

TENTMAKERS

Financial Counsel for Pastors, Deacons, and Seminarians ..-

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Death Insurance

Your family is underinsured. This is easy to say, since almost all families in the United States are underinsured. If you were to die tomorrow, your wife would have a tough time surviving on the proceeds of Your insurance policy—unless YOU have a very good looking wife under age 30, making rapid remarriage more likely.

The reason why your family is underinsured is because some commission-hungry insurance salesman has sold you too much life insurance. You don't need life insurance. You need, or rather your heirs need, death insurance. You die, the company pays. This is term insurance, and salesmen don't like to sell it. They want to sell you "life" insurance: a "savings" plan, called cash-value life insurance, which will give you your paper money back at age 65. It is grotesquely expensive, incredibly profitable for the insurance industry, and a disaster for the buyer. Price inflation wipes you out.

It is very easy to find out if you are overpaying for your death insurance. On the back of this sheet is a reproduction of the Commissioners 1958 Standard Mortality Table, the overconservative table used by insurance companies to estimate life expectancy for members of each age group. Here is how to use it. Locate your age group, and then check the "Deaths Per 1,000" figure. If you want \$100,000 of term insurance, multiply this figure by 100. At age 30, for example, you should pay no more than \$213 this year for the \$100,000 protection you want for your family. If you pay more than 10% above \$213, you are overpaying, and really, you should not be paying this much. If they revise the table in a few years, as they should, given the longer life expectancy of Americans today, the rates will drop, but only on new policies. You must check every year with your insurance salesman to see if the new table is out. If it is, convert your policy to a new one which reflects the lower risk. If you have a pre-1958 policy, you are really overpaying; some policies are not automatically reconverted. You are paying on the 1841 table which reflects the life spans of men living in the 1931-41 era. You can still switch your policy. Remember, few agents will tell you when a new mortality table becomes standard. You have to ask. Keep shopping, and never hesitate to switch companies or policies.

Cash-value life insurance—"ordinary life," "whole life,"
● tc.-is sold in the name of family savings. You earn

something under 3% on your cash-value portion, and only if you hold the policy to maturity at age 65. Meanwhile, the company is earning about 6% on the money you have invested in the policy. Life insurance companies therefore structure salesmen's commission rates to discourage the sale of term insurance: The difference between a first-year commission for a \$100,000 cash-value policy and a term policy can be as large as \$1,000: \$1,100 vs. \$100. No salesman can earn his living selling only term insurance.

Term insurance buyers therefore get a subsidy from buyers of non-term insurance. They pay lower commissions, and therefore lower premiums, than would have been possible had the commission structure accounted for the full costs of signing them up. You are foolish if you continue to subsidize term insurance buyers like me by buying cash-value policies. Only 15% of all American policies sold are term insurance policies.

With price inflation at 6% per annum, compounded, and cash values receiving about 2.5%, the purchasing power of each year's cash value portion of the premium will fall by about 50% every 20 years. With price inflation at 10%, the investment is losing over 7% per annum in terms of purchasing power, reducing its purchasing power by 50% every decade. This is a savings plan?

In a time of price inflation, as our era is, it is economically suicidal to become a long-term creditor in fixed-return (fixed percentage) investments. The major forms of long-term credit investments are these: cash-value life insurance, annuities, pensions, bonds, and mortgages. Life insurance companies sell us the first three in order to invest two-thirds of their assets in the last two. Draw your own conclusions.

If you die, the savings portion of your cash-value policy is used to pay off its face value to your heirs. The longer you hold a cash-value policy, the larger your share of the death insurance portion. You die, you pay. This is insurance protection? Your death wipes out your so-called savings. If you buy term insurance and invest the difference between the two premiums, you should be able to make 6% or more on your savings (not 3% or less), and your death will not wipe out your savings. Convert to term. Now.

How much death insurance is necessary? The standard rule of thumb is this: at least three times the net (after

tax) annual income of the insured. This is probably too low, given the present rate of price inflation. A four-to-one figure is more reasonable. Personally, I think a young family needs at least \$75,000 and probably \$100,000. You therefore have to buy term insurance. You can't afford anything else.

The wife should purchase the policy in order to keep the pay-out from entering the total estate of the husband at his death. It removes the pay-out from the estate tax, should there be any. She should be listed as the owner and pay the premiums with her own personal, exclusive checking account (not a joint account).

You (she) should insist on the following type of policy: annual renewable term, renewable to age 70, non-participating, with increasing premiums and a fixed pay-out. To get one, you will have to insist on it. Salesmen don't like to sell them.

Premiums on identical insurance coverage can vary more than 100% per year. You must shop price. One Christian organization that can help you is the Life Insurance Truth Society, 240 N. Barry Ave., Wayzata, MN 55391. They keep track of low-cost companies. (You might send a \$5 donation when you write.)

A. M. Best Co., of Oldwick, NJ, publishes the financial ratings and addresses of all U. S. insurance companies. Your library may have Best's *Insurance Reports—Life/*

Health. If so, use it.

Here is the universal rule: if you don't fully understand the economics of the policy, don't buy it. If you have already bought it, buy term and then cancel it.

A few companies "low ball" you in the first four years and then raise premiums on you in the fifth year. They want you to convert your policy to cash-value life. If your policy does this, switch to another company. For larger policies above \$40,000, Commercial Bankers Life, Covenant Life (Indiana), and United Investors Life offer competitive rates. For \$10,000 and \$25,000 policies, Old Line Life is good. New policies with new rates keep appearing on the market. Keep shopping, and never be afraid to switch companies. This is a good reason for avoiding "deposit" term insurance, where you have to stay with the same company for 10 years to recoup your initial extra deposit. Even when you receive double your deposit, you have barely kept pace with inflation. Make the companies compete for your insurance dollar.

For more information, read Norman F. Dacey's book, *What's Wrong With Your Life Insurance* (Covington, La., \$1.95) and the American Institute for Economic Research's book, *Life Insurance from the Investor's Point of View* (Great Barrington, Mass., \$1).

Gary North

COMMISSIONERS 1958 STANDARD ORDINARY MORTALITY TABLE											
Age	Living	of Deaths	Expectation	Per 1,000	Age	Living	of Deaths	Expectation	Per 1,000	Age	Living
0	10,000,000	70,800	7.08	68.38	22	8,762,306	72,905	8.32	23.48		
1	9,929,200	11,473	1.16	67.78	31	8,649,404	79,60	9.11	22.72		
2	9,911,725	16,066	2.82	66.90	32	8,610,244	83,168	9.96	22.03		
3	9,896,639	14,448	1.46	66.00	33	8,624,486	92,832	10.89	21.26		
4	9,882,210	11,255	1.40	65.10	34	8,431,684	100,337	11.80	20.47		
5	9,868,375	13,322	1.35	64.19	35	8,331,317	108,907	13.00	19.71		
6	9,855,083	12,812	1.10	63.27	36	8,224,010	116,849	14.21	18.97		
7	9,812,241	12,401	1.26	62.25	37	8,106,161	125,870	15.44	18.23		
8	9,829,848	12,091	1.23	61.45	38	7,980,191	135,468	17.00	17.61		
9	9,117,749	11,879	2.1	60.51	39	7,844,628	145,520	18.69	16.81		
10	9,806,870	11,845	1.21	59.68	40	7,726,690	156,592	20.34	16.12		
11	9,794,005	12,047	1.23	58.85	41	7,642,105	167,724	22.24	15.44		
12	9,781,958	12,325	1.26	57.72	42	7,574,310	178,271	24.31	14.78		
13	9,769,833	12,884	1.32	56.80	43	7,505,099	189,174	26.87	14.14		
14	9,756,737	13,682	1.39	55.87	44	7,403,923	203,394	29.04	13.61		
15	9,743,178	14,225	1.25	54.96	45	7,300,331	216,517	31.78	13.00		
16	9,729,960	14,255	1.54	54.05	46	7,184,614	228,749	34.74	12.51		
17	9,715,967	16,737	1.52	53.11	47	7,055,666	241,717	36.04	11.73		
18	9,696,230	16,390	1.68	52.19	48	6,914,068	254,852	41.68	11.17		
19	9,683,960	16,844	1.74	51.28	49	6,869,253	267,241	46.61	10.54		
20	9,664,224	17,300	1.79	50.37	50	6,592,012	278,426	50.79	10.12		
21	9,647,694	17,666	1.83	49.46	51	6,313,544	288,781	54.16	9.63		
22	9,630,039	17,912	1.86	48.55	52	6,028,856	294,766	58.66	9.18		
23	9,612,127	18,167	1.89	47.64	53	5,731,089	299,289	63.25	8.69		
24	9,603,960	18,324	1.91	46.73	54	5,431,800	301,894	68.12	8.24		
25	9,587,536	18,481	1.93	45.82	55	5,129,534	303,534	72.37	7.81		
26	9,567,185	18,732	1.96	44.90	56	4,825,686	305,014	76.18	7.39		
27	9,538,423	18,981	1.99	43.99	57	4,523,881	307,397	80.40	6.96		
28	9,518,442	19,324	2.03	43.08	58	4,221,862	299,429	85.08	6.59		
29	9,500,118	19,760	2.08	42.16	59	3,925,050	296,643	90.19	6.21		
30	9,480,358	20,199	2.13	41.25	60	3,626,575	288,848	105.80	5.85		
31	9,450,165	20,718	2.19	40.34	61	3,327,524	279,983	119.36	5.51		
32	9,439,447	21,239	2.25	39.43	62	3,028,641	265,908	133.17	5.19		
33	9,418,204	21,850	2.32	38.51	63	2,732,639	249,938	149.30	4.89		
34	9,385,565	22,561	2.40	37.60	64	2,442,781	221,455	168.01	4.60		
35	9,378,807	22,228	2.31	36.69	65	2,151,348	191,211	189.14	4.32		
36	9,360,279	24,265	2.64	35.78	66	1,860,031	160,102	212.52	4.06		
37	9,328,594	22,112	2.80	34.86	67	1,569,929	148,456	238.13	3.80		
38	9,299,482	27,251	3.01	33.97	68	1,271,417	146,997	266.26	3.55		
39	9,271,491	22,355	3.13	33.07	69	894,477	126,303	297.46	3.31		
40	9,241,369	32,622	3.53	32.18	70	668,174	104,008	332.14	3.06		
41	9,205,737	35,362	3.84	31.29	71	561,366	88,813	369.77	2.82		
42	9,113,375	25,222	4.17	30.41	72	472,652	72,480	422.52	2.56		
43	9,136,122	41,382	4.53	29.54	73	390,072	67,881	489.30	2.33		
44	9,093,740	44,741	4.22	28.67	74	312,191	45,020	566.66	2.07		
45	9,048,999	45,412	5.35	27.81	75	247,156	34,128	661.24	1.80		
46	9,000,687	52,415	5.83	26.96	76	197,087	25,250	780.86	1.61		
47	8,948,114	64,918	6.26	26.11	77	157,446	18,446	928.42	1.48		
48	8,891,204	81,794	6.96	25.27	78	127,916	12,916	1,100.00	1.35		
49	8,829,410	91,111	7.00	24.45	79	107,415	9,415	1,300.00	1.20		

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