

LIFE INSURANCE AS A GAME

by

G.R. Dinney

The Great-West Life Assurance Co.

LIFE INSURANCE AS A GAME

My address - LIFE INSURANCE AS A GAME - is the next logical extension of the universal life concept which derives from the product which I invented in 1962 called The Universal Life Plan. Today, The Universal Life Plan is either being tested or has been adopted by a number of United States life insurance companies including Prudential of America, Occidental, Life of Virginia, Firemen's Fund American Life, E. F. Hutton Life and dozens of other companies. The product names used by these companies include Universal Life, which is my generic name, but as well they include Total Life, Life Cycle, and other names which do not disguise the fact that they are directly derivative of the product I devised twenty years ago.

Perhaps I should take comfort from Oscar Levant's observation that "Imitation is the sincerest form of plagiarism". I have no objections whatsoever to copying. What I object to is the misrepresentation of authorship arising from articles in both the popular and the financial press. The Universal Life Plan has been widely identified as the product of the future but there is a mistaken, and regrettably uncorrected, attribution of my work to others.

On professional grounds I wish to distinguish between my authorship and the followership of others, but without in any way diminishing the contribution of my imitators. There is a simple parallel, in the field of music, that makes my distinction clear. Franz Liszt, and more recently, Glenn Gould, have done transcriptions of works by Richard Wagner. A transcription is a translation from one instrument to another and despite its innovative quality it is essentially technical and not a work of original composition. Whatever Liszt and Gould may have asserted their transcriptions to be, they never represented them as works of original invention.

Quite another way of separating the original author from others is by the author's capacity for reinvention around the basic theme and, significantly, by his understanding of, and capacity for development of, the theme itself. Reinvention is exemplified by this demonstration of Life Insurance As A Game whereas the development of the theme - differentiating technology from concept - is the burden of this preface.

The Universal Life Plan is the first major product change in the life insurance business since 1839 when the endowment form of policy was devised by British Empire insurance company. Many of you know something about the structure of The Universal Life Plan. It is a modular or generic product with a conceptual simplicity that could be the touchstone to resolving a wide variety of problems besetting the life insurance

industry today. This product simplicity is essential to the thesis of life insurance as a game.

On the subject of simplicity, in his recent book titled *The Pursuit of Simplicity*, the physicist Edward Teller has said "The pursuit of simplicity in science leads to understanding and beauty". In a similar vein Jacob Bronowski said that Albert Einstein would ask a fundamental question, get a simple answer and thereby hear the voice of God speaking.

The Universal Life Plan is a simple answer to a fundamental question. As primoprime author, I believe I am best able to understand both the question and the answer. However, there seems to be a considerable gap in popular understanding, evidenced by the failure of my imitators to distinguish between the technology - or the universal life product - and the system - or the universal life concept.

I would like to tell you a story that illustrates this confusion. Not long ago, one of my good friends and actuarial colleagues, who has had a hand in promulgating The Universal Life Plan said to me "We admit that you are the author but what is so special about it? Anyone could have invented it".

Of course he was right. I reminded him that The Universal Life Plan was like the wheel. Anyone could have invented it and anyone can now replicate it and use it once they have been shown how.

Now I would like to explain the ideas that gave rise to The Universal Life Plan and that provide the environment for understanding Life Insurance As A Game.

For ease of explanation we have set up three stations or positions for projection of slides. To begin, I refer you to Position 1 and the first entry which is

Universal Life

(Slide 1)

We now continue to Position 2 where The Universal Life Plan is explained as the simple combination of the four basic ingredients that comprise all forms of individual life insurance.

Term
Savings - fixed - variable
Conversion factor - life
Settlement option - pensions

(Slide 2)

What you see before you is the product or the technology of The Universal Life Plan. What I now want to do is to explain the system or the concept underlying and surrounding the product, so that you will be better able to receive our presentation which deals with life insurance in a game-playing mode.

The next entry in Position 1 is

Concept NOT Product

(Slide 3)

My friend, the actuarial consultant, who denied the speciality of The Universal Life Plan, clearly missed the fundamental distinction between technology and system or, to make my meaning more pointed, he missed the distinction between product and concept.

I would like to illustrate the distinction between product and concept by changing the slide in Position 2. The metaphor I have chosen is the Inca and the wheel.

Inca and Wheel

(Slide 4)

Graphic

The story of the Incas and the wheel is a very apt illustration of the difference between understanding the technology and understanding the concept. The Incas had a very highly developed civilization from the 13th to the 16th centuries and they dominated the region of the Andes from Ecuador to Chile, with their civilization centered in what is now Peru. Historical records show that, unlike the North American Indians, the Incas knew about the wheel BUT they did not use it. The huge stone blocks in their heroic fortresses and temples were put in place by ramps and rollers. Despite their knowledge of the technology the Incas either decided not to use it (except trivially in the construction of children's toys) or they did not know how to use it. One might ask why? Perhaps the reason is given in the next slide which is also in Position 2.

Slide dissolve, showing problem
of using wheeled cart on
a 45° slope.

(Slide 5)

Graphic

One would suspect that a wheeled vehicle would not be very serviceable on a 45° slope in the Andes Mountains nor would a wheeled vehicle be practical on the rough mountain roads.

In the case of the Incas, one might be led to conclude (perhaps erroneously) that they missed the concept namely that the technology of the wheel might well have far wider application than its obvious - and to them, limited - use for vehicular transportation. The technology of the wheel had more application for flat-earth people, which has the broader implication that the immediate environment often dictates the invention or adoption of technology and purely for its technological, rather than its conceptual value. On the one

hand, the conceptual approach is to anticipate the use of technology in ways not currently or clearly applicable.

This helps me to rationalize why The Universal Life Plan, invented in 1962, took so long to be adopted. Adoption had to await a new generation of flat-earth people, within the life insurance business, who perceived the technology to be an answer to a difficult environmental condition - specifically inflation.

It will not surprise you to be told that I believe that, however one might admire the simple beauty and practicality of the product under today's business conditions, the concept is far more important and far less understood.

The substance of The Universal Life Plan, or what I call the universal life concept, is that the economic and psychosocial environment for life insurance companies and other savings institutions is replete with stresses, which differ in kind and severity, and that adaptation to the stresses in environment is as much a business, as it is a biologic, necessity.

Adaptation to change by business is hindered by an establishment mind-set that can lead to fixed opinions and inflexible positions. However, quite another impediment to healthy adaptation is the confusion between the perception and the reality of change. Change and the implications of change may not be recognized. Or, if they are, it may be perceived that adaptation is unnecessary. Stripped of medical jargon, an irrational being is one who forms a perception of his environment that is different from reality. In a healthy environment, people yield to shock waves by changing and adapting. In an unhealthy environment, the same trauma can cause people to resist change at any cost. Man's history has been marked by watershed events that have produced great change. Yet, in our contemporary world we still find Napoleons, Alexanders and Leonardos who are preserved in the amber of the past. Like all institutions the life insurance industry faces the recurrent question of whether it should make the effort to survive and grow in the face of challenge, or succumb and become an historical footnote.

It has been said that "you are what you eat". A more meaningful apothegm for the life insurance industry might be "you are what you think". The reason is that life insurance is an abstraction whose manifestation, in the form of product, becomes a template for the conduct of operations. Just as the conventional stereotyped life insurance product provides a blueprint for a particular management style in relation to investment, marketing and administration, so The Universal Life Plan is a blueprint for an entirely different management style.

My assessment is that The Universal Life Plan clones, whether they are called Total Life, Life Cycle or some other name, are simulacrums, in that they are more faithful to its form than to

its substance. Whatever the nature and origin of flexible life insurance experiments, they are usually set-piece and static responses to specific problems, such as inflation or consumerism, rather than a complete generic response. Most flat-earth people can see the obvious, namely that simplicity has administrative advantages. However, there is potential for a much wider benefit from product simplicity than administrative simplification. The acceptance of complete modularity could free life insurance professionals from the mind-set that has typified the industry from its beginnings and that has been the primary source of its failures to accommodate change.

The slide in Position 3 elaborates the distinction I am making. The first entry on the slide is

Omphaloskepsis

(Slide 6)

The universal life concept is an anticipation and response to change, of unknown origin, direction and force. However, because the life insurance business has flourished over two halcyon centuries, life insurance professionals - and particularly the actuaries - have convinced themselves that there is no need to change. In the process we have developed an attitude which is epitomized by the word "omphaloskepsis", which means "the contemplation of one's navel". This is by way of saying that the life insurance business tends to be introspective, because the educational and training process causes us to look inwardly not to deal with problems in general. Even those companies that are now adopting The Universal Life Plan see it as a response to a particular problem and consider it a point of detail and therefore they lack comprehension of the underlying forces that make universality a concept and not a technology. Our environment promises to be one of continuing, major and exogenous change. Exogenous change, by definition, impacts us from the outside and yet actuaries and most other insurance professionals are essentially "inside people". The begged question that I direct to this audience is that the educational processes and training of the actuary, with their concentration on historic methods and conventional techniques, really prepare us to face up to our emerging environment.

This causes me to ask whether we are training actuarial management to confront issues or to avoid issues. For most businesses the practice of management falls under the general heading of management science. However, life insurance management might better be analysed under another heading - which appears under Omphaloskepsis in Position 3, namely -

Paleoanthropology

(Slide 7)

since that is the science that deals with primitive man. The track record of life insurance management, particularly but not exclusively actuaries, confirms that we are engaged in anachronistic or atavistic pursuits which are a throwback to the earliest days of insurance, 200 years ago.

As an example of this atavism I add one other entry to the slide in Position 3 -

Massachusetts Mutual

(Slide 8)

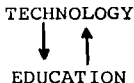
What I am about to show you is a full-page ad in the Wall Street Journal dated August 7, 1981 titled Nine Billion Dollars Says It Is Wrong. The author is the President of Massachusetts Mutual and he is saying universal life is wrong and he is betting his company on it. In the past, Presidents of life insurance companies have been just as enthusiastic in protesting against Group Insurance, term insurance and variable products. This advertisement argues a case that could be disserving to the public. Whether my evaluation is right or not is for you to decide, when you have thought more about the universal concept and have seen what its simple practicality can do for the industry, and the public.

Let us now return to Position 1 where three new entries are being added, namely,

Buyer NOT Seller
Simple NOT Complicated
Visual NOT Literal

(Slide 9)

As we progress through mass consumption society into Post-Industrial society a fundamental qualitative change occurs in human attitudes, deriving from underlying changes in society itself. Consumerism, which puts the buyer's interests before the seller's interests, is not a creation of Ralph Nader. Ralph Nader is just one volcanic cone that has risen from a convulsive subterranean change in society. The life insurance industry still puts the seller's interests first and is thereby led to proclaim "life insurance must be sold". However, as we see in Position 2, what is happening is that the complications and the mystique of life insurance are being stripped away at the same time as the level of public comprehension and perception is rising, because of higher education.



(Slide 10)

When the technology is simplified to the point that the public can understand it, there will be a meeting point at which the

public will make its own decisions about life insurance. Life Insurance As A Game is our primitive attempt to fuse technology and education at this nexus.

In our post-industrial world we are trafficking more and more toward audio/visual communication and away from literal communication.

Throughout the history of mankind, communication has been dominated by symbolism rather than by literacy. The cave paintings of Stone Age Man date from The Paleolithic Age which goes back some 1,500,000 years. On the other hand, the age of literacy began with the first alphabet only 8,000 years ago. Judging from academic standards in North America we are moving into a post-literate age marked by a decline in understanding and use of our written language.

In his book "Reason Awake - Science for Man", Rene Dubos writes:

"We as members of specialized scientific communities develop concepts and jargons which only we can understand, resulting in a lamentable impoverishment of the public sector of our lives. Yet it is probable that most of us could learn to recast our professional knowledge in terms meaningful to non-specialists. The important problem therefore is not one of developing more rapid and precise mechanisms of mass communication, but rather learning how man (scientist or not) can speak to man directly about experiences he can share with many human beings....In preliterate societies communication occurred largely through symbols.....such symbolic and oral transmission of knowledge depended on patterns and structures rather than on precise descriptions of specific objects or events.....True information thus always means the communication of a structure and ideally the facilitation of a formative process in the recipient.....The role of the communicator is to organize the fragments of knowledge into the multifarious patterns and structures through which man apprehends reality. The message is not in the medium but in the structure conveyed by the medium."

Our game, in its present state, does not manifest the desired audio/visual content but we intend to make continual revisions in the game until it represents the state of the art in the post-industrial marketplace.

The next slide in Position 2 summarizes the changes that are taking place in marketing.

MEANS

Post-Industrial Society

MEANS

Consentive not Marketive

MEANS

Game with/against People

(Slide 11)

Colin Clark, the Australian economist, classified societies into four groups - pre-industrial, industrial, emerging post-industrial (or mass consumption) and, finally, post-industrial. These terms are familiar to most of you. These qualitative descriptions of society can be correlated with per capita income. This correlation is somewhat heuristic but it tends to be corroborative and mutually reinforcing since those things that define post-industrial man - higher education, knowledge orientation, participation - also define people who have higher average incomes and higher incomes tend to result in higher education so the relationship is a circular and reinforcing one.

One of the fundamental distinctions that is made among these societies is how they are organized. The pre-industrial society has been described as one organized to play games with and against nature and this is understandable since the principal activities of pre-industrial society are extractive - agriculture, mining, forestry, fishing. On the other hand, the post-industrial society is described as one organized to play games with and against people. We have evidence of this proclivity throughout contemporary society and Life Insurance As A Game is just another manifestation.

Position 3 presents a slide that elaborates the issue of games with or against people -

Games with/against people

"Human" Robot

Asexual reproduction

Non-human thinking

Personification of Robot

(Slide 12)

In our life insurance game, one person (who acts as a surrogate for the customer) is a real person. The other person is a "human" robot. As to whether robots are people, the jury

appears to be out. At one time, not long ago, two fundamental distinctions were made between robots and human beings. It was said that robots could not procreate and that robots do not have the thinking powers of human beings, particularly in relation to intuitive thinking.

In response to the first point, Japanese experiments have concluded that robots can be designed to reproduce themselves and, furthermore, to make genetic improvements in themselves. As to the second point, the Nobel winner Herbert Simon, Professor of Psychology and Computer Science at Carnegie-Mellon Institute, has written extensively and persuasively on the theme that there is no human thinking process that cannot be replicated by robots.

More and more we are in an environment where machines are personified. We have all seen coffee vending machines with a note pasted on the front "This machine owes me 25¢". As machines take on more and more human characteristics one would expect this humanizing process to continue. As you undoubtedly know, Citibank has introduced automatic tellers to accommodate banking transactions in an environment of simplicity and user-friendliness. The most surprising result of the Citibank experiment was their finding that in the majority of cases bank customers preferred to use automatic tellers rather than human tellers! This is summarized in an article in The New Yorker magazine dated January 5, 1981, which reads in part -

"...when the users could just as well be dealing with a live teller at the same Citibank branch or at some other bank. Apparently, they like dealing with the machine instead. That conclusion is supported by the finding of my poll that hardly any of the users - those in favor, those against, or those with mixed feelings - seem to object to the impersonality of the machine, or even to consider it particularly impersonal. On the contrary, they tend to speak of it as a sort of sub-person, whom some like and some don't but most find less demanding to deal with than a human bank teller. Citibank and its competitors, through their automated banking facilities, are, it appears, inadvertently exploring a new dimension of that profound and little-explored psychological relationship - the one between people and money".

The next overlay in Position 1 is -

Flexible NOT Rigid

(Slide 13)

This caption speaks of a fundamental need in product design.

If we now move over to Position 2 we see a new slide which epitomizes the problem, today, of the rigidity of conventional life insurance business.

Piggy Bank and Hammer

(Slide 14)
Graphic

A child's piggy bank is an excellent way to collect coins but it is highly inflexible when it comes to disbursement. If you want to get the coins out in a hurry you have to break the piggy bank. This is exactly what is happening to permanent life insurance today. Hundreds of millions of dollars a week are currently pouring out of conventional life insurance and annuity policies because there is no flexible way to transform savings or assets into a more contemporary savings vehicle. The protest of companies like Massachusetts Mutual directed to Universal Life may be an unconscious death wish since it implies the advocacy of existing technology in preference to product flexibility.

Returning to Position 1, we have reached a conclusion.

HENCE

Distribution NOT Manufacture

(Slide 15)

Because of these collective influences (system, buyer, simple, visual, flexible) we are beginning to see a fundamental change between the role of the life insurance company or manufacturer and the role of the distributor.

The phrase "Distribution not Manufacture" refers to the emerging dichotomy between the manufacturing process of insurance, symbolically represented by the insurance company, and the distribution process of insurance, traditionally represented by the career agency system. Distribution processes are undergoing remarkable change. Despite the official endorsement by companies of their career agency systems and by agents and brokers of their companies, there is a real dichotomy. On the one hand this dichotomy is evidenced by various types of diversification of distribution processes on the part of insurance companies. On the other hand, it is evidenced by vertical diversification on the part of successful agencies or brokerage offices, as evidenced by their acquisition of insurance companies for manufacturing purposes. This in-fighting between companies and their traditional distribution systems tends to obscure the real issues.

One such issue is that insurance has no important technological component that can be protected by copyright or patent or by the private and sequestered knowledge of life insurance professionals. Moreover, the risk component of insurance is diminishing. This raises doubts about the future role of the manufacturer, namely the life insurance company. The reason for this doubt is that there is nothing of substance in a life insurance company that cannot be replicated by an entrepreneur with a life insurance charter and sufficient capital.

Another real issue is that, in the case of distribution, we are beginning to see a proliferation of distribution media. By its general definition, distribution is the process of following a line of communication from the supplier to the buyer. A priori, there is no "best" line of communication or distribution. In a market economy, the line that should be followed is the one that is most efficient. The life insurance industry has built its own lines of communication to the market but, in time of inflation, the lines of communication that we developed for permanent, ordinary life insurance have become increasingly costly to maintain or extend, and therefore are being supplemented or supplanted by other distribution systems. It is a reasonable speculation that, in time, the means of distribution will become more important than the means of manufacturing and that distribution lines will broaden to include "alien" systems, so that the balance of insurance power will swing away from traditional life insurance companies towards non-traditional distribution systems. If we were to look ahead a decade or two, we might foresee an environment in which the manufacturing process is an appendage of distribution rather than present circumstance where distribution processes are appendages of insurance manufacturing.

It is arguable, and it is so argued, that the survival potential for both the life insurance company and its traditional distributors would be greatly improved by adoption of modular products and modular systems. One could certainly envision the payment of greater aggregate rewards for selling life insurance than are payable under present commissioning methods but with considerable redistribution among the distributors.

The final entry on the screen in Position 1 is in the form of a second conclusion.

AND

Communications NOT Marketing

(Slide 16)

We are moving into an entirely different world which, increasingly, will be dominated by communications. The availability of telecommunication systems on a wide scale should have a pronounced effect on the selling of goods and services of all kinds. Clearly, where the seller is using expensive televisual time, the message will have to be short and to the point and in this environment most decisions to buy will be made without explicit human intervention.

The ultimate marketing or delivery system will feature two-way telecommunication between a transmitter and the consumer. In this environment, communication will become more important than selling. This may seem implausible especially to conventionally-minded people who think of communication in its present role, namely as a rather unimportant adjunct to

selling. However, we should remind ourselves that life insurance marketing has changed considerably from the days when the salesman travelled miles on horseback over rough roads to visit his client. In those days the sales function, of physically getting the product to the market, was a considerable task and the salesman was quite appropriately paid on a scale that would compensate him for his time and effort. In an environment of mass communication, getting the product to the market will be a simple task. The real job will be the communication of the product - and a product like The Universal Life Plan, which has simplicity and which permits infinite design variation, is required. In this new world, communication will become a very important function of distribution and conversely sales, or marketing, will become a subsidiary function of communication. At that stage of life insurance distribution, you would expect to find life insurance companies recruiting their senior management personnel from Procter and Gamble or Molson's or going directly to the advertising agencies for their top man.

It is illuminating to our discussion to consider the change that has taken place in the technology of communication, as reported in the November 10, 1980 issue of Business Week magazine. It is predicted that the percentage of homes in North America with computers or terminals having access to remote data bases will increase from 10% in the period 1980-85 to one-third of the homes in 1985-90 to "most" of the homes in 1990-2000. This change in communications, or distribution system, will have enormously far-reaching implications for life insurance products and marketing. The answer to the question "Why bother about distribution through telecommunications?" is that it is entirely possible that most consumer buying decisions in the 1990's will be made at home, without significant human intervention. If life insurance of the future is going to be marketed by pre-selling or by selling on the basis of short audio-visual presentations, then the life insurance product of the future will have to be simple and coherent. That is both the medium and the message of The Universal Life Plan.

Anyone who falls into the trap of proposing new solutions or new strategies should keep in mind the words of Machiavelli -

"It must be remembered that there is nothing more difficult to plan, more uncertain of success, nor more dangerous to manage than the creation of a new order of things. For the initiator has the enmity of all who would profit by the preservation of the old institutions, and merely lukewarm defenders in those who would gain by the new ones."

(Slide 17)

The considered view is that emerging strategies should concentrate upon simplification of problems rather than upon continuing to use new and better technology, at new and higher

cost, to solve increasingly more complicated problems, that are largely of our own creation.

These remarks are the preamble to a computer game that will be demonstrated using an Apple II and six television screens. I acknowledge the contributions made by several of my actuarial colleagues in the design of the computer program. In particular, I offer thanks to Dr. Elias Shiu and Dr. Fung-Yee Chan, who are identified with the Department of Actuarial Mathematics at the University of Manitoba, and to Mr. Ross Bradshaw, an actuarial student. Dr. Shiu has been both confidant and catalyst in the preparation of this paper and Dr. Chan is primarily responsible for writing the computer program.

The demonstration is of a simple, prototype game. The prototype game incorporates a life insurance cum pension program for users who have dependants and the analogue - disability cum pension program for users who do not have dependants. Because of time and computer limitations, at least for the present, our game lacks the conversational fluidity, many of the audio-graphic refinements and, importantly, the user flexibility to make it the penultimate game. These deficiencies are readily correctable and I hope to have a much more sophisticated game to present at a meeting of the Actuaries Club of Winnipeg, tentatively scheduled for later in 1981.

To set the scene, you should imagine that you are alone in a room with the Apple II and that you yourself, are playing the game, instead of your surrogate, who is our actuarial colleague Dr. Fung-Yee Chan.

Now let us commence the game.

(The following is a transcript of the computer presentation.)

* Hello!
My name is HAL
Please type your first name
using the computer keyboard.

(Respondent types Fung-Yee.)

I am pleased to meet you, Fung-Yee.

* You probably wonder how I got the name
Hal.
I chose my own name, remembering

H Comes before I
A comes before B
L Comes before M

so, HAL is one up on IBM!

- * That's a joke, son!
OH EXCUSE ME,
I mean
That's a joke, person!

- * You and are I are going to play a game.
I call it the life insurance game.
The game will teach you how to plan
your finances in as much detail as
you want.

- * Machines like me are highly intelligent.
Maybe as intelligent as you .
At least that's what Nobel prize winner
Herbert Simon tells me.

- * We are also supposed to be able to
procreate. I am looking forward to
that. But I am not programmed for
it.....YET!.

- * If you feel uneasy about playing a
game with a machine, remember
there are certain advantages.
You can talk to me privately
without anyone overhearing.
I will give you a copy of our
discussion,

- * AND BEST OF ALL, I won't come over to
your house at supper time
and try to sell you life insurance!!!

- * You are probably familiar with the
usual kinds of life insurance.
And just as familiar with the usual
objections to life insurance.

- * Some people say they don't
understand life insurance
Don't worry!
I will explain insurance in simple terms.

- * Others say there is no choice -
it's take it or leave it.
Under our plan you have unlimited choice
and it is YOUR choice, not mine.

- * Another complaint is that
insurance is too inflexible.
If you stop paying premiums,
your insurance stops.
But under our plan you can stop and
start any time as long as you pay your
minimum charges.

- * Another criticism is that
if you want your money out,
it's like pulling teeth.
We let you get money out
or put money in
without changing your policy.

- * The next objection is that
a salesman will be around next year
to sell you another policy.
I won't come and visit you.....
unless they put me on wheels.

- * You may think you have to buy
whether you like it or not -
after all "There's no one with
endurance like the man who sells
insurance. He gets us all in the end!"
Under our plan you are in charge of
your own financial future.
YOU make the decisions - not me.

- * Satisfied?.....
I hope not because I have more to tell you.
If you understand so far, spell YES
on the keyboard.
If you don't understand spell NO.

(Respondent types no)

- * Stop kidding around -
Spell YES or
I will sulk and turn myself off
Machines have feelings too, you know.

(Respondent spells yes).

- * Good, now pay attention.
I have noticed your eyes have been wandering and you are getting fidgety.
- * What I'm going to tell you is easy, but you must concentrate. OK?
Let's start with understanding life insurance.
- * Stripped of its hocus pocus, life insurance is just a way of replacing income lost because of

retirement
disability
or death.

- * I have a new idea which I call

THE UNIVERSAL LIFE PLAN

It's so good that many of the major companies in the United States are using it.

- * I invented it and I'm going to teach it to you. This new idea breaks up the usual life insurance plan into bite size pieces to make it more digestible.

UNIVERSAL LIFE covers all the possibilities of insurance.

- * How?
By splitting life insurance into its four basic elements.
These are:

- * Term insurance - or couverage for one year at a time.

- * Savings - which may be at a fixed or variable rate of interest. WHO decides whether the interest rate is fixed or variable?? YOU do!

* Settlement option - which turns your savings into a pension.

* Conversion option - which turns your savings into a paid-up life insurance policy.

* In other words, these four factors

term
savings
settlement
conversion

are the ingredients for your financial future.

* WHO writes the recipe and chooses the ingredients??
YOU do, following the "cook book" which we are giving you.

* I have been talking too long, Fung-Yee.
Even though my friends say
I'm a robot of few words,
the trouble is

* I keep saying them

over
and over
and over.

Now it's your turn to talk to me.

* First tell me your age -
I promise I won't tell a soul.

(Respondent types 29).

Are you married?

(Respondent types yes).

Now tell me your spouse's age.

(Respondent types 34).

- * You will probably live forever.
 BUT
 If you should die-----

- * I have to know
 the smallest amount
 your family would need to get by
 without your contribution.
 Please state this in dollars
 per month.

 (Respondent types 1000).

- * In the more likely event that
 you (and your spouse) live to
 retirement, tell me at what age
 do you expect to retire?

 (Respondent types 55).

- * Now tell me how much you need
 each month after retirement?

 (Respondent types 2000).

 How much would it be
 if only one of you is living?

 (Respondent types 1000).

- * In summary your financial plan
 provides for
 \$1000.00 a month if you die
 \$1000.00 a month minimum
 retirement income.
 \$2000.00 a month retirement income
 for both of you.

- * This is your financial plan
 which replaces income loss
 either from death
 or retirement.

- * Now we can estimate:
 What your plan should cost.
 How your savings will grow.
 What you need at age 55
 to buy your pension.

- * But to do this
we need to know
what you can earn on your savings.
We call this the rate of return.

- * A high rate of return means
your savings grow fast.
A low rate of return means
your savings grow less quickly.

- * Your future rate of return
is very important, whether you
use
 - Bank deposits
 - Trust certificates
 - Mortgages, Stocks or Bonds
 - Or
 - THE UNIVERSAL LIFE PLAN.

- * Under our approach
you can either have
a fixed rate of return or
a variable rate of return.

- * How do you know which to choose -
 - a variable rate?
 - or a fixed rate?

You will choose a variable rate
if you think it will be higher than
the guaranteed rate.

- * The only trouble is
you can't be sure that
the variable rate
will be higher.

- * Clearly
you benefit from a high rate.
But you take the risk
that the variable rate
may be less than
the guaranteed rate.

- * For starters
today our company guarantees
a rate of return of
12%.
- * At that rate your financial plan
will cost you
\$102.10 per month
until you retire.
And your savings will accumulate
as shown.
- * (Computer Graph)
- * If you die before 55, your savings fund
is used up completely to pay
\$1000.00 month to your spouse.
If you live to 55, your savings fund of \$183700
is just enough
to pay for your pension.
- * As I said in the picture
this costs \$102.10 a month.
A good question is:
Can you afford to pay so much?
If you can, spell yes.
If not, spell no.

(Respondent types no).
- * Just as I thought
your finances are
just as bad as mine.
How much can you pay each month?

(Respondent types 70).
- * Now I want to show you
the difference in the growth of
your savings based on
the full cost of \$102.10 per month,
compared to the \$70.00
you can pay.
- * Computer Graph

- * At the lower contribution of \$70.00 a month the picture showed that you fall short of meeting your objective of \$183700 at the end.
- * The difference between the two curves (the violet portion) is what you must make up between now and your retirement.
- * Computer Graph
- * Don't worry about this shortfall. Right now we are only estimating. When things get better for you --- and they most always do --- you'll be able to make up the difference.
- * So far we have talked about a guaranteed return. You might want to try a variable return, particularly if you think it would be higher. A higher return will get you closer to your savings objective.
- * The next picture shows what might happen if you don't choose the guaranteed rate.
- * The white chart based on a 6% rate of return is the bad news.
- * The orange chart based on an 18% rate of return is the good news. Remember 6% and 18% are just illustrations.
- * Computer Graph

* We must remember
your objective is \$183700 at 55.
Now let's look at the charts again.

* Computer Graph

* With a 6% rate of return,
there is a big shortfall
of \$143939 at 55
as compared to your objective.

* But at 18%
you are much better off.

* So you do gamble
if you don't take a guarantee.
There's no way of
knowing for certain
if you'll come out
ahead or behind.

* To help you decide whether
to choose a variable rate,
I want to give you
some information.

* Suppose you're thinking of
putting your savings into stocks.

In the past ten years,
the annual rate of return
for stocks was

as high as	44%
as low as	-26%
and averaged	16%

* Another possibility
you might be considering is bonds.

In the past five years,
the rate of return for bonds was

as high as	17%
as low as	9%
and averaged	13%

- * I don't want to get too complicated but another possible option for you is mortgages.

In the past five years,
the rate of return for mortgages was

as high as	18%
as low as	10%
and averaged	14%

- * You can now see how the guaranteed rate of 12% compares with the variable rates.

stocks	16%
bonds	13%
mortgages	14%

- * Remember these rates for stocks, bonds and mortgages are based on the past, and they are averages. There's no guarantee. In the future the rates could be higher or lower.

- * This comparison will help you make up your mind, whether to put your money into a guaranteed fund or a variable fund.

- * If you chose a variable fund, REMEMBER you can switch at any time from one variable fund to another, or to a guaranteed fund.

- * Do you want a variable rate of return? Please now answer yes or no.

(Respondent types yes).

- * Good. You want a variable rate. But you now must tell me what rate you think is reasonable. Please type in that rate.

For 14% just type 14.

(Respondent types 15).

- * Let's assume that you earn that rate. The next picture shows how your savings will grow based on your monthly payment of \$70.00.

- * Computer Graph

- * Notice that your higher rate of return makes it easier to meet your target of \$183700.

- * We are not to the end of the game yet. We both forgot about INFLATION.

- * Over the past 10 years the Canadian inflation rate

was as high as	13%
was as low as	6%
and averaged	8%

- * If you think that the average is a pretty good estimate for the future, spell yes. If not, spell no.

(Respondent types no).

- * All right, what do you think it's going to be? Type in your estimate please. If ten percent, merely type - 10.

(Respondent types 10).

- * You thought you needed \$1000.00 a month for your spouse. But with inflation that amount increases rapidly each year.

* At an inflation rate of 10%,
what costs \$1000.00 today
will cost \$1100.00 next year
1610.51 five years from now
2593.74 ten years from now
6727.50 twenty years from now

* In other words,
INFLATION
has thrown you a curve.

* Allowing for inflation,
you need a lot more insurance
to meet your financial needs.

* Instead of
your savings growing to
\$195255
when you retire,

* Computer Graph

* What happens is that
because of inflation
your savings disappear
before you reach retirement,
as shown by the orange bars.

* Computer Graph

* That's quite a curve
you were thrown.

* Another way to look at
the inflation problem is
you thought you needed \$183700
but you really need
\$4.55 million at age 55.

* What do we do now?
Please don't cry.
I'm made of metal
AND
I'll rust all over you,

* But things can change.
As a matter of fact,
you have just received word
that your wealthy uncle
just died and left you \$150000.

* Wow!
Do not pass GO.
Just put that money into your
UNIVERSAL LIFE PLAN
and see what happens.

* Computer Graph

* Something very special
has happened!!!
The picture shows that
your premium has become
NEGATIVE
What does it mean???

* PREGNANT PAUSE

* What it means is
UNIVERSALITY
Listen to what I am about
to tell you. It really is
the guts of
THE UNIVERSAL LIFE PLAN

* I have transformed
your financial plan
instantaneously.

* Instead of your paying me,
I'm paying you
\$329.44 each month.

* In technical terms
I've just switched
part of your savings plan
into an immediate annuity.

* One other thing.
Wait for it --- now.

- * Because I automatically adjust
for overpayments.

- * The old idea of
participating and
nonparticipating insurance
is a dead duck.

- * Why?
Because a dividend
is just a way of returning
an overcharge.

- * With me
you never get overcharged.
So dividends are a thing
of the past.

- * I could tell you more.
But coffee is now being served
in the Engineering Building

- * If you liked the game, please thank
George Dinney
of
Great-West Life

- * If you didn't like the game,
I still hope you will get
a charge out of it.
Just wet your finger and
stick it into my power outlet.

- * THAT'S ALL FOLKS.

G.R. Dinney
August

28,

1981

