A BETTER MOUSE TRAP

Our world is in constant motion. The banks are trying to enter the life insurance market, the life insurance industry is trying to enter the banking and investment markets, and the public and their agents are becoming confused. The more things change the more they become the same. The same is true of the products we sell.

For years we sold whole life insurance without being embarrassed. Then came the self-image problem of buy term and invest the difference. We as an industry began to reevaluate our sales image and introduced the industry saving, miracle products -- interest sensitive, flexible indeterminant premium, shift-the-risk death insurance. We emulated the NAME THAT TUNE format. "I can make that premium disappear in 6 years." "I can make it disappear in 5 years." "Make it disappear."

It now seems to be the "in-thing" to destroy the public conscience and value of the one product that has made us a great industry. Of what value are we to our clients if we succumb to these attacks?

We buy life insurance to solve our financial problems, and by the projection of values over the next 20, 30, or 40 years we hope to reinforce this solution. The "sizzle" in this forward looking sale may be the cause of this attack on the whole life concept. We have no way of determining what forces will be acting upon the plans we make today, but we can analyze the past and determine the value of the whole life contract.

To illustrate this point let us compare a par whole life product with term and measure the results in terms of economic environment and trends.

Our story begins in 1927. Our clients are twin males age 21. Their names are Ordinary and Term. They were both advised, by their agent to purchase a $100,000 policy. This recommendation was given following a review encouraged by their accountant. The following is a history of that recommendation.

Ordinary decided to purchase a whole life policy for an annual premium of $1,962 and went on about his business. Term was outraged. He wondered how his twin could be so foolish to buy this expensive stuff when term insurance was so cheap and the premium differential could be put in a savings account earning 3 1/4% interest (the going rate at the time).

In 1927 both whole life and term were substantially higher than they are today. Rates on term were generally not available for more than 3 to 10 years at a time and there were very few policies that were guaranteed renewable as far as age 65.

Term, being a prudent man, was able to pick the cheaper of the two available plans that renewed to age 65. The first year premium was $775. Term was $1,187 ahead in the first year. As agreed the premium differential was put in the bank at current interest. Total dollars expended by each twin was $1,962 per year.

Time passed and the twins grew older. The whole life policy began paying dividends at the end of the second year. Ordinary didn't want to be thought a complete fool, so he put his whole life dividend in the same bank as his brother Term.

At age 31, Term's premium was up to $838, but he had $14,569 in his account at the bank. Ordinary's bank account was only $5,985. Interest rates were upward bound at this time. Both bank accounts were earning 3.5%.

During the 25 years from policy issue a lot of changes occurred: the Social Security Act of 1935, war, and the great depression. Through this period the twin's financial ship remained fairly steady. In 1952, the twins were 46 years old and they were getting 2.7% interest on their savings. Term had $40,346 compared to Ordinary's $22,940 but Term's premium was $1,224.

At age 61, both were receiving 4.67% interest (1967). Term had $68,477 while Ordinary's bank balance was only $59,591. Term's premium was now $3,351. The agreement with his twin brother allowed out of pocket insurance costs of $1,962. Term must supplement his premium cost with withdrawals from his bank account. The word "differential" had taken on a whole new meaning for Term. Ordinary was looking less foolish each year.

Term's policy ended in 1971 at age 65. His last premium was $4,310. However, his bank account was $72,297 and was earning 5.33%. Ordinary's bank account was $74,497 and was also earning 5.33%.

Term soon discovered that because his was age 65 that his insurance needs didn't disappear. New contracts appeared on the market to "help" people like Tern. His new 5 year term policy had a cost of only $4,487. This premium could be paid out of the bank account plus out of pocket payment of $1,962. Ordinary continued his whole life policy and kept plowing those dividends into the bank account.

In 1976, both twin's were still working. Term's 5 year policy ended but he was able to get a newly designed YRT policy, however, at an increase in the annual premium payments. Term has $92,131 in his bank account while foolish Ordinary has $137,554. The pleasantry doesn't end here. You see, Ordinary has cash value in his policy of $71,300. That's a total liquid asset of $208,854.

In 1979 both men have retired. Both needed life insurance for estate liquidity. Ordinary's policy dividend is large enough to pay the premium and still have enough left over to pay a cash dividend. Term must buy another policy and see his bank account dwindle. Ordinary can now annuitize his bank account and receive $1,500 per month for life. Term's alternatives are not so pleasant. Oh yes, Term can choose to buy a whole life policy but his premium will be approximately $11,000 per year.

Have I made my point? Overdramatized? No. The figures reflect exactly what happened using the economic environment of the times.

Today we are enamored by the projections of 10 - 11% and say this is better than whole life. The interest rates as projected just 2 years ago were thought to be as solid as a rock. We have witnessed the uncertainty of relying on such interest assumptions.

In today's changing world, one thing is certain - people's financial needs will continue. People are still going to buy homes. People are still going to get married and have children. And people are going to die. Most importantly, men and women will still love their families, and we are still going to sell permanent life insurance.

So bring on the 10% illustrations! Bring on the financial planners We've got something that nobody else can match. We've got a proven record, and we've got a plan that works.
People want our products. All we have to do is remove the blinders of greed and go out and sell it. We have a better mouse trap.