



Consumer Federation of America

Consumer Federation of America Life Insurance Rate of Return Service

Evaluate Life Insurance – How the Service Works: CFA's rate of Return (ROR) service estimates " true" investment returns on any cash value life insurance policy -- whole life, universal life or variable life. Using the Linton Yield Method, these returns are derived by comparing the cash value policy to the alternative of buying lower premium term insurance and investing the premium savings in a hypothetical alternative investment, such as a bank account or a mutual fund. You receive a computer printout showing average annual RORs for policy holding periods of (usually) 5, 10, 15, and 20 years. We also send a four-page explanation that includes much valuable information relevant to buying or owning cash value life insurance.

Evaluate Life Insurance – How the Service Can Help You: RORs are similar to Annual Percentage Yields (APYs) provided under the federal Truth-in-Savings statute. RORs provide you with a way to compare cash value policies to one another, to term life, or to other investments. Armed with ROR analysis and guidance provided with the report, you can:

- Decide among two or more cash value policies you are considering.
- Decide whether to buy a cash value policy or term insurance.
- Decide whether your existing cash value policy is worth keeping.
- Learn of options with your existing cash value policy.

Evaluate Life Insurance –Who Performs the Service? James H. Hunt, a retired life insurance actuary and a former insurance commissioner of Vermont, operates the ROR service. He has reviewed thousands of policies since 1984 when he began the service. Because the analysis is highly technical, he adds a personal note to each printout providing his recommendations, which frequently include better alternatives. In the case of policies you're thinking of buying, it is not uncommon for his recommendations to lead to savings in the thousands of dollars.

From time to time Mr. Hunt publishes papers that go into much detail about owning or buying life insurance. These papers may be found as follows:

- Miscellaneous Observations on Life Insurance: Including an Update to 2007 Paper on Variable Universal Life, 1/06/11. [\(PDF\)](#)
- Variable Universal Life Insurance: Worth Buying Now?, 12/13/07. [\(PDF\)](#)
- Variable Universal Life Insurance: Is it Worth it? 02/01/03. [\(PDF\)](#)
- Financial Planning Association of Greater Hudson Valley Technical Aspects in Evaluating Cash Value Life Insurance Policies, 11/13/01. [\(PDF\)](#)

Evaluate Life Insurance –What We Need From You: If you're thinking of buying a cash value life insurance policy, your agent or company has probably given you a sales illustration, which is a computer projection of future premiums, cash values and death benefits based on the current dividend scale (whole life) or current interest rates and current costs of insurance (universal life). In the case of variable life or equity-indexed universal life (EIUL) policies, the illustration will be based on a hypothetical earnings rate such as 7% and current (not maximum) insurance costs. We also evaluate second-to-die, or survivorship, illustrations that cover two lives.

For policies you already own, ask for a Current Illustration, sometimes called an In-force Illustration; it will show the same kind of information noted above. Your life insurer may have a toll-free number for the free illustration. It should show your personal identifying information, including issue age, sex, smoking status, date of issue and any rider premiums. If uncertain, send us a copy of the page(s) of your policy that provides this information. Unless you indicate otherwise, we will assume you are in excellent health. Illustrations for whole life policies that don't pay dividends may not be available; give a call first. Please note any significant health changes since the policy was issued; full dates of birth can be helpful because some insurers use actual age in issuing a policy and others use age nearer birthday.

For universal life and variable universal life, if your policy includes the waiver of monthly deductions (WMD) disability rider, please ask for an illustration without the rider unless the illustration identifies the rising yearly costs of the rider. Most illustrations do not show this rider's costs. Occasionally one of these policy forms will use the classic Waiver of Premium (WP) rider, a level premium with age that is normally identified. We need to extract disability rider costs to get at the basic life policy.

Evaluate Life Insurance – Cost: The cost for the analysis is \$100 for the first illustration and \$70 for each additional illustration submitted at the same time. It is quite unusual for the fees to exceed this schedule; with each evaluation Mr. Hunt invites his clients to call with questions. From time to time, prospective life insurance buyers indicate that they are thinking of buying life insurance but haven't been in contact with agents or companies. In this event, Mr. Hunt usually proposes a \$250 fee to guide his client to suitable, safe, low cost insurers. (Low cost does not necessarily mean low premiums except when one is buying term life insurance.) The fee would be scaled down for those who do not plan to pay annual premiums in the thousands of dollars.

Send your check payable to CFA/IG, the illustration(s), and an e-mail address or telephone number (and time to call) in case additional information is needed. Please add 3% if using PayPal; credit cards are not accepted.

When supplied with an email address, we reply with Adobe Reader PDFs. Please let us know if you prefer regular mail. We do not return illustrations; please send copies.

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