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BUYING YOUR OWN LIFE INSURANCE

BY MAXWELL S. STEWART



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BUYING YOUR OWN LIFE INSURANCE

By MAXWELL S. STEWART

MOST of us don't need to be told that life insurance is important. We believe in life insurance. Americans are the most heavily insured people on earth. At the beginning of 1947 there were 73 million policyholders in the United States. Added together, the amount of life insurance in force totaled $174,000,000,000—nearly two-thirds of the national debt.

By far the greater part of this insurance has been sold to the policyholders by agents employed by the regular insurance companies. These agents perform a useful service. Left to themselves, many men who need the protection of life insurance would fail to buy it. This has been demonstrated repeatedly. Only when agents were introduced did the value of insurance become widely recognized. In the case of most of the smaller policies—particularly industrial insurance ($500 or less)—the agents usually collect the premiums weekly as part of their service. This, however, has its

This pamphlet is based on basic research studies by the Temporary National Economic Committee and the United States Department of Labor, together with recent surveys sponsored by the Savings Bank Life Insurance Council of Massachusetts and the Savings Bank Life Insurance Fund of New York. For details, see bibliography on page 32.

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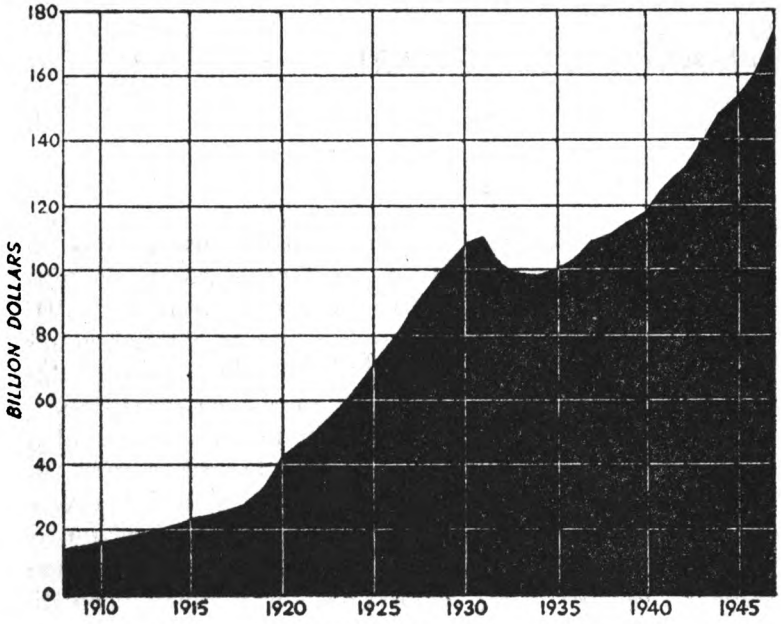
drawbacks. The extra service of the agent not only adds greatly to the cost of the insurance but also results in less liberal cash and loan values. It means that manual workers and others with relatively low salaries pay proportionately more for protection than the well-to-do.

LIFE INSURANCE IN FORCE IN U.S.



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Few life insurance agents get regular salaries. Their income is dependent on commissions. As a result, many of them have the reputation of using high-pressure tactics to sell insurance and keep it in force. Although the agents are supposed to provide expert advice on the kind and amount of insurance that a family should hold—and many of them do—a large proportion of the agents have never had sufficient training for this purpose. Since their pay depends on their sales, they are under constant pressure to persuade their clients to take relatively expensive policies. This results in too little insurance of the wrong kind to fit the client's need.

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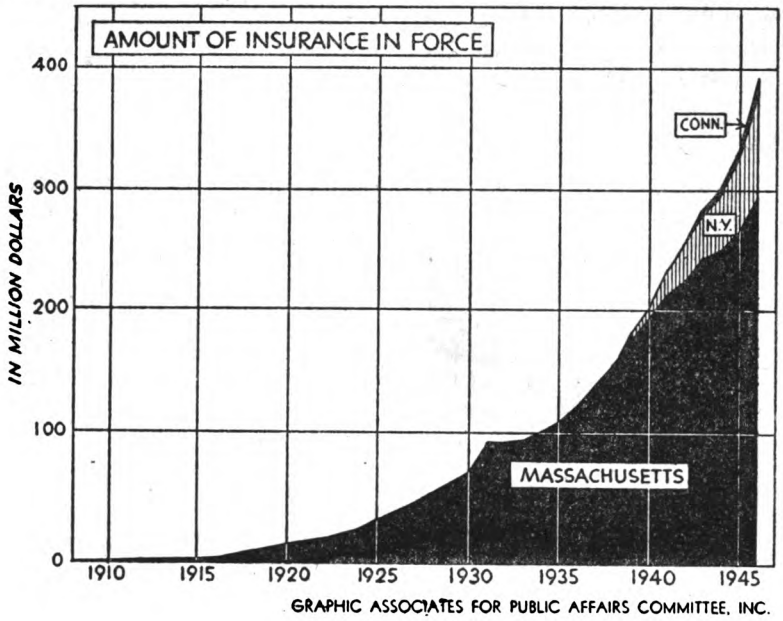
GROWTH OF SAVINGS BANK LIFE INSURANCE



KINDS OF POLICIES

PERHAPS, like many persons, you are confused about what kind of life insurance policy you should hold. There seem to be so many different kinds, and each agent seems to stress a different one. Many of the life insurance companies offer dozens or scores of different kinds of policies in the hope of attracting new policyholders. Stripped of frills, however, these can be classified into five groups:

(1) Term insurance;
(2) Straight or ordinary life insurance;
(3) Limited payment life insurance;
(4) Several varieties of endowment insurance;
(5) Group insurance.

Savings banks in Massachusetts, New York, and Connecticut offer all five kinds of policies.

Before deciding which policy best fits your needs, it should be helpful to examine each of these groups and see for what purposes they are best suited.

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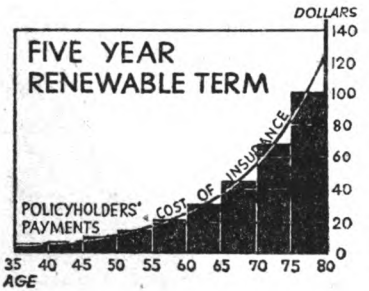
Renewable Term Insurance

The simplest and cheapest form of life insurance is term insurance. Term insurance, like fire or marine insurance, provides protection for a limited time. In case of savings bank insurance, it extends to the age of sixty-five with a change in rate each five years. It is relatively cheap for younger men since their chances of living throughout the period are high. Under the term plan you pay only for protection. Except in very long-term policies, there are no cash or loan values. The policy is written for a five-year period, but it is automatically renewed at the end of each five years, up to the age of sixty-five, without a new medical examination. Each renewal, however, is made at the term rate applying at the age when the term expires. Thus, the premiums increase considerably for each new period and become quite high as the fifties and sixties are reached. Term insurance can be converted into other kinds of insurance without a medical examination.



This form of insurance is frequently useful where a comparatively large amount of insurance is needed for a temporary period. It meets the needs, for example, of a father with a steady but small income who has several young children, or of a man who wants to protect his family against foreclosure of the mortgage on his house in the event of his death before the loan is repaid.

Straight Life Plan

Straight life, or ordinary life, is deservedly one of the most popular forms of life insurance. Instead of being covered for a limited period, the policyholder is insured for life as long as he pays his premiums. The premium which applies at the age when the insurance is written remains the same throughout life and does not increase with age. The premium may be low or high depending on the age of a man when he takes

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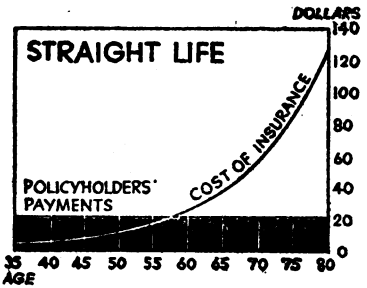
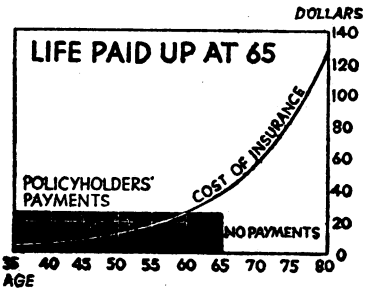
out his insurance. Once fixed, however, it does not change. The premium is considerably higher than that of term insurance during the earlier years of the policy, but since it does not increase with age, it becomes lower than the term rates in later years. The level premium throughout life is made possible because part of the high premiums of the early years is invested at interest and the proceeds are used to build a reserve. This reserve in turn is used to reduce the cost of the insurance protection during the later years of life. Consequently, because of the reserves built up, straight life policies have cash and loan values which may be drawn on if the policyholder needs funds for an emergency. You don't have to "die to win."



Limited Payment Plan



Under limited payment life insurance the policyholder pays premiums only for a limited period, usually twenty or thirty years or until he reaches a certain age—frequently sixty-five. He remains insured, however, for life, and the company will pay the full insurance whenever he dies. The shorter premium-paying period naturally requires larger annual payments than does the straight life policy, but it carries the advantage of freeing the insured person from making payments beyond his or her normal earning years.

Endowment Plan

The endowment plan is more than just life insurance, for it combines life insurance with a systematic method of saving. The policyholder pays a fixed premium for a specified

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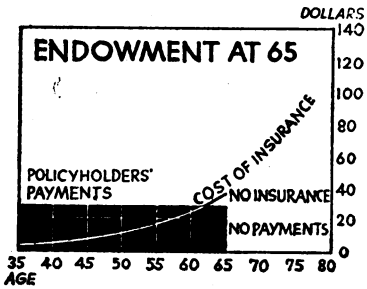
period, such as fifteen, twenty, twenty-five, or thirty years—or until he is sixty, sixty-five, or seventy years of age. Not only is he insured for the full value of his policy during the period selected, but if he lives until the period ends, the entire sum is paid him in cash, and the insurance ceases. Since the amount of the policy must be paid in full at the end of the stated period, the premium charged is naturally considerably larger than for other plans. An endowment policy which expires before the normal age for retirement is not recommended by the savings bank insurance authorities.



Group Insurance

Group insurance, as the name suggests, is written to cover a group of persons, usually the employees of a factory, store, bank, or other type of business concern, or the members of a labor union or other group connected with their jobs. A company must have at least twenty-five employees to be eligible for group insurance. Medical examination is not usually required, but employees are required to be actively at work before their insurance becomes effective.

This is the cheapest of all forms of insurance because it is one-year term insurance and many persons are covered under one policy. The premiums are calculated according to the actual ages of the members of the group. The premium is paid to the insurance company by the employer in one sum. Sometimes the employer bears the entire cost; in other cases, the employees contribute a part of the cost—usually the same amount, regardless of age. Although far fewer persons are covered by group insurance than by ordinary insurance, this form of protection has been growing rapidly in importance during recent years. More and more employers have seen the value of this type of protection for their workers, and in 1947 approximately 14,000,000 persons were insured under group policies.

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WHY PEOPLE PREFER SAVINGS BANK LIFE INSURANCE



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savings bank insurance costs, on the average, about one-fourth less than ordinary insurance written by the regular companies and only about one-half as much as industrial insurance. In New York, straight life insurance issued by the savings banks costs approximately 15 per cent less than similar insurance purchased from the companies.

The Temporary National Economic Committee compared the experience of twenty-seven representative companies with that of the savings banks which sell insurance. Taking a policy issued in 1929 as an example, it found that the average yearly net cost of a $1,000 straight life policy for the savings banks was only about 60 per cent of the lowest net cost of any of the regular companies. An even greater difference was found on policies issued in 1938.

Experience has shown that there are several reasons why savings bank life insurance is cheaper than that offered by the companies. The elimination of agents and commissions

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is an important factor. The fact that savings bank policyholders tend to hold on to their policies, thus cutting down the number of lapses, is another. The proportion of lapses in company policies is several times as high as for savings bank policies. And savings bank expenses are lower. Massachusetts has found that the proportion of the premium needed to pay expenses is twice as high for industrial insurance as for ordinary insurance sold by the companies, and three times as high as for savings bank insurance. Over a long period of years, moreover, Massachusetts has found that the death rate among its policyholders is somewhat less than among policyholders in the regular companies. They appear to make superior risks because they have more foresight and prudence, on the whole, than most people and

WHY SAVINGS BANK LIFE INSURANCE COSTS LESS



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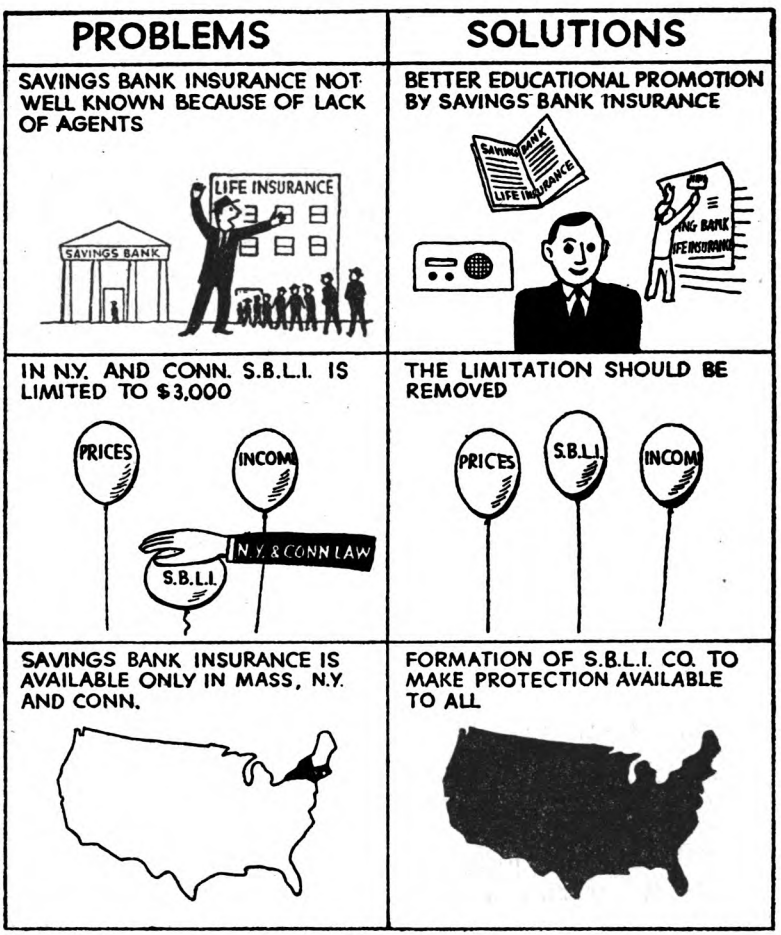
3. *Further Reduction in Cost of Savings Bank Life Insurance*: An increase in the limitation to $5,000 would increase modestly the average amount of life insurance written by the savings banks per policyholder. This has a material bearing upon reducing the operating costs of their life insurance departments. It means still cheaper insurance for the policyholder because the banks are mutual institutions and the insurance therefore is mutual insurance. There is no profit consideration involved. The savings resulting from the lower costs that will accrue from the increase in the limita-



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SOURCES FROM WHICH BUYERS LEARNED ABOUT SAVINGS BANK LIFE INSURANCE



provides such persons with an opportunity of obtaining safe insurance at less cost than ordinary insurance—thus saving money—or of obtaining greater protection with no greater outlay of money. Because it appeals to the resourceful and foresighted, savings bank life insurance has a peculiarly American appeal. It is an appeal that is based on qualities that have made America economically strong—initiative and self-reliance. As long as Americans stress these virtues, savings bank life insurance should grow and flourish.

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