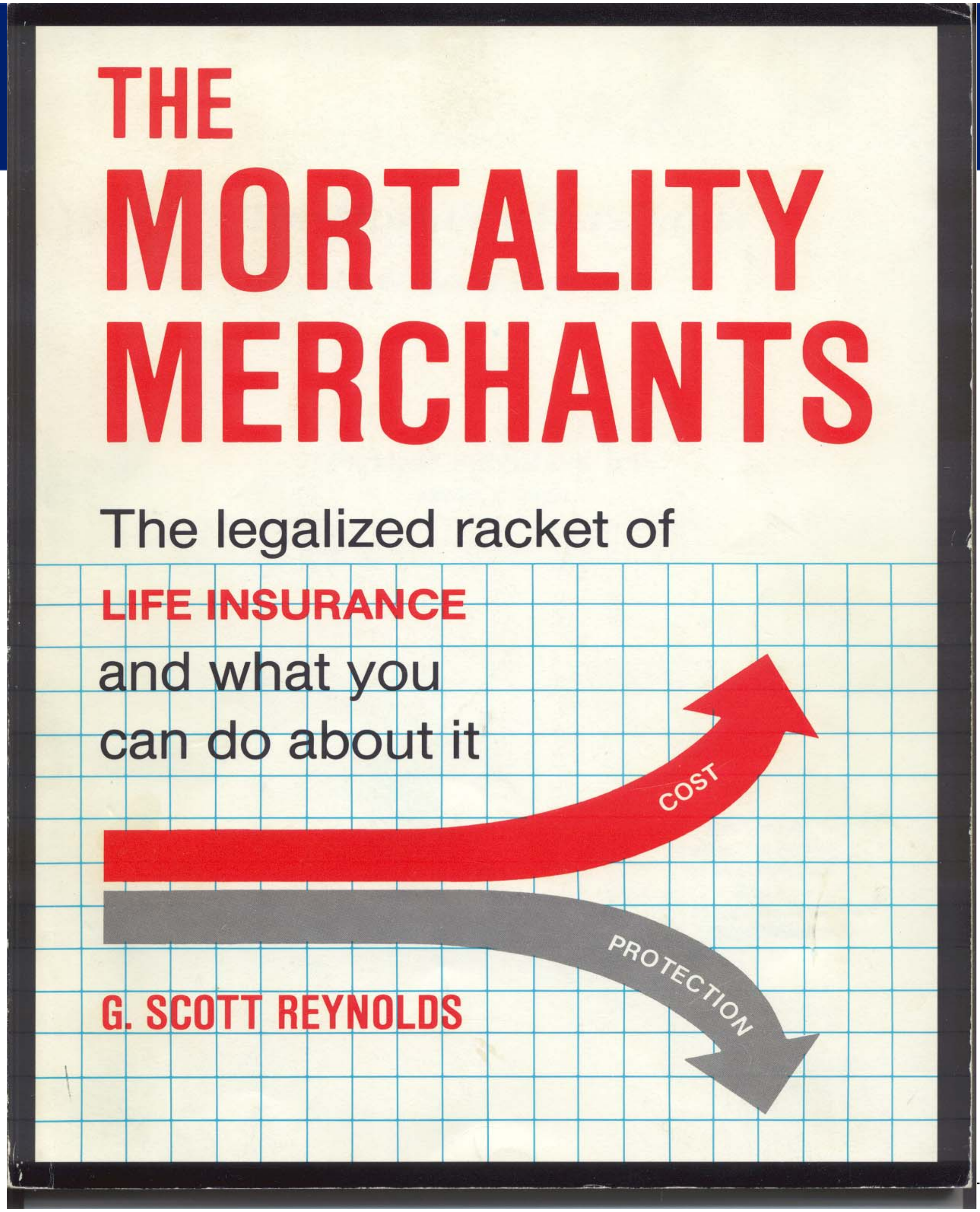
# The Facts Are The Facts and The Facts Don’t Lie.

# The Insurance Industry

- **Dating back as far as we can tell, 1877 was the first book written on the "Evils" of Cash Value Life Insurance.**
- **1877 - "Traps Baited With Orphans".**
- **1917 - "A License To Steal".**
- **1936 - "Life Insurance-A Legalized Racket"**
- **1938 - "Life Insurance-Investing in Disaster".**
- **1944 - "You Pay and You Pay".**
- **1958 - "Your Pocketbook is Leaking".**
- **1961 - "Behind the Fine Print".**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The legalized racket of
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and what you
can do about it
COST
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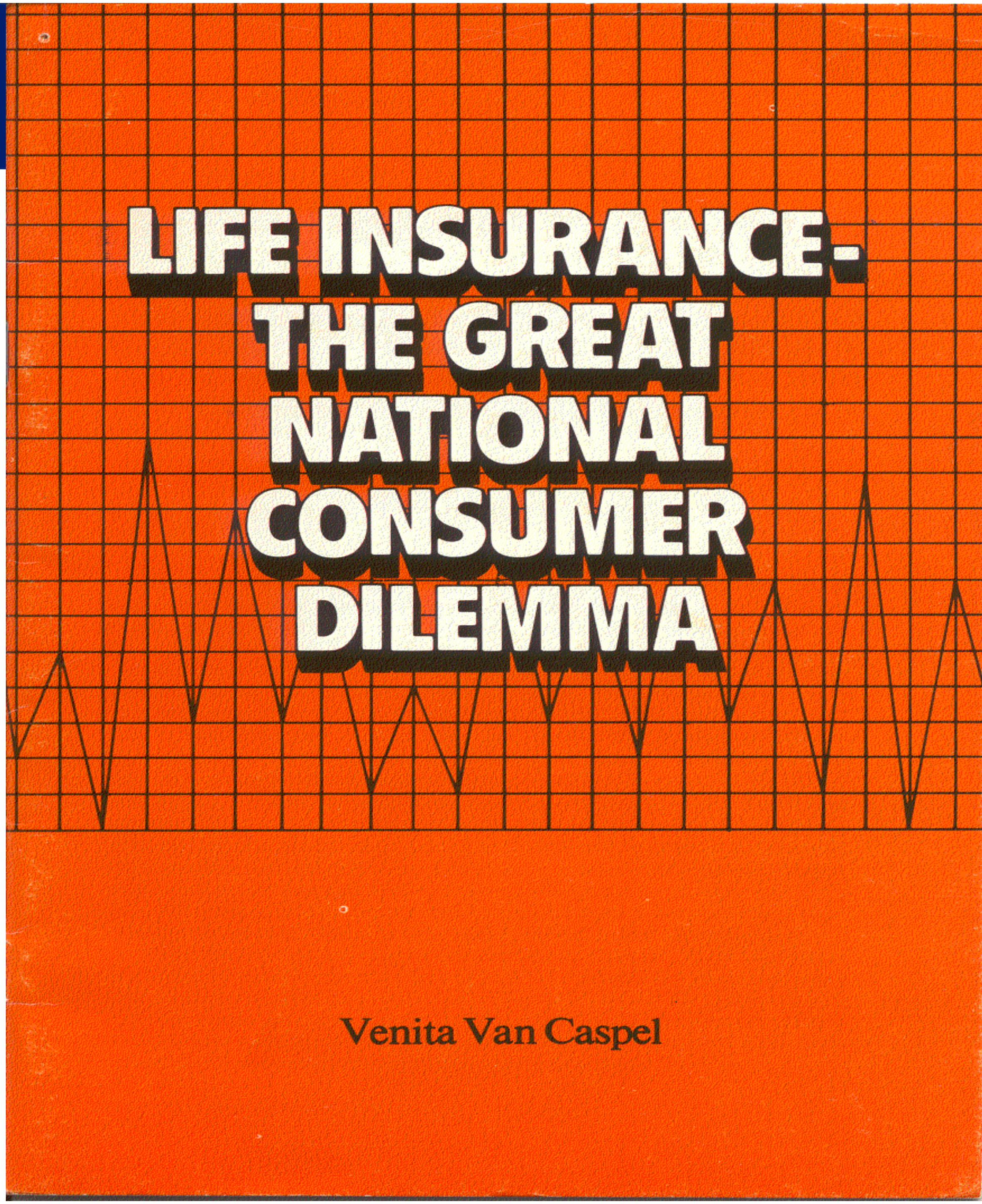
G. SCOTT REYNOLDS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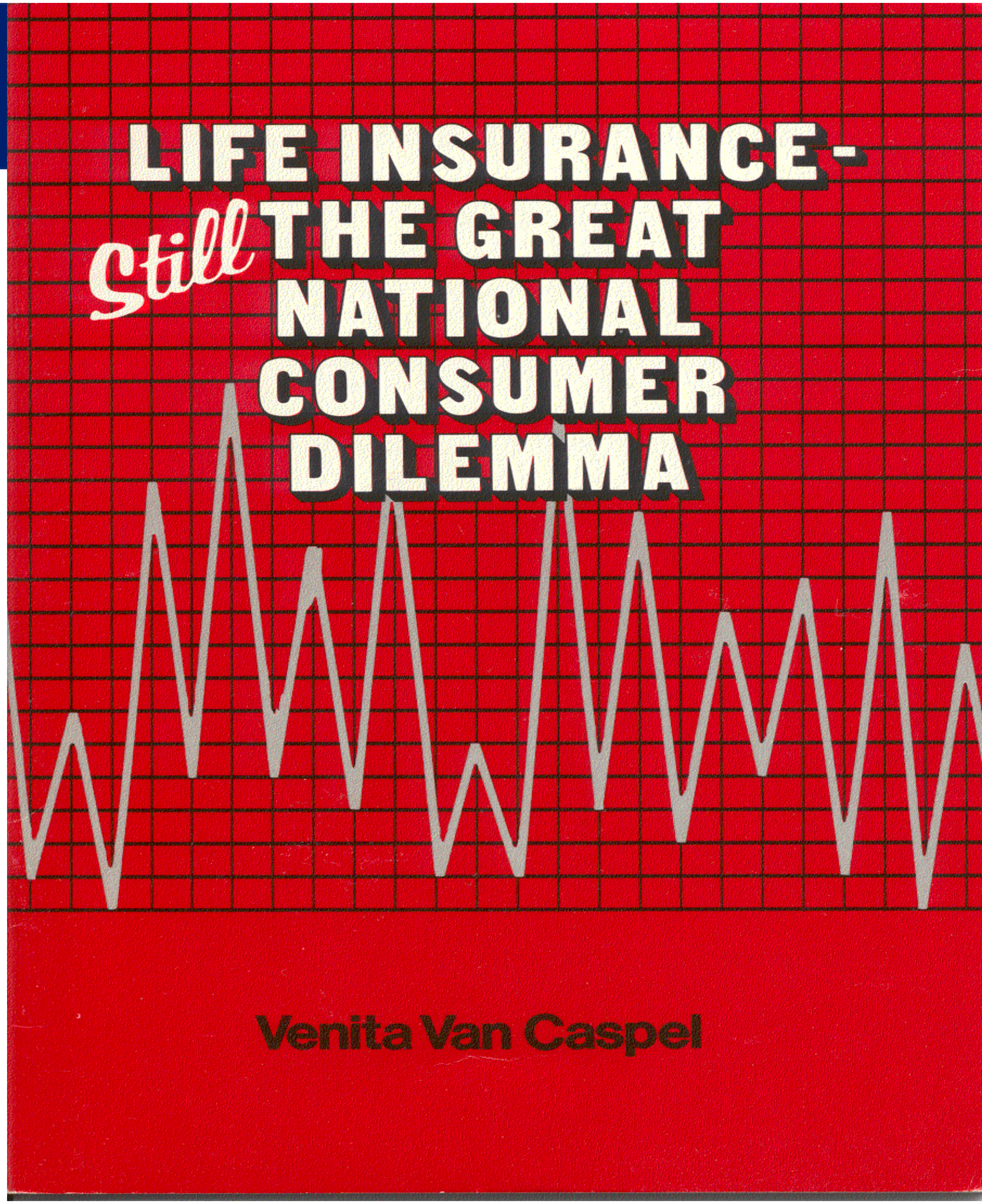
Venita Van Caspel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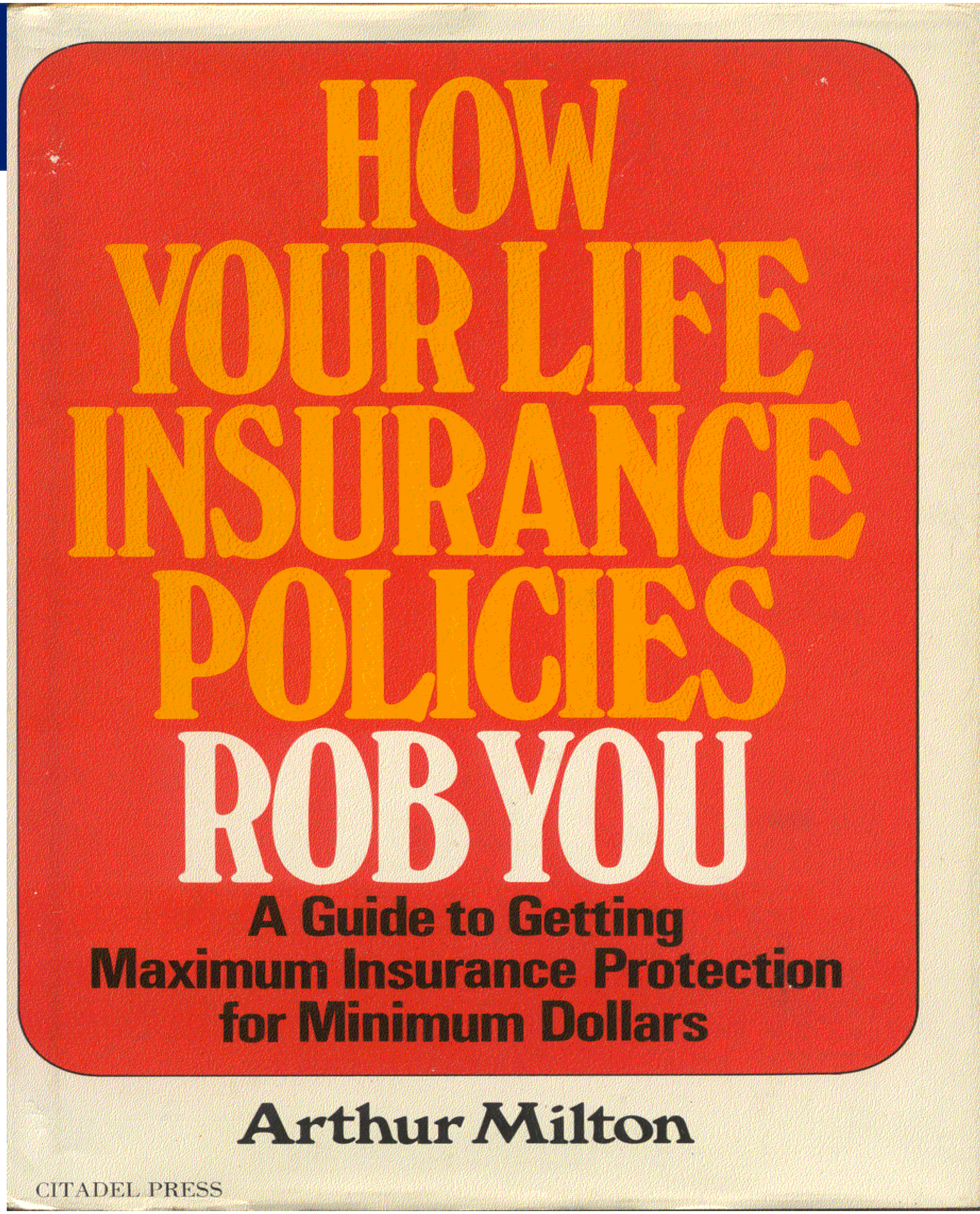
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Maximum Insurance Protection
for Minimum Dollars
Arthur Milton
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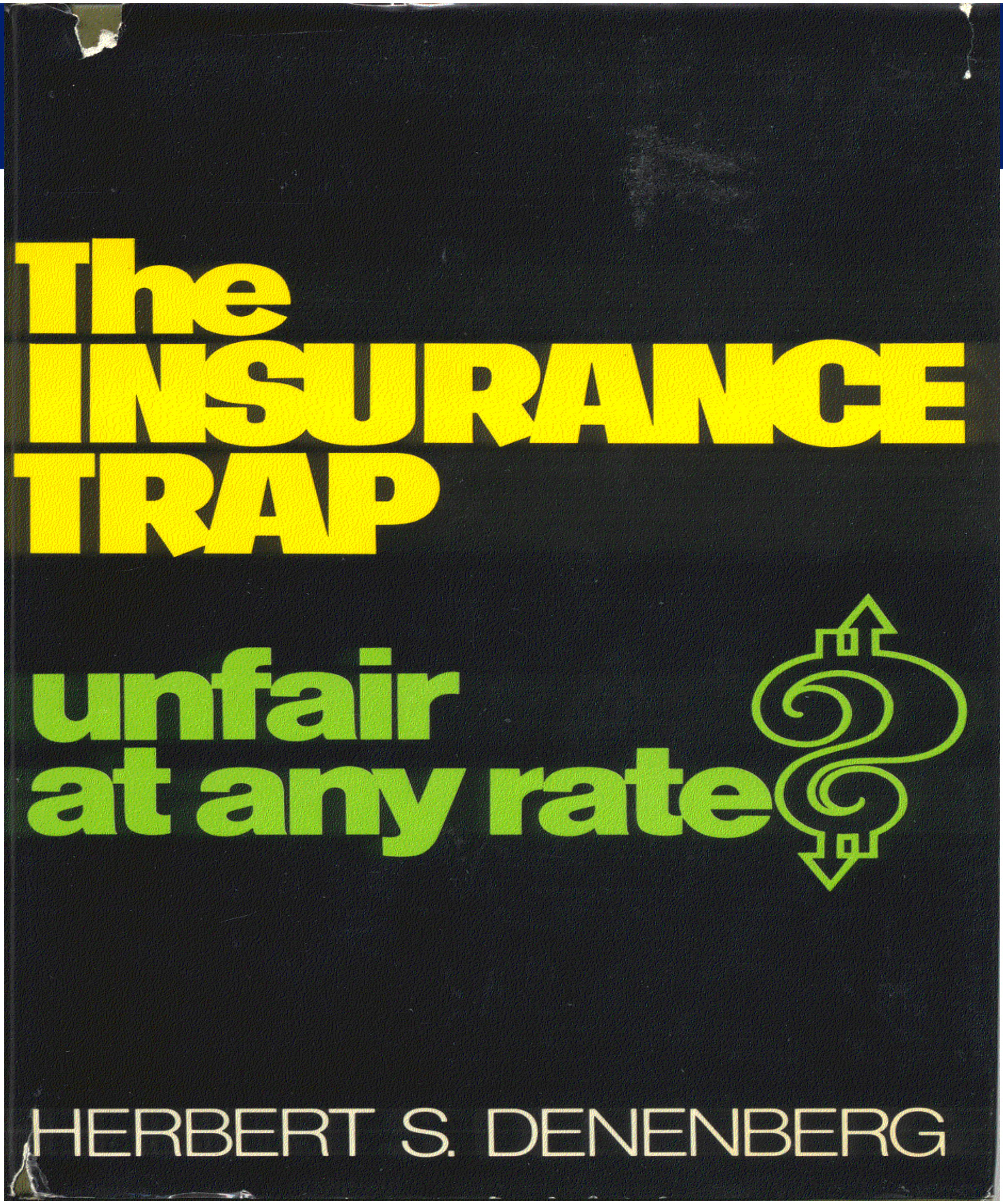

The INSURANCE TRAP
unfair at any rate
HERBERT S. DENENBERG

# SHOPPERS' GUIDE TO CANADIAN LIFE INSURANCE

## POLICIES AND PRICES 1987 EDITION

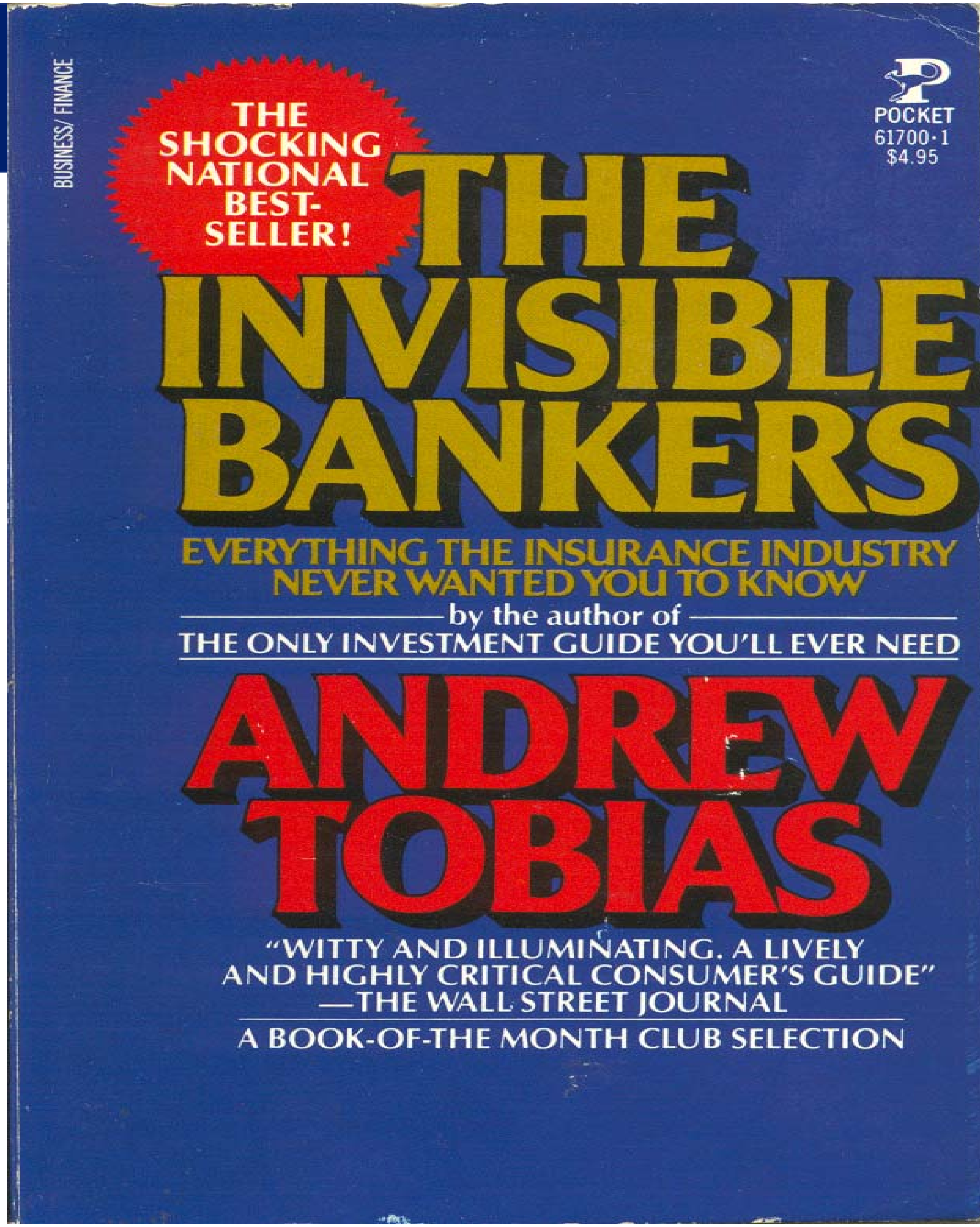
## *How Not To Get Ripped Off*

- Term Insurance Explained
- Why You Shouldn't Mix Savings With Life Insurance
- The Truth About Life Insurance "Dividends"
- The Use of a Computer to Shop For Life Insurance
- Life Insurance Policy Loans
- The Life Insurance Income Tax Trap
- How Life Insurance Companies Cheat Women
- Double Indemnity — An Option to Avoid
- Life Insurance Policies and Saving for a Child's Education
- Mortgage Insurance — A Great Bargain
- Life Isurance RRSP's
- Termination Options for Your RRSP
- Mail Order Life Insurance
- Alumni and Professional Group Plans
- Universal Life — A Bad Consumer Product
- How Life Insurance Companies Steal Your Savings When You Die

**Plus**

**How to replace old policies with new ones, substantially increase your coverage *and* pay no more premiums**

by
**William E. McLeod**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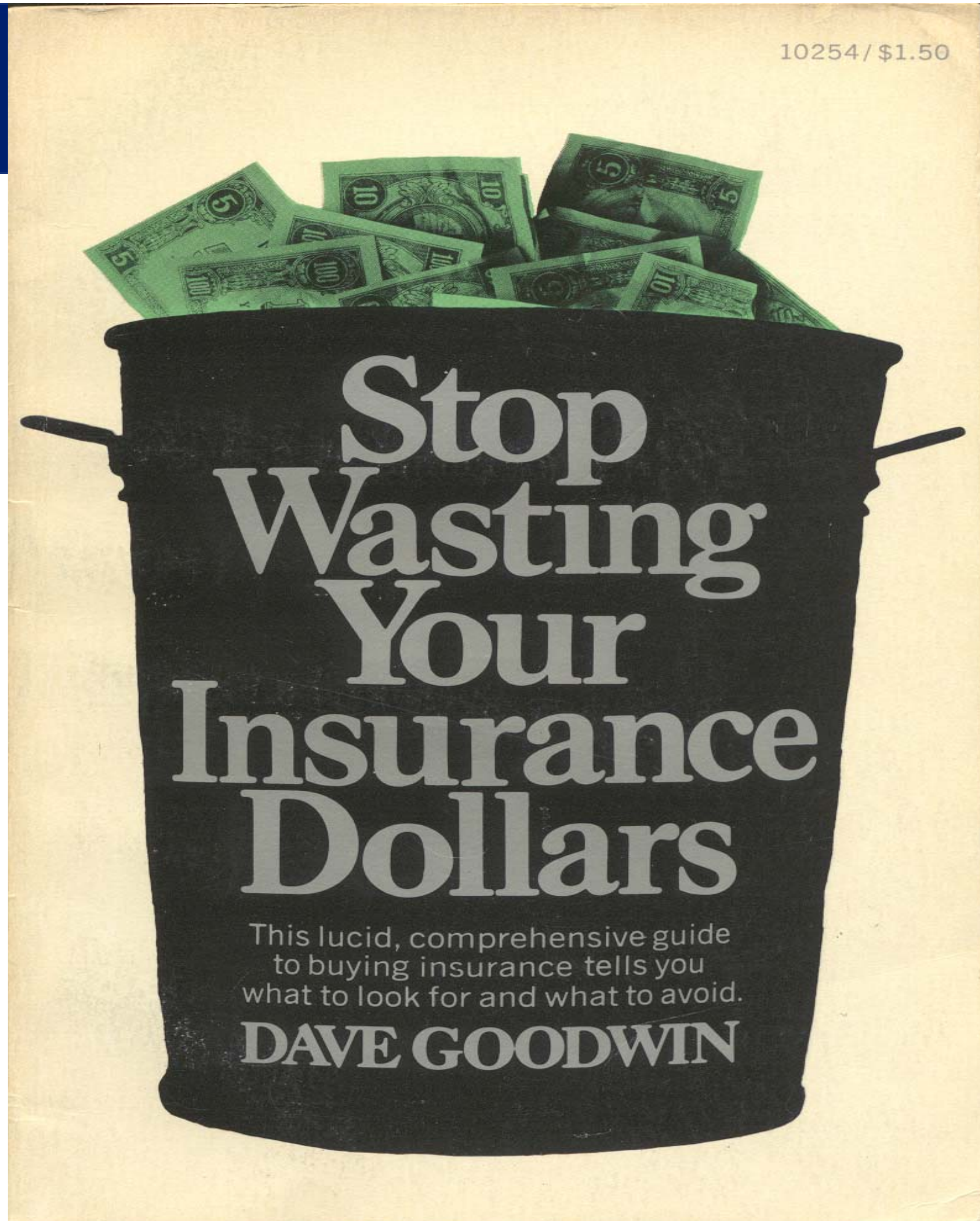
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Stop Wasting Your Insurance Dollars
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DAVE GOODWIN

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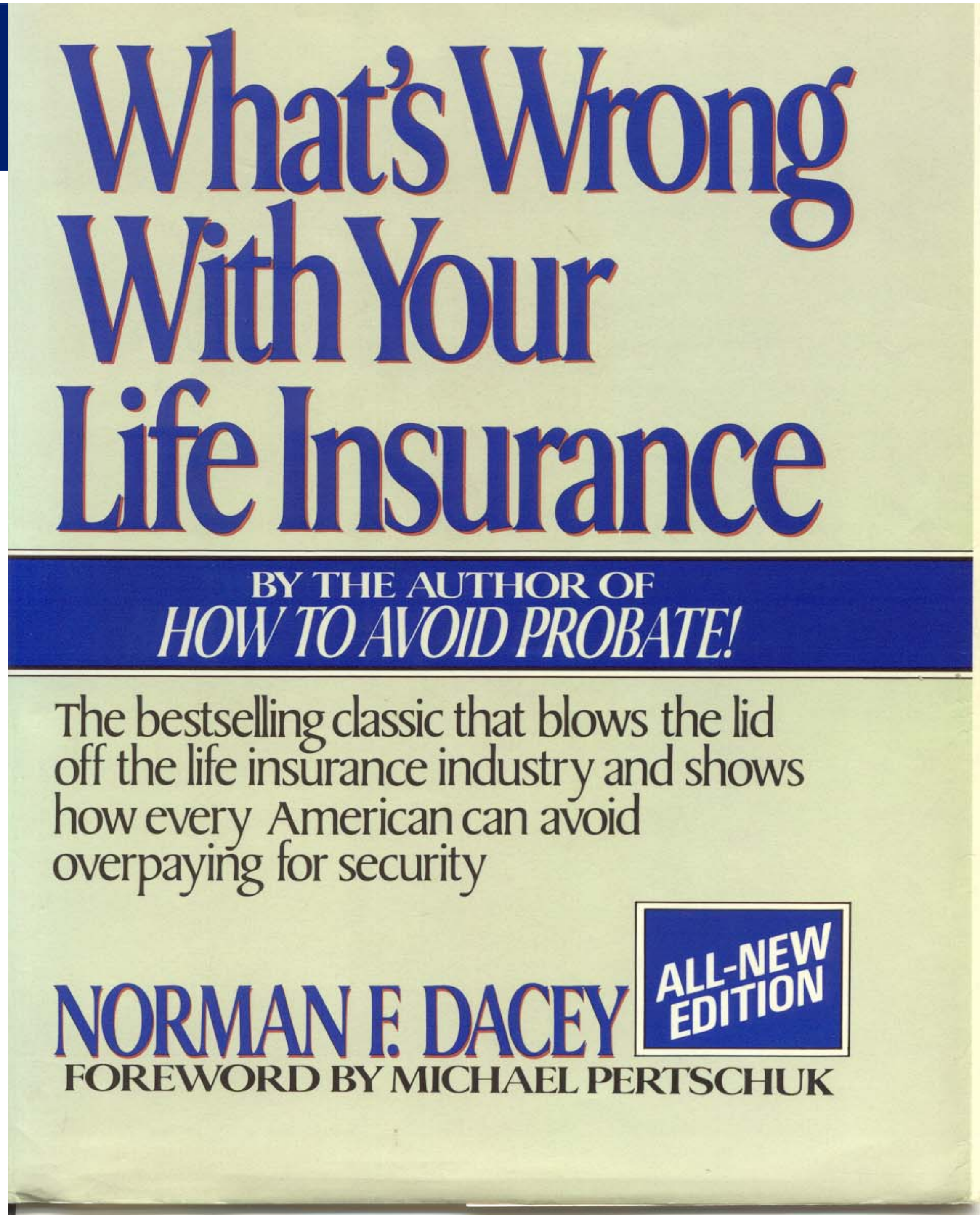
What's Wrong With Your Life Insurance
BY THE AUTHOR OF
HOW TO AVOID PROBATE!
The bestselling classic that blows the lid off the life insurance industry and shows how every American can avoid overpaying for security
ALL-NEW EDITION
NORMAN F. DACEY
FOREWORD BY MICHAEL PERTSCHUK

# HOUSTON LAW REVIEW

Vol 6 1969

It Has Been Determined
*THAT*
Cash Value Life Insurance
*May Be Injurious To*
**YOUR FINANCIAL HEALTH**

Pg.886 IX. -**CONCLUSIONS AND RECOMMENDATIONS.** The cases demonstrate that where the needs of an insured are not met by the insurance agent under a duty, the agent will **be held** liable for all proximately caused damages. **Thus, where an individual who lacks the insurance knowledge to make an independent decision, and who is obviously in need of large amounts of pure insurance protection, is sold a low insurance high cash value policy by an insurance salesman in a fiduciary capacity, and death occurs, the agent should be held liable for the difference between the amount of pure insurance the premium would have purchased and the face amount of the policy the insured was sold.**

# THE LIFE INSURANCE INDUSTRY

## HEARINGS

BEFORE THE

SUBCOMMITTEE ON
ANTITRUST AND MONOPOLY

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

Part 1

FEBRUARY 20, 1973

Printed for the use of the Committee on the Judiciary
(Pursuant to S. Res. 56, sec. 4)

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1973

**The foregoing was taken from direct testimony presented at senator hart's subcommittee hearings. The total oral testimony and "material submitted for the record" covered three volumes and 2216 pages. We have presented the highlights only. A miniscule portion of the total. To any thinking American, however, the message is clear. Recommendations for life insurance must come from an agent who is both honest and informed.**

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.

* * *

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.

* * *

PRIMERICA

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

* * *

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.

* * *

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 under-insured.

* * *

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

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.

* * *

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.

* * *

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.

* * *

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

* * *

replacement with new policies would be of substantial benefit to them.

* * *

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.

* * *

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.

## NOTES TAKEN FROM DR. BELTH'S WRITTEN TESTIMONY

### 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.

* * *

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.

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."

* * *

The traditional misuse of the term "dividend" is only one example of the unneces-

It is well known, for example, that both insurance companies and agents have considerable economic incentive to sell cash alue insurance in preference to term insurance.

* * *

In short, it is not too much to say that the average consumer in the market for life insurance is buying blind. Particularly if he is poor, he may very possibly purchase the wrong kind of insurance, with the result that he will be tragically underinsured for a given expenditure of money. And even if he is fortunate or sophisticated enough to buy coverage appropriate to his situation, he may well pay more for it than he would have to if true value comparisons were possible.

* * *

The hidden costs of the existing system of nondisclosure and outright deception in the marketing of life insurance are, in the nature of the case, impossible to measure with precision.

## STATEMENT OF HERBERT DENENBERG, PENNSYLVANIA INSURANCE COMMISSIONER, HARRISBURG, PA.

The motto of the Pennsylvania Insurance Department is: "The public has been screwed long enough."

This is nowhere more obvious than when we take a look at the life insurance industry which will sell the American public $225 billion of protection this year, up from $206 billion last year.

To say that the life insurance industry represents a sacred cow that is spreading sacred bull over the American economy, is to pay it an undue compliment. Although I can endorse most of what Ralph Nader said before this subcommittee on Tuesday, I think his figure of speech is overly generous to the life insurance industry.

Both the cow and the byproduct of the bull are valuable and useful farm commodities. The impact of the life insurance industry should be measured by more critical prose.

The life insurance industry—however pure its motives and morals—is inflicting confusion on the public, with policies that the public cannot understand, with a pricing system that prevents intelligent shopping, with agents that are often incompetent, and with many companies that are unsound financially.

So the public is the victim of the system. And this means the public often buys the wrong policy and pays too much. This can mean economic disaster and destruction of the security and the peace of mind of those who rely on life insurance. We have competition, but it is competition by confusion. So life insurance, which is supposed to provide protection, has become another of the leading consumer frauds.

In Pennsylvania, we are trying to give the public the facts, and get the life insurance business back on the tracks. We know that the average buyer doesn't have the foggiest idea of whether he's getting a good buy or a fleecing when he buys life insurance.

Most people think all comparable life insurance policies cost pretty much the same. Nothing could be further from the truth.

* * *

We urge Congress to set standards rather than attempt to actually take over the direct responsibility for insurance regulation. The Federal bureaucracy already behaves like a senile dinosaur, and can hardly administer its present responsibilities. For example, Congress should pass a law making cash value life insurance illegal, unless the insurance industry comes with an adequate program of price disclosure designed to eliminate many of the abuses now made possible by public misunderstanding of this product. Perhaps the industry could be given a 2-year period to shape up.

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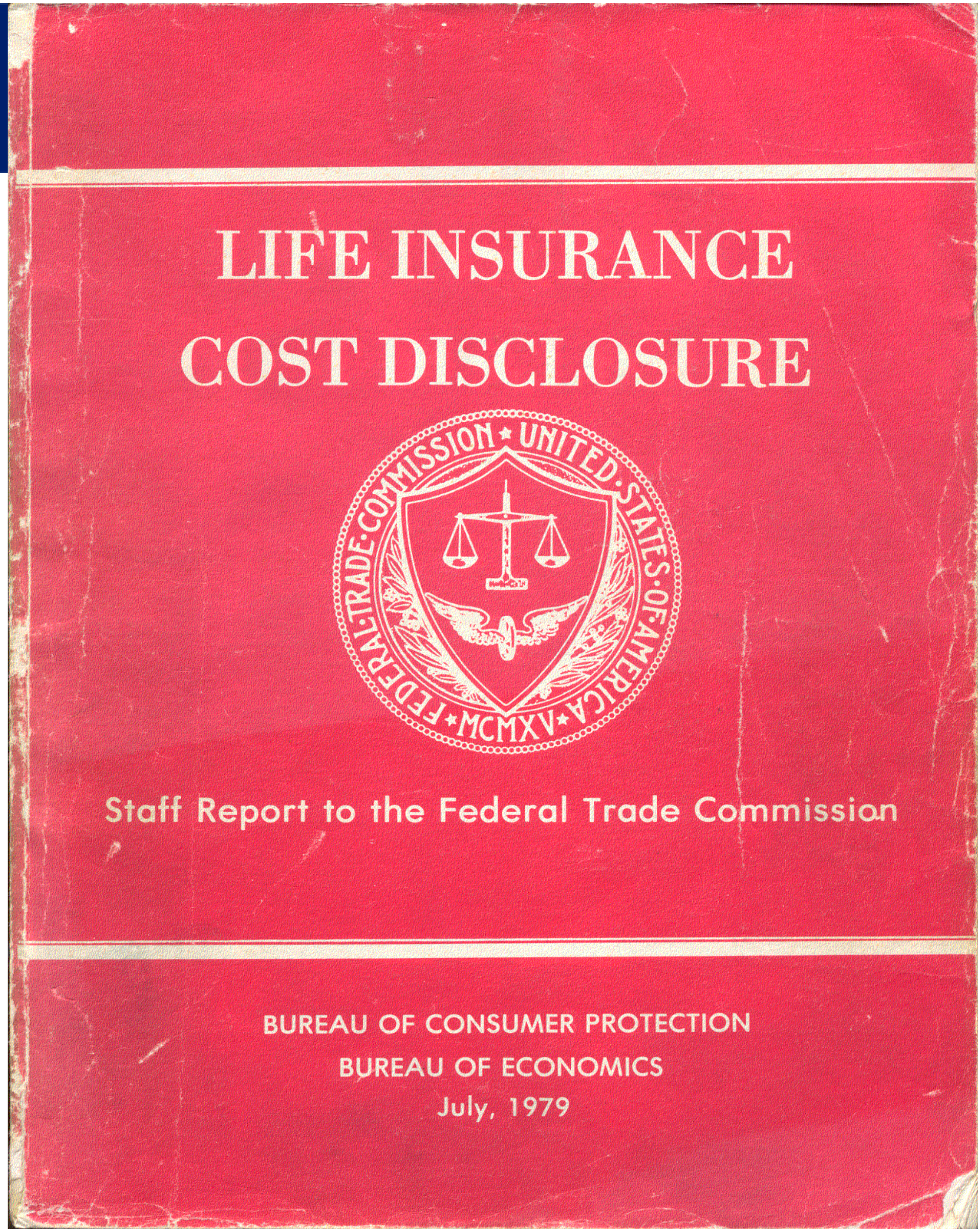
# Federal Trade Commission
# "Life Insurance Cost Disclosure"

July 1977


LIFE INSURANCE
COST DISCLOSURE
FEDERAL TRADE COMMISSION ★ UNITED STATES OF AMERICA
★MCMXV★
Staff Report to the Federal Trade Commission
BUREAU OF CONSUMER PROTECTION
BUREAU OF ECONOMICS
July, 1979

PRIMERICA

# FTC

Federal Trade Commission *Washington, D.C. 20580*

FOR RELEASE 10 a.m., EDT Tuesday, July 10, 1979

## CONSUMERS LOSING BILLIONS YEARLY BY 'ILL-INFORMED AND INAPPROPRIATE' LIFE INSURANCE CHOICES, FTC STAFF SAYS

### Savings Element of Whole-Life Policies Yielding 1 to 2 Percent on Average; Holders of Older Policies May Be Losing Money

With 55 cents of each premium dollar going into what are essentially savings accounts, buyers and holders of whole-life insurance are losing billions of dollars a year, says a Federal Trade Commission staff report released today.

The savings element of such policies returned on the average between one percent and two percent in 1977, well below the current rate of inflation, the report says. Meanwhile, it adds, people who buy policies and then let them lapse within the first 10 years face "severe economic consequences" in lost interest and, in some cases, loss of principal. "The aggregate consumer losses due to first-year lapses alone exceeded $200 million in 1977," it says.

In making the report public today in testimony before the Senate Commerce Committee, FTC Chairman Michael Pertschuk said that while Americans spend more than $30 billion annually on life-insurance-premium payments, "the average consumer buys a life-insurance policy without ever being given the information that is absolutely essential for him or her to be able to understand what the policy really costs. Indeed, I think it fair to say that no other product in our economy that is purchased by so many people for so much money is bought with so little understanding of its actual or comparative value."

The staff report — an outgrowth of an investigation begun in late 1976 when the Commission authorized its staff to determine if adequate cost information is being provided to prospective life-insurance purchasers — emphatically says the information consumers receive is far from adequate.

"Our study discloses that American consumers are losing billions of dollars yearly as a result of ill-informed and inappropriate life insurance purchase decisions," the report says.

As a result of findings in the report, the Commission is urging the 50 states — which have primary responsibility for regulating the life insurance industry — to improve substantially the quality of cost information to buyers.

# Life Insurance

- 1980 - Phil Donahue
- 1980 - Chris Wallace - CBS - “Protection for Sale”
- 1981 – Re-introduced The McCarren-Ferguson Act.
- 1990’s - Nothing Changed!
- 1992 - U.S. Senate - Howard Metzenbaum - “Life Insurance: A Shell Game of Premium Padding and Savings Schemes”.

# Life Insurance

1992 - U.S. Senate - Howard Metzenbaum - "Life Insurance: A Shell Game of Premium Padding and Savings Schemes."

"Buyers and holders of whole life policies are losing billions of dollars per year."

BUSINESS EXTRA

AP photo/NEIL SCHINDLER

Stephanie Sentina of Staten Island, N.Y., shows policy she and her husband, Thomas, bought from Met Life. They thought they had bought a retirement and investment plan.

# MET LIFE SCANDAL

## NY couple says 'they took advantage of us.'

New York Daily News

NEW YORK — They said the agent never once mentioned the word insurance.

Thomas and Stephanie Sentina said they thought they had purchased a retirement and investment plan from Met Life agent Ernest Ferrante two years ago.

"My husband just started his own business, and we wanted to save for our children's college," said Stephanie Sentina, the mother of Thomas, 8, and Michael, 5.

"We specifically told Ferrante we did not want 'life insurance,'" she said. "We already had $200,000 in life insurance. We bought most of it from him."

The Staten Island couple said they paid $500 to Met Life each month. They said Ferrante had promised a 12 percent yield.

More than a year later, Thomas Sentina lost his business and wanted to liquidate his Met Life account — now up to $10,000 — to pay bills. When he contacted Ferrante, Thomas Sentina said he was told it was impossible.

"Ferrante told us he put us into a life insurance policy because we were underinsured and it was what was best for our family. He said because it was in an insurance policy, we couldn't access the money," Stephanie Sentina said.

That was the first time Stephanie Sentina said she had heard the word "insurance" in connection with the extra $500 a month The Sentinas and hundreds of families like them are stark evidence that a burgeoning Met Life scandal that erupted in Florida may well have cost middle-class families hundreds of thousands of dollars.

Met Life, which has 16.7 million life insurance policy holders in the United States and 2.1 million in New York, has offered to reimburse any individuals misled into purchasing life insurances policies they thought were retirement or savings plans. The company estimates it will pay at least $30 million to 35,000 to 45,000 policy holders.

"This man came into our home. We gave him his fish dinner each Christmas. I feel like a total jerk, but they took advantage of us. I trusted this man. When we complained, this company gave us the runaround," she said.

The Sentinas are only one of thousands of Met Life consumers nationwide apparently duped into buying insurance they never wanted.

In October, Florida and other states launched an investigation into questionable sales practices of Met Life agents, who typically earn 55 percent of first-year policy premiums.

On Monday the company, which had earlier admitted some of its agents and employes sent out deceptive sales literature and used misleading sales techniques, terminated several executives, including a senior vice president, in connection with the scandal.

The deceptive sales practices were initially thought confined to Florida, but the company has admitted they were widespread. More than a dozen states are investigating.

Ferrante's New York office and several other Met Life branches around the state are targets of a state Insurance Department investigation.

When the Sentinas complained, they said Ferrante offered them $2,700, which they turned down. They filed a complaint with the state Insurance Department.

# LOCAL

The Miami Herald

SECTION B
MONDAY, MARCH 7, 1994

# States to fine Met Life $20 million for fraudulent marketing program

By GREGG FIELDS
Herald Business Writer

The nation's insurance commissioners plan to levy Metropolitan Life fines totaling $20 million, with Florida receiving the largest chunk, for the company's fraudulent marketing of life insurance policies to nurses.

"We did reach a consensus that we should have as global a settlement as possible," said Tom Gallagher, Florida's insurance commissioner, speaking from a National Association of Insurance Commissioners' meeting in Denver. Gallagher has spearheaded the effort because the company's marketing program that targeted nurses was based in Tampa.

However, in setting up what could be a showdown with the New York-based insurance giant, Met Life officials say a fine of that size is "excessive." Spokesman Charles Stahner said the company has already begun an aggressive restitution program, and has refunded $12 million to policyholders.

"We really regret what happened," Stahner said. "But the important thing for the consumer is we're there for them. We stand by our promises."

Under questioning, Gallagher acknowledged that many details of the huge fine are yet to be worked out. Commissioners have decided states where the policies were sold should share $12.5 million in fines. Of that, $2.2 million would go to Florida, where 10,172 of the policies were sold. It would represent the largest fine against an insurer in Florida history.

Gallagher

Who would get the remaining $7.5 million remains unclear. And the commissioners have no legal authority to enforce a global settlement, he said.

"If they say no," he said of Met Life, "it becomes a state-by-state issue." In fact, three states have already issued their own fines, he said. Insurance commissioners will likely meet with company officials today, Gallagher said.

Gallagher's announcement coincided with the release of an investigation Sunday into Met Life's practices. The report concluded company officials long ignored evidence of abuses at the Tampa office because of huge profits being earned.

The investigation was conducted by Miami attorney Thomas Tew, who was hired last year by Gallagher and Bob Butterworth, Florida's attorney general.

Essentially, life insurance policies were referred to as retirement savings plans. Nurses were the target market, in part because their irregular schedules meant insurance agents could sell the policies around the clock.

The policies sold are legitimate life insurance products. And Met Life, with $1.1 trillion of insurance in force, is fiscally sound.

But, said Gallagher, the policies aren't an appropriate retirement planning tool. And regulations expressly forbid the mislabeling of financial products. In its sales literature, the

PLEASE SEE INSURANCE, 8B

*Joan Fleischman's Talk of Our Town column will resume Wednesday.*

## Met Life faces $20 million in state fines

INSURANCE, *FROM 1B*

policies were called the Nurses Retirement Savings Plan.

"Truth in selling insurance is what this is all about," Gallagher said.

Roughly 60,000 people nationwide bought the life insurance policies from Met Life, paying $76 million in premiums.

In addition to offering refunds, Met Life has also fired seven executives associated with the scandal, including Rick Urso, who headed the Tampa office and last year earned $986,000.

"Essentially, what's new in the report is that the department has acknowledged that our restitution plans and our improved compliance program are right on target," said Sahner of Met Life.

While the report does, in fact, compliment Met Life's restitution program, it also is sharply critical of the firm's nonchalance toward complaints about its Tampa office. The study found that complaints were made for years before the company took action.

The practices continued because they were so profitable, the study contended. The sales commission on the life insurance policies was 55 percent of the first-year's premiums. Other products tailored to provide retirement benefits have commission as low as 2 percent.

The large commissions meant customers who cashed out early would lose much of their money. Cash value wouldn't equal payments until the policies were at least five years old, Tew's study said.

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STAYING AHEAD

# 10.7 million policyholders, beneficiaries eligible for restitution from Prudential

This is the first of two parts on restitution for bilked insurance-policy buyers

JANE BRYANT QUINN

YET ANOTHER major life insurance company, caught in a wholesale cheating scandal, has promised repairs to customers who were deceived by its agents.

The culprit this time: the Prudential Insurance Co. of America, based in Newark, N.J. In a settlement brokered by state insurance regulators, Pru agreed to $35 million in fines plus restitution to policyholders with an estimated value of $1 billion.

Last September, New York Life settled a class-action lawsuit with a restitution-and-arbitration plan, at an estimated cost to the company of $65 million. A dissident policyholder challenged it in court (unsuccessfully, so far), so it hasn't yet taken effect. Two years ago, Metropolitan Life agreed to fines and restitution estimated at upward of $100 million.

But all the publicity about the fines hasn't seemed to stop many other insurers and their agents, who continue to perpetrate the same kinds of frauds. I hear from consumers every week about policies going sour or sales pitches that mislead.

Among the ways that insurance buyers are ripped off, especially buyers of cash-value insurance:

- 1 The agent sells you a policy as a retirement investment rather than as life insurance. Wrong. Life insurance is for people who need death protection. For pure retirement investments, you're better off with tax-deferred company plans, annuities and mutual funds.

- 2 You were told that you'd have to pay only a limited number of premiums; after that, the policy is supposed to pay for itself. Wrong. You have to pay considerably more when interest rates decline, which the agent may not have explained.

- 3 You were told you could add to your current policy free or at low cost. Wrong. The second policy is paid for with dividends and cash values drawn from your first policy — a practice known as piggybacking. Eventually, your first policy will run out of cash and lapse. At that point, you'll have to pay the second policy's premiums out of pocket, which you may not be able to afford.

- 4 You were told that your "retirement savings" were tax-free. Wrong. There's no tax if you die and leave the policy to heirs. But you'll generally owe taxes if you withdraw most of your savings in retirement or if you borrow the cash value and then let the policy lapse.

- 5 You were induced to cancel one cash-value policy and use the money to buy another, without full disclosure of the price of the switch. Wrong. Switching is generally unwise. The agent earns a commission and you lose cash value.

- 6 The agent induced you to sign a blank form, claiming it was "just paperwork." Then he or she used the form to piggyback a policy that you didn't authorize. Wrong. If you won't sign, agents have been known to "window" your signature — that is, put your actual signature against a window and trace it onto the form. Another word for this is "forgery."

The Pru settlement will take effect state by state, as each insurance commissioner signs on. A few are holding out, in hopes of getting a better deal.

You're eligible for some sort of offer if you bought a cash-value policy from Pru anytime from 1982 through 1995 — even if you weren't misled. Some 10.7 million people qualify. The first letters outlining the offer will be mailed in August. If you have questions, or don't get a letter and think you should have, call 800-736-8913.

The offer will include beneficiaries of dead policyholders, who may have been tricked out of their full death benefits. Also, deceived customers who let their policies lapse.

Ironically, the cost of restitution will come out of the pockets of all of Pru's policyholders, because they're the owners of the company. "It's like fining the victim for the crime," says Robert Hunter of the Consumer Federation of America. In justice, the executives and salespeople should pay, out of their commissions, salaries and bonuses. But don't hold your breath.

*WEDNESDAY: How good is restitution?*

PRIMERICA

# Sun-Sentinel

Monday, July 6, 1992 25 cents

## BUSINESS

# Insurance illustrations come under fire

WASHINGTON — After retiring from the mortgage-banking business he had built up over his lifetime, Garrett Butler realized he had an estate-planning problem. Unless he did something, his wife and two sons would be hit with heavy estate taxes at his death.

So in 1984, the Houston resident went shopping for life insurance.

A financial planning firm and insurance agency showed him several policies. He needed a big one — $3 million — so they were all expensive, but one seemed to have a special advantage.

If he paid somewhat higher premiums for six years, the company said, in effect, it would invest the extra payment and this investment would become a self-paying premium mechanism. The policy would remain in force thereafter at no further cost.

Or so Butler thought, based on the illustrations the agency showed him.

He bought the policy, made the six years of payments, and assumed all was well.

But in March, when he called the agency to ask about another matter, he learned that the investment projections shown him in 1984 had been too optimistic and would not generate enough to pay the premiums.

Unless he paid $92,000 a year for the next four years and $22,000 a year thereafter, the policy would decline in value and perhaps lapse altogether.

Butler's health has deteriorated since 1984 and he cannot get another policy. So he and his family have a choice of either paying up or effectively "flushing our significant [earlier] premium payments down the toilet," said his son, T.J. Butler.

The Butlers think they were "seriously misled" about the terms of the policy, and, according to investigators for a Senate subcommittee, they are not alone.

Insurance has never been easy for consumers to understand, but during the 1980s new and even more complicated products came on the market. Many of these were marketed as much for their investment potential as for their insurance protection.

Among these new products was one called interest-sensitive life insurance, the type of policy Butler bought. In these policies, a portion of the premium is invested in interest-bearing securities. If the securities earn enough, the policyholder benefits.

In many cases, insurers present illustrations showing that the investment income could be sufficient to pay the premium after a period of years.

While insurers usually guarantee some return on the investment portion of the premium, they usually do not guarantee that the earnings will be as high as the ones shown in their promotional illustration.

For example, for a particular policy, if the investment earns 8 percent each year, the premium would vanish after 10 years. But the insurer guarantees only that it will earn 4 percent.

If the earnings fail to reach the 8 percent level, the policyholder must continue to pay premiums.

In other cases, the investment will earn enough to cover the premium for a while, but if investment returns decline in later years, the premiums kick in again.

Too often, however, worst-case scenarios seem to be glossed over when policies are sold.

"Too many companies in this industry would rather confuse consumers than educate them," said Sen. Howard M. Metzenbaum, D-Ohio, chairman of the Senate Judiciary antitrust subcommittee, which has been investigating industry practices.

And there are questions about how realistic some of the industry illustrations are.

Metzenbaum's investigators found instances in which insurers have filed documents with state regulators stating explicitly that the company could not achieve the investment results shown in its illustrations.

In some cases, consumers are deliberately deceived, "but for every instance of deception, there are hundreds of cases of misunderstanding, inadequate knowledge and just plain vulnerability on the part of consumers when faced with the wall of numbers and language that constitutes the life insurance market," said Geoff Rips of the Texas Office of Public Insurance Counsel, a state-financed agency representing consumer interests on insurance matters.

**TIPS FOR LIFE INSURANCE**

**For those in the market for life insurance, experts suggest:**

. **Buy the cheapest coverage that meets your needs.** Check out term policies, especially if you need to cover a specific period of time.

PRIMERICA

BUSINESS

# Buyers Beware

Own life insurance? Because of your agent's bullish sales pitch, you may end up paying much more than you think.

BY JANE BRYANT QUINN

If you own cash-value life insurance—please—do me a favor. Call your insurance agent today to see exactly where you stand. Many modern policies run the risk of failing when you need them most. In theory, you're insured for life. But unless you put up extra money, your coverage may expire before you do, leaving your family without funds.

A cash-value policy creates savings that you can withdraw or borrow against. You also need cash values to keep your coverage in force, at affordable premiums, in old age. Term insurance, by contrast, contains no cash. You don't expect to keep it forever because you're investing somewhere else.

Some cash-value policies were built to last. But many others are tottering, especially those bought in the 1980s when insurers projected double-digit rates of return. In the cold light of the 1990s, it's clear that cash values didn't grow as fast as was forecast. And here's the bad part: *you may not know it!* Unless you go out of your way to check, it may be years before you discover that the cash in your policy came up short.

When you finally find out, it might cost you many thousands of dollars to bring your policy up to strength. If you don't pay, the coverage will lapse—maybe at the age of 50, maybe at 70; you won't know. Whenever it occurs, you'll have lost the insurance that you spent your youth paying for.

**Consumers lulled:** What has lulled so many consumers is the computerized policy illustrations that agents may produce when they're persuading you to buy. Illustrations look like snapshots of the future. You see—apparently to the dollar—how fast cash values and death benefits grow when you hold insurance for 30 years. But complaints are rising that policies haven't been working as planned. Growing numbers of lawsuits, charging deception, are being filed against agents and their companies, reports insurance expert Ronald Horn of Baylor University. Sen. Howard Metzenbaum recently held hearings on how people lose coverage because of misleading illustrations. Exhorts the senator: "Use only boldface type when you write about this to emphasize how bad it is."

The first wave of failures is afflicting "vanishing premium" policies. With this type of coverage, you pay extra-high premiums for a few years, after which your insurance is supposed to be paid up for life.

But tell that to Paul and Lynn Juliano of Columbia, Md., whose agent sold them a $150,000 policy that's now owned by American National Insurance. According to their 1985 policy illustration, they should have paid for only four years (or five at most, they recall their agent saying). But when it was time for the payments to vanish, the insurer said no. They'd have to pay their $1,388 premium for another four years. The Julianos dropped the policy, bought term insurance and are suing to recover their loss. Because of the lawsuit, American National declines to comment.

Thomas Koballa Jr. was luckier. A University of Georgia professor, he and his wife, Dava Coleman, a high-school chemistry teacher, bought $240,000 worth of coverage from Prudential. They intended to pay their $2,287 annual premium for up to five years; after that, said the agent, the policy's cash value would finance the premiums for life, with no further outlay on their part. Last February, however, truth broke through. To keep their coverage in

KATHERINE LAMBERT

**Trouble with the vanishing premium:** *The Julianos in Columbia, Md., the Koballas in Athens, Ga.*

JOHN ABBOTT

**Defending your life:** *Daily and Katt*



PRIMERICA

“For More Than 50 Years, Consumer Reports Has Recommended That Most People Buy Term”.

Consumer Reports, July 1993


A PUBLICATION OF CONSUMERS UNION • NO ADVERTISING • $2.95 U.S. / $3.25 CAN
JULY 1993
Consumer Reports
BRAND-NAME REPORTS
Hot dogs
Walking shoes
Clothes dryers
Road test: Cadillac Eldorado, Lexus SC400, Lincoln Mark VIII
TIME • TO • THINK • ABOUT
LIFE INSURANCE
How much you need
How much to pay
Ratings of 189 policies
THE GOULD
HATS

PRIMERICA

# THE KING OF TERM

While many insurers discourage customers from buying term insurance, one takes a decidedly different approach. Primerica Life specializes in selling term policies to middle-income Americans. Formerly known as Massachusetts Indemnity and Life (MILICO), the company sold some $86-billion of term insurance in 1991, making it the largest seller of life insurance in the U.S.

A.L. Williams, a high-school football coach turned insurance entrepreneur, began selling MILICO's term policies in 1980 through thousands of part-time agents. Today the company aims mainly at buyers in their 30s who earn between $25,000 and $55,000 a year, a modest market that many other companies prefer to ignore.

Even so, other insurance companies have been at war with the Williams organization since its founding, in part because its agents disparaged traditional whole-life insurance and persuaded buyers to drop their cash-value policies and replace them with term insurance. Over the years agents from traditional companies have tried various tactics to discredit the company. One they are currently using is to claim that Primerica is in financial difficulty. However, as our Ratings show, the five major rating agencies have given Primerica very good grades for financial strength.

CONSUMER REPORTS was critical of some of Williams's sales practices and of the high price of one of his policies in our 1986 report on life insurance. A few years ago, Williams left the company when a Federal district attorney in Jacksonville, Fla., launched an investigation into the sales practices of some of his agents. No charges or indictments have been brought.

In our research for this report, we found that the policies Primerica sells to men who are standard risks would rank in the middle of our Ratings—not great, but not bad. Primerica's standard annual-renewable plan has a low first-year premium of $373 for a 45-year-old man. But after the first year, the current and guaranteed costs are higher than for many policies that rank above it. Policies for women are also more expensive and rank near the bottom, primarily because the company uses unisex rates.

To its credit, Primerica doesn't play games with preferred rates. It has a genuine preferred rate for which about 20 percent of policyholders qualify. Its preferred annual-renewable policy would have ranked fourth in the Ratings. If you qualify, it's a good deal.

While Primerica's standard plans may be more expensive than those of some other companies, you may find those companies reluctant to sell term insurance at all, wanting instead to push cash-value policies. If you have trouble buying a higher-rated term policy from another company, you won't go far wrong in settling for a Primerica plan. It will give you more coverage for your money than a cash-value policy will.

# A Brief History of Insurance

- The Revolution of 1977
  - Domestic spending out-of-control
  - Inflation at double-digits
  - Stagflation, factory closings, gas lines and unemployment
  - 85 people revolutionized the largest industry in the world
    - —Insurance is for income protection, not for your whole life
    - —Term insurance 100% of the time
    - —Un-bundle life insurance and investments
    - —Un-popular with the whole life insurance industry

# A Brief History of Insurance

- The continuing crusade
  - The whole life industry is in disarray
  - National publications now on-board with BTID
  - Truth wins out - the Crusade carries on
  - The battle is won, but not the war

# Who Needs Life Insurance?

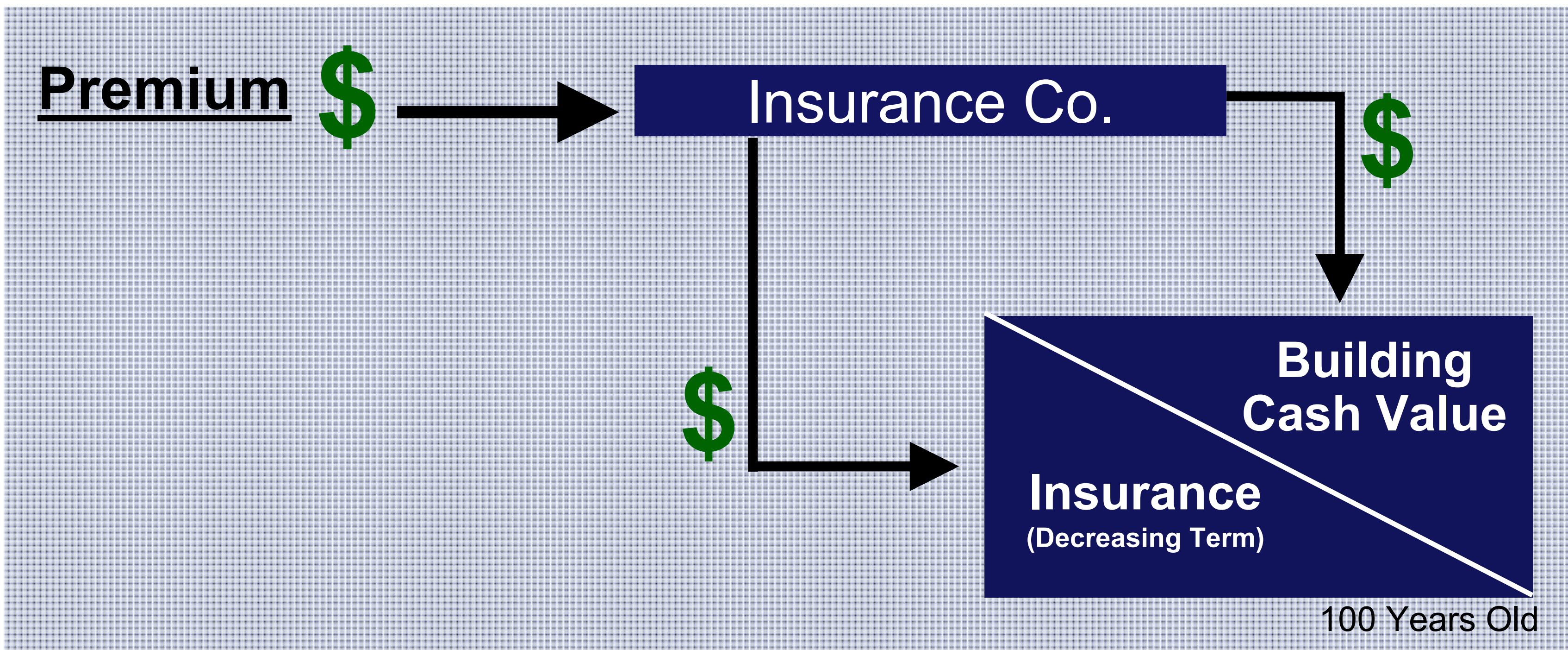
- We believe life insurance is for income replacement
- If others depend on your income, you need life insurance
  - Singles - supporting others (or protecting future insurability)
  - Married Couples - no children
  - Married Couples - with children
  - Married Couples - in retirement
- Primerica meets the needs of the under-served North American middle-class market

# Cash Value Insurance

- Life insurance and investments are bundled
- Higher initial premium for same coverage
- Purchasing the needed coverage can be cost prohibitive
- Yields a lower rate of return on investment portion
- Designed so that upon death, you receive your face amount of coverage, but not your face amount plus your cash value, in most cases

# Cash Value Life Insurance

- Whole Life = Decreasing Term + Savings
  - The policy is designed to accumulate enough cash value for the insured to have the policy face amount in cash at age 100



# Universal Life Insurance

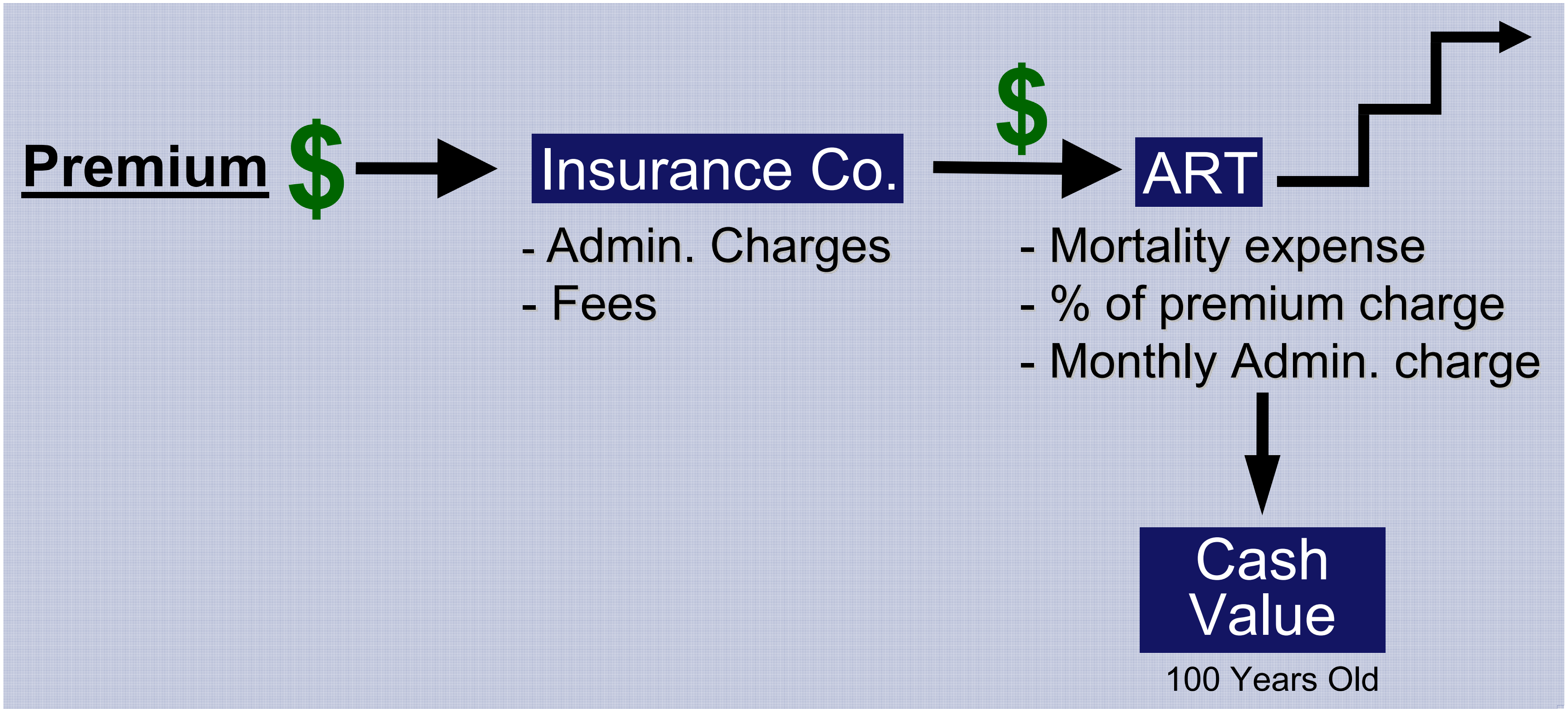
- Universal life was created in the early 80's
- It was the life insurance industry's answer to low interest rates inside the whole life policy and BTID (Primerica)
- As inflation was going up, people were taking a loan from their whole life policy and putting it into a 10% certificate of deposit

# Variable Life Insurance

- The insurance portion always goes up in cost every year and the amount of cash going to the mutual fund gets less and less
- The percent of premium charges, fees, and costs to have a life insurance policy take a large portion of the monthly premium

# Cash Value Life Insurance

- Universal Life / Variable Life = ART + Savings
  - The older a person gets, the more it costs to insure them



# Return of Premium

- Builds Cash Value
- Un-repaid loans = Reduced ROP
- Lapses during term = Reduced ROP
- Die during term = Loss of ROP
- Middle Market sacrifices needed Face Amount because of higher cost

# Make the Right Choice

## If you had $2,000

| Refrigerator A | Refrigerator B |
|---|---|
| • $2,000 price tag | • $1,000 price tag |
| • 36-year guarantee | • 36-year guarantee |
| • $2,000 money back years later | • $0 money back but invest the difference |

**which refrigerator would you buy?**

Cash value insurance policies can be universal life, whole life or other policies that have a savings feature. They contain benefits in addition to death protection, such as dividends, interest or cash value available for a loan or upon surrender of the policy. Cash value policies may also have level premiums for the life of the policy. Return of premium policies return premium, usually prorated in the earlier years. Term insurance provides a death benefit only and its premiums can increase at certain ages.

# The Rule of 72

## Approximates the time it takes to double your money

| **Rate of Return** | 4% | 6% | 12% |
|---|---|---|---|
| **Money Doubles** | 18 years | 12 years | 6 years |
| 0 years | $1000 | $1000 | $1000 |
| 6 years | | | $2000 |
| 12 years | | $2000 | $4000 |
| 18 years | $2000 | | $8000 |
| 24 years | | $4000 | $16,000 |
| 30 years | | | $32,000 |
| 36 years | $4000 | $8,000 | $64,000 |

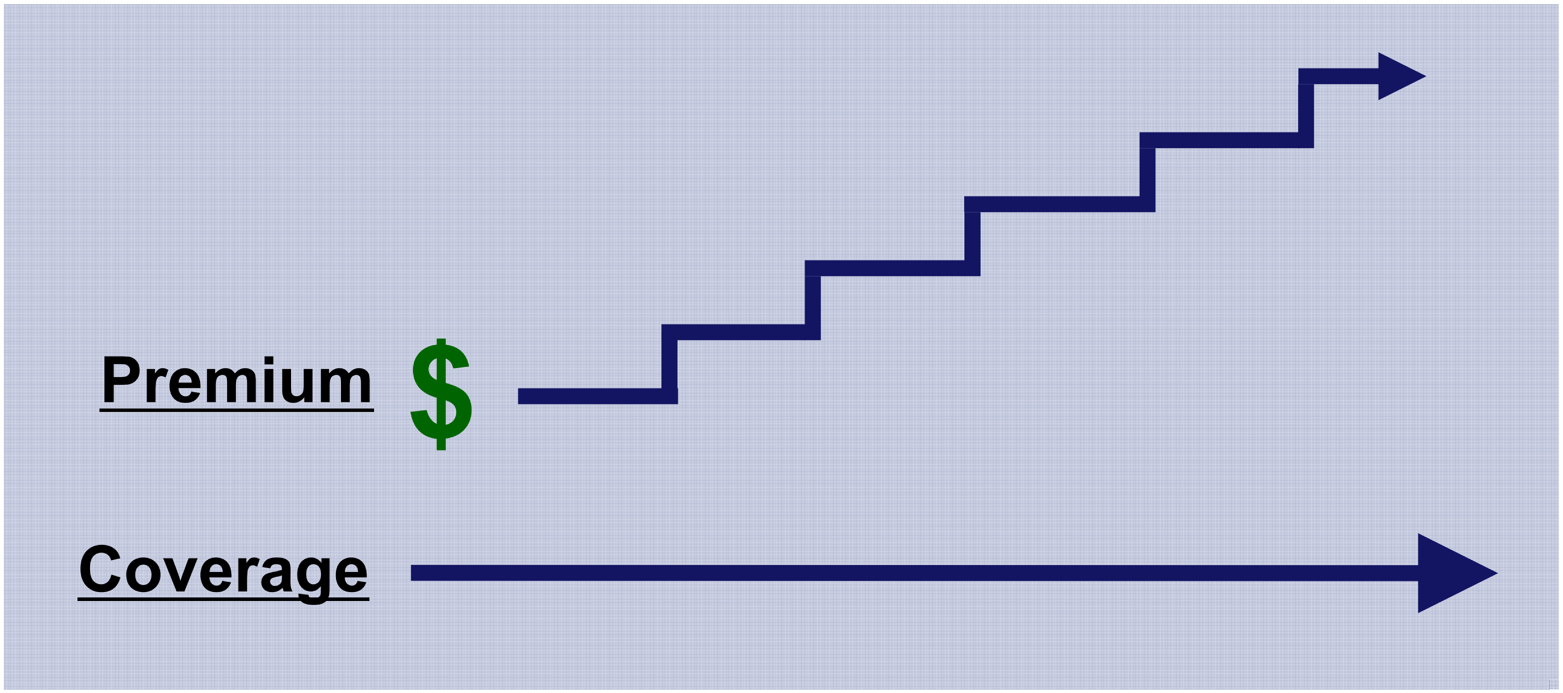
This table serves as a demonstration of how the Rule of 72 works and is only an approximation of accumulations. The hypothetical percentage rates and values are not indicative of specific investments where rates will fluctuate. It does not include fees and taxes, which would lower results.

# Why Term Insurance

- Life insurance and investments are separate
- Can purchase more coverage to protect family because term life is generally more affordable
- Lower initial premium for same coverage
- Market rate of return on investment outside of policy
- Upon your death, your beneficiary receives the face amount of your term insurance plus your investments

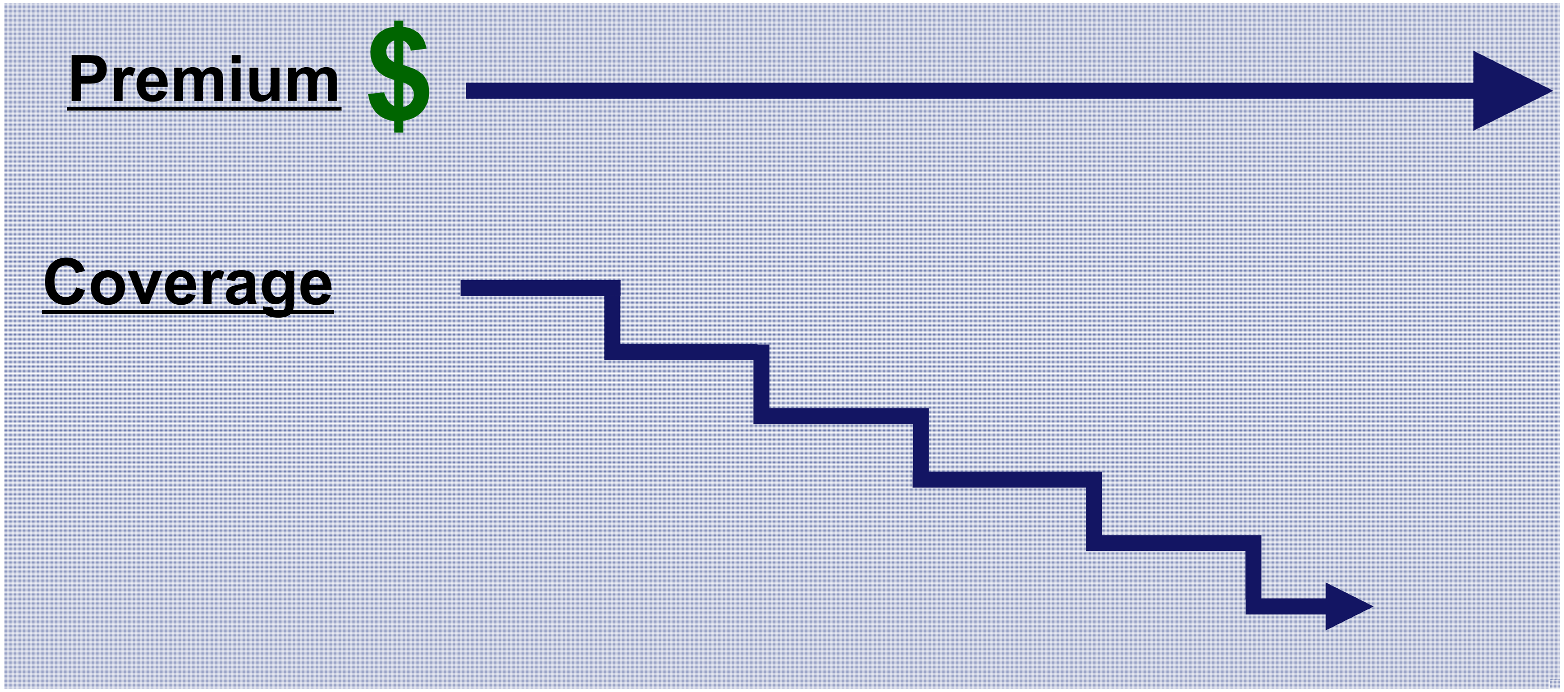
# Annual Renewable Term (ART)

- Every year the cost to insure you will increase. The older you get, the more the monthly amount will be to insure you



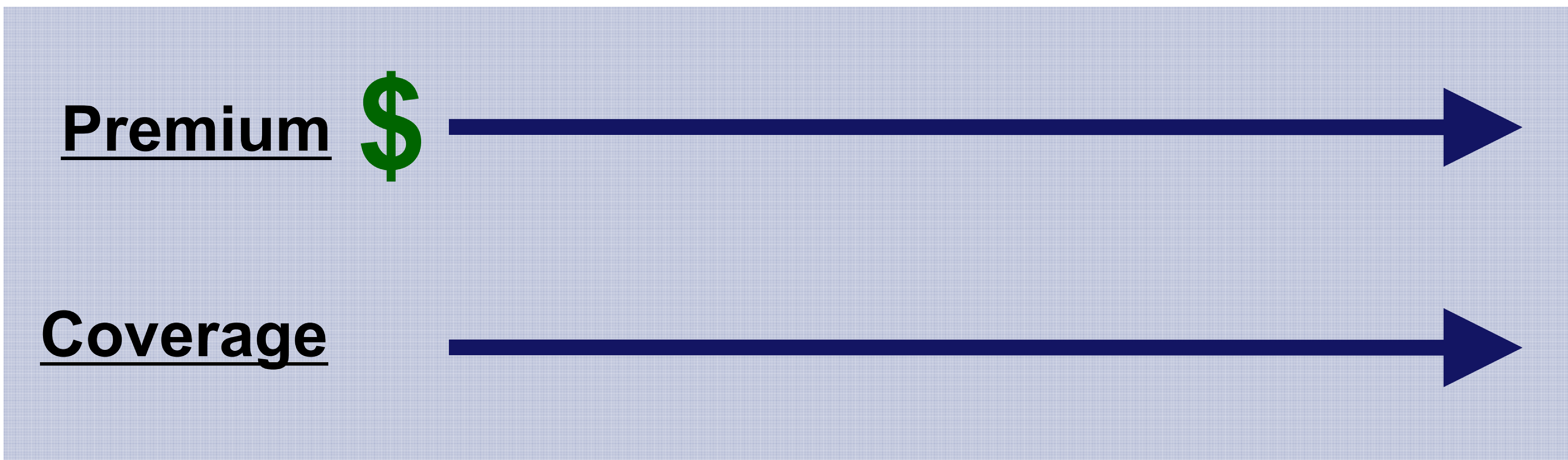
# Decreasing Term

- This product is the reverse of ART. The monthly dollar amount will remain the same but the annual coverage amount will decrease over time



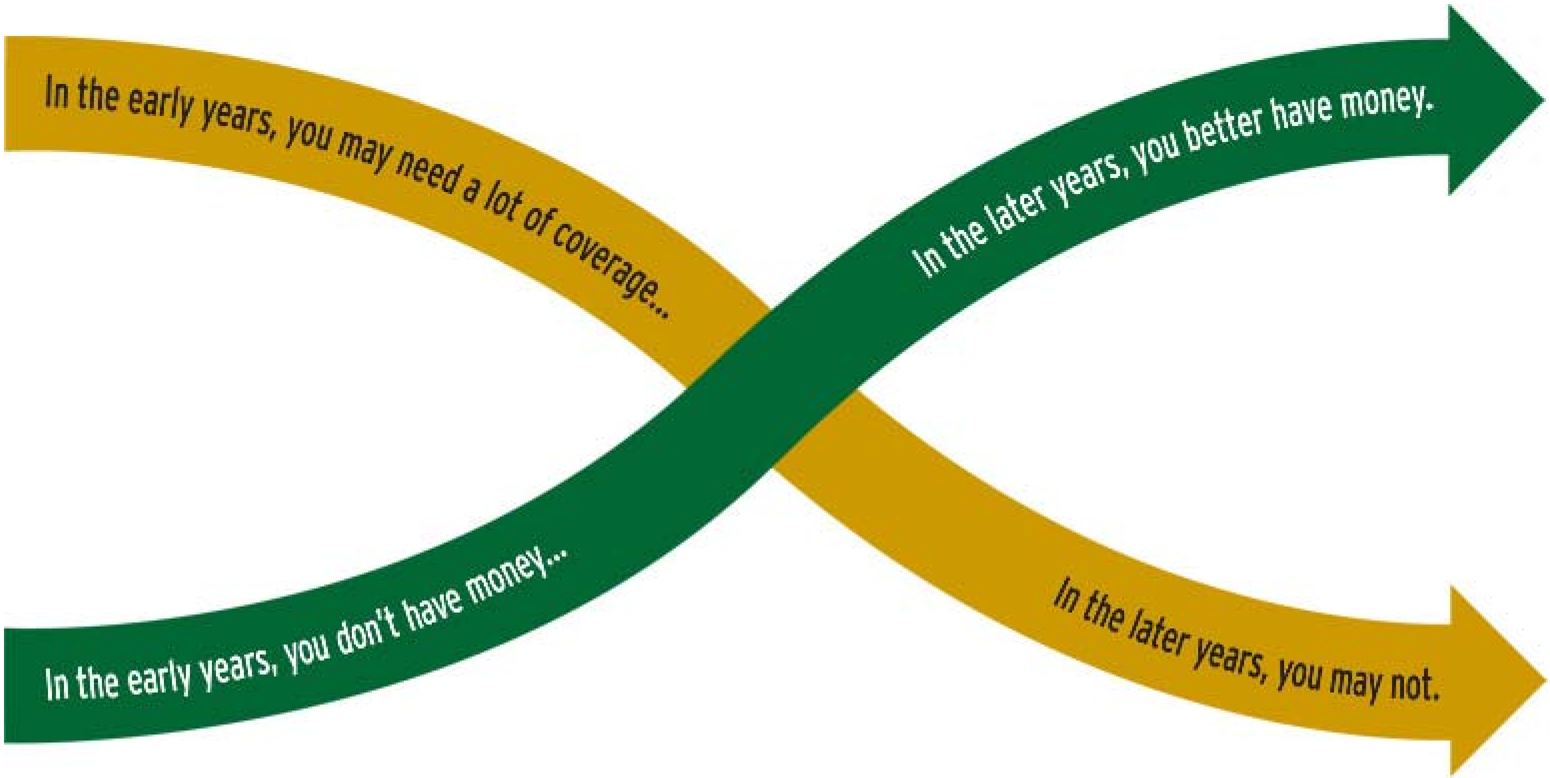
# Level Term

- The monthly amount and the coverage amount remains level for the desired period of time



# The Theory of Decreasing Responsibility

- Most people don't plan to fail, they fail to plan




Over the years, your needs change

# Why Primerica's Term Custom Advantage

- Banded rate structure
- Spouse and child riders = one policy fee
- Disability Waiver of Premium Rider
- Increasing Benefit Rider
- Terminal Illness Benefit
- No War Exclusion
- Competitive, Affordable Renewal Rates
- Flexible Renewal Options
- Incontestability
- Guarantees insured children ability to get insurance as adults, regardless of health conditions

# Custom Advantage

- Competitive rates help you reach two important market segments
  - Young families saddled with financial obligations
  - Baby Boomers working to build their nest egg
- Competitive renewal rates up to age 95
- Financially Sound
  - A.M. Best (A+); Standard & Poor's (AA)

Primerica Life Insurance Company (Home Office: Boston, MA) is rated by A.M. Best and Standard & Poor's. A.M. Best ratings in order from the highest ratings as follows: A++, A+, A, A-, B++, B+, B, B-, C++, C+, C, C-, D, E, F. Standard & Poor's (S&P) ratings range from the highest ratings as follows: AAA, AA+, AA, AA-, BBB+, BBB, BBB-, BB+, BB, BB-, CCC+, CCC, CCC-, CC.

# Custom Advantage

- Competitive Initial Monthly Premiums & Renewals
  - Male, Age 35, Preferred Class, 30-year term, $150,000 face amount

| | Premium | Age 65 |
|---|---|---|
| **Primerica's Life Companies** | **$35.92** | **$309.52** |
| Genworth | $36.19 | $1,052.98 |
| Jackson National | $41.43 | $704.90 |
| AIG | $43.58 | $920.85 |
| Allstate | $49.09 | $1,099.22 |
| MetLife | $49.82 | $803.66 |
| AXA Equitable | $50.84 | $907.55 |
| Mass Mutual | $60.38 | $959.13 |

# Custom Advantage Choices

- Custom Advantage 35
- Custom Advantage 30
- Custom Advantage 25
- Custom Advantage 20
- Custom Advantage 15
- Custom Advantage 10

# Buy Term & Invest the Difference

| | Cash Value Insurance before Primerica | Changed to Primerica's Term |
|---|---|---|
| John (age 27) | $250,000 | $250,000 |
| Mary (age 24) | $250,000 | $250,000 |
| Child | $ 0 | $ 10,000 |
| Total Coverage | $500,000 | $510,000 |
| Monthly Premium | $314.50 | $72.75 |
| **The Difference** | $241.75/mo | |

The chart illustrates the replacement of a cash value policy including Waiver of Premium, with a Custom Advantage 35 policy (not available in WA and NY) ($250,000 for primary insured and $250,000 for spouse), including Waiver of Premium. Primary and spouse are issued at Preferred rates. Term insurance provides a death benefit only and its premiums can increase at certain ages. Cash value insurance can be universal life, whole life, etc, and contains benefits in addition to death protection, such as dividends, interest or cash value available for a loan or upon surrender of the policy. Cash value insurance usually has level premiums for the life of the policy.

# Buy Term & Invest the Difference

- Take the difference in cost between term and cash value insurance and invest the savings separately in mutual funds for the long term.

**Savings invested in mutual funds at 10%**

$241.75/month

$1.25 million
Potential value at age 65

# Compensation

- What you would have earned

| | Insurance | Investments | Total |
|---|---|---|---|
| District Leader | $371 | $50 | $421 |
| RVP | $705 | $89 | $794 |
| RVP Override* | $334 | $39 | $373 |

**The key: recruit and develop new people**

# Compensation

## What if you did this 3 times?

| | Insurance | Investments | Total |
|---|---|---|---|
| District Leader | $1,113 | $150 | $1,263 |
| RVP | $2,115 | $267 | $2,382 |
| RVP Override* | $1,002 | $117 | $1,119 |

**The key: recruit and develop new people**

# Compensation

## What if you did this 6 times?

| | Insurance | Investments | Total |
|---|---|---|---|
| District Leader | $2,226 | $300 | $2,526 |
| RVP | $4,230 | $534 | $4,764 |
| RVP Override* | $2,004 | $234 | $2,238 |

**The key: recruit and develop new people**

# Policy Comparisons

- Understand the competition's products
- The fine print can be devastating to a family
- Help your clients choose the right protection coverage for their family

- $3,000 in premiums paid over 5 years
- Where's the $$$ ?

VIP III
a Universal Life plan
Proposal Prepared for :

Initial Sum Insured: $100,000
Initial Monthly Premium: $50.00

Male Age 21 Rate Class: Nonsmoker Death Benefit Option A (Level)

Accidental Loss Rider $100,000
Total Monthly Disability Rider 50

| of Year | Net [illegible]ual | Guaranteed Death Benefit | Guaranteed Account Value | Guaranteed Net Cash Value | Projected* Death Benefit | Projected* Account Value | Projected* Net Cash Value |
|---|---|---|---|---|---|---|---|
| 1 | $600.00 | $100,[illegible] | $19 | $0 | $100,000 | $19 | $0 |
| 2 | 600.00 | 100,000 | 220 | 0 | 100,000 | 279 | 0 |
| 3 | 600.00 | 100,000 | 445 | 0 | 100,000 | 582 | 0 |
| 4 | 600.00 | 100,000 | 698 | 98 | 100,000 | 937 | 337 |
| 5 | 600.00 | 100,000 | 979 | 379 | 100,000 | 1,345 | 745 |
| Totals | 3,000 | | | | | | |
| 6 | 600.00 | 100,000 | 1,283 | 683 | 100,000 | 1,810 | 1,210 |
| 7 | 600.00 | 100,000 | 1,608 | 1,008 | 100,000 | 2,332 | 1,732 |
| 8 | 600.00 | 100,000 | 1,949 | 1,349 | 100,000 | 2,918 | 2,318 |
| 9 | 600.00 | 100,000 | 2,308 | 1,708 | 100,000 | 3,574 | 2,974 |
| 10 | 600.00 | 100,000 | 2,683 | 2,083 | 100,000 | 4,307 | 3,707 |
| Totals | 6,000 | | | | | | |
| 11 | 600.00 | 100,000 | 3,071 | 2,571 | 100,000 | 5,123 | 4,623 |
| 12 | 600.00 | 100,000 | 3,473 | 3,073 | 100,000 | 6,035 | 5,635 |
| 13 | 600.00 | 100,000 | 3,887 | 3,587 | 100,000 | 7,051 | 6,751 |
| 14 | 600.00 | 100,000 | 4,312 | 4,112 | 100,000 | 8,184 | 7,984 |
| 15 | 600.00 | 100,000 | 4,747 | 4,747 | 100,000 | 9,446 | 9,446 |
| Totals | 9,000 | | | | | | |

*-Projected values are based upon: (1) assumed interest rate of 11.00% for the first three policy years and 11.50% thereafter and (2) current cost of insurance rates.
Current interest rates and current cost of insurance rates are not guaranteed after the first policy year.
Guaranteed values are based upon: (1) the guaranteed interest rate of 4.00% and (2) the maximum guaranteed cost of insurance rates.
The net cash value is the account value minus any: (a) surrender charges, (b) policy loans, and (c) unpaid interest on policy loans.
The maximum premium payable under this plan is $9,855.83 or $ 880.80 per year.
The tax effects of this plan should be reviewed with independent counsel.

Prepared by: A LEROY PILCHER, LUTCF
Date: 10-10-1989
CA/TP635.64/MP582.36

Kentucky Central Life Insurance Company
Lexington, Kentucky 40507

Page 1

- 4% interest rate
- Minus charges, loans & un-paid interest

At age 65

- $26,400 in premiums paid
- $10,193 in cash value
- Where's the $$ ?

VIP III
a Universal Life plan
Proposal Prepared for

| End of Year | Net Annual Outlay | Guaranteed Death Benefit | Guaranteed Account Value | Guaranteed Net Cash Value | Projected* Death Benefit | Projected* Account Value | Projected* Net Cash Value |
|---|---|---|---|---|---|---|---|
| 16 | $600.00 | $100,000 | $5,192 | $5,192 | $100,000 | $10,884 | $10,884 |
| 17 | 600.00 | 100,000 | 5,644 | 5,644 | 100,000 | 12,482 | 12,482 |
| 18 | 600.00 | 100,000 | 6,103 | 6,103 | 100,000 | 14,260 | 14,260 |
| 19 | 600.00 | 100,000 | 6,567 | 6,567 | 100,000 | 16,237 | 16,237 |
| 20 | 600.00 | 100,000 | 7,036 | 7,036 | 100,000 | 18,433 | 18,433 |
| Totals | 12,000 | | | | | | |
| [illegible] | 600.00 | 100,000 | 9,379 | 9,379 | 100,000 | 33,691 | 33,691 |
| [illegible] | 600.00 | 100,000 | 11,526 | 11,526 | 110,697 | 59,836 | 59,836 |
| 3[illegible] | 600.00 | 100,000 | 12,977 | 12,977 | 156,703 | 104,468 | 104,468 |
| Age [illegible] | 600.00 | 100,000 | 12,880 | 12,880 | 216,790 | 161,784 | 161,784 |
| 40 | 600.00 | 100,000 | 12,666 | 12,666 | 234,577 | 180,444 | 180,444 |
| Age 65 | 600.00 | 100,000 | 10,193 | 10,193 | 339,813 | 278,535 | 278,535 |
| Totals | 26,400 | | | | | | |
| 45 | 0.00 | 100,000 | 8,577 | 8,577 | 371,839 | 309,866 | 309,866 |
| Age 70 | 0.00 | @ | @ | @ | 550,258 | 474,360 | 474,360 |
| 50 | 0.00 | | | | 606,676 | 527,545 | 527,545 |
| 55 | 0.00 | | | | 945,045 | 900,043 | 900,043 |
| 60 | 0.00 | | | | 1,613,663 | 1,536,822 | 1,536,822 |
| 65 | 0.00 | | | | 2,738,752 | 2,608,335 | 2,608,335 |
| 70 | 0.00 | | | | 4,604,217 | 4,384,969 | 4,384,969 |
| 74 | 0.00 | | | | 6,761,104 | 6,694,163 | 6,694,163 |
| Totals | 26,400 | | | | | | |

@- less
additional premiums are paid or benefits are reduced.

Prepared by: A LEROY PILCHER, LUTCF
Date: 10-10-1989

Kentucky Central Life Insurance Company
Lexington, Kentucky 40507

Page 2
(This proposal is not valid without page 1)

- Policy lapses unless pay more premium or reduce benefits

**Please Read Your Policy Carefully.**

**This policy is a legal contract between the Policyowner and the Company.**

a stock insurance company, will pay the net cash value to the Owner on the Maturity Date if the Insured is then living, or will pay a death benefit to the beneficiary if the Insured dies prior to that date. This agreement is subject to the provisions and conditions on this and the following pages which comprise the policy.

**Right to examine and return policy within 10 days**—The Owner may, at any time within 10 days after receipt of this policy, return it to us, or to the agent through whom it was purchased, for cancellation. The return of the policy will void it from the beginning. Any premium paid will be refunded to the Policyowner.

Secretary Treasurer

Chairman of the Board
and President

**FLEXIBLE PREMIUM, ADJUSTABLE DEATH BENEFIT POLICY**

**Premiums and Death Benefit may be varied by Owner subject to some limitations**

NON-PARTICIPATING POLICY

| INSURED | POLICY NUMBER |
| --- | --- |
| | |

| | | | |
| --- | --- | --- | --- |
| SUM INSURED | $100,000 | INSURED'S AGE AND SEX | 21 MALE |
| MINIMUM SUM INSURED | $25,000 | POLICY DATE | NOV 08, 1989 |
| MINIMUM INCREASE IN SUM INSURED | $10,000 | MATURITY DATE | ATTAINMENT OF AGE 95+ |

- Type A only
- 8% interest rate to borrow your own money

Z2940A

Page 1 of 2

**STATEMENT OF POLICY COST AND BENEFIT INFORMATION**
**PREPARED FOR POLICY NUMBER**
**As of 10/13/1992**

**INSURED:** ,MALE ,ISSUE AGE-21 **Rate Class:** NS-STANDARD

| INSURER | AGENT |
|---|---|
| | |

For further information regarding the policy or this statement, contact the above agent or the company at the applicable address above.

**BASIC POLICY:** A VIPIII , Flexible Premium Adjustable Death Benefit Insurance Policy that provides life insurance as long as the net cash value is sufficient to cover charges for mortality and expenses, or for certain policy years, minimum required premiums are paid.

- The Death Benefit Option is Type A, sum insured only .
- The Sum Insured is $100,000 .
- The Current Death Benefit is $100,000 .
- The Policy Loan Interest Rate is 8% payable in arrears.
- The Planned monthly premium is $50.00.
- The Current Account Value is $515.
- The Policy Date is 11/08/89 .

If this policy is surrendered for its value during the first 14 years after issue or layer addition, a surrender charge is assessed.

This policy is non-participating, and the owner is not entitled to participate in Company profits. Changes, if any, in interest rates are determined only prospectively and will not be made to offset prior deviations.

| | | GUARANTEED | | | PROJECTED | | |
|---|---|---|---|---|---|---|---|
| END OF YR | PLANNED PREMIUM | DEATH BENEFIT | ACCOUNT VALUE | ACCOUNT VALUE LESS SURRENDER CHARGE | DEATH BENEFIT | ACCOUNT VALUE | ACCOUNT VALUE LESS SURRENDER CHARGE |
| 3 | 50.00 **** | 100,000 | 566 | 0 | 100,000 | 568 | 0 |
| 4 | 600.00 | 100,000 | 810 | 210 | 100,000 | 880 | 280 |
| 5 | 600.00 | 100,000 | 1,094 | 494 | 100,000 | 1,244 | 644 |
| 6 | 600.00 | 100,000 | 1,403 | 803 | 100,000 | 1,647 | 1,047 |
| 7 | 600.00 | 100,000 | 1,731 | 1,131 | 100,000 | 2,086 | 1,486 |
| 10 | 600.00 | 100,000 | 2,820 | 2,220 | 100,000 | 3,641 | 3,041 |
| 15 | 600.00 | 100,000 | 4,910 | 4,910 | 100,000 | 7,187 | 7,187 |
| 20 | 600.00 | 100,000 | 7,232 | 7,232 | 100,000 | 12,498 | 12,498 |
| [illegible] | 600.00 | 100,000 | 9,617 | 9,617 | 100,000 | 20,029 | 20,029 |
| [illegible] | [illegible] | 100,000 | 11,818 | 11,818 | 100,000 | 30,769 | 30,769 |
| [illegible] | [illegible] | 100,000 | 13,341 | 13,341 | 100,000 | 46,181 | 46,181 |
| [illegible] | [illegible] | [illegible] | 13,319 | 13,319 | 100,000 | 63,257 | 63,257 |
| AGE 65 | 600.00 | 100,000 | 10,762 | 10,762 | 112,832 | 94,049 | 94,049 |
| AGE 70 | 600.00 | 100,000 | 2,784 | 2,784 | 160,863 | 139,915 | 139,915 |
| AGE 75 | 600.00 | 0 | 0 | 0 | 216,936 | 206,635 | 206,635 |
| AGE 80 | 600.00 | 0 | 0 | 0 | 319,647 | 304,486 | 304,486 |
| AGE 85 | 600.00 | 0 | 0 | 0 | 466,722 | 444,640 | 444,640 |
| AGE 90 | 600.00 | 0 | 0 | 0 | 673,775 | 642,006 | 642,006 |
| AGE 95 | 600.00 | 0 | 0 | 0 | 939,081 | 929,789 | 929,789 |

* Policy lapses in the 12th month of year 49 on a guaranteed basis

**** This amount represents premiums from next bill date through end of policy year

- 3 year account value = $566
- Age 60, look what happens to the guaranteed account value

- "projected"
- "assumption"
- "non-guaranteed"
- "cost of insurance"



**STATEMENT OF POLICY COST AND BENEFIT INFORMATION**
**PREPARED FOR POLICY NUMBER**
**As of 10/13/1992**

**If no future policy changes are listed below:**

Projected values are based on the assumption that the current nonguaranteed interest rate of 7.50% effective 10/01/92, ( 8.00% after 3 policy years) used to calculate policy values and current nonguaranteed cost of insurance rates will continue in effect for the duration of the policy. If the policy has a loan, the loaned portion of the values would be calculated using a rate of 6%. If the policy has any benefits or riders listed below, their cost is used in the projection of the policy values. Guaranteed values are based on a guaranteed interest rate of 4.00%, and guaranteed cost of insurance rates.

Both projected and guaranteed values assume that in the future: (1) No policy loans or partial surrenders are made; (2) premium payments for each pay period are received by the Company on the first day of each payment period; (3) no changes in the sum insured are made; and (4) no unscheduled premiums are paid.

**INTERNAL REVENUE CODE INFORMATION**

The initial premium for this policy is in compliance with the Internal Revenue Code. All subsequent payment of premiums must also comply with these tests. We will refund any subsequent payments that exceed the premium allowed under the Internal Revenue Code, per this policy's Payment of Premium Provision. For this policy, as issued, the maximum premium payable according to Internal Revenue Code is $9,857.11 or $880.38 per year.

The TAMRA 7-Pay Premium is $2,780.85.

**BENEFIT AND RIDER SCHEDULE**

| Benefit or Rider Name | Current Annual Charge | Current Benefit Rider Amount |
|---|---|---|
| MONTHLY TOTAL DISABILITY RIDER | 14.76 | 50.00 |
| ACCIDENTAL DEATH & DISMEMBERMENT | 138.00 | 100,000.00 |

**FUTURE POLICY CHANGES USED IN THIS REPROJECTION OF COVERAGE AND VALUES:**

**Effective Date** **Type of Change**

"or"

## Payment of Proceeds

### ☐ Endowment Benefit

If the premiums paid are sufficient to continue this policy in force to the Maturity Date, we will pay the Owner the net cash value, if the Insured is living.

### ☐ Payment at Death

If the Insured dies while this policy is in force and prior to the Maturity Date, we will pay the beneficiary:

1. The death benefit under the death benefit option then in effect; less
2. Any indebtedness.

### ☐ Death Benefit

The death benefit depends upon the death benefit option in effect on the date of the Insured's death. The options are either Type A or Type B. The death benefit option in effect on the Policy Date is shown on page 3. This option remains in effect unless changed.

### ☐ Type A Option

The death benefit is the greater of:

1. The Sum Insured, less any partial surrenders; or
2. The applicable death Benefit as calculated in the Schedule on Page 3A.

### ☐ Type B Option

The death benefit is the greater of:

1. The Sum Insured plus the account value on the date of death; or
2. The applicable death benefit as calculated in the Schedule on Page 3A.

### ☐ Filing of Claim

We will pay the policy proceeds in a single payment unless a Payment Option is elected. Proceeds payable because of the death of the Insured will be paid when we receive proof of the Insured's death. Such proof must be submitted to us at our Home Office. Forms will be available to the beneficiary. Any of our agents will assist in completing these forms without charge. We also may require legal surrender of the policy to us.

### ☐ Protection of the Proceeds

To the extent permitted by law, no payment of proceeds will be subject to claims of the creditors of any payee, or to any legal process against a payee.

## Changes in Death Benefit

### ☐ Changes in Sum Insured

The Sum Insured may be changed by sending us a written request for change. Decreases are not allowed: (a) during the first two policy years, nor (b) unless the death benefit is reduced as a result of the changes. Increases are not allowed after the Insured's age 80. The change will be subject to the following conditions:

1. Any decrease in the Sum Insured will become effective on the Monthly Deduction Date on or following our receipt of the request.
2. Any decrease in the Sum Insured will first apply to any increases in the Sum Insured beginning with the most recent increase.
3. The Sum Insured remaining in force after any decrease may not be less than the minimum shown on page 3.
4. Any increase in the Sum Insured must be applied for on a written application. Evidence of insurability satisfactory to us must be submitted. We will amend the policy to show the effective date of the increase, which will always be a Monthly Deduction Date. The increase may not be less than the minimum increase amount shown on page 3.
5. Any increase in the Sum Insured shall be subject to a first year and all-years monthly expense charge. These charges are calculated as provided on page 6.
6. Any increase in the Sum Insured will be subject to surrender charges as described in the "Cash Value" provision.

### ☐ Change in Death Benefit Option

The death benefit option in effect may be changed by sending us a written request for change. The effective date of change will be the Monthly Deduction Date on or next after the date we receive the request.

If the death benefit option in effect is Type B, it may be changed to Type A. The Sum Insured will be increased to equal the death benefit on the effective date of change.

If the death benefit option in effect is Type A, it may be changed to Type B. The Sum Insured will be decreased by an amount equal to the account value on the date of change. This change may not be made if it would result in a Sum Insured which is less than the Minimum Sum Insured on page 3.

## ☐ Paid-Up Endowment Option

At any time that this policy has a net cash value, the Owner may elect, by written notice to us, to have the policy endorsed as paid-up endowment at age 95 insurance. The paid-up insurance will be a level amount. It will be payable to the beneficiary upon the Insured's death prior to the Maturity Date, or to the Owner on the Maturity Date if the Insured is then living. The amount of paid-up insurance will be that amount bought by applying the net cash value on the endorsement date as a single premium. We will use our single premium rates then in effect for this Option. We guarantee that the single premium for a Standard rating class will not be greater than a net single premium calculated on the basis of the 1980 Commissioner's Standard Ordinary Mortality Table for the Insured's sex and age at 4% annual interest.

If the net cash value on the endorsement date will purchase insurance in excess of the death benefit of the policy on that date, we will (a) endorse the policy as paid-up for an amount of insurance equal to the death benefit of the policy on the endorsement date, and (b) pay to the Owner that portion of the net cash value which would have bought the excess insurance.

The "endorsement date" will be the Monthly Deduction Date next after our receipt of the Owner's written notice to us. All provisions of the policy which are not consistent with this "Paid-Up Endowment Option" will be cancelled on the endorsement date.

Paid-Up insurance may be surrendered by the Owner for its cash value, less any indebtedness, at any time prior to the Insured's death and prior to the Maturity Date. The cash value of paid-up insurance is computed using the same mortality and interest factors which were used in computing the single premium which purchased the insurance.

## ☐ Cash Surrender

This policy may be surrendered for its net cash value on any Monthly Deduction Date during the lifetime of the Insured and before the Maturity Date upon written request by the Owner to us. This net cash value will be paid in cash or under an elected Payment Option. We reserve the right to defer the payment of the net cash value for a period of not more than six months.

If surrender is requested within 30 days after a policy anniversary, the surrender value shall not be less than the surrender value on that anniversary, less any policy loans or partial surrenders made on or after such anniversary.

## ☐ Partial Surrender

A partial surrender of this policy may be made on a Monthly Deduction Date during the lifetime of the Insured and prior to the Maturity Date, by written request of the Owner. The partial surrender may be any amount up to 80% of the net cash value on the date of surrender. A $25.00 processing fee shall be deducted from each partial surrender.

When a partial surrender is made, the amount of the partial surrender will be deducted from the account value. Partial surrenders cause a reduction in the death benefit.

We reserve the right to limit the number of partial surrenders in a policy year.

No partial surrender will be allowed if the death benefit after surrender would be less than the minimum Sum Insured shown on page 3. No partial surrenders will be allowed if this policy contains a Total Disability Benefit Rider and benefits are being paid under the terms thereof.

We may defer a partial surrender for not more than six months. A partial surrender to pay premiums on this or any other policy with us will not be deferred.

## ☐ Policy Loans

When this policy has a net cash value the Owner may borrow against it. The loan(s) will constitute a first lien on the policy in our favor. Interest on loans at a rate of 8% per annum will be payable on each Policy Anniversary after a loan is made. Interest not paid on any loan when due shall be added to the loan and bear interest at the same rate. When indebtedness exceeds the net cash value, this policy will lapse without value 31 days after a lapse notice is sent. The notice will be sent to the last known address of the Owner and assignee, if any. This policy will stay in force if the indebtedness is paid to us within the 31 days. We may defer the making of any policy loan for a period of not more than six months. A loan to pay premium on this or any other policy with us will not be deferred.

## ☐ Indebtedness

Indebtedness means:

1. All policy loans, plus
2. Accrued and unpaid interest.

Indebtedness may be repaid in whole or in part while the policy is in force. Indebtedness will be deducted in any settlement under this policy.

## ☐ Basis of Values

Guaranteed values are based on the 1980 Commissioner's Standard Ordinary Mortality Tables. The guaranteed interest rate is 4% compounded annually. The value of any rider benefit is excluded. The guaranteed values are equal to or greater than those required by law. The method used to figure these values is on file with state insurance departments. The state in which this policy is delivered has this information.



- Policy loans at 8%
- May defer making a policy loan up to 6 months

# How Big is the Market?

| | Insurance Industry | Primerica's Life Companies | % of Market |
|---|---|---|---|
| Total Life Face Amount in Force | $10 Trillion | $610 Billion | 6% |
| Total New Life Face Amount Issued | $1.8 Trillion | $88 Billion | 5% |
| Policies in Force | 161 Million | 2.39 Million | 1.5% |
| New Policies Sold | 10.9 Million | 364,356 | 3% |
| Total Premium Collected | $114 Billion | $1.9 Billion | Less than 2% |

# How Big is the Market?

| | |
|---|---|
| Policies in force | 161 Million |
| Uninsured North Americans | + 68 Million |
| **Potential Policies** | **220+ Million** |