

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,

**A Few Common Questions and Short Answers** (Please read this side first; second page printed front and back)

- 1) What are the problems in the life insurance marketplace? Very briefly, consumers have been and are deprived of important and necessary policy cost and performance information. Consequently, the market is inherently problematic and characterized by: poor value, misrepresentations, confusion, distrust – and those are just the problems from the buyer’s perspective. Sellers misallocate resources when their activities are not subject to the constraints of competitive market forces – inefficient sales activities, horrendously and unacceptably high agent failure/turnover; and again, pervasive misrepresentations and misconceptions.
- 2) Where can I learn more about the problems of the life insurance marketplace? Please visit BreadwinnersInsurance.com. Read the articles: “Life Insurance: An Industry Built on Fraud,” “A Couple of ‘Love Letters’ to Life Insurers and Regulators,” “Misrepresentations,” and the Blogs, especially the Tribute to Professor Belth. Use the Illustration Analyzer. “A Very Popular Annuity Sales Idea” highlights a pervasive problematic sales practice with such clarity that even grade school children understand the wrongs.
- 3) What are some of the statistics which document the problems of the life insurance marketplace? Sales loads of 140% of first year’s premium that industry executives themselves have even acknowledged could not be sustained if disclosed. Many insurers’ cash-value policies, products sold as lifetime protection, are not kept on average even 12 years. Agent inefficiency: average agent does not sell one policy per week. Astronomically high (perhaps 90%) new agent turnover and failure rates.
- 4) Who is Brian Fechtel? An economist by schooling (Georgetown ‘79), a creative problem-solver, in fact, an entrepreneur since the age of 4. Author of several articles in *Best’s Review* and *The Journal of Insurance Regulation*. A catalyst of change, frustrated for too long in the dysfunctional life insurance industry. An admirer of Justice Brandeis, who in 1907 built a life insurance organization that he considered his life’s greatest accomplishment, but one which has actually been destroyed by lobbyists. If you’ve never heard about such, that’s just another reason why my current initiative/campaign is so important.
- 5) What do others think of your plan to fix the life insurance industry by year-end? As mentioned, Professor Belth, now 81 years old and understandably somewhat tired from nearly 50 years of battle, thinks the industry will never change. Some concur that any improvement is unrealistic, yet some others think differently. Every answer to this question, though, is conjecture. The challenge of this reform is not technological. It is not political; no one can be publicly against policy disclosure. The solution is to simply step-up and do what has always needed to be done, but has just never before been done. No expenditures from you are being sought; only help publicizing this compelling but neglected problem, and publicizing the available solution so that the regulators can no longer ignore matters and then will finally have to join-in, or become irrelevant themselves.
- 6) Who will be harmed by publicity of appropriate policy disclosure? Agent/compensation per sale of cash-value policies will be reduced; overall sales of policies, though, should increase. Life insurers and agents might be held liable for past problematic practices. Regulators will be embarrassed, that is, until they join the initiative.
- 7) What other benefits are there from this initiative? Financial literacy can and will be profoundly advanced when consumers properly understand life insurance matters. Reforming the life insurance industry could in itself also be a national accomplishment that could truly help, as is so now needed, reinvigorate our nation’s precious can do spirit.

What Brian Fechtel, Founder of BreadwinnersInsurance.com, Is Seeking (continued on back)

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What Brian Fechtel, Founder of BreadwinnersInsurance.com, Is Seeking (please read other side first)

- 1) Opportunities to Speak in a Public Forum About this Historic Problem, Its Obvious and Currently Available Solution, and this Initiative/Campaign (i.e. to churches, civic groups, consumer groups, corporations, professional groups – especially those with natural insurance related interests: human resource executives, estate attorneys, accountants, financial planners, etc.). Opportunities to Debate Industry Executives or Insurance Commissioners in a Public Forum.
- 2) Publicity for this campaign in your organization's own publications, internet activities, etc.
- 3) Your encouragement of journalists to write about and broadcasters to cover this "national scandal." Encourage them and others to visit BreadwinnersInsurance.com to learn more about this problem and to see its solution.
- 4) Your assistance arranging meetings for my active supporters and me with regulators and/or other public officials who have real influence with regulators and upon public policy.
- 5) Your public letter of support for the Campaign to Fix the Life Insurance Industry's Inadequate Policy Disclosure and Problematic Sales Practices Before Year-End. (And, please, let us not quibble about the deadline. Simply ending the inattention and inertia that have for generations plagued reform of the life insurance and annuities marketplace will mean a timely adoption of the disclosure solution.)

## A Final Word

The success of this initiative does not require nor depend upon a lobbying campaign.

Nor does it require Congressional or state legislatures' votes.

The success of this initiative does not even need to wait for another blue ribbon investigation to issue a report.

The success, our success, merely depends upon publicity of the currently available solution,

So that our society as a whole

And your constituents, your readers, viewers, and supporters, in particular

No longer suffer the terribly costly effects of the life insurance industry's

Deplorably inadequate policy disclosure practices.

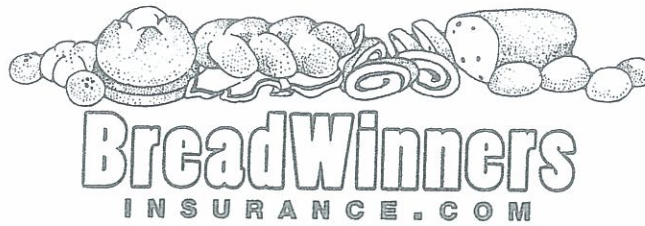
This initiative of ours can and will achieve its undeniable and inevitable success

Simply because, as the publicity of the solution and its tremendous benefits for consumers grow, and grows,

The life insurance regulators will realize that their only choice is to embrace the disclosure solution.

And, we then will welcome them and their industry, as one welcomes long lost, weary travelers.

For we are all one..... E Pluribus Unum.....And together we must, and we will, go forward.



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

*Providing Information and Value Consumers Deserve • Transforming the Life Insurance Marketplace*

August 26, 2010

Ms. Jane Cline, Commissioner  
Department of Insurance  
State of West Virginia  
P.O. Box 50540  
Charleston, W VA 25305-0540  
Also via email

Dear NAIC President Cline:

I am writing to invite you to join my campaign to fix the life insurance industry's inadequate policy disclosure practices by year-end. I readily recognize that you may object to that statement, but please consider the following facts. Professor Joseph Belth in his newsletter, *Insurance Forum*, has written:

"Yearly prices [of cash-value policies] are so revealing that the companies took extraordinary action to prevent disclosure of the information. For example, in the early 1980s a committee of state regulators concluded, after a careful study, that price disclosure was needed. The companies did not just stifle the committee report; the individuals primarily responsible for the preparation of the report lost their jobs. There were other heavy-handed actions, including an unsuccessful attempt to have me fired by Indiana University." IF 5/04

Creating the conditions for a properly functioning marketplace is a fundamental regulatory responsibility. Markets cannot function properly without consumers having good information, yet the life industry has never provided the necessary appropriate policy disclosure. In contrast with the truly complex issues and challenges in health insurance reform, the solution to the paramount problem of inadequate policy disclosure in the life insurance marketplace has always been straightforward and readily available. Consequently, I am sorry to have to report that your predecessors responsible for the life insurance marketplace have not earned a passing grade. Inadequately informed consumers not only have been and remain prey to misrepresentations – as is commonplace in the life insurance marketplace, but they also cannot fulfill their own individually and socially beneficial roles of demanding good value, thereby putting pressure upon suppliers to control costs and provide better value. Several other enormously costly problems (i.e., the unconscionably high policy lapse rates of some insurers and the astronomical failure rates of newly recruited agents) all arise from this problematic pit of inadequate policy disclosure.

Earlier this year, my website, BreadwinnersInsurance.com began to provide proper disclosure of life insurance policies. Fixing the life insurance marketplace, though, is a two step process. First is disclosure, second is publicity of disclosure so that consumers are aware of and can obtain such vital information when they need it. I invite you to join me in publicizing appropriate policy disclosure, a campaign we could launch with a joint press conference and follow-up with a series of events, including seminars for financial journalists and civic-minded others, so that all the information necessary to transform the life insurance marketplace is widely known and readily available.

The industry's objections to appropriate disclosure have always been rooted in its argument that agent compensation, extracted from inadequately and mis-informed consumers, must be protected. While I do not pretend to know precisely what level of compensation consumers will willingly pay for a properly disclosed cash-value policy, I know that current practices of inadequate disclosure and pervasive misrepresentations are indefensible. In fact, the

pervasive misrepresentations that agents make, I contend, are proof that they realize that consumers would not knowingly pay the sales loads that become apparent when policies are properly disclosed.

In essence, the life industry's current practices are unsustainable with informed consumers because the fundamental economic advantage of cash-value policies arises – not as agents' largely represent from such policies' avoidance of the "problems of term" insurance – but from cash-value policies' tax privileges. These tax privileges, though, are a free, non-proprietary input, and in a properly functioning, a.k.a. informed marketplace – sellers cannot extract value from consumers for a free, non-proprietary input. Although those with only basic knowledge of financial matters do not readily or intuitively understand such, this analysis is just simply fundamental economics, presented repeatedly to the industry in my articles in *Best's Review* during 1990s and *The Journal of Insurance Regulation* in 2002.

Appropriate disclosure of life insurance policies has required no brilliant breakthrough. Unlike decoding the genome, building a search engine, or landing on the moon, it is nothing more than the intuitive idea of reverse-engineering a sales illustration or, for an actual in-force policy, providing the historical accounting of the policy's annual financial performance, that is, its costs and the compounding rate on cash-values. My website provides examples of disclosure of both sales illustrations' essential assumptions and of actual policies' historical performances. It also expands upon the proper uses of both types of disclosure data, and provides a draft of a new Life Insurance Buyer's Guide and other materials consumers are finding worthwhile and interesting. I certainly welcome your and your associates' thoughts, suggestions, and criticisms - should you see anything of mine that needs improvement.

Admittedly, the transition to a new era will most likely not be pain free for some life insurers and their agents, as they may be called upon to make amends. No doubt you recall that following the industry's publicized sales practices problems of the 1980s and early 1990s, Professor Harold Skipper wrote, "changing a system of such long tradition and wide acceptance will be difficult, but change seems both essential and inevitable [*Journal of the American Society of CLU & ChFC*, March 1995]." The leaders of agent associations also then openly acknowledged that laws and regulations prohibiting misrepresentations had never been enforced. Those sad facts are as true today as they have been throughout the industry's 160+ year history. I have long refused to tolerate such circumstances, as my litany of past efforts testifies. This letter is part of a new effort, and one which I now hope you will join.

For the causes of economic justice and progress we must embrace appropriate policy disclosure. Our current national problems demand that the self-interested practices that unfairly protect and enrich the few at the great expense of the many can no longer be tolerated. Contrary to so much of the life industry's self-serving lobbying rhetoric, appropriate policy disclosure will not only fix the industry it will transform it so that it may at long last enter its golden era. Moreover, the simple actions of fixing the life insurance industry ought to inspire all Americans by demonstrating again America's can-do spirit.

Please join me, let us work together. By publicizing appropriate policy disclosure, we can fix the life insurance industry in a fortnight.

Sincerely,

R Brian Fechtel

R. Brian Fechtel, CFA