My Reply to Glenn Daily's Critique of My *JFP* Article

In his review of my *Journal of Financial Planning (JFP)* article, "Bringing Real Clarity to Cash Value Life Insurance to the Marketplace," Glenn Daily makes many criticisms of the life insurance policy disclosure approach I presented. Mr. Daily specifically calls my approach a "waste of time," and concludes, "Instead of a detailed explanation of how life insurance policies are actually priced, provided by actuaries who do the pricing [and Fechtel is not an actuary], they have to settle for one superficial description [like Fechtel's] after another [like Veralytic's, which Mr. Daily had previously criticized/virtually eviscerated]. Clearly, he does not think much of my article and informative illustration approach. While many may imagine that I might ignore or shy away from addressing such a derisive litany of criticisms, I welcome Mr. Daily's criticisms. Most importantly, for advisors and their clients this online "conversation" about this controversy is certain to be most significant.

For when Mr. Daily criticizes my disclosure of the financial performance of a cash value life insurance policy, he not only criticizes my approach, he also implicitly criticizes the work of other advocates of improved policy disclosure, such as Professor Joseph Belth. My approach, like Belth's, provides policy information that conforms to the actual framework of a cash value policy as a combination of insurance coverage and savings vehicle. It shows the financial performance of a cash value policy with respect to its two main factors, its stream of annual costs and its annual compounding rates. Consequently, when readers recognize, for instance, that my informative illustration approach exactly aggregates and clearly presents the myriad cost figures in a variable policy's prospectus or any policy's historical performance, they may well wonder how or why Mr. Daily authored such an invalid and wrong litany of criticisms.

This reply is not a terse or heated exchange of sound bites with Mr. Daily's review, but to help all readers understand the controversy and answer their own most important question: Is the approach I presented useful to you, your fellow advisors, and/or your clients? Naturally, reading my *JFP* article would directly enable you to see my approach's usefulness firsthand; submitting any of your own questions to me is also encouraged and welcomed, **but simply reading this reply ought to suffice**. And, please know that while I am aware that evaluating a controversy or dispute (especially during this seemingly endless 2012 election) could seem like an unpleasant chore, I am confident all readers will actually find reading this reply and thinking about its substance to be very worthwhile and important endeavors. For at issue is not a thorny question of political philosophies, but one readily resolved by facts and logic. Knowing where you stand on this issue could/should be very beneficial to your business and your clients.

Broadly speaking, Mr. Daily's criticisms can be summarized as follows: my article's informative illustrations are worthless; consumers really need much more information than my article/approach recommends, and finally, there's no evidence that my approach even works. (An ending summary succinctly refutes each of Mr. Daily's ten criticisms.) First, for readers who are not thoroughly familiar with life insurance, let me note an essential background fact: a cash value policy's annual cost or price is different than its premium. It is this difference between these policies' annual premiums and their annual price/cost, and the lack of disclosure about these cash value policies' cost or price that is actually at the root of the industry's age-old disclosure problems and sales misconduct.

Rebuttals to Daily's Charge that Informative Illustrations Are Incomprehensible, Unnecessary, and Worthless

Advisor Daily argues, with this mere assertion, "The three annual cost columns in the [Informative] Illustration will take some effort for advisors to understand and to explain to clients, with no advantage over a rate-of-return perspective that fits naturally with how advisors approach other investments." In doing so, Mr. Daily summarily dismisses the following pricing information provided by my approach: a policy's maximum annual cost/price, its illustrated total annual cost/price, and its illustrated annual cost/price per thousand dollars of coverage. Yet, all three cost/price measurements are explicitly useful, their titles reveal their usefulness. These straightforward costs columns are also useful in undermining many of the typical misrepresentations that agents make. Moreover, cash value life insurance is more than just an investment, and therefore Mr. Daily's implicit recommendation to analyze it as advisors approach other investments is clearly incomplete.

Mr. Daily's criticism is not merely opposition to my disclosure approach but also irreconcilable with the works of my fellow life insurance marketplace reform advocates: Professor Joseph Belth, Professor Ralph Winter, Senator Philip Hart, and the 1908 Wisconsin Insurance Commissioner. Senator Hart in 1968 stated, "Obviously, if it makes sense to tell consumers how much of what is in a package on a supermarket shelf, or how much interest they will pay for using someone else's money [or vice versa], it makes sense to tell them how much they are paying for death protection and how much they are saving when they plunk down a life insurance premium." Such figures are precisely what my approach provides. Regarding the importance of policy cost disclosure, Professor Belth years ago observed, "Yearly prices [of cash value policies] are so revealing that the companies took extraordinary action to prevent disclosure of the information." Insurers, in this internet age, can prevent it no longer. Rather than welcoming such information, Daily criticizes my approach that provides such.

Despite such facts, Mr. Daily, leaves no doubt about what he thinks; he asserts "one person's informative illustration is another person's waste of time." It probably isn't possible to be more brusquely dismissive of my approach, and also so wrong. (Snide assertions like his, though, are, personally, fine with me; unprompted vitriol typically reveals more about a speaker than his subject, and I am accustomed after all to such having had to battle life insurers and others to bring good disclosure to the marketplace.) In his attempt to support his position, Daily contends that a policy's guaranteed values contain "near-zero informational content," and cites (inappositely) his blog, "Life Insurance Guaranteed Values Are a Big Fat Idiot." But, a policy's guaranteed annual premium and guaranteed cash values are material facts, and understanding a cash value policy's guarantees (its maximum annual costs and minimum annual compounding rate) is essential to having a sound and solid conceptual understanding of the product. Not incidentally, my approach, which can be so easily and quickly applied, also complies with regulations mandating that consumers be shown both illustrated and guaranteed values.

Rebuttals to Daily's Charges that Informative Illustrations are Woefully Inadequate

After dismissing the usefulness and/or importance of my approach's policy cost disclosure, Mr. Daily proceeds to argue that my approach is woefully inadequate: it doesn't use "profit tests," or apply options analysis, and it isn't as precise as that used by the settlement industry. In his prior review of the Veralytic Report, Mr. Daily declared, "Profit tests are the crown jewels of life insurance due diligence." Actually, "profit tests" are nothing but proprietary forecasts, and constantly changing speculative ones at that. Hence, this pseudo-erudite sounding actuarial buzz word is hardly a due diligence crown jewel. Moreover, economic theory and practice do not require "profit test" like information be provided to consumers for them to be effective buyers. The SEC has never required such information to be disclosed on any financial product. "Profit tests" type information has never been deemed relevant on similar products like mutual funds. The Department of Labor does not require such in its new disclosure requirements about 401k fees. *Consumer Reports* does not obtain "profit tests" to evaluate peanut butter, automobiles, or any other product.

When Advisor Daily asserts, "Fechtel is unjustifiably dismissive of options analysis," he not only proceeds to misquote me – incredibly omitting some essential words and taking others out of context - but he also shows that he hasn't carefully read my article. My article explicitly presents an example of what he calls, "the most important option consumers have: the option to wait," that is, my article explicitly mentions the possibility of its 43 year-old female waiting until age 62 to exercise her option to buy a cash value policy.

When Advisor Daily next touts the settlement industry's approach as better than mine, he is mistaken about its precision, accuracy, superiority, or widespread usefulness. Just recently Professor Belth reported that a settlement firm/practitioner estimated insureds' average longevity at 38 months when the average turned out to actually be 128 months. Aside from such clear documentation of the imprecision and inaccuracy of the settlement industry's approach, readers should also know that there is no "one approach" used by the settlement industry. Most importantly, though, their various approaches have rendered many of the industry's firms insolvent or shut down. One leading company, Life Partners, has seen its share price crater over the past five years from $22 in 2007 to $2 in 2012. Furthermore, hardly indicative of an industry applying a successful approach, just two months ago (August 2012), the Life Settlement Industry Association ran a blog, "When will capital return to the life settlement space?" So when I hear Mr. Daily touting the settlement industry's approach, an approach that he does not present or provide any basis for his claim of superiority, it reminds me of life insurance agents touting traditional whole life as some incredibly wonderful product.

<u>Rebuttals of Daily's Charge that There Is No Evidence of the Efficacy of My Approach</u>

Following his own omission of any evidence in support of his touted settlement industry's approach, Advisor Daily nonetheless with undiminished bravado asks, 'Where is the evidence that Fechtel's analytical approach leads to better outcomes for consumers?' Readers may be surprised to learn that at least some of the evidence is in Mr. Daily's own client files. You see, Glenn and I have at least one client in common. In May 2006 Advisor Daily was retained by 'Mr. Alpha' to evaluate the replacement of his Phoenix cash value policy. Advisor Daily was unclear about the merits of Mr. Alpha replacing his Phoenix policy. However in the summer of 2006, after Mr. Daily had shared his perspective on Mr. Alpha's policy with me, I identified the problems with his perspective (Daily's failures to provide correct disclosure of the illustrated policy's assumptions and the relevant information for assessing probable future performances of policies) and presented the necessary information that led Mr. Alpha within a week to decide to replace his Phoenix policy.

Much more broadly and importantly, Advisor Daily and several other life insurance advisors have routinely concurred with the policies my approach typically recommends. In particular, we have both long recommended to clients and journalists the importance of "blended" policies, that is, policies on which the traditional sales costs of whole life are drastically reduced by "blending" policy components with lower sales loads. My approach clearly demonstrates the benefits of blending and Advisor Daily knows this fact. In addition, Table 3 in my *JFP* article shows a whole life's policy's very large first year costs and its ever increasing later years' annual costs/coverage. It is precisely such complete information that has led industry executives to fight so hard against policy disclosure because of their recognition of its undeniable impact. As Advisor Daily knows, Professor Belth years ago also stated, "One company executive told me that companies could not survive disclosure of yearly prices." While the executive's fears are pure hyperbole, his words indicate how effective the information in my disclosure approach is. So when Mr. Daily feigns ignorance about the efficacy of my approach, readers can probably join me in recognizing something more than just a little disingenuous in his position.

There is, however, even more compelling and profound evidence of the errors in Mr. Daily's criticisms. In his May 2012 criticism of the Veralytic Report, Advisor Daily writes, "State insurance regulators could improve the marketplace in several ways: Require companies to disclose….the formulas that produce the illustrated values. None of this information is proprietary; it can all be determined, much less efficiently by reading the contract and the annual statement and reverse-engineering the illustrations." My approach is explicitly based on reverse-engineering. My article states, "This [Table 2's] informative illustration is constructed by reverse-engineering the illustration's values." Reverse-engineering is also used to show the historical performances on two life insurer's policies. So it's a little confusing and inconsistent that Advisor Daily prior to derisively dismissing my reverse-engineering approach had just four month before not only criticized the Veralytic Report for its omission of such straightforward information but also actually asserted a need for the provision of reverse-engineered policy information.

Conclusions: Informative Illustrations Provide the Better Policy Disclosure Advisors Have Always Needed

From the facts above, I think readers can see the usefulness of the information my disclosure approach provides and the errors in Mr. Daily's criticisms of my *JFP* article and approach. Readers are also encouraged to try for any policy of their choice my website's analytical tool that readily provides, in as few as twenty-plus key strokes, much of the information in my approach's Informative Illustrations. Or read my *JFP* article, or send me any questions about how to more fully understand and apply the benefits of my approach. As I state in the *JFP*, my analytical approach doesn't by itself provide one with all the necessary information to buy or manage a cash value policy. But in highlighting the financial mechanics of the policy and the illustration's underlying assumptions, Informative Illustrations foster an intelligent search for policies that provide competitive value and have the prospects of attractive future performance.

Below is a very abridged summary of Advisor Daily's complete litany of criticisms; in the coming weeks, if necessary, I could complete and provide a more comprehensive rebuttal of all of Mr. Daily's positions. Presently, though I am working to fulfill commitments I made to many others to bring about an informational transformation of the life insurance industry and marketplace.

Three months ago, the *National Underwriter*, after having published several articles of mine on the extraordinary problems with the life industry's practices, not just with life insurance, but problems with annuities and long term care insurance as well, honored me with its 2012 Award for Regulatory Advocacy. Consequently, I am currently working around-the-clock to bring about the long overdue informational transformation of our dysfunctional industry.

Good information can be as powerful and as fast acting as a tsunami. Good disclosure, as provided by my Informative Illustrations, will provide many benefits. Let me just mention two. First, it will drive the excessive sales compensation out of the life insurance industry's cash value products by simply making them visible/disclosed, so that they are at long last subject to the market forces of informational empowered advisors and consumers. Then, consumers, advisors, and agents will be able to shop, buy (or recommend or sell), and manage life policies with confidence, and also, I believe, with joy! Second, good disclosure will also foster the transformation of life insurance agents, who undeniably have a sordid reputation, into the financial doctors they want to be, can be, and ought to be seen as when they conduct their business as true, service professionals. An informational tsunami will soon cleanse and fix the industry's pervasive, costly problems arising from its age-old terribly inadequate product disclosure practices that have for too long seriously harmed America's consumers.

Again, I invite all Advisor4Advisor readers, and all others, as well, to join with and work with me in bringing about the golden age of life insurance – an age built on the foundation of good disclosure. A better future can only be achieved when we all have better information, and that's what my approach provides.

Glenn Daily's Ten Criticism of My Sept. 2012 *JFP* article on life insurance policy disclosure. Rebuttals indented.

1st Criticism: Approach's Inclusion of Guaranteed Information on Policies Renders It Worthless.

> Daily is mistaken. Guaranteed policy values contain information that is material and cannot be dismissed. Guaranteed values are instrumental to a conceptual understanding of policies; assertions to the contrary are nonsensical.

2nd Criticism: Columns of Annual Costs Are Incomprehensible and Unnecessary.

> Daily is not just mistaken his position is completely at odds with many industry reformers: Belth, Winter, Hart, and the 1908 Wisconsin Insurance Commissioner. Appropriate policy cost information has always been needed. And, despite his query about such, Daily knows these cost figures, like any other cost data, i.e., auto ins. premiums, are beginning-of-year numbers.

3rd & 4th Criticisms: Skimpy Review of Literature and Inaccurate Date of Creation of Linton's Approach.

> Apparently, the *JFP* editors disagreed. Daily, in fact, cites no wrongly omitted approach, and his comments about the date of Linton's creation, besides being just silly, are at odds with Professor James Carson's findings published in his 1996 book.

5th Criticism: Fechtel claims without evidence insurers' financials useful in analyzing policies.

> Daily amended his blog to correct, at least partially, this mistake. Besides, his own emails to Mr. Alpha prove the obviousness of his 5th error. Moreover, in his review Daily actually states, "Fechtel has published an impressively detailed analysis of an insurer's financial statements."

6th Criticism: Fechtel's Approach is not good because it doesn't provide the actuaries' "profit tests."

> Daily is wrong. Consumers have never needed "profit test" information to buy any other products, even products used and paid for over multiple years. Moreover, yearning for such proprietary estimates will always be unfulfilled, besides being unnecessary and just the expression of a fanciful delusion.

7th Criticism: Approach is second rate and less "precise" than the life settlement industry would accept.

> Daily is again wrong on multiple counts. Besides the above mentioned financial disasters of his touted settlement industry's approach, my approach provides more comprehensive information, and can be applied to all cash value policies, unlike the settlement industry's very limited focus.

8th Criticism: Fechtel unjustifiably dismisses options analysis; therefore, his approach can't be very good.

> Daily's careless reading of my article and his careless and inaccurate misquoting are untenable.

9th Criticism: There's no evidence that Fechtel's analytical approach leads to better outcomes.

> Daily, himself, actually has evidence of my approach leading to better outcomes. He also knows of the efforts of others to thwart the dissemination of my approach. So his query about where is the evidence of its effectiveness is not only hollow, it is disingenuous twice over.

10th Criticism: Fechtel is not an actuary; his "superficial" approach is a disservice to financial planners.

> Daily's final disparaging words have no merit. Actuaries have no monopoly on knowledge of life insurance products. My approach is financially accurate. As mentioned on my website, and as Daily knows or should know, some actuaries and insurance professors have confirmed my approach's validity.

In response to my comments on his criticisms of my approach, all Mr. Daily added was:

Reply by Glenn S. Daily:

I really have nothing to retract or to add to my comments, beyond this observation:

Daily's critique of Fechtel's JFP article: 1,190 words
Fechtel's critique of Daily's critique: 3,100 words

My Reply to Mr. Daily's Reply:

While Glenn's terse, cryptic reply hardly warrants a response - for as all readers know, one little lit match can destroy a forest or one short cut with a knife can destroy a painting – serious discussion of this subject of life insurance product disclosure, what my article's all about, has been for more than a century and will remain until reformed an absolute societal imperative. Consequently, I reiterate my invitation to all readers to study our positions – Glenn's and my own – not for our sakes, but for your own, because your own evaluation of our positions could be most important to you and your clients. This subject of policy disclosure/policy analysis is obviously important, and Mr. Daily's and my own positions are clearly very different.

In essence, I believe in empowering consumers with product disclosure and genuine financial expertise. Mr. Daily, on the other hand, believes consumers will always need fee-only life insurance consultants, essentially, toll bridge operators or food tasters. He has actually written, "The best way to protect your interests is to get advice from multiple, independent sources." According to Mr. Daily, not only are my efforts to bring to good disclosure to the marketplace seriously flawed and misguided, but he even apparently recommends retaining multiple "food tasters." My associates at Breadwinners' and I believe in actually fixing the life insurance marketplace, in ending the industry's abuse and exploitation of consumers. We, of course, can work for you as one of the multiple independent sources Mr. Daily recommends. We are confident, however, that once you have experienced Breadwinners' expertise, integrity, and service, you will also readily realize - just like when you have worked with possibly a terrific, world-class surgeon, attorney, professor, airline pilot, fireman, auto mechanic or other professional to whom you at some point have "trusted your life to" - the unrivaled quality and value of our advice.

Having now read these positions, the question for you is really whose positions do you think have merit and/or are more valuable to you and your clients? Your thoughts and questions, any criticisms, suggestions and observations are sincerely welcomed and most appreciated.

Together, by disseminating good disclosure of policies, and by helping our clients and others use this information, we can and will fix the life insurance industry and marketplace.