYMENT IN DEFENDANT'S POSSESSION

Furthermore, the defendant had this overpayment in its possession at the end of the year 1935 and at least down to the date of the lapse of the policy. The $9.88 in question was just as much in the possession of the defendant on the date of lapse as it is today. Thus, even if it were not actually "payable" to the insured at the end of the year 1935, it still would constitute—as between the defendant and the policyholder—an element of equity to which the policyholder might justly lay claim in the event of lapse. Put differently the policyholder had the power to *prepay* the defendant to the extent of the $9.88 already in its possession. The defendant cannot complain if it received and retained it as its own property. A similar result was reached in *Finley v. Massachusetts Life Ins. Co.* (172 La. 477).

This case may therefore be summed up thus: The widow of the policyholder is being opposed by resourceful and technical contentions to deprive her of the amount due on the policy. The dispute concerns an overpayment of $9.88 admittedly received by the defendant as premium and retained by it for several years without conferring any benefit. The insistence by the insurance company in this case upon a strict and legalistic interpretation of the policy in suit sharply calls attention to the fact that this action is one of a large class which often comes before the courts for adjudication. A study of the principle and character of these actions, which are becoming more frequent and more engrossing for the litigants and the courts, prompts the comment upon the inadequacy of the present legislation and of the means of preventing, as well as of adjusting, the disputes which have become so common in the field of insurance, at least as applied to human life. The state of the law in this field does not appear to the observation and experience of this court to have kept abreast of developments of social, economic and governmental significance which vitally affect life insurance in particular and other forms of insurance in general.

High pressure salesmanship, misleading provisions in insurance policies, unusually high lapse ratio (over 66⅔%), unfair advantages taken of inexperienced and poverty-stricken policyholders—these were but a few of the evils condemned by the Legislature when it enacted the Savings Bank Insurance Bill last year (Laws of 1938, Chapter 471; Insurance Law, sections 307 to 339, inclusive).

NEED FOR STRINGENT REGULATIONS

But that represents only a partial measure of remedial force in a very comprehensive and far-reaching field of public interest and welfare. When the average citizen is asked to take ont a policy, he is presented with a glowing picture of the benefits which he and his family will enjoy once the policy is in force. Although the policy contains numerous phrases and provisions as to the interpretation of which even our courts do not always agree, much less attorneys, the prospect is told nothing about them.

It is a rare case when the policyholder sees the policy before he applies for it. Even rarer is his study of its technical language *after* he receives it and pays the first premium. Indeed, there appears to be a legislative presumption that the policyholder is ignorant of the terms of his policy (see Insurance Law, section 60, subdivision C). It is only when the policyholder is in dire need or suffers some ill fortune that he consults the policy at all. Then, for the first time, does he find, all too frequently, that the glowing picture presented to him when he purchased the policy is nonexistent, or at least substantially marred. He discovers a mass of technical phrases, utterly meaningless to the average layman, and of doubtful import to trained minds. If misfortune should strike him, it will be the burden of his widow to read and attempt to understand the fine print and hairline-construed phrases of the policy.

Furthermore, as a result of the court decisions interpreting various policies, the companies promptly make changes in the wording of their policies in order to comply with, or more often overcome, decisions favorable to the policyholders. When that policy in turn is sold to the public, nothing is told to it about either the most recent court construction or the changes made in the policy by the company. Nothing is told to the policyholder in plain language which would eliminate all question of policy construction at a later time. The result is that many years after the policy is written it is often learned that the policy bars relief because of some minor technicality.

During this entire time, the policyholder has been believing that he has been saving his money and protecting his family as well. Yet he finds to his surprise

that if he desires to borrow on his own savings he must pay a substantial rate of interest for borrowing his own money. If he desires to withdraw his savings he cannot do so without canceling the entire policy. Usually he is faced with this dilemma when he can no longer obtain other insurance. That accounts for the fact that most policies do not remain in force until their natural maturity. They are either canceled or lapsed. Cancellations and lapses far outnumber the former. In addition the policyholder is led to believe that the "dividends" which the company sends him annually are actually "dividends" in the same class with the dividends which he would receive upon a share of stock in a corporation. That, as has been shown above, is a deceptive illusion.

The most poignant disappointment, however, is generally not that of the insured but that of his widow or other beneficiary, as in the case at bar. Had the insured known when he took out his policy that he was purchasing a lawsuit over the sum of $9.88, the sole purpose of which is to construe the policy, he in all probability would not have purchased it. He would have realized immediately that his widow would not be possessed of sufficient funds to employ counsel as skilled and learned in the technicalities of life insurance law as are counsel for the insurance company, and that the cost of litigation in this court and through various appellate courts would be prohibitive. Fortunately, her counsel have presented her arguments most ably. Furthermore, the mere assertion of these technicalities breeds a distrust that ought not to exist between the assured and the insurance companies. The fact that policyholders' protective associations have been organized and are thriving in increasing numbers is proof of the fact that an unhealthy condition exists.

Insurance companies perform some most valuable functions in our present-day society. They should do more. If the directors of these insurance companies placed the interests of the public before the selfish interests of the company and its self-perpetuating executives a more humane policy toward these claims would inevitably result. It is difficult to believe that in spite of repeated investigations of insurance companies and their methods, nothing has been done to jostle their management into a keener realization of responsibility and duty to the public rather than to their own selfish ends. Insurance companies, through control of billions of dollars of public moneys, wield a vast power, too great for the kind of management exemplified by the attitude of the company in this and similar cases. The officials of these companies represent, in truth, an unofficial government that requires the stringent regulation so long sought, but not yet achieved. Many years ago Justices Hughes and Brandeis pointed out some of the evils here noted. Unfortunately too few of them have been corrected. Others have been added since.

The principle of insurance is being extended to hitherto undreamed-of areas of economic and social endeavor. Its scope and effectiveness is being broadened daily. But in our dynamic society, insurance policies, as well as insurance companies, must likewise keep pace with the times. The state has now acknowledged in a multitude of ways its obligation to protect the public in any private enterprise whenever that enterprise becomes affected with a *public interest* (*German Alliance Ins. Co. v. Kansas*, 233 U.S. 389). To my mind, life insurance has reached that stage of economic and social development which requires broader governmental supervision than has heretofore been accorded it, implemented with administrative quasi-judicial machinery to deal promptly and effectively with various phases of insurance as they affect the policyholders.

That insurance is affected with a public interest, and is subject to plenary regulation and control for the public good was definitely and broadly established by the United States Supreme Court twenty-five years ago in the case of *German Alliance Insurance Company v. Kansas* (*supra*), and yet the exercise of the legislative power then fully recognized has lagged far behind the development of the law in cognate or analogous fields of public interest. The reasoning of the majority opinion in that case by Mr. Justice McKenna upholding the sovereign power of regulation and the facts adduced to support the existence of such power, would seem to have pointed most strongly to the necessity of arousing a keener legislative interest in the problems of insurance and in the machinery requisite to safeguard the public as well as private interests than is evinced by the legislation enacted since 1914, at least in the State of New York, which has an unexcelled record for legislation of vast social benefit.

No one should be permitted to sell a lawsuit under the guise of an insurance policy. In spite of all theorizing, the fact is that the policyholder and the insurance company are not upon an equal footing. Indeed, the analogy to labor-employer contracts is not too remote, for to-day insurance is a necessity and not a luxury.

The law, however, lags behind the public interest. In sharp contrast with the development of regulatory laws and machinery for their administration and enforcement in other businesses affected with a vital public interest, the general legislative policy has been one of laissez-faire, a policy long abandoned in analogous fields of economic and social welfare. The solution to this pressing problem appears to lie with the Legislature and the governor. Perhaps a fact finding commission consisting of representatives of the insurance companies, the general public, the Bar and policyholders' associations, or similar groups, ought to be created to explore the complex problems in their various relations with the view of making recommendations to the Legislature. For example, policies ought to be standardized and considerably shortened. The suggestion made by Superintendent Pink in his recommendations to the Joint Legislative Committee of the recodification of the Insurance Law and dated October 24, 1938, to the effect that "authority should be given the Superintendent to disapprove misleading provisions in insurance policies," should be adopted. The policy should consist of a plain and concise statement of the facts, not in technical language requiring judicial construction, but in simple words of unmistakable import that cannot be changed to favor the company by by-law, contract, or otherwise, except upon direct authorization of the superintendent of insurance *or the Legislature.*

RECOMMENDED ABOLITION OF TERM "DIVIDEND"

The improvements so far achieved in the form of tariff schedules and service contracts of carriers and other public utilities by regulation of the State of New York should furnish an example for emulation and greater achievement by insurance companies. Indeed, the statute itself ought to contain the standard clauses to be inserted in every insurance policy, in equally clear language. "Fine type," verbose sentences with numerous clauses and pyramided conditions and provisos ought to be banned or at least minimized. An explanation and translation of the policy ought to be furnished to every person incapable of fully understanding the English language who requests it. The term "dividend" should be abolished and the phrase "return of excess premium" substituted therefor unless true dividends are actually declared. Before any policy is written a copy of the policy ought to be furnished to the prospective policyholder along with a booklet further explaining its implications in the light of certain circumstances. *Particularly* should this be true of "mutual" companies, for in that case the officials and directors of the company are trustees for the policyholders and owe them the same fealty that is owed from any trustee to his beneficiary. The board of directors of such a company should not be a mere aggregation of representative names. They should actively represent the best interests of the policyholders and not act simply as a perfunctory body, blindly perpetuating practices long condemned.

The policyholder should be told the difference between renewable term insurance and so-called "straight life insurance," which is really insurance or savings, although both are paid for simultaneously. The policyholder should be told the facts at least as clearly as they are contained in the booklets distributed by the State Department of Insurance, Savings Bank Life Insurance Division.

CONCLUSION

I venture to say that much litigation could in that way be avoided, grief to insureds and dependents spared, and goodwill between policyholders and insurance companies promoted. In the words of Superintendent of Insurance Louis H. Pink, contained in his report of October 24, 1938, above referred to, page 35: "It will take considerable courage and effort to alter the situation, but this is exactly what the companies are called upon to do. They must exercise their best leadership in an effort to put the sale of industrial insurance on a higher plan. Quality service to the public, and not mere production, must be the goal." Though this quotation refers to industrial life insurance, it is equally applicable to ordinary life insurance. It is to be hoped that the protection here urged will not be long in coming.

The motion for summary judgment should be granted in all respects.

Senator HRUSKA. The next witness is Mr. E. J. Moorhead of Winston-Salem, N.C.

Mr. Moorhead, you have furnished the subcommittee with a copy of your statement, which is quite extensive, and has some exhibits

attached to it. And then we have a sheet here, "Highlights of Your Testimony," is that something that you prepared, or is that something that the staff prepared here?

STATEMENT OF MR. ERNEST J. MOORHEAD, F.S.A., WINSTON-SALEM, N.C.

Mr. MOORHEAD. That was not prepared by staff. I have seen it. It was not prepared by me, either.

Senator HRUSKA. You may consider that the statement that you did submit will be incorporated into the record in its entirety, and if you wish to highlight it, you may do so, or you may read it, if you wish. It would be a little bit long to read, and we do have other witnesses, but you may have your choice.

I should say for the record that Mr. Moorhead was the chairman of the committee of the industry, the insurance industry, which rendered the report that was first published in May 1972.

[Mr. Moorheads' statement follows. Testimony resumes on p. 701.]

TESTIMONY OF ERNEST J. MOOREHEAD

I am Ernest J. Moorhead of Winston-Salem, North Carolina. I am a Fellow of the Society of Actuaries and Member of the American Academy of Actuaries. Until my retirement in December, 1972, I was Chairman of the Joint Special Committee on Life Insurance Costs formed by three major life insurance company associations—American Life Convention, Institute of Life Insurance, and Life Insurance Association of America—whose original task was "to consider the method or methods that a prospective buyer of life insurance may find most suitable for use in comparing the premiums, dividends and cash value of comparable policies that are offered by different life insurance companies".

In this testimony I attempt to answer five questions that are stated in my text, and also to describe the background and history of the Joint Special Committee on Life Insurance Costs.

By way of preamble, may I express the opinion that today very few life insurance buyers make any attempt to compare prices and benefits of life insurance policies. I believe that the nature of the sale, i.e. that it is usually made by an agent of a single life insurance company in the home of the purchaser, makes it impossible to change this situation rapidly without doing serious damage to the process of bringing life insurance to the people who need it. As I hope that my testimony will fully indicate, it seems to me desirable to concentrate on improving the quality of information, and the accessibility of that information, for those buyers who are interested in comparing prices and benefits; while steadily increasing the number of buyers who realize that it can be advantageous to them to make such comparisons.

Question 1. Does the consumer have accurate, adequate and relevant information with respect to the price and benefits of life insurance policies today?

With respect to the particular policy being offered, I believe that the buyer is usually given information that is accurate and relevant. It appears that the frequently missing ingredient is information that is adequate to permit sufficiently valid comparison with policies available from other companies.

The adequacy problem is two-fold: *first*, to provide information in a way that the buyer can use it for comparison with products available elsewhere; *second*, to give the buyer easy access to corresponding information on competing products whenever he wishes to make such comparisons.

The basic difficulty is that the comparative information that a buyer needs must embrace a considerable period of years of the policy—20 such years being reasonable and customary. Benefits may change during that period, premiums may change, dividends are almost certain to change, and cash values, if any, must change. Unless some capsule index is furnished by somebody, the buyer who attempts to make comparisons is swamped with figures. Many companies and trade publications have been furnishing a capsule index, extremely simple in character, called the "Surrendered Net Cost". The trouble is that this index

is too simple, distorts or conceals differences that exist, and may rank policies in a false order as to attractiveness.

A second difficulty is that the information on the dividends on participating life insurance policies that the company furnishes through its agent depicts the situation today (or possibly yesterday), not tomorrow. It has, wisely in my view, been decided that estimates of dividends payable in the future must not be furnished. The consequence is that the adequacy, from the buyer's standpoint, of the information furnished is subject to an important upper limit.

Questions 2 and 3. What information about the price and benefits of life insurance policies should be disclosed to consumers at the point of sale? How should that disclosure be achieved?

I have already indicated that I believe the totality of information about the particular policy being offered is generally satisfactory, even thought the skill of the agent in conveying an understanding of that information varies tremendously. The difficulty is in adequate comparison with products available elsewhere, and it is on this matter that I shall concentrate in answering these two questions.

We must, I think, start by recognizing an important distinction between Truth-in-Lending and the life insurance situation. In the former, an interest rate that is quoted has, of itself, a meaning to the borrower. For example, if a lender states that its interest rate is 18%, that figure conveys a message; it may sugest that the borrower should look before leaping. But the news that the cost index for a particular life insurance policy is, say $4.82 per thousand conveys no such message. Such a piece of information is useful only to somebody equipped to determine whether the prevailing price for a policy that offers the same or similar benefits is close to $4.82 or differs considerably from $4.82.

Consequently, it is, I think, futile to limit ourselves to encouraging or requiring the agent to deliver a cost index to the prospective buyer. Somehow, people must be helped to understand that prices of life insurance policies with similar benefits differ considerably. Then the buyer must be given easy access to information about the range of prices at which the kind of coverage he or she plans to buy is obtainable, as well, of course, as the price of the particular policy whose purchase is contemplated.

In the matter of helping people to understand that prices differ considerably, I consider that this responsibility is shared by all organizations, private and public, whose role is to provide guidance and protection to buyers. Publicity, and lots of it, seems to be the answer.

For those buyers—undoubtedly a small minority, but a steadily increasing number—who with the aid of such publicity accept the need for making comparisons, it is then necessary to furnish the index or indices that convey sufficiently reliable capsule information. The question of what index is most suitable is a difficult one. The life insurance industry has made some effort to solve this problem, but I believe it would be useful if some authority would direct the leaders of the industry to bring that task to a prompt conclusion and to make a clear statement of what kind of capsule information is considered appropriate. Said authorities should not, and I am sure will not, accept any argument that there is no satisfactory answer to this question, because all the time the industry itself, directly or through its trade publications, is providing buyers with capsule information of a type that does not meet a reasonable test of validity, i.e., the surrendered net cost method.

In selecting the index that should be used, the best first step, I think, is to choose between two approaches which I have called respectively the *Average Approach* and the *Snapshot Approach*.

The *Average Approach* undertakes to synthesize all the individual periods during which a policy may remain in force, whether short or long. The *Snapshot Approach* on the other hand depicts the situation if policy termination, whether by surrender or death, occurs at any particular point in which the buyer may at the date of purchase be interested. I believe that it is unwise to attempt to compare methods without first deciding which of these two basic approaches is of greater usefulness to the buyer.

Now, in the second matter, making available figures for companies other than the one whose product is being presented by the agent, one can visualize this being accomplished either by a manual in the possession of the agent or by a central computer operation geared to provide information inexpensively and rapidly upon request. Two major organizations have been printing manuals yearly, and one of these, the National Underwriter Company, has done some pioneer work in issuing figures on other than the surrendered net cost method.

Regrettably, neither publication is providing anything on other than the surrendered net cost method just now.

Questions 4 and 5. Is there a need for standardization of life insurance policies to enable optimum comparison shopping while preserving product innovation and maximum beneficial choice? If so, how should such standardization be achieved?

I believe that some features of some policies issued by some companies are unnecessarily confusing and uninformative, but I do not believe that mandatory standardization is the answer. Absence of such standardization up to now can, I think, be credited with having produced results that are favorable to the buyer to a major degree.

I believe that state insurance departments can make policy standardization unnecessary if they will do more than many of them are now doing in two important ways. First, they might disapprove policies whose descriptive titles suggest benefit or underwriting advantages that do not exist, and particularly disapprove policies whose pattern of benefits make them "competition-proof" because other companies do not offer policies with corresponding benefit patterns, unless of course the particular pattern involved has a clear purpose advantageous to the buying public. Second, state insurance departments should disapprove policies with patterns of price that can reasonably be said to have been actuarially manipulated to make those policies appear more attractive than they really are. As Appendix A to this statement, I offer a memorandum dated November 9, 1972, containing a personal suggestion that I made to Commissioner S. C. DuRose for preventing any such manipulation.

HISTORY OF THE JOINT SPECIAL COMMITTEE ON LIFE INSURANCE COSTS

The Joint Special Committee on Life Insurance Costs was formed very soon after, and in my opinion as a direct consequence of, Senator Hart's October 15, 1968 address to the Legal Section, American Life Convention, entitled Life Insurance—The Consumer Perspective. The Committee was invited to devise a defensible, reasonably simple method of price appraisal for the use of consumers who are minded to do so; or, if exploration establishes that this goal is unattainable and inimical to the buyer's interest, to prepare a definitive statement as to why this is so.

The Committee had no difficulty in disposing of the second of these requests. We noted that the surrendered net cost method had been widely used and accepted for many years but we felt that its defects, particularly in the present era of relatively high interest rates on savings, made it indefensible. After considering no fewer than eleven other alternatives, the Committee concluded that the method called the Interest-Adjusted Method "is the most suitable for all those of which we have knowledge."

Quoting the final five paragraphs of the committee report dated May 4, 1970,

> "Appendix C of this report gives a series of comparisons of results obtained by the Traditional Method and by the Interest-Adjusted Method. It is noteworthy that many company rankings remain about the same under either method, but there are enough substantial changes to justify making allowance for interest by using the Interest-Adjusted Method instead of the Traditional Method.
>
> "This Committee feels that the Interest-Adjusted Method makes available a method that is adequate in view of the imponderables stated in this report, and that is less subject to criticism than the Traditional Method.
>
> "Whenever the Interest-Adjusted Method is used, the interest rate should be specified.
>
> "We reiterate for emphasis that this or any other cost index is not appropriate as a substitute for adequate information to the prospective buyer about the provisions of the policy and the pattern of premiums, cash values and dividends from which the cost index was calculated.
>
> "Even such information will not necessarily indicate for any particular person what his choice should be. The purchase of a policy commands not only the dollar benefits stated in the policy but also, and most importantly, the services of the agent and the company that issues it. These services are of tremendous value to the policyholder; differences in the quality of these services are far more important than moderate differences in apparent cost."

The eleven members of the Joint Special Committee, representative of mutual and stock as well as large and smaller companies, unanimously agreed upon the content of the report, but some members of the governing body of one of the

three sponsoring organizations believed that either the committee should never have been appointed in the first place or that its conclusions were wrong. Consequently, the three governing bodies adopted an intermediate stance by "receiving" the report, printing it and making it available to anybody who might ask for a copy, but not publicizing it and not arranging for or encouraging any substantial discussions of its findings in their own subsequent meetings.

In July, 1971, Mrs. Virginia Knauer drew the attention of the industry, and later the public, to this state of affairs. Even though in the meantime the Joint Special Committee had been discharged, I was encouraged and helped by the staffs of the three associations to respond to Mrs. Knauer's inquiry and to gather information on the extent to which life insurance companies had informed, or were planning to inform, their field forces about the findings of the Joint Special Committee, and to what extent those companies had supplied, or were planning to supply, their field forces with data about their own policies on the Interest Adjusted Method.

In the months that followed the list of companies that authorized us to respond affirmatively on their behalf to Mrs. Knauer gradually grew to more than 100 companies. Because this list included many large companies, it actually represented a majority of the individual life insurance being transacted in the United States.

It was noted that a considerable number of those companies had supplied no figures and had no plans for supplying their agents with figures. Some of those companies stated that they were opposed to the Interest-Adjusted Method; they appeared to be satisfied to continue use of the surrendered net cost method even though the Committee had stated its conclusion that "improvement is possible without undesirable departures from convenience and understandability."

In March, 1972, the Board of Life Insurance Association of America passed a resolution stating that "the Interest-Adjusted Cost Comparison Method has certain advantages, but the Board desires to continue to study whether there are other possible methods which may perfect and improve upon the opportunities to properly compare life insurance costs". The upshot of this was a decision to reactivate the Joint Special Committee, omitting four members who were no longer officers of member companies and adding one new member.

The Pennsylvania Insurance Department had just issued its Shopper's Guide to Life Insurance, activity was developing in Wisconsin and elsewhere, the National Association of Insurance Commissioners had put a task force to work on the subject, and Mrs. Knauer was shortly to make an important statement to the June, 1972, meeting of the National Association of Insurance Commissioners.

The reactivated Joint Special Committee promptly reaffirmed the conclusions set forth in its 1970 report, pointed out the need for guidelines for proper use of the index by the Interest-Adjusted Method or any method, urged continuing study and recommended a strong continuing relationship with the Task Force on Life Insurance Price Illustrations of the National Association of Insurance Commissioners.

By the Fall of 1972, the Joint Special Committee had acquired several new members and had lost the clear unanimity that existed in 1970. However, its Chairman was authorized to raise several questions with the governing bodies of the sponsoring associations. This was done personally and in a memorandum dated October 6, 1972, (Appendix B herewith), about parts of which some of the Committee members had some reservations. The result was that each governing body adopted a resolution recognizing the responsibility of the life insurance business to furnish valid information to prospective buyers.

In November, 1972, the Committee met with the NAIC Task Force at the invitation of the task force Chairman, the Honorable Stanley C. DuRose. The result of this was a communication dated November 29, 1972, (Appendix C herewith) from me to Commissioner DuRose offering suggestions for future joint work on questions discussed at the meeting.

On December 31, 1972, I became ineligible by retirement to continue on the Joint Special Committee. Its new Chairman is Armand C. Stalnaker, President of General American Life Insurance Company.

APPENDIX A

SUBMISSION TO NAIC TASK FORCE ON LIFE INSURANCE COST COMPARISONS

MANIPULATION

1. At Denver and at Sioux Falls suggestions were made that to curb manipulation of the kinds that defeat efforts to compare similar policies of different companies it might be desirable either (a) to reject simple price comparison procedures in favor of elaborate ones, or (b) to place new limits on freedom of policy design. It is submitted that such problems can be avoided without taking either of these steps.

2. The alternative suggested for your consideration is in three steps as follows:

Step 1—By median-and-quartile analysis over a range of representative policies, establish the facts about prevailing cost and value patterns for at least the first twenty policy years.

Step 2—Settle upon the following description of manipulation:

(*a*) If in the judgment of the commissioners a particular company's policy is at least as beneficial to the policyholder as the prevailing pattern it should not be regarded as manipulated even if at particular points its results are superior to the prevailing pattern.

(*b*) If a particular policy either is superior to, or fails to meet, the prevailing pattern at substantially all points, it should not be regarded as manipulated.

(*c*) If a particular policy markedly fails to meet the prevailing pattern at certain points but is markedly superior at other points, the question whether manipulation has occurred should be considered a matter for investigation.

Step 3—The actuary responsible for a policy that is in category (c) above should be required to justify that pattern of cost and value to the commissioners of the states in which that policy is to be issued. Such justification must be in terms of the buyers' rather than the company's interests.

3. If the Task Force is interested in this suggestion I will be happy to undertake the mathematical analysis and to furnish examples illustrating judgment situations that arise under observed current conditions.

APPENDIX B

TO: Boards of American Life Convention, Institute of Life Insurance and Life Insurance Association of America.

REPORT AND RECOMMENDATIONS OF JOINT SPECIAL COMMITTEE ON LIFE INSURANCE COSTS

I. THE SITUATION AND OUTLOOK

It appears highly likely that we are on the eve of a prescribed system of policy cost comparison to be implemented through gradual adoption of model regulations which will be offered by the Task Force on Policy Cost Comparisons of the National Association of Insurance Commissioners. Impetus at the NAIC level is vigorous. The influence of the Office of Consumer Affairs in Washington (Mrs. Knauer) is strongly in the direction of encouraging action and discouraging temporization.

The initiative in this matter is not now in the hands of the life insurance company associations. The most that can be expected now is that by appropriate moves we may influence the decisions to be made, we may help to place this question in perspective, and we may guide member companies toward the best implementation procedures and attitudes.

The National Association of Life Underwriters has passed a resolution stating that it continues "to support well-founded attempts to clearly and accurately dispense information to the insurance-buying public and to make available pertinent data regarding the many considerations necessary in purchasing appropriate life insurance coverage." This resolution however warns against "concentration on any one aspect of purchasing life insurance insulated from all others" and states that "no single factor is determinative of the best insurance buy for all individuals".

II. HISTORY OF THIS QUESTION

In the late 1960's there were criticisms of the use of the Traditional Method of policy cost comparison and of the lack of any more reliable index for use by interested buyers. In October, 1968, this criticism culminated in Senator Hart's address to the ALC in which he described his own difficulties in obtaining information that he considered satisfactory for returning Vietnam veterans, and threatened Truth-In-Life-Insurance legislation as a possible consequence.

In January, 1969, the Joint Special Committee on Life Insurance Costs was formed and was requested either (1) to come up with a defensible, reasonably simple method of price appraisal for consumer use; or—if this proves impossible—(2) to develop an acceptable explanation of why this cannot be done. In May, 1970, this Committee responded as best it could to this request, concluding that "although no completely satisfactory method has been advanced or is likely to be, a practical improvement over the Traditional Method is achievable." After describing the Interest-Adjusted Method the Committee expressed in view that it "is adequate in view of the imponderables stated in this report", "is less subject to criticism than the Traditional Method", and "is the most suitable of all those of which we have knowledge".

The Report warned that "this or any other cost index is not appropriate as a substitute for adequate information to the prospective buyer about the provisions of the policy and the pattern of premiums, cash values and dividends from which the cost index was calculated".

The Boards of the sponsoring organizations received this Report but did not endorse it. The Report was furnished, upon request only, to member companies and to others. Nevertheless a large number of copies were requested and considerable publicity resulted. The Joint Special Committee was discharged.

Fourteen months after release of the report Mrs. Knauer wrote a letter which included the following two paragraphs:

"I would, therefore, be most interested in learning of the Committee's efforts to bring their study and findings in regard to this question to the attention of the life insurance industry as a whole, as it would appear on the surface that the industry has made little effort to expose your Committee's Report to the kind of consideration and discussion merited by the Report. In short, if the consensus of industry is that another approach is more suitable, then the consumer should be advised of it."

"I understand further that the FTC is, in a preliminary way, evaluating the role which it might be able to play in this most important area in view of the restriction of the McCarren-Ferguson Act."

Later, Mrs. Knauer requested information on how many companies had informed their field forces about the Interest-Adjusted Method or were planning to do so. At that time it was possible to give her the names of only two such companies, but later reports furnished by the Institute of Life Insurance demonstrated that, although the number of companies taking or planning such action continued to be a small proportion of all companies operating in the United States, action was being taken by companies representing a major part of all ordinary business written in this country.

In December, 1970, the National Underwriter Company published a volume of statisical information on the Interest-Adjusted Method. Sales of that volume are believed to have been small. The National Underwriter Company has shown no disposition to publish a successor book, with the result that there exists no convenient source of up-to-date information for making comparisons by the Interest-Adjusted Method among large groups of companies.

In April, 1972, the Pennsylvania Insurance Department decided to fill this vacuum by issuing the first edition of its Shopper's Guide to Life Insurance. This received front page coverage in the New York Times and was the subject of articles in leading periodicals. Many companies were rightly dismayed at deficiencies in the format of the Shopper's Guide and at the manner in which it portrayed cost comparisons.

In April, 1972, the Joint Special Committee was reconstituted with a mixture of some of its prior members and several new members. This Committee has met on May 17 and on September 14, 1972. The members present on May 17 unanimously adopted the following resolution:

> "On the basis of present knowledge, the committee reaffirms the conclusions set forth in its 1970 report recognizing that there is need for stronger emphasis on the development of guidelines for the proper use of an index.
>
> "The committee believes that the subject of life insurance cost comparison

methods deserves continuing study and recommends that resources be made available for that purpose.

"The committee believes that a strong continuing relationship should be maintained with the NAIC Task Force on Life Insurance Price Illustrations in its study of that subject."

However, discussion at the September 14 meeting revealed concern that the Interest-Adjusted Method, particularly with interest at as low a rate as 4%, fails to give adequate weight to the guarantees provided by nonparticipating life insurance. The original Committee Report had described comparisons between participating and nonparticipating policies by means of a cost index as of "at best, moderate validity".

In June, 1972, Mrs. Knauer made an important statement to the National Association of Insurance Commissioners. The following are excerpts from that statement:

"The life insurance industry is proud of the faith and confidence traditionally reposited in its agents by consumers. This special relationship carries with it a continuing obligation to respond to the expanding informational needs of a better educated and more sophisticated consumer. . . . If the life insurance industry fails to meet its responsibility in this regard, then other industries that compete for the consumer's investment dollar will 'educate' the consumer about the products of this industry. The latter type of 'education' may well engender the kind of consumer action and consumer attitude with which it will be difficult for the life insurance industry to contend.

"Most of you are aware of my effort to *promote industry discussion and public understanding* (emphasis supplied) of the findings of the Joint Special Committee on Life Insurance Costs. The findings are a blueprint for industry acceptance of the principle that the discredited net cost method of cost comparison should be replaced by a better method. We know that progress has been slow in accepting and implementing that principle. . . ."

"Trade publications could help make this improved cost information known to the consumer through the cost data available through his agent. Not all of the replies I have received from trade publications are as responsive as I had hoped they would be."

"I believe that a fair review of my correspondence with the life insurance industry and the events of the past year indicates that the industry-at-large is still unwilling to present the customer with a key element of the value comparison; i.e., a cost comparison."

(Mrs. Knauer then drew a parallel between life insurance and other industries that have been reluctant to facilitate value comparisons, referring to "the same tired argument" having been used by us as by the others.)

"You as State Insurance Commissioners can do more than simply lay to final rest a discredited method of cost comparison. It is my hope that this year's Annual Meeting will endorse the principle of clear and concise information on cost comparisons for the purchaser of life insurance. Such a move would greatly accelerate industry movement toward disclosure to consumers of price comparison data."

In 1972 the states of Wisconsin, New Hampshire, Nevada and Pennsylvania have reached at least the hearing stage on rules calling for the use of the Interest-Adjusted Method for comparisons in sales situations.

In June, 1972, the NAIC Task Force on Price Illustrations (since reconstituted and renamed) delivered an interim report indicating a desire to go beyond the Interest-Adjusted Method by incorporating the effects of mortality and persistency as well. Both our prior and our reconstituted Committee have had grave doubts about the feasibility of introducing mortality and persistency into comparisons. The view that the NAIC Task Force expressed is that a method incorporating all three factors is more precise, more responsive, less subject to manipulation, and likely to be more durable, than the Interest-Adjusted Method.

III. RECOMMENDATIONS

In view of all this the Joint Special Committee recommends as follows:

1. That the Boards promulgate a joint statement making clear that the life insurance industry does want to provide interested buyers with the best comparative information that can be designed and distributed. Such a statement need not specify the method or methods to be used.

2. That the Boards indicate what mandate, if any, they are prepared to give the Joint Special Committee to make recommendations in an advisory capacity to the NAIC Task Force on Policy Cost Comparisons.

3. That the Boards consider the implications of the current absence of any statistical information on the Interest-Adjusted Method other than through the Shopper's Guide of the Pennsylvania Insurance Department, and decide whether the life insurance publications should be encouraged to provide authoritative data in suitable form.

4. That the sponsoring associations authorize forums for full two-way discussion of this subject among member companies, to the ends that viewpoints may be exchanged, misunderstandings may be reduced, and the desire of our business to give maximum valid information to life insurance buyers may be effectively demonstrated.

IV. OBSERVATION BY MANUEL GORMAN

Mr. Manuel M. Gorman has stated his opinion that legal problems which might have existed in connection with endorsement by the industry associations of any particular system of policy cost comparison are substantially eliminated if the initiative is that of the regulatory or legislative authorities, and the industry's position consists of presenting views and recommendations to the regulators or legislators.

Committee Membership

James N. Ackerman, Bankers Life of Nebraska.
Harry E. Atwood, Northwestern National.
Joseph B. Crimmins, Metropolitan Life.
Kenneth C. Foster, Prudential.
H. Carey Hanlin, Jr., Provident Life and Accident.
Ronald K. Holmberg, Combined Insurance Company of America.
Russell R. Jensen, Northwestern Mutual.
Richard A. Leggett, Travelers.
J. Edwin Matz, John Hancock.
Armand C. Stalnaker, General American Life.
George W. Young, Connecticut General.
E. J. Moorhead (Chairman), Integon Life.

APPENDIX C

INTEGON LIFE INSURANCE CORP.,
Winston-Salem, N.C., November 29, 1972.

Hon. STANLEY C. DUROSE,
Chairman, NAIC Task Force on Life Insurance Cost Comparisons,
Madison, Wis.

DEAR MR. COMMISSIONER: The papers accompanying this letter are a response by the Joint Special Committee on Life Insurance Costs to the assignment we were so pleased to be given by you at Arlington Heights on November 9, i.e., to offer some practical suggestions for further work on the questions that your Task Force is examining.

You will find two enclosures herewith.

Enclosure No. 1 expands on our offer to engage in cooperative research aimed at furnishing facts for analysis and decision-making purposes. These are illustrative in nature and might be superseded by other approaches as the result of a conference that we invite for the purpose of establishing the objectives of such research. Nevertheless they may give a sufficiently clear idea of the kinds of activity that ought to prove useful.

Enclosure No. 2 is a memorandum of some considerations to which the members of the Joint Special Committee seem to be largely, perhaps entirely, sympathetic. In presenting these we desire very much to avoid mistakenly giving the impression of a fixed position on any points. As we see it, our usefulness to your Task Force depends heavily upon our willingness to discuss any approaches that appeal to you and your associates. Of this willingness you may rest assured.

We hope very much that these enclosures convey the flavor of a working relationship between the Task Force and the Joint Special Committee that we believe would be beneficial to the people that the life insurance business aims to serve.

Sincerely,

E. J. MOORHEAD, *Chairman,*
Joint Special Committee on
Life Insurance Costs

Members of Committee
James N. Ackerman
Harry E. Atwood
Joseph B. Crimmins
Kenneth C. Foster
H. Carey Hanlin, Jr.
Ronald K. Holmberg
Russell R. Jensen
Richard A. Leggett
J. Edwin Matz
Armand C. Stalnaker
George W. Young

Enclosures: (2).

Enclosure No. 1 with letter of November 29, 1972, to Honorable Stanley C. DuRose, Chairman, NAIC Task Force on Life Insurance Cost Comparisons.

ILLUSTRATIONS OF RESEARCH PROJECTS AS THOUGHT-STARTERS FOR A CONFERENCE

Illustration No. 1

Policy data would be requested from about 40 life insurance companies for participating ordinary life policies and about 40 life insurance companies for non-participating ordinary life policies.

Each company would be asked to give details of all the essentially whole life continuous premiums policies in its 1972 portfolio, explaining the purpose of each, the amount limits, the number of policies and amount of insurance sold in 1972, the premiums, cash values and illustrated dividends at several representative ages, any available mortality experience if the policy is labelled as preferred risk, and any other information considered relevant for appraisal.

This information would be used to test the results obtained by whatever cost comparison methods are to be explored, and particularly to identify the reasons for material differences in rankings by different methods.

Illustration No. 2

An attempt would be made to examine the contrasts observable among representative participating policies between the dividend scales published 10 and 20 years ago and the dividends actually paid. The purpose would be to provide a commentary upon the usefulness of dividend illustrations to the life insurance buyer.

Each company would be asked to describe its philosophy in the computation and dissemination of dividend illustrations, leading perhaps to a useful position paper on this subject.

Illustration No. 3

The range of prices by some agreed-upon method or methods would be examined in an effort to determine the extent to which these differences are attributable to (a) the different markets served by different companies, (b) policy features not reflected in the index, (c) other identifiable causes.

Illustration No. 4

A memorandum would be prepared setting forth the relative advantages and drawbacks of what have been called the "snapshot" and "average" approaches to policy cost comparisons.

Illustration No. 5

A memorandum would be prepared suggesting what disclosure information appears desirable—distinguishing "disclosure" from "comparison"—and what steps, if any, need to be taken to discourage, limit and qualify information that is unsuitable for comparison purposes but may erroneously be used for comparison.

Illustration No. 6

A course of action would be developed for minimizing the possibility that any comparison system will be presented in a manner that creates misunderstanding rather than enlightenment.

Illustration No. 7

To the extent that an interest rate assumption is necessary for comparison purposes, a position paper would be attempted on the question whether a single interest rate is practical, or whether comparitive information should be promulgated at more than one interest rate for alternate use by buyers in materially differing circumstances.

Enclosure No. 2 with letter of November 29, 1972, to Honorable Stanley C. DuRose, Chairman, NAIC Task Force on Life Insurance Cost Comparisons

LIST OF GUIDING PRINCIPLES WHICH HAVE BEEN WIDELY SUPPORTED IN RECENT DISCUSSIONS BY THE JOINT SPECIAL COMMITTEE ON LIFE INSURANCE COSTS

(The first two of these already have, in addition to Joint Committee agreement, the blessings of the governing bodies of its sponsoring organizations.)

1. Life insurance companies have a responsibility to provide, upon request from insurance buyers, the most helpful price information concerning their own policies that is practical so that such buyers can compare like policies between companies.

2. Because every method suggested contains inherent limitations it is important that price comparison information be accompanied by a statement of its qualifications and limitations.

3. Any cost comparison index that is adopted should be put into proper perspective. This means, among other things, that buyers should be encouraged to recognize considerations other than are reflected in price differentials, that the value of the services of the agent not be underrated, that the importance of small price differences not be exaggerated, and that the hazards of inadvertently fostering undue reverence for a particular index be avoided.

4. Presentation of any cost comparison index should not be made mandatory in every sales situation. The emphasis here is on the word "index". Purchase of life insurance inevitably involves self-denial by the purchaser for the benefit, usually, of family members, and people often find it easy to postpone making the necessary sacrifice. A price index has meaning for a particular buyer only if that buyer uses it to make price comparisons.

5. There is need to define what price information is helpful for comparison purposes. The Joint Special Committee has no fixed position in favor of a particular solution but welcomes continued study of this question.

6. There is value in looking at a policy in several ways, even under a single method, but no single number can be satisfactory. If the so-called "average" method is used, no one set of averaging assumptions can be found to fit the circumstances of even a substantial proportion of life insurance buyers. On the other hand, if the so-called "snapshot" method is used, the interested buyer must be enabled to examine his or her situation under several different perceived circumstances.

7. Any promotional material that creates confusion instead of enlightenment or that misleads the public is deplored. This should go without saying and is stated here to avoid any possible misunderstanding of our view on this point.

8. It is highly desirable that any index be understandable by the agent who is selling the policy. This follows, we believe, from the nature of a life insurance sale and the relationship between agent and buyer that is so important if the life insurance is to achieve its full potential.

NOTE.—Comments in this enclosure are in part personal interpretations by the Chairman of the Joint Special Committee.

Mr. MOORHEAD. May I, sir, skip both reading and highlighting, and simply introduce myself by commenting briefly on four things that were said this morning, and then proceed to questions? Would that be permissible?

Senator HRUSKA. Very well.

Mr. MOORHEAD. No; I am ready for questions whenever you wish, but I thought it might be worth saying a word or two about a few things that came up during the presentations so far.

There are really four points that I thought might be mentioned. First, early this morning the word "secrecy" came in, and I squirmed considerably at the use of that word because when the committee was formed in 1969, we were not formed because no information was being given to those who wished to compare policies.

We were put to work because the information that was being given them was considered to be less satisfactory than some possible alternatives.

So we were searching for an acceptable improvement over a method that already existed; namely, the surrendered net cost method.

The second observation has to do with the splitting of a policy into its savings and protection elements. That matter came up in Senator Hart's address in 1968, but nowhere in the committee report is any reference made to that question, except very briefly in one particular paragraph.

But I think, looking at the report with the benefit of hindsight, among the things that I wish we had done differently, is to make more extended comment on that particular point.

The interest adjusted net cost, which is a dollar and cents figure produced by the method recommended by the committee, does accomplish. I believe, just about what Senator Hart had in mind when he made that comment. The figure produced is a reasonable approximation to the amount which is not returned to a surviving policyholder out of his premium, that is, not returned to him either in dividends or in cash value.

I wish that we had made that point.

Senator HRUSKA. Mr. Moorhead, I am sorry. A bell rung from the Senate Chamber, indicating a rollcall vote. You have testified here before, and you know how rude those bells are. I will have to excuse myself for about 5 minutes to vote, and I will come right back.

Mr. MOORHEAD. Thank you, sir. Shall I proceed?

Senator HRUSKA. I would prefer not. Just suspend for awhile.

[Whereupon, a short recess was taken.]

Senator HRUSKA. Can you repeat that for the clarity in the record?

Mr. MOORHEAD. The point I was undertaking to make was that Senator Hart, in his 1968 address, had urged that buyers be given an understanding of how much of their premium goes into savings, and how much goes into protection.

I was venturing the thought that the interest-adjusted method recommended by our committee does do that, but I had failed to say so in writing the report. That was the only point I was making, sir.

Senator HRUSKA. The amount of the savings feature of the policy and that required to pay for protection can be segregated?

Mr. MOORHEAD. That is what the interest-adjusted method does. May I give an example to illustrate what I mean?

Let us suppose that the annual premium for a policy is $20 a thousand, and let us suppost that by the method recommended in this report the interest adjusted net cost index comes out to be $4.82. There would be a difference there between the $20 premium and the $4.82 of $15.18.

The $15.18 represents the average amount out of each $20 premium that the surviving policyholder does get returned to him, either in cash value by surrendering the policy or as an annual dividend.

Senator HRUSKA. Now, what are the component elements of the $4.82?

Mr. MOORHEAD. The component elements of that are two in number. First, the part of the $4.82 that goes to the beneficiaries of those who do not survive, and second, the amount kept by the company for expenses, profit, or contingency reserve.

Senator HRUSKA. Mortuary claims.

Mr. MOORHEAD. Yes, partly the claims and partly the amount that the company keeps, what Professor Belth called the retention. That is in the $4.82.

Senator HRUSKA. Does that answer your question?

Mr. SHARP. Yes, that answers my question.

Senator HRUSKA. Very well. You may continue with your additional observations.

Mr. MOORHEAD. Thank you. I have just two others.

Professor Belth made mention of the fact that the joint special committee, our committee, had not invited visitors into our deliberations, and to the extent that that was a failure, that was my own fault.

But I think that the committee, certainly its chairman, thought of this report as being the starter for future discussion, rather than an attempt to close out the issue by coming out with an answer.

We were not convinced that we had produced the answer to this question. We simply did our best to make a proposal for further consideration by the industry, and anybody else.

The last point I want to make has to do with the question of whole life insurance versus term insurance, which comes up quite often, and I did want to aline myself with Professor Belth much more closely than with Mr. Nader in that matter.

I believe three things. First, I believe that it is correct for the agent and the prospective buyer, together, to decide first what kind of insurance best fits the needs of the individual, and then go on to consider whether the cost that is being offered is attractive.

Second, I think that, to the extent that the life insurance industry has expressed itself in favor of permanent life insurance by the level premium method, the motives were good motives. Rightly or wrongly, there is a conviction that if an individual buys term insurance, he will not have resources for retirement.

But the semicompulsive nature of the savings provision in a whole life policy is believed to be desirable. There is concern that even if saving outside is done, the money might not be accumulated; it might be put into hazardous investments and lost.

Third, I think that the industry has had, generally, a conviction that term insurance is likely not to be in force when death occurs.

I am not, at this moment, particularly supporting those arguments. I am simply suggesting that it is not just a question of what makes the company itself better off. The interests of the buyer are involved in that presentation.

Senator HRUSKA. But you do think that the question of the type of insurance should be discussed by the agent and the applicant?

Mr. MOORHEAD. Yes.

Senator HRUSKA. Having in mind the circumstances and the conditions that surround that particular applicant's life, and his holdings, his income, property, and family, and all of these other factors. Is that what you had in mind?

Mr. MOORHEAD. Yes, sir. I think that is part, and a very important part, of the agent's job. If the home offices make the mistake of overstressing the points that I have indicated in favor of permanent insurance, well, they ought to change their practices.

But they shouldn't be thought of, I believe, as being motivated purely by the question of what makes the company bigger, and what brings in more money to the company. These other considerations do enter into it.

It was just really a footnote to what was said this morning.

If you wish, sir, I would be glad to answer any questions anybody cares to ask.

Senator HRUSKA. Mr. Counsel, have you questions?

Mr. SHARP. Yes; Senator, thank you very much.

To make the record complete, Mr. Chairman, I wish to offer for the record, the Report of the Joint Special Committee on Life Insurance Costs.

Senator HRUSKA. Without objection.

[The report appears at the end of Mr. Moorhead's testimony.]

Mr. SHARP. Thank you.

Mr. Moorhead, do you think that the failure of buyers to make careful comparisons is at least, in part, because they think life insurance policies issued by the different companies are essentially the same?

Mr. MOORHEAD. Yes; I do.

Mr. SHARP. You indicated in your formal statement which you submitted to the subcommittee that you think buyers are usually given information that is accurate and relevant. Would you please explain just what do you mean by "relevant?"

Mr. MOORHAED. I think that by "accurate" I mean that the agent does try to describe what the policy does contain in it. And the word "relevant" in my language, means that the agent attempts to describe what the policy will do for the individual. That was all I really meant by "relevant."

Mr. SHARP. As part of what you are now telling us, Would you consider price and benefit information a part of that relevancy?

Mr. MOORHEAD. No; I would not, simply because of the point that I make elsewhere in my testimony, that giving an individual a price figure is, as far as I can see, no value to him unless he has the means for making comparisons.

I guess I stressed that, perhaps, every bit as much as I ought to have, but I think that those remarks in my testimony were motivated by some suggestions that it be mandatory for an agent to deliver an interest-adjusted cost index or some other cost index at the time of sale.

And I am unable to see what that accomplishes unless we take the other steps that are provided for in my testimony, the other steps meaning to convey the idea to the public, generally, that prices do differ, the point that you made a moment ago, Mr. Sharp. And, secondly, giving the individual easy access to something to compare that figure with.

Mr. SHARP. Is your objection here really to the index method? Is it an objection to presenting information that is merely an index or an indice basis?

Mr. MOORHEAD. No; I am in favor of an index presentation. It is designed to go beyond that, that I am speaking. In addition to giving it to him, we must help him understand that prices do differ, and we must give him access to some means of determining whether that particular figure that he is presented with is just about the prevailing rate, or whether it is rather high, or whether it is exceptionally low, that is whether it is "a good buy" or not.

It is the steps beyond providing an index in which I am interested, not just the index itself.

Mr. SHARP. Professor Belth, in his testimony, expressed the opinion that the information given to buyers at the point of sale frequently is deceptive, as he defines it in his statement. What is your opinion on this point?

Mr. MOORHEAD. Well, of course, I heard the interchange between Chairman Hruska and Professor Belth on that matter, which makes me cautious, but I will express general agreement with what Professor Belth said. Is that sufficient, or would you wish me to go into that?

Mr. SHARP. Is that your answer?

Mr. MOORHEAD. I agree that things are said in the course of the sale, and figures are presented in a way which can cloud the issue rather than clarify it.

Mr. SHARP. You seem to say in your statement, Mr. Moorhead, that whatever disclosure system is devised should be made available to consumers only when they request it.

Would you please explain why you think mandatory disclosure at the time of sale is not the right approach?

Mr. MOORHEAD. Really, for the reason that I spoke of a moment ago, that I am afraid the formality of the delivery of a figure doesn't do much by itself, but we must develop a buyer who is alert and who has the means to do something with the cost index. If he doesn't have these other two characteristics that I have specified—that is, an understanding that these figures do differ, and access to other figures to make the comparison—I don't see that we have done anything. That is my only objection. I have no other objection, whatsoever.

Mr. SHARP. In your opinion, Mr. Moorhead, is the information disclosure system, suggested by Professor Belth, technically sound?

Mr. MOORHEAD. Yes.

Mr. SHARP. Suppose that a mandatory information disclosure system, an information disclosure system such as the one proposed by Professor Belth, were put into effect. What impact do you think such a disclosure would have on life insurance consumers?

Mr. MOORHEAD. I think it would have some favorable effects, and some unfavorable effects. I think that the favorable effects would be that it would alert some people to realize that it could be, as I say,

advantageous to them to look around before purchasing that particular policy.

On the other hand, I think that it does create a genuine difficulty in that life insurance is something that each of us is rather hesitant about purchasing, and it would have, in some cases, the unfavorable effect of simply postponing the purchase, maybe permanently.

I think that is a genuine difficulty, and we shouldn't blink at it.

Mr. SHARP. What impact do you think a disclosure system, an information disclosure system such as Professor Belth is proposing, would have on life insurance agents and life insurance companies, other than what you have mentioned?

Mr. MOORHEAD. I don't consider it a very serious one, except for the amount of labor that is involved and I don't place that very high on the list. I think that if this whole question could be thoroughly aired within the life insurance industry, and agreement could be reached that some method is the most desirable on all counts, then I think that that method should be introduced.

And I doubt very seriously that it would do any major harm at all. I think it would be all to the good.

Mr. SHARP. This is kind of a broad question that I am going to ask. What do you consider to be the major problems in the life insurance market from a consumer standpoint today?

Mr. MOORHEAD. Do you mean in the context of our present discussion?

Mr. SHARP. Yes; and any other problems you may consider which deal with deceptive practices in the life insurance sales market, including cost information?

Mr. MOORHEAD. I think that the two largest problems that we have to tackle are making sure that the people of the country do get an opportunity to buy life insurance, and that when they get that opportunity they are given sound and valid advice on quantity, kind, and price.

Mr. SHARP. By "kind," you mean various plans?

Mr. MOORHEAD. Yes; term versus permanent, or a mixture of the two, anything of that sort.

Mr. SHARP. Do you envision any serious problems in developing adequate disclosure requirements for variable life insurance? Have you given any thought to any disclosure problems that are going to arise now that the Security Exchange Commission has ruled that under the 1933 and 1934 acts, the variable life insurance product is a security, and is subject to the disclosure rules of the SEC?

Mr. MOORHEAD. I have not been especially close to that. I have many times reflected that the sale of variable life insurance involving the additional investment risk that is concerned, makes it, if possible, doubly important that the individual thoroughly understand what it is that he is buying.

Mr. SHARP. Mr. Moorhead, you are familiar, of course, with keyman insurance?

Mr. MOORHEAD. Yes, sir.

Mr. SHARP. How does a corporation treat the cash value in a policy on a keyman executive?

Mr. MOORHEAD. I believe that they carry it as an asset in their balance sheet.

Mr. SHARP. Appendix B of your testimony is a report to the boards of the then three trade associations—actually, there are now two, as I understand—what are they?

Mr. MOORHEAD. The American Life Insurance Association now, formerly the American Life Convention, and the Life Insurance Association of America.

Mr. SHARP. And the third?

Mr. MOORHEAD. Institute of Life Insurance was the third.

Mr. SHARP. In that appendix you indicated that the Moorhead Committee, as it is called, the committee you chaired, had grave doubts concerning the feasibility of introducing mortality and persistency; that is, payment probabilities into cost comparisons.

Would you please give us your personal views on this point?

Mr. MOORHEAD. My own personal views?

Mr. SHARP. Yes, sir, your own personal views.

Mr. MOORHEAD. My own personal view is that it is absolutely feasible to introduce mortality and lapse into the calculations, and that there is no theoretical objection to it, whatsoever. But that view is not shared by all actuaries, and certainly not shared by all life insurance people. I personally believe that there is no objection, however, to doing it.

I have indicated in the main part of my testimony that I think that before we choose a method, we need to distinguish between alternatives called an "average approach" and a "snapshot approach." I believe that if the average approach is used, mortality and lapse belong in the calculation, but I may be a minority viewpoint on that. I am certainly not expressing the views of all who have considered the subject.

Mr. SHARP. Mr. Moorhead, in your opinion, do some companies tailor their policies so as to look attractive on the basis of a 20-year traditional net cost comparison, the so-called traditional method?

Mr. MOORHEAD. Yes.

Mr. SHARP. To what extent does the interest-adjusted method proposed by the joint special committee neutralize the effect of such tailoring?

Mr. MOORHEAD. I think that, to the extent that one accepts the snapshot approach, it neutralizes it completely. The question of what interest rate should be used does need consideration, and I am, by no means, advocating necessarily 4 percent as was in the original.

I think that the interest-adjusted method as a snapshot method does neutralize it.

Mr. SHARP. I have one more question after this question, Mr. Chairman.

Senator HRUSKA. Go right ahead.

Mr. SHARP. In view of the hour, though, I would like to request, if it is all right with Mr. Moorhead, of course, that he be asked to furnish a letter for the record in response to the following question, and I have it written down. I can read it in the record. I would like to give him a copy.

Senator HRUSKA. Very well.

Mr. SHARP. Would you please explain the ways in which you believe the widespread use of the traditional net cost method has influenced the decision of some companies with respect to; (1) the choice of

reserve basis; (2) the calculation of cash values; (3) the determination of a scale of illustrated dividends; (4) the use of terminal dividends; (5) the relative emphasis placed upon participating and nonparticipating policies; and six, product design, generally?

Mr. MOORHEAD. I would be delighted.

Mr. SHARP. If any clarification is needed on any point, we would be pleased to continue the dialog.

Mr. MOORHEAD. Thank you.

Mr. SHARP. I have just one last question. I have trouble finding it in your prepared statement, but somewhere in here, on page 3 you mention this. You say:

> In the matter of helping people to understand that prices differ considerably, I consider that this responsibility is shared by all organizations, private and public, whose role is to provide guidance and protection to buyers. Publicity, and lots of it, seems to be the answer.

Now, in speaking about "public," in another place you made reference to "authority," some "authoritative governmental source." Don't let me misquote you, please. Your statement will stand, of course, as submitted. But just what are you getting at here when you speak about "public"?

Mr. MOORHEAD. I think that I was endorsing both the purpose of this exploration for which we are all present, and I was endorsing efforts such as by Pennsylvania through its Shoppers Guide. I think that it is perfectly legitimate for all concerned who have an interest in this, to work on this very difficult problem of conveying the message to the buyer.

Mr. SHARP. Dr. Belth in his statement this morning called for truth in life insurance legislation, not to preempt the States, but to allow the States to have full opportunity to develop their own programs in conformity with, as I believe he stated, some minimum standards, and that if a State did, of course, conform then its system, of course, would be in effect in that particular State.

Have you ever given consideration or thought to this type of proposal? If you have, do you have any views, or would you care to submit them for the record later?

Mr. MOORHEAD. Is that question related to the previous one about private and public? Or is that a different question?

Mr. SHARP. Yes; it relates to "public."

Mr. MOORHEAD. For what my opinion is worth, which isn't much, I think it would be better if this could all be done voluntarily rather than by legislation. But if it isn't done voluntarily, then I favor legislation.

Is that responsive to the question?

Mr. SHARP. Oh, yes, sir. Thank you very much.

Thank you, Mr. Moorhead.

[The following was subsequently received. Testimony resumes on p. 708.]

SUPPLEMENT TO TESTIMONY OF FEBRUARY 20, 1973, BY E. J. MOORHEAD

Question by Mr. Dean Sharp. Would you please explain the ways in which you believe the widespread use of the traditional net cost method has influenced the decision of some companies with respect to:

1. the choice of reserve basis,
2. the calculation of cash-values,
3. the determination of a scale of illustrated dividends,

4. the use of terminal dividends,
5. the relative emphasis placed upon participating and non-participating policies, and
6. product design generally.

Answer. My belief is that the traditional net cost method has materially influenced many companies to calculate reserves and cash values by using (i) relatively low rates of interest or "spit" rates, e.g. stepped-down interest rates after, say, the first twenty policy years, and (ii) so-called continuous rather than curtate functions. (Both (i) and (ii) result in higher premiums, reserves and cash values that otherwise would apply.) These are not necessarily adverse to the interests of policyholders, but it is true that a life insurance company that chooses to offer low premiums and low cash values is competitively handicapped by the traditional net cost method, and therefore there is a natural tendency to offer the other alternative.

As to dividends, I believe that extraordinarily "steep" scales of annual dividends are relatively rare. The proposal that comprises Appendix A of my formal testimony was offered as a means for examining this question and controlling such practices to the extent they are found. Terminal dividends, which are legitimate enough within reasonable bounds, are vastly overvalued by the traditional method. In the late 1950's the New York Insurance Department found it necessary to issue special regulations to curb excessive use of terminal dividends; those regulations no doubt have been effective, but only for companies that operate in New York.

The traditional cost method has presumably encouraged some stock life insurance companies to issue participating as well as non-participating policies since the method gives participating policies an unwarranted competitive edge. This too is not harmful to policyholders provided such companies have ensured that their participating policies genuinely share to an appropriate extent in the earnings that they generate.

Second Question by Mr. Sharp. In your opinion, is the savings element of a life insurance policy "an incidental outgrowth of the level-premium system"? And, in your opinion is the savings element of a life insurance policy "a relatively small, if not insignificant, consideration when compared with the chief purpose of the policy—to provide protection against the risk of death by the pooling of funds"? (The quoted descriptions are from Section III B of the petition filed November 29, 1971, by American Life Convention and Life Insurance Association of America to the Securities and Exchange Commission in respect to variable life insurance contracts.)

Answer. I cannot clearly answer this question either Yes or No.

The words "incidental outgrowth" are accurate but can be misconstrued. The level-premium system is said to have been introduced in Great Britain in 1762, but at that time the reserves necessitated by the system could not be considered investment or savings elements by the policyholders because no cash values were promised or even paid at withdrawal. Cash values came later and guaranteed cash values even later. Chronologically the word "outgrowth" cannot be faulted; the adjective "incidental" must be construed as meaning "subordinate" rather than "minor."

Likewise, in comparing the savings element with the protection element of a level premium life insurance policy the former can properly be called "relatively small" in many but not all cases. The chief purpose of a so-called straight life policy ought logically to be protection against death, but often the savings elements in such policies are being heavily emphasized in sales presentations; furthermore, experience shows that more straight life policies terminate by surrender than by death. The quoted words "if not insignificant" are acceptable if offered "not insignificant" but are dubious if offered as meaning "almost insignificant."

Senator HRUSKA. Mr. Moorhead, I believe the part of counsel's question involving members of the public or the public, in his reference to some authority, is contained in your testimony which reads as follows:

The question of what index is most suitable is a difficult one, and the life insurance industry has made some effort to solve the problem, but I believe it would be useful if some authority would direct the leaders of the industry to bring that task to a prompt conclusion and to make a clear statement of what kind of capsule information is considered appropriate.

Now, there is additional testimony in your statement, but I presume that's the reference that was made a little bit ago by counsel.

Now, when you say "some authority," that embraces a number of possibilities, doesn't it? Wouldn't it be the National Association of Insurance Commissioners, for example, that would arrive at something and propose, as it has done a number of times, a model bill, a model law, that would be followed?

Or it could be the industry itself or it could be the Federal Government. But there are a number of possibilities in that direction, aren't there, concerning the "authority" to which you refer?

Mr. MOORHEAD. Yes, sir. And as far as the NAIC is concerned, the appendix C to my testimony represents views which I hold and which the committee held at that particular time, as to how we might pursue it further with the NAIC.

I think that they, Commissioner DuRose and his associates, are working on this and it would be a most happy outcome if we could work together and get a solution.

Senator HRUSKA. When you say "we," who do you mean?

Mr. MOORHEAD. "We," the life insurance business and the NAIC task force. Yes, I favor that move, as far as it could be accomplished.

Senator HRUSKA. Preferably by somebody who knows something about the insurance business, wouldn't that be helpful?

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. And preferably also in the insurance business, people who have dealt in the science and the activity of selling insurance.

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. Wouldn't that bear on your question here that you raised earlier in your testimony that very few life insurance buyers make any attempt to compare prices?

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. That's my statement.

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. And you believe that the nature of the sale and so on makes it impossible to change the situation rapidly without doing serious damage to the process of bringing life insurance to the people who need it.

Now, what do you mean by that? What is so traumatic about a quick change in this regard? How would that affect delivery of insurance to people who need it?

Mr. MOORHEAD. The emphasis is on the word "rapidly" in that particular sentence. I'm picturing a situation in which, as you very correctly said, sir, very few people are now making any comparison. If we suddenly try to change it to a situation in which everybody is making comparisons, I fear the consequences in terms of procrastination and general delay in issuing the insurance that people need.

I think that is why I conceive of the talk as being somewhat gradual in nature.

Senator HRUSKA. If that were resorted to and a lot of these comparisons were there, you say it would lead to procrastination. Would it lead to a chilling of the desire of the applicant to sign up for an insurance policy?

Mr. MOORHEAD. The reason I expressed it that way was because I doubt that the desire exists very strongly. I think the agent has a very important role to play in persuading the individual to buy life insurance. The prospect does not come in to the interview with a conviction that life insurance is something he wants. The need has to be brought home to him, and sometimes rather dramatically. What I am trying to suggest, is to accomplish the end of better consumer information without getting us into a position where too many individuals will use that as an excuse for not making up their minds, and putting it off, because ours is the greatest product for inviting procrastination that there is.

Senator HRUSKA. Well, in the field of variable insurance, now, we are going to see the coming years require the equivalent of a prospectus under the jurisdiction of the SEC, and I presume that prospectus will have to be made available to the applicant, and that's the very process about which you are talking, is it not, in connection with a disclosure of vital facts on an ordinary life insurance policy?

Mr. MOORHEAD. No, sir; it isn't really equivalent in my mind. I am thinking that the process needed to make a rapid changeover would involve raising a considerable question in the minds of a large number of individuals as to how to go about making these comparisons and what these particular figures mean.

I am really counseling a gradual change over rather than a sudden changeover, but in the case of variable life insurance, in the first place I think that that will tend to be sold to people who are likely to be interested in stock purchases, which is a limited group, and——

Senator HRUSKA. They are sophisticated persons?

Mr. MOORHEAD. I would hesitate to use that word. I would prefer that you use it rather than I use it. But it seems to me that, in life insurance of the fixed-dollar variety, the particular end of having an intelligent choice can be arrived at in a not too hurly-burly fashion, and thus keep all its advantages without encouraging the procrastination.

That's purely a viewpoint, and may not be of any value.

Senator HRUSKA. Your committee has made a judgment that the interest-adjusted method is your preference—that is, the committee's preference—in its report.

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. How many methods were considered and suggested in this process of making that election?

Mr. MOORHEAD. I believe it was 12. I think the figure 12 was mentioned this morning, and they are classified in the 1970 report.

Senator HRUSKA. Now, is there general agreement among the experts in this field that any particular method is superior for this purpose, or is there considerable disagreement on the choice of which of these plans or methods should be chosen?

Mr. MOORHEAD. There is some disagreement, but I attribute a good deal of the disagreement to insufficient airing of the subject, and not to genuine disagreement. I'm distinguishing between a disagreement that is caused by imperfect meeting of the minds, and a disagreement that results from a complete meeting of the minds and a divergence of opinion.

I think there is a great deal too much of the first of those two. I think we have just not discussed this subject enough within the industry in an orderly fashion, and that is what I attempt to bring out in my——

Senator HRUSKA. Well, as a matter of fact, there was division of opinion on your own committee of 11, was there not?

Mr. MOORHEAD. They were unanimous on this report, sir.

Senator HRUSKA. But later on they kind of crumbled away a little bit, didn't they ?

Mr. MOORHEAD. No; they didn't crumble away; what happened was that, when the committee was reconstituted in 1972, we deliberately brought onto the committee people whose opinions were different in order to help with the airing process.

A number of the original members had retired or, in one case, become disabled, and therefore were no longer eligible, and we tended to fill the positions with people whose views were known to be different, perhaps with the idea of helping to educate them. Who knows?

But the committee itself did not crumble. The original committee members who were still on the committee still feel the way we felt at the time of the 1970 report.

Senator HRUSKA. Now the interest-adjusted method requires, does it not, the use of different assumptions, assumptions such as interest rates and mortality and lapse of policies?

Mr. MOORHEAD. No, sir, only interest.

Senator HRUSKA. Sir?

Mr. MOORHEAD. Only interest, sir, not mortality. Nor lapse.

Senator HRUSKA. What about some of these other plans?

Mr. MOORHEAD. Generally speaking, the average approach methods require mortality and lapse, and I think in answering Mr. Sharp, I indicated that I think that that is entirely appropriate, and the snapshot methods do not require mortality and lapse, but only interest.

Every method—I should say every method worthy of the name—requires interest.

Senator HRUSKA. Well, some do require mortality experience, don't they?

Mr. MOORHEAD. Yes; they do, all the average methods.

Senator HRUSKA. And lapses?

Mr. MOORHEAD. Yes, sir. Well, there are some that have mortality only and some that have mortality and lapse, but they all have interest.

Senator HRUSKA. When mortality is taken into consideration in trying to arrive at the end results, what mortality is used? Is it the mortality on a particular policy in a particular year, or is it a type of policy, or is the whole field of mortality experience of the company? There are infinite varieties of mortality statistics that would be available and that could be used. Which particular ones are used?

Mr. MOORHEAD. I agree with you, sir, that there is an infinite variety, but the range of difference is not exceedingly large.

The attempt in introducing mortality into the calculations is to weight the figures by the mortality of the group of which that particular buyer is a member. That's a little vague——

Senator HRUSKA. By age or by policy?

Mr. MOORHEAD. Oh, definitely, by age.

Senator HRUSKA. So if he is 35, you take the mortality experience in that age range?

Mr. MOORHEAD. Yes, sir. But choosing a mortality assumption is not very difficult. Choosing a lapse assumption is where the difficulty comes in.

Senator HRUSKA. Now, in these methods where assumptions are required, is there difference of opinion among experts who work in the field as to what particular assumptions they should use?

Mr. MOORHEAD. There is a difference of opinion, but I think not unresolvable differences of opinion. I think it can be resolved.

Senator HRUSKA. But there is difference of opinion on interest, for example, isn't there?

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. And I presume there could be about mortality, although that would be a little more fixed than interest, with your tables of mortality and your results?

Mr. MOORHEAD. Yes, sir. The most difficult one is probably lapse, the second most difficult is interest, and the easiest one is mortality.

Senator HRUSKA. Now, with the use of computers, one witness suggested that cost comparison methods could be developed so as to have an expert rank the 1,800 companies from the lowest cost to the highest cost.

Are there possibilities that company A might rank higher than company B on one type of policy and lower than company B on another?

Mr. MOORHEAD. Yes, sir, in the same way as a particular supermarket may rank higher on one product on its shelves and lower on another. I think the parallel exists, so that a comparison is not between one company and another; the comparison is between the policies at that particular age and for that particular amount issued by various companies.

If I am a purchaser, I must say to myself, having decided what kind of coverage I need and in what quantities I need with the aid of an agent, then the question is what is the range of prices for that precise product by the various companies from whom I might purchase it.

Senator HRUSKA. Well, of course, that is not what the question was. The question was that, assuming you wanted to rate companies—after all, an applicant might say, "Well, show me a book. Where do you rate in the companies? Are they rated?"

And you say, "Yes, they are rated." "Show me a book." And then he'll find some place there he will find the name of the company that is represented by that sales representative.

Is it possible to rank companies from the lowest to the highest in premium costs?

Mr. MOORHEAD. Not except with relation to a particular policy, a particular amount, and a particular age. I don't believe that any of the people who have studied this believe that there is some way to throw together all the different policies of the companies and produce an answer that says, "This company occupies such and such a position."

And even if it were done, it would be of no value to the purchaser.

Senator HRUSKA. And it would not be of any value for too long a period of time, 60–90 days, 3 months or 4 months, and you would find all kinds of changes occurred that would change the ranking.

Mr. MOORHEAD. That is absolutely so. You have described it extremely well.

Senator HRUSKA. As a matter of fact, it is that actual experience in these several activities that is necessary before a dividend can be declared?

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. And thereafter the law prohibits the representation of what a dividend will be at any time in the future, because there is no sound way of doing it without actually laying the foundation for moneys that are available to pay dividends.

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. Is that not true?

Mr. MOORHEAD. Absolutely, sir, yes.

Senator HRUSKA. I don't recall what your testimony said about the factor of competition within the field of life insurance. There are some 1,800 companies, I understand, although a small number of those companies probably write half of the volume, roughly, isn't that true?

Mr. MOORHEAD. Yes.

Senator HRUSKA. Some 8 or 10 companies probably write as much as 50 percent of all the insurance that is written?

Mr. MOORHEAD. There is a very large diversity, yes.

Senator HRUSKA. In general terms.

Mr. MOORHEAD. Yes.

Senator HRUSKA. Well, what about the competition? Have you in your experience as a life insurance man found that there is competition in the market?

Mr. MOORHEAD. Yes. I say in my testimony, the number of buyers who make comparisons is smaller than I believe it ought to be, and then I believe it will be.

But nevertheless, they are an important segment and they do tend to keep companies on their toes. Furthermore, there is at present, and has been for a large number of years, a considerable pressure on the actuaries in the home offices to improve dividend scales, that pressure being exerted by the agents.

The agents are not interested in being embarrassed by finding that their product will not stand up in competition. They also are honest individuals who want to be able to present a product that they can be proud of. So they get after the company to accomplish the best earnings on its investments that can be arranged and to keep its expenses down; and they get after the actuary to develop the most attractive dividend scale in order that it may be competitive.

So I think competition does exist, and we are talking here purely of degree.

Senator HRUSKA. Now, instead of a situation where there are 1,800 life insurance companies, suppose there were only 10—in automobiles there are only 3 or 4, whichever way you look at it—but suppose there were only 10 big companies in America, and they write life insurance and nobody else writes life insurance. What would you say then about competition in the life insurance business?

Mr. MOORHEAD. I don't feel competent to answer that question, but I will do my best with it.

Mr. MOORHEAD. They would change the ranking, but I think that Professor Belth and I have both stressed in our writings that small changes should be ignored. That is, we are only talking about major differences, and——

Senator HRUSKA. And all the figures you have to get are a reasonable classification of an average applicant within age range, for example, and that would have to do with the size of his family, for example, his income and any mortgage indebtedness that he might have by way of indicating what is the best policy for him.

And wouldn't you have to approach it in that way?

Mr. MOORHEAD. Absolutely. I think it would be a tremendous mistake to make any kind of price index rank ahead in importance of the selection of the right policy. If that's your point, I thoroughly agree.

Senator HRUSKA. Now, in view of some of the data indicating that these assumptions that are made, in order to make one method or another one work, take on different significances over different periods, say in 10 years, or 20 years, or 30 years.

Now, would not a significant difference between the assumption and the actual experience over that period of time result in a material difference between costs which are projected and actual costs which are encountered?

Mr. MOORHEAD. Yes, and that has been part of the basic difficulty that we have faced. The question is, if I could attempt to express it in other words, if we are giving a cost index based on illustrated dividends, has that got any particular value in view of the fact the dividends may change?

Is that expressing the same question in other words? I believe that it is.

Senator HRUSKA. Yes.

Mr. MOORHEAD. And the committee did wrestle with that question and we concluded that the resemblance between the dividends illustrated at a particular time and the dividends actually paid in the future was distinctly large enough to justify some reliance being placed on the results.

The order does change as time goes on, but nevertheless the companies that have shown an attractive net cost based on the illustration do tend to be the same companies that have an attractive net cost when the results emerge.

What I call in my testimony an "upper limit" to the value of the information, is the fact that all that you can use are either dividends of today or dividends of yesterday. There is no way to use dividends of tomorrow.

But still the buyer would be, in my opinion, wise to look at the dividends of today, simply because there is no way in which he can be supplied with the dividends of tomorrow, and that information is valuable to him.

Senator HRUSKA. Recent reference has been made to the dividends also as a deceptive mechanism because all that happens, so say these critics, is that the insurance company charges more than it should charge in the first place, and then they refund part of it back.

Is it that simple? In calculating dividends and paying them out, are there not factors like these involved: the mortality experience that actually transpired; also the rate of earnings on invested funds, and also the cost of doing business? Is that not so?

I think that competition would exist and would be strong. I think that the fact that the number of comparisons that could be made would be limited to the policy being offered plus nine others would probably accentuate the competition.

But I feel most inadequate to handle that question. It's much too difficult for me.

Senator HRUSKA. You think it is too "iffy"?

Mr. MOORHEAD. I don't think it is too "iffy." I think the question is an excellent question; I'm just not capable of answering it.

Senator HRUSKA. Well, I've often wondered what the situation would be, as to the critics of the life insurance industry, if 1,750 of the 1,800 companies were swept to one side. I wonder what the shouts and the cries would be about the lack of competition.

Mr. MOORHEAD. Oh, I think that there is another point there, sir, and that is that a number of the companies are in different markets. It isn't as though there were 1,800 companies all competing directly with one another in exactly the same markets. Some are concentrating on one group of citizens of the country. Some concentrate, for instance, on group insurance. Some concentrate on rural markets. Some concentrate on teachers, and so on, so they are not all strung out in a list, all working together in the same market.

Senator HRUSKA. All of them do not do business in any one community? I would doubt that they would.

Mr. MOORHEAD. That's right, or among any one group of citizens.

Senator HRUSKA. Or not even in one State?

Mr. MOORHEAD. Absolutely not.

Senator HRUSKA. Mr. Sharp, do you have any further questions?

Mr. SHARP. Very brief ones, Senator.

Mr. Moorhead, I asked Dr. Belth, and I'll repeat the same question here to you: The Life Insurance Trade Association, in their petition to the SEC in connection with its hearings on variable life insurance, referred to the savings element of life insurance policies as, "an incidental outgrowth of the level premium system."

In your opinion, is the savings element of a life insurance policy "an incidental outgrowth of the level premium system?"

Mr. MOORHEAD. Would I be permitted to answer yes or no, and then elaborate?

Mr. SHARP. Why don't I ask the full question, and perhaps to save time, and in fairness to the witness because I think he would like to elaborate on what he is saying, if he would submit a letter for the record, and perhaps give his views on this.

Mr. MOORHEAD. Yes.

Mr. SHARP. So I will finish the question.

And in the same petition, the association stated that the savings element of a life insurance policy is "a relatively small, if not insignificant, consideration when compared with the chief purpose of the policy, to provide protection against the risk of death, by the pooling of funds."

Again, I would ask, in your opinion, is the savings element of a life insurance policy "a relatively small, if not insignificant, consideration," et cetera?

We will supply this to you in writing, if you would like, so that you can answer the question. And if you would answer that question basically in two parts, the second part of the question; taking the Moorhead committee report and the interest-adjusted method that you have described, if you could explain how the savings element shows up in the figures in the report, we would appreciate learning that.

Mr. MOORHEAD. Yes; I would be glad to do that.

Mr. SHARP. As they were presented in the report.

Mr. MOORHEAD. Yes, sir.

[The following was subsequently received for the record from Mr. Moorhead. Testimony resumes on p. 718.]

TABLE CALCULATING TRADITIONAL 20-YEAR NET COST FOR A $1,000 STRAIGHT LIFE POLICY

CALCULATION OF THE TRADITIONAL TWENTY YEAR NET COST FOR A $1,000 STRAIGHT LIFE POLICY* WHICH HAS A LEVEL ANNUAL PREMIUM OF $16, AND A TWENTIETH YEAR CASH VALUE OF $340.

$320 ($16 x 20 years)
- 340 (20th year cash value)
-$ 20 which is the traditional 20 year net cost per $1,000 of face amount.

OR

-$1 Twenty year average annual traditional net cost per $1,000 of face amount.

* Non-participating.

TABLE OF ASSUMPTIONS UNDERLYING TRADITIONAL 20-YEAR NET COST COMPARISON METHOD

TRADITIONAL TWENTY YEAR NET COST COMPARISON METHOD

Contains the following three assumptions:

1. 0% interest
2. 0% mortality rates
3. 0 lapse rate for first 19 years and 100% lapse for the 20th year.

Mr. SHARP. And my last quick question to you is, in your opinion, is there meaningful price competition as, for example, opposed to premium competition, in the life insurance market today?

Mr. MOORHEAD. I am answering that yes, and I think it impinges very closely on Senator Hruska's question. I think that there is a good deal of price competition; I would like to see more.

Mr. SHARP. Price competition for the price of death protection? Is there meaningful price competition for death protection?

Mr. MOORHEAD. I have a little more difficulty with the question put in exactly those words. I think that the price competition that exists goes a great deal beyond just the premium itself.

I think that the traditional method, with all its defects, does start in the direction of being the price of protection, although I think the defects are serious. Therefore, I think that since the traditional method is being rather widely used, there is price competition.

The trouble is that it is not always signaling the right message, and so it runs awry in that respect. That there is price protection that goes beyond the premium for the policy, I have no doubt whatsoever.

Mr. SHARP. And that this is furnished to the buyer today, that the premium for the package of protection is furnished to the buyer so that he could understand the components and, from a theoretical sense, price protection and savings.

Mr. MOORHEAD. I think something is being done in that direction, but I am one of the critics of the existing procedure. I think it needs improving, and so my answer is a qualified yes. I think that something is being accomplished, but not enough.

Mr. SHARP. If you would care to add any further views on this point, or any other points—your own personal views—we would be very pleased to receive them for the record, as well as any of your writings for the transactions of the Society of Actuaries.

And in this regard, Senator, we would, concerning this witness, like to put in a group of statements and speeches the witness has made to the Society of Actuaries in various meetings since the publication of the Moorhead report.

Is that all right with the witness?

Mr. MOORHEAD. Absolutely. I'll be most happy to do so.

Mr. SHARP. And if there is anything else you would like us to submit, please let us know.

Mr. MOORHEAD. Thank you.

Senator HRUSKA. Without objection, what will be done, subject to the will of the Chair, as to editing for purposes of eliminating, and with consultation with the staff on eliminating duplication, things of that kind.——

[The speeches referred to appear at the end of Mr. Moorhead's testimony.]

Mr. SHARP. Thank you, sir.

Senator HRUSKA. Now, Mr. Moorhead, the National Association of Insurance Commissioners has a task force working on this subject; hasn't it?

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. They've done quite a lot of work, and I know the work of your committee has been helpful to them.

What progress are they making? Have you had any recent reading?

Mr. MOORHEAD. Our committee met jointly with Commissioner DuRose's committee last November, and at that point we were asked to make suggestions for future work, and that is the last appendix to my testimony, our set of suggestions to them for future joint work on this question.

Senator HRUSKA. That will be testified to by Mr. DuRose?

Mr. MOORHEAD. Yes, sir.

Senator HRUSKA. That's fine. Thank you for having been here.

Mr. MOORHEAD. I appreciate the opportunity.

Senator HRUSKA. We will now stand in adjournment for the day, and meet tomorrow morning at 10 a.m., in room 2228, this same room.

[Whereupon, at 4:45 p.m., the subcommittee adjourned, to reconvene at 10 a.m., the following day.]

[The following, in relation to Mr. Moorhead's testimony, was received for the record. Testimony resumes on p. 791.]

Joint Special Committee on Life Insurance Costs

Report to
American Life Convention
Institute of Life Insurance
Life Insurance Association of America

Contents

INTRODUCTION

This committee was formed to consider the method or methods that a prospective buyer of life insurance may find most suitable for use in comparing the premiums, dividends and cash values of comparable policies that are offered by different life insurance companies.

There have been criticisms, particularly in recent years, of the comparison method that has long been prevalent, which will be called in this report the Traditional Method. Its process is to add together the premiums for a period of years, usually twenty, and to subtract the cash value at the end of the period and the sum of all policy dividends shown in the life insurance company's illustration for the period. The result of this arithmetic, which might be positive or negative, was frequently then divided by twenty (or by the period if other than twenty years), and by the number of thousands of the amount insured, the result being described in such terms as "Average Surrendered Net Cost per $1,000."

At this point it should be noted that an index determined in this way is a legitimate measure of the excess, positive or negative, of dollars payable to the life insurance company over dollars assumed payable by the life insurance company. It does indicate what the net outlay would be if the company's current dividend scale were to remain unchanged and the policyholder were to surrender his policy for its cash value at the end of the period.

But it is only, in the case of a participating policy, an illustration, not

a statement of guaranteed result nor an estimate or prediction of future cost. Objection can reasonably be made to using it as a means for indicating, or permitting the inference, that one company's policy is more attractive than another's.

The major criticisms levelled at the Traditional Method when it is used as an index of comparative net cost have been as follows:

(1) It assumes that the current dividend scale will continue unchanged, a clearly artificial assumption and certainly not an expectation. Nobody knows what dividends will be paid on participating policies in years ahead. Illustrative dividends do not represent estimates of what a company will pay. They are nothing more than just the company's current dividend scale as it would apply to a currently issued policy.

(2) It assumes that future changes in dividend scales will affect all companies in roughly the same manner or degree. Again, this is most unlikely to be the case since it disregards changing patterns within companies as to investment yields, underwriting results, and expenses of operation.

(3) By ignoring interest it fails to give any recognition to the *time* when a dollar is paid either by or to the policyholder. The effect of this generally is to attribute a lower cost to a participating policy than to a like non-participating policy, to a policy with high premiums and high cash values than to a like policy with low premiums and low cash values, and to a policy with low early and high later dividends than to a policy with a "flatter" dividend pattern.

(4) It is based on the artificial assumption that the purchaser will keep his policy in force for exactly 20 years (or other period used) and then surrender it.

(5) In many cases it carries an implication that may strike a buyer as puzzling, that is, if he keeps his policy in force for the indicated period his insurance will have cost very little, or less than nothing.

But having said all this our Committee desires to point out that net costs by the Traditional Method do provide an easily determined, easily understood and not at all misleading basis for comparing the premiums, illustrative dividends and cash values of the policies of many companies,

perhaps even a majority, whose dividend and cash value patterns happen to resemble each other quite closely. Furthermore the omission of any allowance for interest was not a serious defect until interest rates obtainable on savings rose as they have risen in quite recent years. In the days when savings accounts earned 2% or 3% before deducting income tax the interest element was hardly significant enough to justify the complications that it introduces into a net cost calculation.

Criticisms of the Traditional Method have been heard from time to time within our industry and have spread into academic and governmental circles. Our Committee observes with regret that in some cases the original complaint that a less than satisfactory method of comparison exists has been erroneously expanded to the point of saying that no method of comparison exists. We must emphasize that any prospective purchaser is and has been able to obtain from an agent or life insurance company or public library a great deal of factual material about available products, premiums, dividends, cash values and policy provisions. Rankings of companies by net payments and net costs have been published, have been readily available to agents and have been widely used for competitive purposes.

The tendency of companies and publishers to continue using the Traditional Method is attributable to its convenience and ready understandability, and to the belief (with which this Committee thoroughly agrees) that no completely satisfactory comparative net cost index exists or can be devised. Even though our Committee has concluded that improvement is possible without undesirable departures from convenience and understandability, we recognize that for many purchasers, especially those buying policies with relatively modest outlay, the difficulty of grasping the concepts of any more elaborate method may create misunderstanding rather than enlightenment.

Before attempting to reach its conclusions our Committee studied four preliminary questions which may be stated as follows:

I. Is *any* cost exhibit justifiable in view of the changeable nature of dividends on participating policies?

II. What are the criteria that a method should aim to satisfy?

III. What are the pros and cons of the various categories of method that have been suggested?

IV. What specific range of information is needed to provide sufficient opportunities for the comparisons that people may wish to make?

A review of each of these questions now follows.

I. IMPLICATIONS OF THE USE OF CURRENT DIVIDEND SCALE ILLUSTRATIONS

It is well known that to reflect changes in investment, mortality and expense results companies must frequently change the scale of dividends they pay on participating policies. This raises questions about the usefulness of any cost exhibit based upon illustrated dividends. This matter has importance in two separate areas: the comparison of non-participating with participating, and of participating with participating.

A cost index is of, at best, moderate validity when one of two policies being compared is non-participating, the other participating. This is because the elements being compared are unlike – one is entirely a guarantee, the other a mixture of guarantees and non-guarantees. When both the policies compared are participating, although the dividends themselves are likely to change considerably in even a short period of years, the Committee feels a buyer may attach some significance to company net cost differences provided (1) the observed differences are large, not small, and (2) the period over which comparison is made is not excessively long.

Our Committee's belief is that the correlation of actual company cost rankings with the rankings determined by current scale dividends at the beginning of the period is good enough to make comparisons worthwhile, but not good enough to justify elaborate comparison processes. Furthermore, it is judged inadvisable to use periods of comparison that exceed twenty years.

II. THE CRITERIA THAT A METHOD SHOULD AIM TO SATISFY

The paramount criteria in our view are that the method be valid and not misleading, that its rationale and its arithmetical steps be understandable to non-insurance people, that it make allowance for when money is paid recognizing that a dollar payable in the future is not equal to a dollar payable today, and that it employ the minimum of arbitrary assumptions.

Criteria of less importance – that is, desirable rather than essential features – are that calculations be convenient to make, that they use information that can be provided without burdensome expense, and that they facilitate comparisons between different types of policy as well as between nearly identical policy forms.

A member of our Committee, C. L. Trowbridge, F.S.A., composed a statement of criteria entitled "Characteristics of An Ideal Method of Price Illustration for Insurance Products." Because Committee members considered it such a valuable contribution it is reproduced as Appendix A.

III. A REVIEW OF THE VARIOUS CATEGORIES OF COST COMPARISON METHOD THAT HAVE BEEN SUGGESTED

The many methods that have been used or suggested can be classified in several ways. In this report the categories will be the following three:

A. Methods that Determine an Insurance Cost Index, Having Assumed An Interest Rate;

B. Methods that Determine An Interest Yield Rate, Having Assumed a Cost of Insurance;

C. Methods that Relate the Values of Amounts Paid by the Company to Amounts Paid by the Policyholder.

We shall now describe the major methods extant in these categories, with observations on their histories and our Committee's views on their usefulness.

It is necessary first to bring up a fundamental question concerning the separation of a life or endowment policy into a decreasing risk element and an increasing savings element. This is a common textbook process that gives useful insight into how a life insurance policy works. But a danger is observed that use of such analysis may create misunderstanding rather than enlightenment. A life insurance policy is designed to be and has been consistently interpreted by courts as a single entity. This single entity offers rights and benefits beyond those that are available to persons who buy a decreasing term policy and build a savings fund independently thereof.

Our Committee, therefore, feels that the more a particular cost method highlights the separation of decreasing term and increasing savings, the less desirable it is, provided there exists some valid cost method that avoids such emphasis. This has been one of our guideposts in the selection of the method we consider most suitable.

The procedures for calculating a cost index by most of the methods to be described in this report will be illustrated by performing the arithmetic for the following hypothetical whole life policy:

Amount of Insurance: $10,000

Issue Age: 35 years

Annual Premium: $240

Annual Dividend: $18 at the end of the first year increasing by $6 each year to $132 at the end of the twentieth year

Cash Values: None for the first year; increasing thereafter by $190 each year to $3,610 for the twentieth year.

A. Methods That Determine an Insurance Cost Index, Having Assumed an Interest Rate

1. Traditional Method (already described)

The so-called Average Annual Insurance Cost for the chosen period is defined as the sum of the premiums, less the sum of the dividends, less the cash value (and any terminal dividend) available at the end of the period, all divided by the number of years in the period.

The interest rate implicit in this approach is zero percent.

Using the data of our hypothetical policy:

	For the First 10 Policy Years	For the First 20 Policy Years
Sum of Premiums	$2,400	$4,800
Less Sum of Dividends	450	1,500
	1,950	3,300
Less Cash Value	1,710	3,610
	240	– 310
Insurance Cost per Year	$24.00	–$15.50
Insurance Cost per Year Per Thousand of Insurance	$ 2.40	–$ 1.55

2. Interest-Adjusted Method

This method has no formal history but undoubtedly has been used on many occasions by persons interested in comparing policies.

The procedure is the same as for the Traditional Method except in three respects:

(i) instead of being added, the premiums are accumulated with interest at a rate representative of what the purchaser might count on obtaining in a personal investment of equivalent security and stability;

(ii) likewise, the dividends, instead of being summed, are accumulated at the same interest rate as in (i);

(iii) instead of dividing by the number of years, the net amount of accumulated premiums less accumulated dividends less cash value is divided by the amount to which a dollar paid at the beginning of each year will accumulate during the period, using the same interest rate as in (i) and (ii).

Applying this to our hypothetical policy, and selecting 4% per year as the interest rate:

	For the First 10 Policy Years	For the First 20 Policy Years
Accumulated Premiums	$2,997	$7,433
Less Accumulated Dividends	517	2,003
	2,480	5,430
Less Cash Value	1,710	3,610
	770	1,820
Accumulation of One Dollar per Year at 4% Interest	12.486	30.969
Cost Index, Per Year	61.67	58.77
Cost Index, Per Year Per Thousand of Insurance	$6.17	$5.88

If, as is usually the case, the policy calls for level premiums during the period of analysis, the arithmetic can be shortened. The Cost Index per Year would be the amount of one premium, less the result obtained by adding together the accumulated dividends and the cash value, and dividing the sum by the accumulated value of one dollar per year at the interest rate selected.

The merits of this method are discussed in the section of this report entitled "Committee Conclusions."

The procedure that goes by the name "One-Thirtieth Method" is an approximation to the Interest-Adjusted Method. The approximation involved is in using each company's published dividend accumulation in lieu of making this computation as provided in step (ii). If the period is twenty years, the divisor used in step (iii) of the procedure is 30.

The only advantage of the One-Thirtieth Method over the more accurate Interest-Adjusted Method is that the One-Thirtieth Method can readily be applied to customarily published data without the aid of a calculating machine.

The Interest-Adjusted Method is the same as the method called Equalized Cost Method in the volume – *Cost Facts on Life Insurance* – published in 1969 by the National Underwriter Company.

3. Professor Ryall's Method

The method developed by Professor P. L. J. Ryall*, published in Volume XXI of the Transactions of the Society of Actuaries, is similar to the Interest-Adjusted Method except that it allows for mortality as well as interest, i.e. it recognizes the effect of the gradually declining number of policyholders resulting from deaths occurring in each policy year. The method also permits differentiation between companies with different practices in payment of first year dividends and mortuary dividends.

To illustrate Professor Ryall's method for the first 20 policy years of our hypothetical policy, we use the basis (1958 CSO Mortality Table, 4% interest) and the procedure described in his paper.

Annual Premium	$240
Deduct Equivalent 20-Year Level Dividend	63
	177
Deduct Annual Equivalent of 20th Year Cash Value	107
Insurance Cost per Year	70
Insurance Cost per Year per Thousand of Insurance	$ 7

At issue ages below about age 45 the index obtained by Professor Ryall's method places companies in almost the same position relative to each other as the Interest-Adjusted Method does. At higher issue ages the mortality factor does have impact upon company rankings.

Professor P. L. J. Ryall, A.S.A., Assistant Professor, Department of Mathematics, University of Toronto, Toronto 5, Ontario

Introduction of the mortality element into the calculation of the equivalent level dividend and the annual equivalent of the 20th year cash value makes the concept less easy to grasp and requires factors not usually available. It also raises the serious question whether an average mortality rate applicable to a large group has meaning for any one particular individual.

4. Professor Joseph M. Belth's Level Price Method

The method, developed by Professor Belth* and described in his book "The Retail Price Structure in American Life Insurance" and elsewhere, computes Yearly Price as

> Previous year's cash value plus the annual premium plus interest for one year on both these amounts, less current year's cash value and current year's dividend,

then calculates a Yearly Amount of Protection, defined as

> Face amount of insurance less the previous year's cash value, less the annual premium, less interest for one-half year on each of these last two items,

and finally develops Level Price as

> Sum of the Yearly Prices, each discounted to the policy issue date with allowance for interest, mortality and lapse, all divided by the sum of the Yearly Amounts of Protection, each similarly discounted to the policy issue date with allowance for interest, mortality and lapse.

We have applied the Level Price Method to our hypothetical policy using 4% interest and the mortality and lapse factors that appear on page 292 of "The Retail Price Structure in American Life Insurance." The calculations, set forth in Appendix B of this report, produce the following Level Prices per $1,000 of protection:

For the first 10 policy years	$7.32
For the first 20 policy years	$7.47

The Committee's view is that the yearly prices developed by this method can give valuable insight to students of life insurance. But this method raises an even more serious question than does Professor Ryall's method about applicability of group averages to an individual, because this method employs average lapse rates as well as average mortality rates.

Professor Joseph M. Belth, Ph.D., Professor of Insurance, Graduate School of Business, Indiana University, Bloomington, Indiana

The Committee considers furthermore that the mathematics of the Level Price Method is subject to legitimate objection (see Method 5 below), that the Method is too complicated for widespread use and general understanding, and that it relies too heavily upon separation of a policy into protection and savings elements.

In a paper written jointly by Professor Belth and E. J. Moorhead published in the December 1965 issue of The Journal of Risk and Insurance (Volume XXXII, No. 4) it was indicated that substantial correlation appears to exist between company rankings by the Level Price Method and the One-Thirtieth Method, the latter being a close relative of the Interest-Adjusted Method. For the particular companies selected for that study there was a marked absence of correlation between company rankings by the Level Price Method and the Traditional Method.

5. Lewis Modification of Level Price Method

In a review of Professor Belth's book that appears in Volume XIX of the Transactions of the Society of Actuaries it was stated that the Level Price Method contains a mathematical flaw which causes level prices that ought to be identical to show discrepancies of not inconsiderable size. A Milwaukee actuary, Clair A. Lewis, F.S.A., put forward a method that removes these discrepancies and eliminates one step, that of calculating the yearly amounts of protection.

Mr. Lewis' method produces the following results for our hypothetical policy using the same interest, mortality and lapse factors as in 4. above:

For the first 10 policy years	$7.95
For the first 20 policy years	$8.70

It is noted that this method removes only one of the several objections to the Level Price Method described earlier in this report.

6. Benefits Cost Method

This method, first set forth in the National Underwriter Company's 1969 book "Cost Facts on Life Insurance" is an extension of Professor Belth's Level Price Method. After yearly prices as described in 4. above are calculated, each of these prices is reduced by an amount considered to represent the portion of the year's premium needed to pay death claims in the current year. Then an averaging procedure is

applied to the series of yearly prices less mortality costs.

The intent of the Benefits Cost Method is to implement the following observation made by E. J. Moorhead in his 1967 review of Professor Belth's book "The Retail Price Structure in American Life Insurance" (T.S.A., Volume XIX, pages 25-26):

> "To this reviewer it seems that the level-price calculation suffers from a basic defect. The defect is that 'price' in the author's concept is a mixture of two elements that are quite different from each other and that should not be thrown together in what is described as a highly refined method of price analysis. These two elements are (1) the individual policyholder's contribution to the fund which is forthwith divided among the beneficiaries of those who die during the current policy year and (2) the individual's contribution to the operating expenses, contingency reserves, and profits of the life insurance company.
>
> "This suggests that the problem could be eliminated or greatly reduced by subtracting from the yearly price per $1,000 of protection by the Belth definition the mortality rate on a modern select mortality table and comparing only the residue expressed in dollars."

The Committee's view is that the Benefits Cost Method is subject to the same objections as the Level Price Method.

7. Present Value of Premiums Method Developed by C. L. Trowbridge

At the Committee meeting on March 19, 1969, Mr. Trowbridge presented the Present Value of Premiums Method. As described by him:

> "The basic price index is the present value of all future premiums, discounted at both interest and mortality but not for voluntary withdrawal. Dividends on participating policies are viewed as a return of premiums, and their present value is therefore deducted in computing the price index (though an indication is called for that dividends are not guaranteed).
>
> "To make price comparisons between companies meaningful there must be agreement as to the interest rates and the mortality table used in the present value computation.
>
> "Comparisons on the basic price index alone would be meaningful so long as the policies being compared have the same death or endowment benefits; it is not required that their premium payment patterns be alike. The price index for a policy already in force (for use in replacement situations) is the present value of future premiums less dividends at the attained age, plus any current cash value."

Mr. Trowbridge's method produces the following results for our hypothetical policy assuming the annual dividend increases by $3 each year after the twentieth year and using the 1958 CSO Mortality Table and 4% interest:

Present Value of Premiums	$2,904.52
Present Value per Thousand of Insurance	$ 290.45

Mr. Trowbridge also stated how the method could be extended to accommodate differences in death and endowment benefits between the policies being compared.

While this index accomplishes good purposes in treating the policy as a single entity and avoiding the artificial assumption of surrender at the end of a particular period it does require laborious calculations and use of illustrative dividends extending over the entire life of the policy.

B. Methods That Determine an Interest Yield Rate, Having Assumed a Cost of Insurance

1. Mr. Linton's Method

In the pioneer studies by M. Albert Linton, F.S.A.*, that appeared many times between 1927 and 1963, comparison was made between the results at the end of a specified period of having placed a stated annual amount in either (a) the premium less the dividend for a whole life policy, or (b) part in the premium less the dividend for a term insurance policy, the remainder in an outside savings fund. The amount of term insurance each year is made equal to the face amount of the whole life policy less the current amount of the savings fund; thus the total amount payable in event of death is approximately the same under (a) or (b). By repeated trials it is determined what compound interest rate would have to be earned on the savings fund so that the fund at the end of the period would be equal to the cash value of the whole life policy.

A major difficulty in using this method is that the interest yield depends heavily upon the level of premiums assumed for the term insurance. Furthermore, even though the two propositions are by definition equivalent at the end of the selected period they will not usually produce identical returns if the policyholders terminate the two plans before the end of the period.

**For many years President, Provident Mutual Life Insurance Company, Philadelphia, Pennsylvania*

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Mr. Linton designed his method to illustrate the comparative merits of ordinary life and term insurance. It was not his purpose to provide a means for comparing policy costs between different companies.

2. Professor Schwarzchild's and Other Modifications of the Linton Method

In 1967 Professor Stuart Schwarzchild, Ph.D.,* published a refined version of Mr. Linton's method. He set forth a procedure by which electronic equipment could be used to compare the financial effects of various life insurance purchase alternatives. His formulas are published in Volume XXXIV, No. 3 (September 1967) of the Journal of Risk and Insurance, and various results in Volume XXXV, No. 4 (December 1968) of the same publication.

Also in Volume XXXV, No. 3 (September 1968) of that publication Messrs. J. Alan Lauer, F.S.A.**, and J. Stanley Hill, F.S.A.***, offer comments on Professor Schwarzchild's approach and suggest alternatives.

C. Methods That Relate the Values of Amounts Paid by the Company to Amounts Paid by the Policyholder

1. Benefit-to-Premium Ratio Method

This is an adaptation of the "loss-ratio" index commonly used for short-term insurance in the health or property insurance field, whereby incurred benefits are compared with corresponding earned premiums less policyholder dividends, or alternatively incurred benefits plus policyholder dividends are compared with corresponding earned premiums.

To adapt this index to level premium life insurance it is necessary to discount deferred benefits, premiums and policyholder dividends for interest, mortality and lapse.

This method has been thoroughly examined by Professor Belth in a paper published in Volume XXXVI, No. 1 (March 1969) of the Journal of Risk and Insurance. It necessitates decisions as to the mortality, lapse and interest rates considered appropriate, and then requires extensive calculations. Furthermore in its normal form it calls for use of dividends

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on participating policies extended to the end of the longest period during which any policy may remain in force. As already stated, our Committee considers this highly undesirable.

On the other hand it does reflect the policy values for all years, not just the cash value at the end of the period studied.

2. Excess of Value of Premiums Over Value of Benefits

Professor Belth has pointed out that instead of calculating the ratio of the discounted values of benefits to the discounted value of premiums one can obtain an index by subtracting the former from the latter. This approach is of course subject to the same objections as in the Benefit-to-Premium Ratio above.

3. Method Suggested by Mr. Harold W. Baird

In 1969 Mr. Baird* recommended consideration of three cost indices, as follows:

$$\text{Death Benefit Index} = \frac{\text{Face Amount}}{\text{Accumulated Premiums less Dividends}} \times 100$$

$$\text{Survival Benefit Index} = \frac{\text{Cash Value}}{\text{Accumulated Premiums less Dividends}} \times 100$$

Combined Value Index = Average of these, weighted by the respective probabilities of dying and surviving

Mr. Baird has emphasized that he does not intend his method as a device to express the exact "cost" of life insurance to any specific buyer. Rather, it is an attempt to devise a fair method of expressing relative "value" to the buyer as between two contracts.

For our hypothetical policy, the calculations for Mr. Baird's method are as follows:

	At the End of 10 Years	At the End of 20 Years
A. Death Benefit	$10,000	$10,000
B. Premiums less Dividends Accumulated at 4% Interest	2,480	5,430
Death Benefit Index (A/B × 100)	403.23	184.17
C. Guaranteed Cash Value	1,710	3,610
Survival Benefit Index (C/B × 100)	68.95	66.48

Mr. Harold W. Baird, C.L.U., Superintendent of Agencies, Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.

The Combined Value Index depends upon the proportions of policyholders assumed to die or to survive. If the 1958 CSO Mortality Table, issue age 35, is used, then the Death Benefit Index would be assigned a weight of 3.47% for the 10-year period, 11.12% for the 20-year period. The corresponding weights for the Survival Benefit Index would be 96.53% and 88.88% respectively.

Applying these weights to the above Death Benefit Index and Survival Benefit Index produces these results:

Combined Value Index	80.55	79.57

In an index of this nature a higher figure indicates a more attractive value.

IV. THE INFORMATION NEEDED FOR ADEQUATE COMPARISON

It must first be emphasized that price information does not give the final answer in selecting the company in which to insure. The insuring public has long recognized this and has rightly attached primary importance to the assurance of stability and to the capacity of the company and its agents to provide needed service. These are essentials in discharging the complex series of promises extending across generations that are stated or implicit in a life insurance policy.

A cost index may indeed be useful as a provider of capsule price information, but by itself it is not sufficient. Adequate comparisons require in addition at least the following items of information:

(1) The gross premium charged;

(2) The surrender values for each of the first few policy years separately, and then at intervals not greater than 5 years until the twentieth year;

(3) The dividends illustrated at the same points as in (2);

(4) Particulars of special policy features that may differ between one policy and another, and supplementary coverages such as benefits payable in event of disability.

All this is needed to ensure that a cost index will not erroneously be believed to give, by itself, the information that a buyer should have when he wishes to make comparisons.

The information described above has consistently been available to policyholders and prospective policyholders for many, many years. It provides the surest method for a person to know what he or she is buying.

COMMITTEE CONCLUSIONS

From the outset our Committee realized that although no completely satisfactory method has been advanced or is likely to be, a practical improvement over the Traditional Method is achievable. The largest question that has occupied us through our meetings and supplementary correspondence has been how far to go in introducing refinements.

A second question has been whether the use of two methods might be desirable – one for persons desiring to appraise a life insurance policy in terms of its attractiveness if kept in force until its maturity by death or endowment, the other designed particularly for those who attach greater importance to the cash values that it provides.

Thirdly, it was necessary to evaluate whether, in valuing dollars payable in the future, allowance should be made for the effect of interest (i.e. time of each payment) alone, or for the effect also of the decreased numbers of people to whom future payments would be made because some had previously departed from the original group either voluntarily or by death.

Our conclusion on each of these questions was:

(1) A sufficiently useful yardstick for comparison is available without sacrificing understandability by introducing complex calculations. As already stated, the transitory nature of dividend scales makes complete accuracy unattainable regardless of the method used.

(2) Putting forward a choice of methods is tempting but unwise. To do so would inevitably complicate a subject that greatly needs to be kept straightforward.

(3) Allowance should, in our opinion, be made in the cost index for time because the value of money in terms of the interest it can earn is too important to ignore. On the other hand, allowance need not be made for reduction in numbers of people due to death because except at the more advanced issue ages the effect upon company rankings of such an adjustment is minor. Allowance should not be made for reduction in numbers of people due to voluntary termination because in the first place the contingency is one that is within the control of the purchaser, and in the second place the voluntary termination rate is excessively volatile. Policy A may appear more attractive than Policy B using one set of termination assumptions, but less attractive using another set, there being no good criterion for determining which set is the more appropriate of the two in individual situations. Furthermore, as already stated, average rates of mortality and of policy termination have no direct applicability to any particular individual person.

Our Committee has concluded that the method called in this report the Interest-Adjusted Method is the most suitable of all those of which we have knowledge. Our principal reasons for this opinion are:

(1) It takes time of payment into account.
(2) Of all the methods that take time of payment into account it is the easiest to understand.
(3) It is possible to use this method without having recourse to advanced mathematics.
(4) It does not suggest a degree of accuracy that is beyond that justified by the circumstances.
(5) It is sufficiently similar to the Traditional Method so that transition could be accomplished with minimum confusion.

The steps required to apply the Interest-Adjusted Method to a policy with level annual premiums are as follows:

1. Select the period over which the analysis is to be made. In practice standardization using ten and twenty years is desirable. For periods shorter than ten years an index offers no advantage over what can be learned from direct inspection of the figures for individual years. Comparisons for periods longer than twenty years have, as already stated, too little significance to be advisable.
2. Select the interest rate to be used. Although it must be recognized that an interest rate that is appropriate for one individual may be inappropriate for another, a reasonable choice for general use is a rate close to the after-tax rate readily obtainable over a period of years on accounts in savings institutions.

   Currently a rate of 4% per year seems generally suitable. At first sight this seems low, but not so when it is realized that the selected rate must be reasonable for savings made gradually over a considerable period. This is quite different from the rate that applies at a particular time such as the day or month when the policy is issued.
3. Accumulate the annual dividends, if any, at interest to the end of the selected period, and add to them the cash value (and terminal dividend, if any) available at the end of the period.
4. Divide the result of Step 3 by an interest factor that converts it into a level annual amount accruing over the selected period. If the period is 20 years and the interest rate is 4%, this factor is 30.969, or, with sufficient accuracy, 31.
5. Subtract the result of Step 4 from the annual premium*. This is the Interest-Adjusted Cost. Divide by the number of thousands of the amount of insurance to arrive at the Interest-Adjusted Cost per thousand.

**This is the procedure when the premium is level throughout the period of analysis. If the premium is not level, an equivalent level premium is determined by accumulating the premiums at interest to the end of the period and dividing the result by the factor stated in Step 4.*

Appendix C of this report gives a series of comparisons of results obtained by the Traditional Method and by the Interest-Adjusted Method. It is noteworthy that many company rankings remain about the same under either method, but there are enough substantial changes to justify making allowance for interest by using the Interest-Adjusted Method instead of the Traditional Method.

This Committee feels that the Interest-Adjusted Method makes available a method that is adequate in view of the imponderables stated in this report, and that is less subject to criticism than the Traditional Method.

Whenever the Interest-Adjusted Method is used, the interest rate should be specified.

We reiterate for emphasis that this or any other cost index is not appropriate as a substitute for adequate information to the prospective buyer about the provisions of the policy and the pattern of premiums, cash values and dividends from which the cost index was calculated.

Even such information will not necessarily indicate for any particular person what his choice should be. The purchase of a policy commands not only the dollar benefits stated in the policy but also, and most importantly, the services of the agent and the company that issues it. These services are of tremendous value to the policyholder; differences in the quality of these services are far more important than moderate differences in apparent cost.

May 4, 1970

JOINT SPECIAL COMMITTEE ON LIFE INSURANCE COSTS

Committee Members

James N. Ackerman, Bankers Life Insurance Company of Nebraska
Harry E. Atwood, Northwestern National Life Insurance Company
Joseph B. Crimmins, Metropolitan Life Insurance Company
Kenneth C. Foster, The Prudential Insurance Company of America
D. Edward Hudgins, Jefferson Standard Life Insurance Company
Daniel J. Lyons, The Guardian Life Insurance Company of America
J. Edwin Matz, John Hancock Mutual Life Insurance Company
Willis H. Satterthwaite, The Penn Mutual Life Insurance Company
Armand C. Stalnaker, General American Life Insurance Company
C. L. Trowbridge, Bankers Life Company
E. J. Moorhead, (Chairman), Integon Life Insurance Corporation

APPENDIX A

Characteristics of an Ideal Method of Price Illustration for Insurance Products

Theoretical Considerations

An ideal method of price illustration should meet all reasonable tests of theoretical accuracy. Some of these are as follows:

a. The method should not violate established principles of what the contract sold actually is. Methods that fragment an essentially indivisible product into arbitrary parts are vulnerable on this score.

b. The method should have an absolute minimum of arbitrary assumptions, particularly those that can be attacked as likely to be contrary to fact.

c. The method should involve a minimum of approximation unless it can clearly be shown that any error is trivial.

d. The method should neither understate nor overstate price differences, either in dollar amount or as a percentage of the price itself.

Practical Considerations

1. An ideal method should meet reasonable tests of simplicity and understandability. The most important of these appear to be:

   a. The price illustrated must be in terms with which both agents and the public are familiar in the pricing of other products. Dollars per unit per year or an annual rate of compound interest may meet these qualifications; but more sophisticated illustrations may not.

   b. The price calculation itself must be simple if the agent is to perform it, and the necessary input must be available to him. If the calculation is to be made by home offices or by insurance services, the principles of the calculation must be simple (even if the arithmetic may be arduous) in order that the public can understand.

2. An ideal method should also be general enough that it would be applicable to any comparison the buyer has logical reason to make. The most usual use of price illustrations may be in the comparison of similar new contracts or policies offered at any one time by competing insurance companies. Here the generality criterion is well met if the illustration method is equally applicable to most kinds of contracts or policies typically offered. There are, however, other logical price comparisons, and a really satisfactory price illustration method should be also applicable to the following:

   a. Comparison of dissimilar contracts offered by the same insurance company.

   b. Comparison of contracts not necessarily similar offered by competing insurance companies.

C. L. Trowbridge

APPENDIX B

Arithmetic of Belth Level Price Method Applied to Hypothetical Policy of This Report

Steps to Develop Yearly Price per $1,000 of Protection (figures rounded to dollars)

Policy Year	(1) Previous Year Cash Value Plus Annual Premium	(2) Current Year Cash Value Plus Dividend	(3) One-Half Year's Interest on (1)	(4) Yearly Price of Protection	(5) Amount of Protection	(6) Yearly Price per $1,000 of Protection	(7) Factor to Obtain Level Price per $1,000
1	$ 240	$ 18	$ 5	$232	$9,755	$23.78	1.00000
2	240	214	5	36	9,755	3.69	.91272
3	430	410	9	38	9,561	3.97	.85041
4	620	606	12	38	9,368	4.06	.79631
5	810	802	16	40	9,174	4.36	.74775
6	1,000	998	20	42	8,980	4.68	.70344
7	1,190	1,194	24	44	8,786	5.01	.66261
8	1,380	1,390	28	46	8,592	5.35	.62525
9	1,570	1,586	31	46	8,399	5.48	.59041
10	1,760	1,782	35	48	8,205	5.85	.55790
11	1,950	1,978	39	50	8,011	6.24	.52751
12	2,140	2,174	43	52	7,817	6.65	.49910
13	2,330	2,370	47	54	7,623	7.08	.47201
14	2,520	2,566	50	54	7,430	7.27	.44663
15	2,710	2,762	54	56	7,236	7.74	.42239
16	2,900	2,958	58	58	7,042	8.24	.39961
17	3,090	3,154	62	60	6,848	8.76	.37782
18	3,280	3,350	66	62	6,654	9.32	.35695
19	3,470	3,546	69	62	6,461	9.60	.33697
20	3,660	3,742	73	64	6,267	10.21	.31785

Column (4) equals Column (1) + [2 × Column (3)] − Column (2). Column (5) equals 10,000 − Column (1) − Column (3).

Column (7) provides the weighting with allowance for mortality, lapse and 4% interest.

Arithmetic of Belth Level Price Method

Steps to Develop Level Price per $1,000 of Protection from Yearly Prices on Preceding Page

	10 Years	20 Years
A. Sum of Products of Column (7) × Column (4)	498.7422	733.5433
B. Sum of Products of Column (7) × Column (5)	68,156.1979	98,202.1918
Level Prices per $1,000 (1,000 × A/B)	$7.32	$7.47

APPENDIX C

Illustrative Insurance Costs by Traditional and Interest-Adjusted Methods

Non-Participating, Age 25

COMPANY	TRADITIONAL METHOD Cost	Rank	INTEREST-ADJUSTED METHOD (4%) Cost	Rank
A	$–.75	1	$4.33	1
B	–.20	2	4.67	3
C	.44	3	4.94	6
D	.47	4	5.00	8
E	.52	5	4.47	2
F	.53	6	5.05	9
G	.55	7	5.08	12
H	.55	8	4.85	5
I	.60	9	5.06	10
J	.66	10	5.07	11
K	.72	11	4.81	4
L	.85	12	5.26	14
M	.90	13	5.42	18
N	.95	14	5.38	16
O	1.00	15	5.39	17
P	1.03	16	5.44	20
Q	1.07	17	5.55	23
R	1.09	18	5.52	21
S	1.10	19	5.67	28
T	1.12	20	5.55	22
U	1.15	21	4.98	7
V	1.19	22	5.17	13
W	1.25	23	5.55	24
X	1.27	24	5.64	26
Y	1.28	25	5.57	25
Z	1.38	26	5.90	33
AA	1.44	27	5.87	31
BB	1.48	28	5.78	29
CC	1.55	29	5.66	27
DD	1.58	30	5.30	15
EE	1.62	31	5.43	19
FF	1.64	32	5.89	32
GG	1.68	33	5.82	30
HH	1.90	34	5.96	34
II	1.94	35	6.00	35
Average	$1.02		$5.34	

The above figures are 20-year average annual Insurance Costs per $1,000 for a $10,000 whole life policy or near equivalent, using 1969 data for thirty-five large companies. This exhibit is purely for the purpose of showing how much a company's rank is affected by a change of method. This listing is not sufficiently homogeneous to be used for other purposes.

Non-Participating, Age 35

COMPANY	TRADITIONAL METHOD Cost	Rank	INTEREST-ADJUSTED METHOD (4%) Cost	Rank
A	$ .31	1	$6.92	1
E	.66	2	7.14	2
B	.93	3	7.36	5
D	1.45	4	7.51	7
G	1.51	5	7.57	8
F	1.52	6	7.59	9
K	1.71	7	7.32	4
I	1.77	8	7.74	12
C	1.85	9	7.85	15
J	1.89	10	7.81	14
U	1.91	11	7.26	3
M	1.93	12	7.97	18
H	1.95	13	7.71	11
L	1.99	14	7.91	16
S	2.01	15	8.14	21
P	2.04	16	7.96	17
Q	2.13	17	8.13	20
N	2.14	18	8.07	19
T	2.22	19	8.15	22
DD	2.23	20	7.47	6
EE	2.25	21	7.62	10
R	2.26	22	8.19	23
O	2.28	23	8.20	24
V	2.33	24	7.78	13
AA	2.45	25	8.38	27
X	2.53	26	8.43	30
Z	2.53	27	8.59	33
Y	2.55	28	8.31	25
BB	2.60	29	8.36	26
FF	2.64	30	8.47	32
GG	2.67	31	8.39	28
CC	2.76	32	8.39	29
HH	2.89	33	8.45	31
W	2.95	34	8.71	34
II	3.15	35	8.71	35
Average	$2.09		$7.96	

The above figures are 20-year average annual Insurance Costs per $1,000 for a $10,000 whole life policy or near equivalent, using 1969 data for thirty-five large companies. This exhibit is purely for the purpose of showing how much a company's rank is affected by a change of method. This listing is not sufficiently homogeneous to be used for other purposes.

Non-Participating, Age 55

COMPANY	TRADITIONAL METHOD Cost	Rank	INTEREST-ADJUSTED METHOD (4%) Cost	Rank
K	$14.78	1	$23.65	2
DD	15.01	2	23.48	1
EE	15.02	3	23.68	3
A	15.34	4	24.97	8
D	15.37	5	24.58	5
B	15.47	6	25.16	9
G	15.57	7	24.78	7
S	15.86	8	25.32	14
E	15.92	9	25.39	16
F	16.01	10	25.41	17
U	16.02	11	24.57	4
V	16.08	12	24.70	6
N	16.10	13	25.19	10
J	16.20	14	25.27	12
P	16.21	15	25.28	13
GG	16.26	16	25.35	15
M	16.28	17	25.49	20
Q	16.29	18	25.50	21
T	16.34	19	25.43	18
H	16.35	20	25.19	11
R	16.38	21	25.47	19
L	16.73	22	25.80	22
O	16.87	23	25.94	23
FF	16.94	24	26.10	25
X	17.09	25	26.25	27
I	17.11	26	26.35	30
II	17.15	27	25.99	24
AA	17.15	28	26.25	29
Y	17.27	29	26.25	28
W	17.52	30	26.36	31
BB	17.53	31	26.37	32
HH	17.53	32	26.21	26
CC	17.60	33	26.38	33
C	17.89	34	27.05	34
Z	18.18	35	27.58	35
Average	$16.44		$25.51	

The above figures are 20-year average annual Insurance Costs per $1,000 for a $10,000 whole life policy or near equivalent, using 1969 data for thirty-five large companies. This exhibit is purely for the purpose of showing how much a company's rank is affected by a change of method. This listing is not sufficiently homogeneous to be used for other purposes.

Participating, Age 25 (Male)

COMPANY	TRADITIONAL METHOD Cost	TRADITIONAL METHOD Rank	INTEREST-ADJUSTED METHOD (4%) Cost	INTEREST-ADJUSTED METHOD (4%) Rank
A	$–3.46	1	$2.64	1
B	–3.25	2	3.26	7
C	–2.72	3	3.08	4
D	–2.64	4	3.01	2
E	–2.62	5	3.04	3
F	–2.56	6	3.55	13
G	–2.53	7	3.22	5
H	–2.48	8	3.51	11
I	–2.26	9	3.50	10
J	–2.24	10	3.35	8
K	–2.22	11	3.55	12
L	–2.18	12	3.26	6
M	–2.12	13	3.44	9
N	–2.06	14	3.99	26
O	–2.02	15	3.77	18
P	–2.01	16	3.74	17
Q	–1.92	17	3.66	15
R	–1.92	18	3.59	14
S	–1.82	19	3.93	22
T	–1.82	20	3.67	16
U	–1.73	21	3.96	23
V	–1.71	22	3.91	21
W	–1.66	23	4.01	27
X	–1.66	24	3.97	24
Y	–1.57	25	3.82	19
Z	–1.52	26	3.99	25
AA	–1.50	27	4.60	34
BB	–1.49	28	3.90	20
CC	–1.41	29	4.66	37
DD	–1.41	30	4.07	28
EE	–1.33	31	4.69	38
FF	–1.27	32	4.55	32
GG	–1.27	33	4.39	31
HH	–1.25	34	4.27	30
II	–1.13	35	4.64	36
JJ	–1.12	36	4.56	33
KK	–1.04	37	4.62	35
LL	– .75	38	4.94	40
MM	– .48	39	4.09	29
NN	– .22	40	4.82	39
Average	$–1.81		$3.88	

The above figures are 20-year average annual Insurance Costs per $1,000 for a $10,000 whole life policy or near equivalent, using 1969 data for forty large companies. This exhibit is purely for the purpose of showing how much a company's rank is affected by a change of method. This listing is not sufficiently homogeneous to be used for other purposes.

Participating, Age 35

COMPANY	TRADITIONAL METHOD Cost	Rank	INTEREST-ADJUSTED METHOD (4%) Cost	Rank
A	$–3.30	1	$4.54	1
C	–2.99	2	4.55	2
B	–2.98	3	5.18	7
D	–2.65	4	4.79	3
E	–2.61	5	4.79	4
F	–2.57	6	5.27	8
G	–2.45	7	5.00	5
H	–2.28	8	5.51	14
I	–2.27	9	5.30	9
K	–2.19	10	5.44	12
L	–2.03	11	5.08	6
J	–1.97	12	5.31	10
O	–1.94	13	5.63	16
T	–1.94	14	5.40	11
M	–1.84	15	5.45	13
P	–1.81	16	5.66	18
AA	–1.78	17	6.13	29
N	–1.74	18	6.15	30
Z	–1.67	19	5.61	15
U	–1.65	20	5.84	23
X	–1.64	21	5.75	21
V	–1.59	22	5.80	22
R	–1.58	23	5.64	17
S	–1.44	24	5.99	26
Q	–1.42	25	5.89	24
W	–1.40	26	6.01	27
Y	–1.34	27	5.68	19
FF	–1.28	28	6.45	34
JJ	–1.14	29	6.32	32
DD	–1.12	30	5.97	25
BB	– .98	31	6.08	28
HH	– .97	32	6.27	31
GG	– .94	33	6.37	33
CC	– .66	34	7.26	38
II	– .61	35	6.87	35
MM	– .48	36	5.74	20
KK	– .43	37	6.92	36
EE	– .34	38	7.38	39
LL	.03	39	7.40	40
NN	.18	40	6.93	37
Average	$–1.60		$5.83	

The above figures are 20-year average annual Insurance Costs per $1,000 for a $10,000 whole life policy or near equivalent, using 1969 data for forty large companies. This exhibit is purely for the purpose of showing how much a company's rank is affected by a change of method. This listing is not sufficiently homogeneous to be used for other purposes.

Participating, Age 55

COMPANY	TRADITIONAL METHOD Cost	Rank	INTEREST-ADJUSTED METHOD (4%) Cost	Rank
A	$ 4.84	1	$16.88	1
H	5.59	2	17.76	2
C	6.51	3	18.14	3
T	6.78	4	18.47	4
D	6.89	5	18.64	7
E	7.01	6	18.61	5
G	7.12	7	18.63	6
F	7.38	8	19.18	9
I	7.43	9	19.03	8
B	8.10	10	19.54	10
K	8.30	11	20.08	14
P	8.40	12	19.86	12
M	8.44	13	19.61	11
U	8.48	14	20.26	17
O	8.57	15	20.59	20
R	8.82	16	19.96	13
V	8.84	17	20.18	16
AA	8.96	18	20.88	22
EE	9.10	19	21.58	25
W	9.27	20	20.81	21
J	9.42	21	20.55	19
L	9.61	22	20.38	18
X	9.71	23	21.11	23
S	9.72	24	21.29	24
MM	10.25	25	20.15	15
Q	10.52	26	21.65	26
BB	10.91	27	21.67	27
JJ	10.92	28	22.52	33
Z	10.94	29	21.68	28
FF	11.00	30	22.38	31
HH	11.07	31	22.32	30
CC	11.23	32	23.49	37
GG	11.36	33	22.47	32
Y	11.45	34	22.04	29
II	11.79	35	23.09	35
N	12.02	36	23.57	38
KK	12.39	37	23.24	36
DD	12.57	38	23.03	34
LL	12.63	39	23.62	40
NN	12.93	40	23.60	39
Average	$ 9.43	-	$20.81	

The above figures are 20-year average annual Insurance Costs per $1,000 for a $10,000 whole life policy or near equivalent, using 1969 data for forty large companies. This exhibit is purely for the purpose of showing how much a company's rank is affected by a change of method. This listing is not sufficiently homogeneous to be used for other purposes.

SPEECH OF E. J. MOORHEAD, DATED NOVEMBER 9, 1970

ADDRESS OF THE PRESIDENT

E. J. Moorhead, Denver, Colorado
November 9, 1970

EXCEPTION BADE THEM SPEAK

The title of my address comes from Shakespeare's words in All's Well That Ends Well:

> "His honour,
> Clock to itself, knew the true minute when
> Exception bid him speak"

It is a meditation on outspoken actuaries. Its purpose is to turn our thoughts to controversialists and iconoclasts in this profession of ours, the part they play in keeping us attuned to our responsibilities, alive to our opportunities.

Practically everybody in this room would instantly shout Yea to the proposition that difference of opinion is healthy, that expression of contrary viewpoint must be encouraged, even if for no better reason than to spice our meetings. That is, we espouse this in the abstract. There may however be three concrete situations in which we may not feel that way at all. One is when the arguer challenges an opinion that we ourselves cherish. One is when the course advocated poses a seeming threat to our own security and comfort. Particularly anathema, regardless of subject, is the heretic who is of the genus whippersnapper--especially if he be a presumptuous infant whom we have nurtured in the bosom, i.e. in the actuarial department, of our own company.

Those of whom I would speak have as a rule crossed swords with the Establishment of their era. By Establishment I mean, quoting Richard Rovere, that group of men who decide what is and what is not respectable opinion. Oddly enough, it turns out that many dissenters were part of that same Establishment with which they contended. It is by no means automatically true that an angry man is an angry young man.

A few historical examples from outside our profession and our era may be cited as illustrations of what is meant and as standards to measure the quality and stamina of actuarial hereticism. It should be clear from these examples that we are not thinking of mere malcontents or cranks, but constructive foes of docile togetherness.

Aristides "the Just", who differed with the prevailing view on how Athens could best be defended. He suffered ostracism, which in those days meant banishment, for his pains, but later returned to enjoy lustre and approbation.

Socrates, given hemlock because his teachings were judged to be a menace to the rulers of his day.

Earl of Shaftesbury, the 19th century social reformer who started his fight at age 27 and was still making himself heard at age 83. He led the struggle to outlaw mine work by women and children and to require that factory workers be treated as humans. His is a remarkable example of one whose vision was unclouded by his own upbringing in a society that placed laissez-faire on its highest pedestal.

Samuel Plimsoll, who agitated singlemindedly for forty years before successfully outlawing the practice of overloading merchant vessels or, as he graphically called them, "coffin ships".

General "Billy" Mitchell, whose outspokenness about mismanagement and bigotry in the U.S. armed forces led to his suspension, later revoked by Congress.

Rachel Carson, within this last decade, who learned what it was to confront vested interests in pesticides.

This selection of names may seem inappropriate to the point of being ludicrous since these people spoke out against evils so glaring and outrageous that they cannot possibly have any parallel in this enlightened business of ours in today's meritorious generation.

The only possible flaw in that proposition is that the evils were not a bit glaring and outrageous to most of the people of those days. It is at least arguable that if we today say that we have no sin, we too, deceive ourselves and the truth is not in us.

How "Exception Bade Them Speak" Came To Be Written

Early this year a similarity in two obituaries in the Journal of the Institute of Actuaries caught my eye and started a train of thought. These memorialized respectively Mr. F. A. A. Menzler and Mr. E. William Phillips, both evidently original thinkers unwilling to remain silent amid conditions that they regarded as unsatisfactory. Persistence in stating and restating their views indelibly marked their careers.

To find an honest man, Diogenes set forth with a lantern. To find an actuarial maverick, Moorhead dispatched letters to a number of shrewd observers of the actuarial scene. I besought them to name actuaries on this continent who could appropriately be described as heretics, mavericks or gadflies. I asked my friends not to concern themselves with the subsequent verdict of history on the validity of the views expressed. The search was for actuaries who felt differently on major issues, and were conspicuously outspoken about them.

Some of my correspondents replied that we just don't have that breed on this side of the water. One said "....I have concluded that the traits implied are singularly lacking among actuaries. If this is true, it is too bad and should give us pause for thought."

Fortunately for the success of my project, others felt differently. Extremely interesting letters began to flow in, nominating colorful characters and citing occasions when Society and American Institute meetings had been enlivened by controversy on some question of the day.

At this point several commentators pointed out with sorrow that no good record now remains of what was said. One remarked on a probably necessary tendency of the TRANSACTIONS and THE RECORD to "bowdlerize" vigorous and entertaining comments. Many of these nonconformists, he added, were more picturesque in private than in public. One said, "I remember a discussion of his that was extremely forthright, but now that I find it in the TRANSACTIONS, the sting seems to have been extracted."

Some referred me to the obituary of the named individual, but too often when I consulted it I found little more than chronology interspersed with polite generalities. This suggests that the Society may be making a mistake by not riding herd (if that term may be used without disrespect) in some way over obituaries accepted for the TRANSACTIONS. If the deceased is known to be a person who contributed in some special way to the history of this organization we ought to see that this is noted for posterity, even if this has to be done by supplemental reminiscences of contemporaries.

However, getting back to the search for facts about outspoken actuaries my quest has been thoroughly rewarded through the efforts of several of my friends. Among these I may, without slur upon others, mention particularly J. Gordon Beatty in Canada and Reinhard A. Hohaus in the U.S.A. These two gentlemen devoted much time and effort, with exceptionally fine results, to furnishing documents and reminiscences germane to the subject.

It has been observed that the subjects that generate sparks do change greatly from generation to generation. For example, in earlier days "one could stir up a storm among actuaries merely by suggesting that the mortality function that should be graduated is the cologarithm of the survival probability."

Altogether, 41 actuaries were named at least once. Of these, eleven were nominated more than twice.

The record was nine mentions, followed by two who were named seven times each. But all three of these are living members, two of them being regulars at our meetings, so I shall spare their blushes by keeping their identities to myself.

Those in the audience today who pride yourselves on knowledge of actuarial history may see if you can name the subject of each of the following comments.

"A man of singular contradictions; an idealist who was practical; a zealot with an orderly mind; an indefatigable contender over small points who rarely lost sight of the large ones." The words "devastating energy" are applied to him.

Who was he? Elizur Wright.

Or this, "He was actuary, lawyer, poet and Zoroastrian. He spoke nine languages fluently. He published one volume of poetry and several of prose. Actuarial students will do well to familiarize themselves with his writings on subjects in which they are interested."

Who was this man? Miles Menander Dawson, pioneer among consulting actuaries.

Or this, "He was often called the father of group insurance. His effort was opposed by fraternals, by agents and even by those in his own company who feared that issuing life insurance without medical examination would lead to financial destruction of the company. When indignant he was a formidable personality; his anger was always glacial rather than volcanic."

Who was he? William J. Graham.

Or this, "He sought truth without regard to his own opinions or the preferences of others. His aggressive quality frequently caused hurt feelings, for he let nothing stop him from getting to the heart of the subject. An austere man? No, just the opposite. He loved good shows, good jokes, good food, etc."

This was the pioneer in substandard insurance and founder of the Life Office Management Association, Franklin B. Mead.

"His advocacy of common stocks for life insurance companies appalled staid members. Was he wrong, or was he right in all except timing? Certainly he ran afoul of a longstanding actuarial dictum: 'We need not always be right, but when wrong we must be wrong within the measure of our strength.'"

This was Thomas B. Macaulay.

All of these and others could well be subjects of a separate paper on Great Men of Our Profession which I may get my advisors to help me write.

These were men who believed strongly in the causes for which they fought. A few attempted, alas, to don the cloak of personal infallibility. One, not sketched above and not living today, was described as "an austere and brilliant man who never recognized the legitimate existence of any views but his own."

Several of my correspondents mentioned in passing skits that used to be put on by actuaries when the Society was smaller. These apparently were for the overt purpose of pricking the bubble of pomposity. Edmund M. McConney recalls a skit line to the effect that Robert Henderson's book on graduation was more easily understood if read backwards. This comment mightily amused the author but was rated in poor taste by another great man of that day.

Against what adversaries did those champions tilt? Not necessarily against concepts and practices that were ignoble; more often against those that were less noble or less appropriate than these men believed they should be. It was Henry H. Jackson (who probably belongs in the list himself) who quoted with approval the aphorism: "Virtue is more dangerous than vice, because its excesses are not subject to the restraints of conscience."

Hallmarks Of A Heretic

As we reflect on actuarial mavericks of whom each of us has recollection, what are the qualities that have made them memorable or notorious? In addition to Idealism that must motivate any reformer it seems to me that there may be several identifying features clear enough to be catalogued.

1. There must be an ability to incite counterblasts of the orthodox. Our hero must summon up resistance, then fight against it. His convictions must exasperate, must excite, must arouse. Else there will be no flame in which to test the mettle of conviction.

2. A successful practitioner of controversy must be a phrasemaker possessing a gift for polemics and exhortation, not just for oration and description. Yet he must sense the limit beyond which vigor of expression becomes self-defeating. He must recognize that to make a point intelligently, persuasively and quietly may well be a mark of strength when denunciations and exaggerations are just as surely signs of inadequacy.

3. He must have a nose to smell hyprocrisy and cant, especially to detect those vast, usually unadvertised, conspiracies that restrain and submerge criticism of the status quo in any society or industry, ours no exception.

4. Generally, but not universally, a heretic must be a person possessed of wit, to be used sparingly and appropriately. He must understand the value of satire and irony, even mockery, to expose and brush aside half-truths and inanities. Some years ago at Princeton, Professor Goldman touched on this point when he deplored what he discerned to be "a heavy, humorless, sanctimonious, stultifying atmosphere".

5. He must possess a suitable mixture of good judgment and good dogmatism. By good dogmatism is meant intense justified belief in the reasonableness, if not the exact rightness, of his own convictions.

6. Valuable, if not essential, is a skin thick enough so that rebuttals will not quench the spirit of stubborn nonconformity created by imagination and nurtured by indignation. Our hero must not lose heart any more than young Charles Darwin did when an eminent zoologist disparaged his theory as "a mistake, untrue in its facts, unscientific in its method, and mischievous in its tendencies."

7. There must be readiness to accept personal sacrifice. If the issue is serious and the view unorthodox, pain and suffering, even if only through loss of popularity, is inevitable. True, this can be carried too far; one must aim to live to fight another day.

But it may be that when the sufferer looks back he will say as George King did when accepting the Gold Medal of the Institute of Actuaries: "Four times in my life I was out of a job, without knowing where I could earn the next sixpence, just because I would not accept conditions that seemed to me to be dishonorable or perhaps worse. I wish every member to know, the younger men especially, that I was never a penny the worse, and those whom I left were those who suffered most.... My advice would be that a man should be sure that his position is right, and then go forward boldly with no fear of what might happen to himself."

8. Clearly a solid base of creative, pioneering talent is prerequisite. It is all too easy to speak of existing practices in a derogatory way. It is far more difficult to suggest alternatives that can be accepted with confidence as improvements upon them.

Conclusion

If there is a point to all this other than merely to entertain, it must relate to the application of the ideas of yesterday to the circumstances of today and tomorrow. I think, I hope you think also, that there is such relevance. Certainly one of our younger members felt so when he wrote in this vein: "I feel the Society's meetings tend to inhibit diversity of expression. This is especially true among the non-senior members." Then, after speaking kindly of workshop as a refuge from all this, he went on, "What we need is some way to knock our fellow members on the head to stimulate some discussions. Perhaps we can have a public devil's advocate at each meeting whose sole purpose will be to oppose a speaker's comments." I offer this as a report, not necessarily a recommendation.

Said Emerson, "What is a man born for but to be a reformer, a remaker of what man has made, a renouncer of lies, a restorer of truth and good?"

Do you agree that, to the words spoken by our would-be reformers, we must listen, listen for truth, be it mature or in embryo? Assuredly we must not offer them the hemlock-cup of imposed silence. Nor must we deflate their efforts by treating them as beneath our notice or by calling them disagreeable names. A critic may legitimately be called a critic; it is unnecessary to call him a "self-appointed" critic.

The task of us all in the Society is to fight against stultification, to help one another become broader in outlook and capability. This cannot be accomplished if we muzzle, forceably or adroitly, our critics. And one effort we must always continue is to restrain one another from so helter-skelter a rush after that which is new that we neglect to improve that which has always been with us.

To conclude these musings, may I address a thought to many here who will be, if you are not already, faced with the choice of criticizing or of passively accepting a condition that cries out to you, if apparently not to others around you, for rectification. In his book PROFILES IN COURAGE John F. Kennedy examined situations allied to this but in the political arena. In wishing you well in the decision that you reach and in the efforts that you decide to undertake, perhaps I may adapt, by paraphrasing, the words of Mr. Kennedy:

> To be courageous requires no exceptional qualifications, no magic formula. It is an opportunity that sooner or later is presented to each of us. Stories of past courage can define that ingredient, they can teach, offer hope, provide inspiration. But they cannot supply courage itself. For this each man must look into his own soul.

SPEECH OF C. NORMAN PEACOR, VICE PRESIDENT AND CHIEF ACTUARY, MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY, DATED NOVEMBER 11, 1970

COMMENTS MADE BY

C. Norman Peacor
Vice President and Chief Actuary
Massachusetts Mutual Life Insurance Company

Society of Actuaries Annual Meeting
November 11, 1970
Denver, Colorado

I was particularly interested in the observations of the gentlemen from the Acacia Mutual. In our discussions at the Massachusetts Mutual with representatives of the Agency Division, we had a similar experience of finding modifications to the traditional net cost method unacceptable. One reason not before referred to is that the agent will resist the new method because it takes an apparent gain to the prospective policyholder and converts it to an apparent cost. This is more easily stated as changing the 20th year numerical result from a negative number to a positive one. Although the name of this session uses the word "comparisons," it is not the competitive situation that necessarily most bothers an agency force but rather the manner of presenting the most favorable result to a prospective policyholder.

I would like to suggest that Mr. Houser's description of the action the Bankers Life of Iowa is going to take transforms the discussion from the theoretical or academic to the practical. With a company as his own taking this action, it presents a new basis for a standard of comparison. The question is no longer which of the many methods offered will be used but rather will the Moorhead report and the Bankers presentation be accepted.

One other item not mentioned before relates to the Consumer Bill now pending in Congress. After much discussion, I understand that the phrase "insurance services" is still a part of the bill. Dr. Joseph Belth presented a prepared statement to the Senate Committee holding hearings on the bill wherein he was quite specific that the phrase would call for comparative price information in the sale of life insurance products. The retention of this phrasing in the final version of the bill could very easily be the signal for the adoption of the Moorhead report recommendation or some other method as a defensive gesture against Federal intervention.

SPEECH OF DANIEL J. LYONS, CHAIRMAN OF BOARD, GUARDIAN LIFE INSURANCE CO., DATED NOVEMBER 11, 1970

Comments Made by Daniel J. Lyons, Chairman of the Board, Guardian Life Insurance Company of America, at the Society of Actuaries Annual Meeting, November 11, 1970, Denver, Colorado

MR. DANIEL J. LYONS: When the Committee was appointed as a Joint Committee of the Life Insurance Association of America and the American Life Convention, the Committee's assignment was as follows:

> . . . to consider the method or methods that a prospective buyer of life insurance may find most suitable to use in comparing the premiums, dividends and cash values of comparable policies that are offered by different life insurance companies.

The Committee might have concluded to do nothing because no perfect method could be found. We felt we could not do this because of:

1. Senator Hart's platform remarks at the ALC meeting in October, 1968, about the lack of easy comparability of life insurance costs.

2. Exchange of correspondence between Senator Hart and the Veterans Administration, about the present lack of guidance to discharged servicemen in the selection of insurance carriers for the conversion of Servicemen's Group Life Insurance.

3. Remarks by Wilbur J. Cohen, the outgoing Secretary of the Department of Health, Education and Welfare, before the Federal Trade Commission on November 25, 1968, which includes reference to insurance costs.

4. Staff memorandum of November 25, 1968, about the verbal supplements Secretary Cohen made to his written statement to the FTC.

5. "A Report on Life Insurance" by Joseph M. Belth, which contains a much more readable exposition of the life insurance cost comparison system he proposes than that contained in his later book "The Retail Price Structure in American Life Insurance." We have yet to find anyone who has had the patience and endurance to read the latter all the way through. Senator Hart, or more precisely Senator Hart's staff, is known to be impressed with Professor Belth's ideas on life insurance cost comparisons.

6. An article in the December, 1965 issue of "The Journal of Risk and Insurance" by E. J. Moorhead, in collaboration with Dr. Belth, describing a proposed "one-thirtieth method" for comparing life insurance costs under participating contracts, intended as a refinement of and improvement on the conventional 20-year net cost comparison method.

The Committee recognized the fact that the Traditional Method of making cost comparisons had been used for a great many years by most companies and agents. The Committee was not, therefore, in a position of starting fresh to develop a method. Comparisons were already being made on one basis and with this the Committee would have to deal in greater detail.

The first consideration was whether the Traditional Method was adequate and could be supported by the Committee.

The Committee concluded that the Traditional Method was not adequate for the following reasons:

1. It assumes that either the current dividend scale will continue unchanged or that any changes will affect all companies in roughly the same way.

2. By ignoring interest it fails to give recognition to when the dollar is being paid either by or to the policyholder. This can and often does result in misrepresentation as to cost. In many cases it leads to the suggestion that if the policyholder keeps his policy in force for the indicated period, his insurance will have cost little or nothing.

Since the Committee felt that the Traditional Method has very serious weaknesses, the Committee proceeded to consider other cost indices and finally agreed that no completely satisfactory comparative net cost index exists or can be devised. The reason for this conclusion was that a study of all the methods of which the Committee had knowledge disclosed that each had at least one serious weakness. Furthermore, no member of the Committee was able to devise an index which could be completely defended. I personally feel that the task is an impossible one because of the many variations in life insurance contracts and because of the varying needs of individuals for the different policy provisions and the services which not all agents are competent to render. I need not take the time here to point out the weaknesses of each of the methods. You can read this in the report.

Much of the insurance which is sold today is on a participating basis. Cost ranking determinations based on current dividend scales at the beginning of the period are not good enough to make elaborate mathematical calculations based thereon worthwhile. Seldom, if ever, is a dividend scale maintained unchanged for as long as ten years and yet some comparisons would require the use of dividend scales for a much longer period.

With respect to non-participating insurance, the dividend scale is not a factor but the policy provisions, the services of the agent and quality of the company are extremely important to the policyholder and yet are not measured by any cost index.

Some of the more elaborate methods of comparing costs depend on the use of average lapse rates and average mortality rates. Mortality rates and lapse rates do not apply and should not be applied to an individual. They are in fact meaningless from the standpoint of an individual. Each individual controls to a significant degree the act of lapsing or maintaining his policy in any policy year. It is impossible for an average lapse rate to apply to him.

In the case of mortality, the individual either lives or dies within a year. He does not experience, nor can he experience, an average mortality.

I believe that the overriding considerations which led to the Committee's recommendation for a change were as follows:

1. There is no perfect cost comparison index which the Committee could recommend.

2. The Traditional Method is so unsatisfactory and misleading that it should be eliminated.

3. If the Traditional Method is to be eliminated, a better method, which is also a practical method, should be suggested.

The Committee felt that it was possible to have much more meaningful figures if we simply revised the Traditional Method to give effect to the fact that money earns interest. You recall that one of the deficiencies of the Traditional Method lies in the failure of the method to recognize that the time when the money is paid is important. Accordingly, the Committee recommended what is known as the Interest-Adjusted Method. It is advanced by the Committee not as a perfect index but only as a practical improvement over the Traditional Method. Its advantages are given by the report as follows:

1. It takes time of payment into account.

2. Of all the methods that take time of payment into account it is the easiest to understand.

3. It is possible to use this method without having recourse to advanced mathematics.

4. It does not suggest a degree of accuracy that is beyond that justified by the circumstances.

5. It is sufficiently similar to the Traditional Method so that transition could be accomplished with minimum confusion.

SPEECH OF PETER RYALL, UNIVERSITY OF TORONTO, NOVEMBER 11, 1970

SOCIETY OF ACTUARIES ANNUAL MEETING, 1970

PANEL DISCUSSION ON NET COST COMPARISONS

CONTRIBUTION BY PETER L. J. RYALL

PROFESSOR OF MATHEMATICS
UNIVERSITY OF TORONTO

The Committee is to be congratulated on recommending a more realistic criterion for the comparison of policyholder costs. While I find the method advocated in the Report acceptable for comparisons of the same plan of insurance, I shall criticize certain aspects of the Report, and show how, with a desk calculator, Interest-Adjusted Costs can be calculated in but a small fraction of the time required if the Committee's working instructions are followed, with only trivial errors. First, however, I will comment on the impact that adoption of the Interest-Adjusted Method may be expected to have on the business.

Use of the Interest-Adjusted Method (with four per cent interest rate) would have the same effect on the relative twenty-year cost position of one large company's whole life plan as removal of a five per cent premium tax levied only against this company. This "five per cent premium tax" is a measure of the competitive disadvantage in which a company is wrongfully placed under the Traditional Method when it uses three and a half per cent values. Little wonder that only one sizeable company issues participating business on this basis.

The impact of the adoption of the Interest-Adjusted Method may be also seen with reference to two companies, which each issue about a billion dollars of insurance annually on participating life and endowment plans, and which, in the past year, changed their values from a two and a half per cent to a three per cent basis.

Their twenty-year Traditional Costs for age 35 on the whole life plan increased $0.26 and $0.38 per thousand. However, the corresponding four per cent Interest-Adjusted Costs were reduced. It is probable that more companies would adopt lower values, were they not deterred by the present net cost penalty.

The Report should, in my view, have contained a clear statement that the Interest-Adjusted Method is not valid for comparisons between different plans of insurance. This qualification is especially important on account of the Committee's injunction that the interest rate be specified. It may be assumed that to upgrade his business the agent will use any means which he does not know to be improper.

For most companies, at ages under 35, the twenty-year four per cent Interest-Adjusted Costs on their higher premium plans are higher than on their lower premium plans, while at ages over 45 the converse is true. A comparison of twenty-year four per cent Interest-Adjusted Costs on the whole life and Life at 65 plans of twenty large companies shows that the proportions of companies with lower costs on their life at 65 plans are 10 per cent at age 35, 30 per cent at age 40, and 75 per cent at age 45. If costs on the whole life and endowment at 65 plans are compared, the proportions of companies with lower costs on the endowment at 65 plan are 25 per cent, 60 per cent, and 85 per cent at ages 35, 40 and 45 respectively. If the comparison is made between the life at 65 and endowment at 65 plans the proportions of companies with lower costs on the endowment at 65 plans are 55 per cent, 80 per cent, and 95 per cent at ages 35, 40 and 45 respectively.

It is obvious to an actuary that a lower four per cent Interest-Adjusted Cost on a higher premium plan does not imply a better than four per cent return on the additional premium payable to the insurer, but it should not be presumed that this is self-evident to the agent.

In discussing whether mortality rates should be used in cost comparison methods the Report completely misrepresents my reasons for choosing the 1958 C.S.O. Mortality Table.

The section of my paper entitled "Choice of Mortality Table" (see TSA, Volume XXI, pp. 107-8) makes clear that the 1958 C.S.O. table was chosen not because it represents the experience mortality of any group of lives, but because it "reflects what an increase in the amount at risk is worth to a prospective policyholder" assuming "that he would consider it fair to pay for the extra insurance element in the contract with the lower cash values (or flatter dividend scales) at appropriate market rates". On account of the policyholder's relative opportunity to select against the company I conclude that "the mortality table used to compare policyholder costs should have rates slightly below renewable term rider rates at the younger ages, with the difference increasing with increasing age". I thus make it clear that in my view the choice of mortality table, like the choice of interest rate, should be based on financial rather than probabilistic considerations.

The Report's statement (see p. 13) that "Introduction of the mortality element ... raises the serious question whether an average mortality rate applicable to a large group has meaning for any one particular individual" is obviously irrelevant to the role I explicitly attribute to mortality rates as grounds for selecting the 1958 C.S.O. table.

By using a valuation table for illustrative purposes in a context which, according to its analysis, requires use of an experience table, the report obscures the essential difference between valuation and experience tables. If at some future time there is public pressure for a new valuation table arising from the misconception that the policyholder's interests are harmed by use of a valuation table with rates different from experience rates, responsibility for this misconception will rest partly with the authors of this report. While an across-the-board change in valuation basis increases the demand for the actuary's services, the costs of the change generally have to be borne by the policyholder.

Some companies print in their rate manuals mortality rates, probabilities of survival to age 65 and expectations of life based upon valuation rather than experience tables. This report in its discussion of the mortality element and associated references to the 1958 C.S.O. Table tends to endorse rather than discourage this practice. When these valuation rates are presented to the prospective policyholder, they can only be meaningfully interpreted by him as experience rates — a misconception for which, as editor of the rate manual, the actuary bears responsibility.

To derive and check the twenty-year Interest-Adjusted Costs of two participating policies entails punching more than 160 numbers into the typical desk calculator, if the Committee's working instructions are followed. Yet the Report states (see p. 20) that "the transitory nature of dividend scales makes complete accuracy unattainable regardless of the method used".

Usually premiums are payable throughout the cost period. Then a sufficiently accurate measure of ten (or twenty) year Interest-Adjusted Costs can be obtained in one operation of a desk calculator as the difference between the premium and a linear function of

(a) the sum of the first five (or ten) years' dividends,

(b) the sum of the first ten (or twenty) years' dividends,

(c) the tenth (or twentieth) year cash value, and

(d) the tenth (or twentieth) year terminal dividend (if any).

The coefficient of (c) and (d) is $\ddot{s}^{-1}_{\overline{10}|}$ (or $\ddot{s}^{-1}_{\overline{20}|}$) . If the cost is required for a period of 2n years, with the first dividend payable in policy year f, the coefficient of (a) is

$$\frac{(2n-f)s_{\overline{2n+1-f}|} - \frac{2}{i}\left[s_{\overline{2n+1-f}|} - (2n+1-f)\right]}{n(n+1-f)\ddot{s}_{\overline{2n}|}}$$

and the coefficient of (b) is

$$\frac{\frac{2}{i}\left[s_{\overline{2n+1-f}|} - (2n+1-f)\right] - (n-f)s_{\overline{2n+1-f}|}}{n(2n+1-f)\ddot{s}_{\overline{2n}|}}$$

These expressions are a variation of my formula (3)(see TSA, Volume XXI, p. 103) and may be similarly derived.

Values of the coefficients needed to determine ten-year and twenty-year 4 per cent Interest-Adjusted Costs are given in Tables 1 and 2 respectively.

TABLE 1

4 PER CENT TEN-YEAR INTEREST-ADJUSTED COST COEFFICIENTS

YEAR. FIRST DIVIDEND PAYABLE	COEFFICIENTS OF: SUM OF FIRST FIVE YEARS' DIVIDENDS	SUM OF FIRST TEN YEARS' DIVIDENDS	TENTH YEAR CASH VALUE AND TERMINAL DIVIDEND
1	0.02483	0.08374	0.08009
2	0.02211	0.08434	
3	0.02023	0.08466	

TABLE 2

4 PER CENT TWENTY-YEAR INTEREST-ADJUSTED COST COEFFICIENTS

YEAR FIRST DIVIDEND PAYABLE	COEFFICIENTS OF: SUM OF FIRST TEN YEARS' DIVIDENDS	SUM OF FIRST TWENTY YEARS' DIVIDENDS	TWENTIETH YEAR CASH VALUE AND TERMINAL DIVIDEND
1	0.02484*	0.03566	0.03229
2	0.02315	0.03606	
3	0.02168	0.03637	

*This value has been rounded up from 0.0248245 to compensate for the rounding down of 0.0356647 to 0.03566, and takes account of the fact that the sum of the first ten years' dividends is generally less than a third of the sum of the first twenty years' dividends (Note: $S_{\overline{20}|}^{-1} = 0.0322901$).

To appraise the accuracy in practice of the above approximate method, precise and approximate twenty-year 4 per cent

Interest-Adjusted Costs were compared for ages 25,35,45, and 55 on the whole life or other long term plans of thirty large companies, chosen on the basis of the amount of insurance they issued on participating life and endowment plans in the United States in 1969. At ages 25,35,45, and 55 the standard errors of the approximate costs were $0.016, $0.018, $0.026, and $0.038 respectively. Seven companies issued two-thirds of the total participating life and endowment business of the thirty companies. The corresponding standard errors of their approximate costs were $0.010, $0.009, $0.015, and $0.026, showing that even smaller errors apply to the costs that are compared most often.

The errors quoted above apply to comparisons of approximate Interest-Adjusted Costs with exact ones. The standard errors at ages 25,35,45, and 55 of the difference between two twenty-year Interest-Adjusted Costs, both of which are approximate, are $0.023, $0.025, $0.036, and $0.053 respectively. Four hundred and thirty-five comparisons of approximate costs can be made among the thirty companies. The errors arising followed an approximately normal distribution (implying that about 68 per cent, 95 per cent, and 99.7 per cent of the errors were less than once, twice, and thrice the standard errors respectively).

It is instructive to compare the errors in twenty-year Interest-Adjusted Costs arising from use of the approximation technique described above with the distortion arising from another cause - namely, that while the interest, mortality and

expense rates underlying a company's dividend scale change continuously, most companies change their dividend scales less frequently than annually. For example, if, on account of biennial increases in the dividend scale, a policyholder cost of a company is reduced every second year by an amount Δ, then this policyholder cost in the year of a change will be about $\frac{1}{4}\Delta$ below (and in other years about $\frac{1}{4}\Delta$ above) the corresponding cost of a company that is similar in every way except that it changes its dividend scale annually. However, ~~the actual~~ costs experienced under two such similar companies over a period of ten or twenty years would be almost the same. Furthermore, if the policyholder costs of two companies each change by an amount Δ every two years, but in different years, then the distortion in the difference between the costs arising from the out-of-phase biennial changes in dividend scales is about $\frac{1}{2}\Delta$.

To determine the order of magnitude of the distortions arising from biennial changes in dividend scales, the changes in twenty-year 4 per cent Interest-Adjusted Costs were investigated for the ten companies of the thirty mentioned above that either (a) changed their dividend scales in 1968 and 1970, but not in 1969, or (b) changed their dividend scales in 1967 and 1969, but not in 1968. The change in cost in 1970 (for companies in category (a)) or in 1969 (for companies in category (b)) was determined for the whole life or other long term life plan, with policy size $10,000. The average change in cost at ages 25, 35, 45, and 55 was $0.27, $0.32, $0.52, and $1.01 per thousand

respectively.

From the previous discussion it is apparent that distortions amounting to one quarter or more of these biennial changes in cost must be present in a sizeable proportion of cost comparisons. However, errors as large as these arose from use of the approximation technique only at ages 25 and 35, where they occurred in less than one per cent of possible comparisons. These few cases did not involve any of the twelve companies issuing the most participating life and endowment insurance, so the actual frequency of errors deriving from use of the approximation technique, and as large as one quarter of the average biennial cost change, would be much less than one per cent.

The actuaries who signed this report presumably used their professional knowledge and skills in its preparation. Why do they and their fellow Committee members not reveal their professional affiliations? Do they feel that the Report will be more acceptable if it is not known that most of its authors are actuaries and lawyers rather than life insurance salesmen or Agency Vice-Presidents?

SPEECH OF RUSSELL R. JENSEN, ACTUARY, NORTHWESTERN MUTUAL LIFE INSURANCE CO., DATED NOVEMBER 11, 1970

Comments made by Russell R. Jensen, F.S.A., Actuary, The Northwestern Mutual Life Insurance Company, at the Society of Actuaries Annual Meeting, November 11, 1970, Denver, Colorado

MR. RUSSELL R. JENSEN: The subject of net cost comparisons is timely, important, practical, and subject to differences of opinion. A most notable recent development was the creation of a Joint Special Committee on Life Insurance Costs of the American Life Convention and Life Insurance Association of America. The report of the Committee was received in April of 1970. In addition to its findings and recommendations, it offers an excellent background and description of different methods of cost comparisons which had been proposed from time to time in the past. Those who are interested can secure a copy from the Institute of Life Insurance.

MR. RUSSELL R. JENSEN: I wonder what others think of the practice of imputing interest into the cost of life insurance. Perhaps this is best illustrated by the section of the National Underwriter publication "Cost Facts on Life Insurance" which describes the derivation of the "level price method" devised by Professor Belth. In this method, we add together the ninth year policy cash value and the tenth year gross premium, and add interest on the total for one year, at 3½%. We then subtract the tenth year cash value and the tenth year dividend, and the result is labeled the "price of protection, tenth year." This, I believe, is not the "price of protection," and to call it so is not in keeping with the customary usage of the word "price." When we buy something we do not impute interest on the outlay as part of the price, either for a year or in perpetuity. Apart from this, I cannot see that this process adds to an understanding of the cost of life insurance or is necessary as an indicator for comparing life insurance prices or values.

Price is what we pay for something. In the case of term life insurance, the value received in return is the protection and other services. In the case of a permanent life insurance policy, the cash values are another value received in return. In calculating the Traditional Net Cost, we take gross premiums less dividends as an indicator of what will be paid for the policy. This might be said to relate to the price. We then go on to subtract the cash value; the difference has been labeled "cost" for many years. It certainly is not the price, and it is a "cost" only in the sense that part of the value of the policy has been offset against the price. Perhaps it would be better to call the result an "index of

value." While more refined methods of obtaining an index of value may be used, such as the Interest-Adjusted Method and numerous others, we ought to keep in mind rather clearly that those figures do not represent the price of insurance, but are best viewed as an index of value which can be used to compare relatively similar policies.

In this connection, I think it is important to note that the Interest-Adjusted Method need not be thought of as imputing an interest cost into the value index. As I see it, the element of interest enters the model in a different way. We are all financial creatures, and over an extended period of time we will receive money and we will pay money, and we will borrow money and we will save money. We have learned that money is worth money, and that it can be important to take account of interest when money changes hands at different times in the future in connection with a set of transactions which we are trying to analyze. This effectively is what the Interest-Adjusted Method does.

MR. RUSSELL R. JENSEN: In response to your question, Northwestern Mutual Life is not going to follow the course described by the Bankers Life Company, at least not on January 1 of 1971. I doubt that we will make any changes during 1971, but we will be looking hard at this question. It certainly seems possible that we and many other companies will be taking action at some time in the future, but it's too early to have a good reading on the most likely direction that will be followed.

MR. RUSSELL R. JENSEN: There is a small company organized in Milwaukee by a local insurance agent, which he has sought to maintain as an independent organization. This company will furnish computer-prepared comparisons of two or more life insurance policies. To get the comparisons, it is necessary to submit a couple of pages of tabulated values for the policies. The computer prints out a comparison of the contracts, using an index of comparisons using a standard interest rate and mortality cost. The service is available at $14 for the first two policies and $8 for each additional policy. The service has furnished about 200 of these comparisons in the last year and anticipates that the volume might pick up one result of wider public interest arising from current activity both within and outside of the insurance industry.

LETTER OF A. P. MCMILLAN TO E. J. MOORHEAD, DATED FEBRUARY 28, 1973, WITH ATTACHMENTS

INSURANCE ANALYTICAL SERVICE, INC.
SUCCESSOR TO McMILLAN AND TAYLOR
EXECUTIVE PAY PLANS • EMPLOYEE BENEFIT PLANS

P. O. BOX 4365 • CHARLOTTE, N. C. 28204 • PHONE (704) 375-5739
A. P. McMILLAN ROBERT L. TAYLOR, C. L. U.

February 28, 1973

Dean Sharp
Cousel Senate Anti-Monopoly Investigating Comm.
Room 104
127 " C" St.
Washington, D.C.

Dear Dean:

Enclosed is a copy of a letter to Jack Morehead which I believe may be of interest to you. Jack has agreed that the question of the credibility of Dividend projections should be explored along with that of price disclosure. I hope we can get together soon to discuss the critical nature of this subject as it affects price disclosure and comparisons.

Sincerely,

A. P. Mc Millan

APM/pcl

Attachment.

INSURANCE ANALYTICAL SERVICE, INC.
SUCCESSOR TO McMILLAN AND TAYLOR
EXECUTIVE PAY PLANS • EMPLOYEE BENEFIT PLANS

P. O. BOX 4365 • CHARLOTTE, N. C. 28204 • PHONE (704) 375-5739
A. P. McMILLAN ROBERT L. TAYLOR, C. L. U.

February 28, 1973

Mr. E. J. Morehead, F.S.A.
2594 Woodberry Dr.
Winston Salem, N.C. 27106

Dear Jack,

From the newspaper accounts one would think that only Ralph Nader testified at the first days hearing. As I expected, he made provable assertions as to Insurance costs being exorbitantly expensive. We hope to persuade Dean Sharp to obstain more testimony regarding the cost for which Insurance is actually available and the methods for determining it rather than that asserting it could be lower than now available.

Enclosed are two illustrations of a comparative method we use to analyze Permanent policies. This analysis uses annual renewable Term rates that are competitive and available from good companies. Both compare the policy to buying Term and investing the difference, with the amount of Term reduced yearly as the investment increases at the beginning of the year. One approach is to use an assumed rate of interest and compare the difference in the return (if any) over this rate each year. The other approach is to determine the rate of interest required for the investment account so that both plans are equal at the end of the Term period selected.

One way an index may be constructed from this system is to calculate the rate of interest required of the investment account for all companies for a 10 and 20 year period. The higher the rate of interest for the investment account, the lower the cost of protection in the Permanent policy.

Since this system can be used on existing policies, it lends itself to comparing new to existing Insurance.

The more I think about the problem of cost comparison, the more I believe that promotion of systems that analyze cost in existing Insurance will do more to stimulate cost competition than efforts to construct cost indicies. I hope we can get together soon for further discussion.

Sincerely,

A. P. Mc Millan

APM/pcl

CC: Dean Sharp
Counsel Senate Anti-Monopoly Investigating Comm.
Room 104
127 "C" Street
Washington, D. C.

PERMANENT INSURANCE POLICY COMPARED TO BUYING TERM AND

INVESTING THE DIFFERENCE IN THE NET PREMIUM a AFTER TAX RATE OF INTEREST

FACE AMOUNT $100,000 ISSUED AT AGE 44
ANNUAL PREMIUM OF $3,198* NET INVESTMENT RATEOF 3.5000%
DIVIDENDS USED TO REDUCE ANNUAL OUTLAY

AGE FIRST YEAR	RATE OF TERM INSURANCE PER 1000	AMOUNT OF TERM INSURANCE	PREMIUM FOR TERM INSURANCE	INVESTMENT ACCOUNT YEARLY DEPOSIT	VALUE OF ACCOUNT FIRST OF YEAR	END OF YEAR	PERMANENT INSURANCE POLICY DIVIDEND AT END OF YEAR#	CASH VALUE AT END OF YEAR	CASH VALUE + END OF YEAR DIVIDENDS	INVESTMENT VALUE OVER POLICY VALUE
45	5.64	97,351.06	549.06	2,648.94	2,648.94	2,741.65	290.00	800.00	1,090.00	1,651.65
46	6.11	94,930.37	580.02	2,327.98	5,069.63	5,247.07	385.00	3,200.00	3,585.00	1,662.07
47	6.62	92,552.63	612.70	2,200.30	7,447.37	7,708.03	479.00	5,600.00	6,079.00	1,629.03
48	7.20	90,222.57	649.60	2,069.40	9,777.43	10,119.64	573.00	8,000.00	8,573.00	1,546.64
49	7.83	87,943.96	688.60	1,936.40	12,056.04	12,478.00	667.00	10,400.00	11,067.00	1,411.00
50	8.53	85,722.21	731.21	1,799.79	14,277.79	14,777.51	760.00	12,900.00	13,660.00	1,117.51
51	9.29	83,560.77	776.28	1,661.72	16,439.23	17,014.60	853.00	15,400.00	16,253.00	761.60
52	10.12	81,464.82	824.42	1,520.58	18,535.18	19,183.91	947.00	17,800.00	18,747.00	436.91
53	11.02	79,440.52	875.43	1,375.57	20,559.48	21,279.06	1,040.00	20,300.00	21,340.00	- 60.94
54	12.00	77,492.85	929.91	1,228.09	22,507.15	23,294.90	1,133.00	22,800.00	23,933.00	- 638.10
55	13.07	75,628.57	988.47	1,076.53	24,371.43	25,224.43	1,223.00	25,100.00	26,323.00	- 1,098.57
56	14.25	73,852.97	1,052.40	922.60	26,147.03	27,062.18	1,314.00	27,400.00	28,714.00	- 1,651.82
57	15.54	72,175.43	1,121.61	762.39	27,824.57	28,798.43	1,404.00	29,700.00	31,104.00	- 2,305.57
58	16.95	70,604.31	1,196.74	597.26	29,395.69	30,424.54	1,495.00	32,000.00	33,495.00	- 3,070.46
59	18.50	69,151.77	1,279.31	423.69	30,848.23	31,927.92	1,585.00	34,200.00	35,785.00	- 3,857.08
60	20.20	67,829.23	1,370.15	242.85	32,170.77	33,296.75	1,617.00	36,500.00	38,117.00	- 4,820.25
61	22.04	66,589.89	1,467.64	113.36	33,410.11	34,579.46	1,648.00	38,700.00	40,348.00	- 5,768.54
62	24.05	65,444.48	1,573.94	- 23.94	34,555.52	35,764.96	1,680.00	40,900.00	42,580.00	- 6,815.04
63	26.25	64,407.74	1,690.70	- 172.70	35,592.26	36,837.99	1,711.00	43,100.00	44,811.00	- 7,973.01
64	28.64	63,493.46	1,818.45	- 331.45	36,506.54	37,784.27	1,743.00	45,200.00	46,943.00	- 9,158.73

* WHOLE LIFE PREMIUM REDUCED BY EXCESS OF TERM POLICY FEE OVER POLICY FEE OF WHOLE LIFE OF $0

DIVIDEND USED AT THE FIRST OF THE FOLLOWING YEAR TO REDUCE PREMIUM.

778

PERMANENT INSURANCE POLICY COMPARED TO BUYING TERM AND

INVESTING THE DIFFERENCE IN THE NET PREMIUM ∂ AFTER TAX RATE OF INTEREST

FACE AMOUNT $100,000 ISSUED AT AGE 44
ANNUAL PREMIUM OF $3,198* NET INVESTMENT RATEOF 4.7609%
DIVIDENDS USED TO REDUCE ANNUAL OUTLAY

AGE FIRST YEAR	RATE OF TERM INSURANCE PER 1000	AMOUNT OF TERM INSURANCE	PREMIUM FOR TERM INSURANCE	INVESTMENT ACCOUNT YEARLY DEPOSIT	VALUE OF ACCOUNT FIRST OF YEAR	END OF YEAR	PERMANENT INSURANCE POLICY DIVIDEND AT END OF YEAR∂	CASH VALUE AT END OF YEAR	CASH VALUE + END OF YEAR DIVIDENDS	INVESTMENT VALUE OVER POLICY VALUE
45	5.64	97,351.06	549.06	2,648.94	2,648.94	2,775.05	290.00	800.00	1,090.00	1,685.05
46	6.11	94,896.77	579.82	2,328.18	5,103.23	5,346.19	385.00	3,200.00	3,585.00	1,761.19
47	6.62	92,452.85	612.04	2,200.96	7,547.15	7,906.46	479.00	5,600.00	6,079.00	1,827.46
48	7.20	90,022.70	648.16	2,070.84	9,977.30	10,452.31	573.00	8,000.00	8,573.00	1,879.31
49	7.83	87,608.67	685.98	1,939.02	12,391.33	12,981.27	667.00	10,400.00	11,067.00	1,914.27
50	8.53	85,214.61	726.88	1,804.12	14,785.39	15,489.31	760.00	12,900.00	13,660.00	1,829.31
51	9.29	82,842.29	769.60	1,668.40	17,157.71	17,974.57	853.00	15,400.00	16,253.00	1,721.57
52	10.12	80,495.04	814.61	1,530.39	19,504.96	20,433.57	947.00	17,800.00	18,747.00	1,686.57
53	11.02	78,176.94	861.91	1,389.49	21,823.06	22,862.03	1,040.00	20,300.00	21,340.00	1,522.03
54	12.00	75,890.66	910.69	1,247.31	24,109.34	25,257.16	1,133.00	22,800.00	23,933.00	1,324.16
55	13.07	73,640.32	962.48	1,102.52	26,359.68	27,614.64	1,223.00	25,100.00	26,323.00	1,291.64
56	14.25	71,428.21	1,017.85	957.15	28,571.79	29,932.06	1,314.00	27,400.00	28,714.00	1,218.06
57	15.54	69,260.24	1,076.30	807.70	30,739.76	32,203.25	1,404.00	29,700.00	31,104.00	1,099.25
58	16.95	67,140.79	1,138.04	655.96	32,859.21	34,423.60	1,495.00	32,000.00	33,495.00	928.60
59	18.50	65,077.33	1,203.93	499.07	34,922.67	36,585.30	1,585.00	34,200.00	35,785.00	800.30
60	20.20	63,075.83	1,274.13	338.87	36,924.17	38,682.09	1,617.00	36,500.00	38,117.00	565.09
61	22.04	61,083.18	1,346.27	234.73	38,916.82	40,769.61	1,648.00	38,700.00	40,348.00	421.61
62	24.05	59,101.79	1,421.40	128.60	40,898.21	42,845.33	1,680.00	40,900.00	42,580.00	265.33
63	26.25	57,136.50	1,499.83	18.17	42,863.50	44,904.19	1,711.00	43,100.00	44,811.00	93.19
64	28.64	55,189.44	1,580.63	- 93.63	44,810.56	46,943.95	1,743.00	45,200.00	46,943.00	.95

* WHOLE LIFE PREMIUM REDUCED BY EXCESS OF TERM POLICY FEE OVER POLICY FEE OF WHOLE LIFE OF $0

∂ DIVIDEND USED AT THE FIRST OF THE FOLLOWING YEAR TO REDUCE PREMIUM.

SPEECH OF E. J. MOORHEAD REGARDING COMPARATIVE COSTS OF LIFE INSURANCE, DATED JUNE 15, 1970

Do you have a fundamental objection to any cost comparison method that uses mortality and lapse rates? See p. 4

"The Comparative Costs of Life Insurance"

Remarks by E. J. Moorhead at Institute of Life Insurance Conference
Chicago, June 15, 1970

I. A Short Description of How Life Insurance Works

(After bringing up the question of a capsule definition for general discussion, the speaker indicated that, in the context of today's discussion, the essential character of a life insurance contract of any kind could be summed up in three words:

WINNERS PAY LOSERS.)

This brings up the basic question whether the amount paid by the Winners to the Losers is or is not part of the Cost of Insurance. After all, this is just a redistribution of a sum of money rather than a cost to the group as a whole. In this respect it certainly differs from the amount that is taken from each premium by the life insurance company for its expenses and for profit or contingencies.

Nevertheless it is clear that most Winners regard the amount they contribute to the Losers as a cost to them.

The Joint Special Committee on Life Insurance Costs considered a large number of approaches that had been suggested, some of which are described in its Report. Many of these methods consider the amount paid by Winners to Losers as part of the cost, but a few do not, notably the Benefits-to-Premiums Method that has been thoroughly analyzed by Professor Belth.

II. What Is a Dividend Scale?

(This also was the subject of discussion among the conferees, the purpose being to ascertain whether they feel that the dividend scale is

What the company hopes to pay
What the company has paid
What the company is paying
What the company estimates it will pay
What the company needs to say that it is paying or will pay

An old pamphlet entitled "Don't Sell Dividends" that had been brought to the meeting that morning by Mr. Gathings Stewart was circulated as a "horrible example" of misunderstanding or distortion of what a dividend scale really is.)

Unless each of us sees a dividend scale in the same way as others see it, and particularly in the same way as the actuary who has calculated it sees it, we are likely to diverge tremendously in our idea of how dividends should be used in a comparative analysis.

(The speaker expressed the view that a dividend scale is intended to have no element of either the future or the past in it. It represents what the company is paying today, adjusted only to reflect the basic differences between policies already on the books and those now being offered. Opinions around the room differed somewhat on whether actuaries adhere thoroughly to this concept. The speaker pointed out that to the extent they do not, this divergence can be revealed by analysis, except in the case of companies that have not been in existence or have not been selling participating life insurance for at least the period covered by the scale, usually twenty years.)

III. Decision No. 1 for Mr. and Mrs. Householder--How Much Life Insurance and What Kind

In our preparation for this afternoon's session Professor Belth and I agreed that we would not tell each other what each of us plans to say, but each of us would build his presentation around the problems of a hypothetical young family man, whom I have described as Mr. Householder. He is assumed to operate on a severely limited personal budget, and is trying to decide, with whatever help he can get, how much life insurance he should have, what kind he should buy and from whom he should obtain it.

It seems clear that how much and what kind are related to each other. The more life insurance he must have, the more he must depend in part upon term insurance rather than ordinary life. The more he buys the more it must cost him (illustrations on the Traditional Method to the contrary notwithstanding) because, as we have already observed, insurance means a contribution by each Winner to each Loser.

Having decided how much (the process for which we shall not now discuss) then we submit that What Kind really means How fast should he pay for it.

One-year term means no prepayment; level premium term means minor prepayment; whole life means considerable prepayment; and a plan such as endowment at age 65 means a large element of prepayment.

To the extent that comparative cost is the criterion--and certainly it is one criterion and it is our topic this afternoon--there is no clear choice between plans of insurance based on comparative cost. It is wrong to say, as some do, that whole life is necessarily cheaper than term insurance. Likewise, it is wrong to say that term insurance is necessarily cheaper than whole life. Very definitely it is wrong for the holder of one belief on this score to impugn the morals, loyalty or sanity of somebody who takes the opposite view.

Really, the question we are discussing here is that of consistent pricing by the actuarial profession. It is only to the extent that, for reasons good or bad, pricing by the actury is inconsistent between plans that the choice of What Kind should involve any consideration of cost.

It is true that a life insurance company might set a high price for term insurance with the notion of discouraging it; there have been times in life insurance history when this has been the case. Or, term insurance might be priced relatively high because it is believed to experience poor persistency or heavy mortality. On the other hand, there may be times when competetive considerations force costs of term insurance down to abnormally low levels.

Nevertheless it is our thesis this afternoon that Kind of insurance should be an issue for Mr. and Mrs. Household only in the context of their ability and desire to prepay future insurance costs.

IV. Decision No. 2 for Mr. and Mrs. Householder--With Whom To Do Business

For the reason just stated, this will be discussed, as it was by the Committee, in terms of an individual who has already passed the decision-point for Amount and Kind. He knows how much insurance he intends to buy and he knows what kind of insurance he desires to buy. The question only is from whom shall he buy that amount and that kind.

To begin with, we must reject two plausible but wrong ideas. First, we must discard the notion that cost is the only criterion in determining from whom to buy. Probably nobody in this room believes this, so we need not waste time in discussing it. The Report lists some of the reasons why cost is not the sole criterion--mentioning services of the agent, financial strength and service facilities of the company, and values in the policy that cannot conveniently be incorporated in any mathematical comparison.

Second, we must throw out the idea that no useful cost comparisons need to be made or can be made. Those who preach this say either that differences between policy costs in different companies are small--this is the "pennies per thousand" approach, and it is false; or they say that dividend scales change so rapidly and so haphazardly that comparisons are nonsense--this is the "dizzy dividend" or perhaps the "erratic actuary" approach, and it also is false, at least historically and in the foreseeable future.

In considering what information Mr. and Mrs. Householder need so they can decide from whom to buy: the Committee asserts that there is no one comparison method that is obviously and demonstrably superior to all the others.

One method, we definitely agree, is inferior and that is the Traditional Method. Furthermore, the inherent inferiority of the Traditional Method has been accentuated by the influence that it has had upon dividend and cash value patterns. Some of us have been saying this long before Senator Hart dropped his firecracker into the 1968 ALC Meeting. For example, you might examine the opening paragraph of the joint paper on life insurance cost comparisons by Professor Belth and me in the Journal of the American Risk and Insurance Association, December, 1965.

All the same, it is easily possible to overstate the deficiencies of the Traditional Method. (At this point the conferees were invited to examine page 30 of the Committee Report, showing that of the first ten companies by the Traditional Method, eight are still in the first ten positions by the Committee Method; and coincidently of the last ten by the Traditional Method, again eight were still among the last ten by the Committee Method. On the other hand, a few individual companies so show sharp changes when the Committee Method is substituted for the Traditional Method.)

The rational conclusion seems to be that use of a method that is truer than the Traditional Method does not turn industry results upside down, far from it. But it does, we think, place desirable emphasis upon genuine performance and thus should encourage efficiency.

Every method examined by the Committee that reflects either (a) time of payment or (b) both time and probability of payment, has something to recommend it. In saying this I am expressing a personal opinion. Some say there is a fundamental objection to any method that uses mortality and lapse rates. These people can speak for themselves; I do not hold that view.

I do maintain that the method advocated by Mr. Lewis for moving from a Yearly Price to a Level Price is mathematically superior to the method used by Professor Belth in his Level Price Method. Professor Belth should not feel badly about this. We all know it is much easier to suggest how anything can be improved than it is to develop it in the first place. I do hope that in any further work he may do with his Level Price Method Professor Belth will materially reduce the opportunity for criticism by using Mr. Lewis' formula instead of his original.

V. Hallmarks of Suitable Information

The hallmarks of a suitable index for comparing cost of life insurance policies, as the Committee sees them, are the following:

1. That it be reliable and not misleading;

2. That it be within the mental grasp of a reasonably intelligent person who is not in either the Insurance Department of a university or the Actuarial Department of a life insurance company. This in the Committee's view is an important consideration and rather severely limits the range of acceptable solutions;

3. That it be close enough to the Traditional Method so that we can expect home office and field people to accept it voluntarily, promptly and cheerfully;

4. That it avoid unnecessarily highlighting the separation of a policy into its protection and savings components.

In considering the fourth of the above points the word "highlighting" should be noted. We are concerned not so much with whether a method involves such a separation, as whether it waves the fact of separation like a red flag.

(At this point the speaker asked for a show of hands to determine how many conferees feel that the comment on the separation question in the Report is consistent with their own view. Almost all considered that statement valid or at least acceptable.)

VI. Getting This Information to the Public

The question of how to communicate a comparison system to the public was not part of our Committee assignment, and therefore was not discussed by our Committee except to the extent of recognizing that it is an important question and not easy to solve. We know that some individuals are offering a comparison service for a fee--with what success we know not. We know that Professor Belth has proposed a central service organization. We know that in Great Britain the insurance industry has been admonished by a consumer's organization to finance service centers where people can get independent basic information about insurance.

Mr. Paynter and others at the Institute of Life Insurance have given the dissemination question much thought and may be persuaded to comment on it.

But, I hear footsteps. They are the footsteps of the doughty Professor of Insurance at Indiana University who will now tell us about this question as he sees it. Nobody here will listen more attentively than I shall--as I think I always have--to Professor Joseph M. Belth.

PANEL DISCUSSION ON NET COST COMPARISONS BY R. N. HOUSER, DATED NOVEMBER 11, 1970

Presentation as Panelist on Subject of "Net Cost Comparisons"
Society of Actuaries Meeting, November 11, 1970

R. N. Houser, Vice President and Actuary, The Bankers Life, Des Moines, Iowa

As you all know, the Joint Special Committee on Life Insurance Costs has completed its study and produced its report. My remarks are addressed to the following question: Now that we have this report, what are we going to do with it? What are we going to do as an industry, and what is my company going to do as an individual company?

Insofar as the life insurance industry is concerned, it seems to me there are at least four possibilities. One is simply to sit tight and wait for an industry consensus to develop on the merits and demerits of the proposed Interest-Adjusted Method. Wait.....and wait.....and wait. Another possibility is to form a new committee to restudy the problem and perhaps come up with a better answer. This could probably be followed by another committee and then still another committee. The perfect method might possibly emerge by the year 2011. Still a third possibility is simply to file the report and forget it. This is the one I'm really scared of. Simply do nothing as an industry and then rationalize our reasons for this inaction. The fourth possibility, the one I happen to favor, is to get on with the job. Begin using the proposed method and continue using it until something better comes along.

Regardless of what the life insurance industry does, my company, the Bankers Life Company, Des Moines, Iowa, is faced with its own decision as to what to do. We recognize that our decision will have little impact on the industry-wide problem. Nevertheless, we cannot avoid a choice. As we see it, there are three choices open to us. One choice is simply to do nothing for the time being. Just sit back and wait to see what develops in

the industry. Then follow along. A second choice is to adopt the new method lock, stock and barrel. Insist that use of all Traditional cost figures be immediately terminated and that the new Interest-Adjusted cost figures be shown in all subsequent proposals. A third choice is something of a middle ground between these extremes. You can call it compromise if you want, but I prefer the term "realism". I intend to elaborate on this latter choice because it is the one my company plans to adopt.

From the perspective of an individual company, I have prepared my own list of arguments for and against use of the Interest-Adjusted Method. First, the arguments for the new method. One such argument is simply that the new method is better than the Traditional Method. Perhaps the question should be turned around so that it becomes: Why continue the Traditional Method when the new Interest-Adjusted Method is better? Another argument is that various printed services such as Best's and National Underwriter will likely pick up and use the new method, thus making its spread inevitable. A third argument is that we, as a company, would rather be a leader than a follower. So what if our company does jump first. Someone obviously has to. A fourth argument is that we might gain some brownie points for being forthright in an age of consumerism. We can point out to the customer that we are willing to lay our cards on the table insofar as net costs are concerned. A final and rather powerful argument is that, from studies we have made, we are convinced that widespread use of the new method would tend to help us more than it hurts us in competitive standings. For example, one of our largest selling plans is a low premium ordinary life policy which shows a relatively poor surrender cost under the Traditional Method but looks much better under the Interest-Adjusted Method.

There obviously are arguments against, as well as for, use by our company of the new Interest-Adjusted Method. One argument is that the change is too revolutionary at this time. A case can be made that we should go slow on any wholesale change. An evolutionary approach might be better than a revolutionary one. Furthermore, we don't yet know whether or not the new method will catch on in the industry. We might guess wrong if we move ahead too fast. A second argument, and this is an important one, is that we can expect some resistence from our field force who may see use of the new method as simply another sales obstacle to be overcome. If nothing else, it would take time for the agent to explain the new method to the prospect, and thus perhaps get his sales presentation off the track. Whatever resistence we can expect against the new method from our own field force is likely to be compounded in the case of outside brokers. A third argument is that we might lose some competitive advantage if our Interest-Adjusted cost figures were unfairly compared with another company's Traditional cost figures. We feel that a well trained agent should be able to overcome this particular problem. A fourth argument is simply that it costs something to revise the format and wording of our proposal forms. Finally, there is the argument that terminology under the new method has not been fully settled. I can buy this. Perhaps my biggest reservation about the new method is its name. It seems to me rather obvious that the name "Interest-Adjusted Method" was invented by an actuary. It is rather descriptive but singularly lacking in sales appeal. The one good comment I have about the name is that it is better than either "Equalized Cost Method" or "One-30.969th Method". This latter name is the one I really feared since it seems to be a rather obvious actuarial refinement of the "One-Thirtieth Method".

After reviewing these pros and cons from an individual company standpoint, my company made its decision. Effective January 1, 1971 we plan to take the following steps:

1. Interest-Adjusted figures will be included in the ratebook for all permanent plans. We plan to show both net payment and net cost figures per thousand, exclusive of policy fee, for 10 and 20 years at 4% interest. Along with this, we will include in the ratebook a full explanation of the Interest-Adjusted Method.

2. We will continue to use our conventional proposals of the "non-ledger statement" type even though they occasionally show Traditional net costs. We see nothing inherently wrong in showing a prospect that at the end of 20 years or at age 65 his total cash value may exceed his total premium payments. However, we do not feel that such differences should be labeled as gain, profit, or negative surrender cost. We plan to clean up the wording of our conventional proposal forms to eliminate all such potentially misleading terms. Note that this type of proposal is seldom used in competitive situations. Thus, we see little benefit to be gained by including Interest-Adjusted cost figures in the proposals.

3. We will continue to show Traditional net cost and net payment figures in the body of our 20-year ledger statements but will clean up any potentially misleading headings in the same manner as previously described for conventional proposals.

4. For all such 20-year ledger statements we will add Interest-Adjusted

net payment and net cost figures for 10 and 20 years at 4% interest. This will be a machine-prepared fill-in at the lower left-hand corner of the form. Note that we will do this on all ledger statements. It will not be optional on the part of the agent. We also plan to include a separate printed sheet with the ledger statement to explain to the prospect the meaning and significance of the Interest-Adjusted figures shown in the statement.

As you can see, we are going only part way toward use of the Interest-Adjusted Method. Nevertheless, we feel the step we are taking is a big one and an important one. Our reason for concentrating on ledger statements is that this is the type of proposal normally used in competitive situations. By showing Interest-Adjusted cost figures in the ledger statement, we do not plan to shy away from competition. If our company shows these Interest-Adjusted figures and your company does not, we plan to point this out to the prospect. We may even ask "why".

Note also that we plan to stress net payment as well as net cost under the new method. We feel both of these are important to the buyer. Where appropriate, we also plan to point out differences between our guarantees and those of the other company. For example, if part of the other company's cash value comes from a non-guaranteed terminal dividend, we won't hesitate to point this out. In other words, we plan to use the new Interest-Adjusted Method aggressively in any competitive situation just as we have used the Traditional Method in the past.

In summarizing my remarks, I would say that the life insurance industry

has reached the point where it's time to get off our collective duffs and get on with the job. All of the reasons which led to formation of the Joint Special Committee still exist. Doing nothing isn't going to cause this problem to disappear. What I strongly suspect is that sheer inertia will be the biggest obstacle to immediate use of the Interest-Adjusted Method. Let me turn this around. Can you imagine the clamor which would have arisen among actuaries if we had been using the Interest-Adjusted Method for many years and then some misguided soul had the temerity to suggest that, for purposes of simplicity, we drop the use of interest in our net cost comparisons? I suspect we would all have been up in arms over the thought that anyone could seriously suggest the use of such an unscientific cost comparison method.

I sincerely believe the life insurance industry will be making a sad mistake if it does not begin to provide more meaningful cost comparisons. The Interest-Adjusted cost comparison method is the only one now on the scene which has any possibility of widespread adoption. Let's pick it up and begin using it. Let's take this first step, however small it may be, toward providing more meaningful cost information for the consumer. My company plans to do just that.

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