For the Good of the Association

The state Life Insurance Fund is a state sponsored life insurance program - the only one of its kind in the country. The fund offers low-cost life insurance protection to the residents of the State of Wisconsin.

The State Life Insurance Fund operates on a non-profit basis and receives no subsidies from the State. It is not permitted to use commissioned agents to sell its policies, does not advertise and is exempt from Federal income tax. As a result, overhead expenses are minimal. This means that policies purchased from the Fund are quite inexpensive in comparison to other life insurance.

For those residents of Wisconsin who want to purchase up to $10,000 of life insurance without the assistance of an agent, the State Life Insurance Fund -- which is available **only** to the people of Wisconsin -- is the first place to look.

History of the Fund

The State Life Insurance Fund was established in 1911. Its creation was a response to a nation-wide scandal over the improper practices of some life insurance companies.

According to the Insurance Commissioner at the time, the purpose of the Fund was ". . .to give the people of the state the benefit of the best old-line insurance on a mutual plan at the lowest possible cost." This is still the main purpose of the Fund.

When the Fund was first set up, the maximum level of coverage available to each policyholder was $1000. This maximum has been raised periodically and is now $10,000.

In keeping with the original purpose of the Fund, modifications have been made when necessary. On April 1, 1977, a number of significant changes were introduced into the operations of the Fund.

The first of these involves the issuance of a new policy series with substantially reduced premiums. Historically, the Fund has always returned a large percentge of the premiums collected from policyholders in the form of policyholder dividends. Dividends are paid when actual operating expenses are less than anticipated. In the new policy series, it is expected that the difference between premiums and costs on State Life Fund policies will be kept to a minimum. It is hoped that this change will make this low-cost insurance available to those people who cannot afford the "out-of-pocket" expense of a large initial premium even if much of it is subsequently returned in the form of a dividend.

A second change in the Fund's operation involves the development of separate premium tables for men and women based on different mortality statistics for the two sexes. In recognition of the fact that women have a longer life expectancy then men and can be expected to pay premiums over a longer period of time, their rates are substantially lower than those of males at the same age.

The third major change is that for the first time the State Life Fund is offering life insurance protection to persons with histories of medical impairments. Under the new series, the basic Ordinary Life Policy will be available to most applicants who are classified as "medically-impaired." The premiums charged for these risks will be higher than those charged to standard risks. This difference in premium will be graduated and the amount of surcharge will be related to the extent of the risk. Decisions as to which applicants are in this category will be made on the basis of medical examinations requested and paid for by the Fund.

Purpose of Life Insurance

Life insurance policies are purchased for two reasons. The first and most important of these is "death" protection i.e. money for funeral and last illness expenses, money to assure the payment of debts and money to provide an income for dependents when the policyholder dies. Although most life insurance is sold to wage earners to guarantee an income for dependents, some non-wage earners also should consider life insurance. A parent whose child care services would have to be replaced in the event of death may want to have enough life insurance to provide money to purchase these services.

The second reason for life insurance is to build up a cash surrender value or savings account to be used in emergencies or as retirement income. The kind of life insurance a person or family needs depends on the purpose to which it is to be put. Different needs suggest different types of protection.

It is important to be quite sure what you want, need, and can afford before purchasing a life insurance policy. Dropping a life insurance policy can be quite expensive, especially in the first few years before significant cash values have accumulated. Many people are forced to give up their life insurance policies because the premiums are too high. This is especially common among beginning wage earners purchasing ordinary life policies. It is better to purchase a policy whose premiums are within your means than to have to drop a policy because the premiums are too high.

The most important questions policyholders and adult dependents should address in considering their life insurance needs are:

1. How much income would have to be replaced if the policyholder died?

2. How much insurance can the individual or family afford?

3. How long should the coverage continue?

Answering these questions involves deciding what amount of money a person's dependents would need if a particular income or service was no longer available. This means both establishing current needs and reassessing the situation frequently as the number of dependents and the income available to the family changes. Needs will be greater if there is only one wage-earner in the family than if there are two people with substantial earning capacity. More protection will be needed for children while they are young than when they are older.

A person with several dependents will need more insurance than a person with few. Other income, such as social security benefits available in the case of death, will offset life insurance needs.

Since the maximum coverage available through the Fund to any individual policyholder is $10,000, the Fund is often used as only one part of a comprehensive life insurance program.

Types of Life Insurance Policies

The State Life Insurance Fund issues the three standard types of life insurance policies.

1. Term Insurance
2. Ordinary Life Insurance
3. Endowment Insurance

Term, ordinary life and endowment policies are available to all standard risks. "Medically-impaired" risks are eligible for the basic ordinary life policy only.

Term Insurance

Term insurance, as the name indicates, insures a policyholder's life for the term of the policy only. Benefits are received by beneficiaries **only** if the policyholder dies before the end of the term. Term insurance is the least expensive type of life insurance because the policyholder is purchasing "death protection" only. It is most useful for those who require low cost coverage over a limited period of time, are not interested in building up cash values, and do not want to pay for or cannot afford the premiums of a whole life policy. The savings element in term insurance is generally insiginificant. An exception to this is Term-to-65 policy where the duration of the level premium is long, and an interim cash surrender value may build up.

Term policies are frequently **convertible**. This means that any time before the policy expires, the policyholder may convert the policy to an endowment or whole life policy. Most commonly policyholders convert from term to ordinary life policies as they and their dependents become older and their interests change from needing death protection to wanting retirement income.

Decreasing and guaranteed renewable term policies are also available from many life insurers. None are offered by the State Life Fund at this time. With a decreasing term policy, the amount of insurance decreases over the term of the policy. A guaranteed renewable term policy is one which the policyholder can automatically renew at the end of the term.

Two term policies are offered by the State Life Insurance Fund, a Term-to-65 policy and a Ten-Year Non-renewable term policy. The premiums for these policies remain level until the policies terminate. Term-to-65 is convertible to either ordinary life or endowment insurance at any time up to age 55. The 10-year Non-Renewable term policy is convertible at any time in the first eight years it is in force.

Ordinary Life Insurance

Ordinary life insurance is also referred to as "whole life" or "straight life" insurance. It differs from term insurance in two ways. In the first place, ordinary life insurance provides death protection over the whole life of the policyholder. It does not stop at a fixed term or a fixed age. Secondly, premiums for a whole life policy remain level for life and develop cash and loan values which increase annually. Premiums for ordinary life insurance are much higher than those charged for term insurance for an equivalent amount of protection.

The **cash surrender value** of a life insurance policy is the guaranteed amount you will receive if the policy is surrendered during the lifetime of the policyholder. This cash surrender value can be borrowed or used as retirement income. Since the policyholder is purchasing both death protection and a significant cash value, the premium for a whole life policy is necessarily higher than that charged for term insurance.

The State Life Insurance Fund offers three different whole life policies. The basic Ordinary Life policy is one in which level premiums are paid through-out the life of the policyholder or until the policy is cancelled. A Life-Paid up at 65 policy is life-time insurance, but the premiums are higher since they are payable only to age 65. A 20-Payment life life policy is one on which premiums are paid for 20 years. Consequently, the premiums for the 20-Payment life are usually the highest. (After age 45, however, a Life-paid up at 65 policy is more expensive than a 20-Payment Life policy since fewer than 20 payments would be made on the Life-Paid up at 65 policy.)

Term VS Whole Life Insurance

There is a continuing debate over whether one should buy ordinary life insurance policies or term insurance policies. Term insurance is less expensive then ordinary life insurance, but it provides primarily insurance protection (i.e. it generally accumulates insignificant cash surrender values.)

Assuming a person can afford ordinary life insurance, there are several factors to consider in comparing term and ordinary life policies. These include inflation, taxation, access to investment opportunities, and whether one will "invest the difference." The person who has the discipline to save independently and the ability to invest wisely probably can do as well or better with term insurance than with ordinary life insurance. Many people, however, are more likely to create an estate if they subject themselves to the "forced saving" discipline of a cash surrender value policy.

The least expensive insurance is generally group term insurance. Group insurance is often available through an employment contract or a union or association membership. Whatever insurance needs you may have should first be fulfilled with the group insurance for which you are eligible. Many people with young children find a convertible term insurance policy especially attractive because this gives them a maximum of protection while their children are small and their income low and guarantees the option of purchasing permanent insurance at a later time.

Endowment Insurance

Endowment insurance policies are for those who want to have a stated sum of money at a stated time in the future but also want to be sure that this money will be available to their family if they die before it is accumulated. If the policyholder dies prior to the date of maturity, the full amount of the policy is paid to the beneficiary. Cash surrender values increase throughout the term of the policy and equal the full amount at maturity, resulting in an endowment if the insured survives.

An endowment policy is useful in meeting an expense or debt that will come due at a known time in the future - such as college expenses - or to provide for retirement funds. It is generally the highest cost approach to life insurance because the policyholder is purchasing both death protection and a rapid accumulation of cash surrender values over a comparatively short time.

There are two endowment policies available from the State Life Insurance Fund. An Endowment - at - 65 policy which matures at age 65 and a 20-Year Endowment policy which matures 20 years after the issue date.

Non-Forfeiture Options

All cash value policies offer several non-forfeiture options to policyholders. These make it possible for policyholders to discontinue paying premiums without losing their investment.

Policyholders who cannot or prefer not to continue paying premiums on a State Life Fund policy are eligible for the following options:

1. Paid-up Insurance - A policyholder can discontinue paying premiums and purchase a paid-up insurance policy at a reduced value. That is, if a policy-holder has a $10,000 policy and wants to discontinue premium payments, he or she is then eligible for a lower amount of paid-up insurance. The amount would depend on the accumulated cash surrender values and the age of the insured when the option is selected.

2. Cash surrender collection - The policyholder can cancel the policy and collect the accumulated cash surrender value.

3. Extended term insurance - Policyholders can cancel the policy and continue the same amount of coverage under a term policy.

4. Automatic premium loan - Policyholders can borrow the cash surrender value of a policy and use this to pay premiums until such times as they wish to resume premium payments.

(Medically-impaired risks who purchase State Life Insurance Fund policies have all of these options except extended term insurance.)

Waiver of Premium Option

Standard risks who purchase life insurance through the State Life Insurance Fund are eligible for a waiver of premium option. This means that in the case of the total disability of the policyholder, premium payments can be discontinued and the policy will remain in force.

Life Insurance Costs

Aside from the premium there are several factors to consider in determining the true cost of a life insurance policy. The two most important terms to understand are **dividends** and **cash surrender values.**

Dividends

Life insurance is sold in two different ways - as participating and as non-participating insurance. Participating insurance is insurance in which the policyholder is entitled to receive policy dividends reflecting the difference between the premium charged and the actual experience of the company. Funds not needed for benefit payments, reserves and operating expenses are returned to the policyholder as a "policy dividend." The actual dividend payment cannot be guaranteed because the amount depends on the future "experience" of the insurer.

With non-participating insurance, the premium is based in the anticipated cost of providing insurance. Since there is no dividend the premium cost of non-participating insurance is based on fully guaranteed values.

There are two kinds of dividends. The first is a "regular" dividend which is paid annually to all policyholders. The second is a "terminal" dividend which is paid only upon termination of the contract, whether by reason of death or cancellation by the policyholder. The terminal dividend is paid in addition to regular dividends and the cash surrender value. Neither dividend is guaranteed.

"Regular" dividends from a participating policy are usually used to reduce premiums, but they may also be left to accumulate interest or taken out in cash. Some insurers permit policy-holders to buy additional amounts of paid-up life insurance with their dividends.

The Sate Life Insurance Fund is a participating insurer. Because of the pricing policy on which participatimg insurance is based, premiums are calculated to provide some margin over the anticipated cost of the insurance protection. Because of its conservative pricing margin, the State Life Fund previously paid very high dividends to its policyholders. The rate schedule for the Fund's new policy series is designed to keep entry costs low and margins to a minimum. As a consequence, dividends on the new series will be lower than those available under the old series.

Cash Surrender Value

Cash surrender values are the guaranteed amounts available in cash when a policy is voluntarily terminated before it matures in a death claim. These are available on both ordinary life and endowment policies. Term policies purchased through the State Life Fund accumulate only minimal cash values. Cash surrender values are important to policy holders who wish to use life insurance as a savings mechanism or would like to build up a retirement fund. Policies accumulate cash surrender values at differing rates. The 20-year Endowment policy matures most quickly, has the highest annual premium rate, and its cash values rise most rapidly. The basic ordinary life policy is the slowest at accumulating cash surrender value because it "matures" gradually and has a lower annual premium. Unlike both regular and terminal dividends, the future cash surrender value is guaranteed at issue.

Cash surrender values may be borrowed. If a policyholder borrows the cash surrender value, this amount is deducted from the proceeds of the policy. The fund currently charges 6% interest on these loans, but may charge up to 8% on policies issued after April 1, 1977.

Comparison Indices

Comparing costs of life insurance is complicated A potential policyholder has to consider not only premiums, but also dividends, cash surrender values, and the interest you could earn on the money if it was saved. It is difficult for a consumer to do this alone. Consequently, several measurement devices have been developed to assist the policyholder. These indices are based on mathematical formulas which take into account many different factors including the premium, dividends, cash value of the policy and the interest that can be earned on savings. There are two basic cost comparison indices.

The first index is designated in a number of different ways, the most common of which is the **Life Insurance Surrender Cost Index.** This index is calculated using premiums, dividends, the cash values for the duration of the index and an after-tax interest rate. These cost values are based on the assumption that the insured will live for the duration of the index and then surrender the policy and that dividends will be paid according to the current dividend scale. The value is based on $1000 of insurance.

The second index is the **Life Insurance Net Payment Cost Index**. The payments index is calculated in the same manner as the comparable Life Insurance Surrender Cost Index except that the cash surrender value and any terminal dividend are not used. This index is useful if the main concern is the benefits which are to be paid at death and if the level of cash values is of secondary importance. It helps to compare costs at some future time, such as 10 or 20 years, if the policyholder continues paying premium on the policy and does not take the cash surrender value.

For more detailed information on dividends, cash surrender values, or comparison indices, please contact the State Life Insurance Fund, State of Wisconsin, Office of the Commissioner of Insurance, 123 West Washington Ave., Madison, WI 53702.

We Can't Print Promises

Each day all I get are bills. Everybody wants something and I have to give. All I am asking for is articles and nobody wants to give. If only our members knew my address as well as my creditors.

THE EDITORS