

The Campaign to Fix the Life Insurance Industry's
Age-Old and Terribly Inadequate Disclosure and Problematic Sales Practices

“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.”

Testimony of Joseph M. Belth, Professor Emeritus, Indiana University

“The conduct of the life insurance industry with regard to its sales and marketing practices has been inexcusable.”

Salvatore R. Curiale, Former NY Superintendent of Insurance

“Irrespective of regulatory and national differences...., the movement towards a wider disclosure obligation and greater demands for information... will lead to fundamental changes in the life insurance industry.”

Svein R. Hagen, President UNI Storebrand Life Insurance Company (Norway)

“A cleanup of our industry is coming whether we do it ourselves or get prodded into it.”

Brian S. Brown, CLU, ChFC, Former President American Society of CLU and ChFC

“Changing a system [characterized in the article as a system with inadequate agent training and supervision, and an agent compensation structure incompatible with modern consumer demands] of such long tradition and wide acceptance will be difficult, but change seems both essential and inevitable.”

Harold D. Skipper, Jr., C.V. Starr Distinguished Professor of International Insurance at Georgia State University

“At the top of the illustration, it should read, ‘Sales illustrations should not be used for comparative policy performance purposes.’”

Advice from the Society of Actuaries that has never been heeded

“These standards: ‘openness and honesty in all transactions’ and concern over ‘the overall impression that sales materials may reasonably be expected to create upon a person not knowledgeable in insurance matters’ [touted by some as new...] are part of the existing life insurance advertising regulations in most states. They have simply never been enforced.”

Alan Press, CLU, former President, National Asso. of Life Underwriters (NALU now renamed NAIFA)

“The life sale is a very difficult sale. People have to talk about their mortality, about how much money they really need. It’s very complicated. If right in the middle of this discussion, you throw in ‘And by the way, there’s a 55% commission [not counting bonuses, expense allowances, and compensation for other field management and renewals which push sales compensation well over 100% of the first year’s premium]’ You won’t get the sale.....”

Sy Sternberg, former President of New York Life

“The solution to the problem of deceptive practices in the life insurance industry lies in disclosure, not in paternalistic regulation.....”

Professor Emeritus Belth in his monthly newsletter, *The Insurance Forum*

Welcome to the life insurance industry, an industry currently built on financial muggings. When the truth about whole life is understood, when the truth that there is nothing about it and other cash-value policies with their huge undisclosed sales loads that justifies their excessive costs, the life insurance industry could change in a fortnight. Its age-old practices will become instantly unsustainable to informed consumers. Transformation of the life insurance marketplace merely depends upon the widespread dissemination of the now available cost information that the life industry and its agents have fought against and feared disclosing for generations. Disseminating this information will at last bring the benefits of economic competition to consumers in this terribly dysfunctional marketplace.

Brian Fechtel, CFA, Agent, + Founder, BreadwinnersInsurance.com, and Organizer of the Campaign to Fix the Life Insurance Industry

YOU Have the POWER to FIX the Life Insurance Marketplace for Consumers

Publicizing the Never Before Disclosed Policy Information that Consumers Have Always Needed and Deserved, and that is Now Available, Will Transform the Marketplace

Food for Thought * 20 Questions: The answers to which, Can Fix the Life Insurance Marketplace

- 1) When virtually no agents even show consumers their life insurer's best value policy is the marketplace working properly? Can a marketplace with lots of suppliers but without any informed consumers – and where pervasive misinformation prevails – possibly function as, what economists would define as, a competitive marketplace?
- 2) Has the advice "Do Not Invest with a Life Insurer, Just Buy Term" been effective when the last 9 years 62 million whole life and cash-value policies for \$5 trillion of coverage (avg. death benefit of \$80,000) have been sold? What incentives does the advice leave unfixed? Since 1990, how many insurers credited 8%/yr on cash-values?
- 3) How will the life insurance marketplace function when there is good disclosure of policies? Will everyone buy term? What happens to the cost of whole life? What will be the range of costs for a healthy 40 year-old woman?
- 4) What do you think of the Insurance Marketplace Standards Association (IMSA) shutting down? Has it fulfilled its mission? Did it ever hold life insurers accountable? Does any of this matter to American consumers? Should it?
- 5) Why do consumers pay whole life and other cash-value policies' large commissions when they are really just buying term and a tax-advantaged savings vehicle? How much is paid for an IRA or a 529 Plan's tax privileges?
- 6) What does the enormous price dispersion in the life insurance marketplace indicate? Can you name any other financial product or any other non-status product with comparable price/cost dispersion?
- 7) Long-term care insurance is a deferred contingent annuity with the insurer retaining an option to raise premiums. How should a consumer conduct a due diligence review on a LTCI policy? Do you think the recent 30-40% premium increases are acceptable? What percent of the value of the premiums get paid-out in claims?
- 8) Have consumers been adequately warned about sales presentations of annuities' guaranteed living benefits?
- 9) Why has the Consumer Federation never supported Professor Belth's call for disclosure of both the annual costs and rate of return on cash-value policies? Why has Belth never disclosed historic policy performance results?
- 10) Do you know of any other financial product sold to consumers where the rewards of misrepresentation for the sales person are as large as they are with whole life? How many sales presentations to ordinary consumers have you observed? How many misrepresentations did you identify? Why are misrepresentations made?
- 11) How many life insurance policies does the average Northwestern Mutual agent sell each week? Hint: it's not a whole number. What percent of recruited agents quit within the first few years? Are there any problems with the conventional advice to buy from a seasoned agent? What do these facts indicate about this market?
- 12) Given that no consumer should make a decision based on a policy illustration, what information do: a) agents and insurers, b) financial publications, and c) others provide that is sufficient for decision-making?
- 13) Given that the annual cost of a cash-value policy is not its premium, what do you think of the ways that agents explain the cost of a whole life policy? Or explain the advantages of buying at a younger age? How do the costs of coverage change as one gets older in a whole life policy? How's that compare with a term policy's costs?
- 14) Do you believe individuals lose \$6 billion annually in the act of terminating cash-value policies? Bonus: Explain how the belief that there are two-types of life insurance plays into agents' sales presentations.
- 15) Given that after-tax cost is typically more important to many households than out-of-pocket cost, which can have a lower after-tax cost: a cash-value policy or a term policy? And why? Is this material info for consumers?
- 16) Who created the most famous no-load mutual life insurer in America? If someone is opposed to cash-value life insurance, what objections do you think they have to no-load, mutual, cash-value life insurance? Who was involved in the demise of this most famous no-load mutual life insurer? And where are they now?
- 17) What do you think of the regulators deletion of historical policy results from insurers' Annual Statements? What do you think of consumers not being informed about "permanent" policies' lapse rates? Bonus: What do you think of the job that life insurance regulators have done? Please cite 3 examples to support your view.
- 18) When Margaret Mead said, "Never doubt that a small group of thoughtful, committed citizens can change the world; indeed it's the only thing that ever has," was she wrong? How can you help spread this insurance news?
- 19) If you'd like 2 more explicitly-numbered questions, or to further discuss how the problem-riddled, inefficient, and information-fearing life insurance industry can be fixed in a fortnight, please speak with Brian Fechtel.



R. Brian Fechtel, CFA
AGENT IN NY, CA #0C40989,
FL, TX, IL, AND OTHERS
December 2, 2010

Providing Information and Value Customers Deserve • Transforming the Life Insurance Marketplace
Dear CFA Conference Attendee:

Your concerns about and efforts to help solve American's financial problems are, I hope you know, widely admired and much appreciated. Regarding one such national problem, I have committed to fixing the life insurance industry's deplorably inadequate disclosure and terribly costly deceptive sales practices before year-end. I could use some help, though, with this initiative and publicizing the necessary policy disclosure that regulators have failed to provide. Please let me explain.

Professor Emeritus Joseph M. Belth, widely cited as one of our nation's foremost authorities on life insurance, has stated, "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 deceptive sales practices found in the life insurance industry constitute a national scandal." (*Insurance Forum Vol. 21, No. 8*) Despite such powerful and irrefutable words, the life industry and its regulators have failed to implement effective policy disclosure. Belth believes they never will, perhaps because to ever acknowledge the problem would be to acknowledge the "national scandal." And, very sadly, the media and others with influence and power have yet to effectively focus and maintain public attention on this national problem that annually costs American consumers billions of dollars.

Admittedly, my goal can sound audacious or grandiose. It is neither. Unlike social reforms such as civil rights or auto safety or health insurance reforms – that are and have been massive, multifaceted, extraordinarily complex, and contentious undertakings - life insurance reform is fundamentally easy. The solution is, and has always been, obvious and simple; simple, that is, just as long as one doesn't wait for the regulators to lead. The solution steps: Provide appropriate policy disclosure, publicize such, apply pressure to regulators to endorse the disclosure publicity campaign, and, if necessary, confront the regulators until they join-in and publicize the policy disclosure that consumers have always needed and deserved.

Paraphrasing Edmund Burke's often quoted adage, "All that is required for a catastrophe to persist is for good men to accomplish nothing," I this spring launched BreadwinnersInsurance.com to provide the policy disclosure and analytical tools that consumers need. I refuse to accomplish nothing. However, until policy disclosure is widely publicized and regularly used, life insurance consumers will continue to be led like little lambs to the financial slaughter. Please review my enclosed letter to the NAIC President that outlines the problem and invites their assistance.

Product disclosure, according to economic and regulatory theory, is a "public good" requiring collective action, as it cannot be individually owned or controlled, for it to be maximally effective. All I am now seeking from socially-minded individuals and organizations is assistance publicizing appropriate life insurance policy disclosure and pursuing activities in line with the solution steps outlined above. Enclosed are a list of publicity ideas and, since a short letter cannot address everything, a list of answers to some common questions others have had regarding this initiative. Please also review my web site, and welcome my follow-up call. I hope you will join me in saying, "Together we can and will fix the life insurance industry's deplorably inadequate policy disclosure practices by year-end." This will really just be another example of the power of disclosure and the power of collective dedicated action for humankind. Thank you for your time and consideration.

Sincerely,