2-5-1954

Life Insurance?

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McMaster Sillouette

Friday, February 5th, 1954.

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by Bill Williams

This is the second in what is getting to be a series of articles by students who are not members of the Silhouette staff but feel that they have something to say. Additional articles will be accepted.

About this time of year many students, especially in the graduating year, begin to think that it would be a good thing to own life insurance; as security for their dependants and future dependants in case of death, sickness, and the like. But rarely does a prospective buyer seek the advice of any person not connected with the insurance business—they depend almost entirely upon the insurance salesman. Yet MOST people do not know even the basic differences in life insurance policies! Don't ever forget that those people are in the insurance business for profit — they are NOT "just doing you a favour."

In that connection it is most unfortunate that life insurance agents work on a commission basis, because you will never hear all of the angles from them, simply because they, like everyone else, are trying to earn the most comfortable living they can. Examine the following table of various policies at the same age.

Type of Policy (participating)	Amount of Protection	Premium	Agent's Commission
Ordinary Life	$ 10,000.00	$281.10	$168.66
20—Payment Life	10,000.00	383.40	230.04
20—Year Endowment	10,000.00	519.10	259.55
10—Year Endowment	10,000.00	1,058.70	317.61
1—Year Renewable Term (non-par)	10,000.00	88.20	26.46

Which one is it in the agent's interest to sell you? Which one is it to your advantage to buy? We shall try to answer the latter question in this article.

This is not a criticism of the Life Insurance industry as formed in companies, but it is intended to present to the reader an unbiased view of some obvious truths about life insurance.

Do you believe all the advertising that you read, hear and see everyday? You think that is a ridiculous question! Do you know many people who investigated life insurance before they bought as thoroughly as they scrutinized the new car? Rare, aren't they? Treat life insurance just as you would any other product; take your time and think your way through the maze of sales talk until you see all the possibilities. Frankly, I have yet to talk to anyone (not connected to the insurance business) that could tell me any more about their policy than the amount of the premium payment. Yet, they have signed themselves to pay anything from 5% up, of their annual income! ! When they bought the policy "it sounded good," but two days later, they have, in the satisfaction of being "protected," forgotten all about it. Each one of you blunders when you buy without a thorough investigation to familiarize yourself with ALL the types of life policies. The many ramifications of insurance can hardly be described here but a brief explanation might be wise to enable this article to arouse some thought.

Life insurance policies might be thought of as varying in degrees along a line. At one end there is the endowment policy, in which nearly all of your insurance dollar goes into a savings plan which you collect at maturity. At the other end is what is known as term insurance, in which all of your dollar goes to buying protection in the event of your death. With term insurance you pay a certain small sum each year and your beneficiary receives a stated amount should you die while the policy is in force. When the policy expires, there is no cash value for you to collect — you have paid for protection and nothing more. About the centre of this line is the whole life policy for which you pay a substantially higher premium and have about half go into protection and half go into a savings plan which you can collect at maturity. I think that this will be enough to allow us to continue.

Now when an agent approaches you he will invariably attempt to sell you a policy which builds up a cash value, collectable by you at some future date. He will impress upon you the need to save up your dollars for your old age — to accumulate something with which you can establish your own pension plan. Furthermore, he will say, it will give you a reserve of money which you can draw anytime, not just as a maturity date of the policy. Yes, the agent will surely impress you with his "savings-protection" plan; they have a thousand "canned" sales talks.

Now, let us see what the agent did not say. To better emphasize this, suppose we consider an example. Two men both bought insurance at age 20. A was high-pressured into buying a $10,000 endowment at 65 which cost him $164.80 per year. B thought about it a little longer and bought term insurance to age 65. For $10,000 protection it cost him $90.30 per year. The difference, $74.50, he deposited in the bank at a lowly 2% interest. Recently, both A and B at 50 years of age, were killed in an accident, and both widows received the SAME AMOUNT — $10,000. Furthermore, B's wife had about $3,017 which had accumulated in the bank. Thus B, who bought the "cheap" insurance left his wife with $13,017, while A, who bought the "best" insurance, left his wife only $10,000. Both men paid out the same $164.80 each year and I do not have to tell you which one planned better security for his widow.

Why was there that difference? At the time of the deaths A had a "cash value" to this policy which the agent told him "was yours." It could be taken out any time the policy holder wanted, except that the insurance company got it when A died. Therein lies the discrepancy — A's wife never received his savings, B's widow did.

Let us now suppose that both A and B had once met financial difficulties. We will suppose further that both turn to their insurance plans for help. B, who bought term insurance and deposited the rest in the bank just walks in and withdraws the amount he needs. But what a plight A is in! ! He has 2 alternatives. First, he could surrender his policy and take the cash value. But this would leave his family without protection and if A's health is failing the insurance companies will refuse to sell him another policy. Or secondly he could borrow on his policy from either the insurance company or the bank — at 5 or 6% interest. At least B had enough foresight to avoid paying interest for the use of his own savings.

These are 2 solid criticisms, and you do not have to be an actuary to decide whether A or B did the wisest planning.

There are 2 things an agent might say to you if you present him with these arguments. The first is "But term insurance does not return any of your money to you." I should hope that after you have read this far and thought about it, any discussion on that point would not last 2 minutes. The second thing the salesman might say is "But term insurance expires at age 65 and leaves you without insurance." True, but how much insurance do you think you have at age 65 anyway? Suppose you have a $5,000 whole life policy to age 85 — if you had taken it out at 20 years of age it would have a cash value of $3,000 on your 65th birthday. Should you die, your beneficiaries get $5,000 — $3,000 of your own money and $2,000 of the company's money. The point to note is that this difference is decreasing very rapidly at those ages and by the time you reach your 75th birthday all you would receive at death is a matter of a few hundred dollars. It is NOT worth the risk you take with your savings in the earlier years of your policy.

Do not misinterpret this article. I strongly urge you to buy life insurance but take heed when you try to combine a savings plan with a protection plan. And remember that although the salesman is as honest as you are, he is earning his bread and butter (and jam?) selling insurance.

My advice? **Avoid high cost insurance!**