It's insurance time again

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Once again it appears that U of O students are being barraged by life insurance literature, the latest sent to the student's parents recently. And as is usually the case, students are being sold life policies which, in the main, are inappropriate to their needs.

There are two types of individual life insurance policies: term insurance and term insurance with a "savings element." **Consumer Reports** recommends term insurance. So do we.

Life insurance rests on a quite understandable premise: a statistical record of the death rate in America. It's inescapable that the older one gets, the more likely one is to die. This means that an individual must pay more for insuring his life at age 50 than at age 20.

Insurance companies, many years ago, realized that few people would be willing to pay premiums which increased annually as one grew older. So, they hid the fact by devising a plan of insurance under which premiums did not increase from year, to year, but, rather, remained constant throughout the premium-paying period. Of course this meant it was necessary to overcharge a person in the earlier years to compensate for the high cost of insuring him in the later years. This overcharge is the source of the "savings account", or "cash value" part of some policies. This plan complicated the buying of life insurance almost beyond the realm of ordinary human understanding. It also relegated to the status of a sideline what was once the life insurance industry's primary function: to provide understandable, adequate, reasonably priced protection against the consequences of an untimely death.

Insurance companies like to impress prospective buyers with their vast arsenal of policies covering every conceivable need. Real innovation in life policies, however, is rare. All policies are either term or term in conjunction with a savings element, or some combination of these two.

TERM INSURANCE

Term insurance provides protection for a specific period of time. That period may be as short as one year or it may run to age 65 or 70. Customary terms are 5, 10, 15, or 20 years. It usually cannot be purchased after age 70. Term insurance resembles fire or auto insurance in that it is pure protection without any cash value buildup. This means that it is considerably less expensive for a college student to purchase, allowing him to procure 3 to 5 times more insurance protection for the dollar.

WHOLE LIFE INSURANCE

Whole life insurance is the most commonly sold policy with a savings feature. (It is sometimes referred to as 'permanent' or 'ordinary' insurance.) Whole life policies provide, along with decreasing insurance protection, and increasing cash value, or "savings account," which pays out the face amount of the policy at age 100. In other words, should a man with a $10,000 whole life policy live to age 100, he would receive from the insurance company the $10,000; and if he should die before age 100, his beneficiaries would receive the $10,000. Whole life insurance, then is an attempt to combine both investment and insurance protection in one policy. By giving life insurance this dual nature, we contend that neither protection nor investment is adequately provided.

Another type of cash value policy is called **endowment** insurance. This type of policy resembles whole life insurance except that the cash value builds up faster and pays out the face amount of the policy to the policyholder at age 60-65 instead of age 100. This type of insurance has a very high rate of premium and is beyond the ability of most students to pay.

RATIONALE

Whole life insurance has always been the favored child of the life insurance industry, and with good reason. Since the money taken in by the company and by the agent operating on commission is several times greater with whole life than with term insurance, there exists greater incentive to push this type of policy.

Adherents of whole life insurance view it as a form of "forced" saving. They feel few individuals will save regularly unless forced to do so, and that the fear of losing an insurance policy will spur them to save. Proponents also stress the fact that once a man buys a whole life policy, he is guaranteed lifetime protection regardless of any incurable diseases he may contract.

Upon closer examination, however, we feel these reasons are somewhat inadequate and misleading. Take the argument of "forced saving." There are at least three things to realize.

First, a whole life policy is, by definition, a combination of decreasing insurance protection with an increasing cash value accumulation, with the face amount of the policy always equal to the sum of the cash value and the protection element. So, as your cash value increases, your actual protection provided by the company decreases. The effect of this is to gradually transfer—at the precise same rate the cash value increases—the risk of insuring the policyholder from the company's shoulders to the policyholder himself. In other words, if a man were to die owning a $10,000 whole life policy which had accumulated a $5000 cash value, his beneficiaries would not receive $15,000. That $5,000 of "forced savings" would have "died" with him, helping to make up the face amount of the policy, and leaving the beneficiaries with only $10,000.

Secondly, this "forced savings account" in whole life policies is a poor investment when compared to the interest to be earned in other savings and investment institutions. Our preliminary investigations indicate that in the vast majority of cases, a man would benefit more by buying the cheaper term insurance and investing the extra money saved on premiums. A typical $10,000 non-participating (no "dividends") whole life policy issued at age 25 produced the following results when compared with a term policy over a 40 year period: $1792 more could be earned by buying the cheaper term insurance and investing the difference in premiums at an interest rate of 4 per cent; $3935 more could be earned at 5 per cent interest; and $7482 more could be earned at 6 per cent.

Thirdly, there are now many institutions in operation which will help a man save a portion of his monthly or weekly pay check so that he does not have to rely on the insurance industry to do it for him.

The other major argument profferred in favor of whole life insurance is that it guarantees life-time protection regardless of what happens to the policyholder. This may have been a significant advantage at one time, but it is now possible to procure term insurance with a 'renewal privilege.' This guarantees the policyholder the right to renew the policy, without proving ones insurability, at the end of the original policy term.

The buying of life insurance is decidedly a personal matter. Our personal view is that most college students would be wiser spending their hard-earned cash putting food on the table. Yet those students with a family interested in life insurance should seriously consider the advantages of term insurance. In the event of the untimely death of a young father, term insurance could provide 3 to 5 times more protection for the money. And isn't that what you want?