What the Consumer Federation of America's Jim Hunt, Professor Joseph Belth, and Other Industry Authorities Think of Breadwinners' Policy Disclosure Approach

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A Brief Introductory Aside About My Friendships With Jim and Joe

Jim Hunt and Joe Belth are both my friends. I have known each for more than 18 years and had countless phone conversations with them. Whenever their travel plans have brought them to NYC, I have always tried to catch-up with them for a meal. Both are smart and have taught me much about the life insurance industry.

For more than 15 years, Jim has served the Consumer Federation of America as its advisor on life insurance. When I was a Northwestern agent, Jim referred many clients to me; and as noted on my Testimonials' page, he found some of my research "invaluable." Jim is reserved and self-effacing, and yet so very admirably and actively civic-minded; while "retired," during tax season he devotes 50+ hours/week as a volunteer AARP tax preparer. Although sometimes possibly a little short tempered, Jim's words on such occasions are as few as his golf swings – a sport and passion at which he truly excels.

During the industry's 1990s sales scandals, I was fortunate to have had many long and very enjoyable phone conversations with Joe. Our talks were often punctuated by Joe's hearty laughter after one of his typical emphatic professorial talks. In many ways, Joe reminds me very much of my own dear father; now even in his 80s, he's still a little didactic and very passionately engaged in his life's work. Although for years Joe proclaimed his award winning newsletter, *The Insurance Forum*, was "for the unfettered exchange of ideas about insurance," prior to about 10 years ago, the only ideas he ever entertained publishing were his own – which, of course, were typically good and well-researched.

Actuary Jim Hunt's Perspective on Breadwinners' Approach

While other actuaries over the years have confirmed the validity of my disclosure approach, Jim Hunt, actuary, life insurance advisor for the Consumer Federation of America (CFA), and long-time friend, remained reluctant to endorse it. Invariably, Jim would refuse to articulate his objections or reasons ('not sure about this or that,' 'can't spend the time now,' etc.) whenever I tried to discuss it with him.

In November 2009 when I decided to take steps to provide my disclosure approach to the public, I directly contacted the Consumer Federation of America's Executive Director, Steve Brobeck, to elicit CFA's collaboration. Following my meeting with Steve in his Washington, DC office, he asked Jim and me to work together. We began on a very good footing, Jim making some minor helpful editorial suggestions regarding a draft of my article: "Life Insurance: An Industry Built on Fraud." I appreciated such, and thanked him, accepting some of his suggestions and declining others, such as his suggestion that I omit mentioning him, Jim Hunt, "because no one knows Hunt."

During December on multiple occasions (in emails and conversations), Jim stated that my approach seemed "OK." Given his past reluctance to have ever even thoroughly discussed my approach, his December statements of approval seemed akin to the grudging acknowledgements that one obtains from another who is reversing a prior position. Over the 2009 holidays, I proceeded to obtain more than a dozen insurers' illustrations of their popular cash-value policies, prepared the disclosure of their underlying rate and costs, and worked on the Policy Disclosure article that we - Jim, the CFA, and I - could present together.

Before continuing with the story, it is essential to review a few fundamental facts regarding illustrations:

1) An illustration is not the actual policy. An illustration – although it is the primary information currently shown to consumers – does not provide the basis for making a purchase decision, as it is just **one possible assumed scenario** shown over future years.

2) The **purpose of understanding an illustration is to understand the mechanics of a cash-value life insurance policy**, specifically its components: its annual expenses, and annual interest/investment earnings on the policy's cash-value, and

3) Disclosure of an illustration is only important in that it enables one to know the assumptions on which it is based so that one can then ask relevant questions to gain insight into the actual likely future performance of the policy's components. **Disclosure demystifies an illustration, and initiates a consumer's insightful queries and search for value.**

Forgetting these three basic facts, which pertain to what an illustration is, how to use it, and what an illustration means, or what disclosure of an illustration means, leads to many potential serious misunderstandings, even among insurance authorities, as you'll see below.

In January, after I had provided Jim and Steve a preliminary draft of the disclosure information, Steve responded, "Thanks for sending this. We'll get back to you soon." Jim, however, responded tersely, "It's better to buy Sun and AXA than to buy Guardian and NML

and MML [a trio of life insurers regarded by Jim and many others as superior to Sun and AXA]? I realize that's not your aim, but that's the quick inference. How could CFA put that out?"

Later in January, Jim, responding to a draft of the Policy Disclosure article I submitted to him and Steve for review, wrote, "Looked today briefly at your "dissertation" [quote marks in email] and was surprised that you have set up a (competing?) website. That raises interesting questions. It must occur to you that you can't expect CFA to bless or even mention a site in which the operator sells life ins. And the other problem is whether your calculations send the wrong message." Since I knew that CFA does work with independent businesses, Steve had in fact explicitly expressed more than just a willingness to consider mentioning or "blessing" my site once Jim had validated my disclosure approach, I was not particularly troubled with Jim's erroneous concern.

I was, though, becoming increasingly troubled by Jim's nonsensical reiterations regarding disclosure of an illustration sending the wrong message. Indeed, I am a little embarrassed to point out the fundamental mistakes in Jim's reply. First, disclosure of an illustration is just part of the education process so that consumers understand a policy's mechanics and know what to ask and research. An illustration is not the actual product, and it is not the basis for making a decision; it is, again, just an assumed scenario. To expose illustrations as the shams they are, the disclosure of their underlying assumptions is an imperative first step. (For more on this and related matters see Archives articles: Understanding a Cash-Value Life Insurance Policy, What Is a Policy Illustration? and The Differences Between Illustrations and Reality). Second, Jim's partisan objection to publicizing this information seemed to indicate either an unacceptable bias or a serious misunderstanding of how this purely educational information with no advisory implications would be presented to the public. Lastly, it is very important to recognize that Jim's objection to the message:

1) Is **not** an objection to the disclosure approach, but

2) Is an actual acknowledgement of the apparently unrealistic (i.e., misleading) assumptions underlying some illustrations, and that

3) Is actually a very compelling reason to go public, and warn consumers about such illustrations.

Despite repeated attempts on my part to arrange a conference call with Jim and Steve, we were never able to do so. On February 4, Jim emailed, "I am bowing out of this [disclosure project] for now; between full-time taxes and ROR service [Jim's own fee-for-service policy review business described in the Part 2 of this two article series], can't do more. And, as I said earlier, the results [of your method, Brian,] seem to send wrong msg: MET is better than NML, e.g." Again, Jim's reassertions that disclosed results send the wrong message are an untenable

position on both life insurance grounds and the fairness practices with which CFA is suppose to conduct its work. Nonetheless Jim used such, perhaps after realizing his objections to my website were unfounded, as a reason to discontinue his work on our collaboration. The following week, Steve in his role as CFA Executive Director asserted that: 1) he would not try to persuade Jim to focus on this disclosure project (needed by all consumers) rather than Jim's individualized Rate of Return service, and that 2) he/CFA couldn't proceed without Jim's validation of my approach (even though I explained my approach is nothing more than seventh grade algebra and basic accounting).

In mid-March, I sent Jim and Steve an email regarding some industry news, and my related thoughts about what this news could possibly mean for this insurer's potentially forthcoming legal liabilities. Jim wrote back accusing me of having possibly committed libel, suffering from megalomania, and added, "Are you saying I should ditch my [insurer's name deleted to protect Jim's privacy] policy because its sales practices are worse than the industry's. Really!" The coup de grace in Jim's email was his statement that based on his and Steve's reading of my email, "…you can assume CFA does not want to work with you." (All emails are available for review by media, et al. To succinctly provide prospective on this matter, there was nothing more critical of insurers in my March email than in my article "Life Insurance: An Industry Built on Fraud" that Jim and Steve had read five months earlier in November 2009.) In Jim's eyes, not only did my disclosure approach send the wrong message, but this one private email I sent expressed such unacceptable ideas as to suddenly render me unworthy of collaboration. A couple of days later, allowing time a chance to heal matters, I sent an email and followed-up with a phone call. Jim, however, after I had civilly tried for merely a minute or two to get our project back on track, virtually ended the call saying, "I'm going to hang-up now." An insurance professor and esteemed industry consultant, from whom I sought his perspective on my own and Jim's emails, responded, "I thought that your email was strident, but in no way did I think that you were advocating someone dump his or her policy. I don't know how JHH got that impression. Maybe he doesn't think too clearly or read very carefully." (Elsewhere in his comments, the professor stated that he had never heard of JHH, despite Jim's nearly 20 year affiliation with CFA; a sad yet real confirmation of Jim's earlier candid advice about omitting reference to him in my article.)

After the tax season, in late April and May, my efforts to renew discussions with Jim and Steve were rebuffed without any further explanation. My final overture was rebuffed this summer, in an email in which Jim not only inveighed against me personally without further commenting on my disclosure approach, but also expressed his opinion regarding Gene Anderson, a pioneering advocate and nationally-esteemed litigator for policyholders whose funeral I mentioned I had recently attended, by stating, "As for Mr. Anderson, whom I never heard of nor do I want to hear more, if he is the same person whose obit was in the NYT, I see

he was a prominent plaintiff's atty. If I had to vote on whether any of them get past the pearly gates, it would be no."

I have only disclosed these facts to answer the necessary question: What do Jim Hunt and the CFA think of Breadwinners' disclosure approach? It is no fun to be critical in public of my friend Jim and an organization, CFA, that I believed ought to be a natural ally. Recall, however, that CFA has never embraced Professor Belth's approach, an approach which at least endeavors to provide **disclosure** about both components of cash-value policies. On top of CFA's long running failure to really fight for or to provide the obviously essential information consumers have always needed, many consumer advocates, I believe, could be very troubled by Jim and CFA's recent actions or inactions. I have been disappointed and upset with Jim on this project, but I still count him as a friend; friendships after all experience various weather conditions. In light of the public policy matters at stake in the disclosure issue, I believe disclosure of the above facts has been necessary. The absence of Jim and CFA, these natural allies, will not undermine my efforts to provide consumers with the policy disclosure that they have long needed and deserved. Others with natural curiosity about such are now, I believe, able to more fully assess Jim and CFA's absence from Breadwinners' disclosure campaign. As always, I welcome your questions and your thoughts.

Professor Joseph Belth's Thoughts on Breadwinners' Disclosure Approach

In 1992 I submitted my policy disclosure approach to Northwestern's actuaries. They attempted to kill it - an approach which I reiterate is nothing but the intuitive idea of reverse-engineering the illustration (since it was built, it can be disassembled). Consequently, I began to seek supporters who could help me convince Northwestern's actuaries of its usefulness. I submitted my approach to A. M. Best (the rating agency), Professor Belth, and others. Best's, apparently thinking so highly of my approach, decided to publish it as their magazine's February 1993 cover article.

In October 1992, Joe wrote me, "When I read your paper after I received a letter from you some time back, I came to the tentative conclusion that there was no fundamental difference between our approaches. I say tentative because I did not study your paper carefully and did not check the arithmetic involved. I still have not done those things, but your [follow-up] letter confirms my tentative conclusion." Reading that, I thought I had found not just another supporter, but in fact, the strongest ally imaginable in the life insurance disclosure battle.

Professor Belth's letter continued, "I prefer to use an interest rate selected by the buyer to represent his opportunity costs of funds, and I believe use of the company's rate results in

serious problems when comparing one company's policy with another. But the choice of interest rate is not a fundamental characteristic of the system.....I could go on, but the point is I still see no fundamental difference between our approaches."

Just to review for clarity, my approach for disclosing an illustration involves using the interest rate the insurer assumed in building the illustration to deconstruct it into a stream of annual costs. Then, taking that stream of annual costs, my approach, in order to compare it with other policies' streams of annual costs per thousand dollars of coverage, discounts all such streams of costs at a standard rate, i.e., 5%. Therefore, one can, for example, say, 'Insurer A's illustration is based on its assumption that the present value of costs/$1000 of coverage over the first 20 years is $X, whereas Insurer B's illustration assumes costs of $Y.' From such understanding, genuine probing questions and analysis can begin.

While Professor Belth's 1992 letter states that the discounting "interest rate is not a fundamental part of the system," I disagreed then, and still disagree now. Discounting an illustration at a rate that is different from that used in its construction does not result in disclosure of the illustration's cost assumption; it is a skewing of the costs arising from the differences between the two interest rates, just as a warped mirror produces a distorted image. Nonetheless, after reading Professor Belth's October 1992 letter, I was sure I could convince him of the necessity of using the same interest rate that was used in constructing the illustration to deconstruct it.

I am sorry to report, after many attempts over the last 18 years, and despite Joe's 1992 statement, "the choice of interest rate is not a fundamental characteristic" Joe has become adamantly opposed to my assertions regarding the correct discount rate to use. Joe's adamancy regarding his belief, reiterated in numerous conversations and emails, that the interest rate to be used in disclosure is the 'interest rate selected by the buyer to represent his opportunity cost of funds' has become so dogmatic and inflexible that he has labeled my disclosure approach's use of the illustration's rate: "absurd."

Let me be clear. I do not advocate that anyone make a decision based on the insurer's illustrated interest rate, or any decision at all based on a policy illustration. However, given that illustrations are what are shown to consumers, to demystify life insurance, one must begin by demystifying an illustration, and one does that by disclosing the assumptions underlying the illustration's page of numbers. Then, the consumer can ask sensible questions about such. This is all so intuitively straightforward and obvious that it actually seems a little embarrassing to publicly reveal Joe's error and emphatic dogmatic position. I also certainly agree with Joe that life insurers can play all sorts of games with disclosure of interest crediting and dividend rates; they certainly did so in the 1980s. But, de-mystification of life insurance policy illustrations begins with the disclosure of the illustrations' underlying assumptions. It is also true that when

both costs and rates are disclosed, there is no reward for misrepresentation of either because to endeavor to favorably misrepresent one variable (i.e., rate) results in unfavorably representing the other variable (i.e., costs).

Again, it is from understanding: 1) that an illustration is just an illustration, and 2) any illustration arises simply from assumptions regarding the performance of the policy's two fundamental components, that 3) it is a quick and intuitive step for consumers to then readily perceive and ask the logical follow-up questions: "Mr. Agent, this is a very pretty and wonderfully attractive illustration with an assumed 8% interest rate that you are showing, but what is the insurer's track record or interest rate history? Or why, Mr. Agent, do you think the insurer's future investment performance for its policyholders will really be so attractive? And also, Mr. Agent, with respect to costs, what information do you have to help me understand how this insurer will provide coverage at attractive/competitive costs for all these years." An Illustration, just like the Wizard of Oz, loses its power to mislead when the curtain has been pulled back, and it is exposed simply for what it is.

The irrefutable logic of my approach is further demonstrated by showing that my approach produces figures that precisely equal those disclosed in a variable policy's prospectus and accurately describes an actual in-force policy's historical performance. Joe's approach fails both of these other tests. I invite all readers to try to be more successful in persuading Joe than I have been; it really would be nice to have my friend Joe partake of celebrating policy disclosure reaching the life insurance marketplace.

A good friend of mine has suggested, that perhaps the seeds of Joe's obstinacy can be found in Joe's 1992 letter's closing thoughts, where after having just said, "…I still see no fundamental difference between our approaches," Joe wrote, "Having said that, I encourage you to go ahead with your work. My only suggestion is that you give at least a little credit to the people who have labored in the same vineyard before you." The write-up of my approach, I readily confess, had not been done as a scholar or after having reviewed academic research. My original idea 18 years ago was simply that: an intuitive idea that seemed practically so obvious that I really couldn't believe that others hadn't had the same idea before. I just assumed that they had just never taken the time, for whatever reason – laziness, unawareness of the life industry's sales practices problems arising from undisclosed illustrations, etc. - to have written it up. After all, there is nothing brilliant in my disclosure approach - it is simply intuitive and obvious.

Once appropriate policy disclosure arrives in the life insurance marketplace, I have always thought that Joe should and would receive credit for his tremendous work. No one has fought the industry's inadequate policy disclosure and deceptive sales practices harder or longer than Joe. His good ideas and arguments for appropriate policy disclosure have been so

vigorously fought by the life insurance industry and its regulators. The industry's resistance has not only been foolish, it has been completely unacceptable. But that has not prevented it from winning the past four decades. (Nor, has this unacceptable conduct prevented others from genuflecting before the industry and its regulators, but that, like so many other matters in the life insurance industry, is a story for another time.) A telltale sign of the battle wariness Joe has experienced over 40+ years is his recent email, "Brian -- Have you read the 2010 book entitled *NO ONE WOULD LISTEN*, by [The Madoff "whistleblower"] Harry Markopolos? If not, I suggest you do so. Happy Memorial Day! Joe" I knew exactly what Joe what saying; we had often both remarked how 'no one listens,' 'no one cares' and 'no one even thinks about the problems in the life insurance marketplace.' Markopolos's nine year battle with the incompetence of the SEC and FINRA seems like a mere walk in the park in comparison with Joe's 40+ year Odyssey. 40 PLUS YEARS! It is almost too much to imagine.

It is certainly understandable why Joe has felt for years, if not decades, that appropriate life insurance policy disclosure will never be implemented; after all, Joe is from an era where government solved marketplace problems, and the internet was not available when Joe was my age. Joe's challenges were not just with the life insurance industry and its captive regulators. Others in positions of leadership (other professors, the media, and civic/consumer groups) failed to properly aid Joe's efforts, failed to effectively contribute to his personal tireless campaign for good disclosure, failed to keep relentless and critical pressure on regulators and others to enact reform, and failed to refine Joe's approach (as mine does) to provide the disclosure that American life insurance consumers have always needed and deserved.

The 40+ year battle to bring appropriate policy disclosure to the life insurance marketplace has not been pretty. In retrospect it will, in so many ways, be baffling that the age-old and terribly costly problems of inefficiency, fraudulent sales practices, and marketplace chaos and dysfunction were allowed to persist until 2010. After all, Joe has always said, the solution to this problem has never required anything more than disclosure and publicity of disclosure - disclosure based on nothing more than simple seventh grade algebra and second grade ethics. Our society's 40+ year tolerance of this enormously costly problem is a collective social failure that should never be forgotten. Let us pray that it is not.

Other Industry Authorities' Thoughts on Breadwinners' Policy Disclosure Approach

Over the years, I have sought the thoughts of other life insurance actuaries, insurance professors, and industry regulators and executives on my disclosure approach. Of the scores of executives, regulators and professors with whom I've spoken, no one has ever identified any

flaws with my approach. Many, though, have stated that they would want to obtain an actuary's opinion about it.

My disclosure approach, first presented in *Best's Review* in 1993 and expanded upon in subsequent *Best's Review* articles in the 1990s and a 2002 *The Journal of Insurance Regulation*, has never been found defective by knowledgeable industry editors or by industry readers. While no insurance regulators have ever contacted me regarding my articles, those I have contacted have always wanted to know what the actuaries think about it.

Armand DiPalo, The Guardian's former Chief Actuary confirmed the validity of my approach, but of course reiterated that the industry would never adopt such. Jerry Brown, Mutual of America's Chief Actuary, and – I mention in the spirit of disclosure - a childhood friend, has confirmed the validity of my approach. Kurt Laning, a life actuary with various companies over the years and with whom I made a joint presentation at a conference for banks in insurance, has confirmed the validity of my approach. In fact, even Northwestern actuaries, after years of wrong-headedly disparaging my approach and vigorously trying to discredit it and me, began in the late 1990s to internally use my approach. (Just call Northwestern's actuaries or examine the spreadsheets they use internally.) So now you know what some actuaries think of my disclosure approach. I of course welcome other actuary's opinions. I also, though, remind everyone of two things: 1) understanding life insurance is not profoundly difficult, it is not astrophysics or genetic engineering, it is a little common sense and some simple math but nothing any adult in the business world should fear, and 2) understanding life insurance is not profoundly difficult, that is, as long as one receives good information.

<u>A Few Final, Philosophical Observations</u>

This primary purpose of this two part series of articles has been to present Jim Hunt's and Joe Belth's thoughts on my approach, and my thoughts on theirs. Obviously, discussion about such matters may continue, and I in fact welcome such.

My disclosure approach makes illustrations and actual policy histories transparent and understandable. It demystifies sales illustrations and motivates consumers to seek the genuine performance information that they have always needed so as to be smart consumers and policyowners. If the proof of its validity and usefulness is not apparent in the abstract, or after reading, the proof of its usefulness will come in its actual use and its impact. The acceptance of my approach – at least, that is what I wholeheartedly believe will happen – is not, however, the most important point of or story in these articles. The most important stories are the failures of so many, my own included, in this 40+ year battle.

Jim Hunt and Joe Belth are actually genuine champions in this battle. I say that with absolute sincerity and despite my above described personal disappointments and disagreements with them. They endured the life insurance industry's opposition for nearly five decades. That is just unimaginable to me. These are the two men who have been seeking the yellow brick road of life insurance disclosure longer than anyone else, and I salute them.

The individuals who really ought to provide public explanations regarding their failures are the industry executives, the agents, the regulators, the media, and others with positions of influence and power in this society. This problem has always been so obvious and of such profound significance. The solution has also always been equally apparent; again there's absolutely nothing brilliant about Breadwinners' approach. That it has taken until 2010 to have had the solution brought to the marketplace, however, is a public shame.

A public shame which just recalls Professor Belth's famous 1970 question that has shamefully remained unanswered. Professor Belth asked the chairman of the committee on professional conduct of the Society of Actuaries, "Is it the professional responsibility of the actuary to take positive action to eradicate deceptive practices, or is it the professional responsibility of the actuary merely to refrain from endorsing deceptive practices?"

> "In May 1971, the chairman of the committee wrote me that, after discussion "at length," the committee was unable to answer the question. After the shock wore off, I asked a friend who was a member of the committee to tell me what [had] happened..... The gist of his explanation
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> > If the committee concluded it is the professional responsibility of the actuary merely to refrain from endorsing deceptive practices, the Society would become the laughingstock of professional organizations. On the other hand, if the committee concluded it is the professional responsibility of the actuary to take positive action to eradicate deceptive practices, the Society would condemn many members to being fired by their companies."

Professor Belth subsequently concluded that, "the deceptive practices in the life insurance industry are so widely used and so deeply embedded in the life insurance industry that any actuaries who try to do something would be treated as troublemakers." An industry executive told Professor Belth that "life insurance companies could not survive disclosure of yearly prices." That of course is not true, but it is clearly an indication of the enormous stakes that have been and are involved in this battle.

All of which is just another example of the catastrophe created when problems are allowed to be managed by heartless Tin Men, brainless Scarecrows, and timid Lions. Review the

participants in this story of the battle to bring good disclosure to the life insurance marketplace. Isn't it easy to identify the cast of characters from The Wizard of Oz? The actuaries are leading contenders to play the Tin Men; the regulators, the Scarecrows; and the Lions: the public, the media, and many others in positions of authority who just never had the fortitude to solve this enormous costly, yet so readily solvable problem arising from inadequate disclosure of life insurance policies. Fortunately, though, as we all know, the truth sets us free. So now, maybe America can again begin to become the America of Dorothy's and all of ours' best dreams.