

Genuine Financial Analysis of Life Insurance Made Readily Understandable

**R. Brian Fechtel, CFA, Agent and
Founder of Breadwinners' Insurance**

fi360's Conference * Nashville, TN * April 25, 2014

“It is my earnest hope, Mr. Chairman, that one of the results of this hearing before your subcommittee will be [1]higher visibility for this issue leading, in turn, [2] to broader public support for the need for the modernization of the laws and regulations governing the marketing of life insurance products.”

Statement of David J. Lyons, Iowa Insurance Commissioner and then Secretary of the National Association of Insurance Commissioners speaking on behalf of the NAIC at a Hearing of the United States Senate’s Subcommittee on Antitrust, Monopolies and Business Rights. The Hearings Were Titled: When Will Policyholders Be Given the Truth About Life Insurance?

Commissioner Lyons continued, informing the Senate Subcommittee that the NAIC had formed a working group to “address the concerns you addressed to me in your letter last September..... Among the proposals my department has suggested to the working group for inclusion in a draft regulation are:

- A limit on the number of pages in the policy illustration to perhaps two pages
- One page could be a consumer-friendly chart, with the other page being a narrative explaining the assumptions used for the nonguaranteed parts, such as interest rates assumed, mortality assumed, expenses components or others as appropriate.....”

Be Sure to Introduce Regulators in Audience Today

Why do we care?

Why do we care
about Life
Insurance?

As many remember from the weeks and months following 9/11, traveling by air became a real hassle. In fact, the delays and hassles at airports led many to choose to travel by car. Unfortunately, traveling by car is much riskier than traveling by air. Economist Garrick Blalock has estimated that approximately 2300 more individuals died on American roads in the two years following 9/11 than otherwise would have had the country not implemented greater security at airports. These 2300 additional fatalities are undeniably indirect victims of the 9/11 attack. These indirect 9/11 fatalities were probably no better insured than the direct 9/11 victims. Indeed, the same is probably true for all of the other breadwinners who have died subsequently.

Comparing BTID vs CV Policy

Where Investment Returns Assumed To Be The Same

	<u>Com</u>	<u>Ann'l</u>	<u>Ann'l</u>	<u>Years</u>	<u>Annual</u>	<u>Ann Amt</u>	<u>Possible Extra Ann</u>	<u>Permissible</u>	<u>Total</u>	<u>CV Policy's</u>	<u>Cash</u>
	<u>pon</u>	<u>Tax</u>	<u>Total</u>	<u>Cover'd</u>	<u>Term</u>	<u>Invested</u>	<u>Costs of CV Policy</u>	<u>Extra Costs of</u>	<u>Value of</u>	<u>Value at</u>	<u>Value</u>
	<u>ding</u>	<u>Rate</u>	<u>Outlay</u>		<u>Cost</u>	<u>in</u>	<u>that doesn't Erode</u>	<u>CV Policy as a</u>	<u>A-T</u>	<u>end of</u>	<u>Policy's</u>
	<u>Rate</u>	<u>Rate</u>	<u>Outlay</u>	<u>Cover'd</u>	<u>Cost</u>	<u>SideFund</u>	<u>Advantage of</u>	<u>Percent of</u>	<u>SideFund</u>	<u>duration</u>	<u>AT Value</u>
	<u>Rate</u>	<u>Rate</u>	<u>Outlay</u>	<u>Cover'd</u>	<u>Cost</u>	<u>(taxed</u>	<u>Policy's Tax</u>	<u>Annual Term</u>	<u>at End of</u>	<u>(untaxed)</u>	<u>(after</u>
	<u>Rate</u>	<u>Rate</u>	<u>Outlay</u>	<u>Cover'd</u>	<u>Cost</u>	<u>annually)</u>	<u>Privileges*</u>	<u>Costs</u>	<u>Duration</u>	<u>Duration</u>	<u>surrender</u>
1	6.50%	30%	8,000	20	950	7,050	\$137.85	15%	\$232,446	\$285,810	\$248,067
2	5.50%	30%	8,000	20	950	7,050	\$154.95	16%	\$214,656	\$253,642	\$225,549
3	4.50%	30%	8,000	20	950	7,050	\$173.87	18%	\$198,412	\$225,421	\$205,795
4	6.50%	40%	12,000	15	1450	10,550	\$337.81	23%	\$217,864	\$263,005	\$229,803
5	5.50%	40%	12,000	15	1450	10,550	\$368.00	25%	\$207,210	\$240,714	\$216,428
6	4.50%	40%	12,000	15	1450	10,550	\$400.56	28%	\$197,143	\$220,439	\$204,263

The *Beauty* of Lapse-Supported Pricing

Policy Year	Number of Policyholders	Actual Cost	Actual Charge	Extra Costs or Subsidy	Implicit Rate of Return	Cumulative Compounded * Value of Extra Costs	Reductions
1	1000	100	150	50		52,750	
2	950	110	160	50		105,764	
3	900	120	170	50		159,056	
.....							
15						602,398	
16	550	600	300	-300	13%	461,455	(165,000)
17	528	700	310	-390	15%	255,535	(205,920)
18	507	800	320	-480	16%	12,232	(243,302)

5.50%* Assumed Rate of Return during duration of compounding

**A Traditional Sales Illustration Like Those Used Currently By Agents
 \$250,000 of "99 Life," a Whole Life Policy on Healthy Male Age 45**

End of Year	Insurance*	Dividend*	Annual Premium (Pd Beg Yr)	Cash Value Increase*	CV Growth Less Premium*	Total Premium Outlay	----- Cash Values-----	
							Total*	Guar'nt'ed
1	251,425	408	5,815	408	(5,407)	5,815	408	0
2	253,954	754	5,815	4,726	(1,089)	11,630	5,134	3,955
3	257,582	1,127	5,815	5,269	(546)	17,445	10,403	8,048
.....								
.....								
.....								
.....								
19	468,597	12,240	5,815	22,879	17,064	110,485	218,463	93,228
20	487,837	13,411	5,815	24,833	19,018	116,300	243,296	99,878

Life Insurer's Balance Sheet from A.M. Best

<u>Assets</u>		<u>Liabilities</u>	
*Total bonds	50,327	+Net policy reserves	64,245
*Total preferred stocks	306	Policy claims	260
*Total common stocks	3,978	Deposit type contracts	3,577
Mortgage loans	11,218	Interest maint reserve	76
Real estate	1,128	Comm taxes expenses	859
Contract loans	8,960	Asset val reserve	1,428
Cash & short-term inv	1,139	Other reserve	3,883
Derivatives	2,387	Other liabilities	<u>3,307</u>
Other invested assets	5,371		
		Tot liab w/o sep accts	77,635
Premis and consid due	585	Separate account bus	<u>41,303</u>
Accrued invest income	535	Total Liabilities	118,938
Other assets	<u>2,039</u>	Surplus notes	1,340
		Unassigned surplus	8,651
Total w/o sep accts	87,975	Other surplus	<u>361</u>
Separate account bus	<u>41,316</u>		
Assets	129,290	Total	129,290

Life Insurer's Income Stmt from Best's

<u>Premiums</u>		Death benefits	1,155
Ordinary life	3,823	Matured endowments	20
Individual annuities	1,786	Annuity benefits	855
Group life	83	Disability benefits	20
Group annuities	4,997	Surrender benefits	7,729
Acc & health other	469	Acc & health benefits	295
Total premiums	<u>11,158</u>	Int on policy funds	120
		Supplementary	
Supplementary contracts	5	contracts	9
Net investment income	4,359	Incr life reserves	2,300
Amort interest maint res	67	Incr a & h reserves	9
Net gain from sep acct	(1)	Change in reserves	(29)
Comm & exp reins ceded	110	Commissions	493
		Comm exp reins	
Res adj on reins ceded	69	assumed	28
		Other commissions &	
Other income	277	exp	30
Mgt and/or service fee	96	Insur taxes lic & fees	131
		General ins expenses	1,325
		Net transf to sep acct	(95)
		Misc operating expense	13
Total	<u>16,140</u>	Total	<u>14,409</u>
		Gain from operations before FIT & div to policyholders	1,731
		Dividends to policyholders: life	1,191
		Dividends to policyholders: accident & health	19
		Gains from operations after dividends to policyholders	521
		Federal income taxes incurred	(251)
		Net gain from operations after FIT and dividends	772

Financial Strength Data from Best's

Total Capital (in thousands, years: 2008-2012)

<u>Assets</u>	<u>Cap/Surplus Funds</u>	<u>Reserve Funds</u>	<u>Condt'l Premiums Written</u>	<u>Net Invest Income</u>	<u>Net Income</u>
109,220,587	7,026,842	1,693,986	12,480,794	4,193,769	702,798
119,085,813	8,008,148	1,514,655	12,834,014	4,633,506	140,007
114,294,059	8,462,931	395,054	13,234,763	4,897,438	-993,468
121,329,281	9,258,844	1,142,500	12,389,488	4,043,752	-289,365
129,290,316	10,352,400	1,427,795	11,158,497	4,359,124	534,922

<u>Direct Premiums (millions)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ordinary life	4,188.9	4,119.7	4,047,156	3,889,244	3,704,075
Group life	139.3	159,565	323,491	945,669	783,014
Individual annuities	1,785.7	2,298,083	2,579,478	1,779,859	1,713,678
Group annuities	4,997.4	5,725,988	6,157,259	6,065,747	6,065,324
Individual A&H	609.3	603,086	597,789	566,698	539,532
Group A&H	271	252	296	356	390
Total	11,720,854	12,906,670	13,705,469	13,247,573	12,806,012

<u>Reins Ceded Prems (000)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ordinary life	475,216	443,560	410,161	365,991	324,074
Group life	56,528	56,759	58,515	55,850	55,265
Individual A&H	140,148	139,622	139,201	125,945	112,320
Group A&H	271	252	296	356	390
Total	672,163	640,194	608,173	548,142	492,049

<u>Net Premiums & Deposits (000)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ordinary life	3,858,365	3,838,934	3,820,493	3,705,528	3,591,409
Group life	82,592	102,932	262,176	883,027	723,138
Individual annuities	1,991,385	2,808,946	3,105,353	2,351,466	2,290,426
Group annuities	6,307,946	6,037,314	6,822,753	7,777,629	6,579,613
Individual A&H	469,167	463,464	458,589	440,753	427,212
Total	12,709,454	13,251,589	14,469,364	15,158,403	13,611,798
Deposits (incl. above)	1,550,957	862,101	1,234,601	2,324,389	1,131,004

And More and More Data from Best's

General Account Reserve Distribution (000)					
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ordinary life	37,449,871	35,892,091	34,297,458	32,667,430	31,017,716
Group life	9,425,153	9,249,697	9,944,656	9,401,943	8,872,314
Supplementary contracts	55,413	56,793	61,078	63,814	68,009
Individual annuities	6,033,005	5,220,595	4,428,724	3,277,529	3,105,056
Group annuities	8,873,413	9,134,381	9,480,895	9,111,940	9,478,829
Deposit type contracts	3,576,826	2,808,910	3,920,843	4,257,017	3,586,087
Individual A&H	<u>2,408,562</u>	<u>2,399,307</u>	<u>2,357,474</u>	<u>2,299,169</u>	<u>2,261,850</u>
Total	67,822,243	64,761,775	64,491,130	61,078,842	58,389,861

<u>Year</u>	<u>Net Yield</u>	<u>Bonds</u>	<u>Stocks</u>	<u>Mortgages</u>	<u>Cash & Short Term</u>	<u>Real Estate Gross</u>	<u>Net</u>	<u>Invest. Exp. Ratio</u>
2008	6.31	6.21	6.27	6.74	4.67	17.24	4.18	10.05
2009	6.61	6.08	10.39	6.56	5.68	18.09	4.29	9.51
2010	6.47	5.70	20.10	6.12	2.99	18.85	4.77	8.31
2011	5.09	5.11	4.41	5.79	0.58	14.92	-0.41	9.42
2012	5.37	5.36	6.06	5.64	0.33	14.22	-0.31	9.14

Breadwinners' Analysis of Income Stmt. w/out Inv. Returns

	Figures in Millions	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>5 Yr Cumulative (2008-2012)</u>
1	Premiums	\$3,169	3,032	2,987	2,748	2,783	\$14,718
2	LESS Net Trans to Sep Accts	(3)	13	13	65	76	165
3	Plus Net Gains Sep Accts	-	-	-	-	-	-
4	Plus Ordinary Fees Assoc' w/Sep Accts	51	50	50	51	52	255
5	Plus Aggregate Write-ins	<u>24</u>	<u>23</u>	<u>37</u>	<u>23</u>	<u>20</u>	<u>127</u>
6	Equals: Total Dir Prem + Non-Inv. Inc.	3,247	3,091	3,062	2,756	2,779	14,935
7	Mortality Claim Costs	288	288	262	260	233	1,330
8	Reinsurance Costs	220	210	204	200	188	1,023
9	Agent Commissions, etc.	368	353	344	324	305	1,694
10	Home Office Expenses	220	202	198	178	176	973
11	Premium Taxes and Fees	69	72	64	60	60	325
12	Fed Taxes (excluding taxes on cap gains)	(4)	(13)	(104)	(2)	(123)	(247)
13	Misc. Benefits	27	25	22	24	29	127
14	Misc. Operating Costs	<u>11</u>	<u>12</u>	<u>9</u>	<u>13</u>	<u>6</u>	<u>52</u>
15	Total Expenses & Taxes	1,199	1,149	1,000	1,056	873	5,277
16	Max Net Prem Available to Grow Reserves*	2,048	1,942	2,062	1,701	1,906	9,659
17	Min Net Prem Available to Grow Reserves*	1,839	1,761	1,785	1,583	1,578	8,546
18	Annual Profit on Life Product Line	209	181	277	118	328	1,112

Breadwinners' Analysis of Investment Returns & Allocations

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>5 yr cumulative (2008-2012)</u>
Figures in Millions						
1 Gross Inv. Income less depreciation	\$3,075	3,018	2,987	2,756	2,811	\$14,648
2 Rlz Cap Gains/Losses Net of Taxes to IMR	171	125	17	73	(385)	1
3 Unrealized Cap. Gains/Losses Net of Taxes	46	(72)	421	166	(1,207)	(645)
4 Amortization of IMR	63	40	12	13	12	140
5 LESS Interest Expense	<u>37</u>	<u>39</u>	<u>30</u>	<u>3</u>	<u>18</u>	<u>127</u>
6 TOTAL Investment Income	3,318	3,073	3,408	3,005	1,213	14,017
7 Avg ROR on Managed Inv.	5.85%	5.67%	6.83%	6.33%	2.21%	5.36%
8 Inv. Mgmt Exp & Misc Inv. Taxes, Etc. \$	128	122	114	92	107	563
Inv. Mgmt. Cost in Basis Points	23	23	23	20	24	22
<u>Investment Inc. - Distributed</u>						
9 Max Possible Amt. To Individual Life Ins.	2,707	2,639	2,592	2,431	2,453	12,823
Min Possible Amt. to Individual Life	2,499	2,458	2,315	2,313	2,125	11,710
10 Max Avg. ROR on Non-Borrowed Life Res.	6.11%	6.30%	6.61%	6.54%	7.17%	6.55%
11 % Partitioned for Surplus if Half Direct Surplus Growth Recovered from Inv. Earnings - Avg Past 5 Years					see Note 2	0.29% 6.26%
<u>Investment Income Distributed To ALL Other Products</u>						
12 Max Possible Amt. to ALL Other Products	265	258	264	243	245	1275
Min Possible Amt. to ALL Other Prod.	208	206	195	191	174	975
13 Max Avg. ROR to ALL Other Products	6.19%	6.20%	6.55%	6.38%	6.97%	6.46%
% Partitioned for Surplus if Half Direct Surplus Growth Recovered from Inv. Earnings - Avg Past 5 Years						0.77%
14 Actual Total Change*** in Capital	455	281	659	393	-994	794
15 Total Capital	6484	6029	5748	5090	4697	CAGR
16 ROR on Capital - Avg Annual Past 5 Years	7.54%	4.89%	12.94%	8.37%	-17.46%	2.65%

Breadwinners' Reconciliation of Change in Policy Obligations

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>5 Yr Cumulative</u>
<u>Beginning Obligations to Policyholders</u>						
1 Dividends Unpaid from Prior Year	26	25	25	20	19	19
2 Dividend Declared to Be Paid During Yr	1,642	1,625	1,593	1,552	1,499	1,499
3 Life Insurance Reserves at Start of Year	<u>43,739</u>	<u>41,230</u>	<u>38,726</u>	<u>36,630</u>	<u>33,970</u>	<u>33,970</u>
4 Total Liabilities to Policyholders (1+2+3)	45,406	42,880	40,344	38,202	35,488	35,488
<u>Increases in Obligations</u>						
5 Max Available from Prem to Grow Res	2,048	1,942	2,062	1,701	1,906	9,659
6 Max Available from Inv to Grow Life Res	2,707	2,639	2,592	2,431	2,453	12,823
7 Less Op Prfts Trans to Cap from Prdct In	209	181	277	118	328	1,112
8 Lines 4 + 5 + 6 minus 7	49,953	47,280	44,720	42,216	39,519	56,856
<u>Reductions in Obligations because of Pay-Outs</u>						
9 Divs Paid And Taken Out of the Co - CALC.	390	386	376	360	378	1,890
10 Reserves Released to Pay Death Claims	507	461	432	418	364	2,182
11 Surrender Benefits	983	1,002	1,016	1,045	791	4,838
12 Res Rlsd for Disability Rider Benefits	<u>27</u>	<u>26</u>	<u>28</u>	<u>20</u>	<u>19</u>	<u>120</u>
13 Tot Res & Div. Paid Out (9+10+11+12)	1,906	1,875	1,852	1,843	1,553	9,030
14 Reserves Decrease Going to Capital	-	-	45	26	2	73
<u>Ending Obligations to Policyholders</u>						<u>End of 5 Years</u>
15 Ending Liabilities to Polholders (8 -13 -14)	48,039	45,390	42,847	40,298	38,148	48,039
16 Cur Yr Div to be Paid at Start of Next Yr	26	25	25	20	19	26
17 Div Declared to Be Paid in Upcoming Year	1,642	1,625	1,593	1,552	1,499	1,642
18 Life Insurance Reserves at Year-End	46,372	43,739	41,230	38,726	36,630	46,372
19 Amt Ending "Row 15 Liabilies" Excd calc fig	(7)	(16)	24	(49)	184	136

Breadwinners'

Financial Performance Data on Insurers

	<u>Life Insurer A</u>		<u>Life Insurer B</u>	
	<u>Insurer From Tables 1-3</u>		<u>Insurer With Very Competitive Illustrations</u>	
<u>Agent Costs as a Percent of Premium</u>	<u>2012</u>	<u>5 year Avg/Range</u>	<u>2012</u>	<u>5 Year Avg/Range</u>
first year	59.80%	61.53%	56.30%	56.93%
Truly Single Premium	4.93%	4.97%	3.23%	4.29%
Renewals	7.20%	7.30%	9.13%	8.77%
<u>Mortality Claim Costs</u>				
Mortality Claim Costs/\$MM of Net In-force Coverage	1129	1237	1961	2056
Reinsurance Costs/\$MM Ceded	1335	1253	6,043	4,310
Face Amount Ceded and as a Percentage of Total	34.60%		26.04%	
<u>General Home Office Costs/Life Policy</u>				
	119	109	199	206
<u>Prem Taxes and Misc Costs (as % of Prem.)</u>				
	2.10%		2.30%	
<u>Capital Costs (other than Inv Mgmt Exp (IME))</u>				
Half of Net Surplus Increase as a Percentage of Premiums	3.60%	4.16%	-5.95%	0.94%
Half of Net Surplus Increase As BP Charge	24	29	-101	9
ROR on Surplus	7.54%	2.65%	-2.09%	0.69%
<u>Investment Management Performance</u>				
ROR on ALL Managed Inv. After IME	5.62%	5.14%	4.78%	5.18%
Investment Management Expense in Basis Points	23	22	22	15
ROR on Life Reserves Net of Surplus Charge	5.88%	6.26%	8.27%	7.81%
Average Rate Guaranteed to Life Reserves	4.43%	4.53%	3.43%	3.78%

Breadwinners' Fin. Performance Data on Insurers (cont'd)

<u>Other General Financial Data</u>	<u>Insurer A</u>			<u>Insurer B</u>		
	<u>2012</u>	<u>5 yr avg/range</u>		<u>2012</u>	<u>5 yr avg/range</u>	
Total Inv. Assets	\$64.4 Billion			\$4.6 Billion		
Total Surplus	\$8.4 billion			\$850 million		
Surplus/Reserves Ratio aka C/R Ratio	13.7%	12.5%	16.1%	18.4%	18.4%	25.6%
<u>Asset Distribution (Policy Loans Excluded)</u>	<u>2012</u>	<u>Range Over 5 Years</u>		<u>2012</u>	<u>Range Over 5 Yrs</u>	
Bonds	72.2%	64%	72.2%	86.8%	79.7%	86.9%
Stocks	2.8%	2.8%	8%	2.8%	2.2%	3.6%
Mortgages	15.4%	15.2%	17.8%	0.0%	0%	0%
Real Estate	0.8%	0.8%	1.3%	0.2%	0.2%	0.3%
Cash	1.5%	1.3%	3.9%	1.0%	0.5%	4.4%
Other	7.2%	6.6%	7.5%	9.2%	9.2%	12.2%
Net Mgd Assets (Total Less Policy Loans)	100%			100%		
<u>Percent of Reserve Liabilities</u>	<u>Comp. Ann. Growth Rate</u>			<u>Comp. Ann. Growth Rate</u>		
Individual Life Reserves & Dividends	85%	6.1%		58%	6.9%	
Reserves Other Than Indiv. Life	15%	5.3%		42%	7.3%	
<u>Policy Related Data</u>						
Total Face Amount InForce (In Millions)	<u>461,641</u>			<u>79,603</u>		
Avg Annual Growth of Inforce Over Past 5 Years	5.4%			6.5%		
New Sales Over Past 5 Years as a Percent of Inforce	8.4%			53.7%		
Cash Value as a Percent of TOTAL InForce	42.5%			57.9%		
Cash Value Sales as a Percent of Total New Sales	32.6%			43.4%		
Cash-Value Annual Surrender Rate	3.3%			8.9%		
Percent of CV Coverage In-force After 20 Years	51.0%			15.7%		

**A Traditional Sales Illustration Like Those Used Currently By Agents
 \$250,000 of "99 Life," a Whole Life Policy on Healthy Male Age 45**

End of Year	Insurance*	Dividend*	Annual Premium (Pd Beg Yr)	Cash Value Increase*	CV Growth Less Premium*	Total Premium Outlay	----- Cash Values-----	
							Total*	Guar'nt'ed
1	251,425	408	5,815	408	(5,407)	5,815	408	0
2	253,954	754	5,815	4,726	(1,089)	11,630	5,134	3,955
3	257,582	1,127	5,815	5,269	(546)	17,445	10,403	8,048
.....								
.....								
.....								
.....								
19	468,597	12,240	5,815	22,879	17,064	110,485	218,463	93,228
20	487,837	13,411	5,815	24,833	19,018	116,300	243,296	99,878

Est. Allocated Costs by Component

Maximum Annual Cost	Sales Costs	Adm & Policy Issue Costs	Prem. Taxes	Balance of Costs to be Allocated between Maximum Mortality and Capital Charge	Estimated Maximum Mortality Costs	Estimated Capital Charges	Net Premium	Illustrated Dividend	Portion of Illustrated Dividends Attributable to Cost Savings	Implicit Illustrated (post - Dividend) Mortality /Claim Costs	Portion of Actual/ Historical Dividends Attrib't'ble to Cost Savings	Implicit Actual/ Historical (post - Dividend) Mortality /Claim Costs
Columns A	B	C	D	E	F	G	H	I	J	K also (F-J)	M	N also (F-M)
5,815	4,652	466	116	581	581	0	-	45	371	\$210	371	\$210
2,066	841	200	116	908	631	278	\$3,749	46	\$564	\$66	\$564	\$66
2,142	841	100	116	1,084	812	272	\$3,673	47	\$722	\$90	\$572	\$240
2,218	609	100	116	1,393	1,126	266	\$3,597	48	\$879	\$247	\$771	\$355
2,304	609	50	116	1,528	1,268	260	\$3,511	49	\$1,044	\$224	\$992	\$276
2,387	609	50	116	1,611	1,357	254	\$3,428	50	\$1,204	\$154	\$1,190	\$167
2,492	377	50	116	1,948	1,702	246	\$3,323	51	\$1,375	\$327	\$1,397	\$304
2,600	377	50	116	2,056	1,818	238	\$3,215	52	\$1,546	\$272	\$1,708	\$109
2,723	261	50	116	2,295	2,066	229	\$3,092	53	\$1,728	\$338	\$1,937	\$129
2,855	261	50	116	2,427	2,208	219	\$2,960	54	\$1,923	\$285	\$2,188	\$20
2,993	145	50	116	2,681	2,472	209	\$2,822	55	\$2,116	\$356	\$2,442	\$30
3,136	145	50	116	2,824	2,626	198	\$2,679	56	\$2,185	\$440	\$2,565	\$61
3,274	145	50	116	2,962	2,774	188	\$2,541	57	\$2,243	\$531	\$2,840	(\$67)
3,411	145	50	116	3,099	2,921	178	\$2,404	58	\$2,294	\$627	\$2,908	\$13
3,549	145	50	116	3,238	3,070	168	\$2,266	59	\$2,338	\$732	\$2,952	\$118
3,697	145	50	116	3,385	3,228	157	\$2,118	60	\$2,382	\$846	\$2,998	\$230
3,850	145	50	116	3,538	3,392	146	\$1,965	61	\$2,430	\$963	\$3,196	\$196
4,015	145	50	116	3,704	3,570	133	\$1,800	62	\$2,478	\$1,092	\$3,300	\$271
4,192	145	50	116	3,881	3,760	120	\$1,623	63	\$2,531	\$1,229	\$3,404	\$357
<u>4,372</u>	<u>145</u>	<u>50</u>	<u>116</u>	<u>4,060</u>	<u>3,953</u>	<u>107</u>	<u>\$1,443</u>	<u>64</u>	<u>\$2,578</u>	<u>\$1,376</u>	<u>\$3,459</u>	<u>\$494</u>
64,089	10,894	1,666	2,326	49,203	45,335	3,867	52,211			10,405		3,579

\$250,000 Whole Life on a Healthy Male Age45 with \$5,815 Annual Prem.

Present Value @ 5% of Est. Annual Costs Over 20 Yrs of Policy's Main Components

	<u>Sales</u>	<u>Admin</u>	<u>Prem Taxes</u>	<u>Mortality</u>	<u>Capital Costs</u>	<u>Misc.</u>	<u>Total</u>	<u>Premiums</u>
Guaranteed Maximum Cost	9,340	1,302	1,522	25,869	2,625		40,658	76,091
Illustrated, Netting out Dividends	9,340	1,302	1,522	5,576	2,625		20,364	
Actual, Netting Out Dividends	9,340	1,302	1,522	2,306	2,625		17,094	
Actual Divs. Applied as Paid-Up Additions	9,340	1,302	1,522	2,620	2,625	2,840	20,249	
Est. Costs Previously Published Online	9,340	1,302	1,522			8,031	20,195	

In the cases of:

- 1) Netting-Out Annual Div. and**
- 2) Applying Div. as Paid-up Additions**

	<u>1 – Netting-Out</u>	<u>2 – Applying as PUAs-</u>
Sales Costs as a Percent of Total PV Costs	54%	46%
Prem. Tax as % Total Other Costs <u>except</u> Sales	24%	23%
Capital Costs as a Percent of Total PV Costs	15%	27%

“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 commissions]** You won’t get the sale.”

Sy Sternberg, former Chairman & CEO, NY Life’

"Donna's" \$8 million Whole Life policy

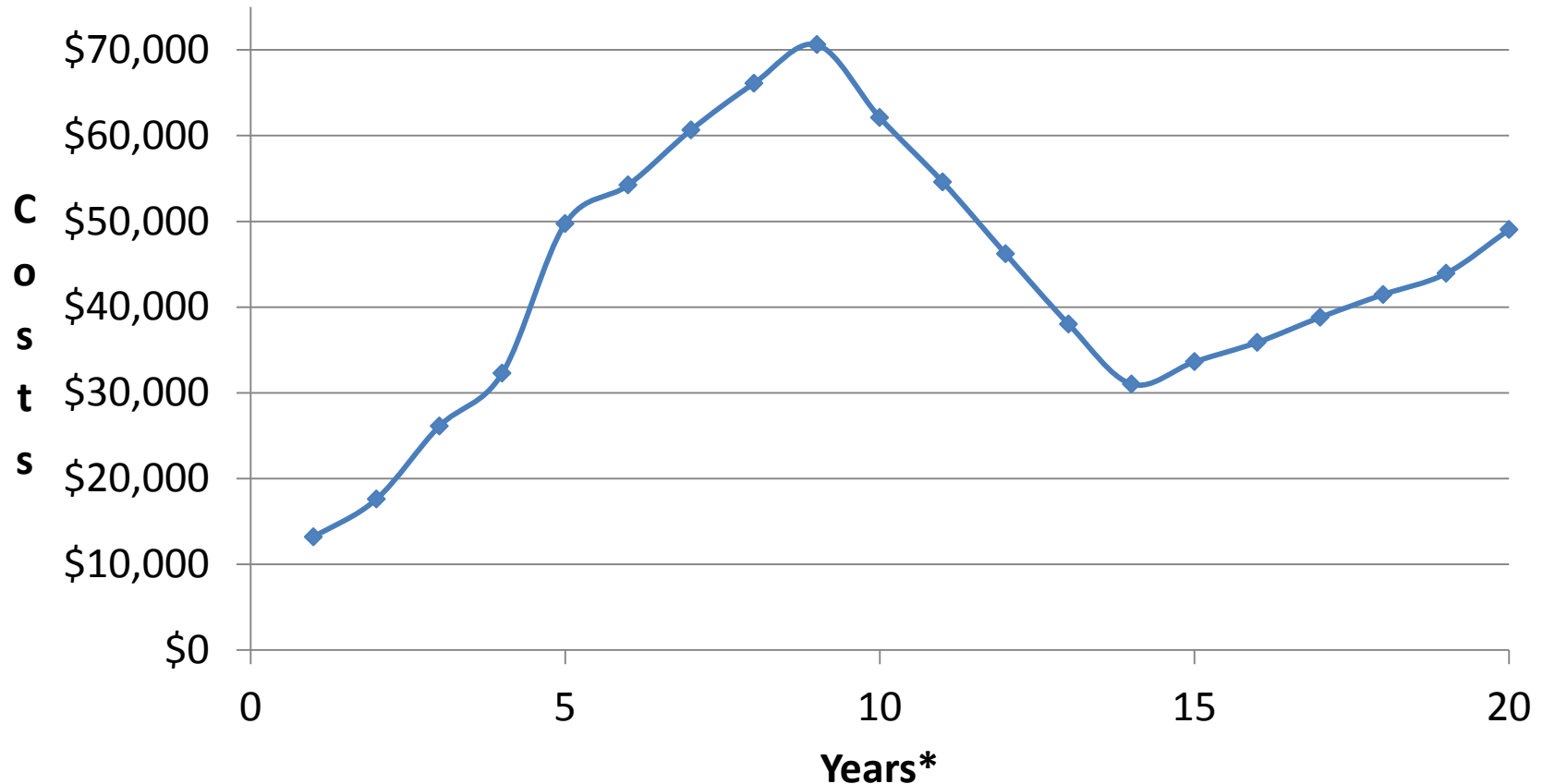
Had paid \$200+K prem. for 6 yrs, and base Ann. Prem. is \$115K

<u>Years From Now</u>	<u>Age</u>	<u>Death Benefit end-of-year</u>	<u>Annual Out of Pocket Illustrated Premium Payments</u>	<u>Surrender Cash-Value end-of-yr</u>
1	52	9,446,952	75,000	1,261,905
2	53	9,433,684	75,000	1,398,463
3	54	9,383,577	150,000	1,613,691
4	55	9,478,488	150,000	1,835,286
5	56	9,756,991	0	1,892,695
6	57	9,761,736	0	1,948,777
7	58	9,566,589	0	2,001,401
8	59	9,373,410	0	2,051,420
9	60	9,181,544	0	2,099,667
10	61	8,989,745	0	2,159,824
11	62	8,813,686	0	2,231,548
12	63	8,670,505	0	2,316,462
13	64	8,558,806	0	2,415,150
14	65	8,476,162	0	2,527,174
15	66	8,422,168	0	2,643,162
16	67	8,385,436	0	2,763,710
17	68	8,355,548	0	2,888,387
18	69	8,332,558	0	3,017,730
19	70	8,315,982	0	3,152,233
20	71	8,305,810	0	3,289,386

Breadwinners' Online Illustration Analyzer Output on "Donna's" \$8 million Whole Life policy

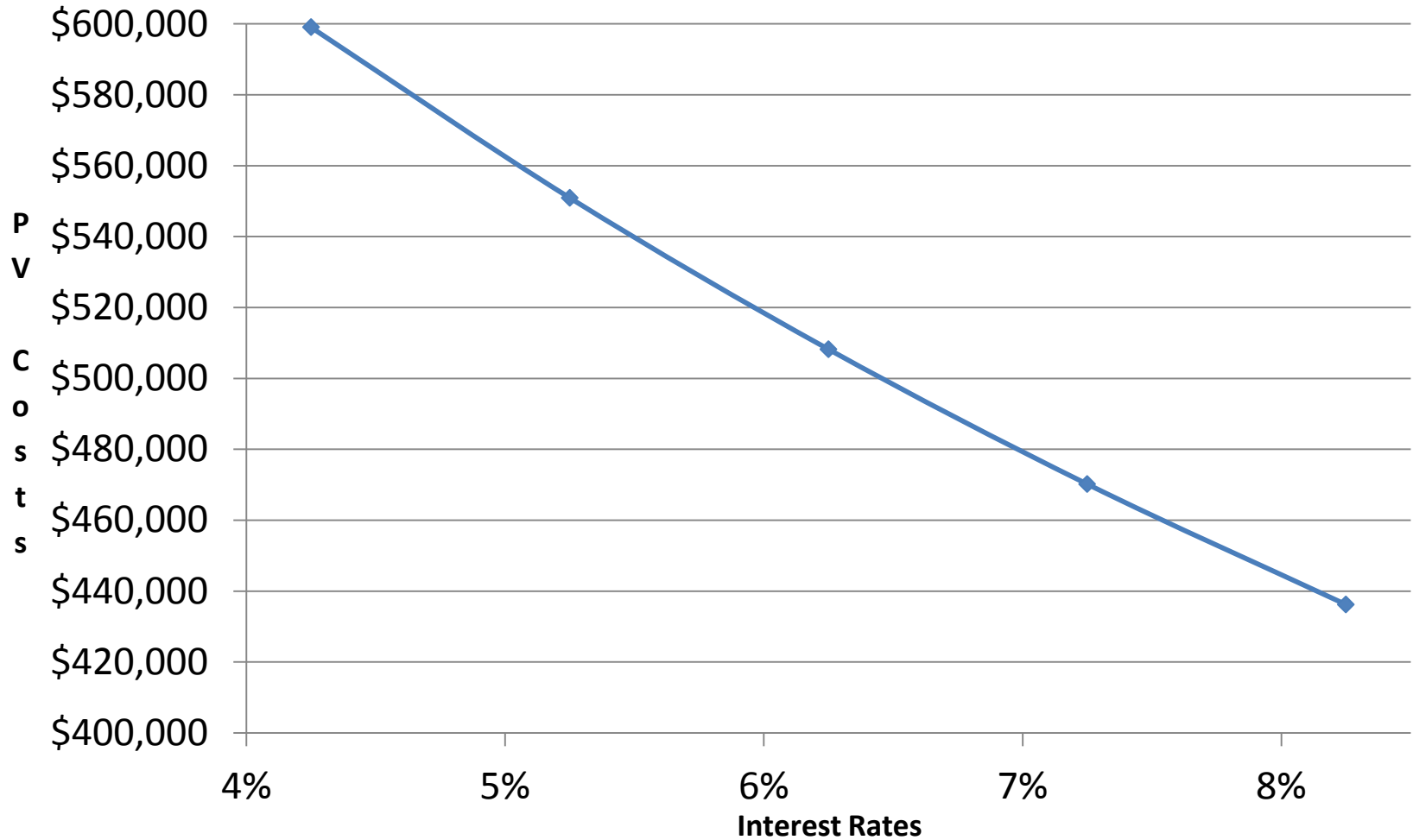
<u>Years From</u>		<u>Death Benefit</u>	<u>Annual Out</u>	<u>Surrender</u>	<u>Total</u>	<u>At Risk in</u>
<u>Now</u>	<u>Age</u>	<u>end of year</u>	<u>of Pocket</u>	<u>Cash-Value</u>	<u>Annual Cost</u>	<u>000s</u>
			<u>Illustrated</u>	<u>end-of-yr</u>		
			<u>Premium</u>			
			<u>Payments</u>			
1	52	9,446,952	75,000	1,261,905	13,180	8,252
2	53	9,433,684	75,000	1,398,463	17,600	8,104
3	54	9,383,577	150,000	1,613,691	26,113	7,878
4	55	9,478,488	150,000	1,835,286	32,289	7,754
5	56	9,756,991	0	1,892,695	49,725	7,893
6	57	9,761,736	0	1,948,777	54,227	7,841
7	58	9,566,589	0	2,001,401	60,663	7,592
8	59	9,373,410	0	2,051,420	66,099	7,347
9	60	9,181,544	0	2,099,667	70,601	7,106
10	61	8,989,745	0	2,159,824	62,098	6,860
11	62	8,813,686	0	2,231,548	54,589	6,618
12	63	8,670,505	0	2,316,462	46,207	6,397
13	64	8,558,806	0	2,415,150	38,019	6,193
14	65	8,476,162	0	2,527,174	31,023	6,005
15	66	8,422,168	0	2,643,162	33,625	5,837
16	67	8,385,436	0	2,763,710	35,889	5,682
17	68	8,355,548	0	2,888,387	38,816	5,530
18	69	8,332,558	0	3,017,730	41,472	5,380
19	70	8,315,982	0	3,152,233	43,924	5,231
20	71	8,305,810	0	3,289,386	49,039	<u>5,085</u>
					AvgAt-Rsk	6,729

Total Annual Policy Costs Over 20 Years



***Years represent Policy Years from 2014 forward
Policy originally purchased in 2008**

Donna's Policy's Illustrated Present Value Cost Curve



"Donna's" Policy's estimated allocation of costs

<u>Years From Now</u>	<u>Age</u>	<u>Total Annual Cost</u>	<u>Cum. PV@5%</u>	<u>Prem Tax</u>	<u>Sales Load</u>	<u>Adm & DAC Tax</u>	<u>Inv. Mgmt</u>	<u>Claims</u>	<u>Capital</u>
1	52	13,180		2,227	3,750	1,174	2,550	8,737	-5,258
2	53	17,600	29,942	2,227	3,750	1,174	2,854	9,317	-1,722
3	54	26,113	53,627	3,000	7,500	1,560	3,322	9,934	797
4	55	32,289	81,519	3,000	7,500	1,560	3,810	10,795	5,623
5	56	49,725	122,428	2,227	3,341	1,174	3,974	12,184	26,826
6	57	54,227	164,916	2,227	3,341	1,174	4,140	13,449	29,897
7	58	60,663	210,184	2,227	3,341	1,174	4,304	14,705	34,913
8	59	66,099	257,159	2,227	3,341	1,174	4,468	16,155	38,735
9	60	70,601	304,945	2,227	3,341	1,174	4,634	17,772	41,454
10	61	62,098	344,974	2,227	2,784	1,174	4,830	19,438	31,645
11	62	54,589	378,487	2,227	2,784	1,174	5,056	21,283	22,065
12	63	46,207	405,503	2,227	2,784	1,174	5,316	23,277	11,430
13	64	38,019	426,673	2,227	2,784	1,174	5,612	25,466	757
14	65	31,023	443,126	2,227	2,784	1,174	5,944	27,755	-8,860
15	66	33,625	460,108	2,227	2,784	1,174	6,294	30,189	-9,043
16	67	35,889	477,372	2,227	2,784	1,174	6,664	32,683	-9,642
17	68	38,816	495,154	2,227	2,784	1,174	7,054	35,510	-9,933
18	69	41,472	513,248	2,227	2,784	1,174	7,466	38,689	-10,867
19	70	43,924	531,499	2,227	2,784	1,174	7,902	42,068	-12,230
20	71	49,039	550,906	2,227	2,784	1,174	8,358	45,419	-10,922
PV @ 5%			550,906	30,510	48,747	16,040	62,676	258,665	134,268

Donna's Competitive Alternative

Created on Breadwinners' Policy Illustration Software

	<u>Age</u>	<u>Death Benefit (YE)</u>	<u>Premium</u>	<u>Cash Value (YE)</u>
1	52	9,477,454	75,000	1,227,454
2	53	9,427,739	75,000	1,342,739
3	54	9,459,600	150,000	1,539,600
4	55	9,500,445	150,000	1,745,445
5	56	9,398,297	-	1,808,297
6	57	9,299,226	-	1,874,226
7	58	9,203,368	-	1,943,368
8	59	9,110,862	-	2,015,862
9	60	9,021,859	-	2,091,859
10	61	8,936,511	-	2,171,511
11	62	8,854,981	-	2,254,981
12	63	8,777,436	-	2,342,436
13	64	8,704,052	-	2,434,052
14	65	8,635,013	-	2,530,013
15	66	8,570,510	-	2,630,510
16	67	8,510,743	-	2,735,743
17	68	8,455,921	-	2,845,921
18	69	8,406,262	-	2,961,262
19	70	8,361,994	-	3,081,994
20	71	8,323,354	-	3,208,354

Donna's Choices: Summaries of Illustrations

All Present Value Figures
calculated at 5% discount rate

<u>ESTIMATED Allocated Costs</u>	<u>Current Policy</u>	<u>Alternative</u>
Sales Costs (ongoing vs new)	48,747	19,528
Claim Costs	258,665	161,136
Admin.	16,040	654
Prem. Taxes, Etc.	30,510	2,884
Inv. Mgmt.	62,676	53,423
Direct Capital Costs	<u>134,268</u>	<u>93,895</u>
Total	550,906	331,520
Illustrated Average Annual At-Risk Amt.	6,729	6,683
Illustrated Investment Return	6%	5%

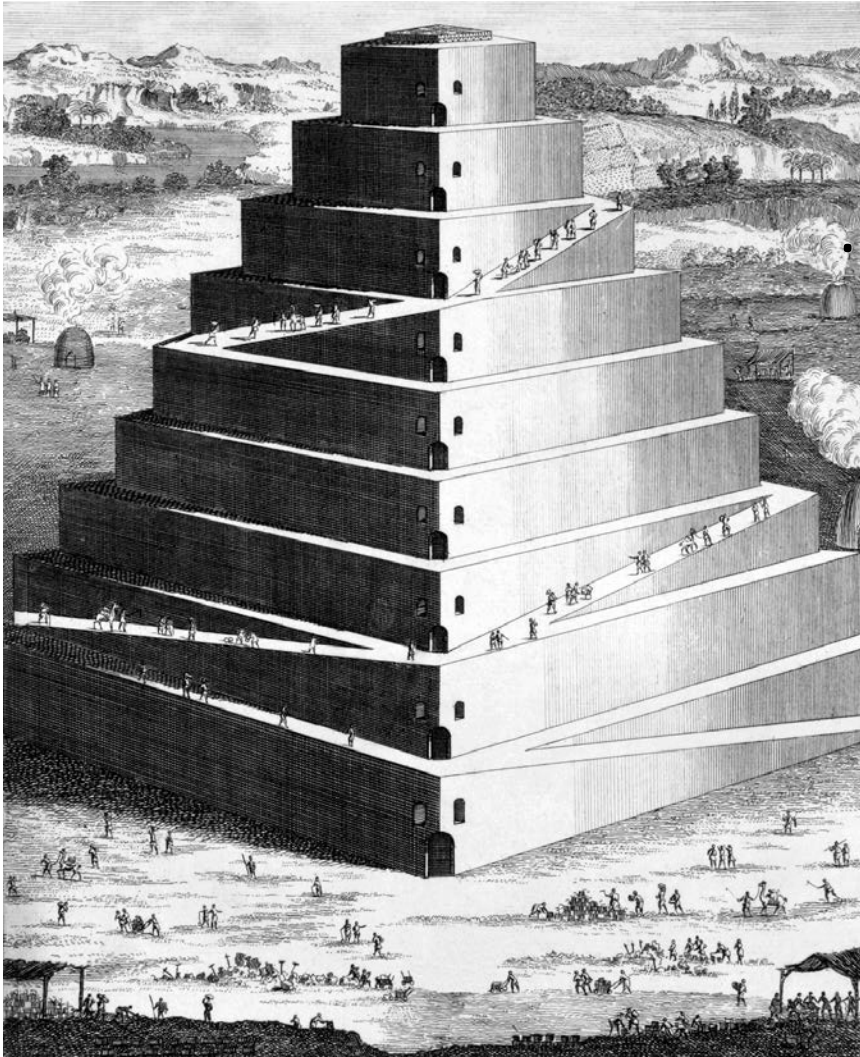
Donna's Choices: Summaries of Illustrations

<u>Estimated Allocated PV Costs</u>	<u>Current Policy</u>	<u>Alternative</u>	<u>Current Policy w/Different Allocation</u>
Sales Costs	48,747	19,528	48,747
Claim Costs	258,665	161,136	158,665
Admin	16,040	654	16,040
Prem Taxes, Etc.	30,510	2,884	30,510
Inv Mgmt	62,676	53,423	62,676
Direct Capital Costs	<u>134,268</u>	<u>93,895</u>	<u>234,268</u>
Total	550,906	331,520	550,906

Charlie's Company's Average Dividend or Interest Rates Paid on Policies: 1994-2014

Years	Calendar Years	<u>Charlie's Favorite Brand</u>		<u>Charlie's 2nd Brand</u>		<u>Another one of Charlie's</u>		<u>Charlie's Low Yielder</u>	
		<u>Avg Since Yr 1</u>	<u>Avg Since Yr 21</u>	<u>Avg Since Yr 1</u>	<u>Avg Since Yr 21</u>	<u>Avg Since Yr 1</u>	<u>Avg Since Yr 21</u>	<u>Avg Since Yr 1</u>	<u>Avg Since Yr 21</u>
		1	1994		6.79%	6.71%		6.74%	
2	1995	8.60%	6.70%	8.25%	6.66%	8.25%	6.67%	8.25%	6.60%
3	1996	8.47%	6.60%	8.25%	6.55%	8.17%	6.59%	8.17%	6.52%
4	1997	8.40%	6.51%	8.19%	6.45%	8.02%	6.51%	8.02%	6.43%
5	1998	8.36%	6.41%	8.15%	6.36%	7.94%	6.45%	7.94%	6.37%
6	1999	8.30%	6.30%	8.12%	6.26%	7.88%	6.37%	7.88%	6.29%
7	2000	8.22%	6.19%	8.07%	6.15%	7.84%	6.29%	7.84%	6.20%
8	2001	8.16%	6.08%	8.03%	6.03%	7.81%	6.20%	7.81%	6.10%
9	2002	8.09%	5.95%	7.97%	5.90%	7.76%	6.09%	7.76%	5.99%
10	2003	7.96%	5.82%	7.90%	5.77%	7.69%	5.99%	7.69%	5.88%
11	2004	7.83%	5.74%	7.79%	5.63%	7.64%	5.89%	7.64%	5.77%
12	2005	7.70%	5.65%	7.69%	5.52%	7.55%	5.77%	7.55%	5.63%
13	2006	7.57%	5.58%	7.56%	5.42%	7.45%	5.68%	7.45%	5.53%
14	2007	7.46%	5.52%	7.44%	5.34%	7.37%	5.61%	7.37%	5.44%
15	2008	7.35%	5.45%	7.31%	5.25%	7.29%	5.51%	7.29%	5.32%
16	2009	7.25%	5.40%	7.20%	5.21%	7.21%	5.39%	7.21%	5.17%
17	2010	7.14%	5.33%	7.08%	5.15%	7.11%	5.27%	7.11%	5.00%
18	2011	7.05%	5.29%	6.98%	5.12%	6.99%	5.21%	6.99%	4.87%
19	2012	6.97%	5.22%	6.89%	5.08%	6.91%	5.28%	6.88%	4.83%
20	2013	6.88%	5.07%	6.79%	5.00%	6.83%	5.17%	6.78%	4.75%
21	2014	6.79%		6.71%		6.74%		6.68%	

For Most Consumers Shopping for Life Insurance Has Been and Still Is: A Modern Tower of Babel



Term is best!

Term is a waste!

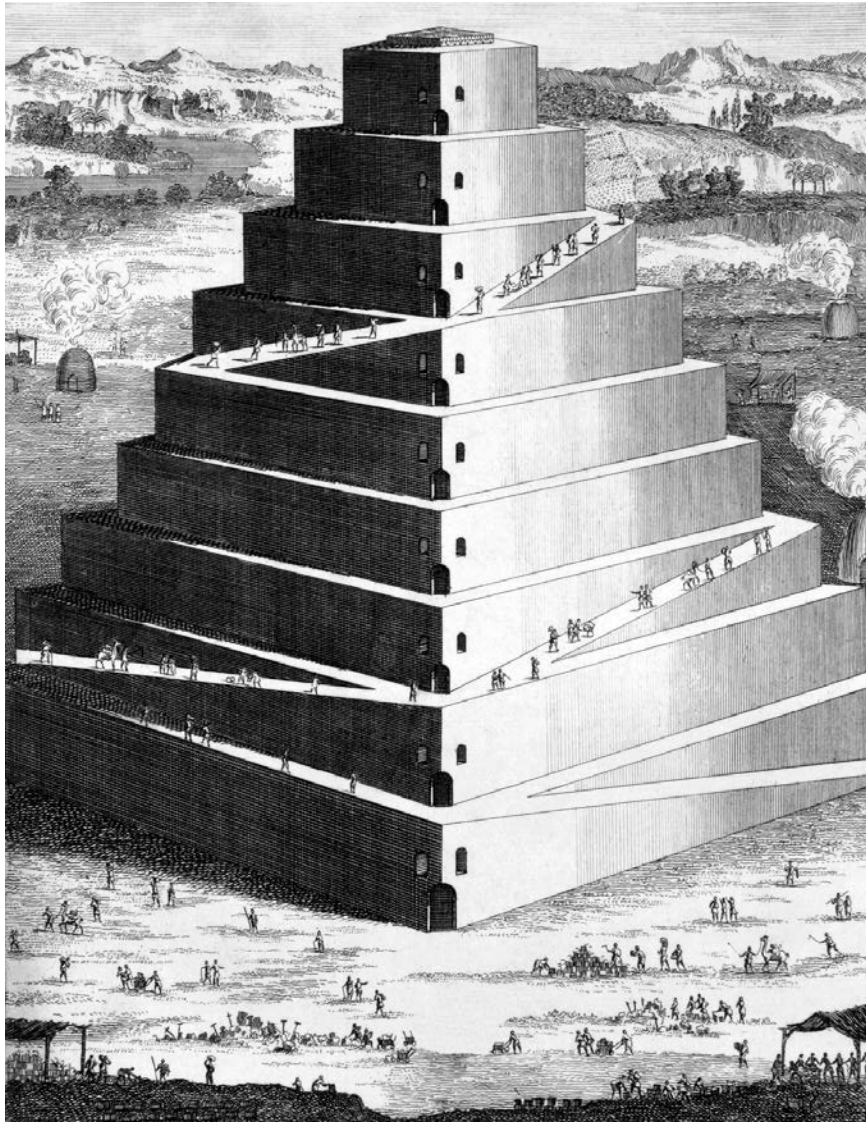
Whole Life
is best!

Whole Life is terrible!

“Talking about owning versus renting is nonsense. It is part of a marketing gimmick. Owning sounds better than renting. Permanent sounds better than temporary. But it is all phony sales talk by some promoters of cash-value life insurance.”

Professor Emeritus Joseph M. Belth, author “The Insurance Forum”

For Most Consumers Shopping for Life Insurance Has Been and Still Is: A Modern Tower of Babel



Life Insurance is gambling!

Life insurance is
an asset class!

Equity-Indexed
is best!

No, that's terrible!
Universal life is best!

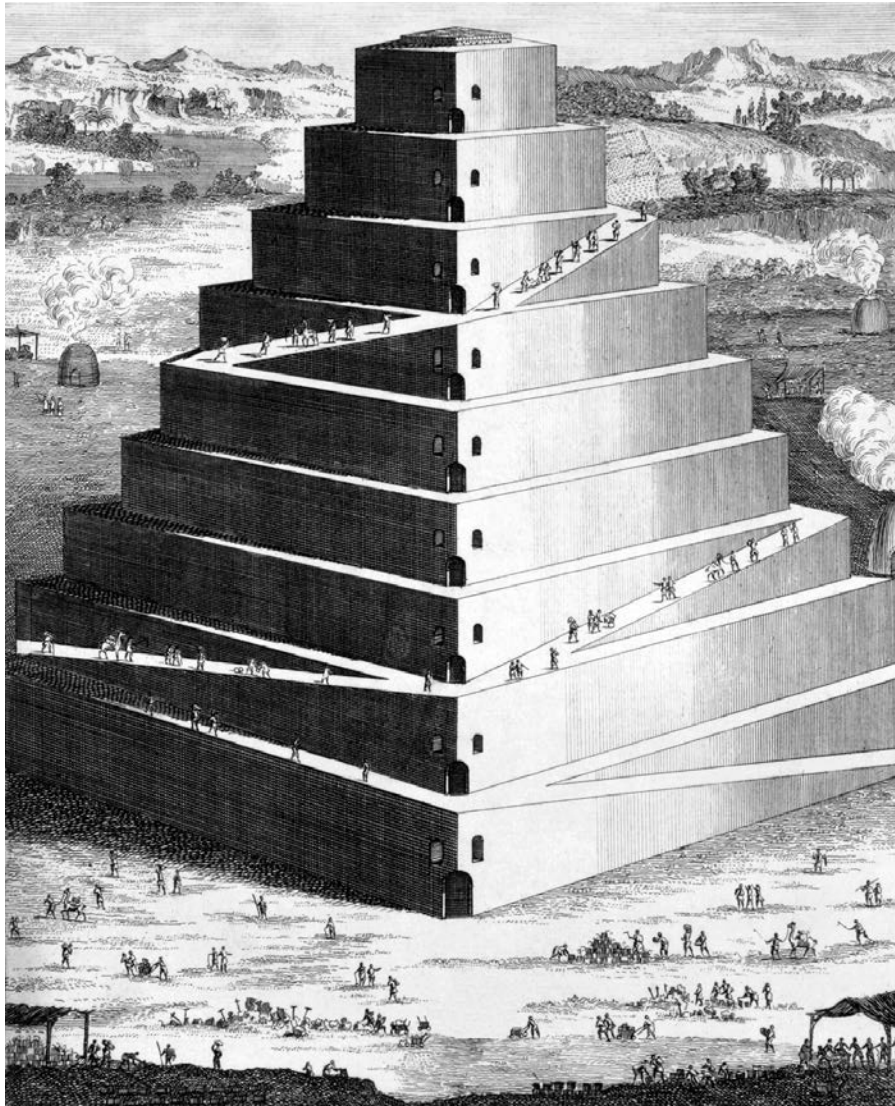
Nothing is better than
good ole whole life!

1) Do you think mutuals provide coverage at cost?

2) Do you think stock life insurers provide coverage at cost?

3) What does it mean to “provide coverage at cost?”

For Most Consumers Shopping for Life Insurance Has Been and Still Is: A Modern Tower of Babel



Replace that old policy!

Never replace a whole life policy!

Blah blah, blah blah, blah blah blah blah!

BLAH!

Remember the
embroidered adage
on the pillow on
Johnny Carson's
couch?

The pillow that looked so
stylistically out of place
read:

Assumption Is the
MOTHER of all FUCKUPS.

Uniform Prudent Investor Act Section 7

SECTION 7. INVESTMENT COSTS

In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee.

Comment

Wasting beneficiaries' money is imprudent. In devising and implementing strategies for the investment and management of trust assets, trustees are obliged to minimize costs.

The language of Section 7 derives from Restatement of Trusts 2d § 188 (1959). The Restatement of Trusts 3d says: "Concerns overcompensation and other charges are not an obstacle to a reasonable course of action using mutual funds and other pooling arrangements, but they do require special attention by a trustee. . . . [I]t is important for trustees to make careful cost comparisons, particularly among similar products of a specific type being considered for a trust portfolio." Restatement of Trusts 3d: Prudent Investor Rule § 227, comment m, at 58 (1992).

Uniform Prudent Investor Act Section 7

Comment

Wasting beneficiaries' money is imprudent. In devising and implementing strategies for the investment and management of trust assets, trustees are obliged to minimize costs.

True or False:

When a whole life policy's annual premiums are being paid with dividends, the insurer still pays the annual premium taxes and agent commissions on the annual premium: True or False?

True or False:

When a whole life policy's annual premiums are being paid with dividends, the insurer still pays the annual premium taxes and agent commissions on the annual premium?

“The customer's choice of dividend option does not affect the premium tax due.....

“There is no requirement in statute or regulation that the insurer must pay commissions if the premium reduction dividend option is elected. However, we don't recall seeing an agent compensation filing where the insurer did not pay a commission in such case.”

**Email April 9, 2014 Assistant Deputy Superintendent, Chief of the Life
Bureau, Dept. of Financial Services, State of**

Donna's Choices: Summaries of Illustrations

<u>ESTIMATED Allocated Costs</u>	<u>Current Policy</u>		<u>Alternative</u>
Sales Costs (ongoing vs new)	\$48,747	\$29,219	\$19,528
Claim Costs	258,665		161,136
Admin.	16,040	15,386	654
Prem. Taxes, Etc.	30,510	27,626	2,884
Inv. Mgmt.	62,676		
Direct Capital Costs	<u>134,268</u>		<u>93,895</u>
Total	550,906	~\$71,000	331,520
Illustrated Average Annual At-Risk Amt.	6,729		6,683
Illustrated Investment Return	6%		5%

North Carolina Department of Insurance

March 10, 2014

Dear Mr. Fechtel:

Thank you for your diligence in communicating your concerns about the life insurance industry's marketplaces. As you so notably describe, the need for better disclosure, particularly in the life insurance annuity, and long term care insurance products is ever more apparent in the current market, not only in this state, but more so on the national market place. It is my belief that effective change, as you suggest, **can only be accomplished if done so on a national basis."**

Very truly yours,

Wayne Goodwin

Commissioner of Insurance

Email from Washington State's Office of Insurance Commissioner Mike Kreidler

4/17/14

Brian,

Thank you for the follow-up and your prior communications. **We have reviewed your web site which we find very interesting.**

Considering the totality of the forces bearing down on us, we have to decline further consideration of pursuing industry changes you suggested. **There is merit to your suggestions, but we just cannot devote any resources to pursuing them.** We suggest that you continue to work with and through the NAIC system, and perhaps at some future date we can support an initiative brought forward by the NAIC.

Jim

Deputy Commissioner Jim Odiorne

You have the power to fix the life insurance industry + marketplace.

Demand and obtain the necessary information. Refuse to settle for anything less.

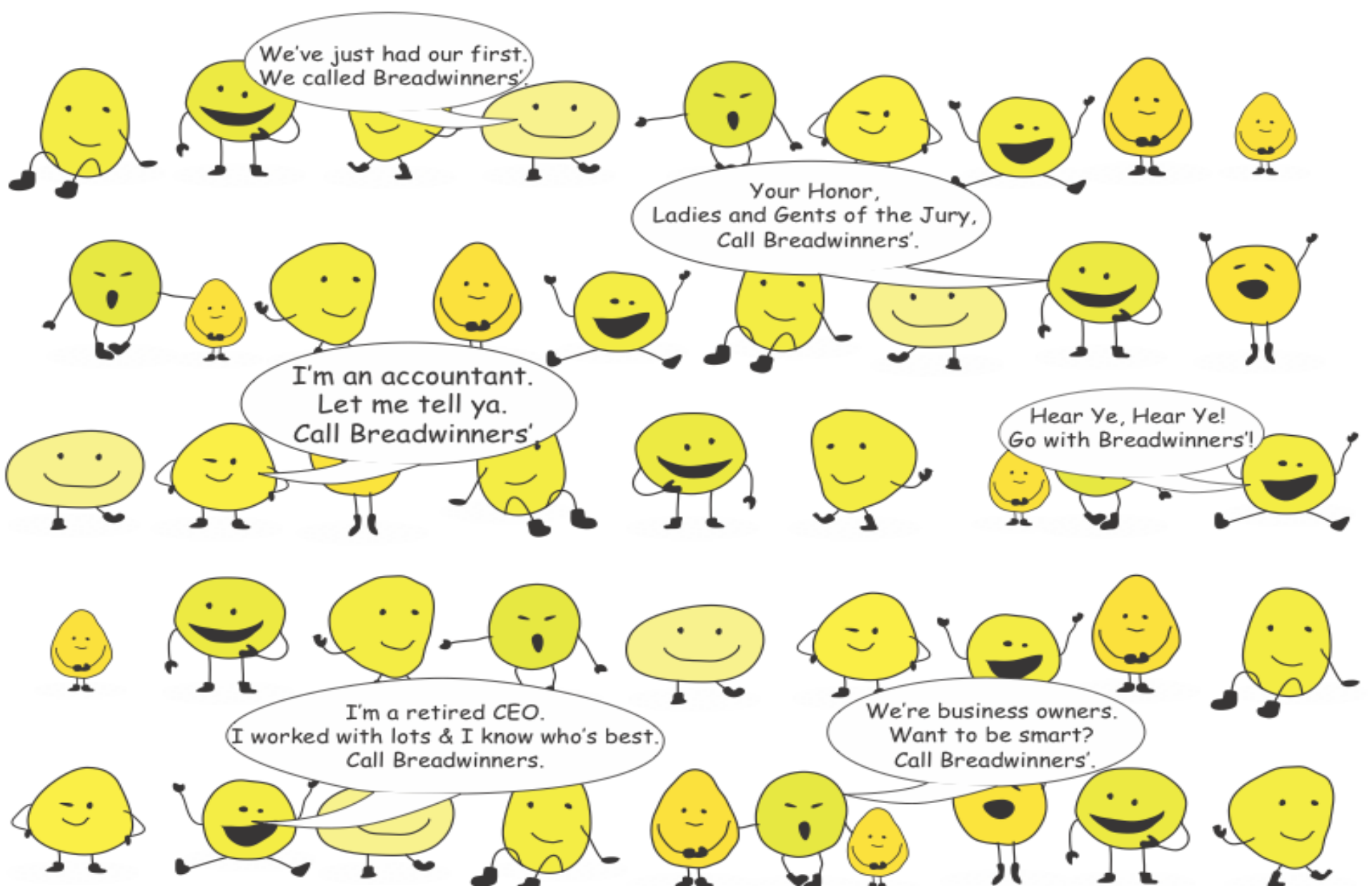
You now know the necessary information, and where to obtain it.

And yet, without good info., good decision-making is impossible.

Admittedly, this could result in changes to current practices, it can result – because of your fiduciary duty - in working with new businesses.

The benefits of having genuine financial expertise on life insurance products at work for you and your clients will be enormous.

Some Clients of Breadwinners' Insurance



We've just had our first.
We called Breadwinners'.

Your Honor,
Ladies and Gents of the Jury,
Call Breadwinners'.

I'm an accountant.
Let me tell ya.
Call Breadwinners'.

Hear Ye, Hear Ye!
Go with Breadwinners'!

I'm a retired CEO.
I worked with lots & I know who's best.
Call Breadwinners.

We're business owners.
Want to be smart?
Call Breadwinners'.

Thank You. The End.

Breadwinners' Insurance's
expertise , products and services are currently provided by :

David Barkhausen, Esq. fee-only adviser, former agent

Rich Bass, Esq. CFA., CFP,

John Harwood, 30+ yr industry veteran

Scott Maxwell, CFP

Sean Rosa, and

Yours truly, **Brian Fachtel** , CFA, Agent, and Founder

BreadwinnersInsurance.com * (914) 457-0110

Breadwinners' Insurance:

Fixing the Life Insurance Marketplace for Our Clients, as well as all others,
with the Irresistible Power of Genuine, Good Financial Information.

“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 [1]], it makes sense to tell them [2] how much they are paying for death protection and [3] how much they are saving when they plunk down a life insurance premium. Hopefully your industry will think so too – and start supplying the information. If not- watch for Truth in Life Insurance to follow Truth in Packaging and Truth in Lending through the legislative mill. Because that’s the way people are thinking in consumerland.”

“Recent” Address by US Senator to
a group of life insurance attorneys in Chicago

“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.”

Present Value Cost Curve

