RECORD OF SOCIETY OF ACTUARIES
1983 VOL. 9 NO. 4

THE FUTURE OF WHOLE LIFE INSURANCE—A DEBATE

Moderator: O. DAVID GREEN, III. Panelists: DALE R. GUSTAFSON, ROBERT W. MAC DONALD, RANDALL MIRE. Recorder: MELVIN S. HAMILTON*

MR. O. DAVID GREEN: In his reply to another debate resolution, Jim Anderson made these observations:

1. Does the industry really understand the contemporary environment for individual financial security products?

2. Are traditional life insurance products, notably permanent insurance, appropriate to the needs of the typical buyer under today's market conditions?

3. Are traditional life insurance products economically viable from the viewpoint of either the buyer or the industry?

4. Is the industry seriously vulnerable to a concerted raid on its accumulated assets, mounted either from within or from without the industry?

Twenty-one months ago, Bob MacDonald stated that his company, ITT Life Insurance Company, had stopped selling whole life, because "It is no longer a viable consumer product" and "It just doesn't meet consumer needs." Later in that press release, Bob added, "The revolution in life insurance is coming fast and it's going to accelerate as more and more life insurance consumers learn that whole life does not keep pace with rising inflation and volatile interest rates."

MR. DALE R. GUSTAFSON: My remarks will be relatively brief. First, there will be some introductory remarks to set the scene of where we are and how we have gotten here over the past three or four years. Second, I will discuss at some length a current comparison that has been prepared by my staff. Finally, I will make some summary comments indicating, as you might not be surprised to learn, considerable optimism for the future.

"Whole Life is dead." "All permanent insurance should be replaced." "Universal Life is a better answer." "New money will outperform portfolio in the future." "Buy term and invest the difference." Those remarks should be familiar to all of you. The battle was first joined for the Northwestern late in 1979 when Hutton Life (then Life of California) advertised locally in Wisconsin that its purpose was to replace all present in-force permanent insurance. Mr. MacDonald at ITT Life joined the fray somewhat later with the cry, "Whole Life is dead." ITT Life's product is a combination of

*Mr. MacDonald, not a member of the Society, is President of ITT Life Insurance Corporation.

annual renewable term and a flexible premium annuity. I have always lumped the products such as ITT Life's and the various Univeral Life products in the same pigeonhole. The only significant difference that occurs to me is that the term and annuity combination has a significant tax disadvantage on death (after all isn't death protection what we are talking about?) and a somewhat smaller tax disadvantage on surrender. To honor Mr. MacDonald's presence on this platform, my remarks will focus primarily on his product. You will be able to separate out rather easily those of my remarks that specifically apply to the term and annuity combination and those of my remarks which apply more generally to this whole family of new products.

Incidentally, I have no fault to find with any of these products as new products. I have been consistent through these years in unrelentingly counterattacking their focus on replacement. Certainly, the replacement of an inferior product with a superior product is entirely in the public interest. The generic statement that all in-force policies should simply be replaced with these new products, any one or all of them, is simply untrue.

During 1980 and 1981 when interest rates were spiking to unprecedented heights, the rallying cry of these new warriors gathered more and more steam and has only begun to quiet in the last year or so as interest rates have stopped their headlong rise to oblivion. One of the aspects of the focus on replacement that always has been totally repugnant to us at Northwestern is the fact that the replacement efforts have focused almost entirely on the insurable affluent. Even in the companies that have systematically replaced their own in-force, most of them have focused on the insurable affluent. Some of us feel a stronger sense of obligation to our entire block of policyowners. We believe that it is not only possible but superior in terms of long term economic results to pass new benefits and new ideas through to all old policyowners, not just those who are currently attractive targets for commission dollars.

One of the other common, but quieter, cries throughout this four year period has been that the portfolio approach to determining interest rates for insurance products would have to go. It simply would not be able to survive in the face of the superior results of new money products. Horse feathers. It has now been four years since this general cry went up. The Northwestern and a few other quality companies have stuck steadfastly with the portfolio method. In terms of value to old policyowners, successful sales of new business, and pride in being associated with a true consumer oriented operation, "We are okay, are you okay?"

I have had current sales illustration comparisons made for our biggest selling plan, our Extra Ordinary Life, and ITT's Annual Renewable Term and Flexible Premium Annuity combination. The illustrations assume a $100,000 initial death benefit and adjust the amount of term insurance purchased from ITT each year so that the comparison is exact in terms of gross death benefit. With the death benefits equal, the calculation was made assuming whatever interest rate was necessary to produce a 20-year cash value in the ITT Flexible Premium Annuity contract equal to the total illustrated cash value under our plan.

$100,000 EXTRA ORDINARY LIFE COMPARED TO ITT LIFE'S ART "IMMORTALIFE"
WITH DIFFERENCE IN PREMIUMS INVESTED AT 10.046% IN ITT LIFE'S FPA
AGE 35 MALE SELECT

EOL BASIC AMOUNT ... $60,000
EXTRA LIFE PROTECTION 40,000**
** GUARANTEED 27 YEARS-FULL PAID 17 YEARS*

	1	2	3	4	5	6	7	8
YEAR	PERMANENT PLAN PAYMENT	ITT LIFE ART "IMMORTALLIFE" PAYMENT	ITT LIFE FPA PAYMENT	FPA CURRENT VALUE AT 10.046%	AMOUNT OF TERM PURCHASED	PERMANENT PLAN CASH VALUES GUAR.	PERMANENT PLAN CASH VALUES TOTAL*	PERMANENT PLAN INSURANCE BENEFIT*
1	1070	111	959	1042	98958	0	42	100000
2	1070	148	922	2148	97852	489	716	100000
3	1070	193	877	3315	96685	1248	1730	100000
4	1070	248	822	4538	95462	2031	2847	100000
5	1070	297	773	5829	94171	2838	4080	100000
6	1070	343	727	7200	92800	3667	5434	100000
7	1070	365	705	8685	91315	4519	6925	100000
8	1070	388	682	10295	89705	5394	8563	100000
9	1070	412	658	12039	87961	6292	10360	100000
10	1070	437	633	13931	86069	7213	12332	100000
11	1070	463	607	15983	84017	8120	14452	100000
12	1070	491	579	18211	81789	9048	16761	100000
13	1070	519	551	20633	79367	9996	19275	100000
14	1070	547	523	23266	76734	10962	22012	100000
15	1070	575	495	26133	73867	11947	24995	100000
16	1070	602	468	29258	70742	12948	28248	100000
17	1070	649	421	32645	69837	13965	31795	102482
18	1070	724	346	36291	71453	14998	35658	107744
19	1070	809	261	40209	73187	16045	39855	113336
20	1070	905	165	44416	75047	17105	44415	119463

NOTES
1. The term plan payment is for the amount shown in column 5.
2. The amounts in column 5 are for illustrative purposes only. Amounts below company minimums will not be issued. Changes in amount in column 5 are subject to company policy.
3. ITT Life ART plan has banded premiums and a $17.50 fee ($12.50 for additional insureds up to 5).
4. Band used is regular issue $25,000 - $49,999; face doubles for Immortalife.
5. FPA has $12.50 fee and pays 10% interest currently (4% guaranteed).
6. Rates are as of March 1983.
7. If reentry is assumed at duration 10, ITT's FPA needs to only earn 9.686%.
8. Tax consequences are not the same at death; the part of the $44,416 of ITT annuity proceeds that exceed the sum of the incoming payments are taxable, this amount is part of the NML death benefit which is not taxable.

* Dividends assume no loans; loans will reduce dividends. Based on current dividend scale - 1983 issue. Not an estimate or guarantee of future results. This illustration does not reflect that money is paid and received at different times. 8% loan provision.

$100,000 EXTRA ORDINARY LIFE COMPARED TO ITT LIFE'S ART "IMMORTALIFE" WITH REENTRY
WITH DIFFERENCE IN PREMIUMS INVESTED AT 9.686% IN ITT LIFE'S FPA
AGE 35 MALE SELECT

EOL BASIC AMOUNT ... $60,000
EXTRA LIFE PROTECTION 40,000**
** GUARANTEED 27 YEARS-FULL PAID 17 YEARS*

	1	2	3	4	5	6	7	8
YEAR	PERMANENT PLAN PAYMENT	ITT LIFE ART "IMMORTALLIFE" (REENTRY)PAYMENT #	ITT LIFE FPA PAYMENT	FPA CURRENT VALUE AT 9.686%	AMOUNT OF TERM PURCHASED	PERMANENT PLAN CASH VALUES GUAR.	TOTAL*	PERMANENT PLAN INSURANCE BENEFIT*
1	1070	111	959	1039	98961	0	42	100000
2	1070	148	922	2138	97862	489	716	100000
3	1070	193	877	3293	96707	1248	1730	100000
4	1070	248	822	4499	95501	2031	2847	100000
5	1070	298	772	5767	94233	2838	4080	100000
6	1070	343	727	7109	92891	3667	5434	100000
7	1070	365	705	8557	91443	4519	6295	100000
8	1070	388	682	10120	89880	5394	8563	100000
9	1070	413	657	11807	88193	6292	10360	100000
10	1070	438	632	13630	86370	7213	12332	100000
11	1070	189	881	15902	84098	8120	14452	100000
12	1070	256	814	18321	81679	9048	16761	100000
13	1070	325	745	20899	79101	9996	19275	100000
14	1070	427	643	23614	76386	10962	22012	100000
15	1070	487	583	26527	73473	11947	24995	100000
16	1070	554	516	29648	73052	12948	28248	100000
17	1070	646	424	32969	69513	13965	31795	102482
18	1070	722	348	36530	71214	14998	35658	107744
19	1070	808	262	40341	73055	16045	39855	113396
20	1070	905	165	44415	75048	17105	44415	119463

NOTES
1. The term plan payment is for the amount shown in column 5.
2. The amounts in column 5 are for illustrative purposes only. Amounts below company minimums will not be issued. Changes in amount in column 5 are subject to company policy.

\# Reentry after 10 years - requires evidence of insurability

* Dividends assume no loans; loans will reduce dividends. Based on current dividend scale - 1983 issue. Not an estimate or guarantee of future results. This illustration does not reflect that money is paid and received at different times. 8% loan provision.

According to the latest information we have, as of March of this year, ITT was then crediting 10% to its Flexible Premium Annuity contract. This illustration shows that on these terms the ITT Life's Flexible Premium Annuity contract would have to earn 10.046% in order to match our 20th year cash value. This illustration assumes that reentry in the term contract at the end of 10 years for new insurability was not done. More on that in a moment.

The accumulated value shown for the ITT product is larger than the total cash value on the Northwestern Mutual plan at every duration until the final one. However, these values would apply only to individuals who on surrender or through their estates on death were in the zero tax bracket. In both circumstances, that is, death or surrender, the gain on surrender of the annuity is taxable as ordinary income. At any point during this comparison if that tax bracket is other than zero, the net death benefit will be less under the ITT program. If the tax bracket is 46%, the net cash value on surrender would be smaller than Northwestern's illustrated value at every duration after the 7th.

I also had my staff run an illustration assuming that the individual was able to meet whatever the ITT Life's reentry underwriting standards are 10 years hence. Under those circumstances, in order to match our 20th year illustrated cash value, the average rate credit over the next 20 years under ITT's Flexible Premium Annuity would have to be 9.686%. Clearly, on this illustrated basis, if an individual maintains his insurability and nobody changes anything else and the individual is in a zero or very low tax bracket, the ITT results would appear to be superior.

However, things never stay the same. One of the things that is changing is that under current interest rate circumstances, portfolio rates are still moving up. Naturally, I cannot talk about what Northwestern Mutual's 1984 dividend scale might be. However, it is not revealing any secrets to state that any mature life insurance company's portfolio interest is still moving up under current new money investment rates.

Before leaving this commentary on illustrations, I would like to make another comment about old policyowners. Through a series of update programs, the Northwestern Mutual has made the kind of values shown in our illustrations available to all old policyowners. It is a fact that we have had a very high order of acceptance on various update programs we have been and will continue to be offering.

The net upshot of all this is that we are offering very competitive values to new buyers and passing those same values on to old policyowners. To repeat, "Isn't that what permanent insurance is all about?" We are achieving the finest sales results of our entire history. We are constantly reassured by our policyowners, especially those who have become familiar with some of the newer products. We no longer lose any sleep over the question of whether or not there might be some truth to the cries of the various doomsayers.

I promised you a summary before I was through. A year and a half ago or so I overheard a remark by the chief actuary of one of the major new-money new-product companies (not Mr. MacDonald's). He said: "We have had to go along in order to remain competitive." So much for the argument some time ago that short-term interest rates were always going to remain higher than long-term interest rates. More than that, what will that company do if and when interest rates spike up again? Of course, they will abandon their new class of old portfolio (or long-term invested) policyowners. Question: Is that what long-term permanent insurance protection is all about?

As interest rates go through their normal up and down cycles, as they spike up, portfolio companies will continue to have trouble with new money products. With each succeeding spike, we will have much less trouble than with the previous one. Already we have been through the worst.

Over the long haul, we will provide better death benefits, better cash values, a better and more equitable future because our old policyholders will be okay. Northwestern Mutual considers itself to be a leader in providing low cost life insurance. I do not have to remind any of you of that. However, we are not at all alone in adhering to the concepts I have just described. There are quite a number of companies that we are very proud to be associated with.

To close on an earlier note: "We are okay, are you okay?

MR. ROBERT W. MACDONALD: The opening statement is to address general items, and I will do that. I cannot resist however, thanking Gus for relieving me of one concern I have always had. I have always wondered why it is that Northwestern Mutual calls themselves the quiet company. Now I know its because there is a lot they do not want us to know. It is also interesting to notice, I guess as a measurement of success, that a company like ITT Life has gotten a company the size of Northwestern Mutual to spend time trying to compete against us.

As far as I am concerned, the continued sale of traditional whole life insurance is a demonstration of obscene arrogance toward the consumer. But I must admit that such action causes me to have some mixed emotions. On the one hand, I am very committed to the success of the life insurance industry. I want to see it grow, and I want to see it prosper. The sale of whole life bothers me, because it is a clear signal to the consumer that we are not listening to them, and our credibility with them will continue to evaporate.

On the other hand, I must admit that the sale of thousands and thousands of new whole life policies creates a tremendous pool of policies my agents can easily and profitably replace. And, we are doing that as fast as we can.

From my perspective, the insurance industry reminds me of William Vanderbilt who, back in the 1880's was head of the New York Central Railroad, the premier railroad of its time. He was approached one day by a newspaper reporter with complaints over poor railroad service. "What effect is this going to have on the public?" said the reporter. To which Mr. Vanderbilt gave the now classic reply, "The public be damned." Of course, he was denounced by the media for saying such a thing. But the Vanderbilts continued to make millions from their railroads and others did as well, and they did it for the time being because really, there was no public alternative. The natural result was that the railroads grew lazy and complacent. When alternatives finally did arrive in the form of the automobile, the truck, and the airplane, the railroads went right on thinking that they had a monopoly on the railroad business. They did not wake up to the fact that they were really in the transportation business and would now have to compete. The rest is history.

I believe that there are lessons in this for the life insurance industry, which I believe has also become lazy and complacent. Lip service is given to change and responsiveness to consumer needs. But, in reality, this industry fights as almost no other to retain the status quo.

Product development, marketing strategies, and industry posturing all seem to be based upon the theory that the consumer is dumb and will remain so. As a result of efforts to retain the status quo, the insurance industry has allowed the consumer, once very effectively served by our industry, to literally pass us by and seek other alternatives. Thus, our industry appears, and in many cases, now is anti-consumer. Most leaders and, as a result, most followers in the life insurance industry, simply are not willing to admit that a tremendous change has taken place in our society, that the traditional answers of our industry are out of step with today's economic reality. For years, the consumer has been trying to give us signals saying that our basic product is simply not the type of product that they want to buy in the latter part of the twentieth century.

A recent survey showed that less than four out of ten insurance consumers now believe that the life insurance companies give them their money's worth. Only three out of ten agree that life insurance companies have high ethical codes. Less than three of ten think life insurance companies have been doing a good job of educating the public about life insurance. Only 15% of the insurance consumers believe that the life insurance industry offers their money protection. When rating financial vehicles that help protect against inflation, consumers place life insurance well behind savings accounts, individual retirement accounts, all-savers certificates, money market funds, and stocks. In summary, there is a perception on the part of the sophisticated consumer that a better return on the savings dollar is available elsewhere than from the life insurance industry.

You all know that one of the reasons we have done so poorly in the IRA market is because the consumer does not perceive the insurance industry as being able to offer a competitive capital accumulation product. We all recognize that the single most important reason for this is the terrible inflation of the past decade, followed by the lesser but still worrisome inflation of the present time. Market conditions are much more volatile than they used to be. Interest rate swings are frequently huge, and quite understandably, the public has been shell shocked by all of this. The result is that a very fast-growing segment of the public has become highly rate sensitive, highly aware of the time value of money, and is willing to take the time to very carefully compare savings and investment alternatives.

Given these facts, the old ways of doing business just are not going to work anymore. While some of us are willing to adjust our thinking and our product lines to the needs of this new era, others, unfortunately, still are not ready. Nowhere is this more evident than in the way so many of our industry leaders continue to insist, against all evidence, that whole life insurance, the industry's bread and butter product for a century, is still a good, viable product. To my way of thinking, this is absurd. There was a time when whole life had its place, but that time is over, and all the statistics prove it.

In 1970, whole life accounted for 58% of all the insurance sold in the United States. Since then, it has declined steadily, year by year, so that now the figure is below 40%. We know that the drop last year alone in new whole life sales was on the order of 10%. And yet, despite this, we still find an important body of opinion in our industry that praises the virtues of traditional whole life and wants to go on selling it. I have no use for this type of thinking into the future.

It is my strong conviction that whole life's decline is not a temporary thing. It is a clear trend, as a different set of infinitely more market-sensitive and consumer orientated products takes its place. Before describing what some of these products are today and what they might be tomorrow, let me deal with those last-ditch defenders of whole life who insist, against all the evidence, that their favorite product is still a viable one.

As a former agent, I certainly understand that all of you in this audience understand the technical aspects of whole life a lot better than I do, so I am not going to try to argue with that. But what I would like you to do with me for a moment, if you can, rather than looking at the product from the technical asset share point of view, is to just once look at the product from today's consumer's point-of-view. I realize that this is difficult because our industry has been, in the past, in the fortunate position of being able to develop and market products that we wanted to sell, rather than developing products that the consumer wanted to buy. But, I propose to you that times have changed. As much as some of us would like to believe it, we have got to recognize that the consumer is not dumb and can now recognize a bad deal.

From the consumer's point of view, whole life is a very anti-consumer product. Everything about it speaks for time gone by. The product is totally inflexible and is the very opposite of the type product you would design in a inflationary economy. What does inflation have to do with whole life and the policyholder and the beneficiaries? Well, whole life, and the consumer is becoming to realize this, promises today's dollars for tomorrow's problems. It devastates the policyholders, because the buying power of a given level of benefits could be halved or quartered or worse, over the life of the policy. So a consumer can spend a lifetime making premium payments and at the end of the time, the beneficiary receives a mere fraction of the expected spending power of the face amount of the policy once promised. Consumers are beginning to recognize this as a cruel joke.

Second, the so-called cash value buildup in a whole life policy is no buildup at all, when the interest rates are as low as they have been - 3%, 4% - or, if you happen to find a particularly good policy, slightly more. What do you call savings that accumulate at rates that are even lower than savings passbook rates? I think you call them no savings at all, and you would if you lived through the last 15 years as a consumer. In fact, you really have lost money.

Now, I know that we can all sit here and point out that whole life is not really a savings plan, the values are the non-forfeiture part of the reserves, and so on. But, ladies and gentlemen, we reap what we sow. Since the beginning, agents have been trained to sing the praises of the savings features of whole life. I seem to hear distant echoes of . . ."save for a new home. . . the policy will provide savings for college. . . the policy will provide savings for your retirement. . . ." We told the consumer that whole life was a savings plan, and he believed us.

Now the consumer has discovered that whole life is not a very good savings plan, and it really does not seem right as some in our industry would want us to do, to go to the consumer and say, "Hey, we were just kidding, it is really not a savings plan."

The inflexibility of tying both the death benefit and the cash buildup really confuses the knowledgeable buyer. They question why more insurance must be purchased if one wants to accumulate more money. Why must more money be accumulated if all the consumer wants is more insurance?

Along this same vein is the supposedly wonderful privilege that, if you have a whole life policy, you may be able to borrow against the cash value of your policy at low rates. Thousands of agents were trained and millions of policies were sold on the basis that cash values can be borrowed at well below market rates. We did a good job. The consumer became convinced that even if other parts of whole life were not so good, being able to borrow one's own money - and, yes, we did say it was his money - at below market rates was a good deal.

Then, at a critical time, when the policyholder was exercising the benefit we sold him on, we changed our tune. From the consumer's point-of-view, we made a poor product worse by installing penalties for using the borrowing benefit and raised the interest rates to market level. Sure, I know you can argue the need for these changes from a corporate profit standpoint - but how does this action look from the consumer's point-of-view? It looks very anti-consumer, and we lost more credibility.

Now there is another supposedly wonderful privilege if you are a whole life policyholder. This is a level premium over the life of the policy. It certainly sounds seductive; no increase in premium as you get older. I know that you are the first to understand exactly what this says. It says that the consumer is overcharged in the early days of the policy, with lower charges following later. The result is that the kind of consumers who are our prime prospects, the ones who need the protection the most, namely young couples in the career and home building stages of their life, are the ones who pay an inordinate amount to get their coverage.

Today's lifestyles really throw the inflexibility of whole life into high relief. By that, I am referring to the fact that premiums and death benefits cannot be altered easily to meet the shifting habits, needs and goals of today's consumers. Look around you: can you honestly say that there is anyone you know who doesn't go through important changes in career, family situation, or financial objectives over a 20 or 30 year period? But in today's world, with far more mobility and shifting life-styles, the idea of being locked into one set of fixed obligations and benefits for a long time is truly preposterous.

In the past, through the use of industry jargon, complicated policies, confusing sales presentations, and a built-in difficulty in determining just what was being purchased, we were able to gloss over the anti-consumer elements of whole life. We were good at it. We were very successful, and we were profitable. However, as I have said, all of this was predicated on the fact that the consumer was naive and would remain so.

I think that by now my point is clear. Inflation and wild swings in interest rates of the past few years have forced the public to educate themselves on the basics of finance. You now find that far more people are carefully comparing terms, rates, and yields on financial instruments of all types, before plunking down their hard earned money.

In other words, our consumers today are asking tougher questions, and they are demanding better value. In spite of the shivers it sends up some insurers' spines, this is no cause for despair. I believe there is enough talent and creativity in our industry to come up with better, more consumer-responsive products, and for us to make a fair profit at the same time, if we will only try. Many of us are trying, and we think we are getting somewhere.

But for some reason, many in our industry seem unwilling and unable to read the handwriting on the wall. Instead, they shift the ground from argument to vituperation, and launch personal attacks on me and on others who say, in effect, "The Emperor Has No Clothes." You and I both know why so many in our industry are ignoring the failings and fighting for the salvation of whole life. It is certainly not because they really believe it is a product for today's economy. We know it is because they want to protect the future profits from the in-force blocks of policies. They really are worried that the consumer will come to realize what a poor product whole life is for today, and will drop their policies for better alternatives.

The problem with this strategy is that the consumer already knows it is a bad buy and has passed us by. Our continued clinging to the past and old products simply erodes our credibility and makes it much more difficult to be successful when we do offer competitive products. As a result, some of the names which I have been called really seem a little bit funny. I have received letters which said I have emerged from the cesspool of the life insurance industry, someone said I was the anti-Christ of the life insurance industry, a renegade, a traitor to the industry and so on. But what gets my goat, really, is to read attacks calling me an individual who has no loyalty to the industry. It is precisely because I am interested in the profitable success of our industry, that I am saying that a great many of our industry leaders have got to get their heads out of the sand and abandon this misguided campaign that pretends that traditional whole life is still a fine product. Whole life has lost its shelf life, and that becomes clearer with each passing day.

Now, let me shift ground just a little bit and say a few words about our own product line at ITT Life, which is term insurance plus term linked to annuities. Believe me, our systems people and our actuaries would only wish that all we sold was ART and annuities. Of course, term is not new, and we are not claiming that term and annuities is the best long term answer either for the consumer or for us. We, as well as you, know that for our industry to be successful, we are going to have to develop products that not only answer the failings of whole life from the consumer point-of-view, but we must be able to attract assets to our organization so that we can be profitable.

The consumer has told us that whole life will not do this in the future, and we know that term insurance will not build assets for us in the future. But we believe, for the immediate present, that term and annuity offers the best for the consumers and for us. The beauty of term, unlike whole life, is that it is so easy to understand - you are buying protection, pure and simple, with no strings attached. It is an extremely cost-efficient way to buy protection. There are critics of term insurance who say that term may look cheap when you are young or middle-aged, but once you get to be older, the premiums jump fast and it is no longer an attractive buy. To that, my reply is that for older people, insurance is very seldom their principal financial need. By that time of life, their children are either grown or they have built their financial estate to the point that they do not need insurance as when they are younger. It is the younger people and the people in middle life who are the logical customers for protection, not the aged. Of course, pure protection is not the be-all and the end-all of the insurance business. We, along with other companies, offer annuities with tax sheltered advantages. What I want to stress is that this is not the same type of phony savings plan that whole life policyholders are sold. The annuities bear market rates of interest, which means that someone who buys an annuity can get a competitive rate of return. Furthermore, there is no mixing and mingling of the benefits and obligations of the protection products and the annuity products. A customer can see exactly what each is producing for a given number of dollars invested.

I also want to stress that term and annuity can be extremely flexible. At ITT Life we have designed what we call a "shell policy". This is a benefit-less "base policy" containing standard boiler plate language. To this shell can be added any combination of term benefits and annuities. We can design our product to look like whole life, universal life, variable life, or just term. We can offer level, increasing, or vanishing premiums. All this with just term and annuity. The program is easy for the consumer to understand and offers competitive mortality charges and money rates on the cash value.

The investment aspect of annuities brings me to my next short point which is on universal life. I think we all have noticed the steady advance in the public acceptance of this new product over the past four years or so. And I consider it to be one more proof that our industry does not have to be shackled by traditional whole life. Universal life offers an attractive protection feature combined with investment features, although structured somewhat differently than we do ours. I think it is fine in principle.

But I have been more enamored with the principle than I have with the practice in many cases. The whole life advocates may be dead wrong in their attacks on universal life and on term, but they did zero in correctly on one drawback of universal life, and that was the high front-end loads. I feel this is a little bit nickel and diming the consumer, but nevertheless, there are signs of new competitive policies driving this down, and signs that this aspect is going to improve. Universal life is important in another way. It shows how our industry, which is ordinarily so suspicious of change, can on rare occasions actually come up with an innovative product and move forward with the times. From here on out, we are going to be challenged to do just that, and we are going to be challenged to do it more frequently if we expect to survive.

We are hearing an awful lot these days about how the lines of demarcation between insurance companies, banks, and brokerage houses are coming down. Remember the parallel with railroads, which forgot what they were, that they were in the transportation business. We, for our part, had better not forget that we are all financial service providers, more or less. In the age of less regulation, there are both big opportunities and risks that we must face.

MR. RANDALL P. MIRE: What is the individual permanent life insurance product of the future?

- Is it traditional whole life?
- Is it term plus annuity? or
- Is it some form of non-traditional product?

Non-traditional products include:

- Universal life
- Variable life
- Variable universal Life

My adversaries represent companies that are vigorously promoting and selling the particular products that they advocate, whereas my company, Tillinghast, represents many diverse companies and products. However, the name Tillinghast, in most minds, probably is most closely associated with the universal life product. Approximately 150 companies now are selling universal life, and we have been involved with somewhat more than one-half of those companies' universal life products.

So, today, my primary goal will be to establish a case for universal life as the product of the future, and I also will touch on variable life and variable universal life.

As actuaries, we are trained to project anticipated future experience. Quite often, we use history and recent trends as a guide to the future, the most obvious example being mortality projections. This debate involves projecting future sales of universal life and alternative products. My approach will be in three steps:

(1) Look at the history and current sales of universal life as a guide to future sales of universal life;

(2) Then, look at the inherent characteristics of universal life to give us some further insight as to expected sales;

(3) And, finally, put (1) and (2) together with some other factors to shed further light on future sales.

What are the history and current trends with respect to the sale of universal life? Quite simply, the product has had the most phenomenal sales success in the history of United States individual life insurance.

The product was introduced in late 1979, amid emotional, almost unanimous opposition from the industry. By 1981, based on new annualized premium, universal life had captured a 2% market share. By 1982, for the year as a whole, it had captured a 10% market share, which means it was running at roughly a 15% market share clip at last year end. For 1983, LIMRA estimates that universal life's market share will be 20%-25%, and they recently have verified this estimate as perhaps a little low if anything. Now you should note that this data is based on premium which is generally regarded as the best measure of revenue. If you do not think so, ask your local CPA. It is based on annualized premium, not lump sums. These statistics come from LIMRA, and LIMRA has not been the most avid proponent of universal life historically, so I don't think there is any upward bias in the figures. Included in this data are whole life sales statistics which include sales with policy loans, in other words minimum deposit, which clearly overstates the real premium income being taken in on such policies. Minimum deposit, after all, is really term insurance, not whole life.

So, universal life, in less than three years, has now captured something like one-fourth of the market, a quite phenomenal result. It has captured this market share in the face of a big term insurance market share increase.

Those are total industry numbers. What about individual companies? Is this the phenomena of just a couple of companies? In our experience with a large number of companies which have introduced universal life, universal life quickly has become their dominant product, selling from 50% to 90% of new business, and the total level of premium income of these companies has also gone up substantially. LIMRA studies show that based on a limited analysis, companies that sell universal life have substantially higher growth rates than companies that do not sell universal life. The growth of Universal Life is pervasive and not just limited to a few isolated companies.

So, sales are good, and sales are going up. Why? What keeps universal growing? The basic reason, I think, is that from the consumer's point of view, it is an inherently superior product that can be sold by life insurance companies on a profitable basis. Regardless of established companies and established distribution systems, if you offer a superior product at a lower cost, the public will buy it.

For example, take Japanese autos as opposed to U.S. autos. Look at the United States automobile industry and distribution system. It is hard to imagine an infrastructure and distribution system more established and powerful. I personally believe that a typical Toyota is a superior automobile to say, a Chevy Chevette (superior in the most common ways values are measured), and that the main reason Toyota sales have been so high is that they offer a superior product at a lower price. Incidentally, I do not own stock in Toyota, I do not even own a Toyota.

Look at money market funds as opposed to savings and loan savings accounts. How long did it take the public to recognize the better product and switch over?

Look at the air transportation industry versus other entrenched transportation industries, like the railroads that Bob discussed. Look how they used a superior product, jet aircraft, to attract new customers both within the aircraft industry and from other industries. I believe that universal life is the jet aircraft of the insurance industry. Universal is as inherently superior to whole life as the 727 is to the DC-3. Companies that offer universal have the advantage over non-universal life companies, similar to airlines offering jet aircraft as opposed to propeller aircraft.

All right, so you might agree that a superior product will sell, but what is it that makes universal life superior to traditional products?

Adversaries of universal life say that life insurance ultimately is a "dollar in, dollar out" business. If a universal life carrier and a traditional product carrier have the same experience, pay the same commissions, pay the same taxes, and have the same profit goals (or contribution to surplus goals), universal cannot credit more benefits to the policyholder than a traditional product. This is true. However, even if the experience under the two products is the same (and we are not debating here whether Northwestern Mutual has better experience than E.F. Hutton), Universal Life will still have some inherent advantages.

The first advantage is flexibility. We live in a time of incredibly rapid change in personal needs. You have heard speeches on rapid change. I will not repeat them, but I would like to quote one sentence from a book that has come up a lot recently and was recently reviewed in the Wall Street Journal - - The Next Economy, by Paul Hawken. "The future success in the next economy belongs to those who deal in products and services that emphasize design, craft, and durability over mass. In the near future, one size will no longer fit all."

The flexible features are the ability to change the death benefit to fit current needs, the ability to change premium contributions and to "stop and go I think this is an extremely valuable feature which will be even more important in the future.

A second advantage is its simplicity and what simplicity leads to - - disclosure. Universal is easy to understand. Take a look at the traditional, permanent products being sold. I defy you to find a policyholder who really understands traditional permanent insurance products, especially as they are currently sold. Participating products with mysterious "cash values" and "dividends" that come from only the actuary knows where. They are sold on a minimum deposit basis; they are sold on a vanishing premium basis with dividend options switching from paid up additions to reduction of premium with partial surrender of dividends. Nobody out there understands these products. Nor do they understand the economatic-type approach, with reduced guaranteed death benefits. These are incredible contortions to achieve something that can be done in a quite straight forward manner. The simplicity of universal life leads directly to the disclosure aspects which are so important to the public.

There are also other advantages of universal, but the two above - the flexibility and simplicity/disclosure alone - will guarantee its success.

Numerous objections have been brought forth as to why universal life will not be the product of the future - - it is inherently inferior; it will not sell as a practical matter; it represents an attack on the holy insurance industry; and it is morally evil and degrading; and so on. Most of these objections appear to lack substance. Let us take a look at some of the major objections and see how valid they are. One objection is that universal life is just too expensive and complicated to administer. Universal life actually is relatively easy to administer, as companies selling only universal life have demonstrated. The difficult task is not the administration of universal, but rather the integration of the simple universal life product into systems designed to handle the complicated and irrational traditional products.

Another objection is that universal life's success is based on projections of unreasonably high interest rates. The argument goes, and you have heard it: since most universal life products use a new money basis for interest, it has a current temporary advantage (which is true), but the projected long term interest rates used in sales illustrations are higher than might reasonably be expected (may be true). But regardless of these criticisms, temporary new money advantage and aggressively high projected interest, this has nothing to do with the inherent superiority of the product. You might note that, among a number of the major mutual companies, the trend is to do things along similar lines: new money dividends, direct recognition of loans, and more aggressive dividend scales.

Another argument is that universal life is temporarily successful because of current unusually high interest rates. As soon as interest rates drop, universal life sales will collapse. Once again, this has nothing to do with the inherent superiority of the product. You might note that interest rates have dropped, and sales are still moving along.

Another argument against universal life is that it pays low commissions. Agents just will not sell universal life at this low commission level, and the insurance companies cannot support agents at that level. This is perhaps the most emotional argument against Universal, and this was quite true in the early versions of universal life. However, once again, there is nothing inherent in the product that requires it to pay low commissions. Indeed, recent trends for companies are to pay commissions quite close to traditional commission rates. I might add that this trend towards higher commissions on universal life seems to prove something to some actuaries with respect to their support of traditional products, although the argument is a bit fuzzy to me. Universal life can either pay low commissions, traditional commissions, or high commissions, whichever you prefer.

Regardless of the ability of universal life to pay high commissions, many in the industry do feel that the loads and commissions on the savings element on permanent life insurance are too high and that, in the long term, it will not compete with alternative savings products. A change from the high load/commission structure on savings elements of life insurance is necessary to stop the suicidal trend to term insurance. People will pay higher loads and commissions for protection, but they will not on savings. An advantage of universal life is that, as a practical matter, it is a vehicle whereby loads and commissions on savings dollars can be put at a rational, competitive level.

Opponents argue that flexibility in premium payments will lead to higher lapse rates on universal life. In theory, this is debatable, but as a practical matter, it has not happened. Lapses are difficult to define on universal. But, regardless of definition, companies we have seen have had remarkably good persistency.

In addition, there is a strong argument that, logically, persistency should be better under universal life. The high lapse rates in the industry today on permanent life insurance are due in large part to the inability of traditional products to react to the current economic environment. Universal life can adjust and has the ability to immediately reflect current economic reality through current interest rates and current cost of insurance rates.

Another argument against universal life is that it has been used extensively as a replacement vehicle and, therefore, is inherently inferior and evil. It is true that Universal Life has been used for replacement. Let me give you some other examples of replacement activity:

Toyotas replace Chevettes
727's replace DC-3s
Money market funds replace savings & loan savings accounts
Banks' IRA products replace insurance companies' IRA products

From a consumer's viewpoint, replacement is no longer a dirty word - nor is it from most agents' viewpoints. It is quite true that there are abuses in replacement. But there are abuses any time there is a new, innovative product. Some people overpaid for Toyotas when the dealers jacked up the prices, and some people bought Toyotas when they really did not need to They could have kept that Chevette around for a couple more years. But that doesn't stop Toyotas from being superior automobiles to Chevettes.

Now what is a rational strategy when faced with a potential replacement product? What should General Motors' strategy be against Toyota? And in a similar situation, what should an airline using DC-3's do when they are faced with jet aircraft? One GM strategy might be to try to keep the Japanese out of America. The DC-3 carrier might try to legislate jet airplanes from being manufactured. Indeed, the initial strategy of most of the major mutual companies when universal life was first introduced was very much along these lines. Somebody has likened the mutual companies' attitude to trying to win a horse race by shooting all the other horses.

A more rational strategy for General Motors might be to develop better procedures and superior technology and attempt to produce superior autos at a lower price. For the DC-3 carrier, a similar strategy might be to try to utilize jet aircraft, although they might have some short-term strategy to find a way to extend the useful lifetime of the DC-3's.

Another argument against universal life is the agents' attitudes. Traditional agents just won't sell Universal. There is some truth here. Many actuaries and others have felt that the widespread resistance to universal life at the agents' level would prevent its widespread acceptance. However, a LIMRA study late last year shed some light on agents' attitudes toward universal life. A survey of NALU members showed that about one-fourth of the agents feel "whole life is on the way out", and fully one-half of PPGA's and brokers agreed with that statement. Of all the agents surveyed, only 12% expect "little acceptance" of universal life. This survey is based on data that is now over 12 months old, and no doubt these percentages have changed to even more favorable acceptance of universal. Note that the data is not from Ralph Nader, but from LIMRA and the NALU.

Another argument is that there will be regulatory blocks - do not worry, state insurance departments and the Federal Government will put a stop to this new universal life. This is the traditional way that new, innovative insurance products are stopped. However, it appears that the current regulations are more of a nuisance than any real block to universal life.

Another argument is that taxes will kill universal life. With respect to policyholder taxation, as of today, universal life is the only product that has been approved specifically by Congress. It is whole life that has not been approved. It is likely in the future that universal life and whole life will be taxed on a similar basis. With respect to company taxation, it appears that in the future universal life will be on at least as favorable a basis as other permanent products.

Another argument against universal life is its lack of profitability. You just cannot make any money with universal life. The products we have seen have had profit goals (or for a mutual company, normal contribution to surplus) based on rational assumptions with at least as high a profit margin as traditional products.

Now so far, we have talked about universal as opposed to traditional. But what about the products Bob MacDonald is espousing? He eloquently attacks traditional whole life. In that regard, he makes some good points, However, I am considerably less pessimistic about whole life than is Bob. I think there is a place for whole life in the future. As long as we have tax laws fostering minimum deposit business, the tax aspects of policy loans alone will make whole life attractive. Whole life will be here in the future, although perhaps playing a role similar to the propeller aircraft in the aviation market - of limited value but good for short hops primarily.

Basically, Bob is promoting term and invest the difference, the difference hopefully being an ITT annuity as an alternative to universal life Conceptually, this combination is not significantly different from universal life. Indeed, Jim Anderson's first description of universal life was a flexible annuity plus renewable term insurance. However, the term/annuity combination has several drawbacks relative to universal life.

As currently structured, term/annuity lacks flexibility. It is much more difficult to adjust the face amounts and level of premium payments on a term/annuity product than on a universal life Of more importance, the tax consequences to the insurer and, in particular, to the buyer, are more favorable on universal life. The buyer of universal life has clear tax advantages over term plus annuity, both for estate tax purposes and for income tax purposes, both for early surrender and withdrawal and upon death. This applies under the current tax law and likely will apply in the future as well. In addition, as currently sold, this combination of term and annuity lacks the simplicity and disclosure of universal life.

We have looked at the inherent characteristics of universal life and recent sales trends. What other factors are there that might lead us to expect even more universal life sales?

New markets - universal life is just beginning to penetrate a number of new markets, like salary savings, pension trusts, and perhaps the largest, mass marketing.

Computer technology - we are all aware of how pervasive small personal computers are becoming in business and personal life. Universal life is leading the way in this regard. Many see this as a negative, but actually it is an asset and one which will be more valuable in the future.

The attitude of the popular press - in numerous journals, universal life has been covered and generally given favorable and often rave reviews:

Fortune
Forbes
Wall Street Journal
Business Week
Time
Newsweek
Money Magazine
New York Times
Changing Times
Consumer Reports

Ask yourself, "When was the last time any publication, outside the insurance industry, has published an article that was favorable with respect to any life insurance product?" It has been a long time. I believe that the favorable national and local publicity will be quite important in the future sales activities of universal life.

Now that you, hopefully, are convinced that universal life is the product of the future, let me tell you that perhaps the most likely long-term candidate for the product of the future may not be universal, but the son of universal life, variable universal life. Traditional variable life has all the drawbacks of traditional whole life. But, variable universal has all the advantages of universal, plus the ability to utilize different investment vehicles and to transfer the capital risk to the buyer, which is clearly a big plus. Similar arguments to those used for universal life apply to the variable aspects of variable universal.

The product of the future - definitely universal; maybe variable universal.

MR GREEN: The world around us abounds with volumes of data regarding every aspect of our performance. Let me provide some additional grounds for rebuttal by reviewing a couple of the articles that recently crossed my desk.

For example, in the August 1st issue of Bests Weekly Insurance Management Reports, various facts and figures were presented about the 100 leading writers of term insurance in 1982. In the case of Northwestern Mutual, the ratio of ordinary term issued to total ordinary issued has increased from 29% in 1977 to 39% in 1981 and 48% last year. Another way of looking at this is that NML issued $6.9 billion of term insurance last year, up 54% from 1982. It would seem clear that NML policyholders are caught up with the term euphoria, just like the rest of us. To Gus, I ask what within Northwestern Mutual is the ultimate acceptable limit of the ratio of term insurance issued to the total ordinary issued?

Two weeks later in the same publication appeared an article on the lapse ratios of ordinary insurance. This time the 150 largest life insurance companies were dissected. Over the last 5 years, Northwestern's lapse rates have been truly impressive, ranging, but increasing, from 3.6% to 5.6%. In fact, only 2 companies had a lower lapse rate in 1982. On the other hand, ITT 's 1982 lapse rate of 24.7% was the 3rd highest, up from 19.5% in 1981 and 18.8% in 1980, which were respectively 8th and 4th. I personally find it difficult, if not impossible, to price and develop a product with high aggregate lapses. Bob, are you anticipating a turn around in this data,and are you reflecting such in both your pricing and your GAAP reserves?

By the way, the same article listed the average policy issued for 1982. For ITT, the amount was nearly $43,000 and for Northwestern Mutual the amount was nearly $68,000 or some 58% higher. Obviously, the two companies are serving two different markets. If we mentally translate this into a probable average premium per policy, the pricing concerns expressed a few moments ago are reinstated.

MR. MACDONALD: A couple of points I would like to cover. One is to go back to Gus. Gus gave a comparison between ITT Life and Northwestern Mutual earlier. You know, I think that is one of the most dangerous things to do, when you do not know what you are talking about. Now, our agents do that all the time, but we expect them to do that. I do not expect our actuaries to do that, although there is some concern that that happens sometimes. Gus talked about a $100,000 ART as the only product we sold. It is not the only product that we sell, but it happens to be one of about 10 or 15 different that we call term benefit components. He mentioned $100,000 and looked at some reentry and some non-reentry. I am not sure whether Gus considered the non-smoker or the good health rates. Since he did not mention it, I assume he took the standard rates. Quite frankly, ITT Life is not interested in insuring smokers. We have divided smokers, non-smokers, and physically fit into 3 different groups. We bonus non-smokers and physically fit, 65% for non-smokers and 100% for physically fit. This equals a 40% discount for non-smokers and a 50% discount for physically fit on our policies. That is our target market - a non-smoker market. We are a sponsor of the President's Council on Physical Fitness. We sponsor a lot of running programs and physical activity programs because we want to write non-smokers. We have rated smokers 3 to 4 tables because we do not particuarly want to write smokers. We do not think they are good risks. So I think that when you take a lot of that into comparison, plus some other points in terms of how we can structure our product, you may come out with some different comparisons. I always found, as an agent, that no matter what proposal the agent before me had, I could beat it. I think we have to be careful when we do those kinds of comparisons.

The other point I want to make is that Gus compared a currently issued Northwestern Mutual policy with a currently issued ITT Life policy. That is not our argument. Our argument is that policies are getting better. There is no doubt about it. We think policies are getting better because of the competition now developing within the industry. But what we are talking about is looking at a policy that is 10 or 15 years old and comparing it with a newly issued policy, not a current one.

The second point that I need to make is we have to recognize we are not dealing with asset share studies here when we are dealing with the consumer. We are dealing with perceptions; we are dealing with what the consumer thinks. It is the same thing as the unisex question. We know that we can argue until we are blue in the face that we ought to have gender related ratings on our policies, but the perception that the consumer sees is that we are fighting against what ought to be a social change, what ought to be the right thing. We can argue until we are blue in the face, but we are not going to win that argument with the consumer with whom we have to deal, because they have a perception. And I am saying you can argue all day long about portfolio rates, loan rates, and this and that, and all that other kind of junk. If the consumer has the perception you are selling a bad product, then you are selling a bad product.

That is what has happened with whole life. Because of its inflexibility, because of the things that we promised in the past, because of the confusing way in which we sold the product in the past, we are having to live with that now. Also, the economy and the media have educated the consumer that whole life is not a good buy. I do not care how we argue about it, it is not a good buy, and we need to offer better alternatives. That is what we are searching for. Whether it is term and annuity today, or universal life, or variable universal life, or intergalactic life or whatever; the point is: whole life did a good job in its time; its time is past; let us move on to something that is better for the consumer.

Now I agree totally with Randy that the future concept is going to be the concept. But I believe that it is very much in its primitive stages right now. I believe that it is going to develop the 2nd and 3rd generations which are going to be extremely competitive, much better for the consumer, and much better for the company than term and invest the difference. But with the term war rates that have been going on, and with the battles by the big mutuals to try to fight universal life, we felt the best strategy for the consumer and us was term/annuity for a short time. The future concept is universal life, and we will talk about that in the future.

MR. MIRE: It is good to know that Bob already has conceded the debate to Universal. We have looked at the United States. What can we learn from overseas? We recently held a seminar in London on the United States practices for individual life insurance products, with representatives from the United Kingdom, Western Europe, Australia, and South Africa. The basic attitude of the participants is why would any company sell United States traditional life insurance products? What possible appeal could they have to an agent selling the product? What possible appeal could they have to the consumer as opposed to something like universal?

We can talk about traditional products in this room, but it is extremely difficult to try to explain to someone who does not have our background what this guaranteed cash value system and what these mysterious actuarial formulas which came out of the Armstrong Investigation in 1907 have to do with selling life insurance today. The basic explanation is: well, that is what we have been doing for 70 years, and maybe it will go on for another 70. Gus is a car buff, and we had dinner last night. Gus mentioned he had walked north of here and noticed that there were only two Japanese cars there and all the rest were American cars. He attributed that to older, affluent people set in their ways who did not recognize current trends. Seems to me that these people would be an excellent market for Northwestern Mutual.

Gus basically attacked ITT - never a comment on universal life. He never specifically addressed why his product might be better than universal life. Bob's comments, like obscene arrogance, public be damned, and so on, are inappropriate for the large mutual companies. I think that companies like Northwestern Mutual actually do believe that they have a better product. As far as not recognizing what is going on, I was going to say that Bob should look around, that the industry is not just status quo. There are now 150 companies selling universal, and it is ITT that is being passed by and is remaining in the status quo of term plus annuities which has been here for many, many years.

In essence, neither Bob nor Gus have addressed why their particular products are superior to universal life, which is really what this debate is all about.

MR. GUSTAFSON: I am just going to touch on a couple of points which will reiterate what I thought I heard me saying, which apparently neither of these fellows heard. Bob kept referring to the inflexibility of whole life - more of that in a moment - but he specifically referred to low interest rates, mentioned 3% or 4% savings rates. If you would go back through your memories of Mr. MacDonald's remarks and add the adjective "non-participating" every time he used the word whole life, I agree with him fully. But it does not apply to quality participating business. There is a major mutual company whose 1983 dividend interest rate for new business and old business is 12¼%. Now, that is not the same as 3 or 4%. Now the Northwestern has not had quite as aggressive an investment policy as that company, and our current dividend interest rate for new and old is on the order of 9 3/4% (because we have 36 different dividend classes, it is almost as complicated as the way you determine interest rates) - - 9 3/4% credited to the cash value of the policy. That is exactly comparable to the touted interest rates of the universal life and annuity products. It is not a low interest rate. Remember my remarks about portfolio and new money.

Bob refers to the illustration that I used, and I realize it is dangerous for an actuary to look at an illustration as being new business to new business. He did not hear me when I said the value represented in that illustration for NML's product is the value we are passing through to old policyowners. And that seems to me to be a key point.

A little more on the total inflexibility. It is non-par that is totally inflexible. Whole life insurance, participating whole life insurance, economatic, or whatever (we have a number of different versions just as there are a number of different versions of the new and non-traditional products) are very flexible - very flexible in terms of planning ahead for an insurance estate. Under current dividend scales, and those are the comparisons we are all making, with a traditional Northwestern Mutual Life Insurance policy, you can end up at retirement age with 4, 5 or 6 times as much net amount of risk with no insurability anywhere along the line. You cannot even come close to that with any of the current universal life products. They are inflexible with regard to planning insurance protection, unless you are ready, willing, and able to provide evidence of insurability anytime there is an increase.

Several times both referred to the big mutuals fighting universal life Well, I cannot speak for all of the big mutuals, but I can speak for the Northwestern. We have no objection to universal life as a product concept. We will have it ourselves in some guise before too long, but we have been implacably opposed to the categorical replacement focus of most of the universal life products. I thought I said that pretty clearly. We are in an evolutionary process.

Now to Randy's remarks. I agree with him that the flexibilities in premium payment capability and administrative systems of the universal life have added to some of the much greater flexibility with regards to death protection of the traditional product. We are moving together. The traditional products, our style, is moving to more flexibility, even though it is very flexible now. The current universal life products are moving a little bit back from the complete premium payment flexibility. We always figured that we had found as cheap a way as possible to sell customized individual protection as long as there remains a marketplace that needs and wants customized, personal protection. Competition will see to it that the level of compensation is pretty close to what is necessary to make it work.

The tax effectiveness of borrowing on the traditional product has been one of the hallmarks the past few years. We gave the stuff away. Well, we figured we had to do something about that, and we are being roundly criticized for introducing market loan rate and what we call direct recognition. Universal life was invented with direct recognition, with a penalty to boot. With definitional problems solved - which they have been under TEFRA - that is, life insurance is life insurance and universal life is life insurance, there is no reason why a universal life product should not be just as effective a tax leverage as the traditional product.

Senator Dole announced just last week that his plan for life insurance taxation was to do nothing. Tell me, you universal life writers, does not that worry you a little bit? Because if he does nothing, the definition of universal life, as life insurance, disappears at the end of this year. Now, that is political posturing; it is not going to happen.

Finally, the term insurance Northwestern sells is largely additional sales. It is not eroding our permanent sales, and we are not sure how much limit there is to how much additional term insurance we are willing to sell. But a point - that 49% of face amount, that is less than 10% of premiums.

MR. MIRE: Bob says, "Universal life is the product of the future." Gus says, "They are moving towards universal life." Bob emphasizes the public's perception: the consumer thinks that universal life is a better product. Universal life is a better product. Universal life is selling and growing and will continue to do so in the future. My case rests.

MR. GUSTAFSON: I do not disagree with anything that Randy said. I would just insert: remember my focus and the Northwestern's focus on all policyowners old and new. When the universal life products currently being pressed into the marketplace have the capability of safeguarding all policyowners, then I am in agreement with what he said. We are in an evolutionary industry. There is room for all of us. I detest very power-fully and emotionally Mr. MacDonald's repeated arguments that there is only one answer, and the rest of us are all cheaters and liars. That is just not true. We are okay.

MR. MACDONALD: Let me just summarize quickly, if I can, by pointing out that I think the important point is what I emphasized in the rebuttal - - perception. We are going to have to compete, not just within our own industry, but we are going to have to compete with other financial service organizations. Unless we can turn around the perception we are a stodgy industry that is not interested in the consumer and cannot provide competitive products, we are in trouble. There is going to be some very heavy competition out there. The major banks, for example, are obviously poised to get into the protection business. Several of the top 10 banks are in the process of creating insurance subsidiaries already. They, of course, have the powerful appeal of the strong name recognition and branch networks in which they can sell their insurance products. Will we be able to meet the competition? We will, if we are able to adjust our ways of thinking. Now I admit that no one is smart enough or big enough to try to be all things to all men. As in anything else, it is very important, as an industry and for us as individual companies, to play to our natural strengths, picking market segments and areas of expertise where we know we can compete best.

I think it is widely accepted that the 250,000 agents in the field of our industry is really too many when modern mass marketing techniques are brought into play. But I do not go along with the school that says they are going to disappear. I do think their number will shrink somewhat, and that those who remain will raise their productivity by piggy-backing, and not competing with the new mass marketing techniques for our products.

All in all, I think our delivery systems and our products in 1993 are going to be considerably different from what they are in 1983. There is going to be a period of adjustment, but on balance I am very optimistic. The need for protection products is not going to go away, and they will be packaged and sold differently in the future. The same goes for investment products, which represent an excellent avenue for growth for the industry. In a few years' time, the battle over whole life will seem to be nothing more than a rear guard action. The albatross of whole life will be off our necks, and we will start acting like the protection and investment providers we have the capability of being.

I believe that the future for this industry is very great. I am glad to be part of it.