

Buy Now or Buy When Young to Lock-in a Lower Cost
- A Sales Tactic of which to be Very Wary –
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Many believe that it costs less and that a lower lifetime cost is locked-in by buying a whole life policy at a younger age. After all, whole life policies generally have level premiums for life, and the annual premium on a whole life policy issued at any age is smaller than the premium on a similar whole life policy issued at an older age. **But assuming that a lower premium means a lower cost is incorrect, and relying on such flawed thinking or advice can lead to some very foolish decisions.** For instance, this belief encourages many individuals to have an urgency to purchase a whole life policy now rather than waiting until genuine needs or purchasing capabilities develop. Indeed, the truth is that provided one's health or other risk factors don't deteriorate, buying a policy early costs more than waiting and buying it later.

But wait, you might be saying, my agent **told and showed** me the advantages of buying a policy early. The widely-used "Results of Waiting" presentation compares policy values of two policy illustrations, one at the prospect's current age and the other assuming the prospect is a few years older (as shown below in Table 1). In summarizing the comparison, agents often comment along the following lines, "By starting now at age 30, you will pay \$440 less each year than if you waited until age 34, and, in fact, nearly \$3000 less in total premiums by age 65. Yet, at 65 you will have \$60,000 more in cash-value. As you can see, buying a whole life policy at a younger age costs less." Highlighting the illustration-based \$100,000+ difference in total insurance at age 65, agents often ask single individuals

Typical "Results of Waiting" Policy Illustrations Summary

Waiting From Age 30 to Age 34 to Purchase a \$200,000 Whole Life Policy

Annual Premium Comparison

Premium of Policy Started at Age 30	\$2,596	
Premium of Policy Started at Age 34	\$3,036	
Advantage of an Early Start	\$440	Smaller Future Annual Premium

Death Benefit Comparison

	<u>Values at Age 65 for</u>			
	<u>Policy Started at</u>			
	<u>Age 30</u>	<u>Age 34</u>		
Total Death Benefit	688,557	579,240	109,317	Larger Death Benefit
Cumulative Premiums	90,860	94,116	-3,256	Smaller Cumulative Prem.
Total Difference (DB – Prem.)	597,697	485,124	112,573	Larger Gain on DB
Total Paid-up Death Ben.	653,196	537,106	116,090	Larger Total Paid-up DB

Cash-Value Comparison

	<u>Values at Age 65 for</u>			
	<u>Policy Started at</u>			
	<u>Age 30</u>	<u>Age 34</u>		
Total Cash-Value	402,950	331,335	71,615	Greater Cash-Value
Cumulative Premiums	90,860	94,116	-3,256	Smaller Cumulative Prem.
Total Difference (CV – Prem.)	312,090	237,219	74,871	Greater Gain on CV
Guaranteed Cash-Value	101,568	97,386	4,182	Greater Guaranteed CV

Above values labeled Total are based on Dividends. Dividends are not guaranteed, may be larger or smaller than illustrated, and reflect current experience. These figures do not take in to account the time value of money. Above values will also be impacted by loans and inflation protection rider if exercised.

who anticipate having family responsibilities, “Since you know that you’ll need coverage within a few years, doesn’t it make sense to start now, gain these greater future benefits, and have locked-in a lower cost.” Some agents go so far as to calculate the “cost” of waiting a month or a day (where they use as “costs” the difference in illustrated future cash-value figures at one’s retirement age) in an effort to motivate consumers. Indeed such a presentation was widely known, before the industry’s adoption of rules in the 1990s to curb misrepresentations, as “The Costs of Waiting” presentation.

Quite simply, the fundamental problem with “The Results of Waiting” presentation is that it does not take into account the time value of money. Admittedly, the “Results of Waiting” sales literature typically acknowledges that it does not take into account that a dollar in the future has less value than a dollar today. But given that no legitimate financial adviser would recommend purchasing a long-term financial asset (such as a typical whole life policy) without taking into account the time value of money, is the “Typical Results of Waiting” presentation legitimate and not misleading?

It seems obvious that the intent and use of the “Results of Waiting” presentation is to convince consumers that it is financially smart to buy life insurance now rather than wait. If there are any doubts about this, simply question a few agents regarding their advice on purchasing now or early versus purchasing later, or their thoughts about life insurance on children. A survey of consumers would also no doubt show that many have been motivated to purchase now, to not wait, even though they had no need for current coverage, because of the information contained in the “Results of Waiting” presentation. Certainly, many of the parents and grandparents who have bought insurance on their children and grandchildren on the belief that they have locked-in a lower cost than that which their loved one could obtain in the future would also seem to document such presentations’ message and effectiveness.

A Financially-Correct Analysis of “The Results of Waiting”

To correctly analyze the decision whether to buy now or to wait and buy later requires present-value analysis. This analysis adjusts the value of dollars received and paid at different times to account for one’s specified time-value of money. Present-value figures provide a correct and meaningful comparison of the costs and benefits of buying now versus the costs and benefits of buying later. Below in Table 2 are two illustrations for two whole life policies.¹ One of the policies purchased at age 30 is identified as the policy purchased ‘Early,’ the other policy, purchased at age 34, is identified as ‘Later.’ Table 3 presents an analysis of their annual costs² and benefits. To compare policies it is necessary to calculate the different coverage provided by each policy for each year, and also each policy’s cost per unit of coverage.³ Calculating the present-value of each policy’s annual costs per thousand dollars of

¹ The initial face amount of the policy issued on a 34 year-old was chosen to be \$240,000, rather than \$200,000 as is the initial face amount on the policy issued on the 30 year-old, because this larger initial face amount provided cash-values and death benefits after age 65 that were closer to those of the policy issued at age 30. The conclusion of this analysis, that it costs more to start a policy earlier rather than later, have also been demonstrated for two policies which had the same initial death benefits. As is explained in the text and below in Footnote 3, two important comparisons to make between insurance policies are: 1) the amount of coverage (the amount-at-risk) each year, and 2) the cost per \$1000 of coverage for each policy in each year. The larger initial face amount of the policy issued at age 34 was chosen merely to eliminate the potential criticism that these policies are not similar because of death benefit differences in later years.

² The procedure for calculating a policy’s annual cost is described in “Supplemental Notes to Policy Disclosure.” In essence, policy illustrations are the results of assumptions about the insurer’s compounding rate and its costs. See the above mentioned article for more details.

³ The insurance benefit that a cash-value policy really provides is the difference between the cash-value and the death benefit; this amount is often referred to as the amount-at-risk. The common standard unit of coverage is \$1,000. Consequently, one can say that a policy with a death benefit of \$200,000 and cash-value of \$10,000 has an at-risk amount of \$190,000 or

coverage (using a 6% discount rate) shows that it costs approximately 10% more (\$65.0 versus \$58.8) to have purchased the coverage at the younger age. Review the Cost Comparison

Table 2: Summary of Two Whole Life Policies' Values

Values for Policy Started Early at Age 30					Values for Policy Started Later at Age 34					
Year	Prem.	CV	After-Tax CV	DB	Tot.Prem	Age	Prem.	CV	After-Tax CV	DB
1	2596	0	0	200000		30			0	
2	2596	1986	1986	200246		31			0	
3	2596	4209	4209	201178		32			0	
4	2596	6678	6678	202794		33			0	
5	2596	9424	9424	205074		34	3637	0	0	240000
6	2596	12456	12456	208021		35	3637	2851	2851	240402
7	2596	15795	15795	211657		36	3637	6025	6025	241667
8	2596	19481	19481	216012		37	3637	9547	9547	243797
9	2596	23544	23494	221068		38	3637	13445	13445	246803
10	2596	28001	27430	226910		39	3637	17756	17756	250698
11	2596	32922	31700	233539		40	3637	22500	22500	255477
12	2596	38305	36302	240913		41	3637	27726	27726	261154
13	2596	44194	41269	249071		42	3637	33478	33269	267773
14	2596	50591	46602	257842		43	3637	39803	38842	275353
15	2596	57519	52317	267307		44	3637	46760	44869	283934
16	2596	65042	58460	277408		45	3637	54358	51358	293425
17	2596	73169	65039	288192		46	3637	62652	58348	303832
18	2596	81971	72103	299649		47	3637	71638	65836	315020
19	2596	91490	79684	311792		48	3637	81356	73852	326982
20	2596	101773	87814	324676		49	3637	91877	82445	339787
21	2596	112895	96549	339584		50	3637	103246	91649	353438
22	2596	124919	105933	355522		51	3637	115528	101511	367974
23	2596	137919	116020	372566		52	3637	128796	112082	383465
24	2596	151977	126869	390788		53	3637	143113	123409	399928
25	2596	167164	138530	410240		54	3637	158560	135549	418998
26	2596	183565	151066	430986		55	3637	175249	148583	439434
27	2596	201267	164538	453090		56	3637	193254	162565	461241
28	2596	220371	179020	476573		57	3637	212676	177567	484491
29	2596	240971	194579	501527		58	3637	233632	193674	509279
30	2596	263180	211296	528047		59	3637	256212	210950	535650
31	2596	287117	229258	556235		60	3637	280540	229485	563716
32	2596	312916	248560	586208		61	3637	306756	249378	593638
33	2596	340710	269298	618151		62	3637	335006	270737	625586
34	2596	370670	291596	652223		63	3637	365447	293673	659691
35	2596	402956	315569	688559		64	3637	398251	318310	696145
36	2596	437688	341303	727239		65	3637	433536	344733	734972
37	2596	475028	368915	768327		66	3637	471472	373066	776290
38	2596	515122	398509	811933		67	3637	512196	403405	820137
39	2596	558169	430230	858144		68	3637	555904	435893	866657
40	2596	604322	464187	907142		69	3637	602772	470657	916017

provides \$190,000 of coverage in that year. The annual total insurance costs for each policy are divided by the annual coverage provided by each policy to determine the costs/\$1000 of coverage – the meaningful measurement of comparison.

Legal Note: These policy illustrations were created and are shown for educational purposes only. This presentation is to convey an understanding of general concepts. Any sales activities that follow your reading or receiving of this material will contain an individualized and complete policy illustration which complies with all insurance regulations. **Author's note:** The above "wormy" legalese is in response to an insurance company's compliance employee's assertion that anytime an illustration is shown it must be approved by an actuary and accompanied by all of the NAIC mandated disclosures. All such reviews and materials, I believe, unfortunately have done very little to properly inform the consumer about cash-value life insurance.

Highlight Boxes in Table 3 and the three right-hand columns. While the annual costs per thousand dollars of coverage for the policy begun at Age 34 are higher in its first eleven years than those

Costs Comparisons Highlights Table 3

Death Benefits		
	Avg. Death Benefits	Avg. Amts-At-Risk
Ages	Late/Early	Late/Early
34-51	1.08	1.15
52-69	1.01	1.05

Summary of Present-Value Costs from Age 30 through Age 69 of Total Annual Costs and Ann. Costs/\$1000 of Amt-At-Risk shown below						
Total Annual Costs	Add'l Cost of Early St.	Alternative Disc.Rates	Ann. Costs/M\$AR		Add'l Cost of Early St.	
			Early	Late		
Early	Late					
\$11,272	\$11,067	2%	8.0%	\$51.43	\$43.82	17%
\$14,868	\$15,240	-2%	6.0%	\$64.98	\$58.80	11%
\$21,208	\$22,371	-5%	4.0%	\$88.20	\$83.76	5%

Annual Costs below are calculated from illustrations that were created upon an assumed 8.8% Annual Return, and hence this rate is used to calculate the assumed underlying costs.

Insurance Benefit Comparisons of Amounts-At-Risk (in 000s of \$)

Ages	Total Annual Costs			Ann. Costs/\$1000s At-Risk					
	<u>30- Early</u>	<u>34 - Later</u>	Comp. L/E	<u>30- Early</u>	<u>34 - Later</u>	Comp. L/E			
30	197			2596	0	1	13.15	0	
31	198			771	0	2	3.90	0	
32	196			713	0	3	3.64	0	
33	195			667	0	4	3.42	0	
34	195	236	1.21	612	3637	5.94	3.15	15.39	4.89
35	195	237	1.22	571	1017	1.78	2.94	4.31	1.47
36	195	235	1.20	535	950	1.78	2.74	4.07	1.48
37	195	233	1.19	486	887	1.83	2.48	3.81	1.54
38	196	232	1.18	437	826	1.89	2.23	3.55	1.60
39	198	232	1.17	404	762	1.89	2.04	3.30	1.62
40	200	232	1.16	338	713	2.11	1.69	3.08	1.82
41	202	232	1.15	311	654	2.10	1.54	2.81	1.82
42	204	233	1.14	282	593	2.11	1.38	2.53	1.84
43	207	234	1.13	291	531	1.83	1.41	2.27	1.61
44	209	236	1.13	320	462	1.44	1.53	1.98	1.29
45	212	238	1.12	334	436	1.31	1.57	1.85	1.17
46	215	241	1.12	387	410	1.06	1.80	1.72	0.95
47	218	243	1.11	424	445	1.05	1.94	1.85	0.95
48	221	246	1.11	477	499	1.05	2.16	2.02	0.94
49	224	248	1.11	545	547	1.00	2.43	2.21	0.91
50	228	251	1.10	605	619	1.02	2.66	2.47	0.93
51	232	254	1.09	676	699	1.03	2.91	2.76	0.95
52	237	257	1.08	751	786	1.05	3.18	3.08	0.97
53	241	259	1.08	830	895	1.08	3.44	3.46	1.01
54	246	263	1.07	930	1015	1.09	3.78	3.86	1.02
55	251	267	1.06	1042	1123	1.08	4.15	4.21	1.01
56	256	271	1.06	1173	1263	1.08	4.58	4.65	1.01
57	261	276	1.06	1316	1417	1.08	5.04	5.13	1.02
58	266	281	1.05	1486	1578	1.06	5.59	5.64	1.01
59	271	285	1.05	1674	1780	1.06	6.17	6.26	1.01
60	276	290	1.05	1882	2000	1.06	6.81	6.90	1.01

61	282	295	1.05	2106	2232	1.06	32	7.48	7.58	1.01
62	287	299	1.04	2359	2483	1.05	33	8.23	8.31	1.01
63	292	304	1.04	2617	2754	1.05	34	8.96	9.06	1.01
64	297	309	1.04	2902	3044	1.05	35	9.77	9.87	1.01
65	302	314	1.04	3265	3417	1.05	36	10.80	10.89	1.01
66	307	318	1.04	3677	3835	1.04	37	11.96	12.05	1.01
67	313	323	1.03	4166	4341	1.04	38	13.33	13.44	1.01
68	317	328	1.03	4695	4892	1.04	39	14.80	14.93	1.01
69	322	332	1.03	5322	5523	1.04	40	16.53	16.64	1.01

annual costs for the policy begun earlier, this fact arises from the later policy’s larger premiums and the typical premium-based commission structure. Nonetheless, the Early policy’s lower commission costs are insufficient to offset the fact that they are paid earlier and that this early purchase entails incurring mortality charges for four extra years. Assuming a normal discount rate, it does not cost less to buy a policy early.

Whether or not the Early purchase makes sense depends, of course, upon other factors such as one’s subjective value of having the four additional early years of coverage and of having obtained the right to have future coverage. (This second factor is further discussed below.) These concerns, however, are very different from those emphasized by the typical “Results of Waiting” presentation. Whatever “The Results of Waiting” presentation is now labeled, its implication is that it costs less to buy early, or alternatively, costs more to wait and buy later. Although agents know or should know the difference between premiums and costs, many use the words cost and premiums as synonyms. Even after acknowledging the difference between premium and costs, many agents still believe and assert that it costs less to buy a policy at a younger age. But, it would now seem, all ought to agree that consumers should not be told nor be given the impression that it costs less to purchase coverage early.

Furthermore, comparing the two policies’ annual cost per thousand dollars of coverage shows that from years 17 to 40, the costs are roughly equal; in fact in several years these costs are lower for the Later bought policy. Contrary to representations that many agents make based upon incorrectly using policy premiums as a proxy for annual costs, buying a policy at the younger age does not secure a lower cost for all one’s later years. In fact, given many insurers’ practice of using the length of time a policy has been in-force as a factor in determining the policy’s annual mortality charges, the cost advantage of the policy issued at the older age during years 17-24 could be significant, especially to individuals who may not be clear of their need for coverage after these years.⁴

A Second Refutation of “The Results of Waiting” Presentation

Review again the typical “Results of Waiting” presentation in Table 1. When showing such, agents typically make many comparisons that depend entirely upon the fact that starting early means that one’s dollars in a policy are compounded for a longer period of time and therefore produce a larger total. But such simplistic observations are the comments of an empty suit, not a caring, genuine financial advisor. The obvious necessary alternative for a fair comparison with starting a policy early is investing one’s dollars until one subsequently starts a policy. Specifically, two fair and valid alternatives to compare are: Alt. #1 – Start the policy early at age 30 with an annual premium of \$2596 and separately invest \$1041 annually, or Alt. # 2 – Invest a total of \$3637 for four years and then pay the Age 34 policy’s annual premium of \$3637. Table 4 shows the value of the investment portions of these two alternatives under the same rate of return assumption as used to create the policy illustration and select

⁴ Also, note that from years 25-40, the difference in costs between the two policies is largely a function of the difference in premium taxes. This is because the policy issued Later has a larger premium, and therefore bears greater premium taxes.

tax assumptions.⁵ Combining Table 2 – the original policy illustrations with Table 4 (so that one makes the same outlays for the same span of years under both alternatives) produces the fair and logical comparison shown in Table 5.

Results of Investing the Balance of Funds Under Both Alternatives

Alt. #1 - Start Policy Early and Separately Invest \$1041 Annually

(Table 4)

Alt. #2 Start Policy Later, Investing \$3637 for Four Years Until Funds Used to Pay Premiums

Year-End Values of Investment Under Different Tax Assumptions									
Ann. Amt Inv. when Life Ins. Started at Age		Ann. ROR = 8.80%	Tax Rate on Deferred = 28%		Tax Rate Annual = 28%				
	<u>30- Early</u>	<u>34 - Later</u>	<u>Untaxed</u>		<u>Tax-Deferred</u>		<u>Tax Annually</u>		
Age	<u>30- Early</u>	<u>34 - Later</u>	<u>30- Early</u>	<u>34 - Later</u>	<u>30- Early</u>	<u>34 - Later</u>	<u>30- Early</u>	<u>34 - Later</u>	Years
30	1041	3637	1133	3957	1107	3868	1107	3867	1
31	1041	3637	2365	8263	2286	7986	2284	7980	2
32	1041	3637	3706	12947	3543	12377	3536	12353	3
33	1041	3637	5165	18044	4885	17065	4868	17003	4
34	1041	0	6753	19632	6320	18208	6283	18080	5
35	1041	0	8480	21359	7855	19452	7789	19226	6
36	1041	0	10359	23239	9499	20806	9389	20444	7
37	1041	0	12403	25284	11263	22278	11091	21739	8
38	1041	0	14627	27509	13156	23880	12901	23117	9
39	1041	0	17048	29930	15190	25623	14826	24582	10
40	1041	0	19681	32563	17377	27519	16872	26139	11
41	1041	0	22545	35429	19731	29583	19048	27795	12
42	1041	0	25662	38547	22267	31827	21363	29556	13
43	1041	0	29053	41939	25000	34270	23823	31429	14
44	1041	0	32743	45630	27948	36927	26440	33420	15
45	1041	0	36757	49645	31129	39818	29222	35538	16
46	1041	0	41124	54014	34566	42964	32181	37790	17
47	1041	0	45876	58767	38278	46386	35327	40184	18
48	1041	0	51046	63938	42292	50109	38673	42730	19
49	1041	0	56671	69565	46634	54160	42230	45437	20
50	1041	0	62791	75687	51331	58568	46013	48316	21
51	1041	0	69449	82347	56417	63364	50035	51378	22
52	1041	0	76693	89594	61925	68581	54313	54633	23
53	1041	0	84575	97478	67891	74258	58861	58094	24
54	1041	0	93151	106056	74357	80434	63698	61775	25
55	1041	0	102481	115389	81366	87154	68841	65689	26
56	1041	0	112632	125543	88966	94465	74310	69851	27
57	1041	0	123676	136591	97210	102419	80125	74277	28
58	1041	0	135693	148611	106153	111074	86309	78983	29
59	1041	0	148766	161689	115858	120490	92885	83988	30
60	1041	0	162991	175917	126391	130734	99877	89309	31
61	1041	0	178467	191398	137825	141880	107313	94968	32

⁵ The same rate of return assumptions for both products was used because to use different rates of return introduces the impact of the different return assumptions which would distort the comparison of these pure alternatives. Obviously, if one believes that there is a substantial reason for using different rates, then different rates can be used. But given the objective of the comparison and the availability of insurance products which have similar rates of returns with alternative investments, it is appropriate to use the same rate of return for both products, as again, that ensures that any difference is attributable to the products' differences rather than to an assumed rate differences.

62	1041	0	195305	208241	150240	154007	115219	100985	33
63	1041	0	213624	226566	163722	167201	123627	107383	34
64	1041	0	233556	246504	178364	181557	132567	114187	35
65	1041	0	255242	268196	194269	197175	142074	121422	36
66	1041	0	278836	291798	211549	214168	152182	129116	37
67	1041	0	304506	317476	230323	232656	162932	137296	38
68	1041	0	332436	345414	250723	252772	174362	145995	39
69	1041	0	362823	375810	272894	274657	186517	155246	40

Combined Summary of the Two Alternatives (Table 5)

Input Data comes from Tables 2 and 4

Age	Ann. Sum of Ins. Prem. and Amt. Inv'st'd	Year-End Values Under Different Tax Assumptions of the Sum of the Investment and the Policy's Cash-Value						Life Insurance Policy's Death Benefits		
		Inv. Ann. ROR = 8.80%		Tax Rates: 28%		on Deferred on Annual 28%		on Pol. Gain 28%		
		Untaxed*		Tax-Deferred*		Tax Annually*		Years	30- Early	34 - Later
		30- Early	34 - Later	30- Early	34 - Later	30- Early	34 - Later			
30	3637	1133	3957	1107	3868	1107	3867	1	200000	0
31	3637	4351	8263	4272	7986	4270	7980	2	200246	0
32	3637	7915	12947	7752	12377	7745	12353	3	201178	0
33	3637	11843	18044	11563	17065	11546	17003	4	202794	0
34	3637	16177	19632	15744	18208	15707	18080	5	205074	240000
35	3637	20936	24210	20311	22303	20245	22077	6	208021	240402
36	3637	26154	29264	25294	26831	25184	26469	7	211657	241667
37	3637	31884	34831	30744	31825	30572	31286	8	216012	243797
38	3637	38171	40954	36649	37325	36395	36562	9	221068	246803
39	3637	45049	47686	42619	43379	42255	42338	10	226910	250698
40	3637	52603	55063	49076	50019	48572	48639	11	233539	255477
41	3637	60850	63155	56033	57309	55351	55521	12	240913	261154
42	3637	69856	72025	63536	65097	62632	62826	13	249071	267773
43	3637	79644	81742	71602	73111	70425	70271	14	257842	275353
44	3637	90262	92390	80265	81796	78757	78290	15	267307	283934
45	3637	101799	104003	89590	91176	87683	86896	16	277408	293425
46	3637	114293	116666	99604	101312	97220	96138	17	288192	303832
47	3637	127847	130405	110381	112222	107430	106020	18	299649	315020
48	3637	142536	145294	121976	123961	118356	116582	19	311792	326982
49	3637	158444	161442	134448	136606	130044	127883	20	324676	339787
50	3637	175686	178933	147880	150217	142562	139966	21	339584	353438
51	3637	194368	197875	162350	164874	155968	152888	22	355522	367974
52	3637	214612	218390	177944	180663	170333	166715	23	372566	383465
53	3637	236552	240591	194760	197666	185730	181503	24	390788	399928
54	3637	260315	264616	212887	215983	202228	197324	25	410240	418998
55	3637	286046	290638	232432	235737	219907	214273	26	430986	439434
56	3637	313899	318797	253504	257030	238848	232417	27	453090	461241
57	3637	344047	349267	276230	279986	259145	251845	28	476573	484491
58	3637	376664	382243	300732	304748	280888	272657	29	501527	509279
59	3637	411946	417901	327154	331440	304181	294938	30	528047	535650
60	3637	450108	456457	355648	360219	329135	318794	31	556235	563716
61	3637	491383	498154	386385	391259	355872	344346	32	586208	593638
62	3637	536015	543247	419538	424744	384518	371722	33	618151	625586

63	3637	584294	592013	455318	460874	415223	401056	34	652223	659691
64	3637	636512	644755	493933	499866	448136	432497	35	688559	696145
65	3637	692930	701732	535572	541909	483377	466156	36	727239	734972
66	3637	753864	763270	580463	587234	521097	502181	37	768327	776290
67	3637	819628	829672	628832	636062	561441	540702	38	811933	820137
68	3637	890605	901318	680953	688665	604592	581889	39	858144	866657
69	3637	967145	978582	737081	745314	650704	625902	40	907142	916017

*All year-end values, except those in the untaxed columns, are the sum of the after-tax values of the Invested Side-Fund and the after-tax value of the policy's cash-value. Values in the Untaxed columns are sum of the Untaxed Side-Fund and the policies' untaxed cash-values.

Table 5 shows that upon becoming 65, the individual can have more than \$6,000 more in total value (\$542,000 vs. \$536,000 – under after-tax values in tax-deferred scenario) by having waited four years and starting the policy later.⁶ While many may not consider this a great sum, it is important to remember that this result is contrary to that suggested by “The Results of Waiting” presentation. Furthermore, in this case, the policy issued at the older age provided comparatively greater coverage (approximately 9% greater) during the insured’s forties and fifties. If not for these additional costs of this greater coverage, the cash-value advantage at age 65 of the later start would have been even larger. Starting a policy early does not produce greater future benefits in comparison with legitimate alternatives; presentations which indicate such are simply misleading and contrived.

An Additional Criticism of the Results of Waiting Presentation Given Today’s Flexible Products

The above analysis has worked within the arena structured by whole life policies and their proponents; that is, it has involved comparing one whole life policy with another. But in today’s marketplace, each insurer has several policies that provide essentially the same operational guarantees as whole life policies, but have significantly smaller commissions and costs. Such policies also provide flexibility with respect to premiums and coverage (the annual amount-at-risk). Comparing one such policy against the above \$200,000 whole life policy issued to a 30 year-old (see Tables 6 and 7), it is easy to show that virtually all of the purported advantages of starting a policy early (at a younger age) disappear when compared with a smartly configured policy started later. In fact, a comparison of cash-values (in all years) and death benefits (in most years) shows that starting a policy later actually offers greater values.⁷ This, after all, is the intuitive conclusion. Starting a policy early means that one receives coverage for some additional years (and that coverage has some cost), and that one also pays the set-up costs of the policy earlier (and it is disadvantageous to pay costs early unless one receives an attractive discount or avoids an imperative expensive surcharge). But since there are policies on which set-up costs can be reduced, there are no imperative surcharges that one faces in choosing to start coverage later. Consequently, the “Results of Waiting” presentation is again seen to be not only a misleading, but also a very contrived comparison.

⁶ The total after-tax difference depends of course upon the tax characteristics (i.e., deferred, annual) and the tax rates applicable to the life insurance policy and one’s investment. The above-mentioned \$6,000 figure is based on the taxes deferred scenario under which the \$536,000 and \$542,000 figures at age 65 represent the sum of the two products after-tax values under the two alternatives “Early” and “Later.” In the alternative where taxes are paid annually, the greater value for the “Early” alternative does not arise from the life policy. The greater value of the “Early” alternative arises simply because greater taxes are paid on the “Later” alternative’s investment. Again, the advantage is not attributable to starting the life insurance policy early.

⁷ The policy started Later because of its flexible premium would become a MEC, a modified endowment contract, at age 82 based on the current illustration. Given the tax disadvantages of MECs, such a circumstance should be avoided. It seems reasonable to assume that it most likely would be avoided since the premiums on very few policies are paid consecutively for more than 40+ years without a loan ever being taken, the sort of circumstances under which this policy would become a MEC. It is more than a little interesting that current tax laws disadvantage flexible premium policies, and in so doing provide some rationale to whole life proponents, but the craziness of MEC tax laws is a topic for another day.

(Text continues on next page.)

Summary of Values for Two Life Policies Table 6

Values for Policy Started Early at Age 30

Values for Policy Started Later at Age 34

Year	Values for Policy Started Early at Age 30					Values for Policy Started Later at Age 34				
	Prem.	Cash-Value	After-Tax CV**	Death Benefit	Age	Prem.	Cash-Value	After-Tax CV**	Death Benefit	
1	2596	0	0	200000	30	0		0		
2	2596	1986	1986	200246	31	0		0		
3	2596	4209	4209	201178	32	0		0		
4	2596	6678	6678	202794	33	0		0		
5	2596	9424	9424	205074	34	7781	6970	6970	201362	
6	2596	12456	12456	208021	35	7781	14715	14715	204737	
7	2596	15795	15795	211657	36	2589	18360	18301	209816	
8	2596	19481	19481	216012	37	2589	22315	21874	215361	
9	2596	23544	23494	221068	38	2589	26610	25691	221384	
10	2596	28001	27430	226910	39	2589	31260	29764	227895	
11	2596	32922	31700	233539	40	2589	36300	34118	234938	
12	2596	38305	36302	240913	41	2589	41770	38781	242529	
13	2596	44194	41269	249071	42	2589	47710	43783	250730	
14	2596	50591	46602	257842	43	2589	54150	49145	259568	
15	2596	57519	52317	267307	44	2589	61200	54946	269211	
16	2596	65042	58460	277408	45	2589	68850	61179	279559	
17	2596	73169	65039	288192	46	2589	77135	67869	290631	
18	2596	81971	72103	299649	47	2589	86110	75056	302460	
19	2596	91490	79684	311792	48	2589	95840	82786	315080	
20	2596	101773	87814	324676	49	2589	106360	91085	328521	
21	2596	112895	96549	339584	50	2589	117740	100004	342835	
22	2596	124919	105933	355522	51	2589	130050	109592	358064	
23	2596	137919	116020	372566	52	2589	143340	119886	374271	
24	2596	151977	126869	390788	53	2589	157700	130950	391530	
25	2596	167164	138530	410240	54	2589	173199	142834	409878	
26	2596	183565	151066	430986	55	2589	189950	155620	429440	
27	2596	201267	164538	453090	56	2589	208040	169369	450260	
28	2596	220371	179020	476573	57	2589	227580	184163	472410	
29	2596	240971	194579	501527	58	2589	248680	200080	495960	
30	2596	263180	211296	528047	59	2589	271455	217203	521020	
31	2596	287117	229258	556235	60	2589	296030	235622	547677	
32	2596	312916	248560	586208	61	2589	322550	255441	576070	
33	2596	340710	269298	618151	62	2589	351175	276776	606360	
34	2596	370670	291596	652223	63	2589	382080	299753	638730	
35	2596	402956	315569	688559	64	2589	415445	324500	673660	
36	2596	437688	341303	727239	65	2589	451385	351102	715860	
37	2596	475028	368915	768327	66	2589	490045	379662	760505	
38	2596	515122	398509	811933	67	2589	531585	410296	807680	
39	2596	558169	430230	858144	68	2589	576200	443144	857530	
40	2596	604322	464187	907142	69	2589	624065	478331	910220	

**Tax Rate on Both Policy's CV Gains = 28%

A Legitimate Reason for Possibly Buying a Life Insurance Policy Early

A legitimate reason for buying a policy early is to protect one's insurability. (Buying a policy early is defined as a situation where one is not presently inclined to buy a life insurance policy but is motivated to do so because of the representation that purchasing now provides particular long-term financial advantages.) While comparatively few people over any few years become uninsurable, some do, and many more see adverse changes in their health. Some of these health changes will subsequently cause insurers to view these individuals as greater risks, thereby charging them significantly more than they would have been charged had they obtained coverage when they were in better health. One leading insurer charges individuals in its second best non-smoker health class approximately 30% more than

A Valid Comparative Cost Benefit Analysis of Starting a Life Insurance Policy Early or Later (Table 7) Costs Comparisons Highlights

Summary of Present-Value Costs from Age 30 through Age 69 of Total Annual Costs and Ann. Costs/\$1000 of Amt-At-Risk shown below							
<u>Total Annual Costs</u>			Add'l Cost of Early St.	Alternative Disc.Rates	<u>Ann. Costs/M\$AR</u>		Add'l Cost of Early St.
Early	Late	%			Early	Late	
\$11,272	\$8,545	32%	8.0%	\$51.43	\$37.30	38%	
\$14,868	\$12,418	20%	6.0%	\$64.98	\$52.09	25%	
\$21,208	\$19,139	11%	4.0%	\$88.20	\$77.02	15%	

Insurance Benefits Highlights

<u>Amounts-At-Risk (in 000s of \$)</u>				<u>Total Annual Costs</u>			<u>Ann. Costs/\$1000s At-Risk</u>			
Ages	<u>30- Early</u>	<u>34 - Later</u>	Comp. L/E	<u>30- Early</u>	<u>34 - Later</u>	Comp. L/E	<u>Years</u>	<u>30- Early</u>	<u>34 - Later</u>	Comp. L/E
30	197			2596	0		1	13.15	0	
31	198			771	0		2	3.90	0	
32	196			713	0		3	3.64	0	
33	195			667	0		4	3.42	0	
34	195	194	0.99	612	1375	2.25	5	3.15	7.10	2.26
35	195	190	0.98	571	1226	2.15	6	2.94	6.45	2.20
36	195	193	0.99	535	429	0.80	7	2.74	2.23	0.81
37	195	194	0.99	486	439	0.90	8	2.48	2.26	0.91
38	196	196	1.00	437	446	1.02	9	2.23	2.27	1.02
39	198	199	1.00	404	467	1.16	10	2.04	2.35	1.15
40	200	201	1.01	338	485	1.44	11	1.69	2.41	1.43
41	202	204	1.01	311	497	1.60	12	1.54	2.44	1.58
42	204	206	1.01	282	508	1.80	13	1.38	2.46	1.78
43	207	209	1.01	291	529	1.82	14	1.41	2.53	1.80
44	209	212	1.01	320	489	1.53	15	1.53	2.30	1.50
45	212	216	1.02	334	508	1.52	16	1.57	2.35	1.50
46	215	219	1.02	387	543	1.40	17	1.80	2.48	1.38
47	218	223	1.02	424	579	1.37	18	1.94	2.60	1.34
48	221	226	1.02	477	611	1.28	19	2.16	2.70	1.25
49	224	230	1.03	545	672	1.23	20	2.43	2.92	1.20
50	228	234	1.03	605	732	1.21	21	2.66	3.13	1.18
51	232	238	1.02	676	798	1.18	22	2.91	3.36	1.15
52	237	242	1.02	751	893	1.19	23	3.18	3.69	1.16
53	241	246	1.02	830	984	1.19	24	3.44	4.01	1.16
54	246	250	1.01	930	1099	1.18	25	3.78	4.40	1.16
55	251	254	1.01	1042	1202	1.15	26	4.15	4.74	1.14
56	256	258	1.01	1173	1326	1.13	27	4.58	5.14	1.12
57	261	262	1.00	1316	1456	1.11	28	5.04	5.56	1.10
58	266	266	1.00	1486	1603	1.08	29	5.59	6.03	1.08
59	271	270	0.99	1674	1770	1.06	30	6.17	6.56	1.06
60	276	274	0.99	1882	1958	1.04	31	6.81	7.15	1.05

61	282	277	0.99	2106	2158	1.02	32	7.48	7.78	1.04
62	287	281	0.98	2359	2368	1.00	33	8.23	8.42	1.02
63	292	285	0.98	2617	2588	0.99	34	8.96	9.08	1.01
64	297	289	0.97	2902	2826	0.97	35	9.77	9.78	1.00
65	302	298	0.99	3265	3158	0.97	36	10.80	10.60	0.98
66	307	307	1.00	3677	3565	0.97	37	11.96	11.63	0.97
67	313	315	1.01	4166	4045	0.97	38	13.33	12.84	0.96
68	317	323	1.02	4695	4578	0.98	39	14.80	14.16	0.96
69	322	331	1.03	5322	5200	0.98	40	16.53	15.69	0.95

Costs calculated from illustrations based on 8.8% Ann. Return, hence this rate is used to calc. underlying costs.

what it charges those in its preferred health class; other less fortunate individuals who are viewed as classified risks pay costs that are multiples of the cost paid by the preferred health class.

The advantage of buying early, while in good health, is that one’s health class is locked-in for the duration of the policy, so that there is no impact upon this policy’s future costs because of changes in the insured’s health. An optional rider to purchase additional insurance in the future based on one’s health class today can increase the amount of coverage guaranteed to be available.⁸ A valid “Results of Waiting” presentation would contrast this certainty of one’s future health class once a policy’s been issued with the uncertainty regarding one’s insurability and health class until insured. Unfortunately, there is not much information publicly available about the probability of these potential changes in an individual’s health/insurability as one ages, so decisions on this matter are largely based on personal hearsay, hunches, fears, or bravado. Regrettably, this genuine advantage of buying early is typically omitted from the widely-used presentations that are based upon specious financial analysis.

Concluding Comments

The widely-used Results of Waiting sales presentation is contrived, misleading, and financially flawed. Its implications that, in contrast with waiting and buying the policy later, buying a life insurance policy early, or at a younger age, costs less and provides greater future benefits are not true. Moreover, aside from being financially fatuous, such a concept of receiving more but paying less is illogical. That is, how can you pay less and receive more? Indeed, given the regulations prohibiting the comparison of the simple sum of premiums when comparing term and cash-value policies, it is striking that the regulators allow (review Table 1) the use of this same flawed analysis in this distorted presentation, i.e., look at the calculated cash-value gains.

Another reason for the industry to discontinue its financially-unsound “Results of Waiting” sales presentation is that in doing so it would begin to dispel the common myth that many people have that they do not want life insurance at their older ages because they are under the false impression that they have past up something (namely “locking-in a lower costs), and the regret about their prior inaction causes them to believe that it doesn’t make sense to start into a program when they are older. In essence, the sales tactic that is used to motivate consumers cuts both ways, in later creating untrue and unjustified beliefs.

When deciding whether or not to buy a policy, consumers should consider their current needs, probable future needs, and their concerns about insurability in the future should they postpone purchasing coverage now. A term policy with a conversion privilege to convert to a cash-value policy

⁸ The additional insurance benefit or future insurance option is generally available to individuals under the age of 40, and typically gives the insured the right to purchase an additional amount of cash-value coverage every third year until age 40. For instance, the purchase of a \$100,000 future insurance option rider by a 25 year-old guarantees four or five opportunities before age 40 to obtain an additional \$100,000 of insurance based on his health class at age 25. This optional benefit, which can be priceless if one’s health dramatically deteriorates, costs about \$120/year.

can address one's concern about losing insurability. Currently, however, additional purchase benefits are not available on the typical term policy.

Breadwinners Insurance rejects the use of "The Results of Waiting" presentation, and invites others to join in doing so. The commitment to provide sound financial advice requires nothing less. This review of the life insurance industry's widely-used "Results or Costs of Waiting" sales presentation demonstrates, I am sorry to say, the age-old adage that "figures lie and liars figure." Consequently, this review raises many questions for the life insurance industry and its agents. Your thoughts are welcomed.

Breadwinners Insurance - - Committed to Making You Life Insurance Smart!