VOLUME II

P U B L I C   H E A R I N G

before

ASSEMBLY BANKING AND INSURANCE COMMITTEE

on

ASSEMBLY NO. 2001

(Regulates Additional First Year Premium Life Insurance Policies)

Held:
January 28, 1981
Assembly Chamber
State House
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman James W. Bornheimer (Chairman)
Assemblyman Michael F. Adubato

ALSO:

Laurine Purola, Research Associate
Office of Legislative Services
Aide, Assembly Banking & Insurance Committee

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ASSEMBLY, No. 2001

STATE OF NEW JERSEY

INTRODUCED SEPTEMBER 22, 1980

By Assemblymen BORNHEIMER, T. GALLO, KOSCO, ALBOHN, D. GALLO, HURLEY, VAN WAGNER, FLYNN and BURSTEIN

Referred to Committee on Banking and Insurance

AN ACT concerning certain policies of life insurance other than group or blanket and supplementing chapter 25 of Title 17B of the New Jersey Statutes.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. As used in this act:

a. "Collateral term policy" means a policy of life insurance, other than group or blanket, which requires an insured to provide collateral as security instead of paying an initial additional premium, and which may provide that if the policy lapses or is surrendered during its term, the collateral may be used to pay what is, in effect, an additional premium because of the lapse or surrender.

b. "Additional first year premium policy" means a term, modified term, modified life or other policy of life insurance which is a combination of an endowment and term policy and which provides that an additional first year premium shall be paid so that certain values and options will be available at the end of the initial term period, which premium is forfeited in whole or in part if the policy terminates for any reason, other than death.

2. N. J. S. 17B:25-19 shall apply to the following policies in the following manner:

a. With respect to additional first year premium policies which do not convert to or become whole life policies:

(1) Values required during the initial and any renewal term period shall be determined by treating the policy as a level benefit and level premium endowment for the cash value or cash payment provided at the end of the term period plus a term insurance benefit provided by a supplementary policy provision to which, if issued as a separate policy, this section would not apply.

(2) If the policy contains an option or provision by which premiums continue for decreasing term coverage, the usual tests of values for the policy apply.

b. With respect to additional first year premium policies which convert to or become whole life policies:

(1) Values required during the initial and any renewal term period shall be determined by treating the policy as a level benefit and level premium endowment for the cash value or cash payment provided at the end of the term period plus a term insurance benefit provided by a supplementary policy provision to which, if issued as a separate policy, this section would not apply.

(2) Values required after the initial term period shall be determined by treating the entire policy as modified whole life.

3. The form of an additional first year premium policy that provides term insurance for an initial term period and then automatically converts to a whole life policy shall include a statement in the title of the policy that the coverage automatically converts to whole life at the end of the term period, and shall include a table showing the annual cash values during the initial term of the policy and the additional first year premium.

4. In connection with advertising and sales of additional first year premium policies, the following shall be an unfair trade practice and subject to the provisions of chapter 30 of Title 17B of the New Jersey Statutes:

a. The use of advertisements, sales materials, and sales presentations which fail to fully and fairly inform an applicant or prospective insured as to future premium changes, benefits, and related opinions.

b. The use of any term in the name given the policy that implies a deposit or any similar term associated with fund accumulations and investment contracts.

c. The use of the term "deposit" to describe the additional first year premium and its use in reference to the cash value.

d. The use of any statement or illustration in any advertisement, sales material, or sales presentation which makes reference to such terms as "deposit," "accumulation," "interest at a certain percentage," and similar terms associated with fund accumulations and investment contracts where life contingencies are involved.

e. The making of any statement or use of an illustration showing a comparison between the endowment value or any specific cash value and the excess of the first year's premium over the renewal premium which implies that the endowment or cash value arises solely from that excess.

f. The use of percentages figures or words such as ''earn 8% per year interest on your additional premium" to represent the relationship of the cash values to the additional first year premium.

g. The use of such terms as "investment," "profit," "tax free," "return," "double your money," and terms of similar import to describe the insurance policy, additional first year premium, or any portion of the insurance purchase.

h. The failure to include information that explains what happens to the additional first year premium if the policy is terminated prior to the end of the term period.

i. The failure to show separately and identify properly the premium for the insurance and the additional first year premium.

j. The failure to show information about related or companion sales of annuity contracts or mutual funds separately from additional first year premium policy information in marketing materials where the contracts, funds, and insurance are not part of the same contract.

5. This act shall take effect 30 days after enactment.

STATEMENT

This bill regulates additional first year premium life insurance policies. These policies, often referred to as "deposit term" policies, require the payment of a premium in the first contract year higher than a level series of premiums in the renewal contract years. The excess of the first year premium over the renewal year premiums is sometimes described as a "deposit."

Because consumers are often confused as to the purpose of the ''deposit,'' the supposed savings on premiums and other items related to the marketing of these policies, the Life and Health Insurance Code should contain provisions which insure an informed decision on the part of an insurance buyer when considering the purchase of additional first year premium policies.

ASSEMBLYMAN JAMES W. BORNHEIMER (Chairman): I am Chairman Bornheimer, and with me is Mike Adubato, a member of the Committee. Other members of the Committee will join us as they arrive, but rather than delay all of you people, we will start the hearing now.

This hearing is a continuation of a hearing we held late in December, dealing with Assembly Bill 2001. I would just like to bring everybody up to date on what has happened in the interim period. I do not have to do this, but the Commissioner has reported the rules and regulations governing life insurance, deposit term, and so forth, in the Register. So, you may want to avail yourselves of that also. I would like to now open the meeting by calling on Jeff Weiss. He will be the first speaker.

JEFFREY J. WEISS: Good morning, gentlemen. I am Jeffrey J. Weiss, and I am an attorney with the United Life and Accident Insurance Company. We are located in Concord, New Hampshire. United Life is a medium sized stock company admitted in 49 states, and we have about three billion dollars of insurance presently in force. So, we are a small to medium sized company. We represent the type of insurance company which we believe has brought about the present, healthy, competitive market for life insurance in the United States today. I am here to comment on Assembly Bill 2001, which we believe could seriously impact upon the present situation in this country.

At the outset, I would like to make it clear that United Life has marketed insurance policies with additional first year premiums since 1971 - which you call endowment - and it has been selling such insurance in New Jersey for the past six years. To the best of our knowledge, there has never been a single complaint against our company or against any of our general agents, linked in any way to the sale of this type of policy in this State.

At the previous hearing session before this Committee, and again today, much has been said, and will be said, about the opportunity for misrepresentation in the sale of this type of product. It is a sad but incontrovertible fact that there is no product which cannot be misrepresented or sold under false pretenses if someone is intent on doing just that. The existing state of healthy competition in today's insurance industry, coupled with the uncertainty of the economy as we enter a new decade, has led the insurance industry to offer a wider choice of products of far greater flexibility than ever before in the history of insurance. The fact that many of these products, by their very nature, introduce additional complexities to provide this flexibility necessary is no reason to condemn them. United Life has strongly supported and will continue to support regulations resulting in meaningful disclosure and preventing all abuses in the solicitation and replacement of all insurance products because we firmly believe that the consumer ought to have access to material which will enable him or her to make an intelligent choice in the purchase of life insurance. We strongly oppose any legislation which is likely to reduce the competitive nature of the existing insurance market. The vitality of sale of partial endowment type conctracts is in itself proof that it provides a viable alternative to traditional whole life products. We have found that there is little, if any, consumer dissatisfaction with partial endowment products. Most objections arise from those within the industry who are unable, or unwilling, to deal with the dynamics of a changing marketplace.

The issue of what, if anything, should be done about the marketing of partial endowment type contracts has been dealt with in at least a dozen states over the past few years. Pennsylvania and Vermont, which both banned such products initially, when they were first introduced, have recently examined the issue. Both now allow the sale of partial endowment type products, having reached the same conclusion as has been reached in virtually every other jurisdication which has examined this issue. The conclusion is essentially the same as was enunciated by the Insurance Department of our domicile State, New Hampshire, last year in their decision, and I quote: "When properly sold by the agents, and fully explained to the buyer, Deposit Term Life Insurance is an acceptable life insurance vehicle." If there are any problems relating to the sale of this product, we believe they should be addressed and these problems might be best addressed by actions taken by the Commissioner of Insurance, such as the proposed regulations, who has already begun to act on this matter. We believe that the Commissioner is in the best position to assess the requirements of our competitive marketplace, and judge what regulations may be necessary to adequately protect the interest of consumers in New Jersey and elsewhere.

Having dealt with the issue of the way partial endowment type contracts are sold, I would like to address the other major issue raised by this bill, and that is the revision of non-forfeiture values relating to partial endowment type contracts. As with the issue concerning how it is sold, this proposed regulation presupposes that such products are so fundamentally different that discriminatory regulation is required to deal with them. This underlying presupposition is, I submit, essentially false. Partial Endowment Term products are, in reality, no more unusual than many other forms of adjustable life insurance or variable life insurance which have recently been introduced into the marketplace by the industry. All these new forms of insurance raise questions about which honorable men may disagree, especially as to how such policies are to be valued, and how the various costs connected with them should be calculated. This committee has already heard highly contradictory testimony from actuaries, from respected professors who specialaize in insurance, and from Commissioner Sheeran. I expect that honorable men will continue to disagree about some of these issues; however, a consensus eventually developes in the industry, and that consensus can usually be found, in our industry, in the model laws promulgated by the National Association of Insurance Commissioners, the NAIC.

It is no little coincidence, therefore, that the NAIC adopted, this past December, proposed amendments to the Standard Valuation and the Standard Non-Forfeiture laws. Even a cursory reading of the analysis which accompanies these revisions makes it clear that the primary impetus behind revising these laws was the desire to provide uniform regulation which would encompass and deal with various new forms of insurance not contemplated under the old existing model laws.

Provisions of the December, 1980, NAIC proposed Amendments to the Standard Valuation and Non-Forfeiture laws, specifically Sections 4 and 7 of the Valuation law and Section 8 of the Non-Forfeiture law, were revised in part to deal with partial endowment type contracts. There is the clear and unambiguous assumption underlying the 1980 amendments that a uniform and nondiscriminatory regulation of all life insurance products is possible, is desirable, and may be effected by the adoption of these amendments. I believe that legislation to adopt these NAIC revisions has already been introduced into this Legislature as Senate Bill 3024. United Life will fully support the adoption of this legislation in New Jersey and in all other jurisdictions.

To summarize, the United Life would like to emphasize to this Committee that the conroversy surrounding partial endowment type contracts has been dealt with in many other jurisdictions from one end of this nation to the other. The consensus in state after state by Insurance Commissioner after Insurance Commissioner and among actuaries and other technical experts in the industry is that there is nothing so fundamentally different about partial endowment type contracts as to require any discriminatory regulation. If a small number of irresponsible people in the industry are guilty of abuses utilizing this product, this is the type of situation for which insurance commissions were created, and the Insurance Commissioner in this State should be given the freedom to deal with that problem. However, on closer analysis, I believe that you will find that the controversy surrounding this product does not deal with legitimate consumer problems, but rather with the problems of those who, for various reasons, would prefer to restrict the current competitive nature of the insurance marketplace in this nation. Thank you, gentlemen.

ASSEMBLYMAN BORNHEIMER: Do you have any questions, Mike?

ASSEMBLYMAN ADUBATO: Mr. Weiss, have you ever sold life insurance?

MR. WEISS: Have I ever sold life insurance? Yes, sir.

ASSEMBLYMAN ADUBATO: Have you ever sold deposit term?

MR. WEISS: No, sir.

ASSEMBLYMAN ADUBATO: Have you ever witnessed an interview concerning deposit term?

MR. WEISS: Yes, sir.

ASSEMBLYMAN ADUBATO: Was that with United States Life?

MR. WEISS: United Life?

ASSEMBLYMAN ADUBATO: United Life?

MR. WEISS: Yes, sir.

ASSEMBLYMAN ADUBATO: Are all deposit term contracts similar in their presentation?

MR. WEISS: No, sir, not at all. In fact, our company doesn't have a product called deposit term. We have never had such a product. We have a modified premium whole life contract, and a modified premium ordinary life contract. And, we have never had anything which we would ever call deposit term, nor have we ever referred to a deposit or any return thereupon in any literature or anything else connected with our products. We consider that irresponsible.

ASSEMBLYMAN ADUBATO: I am totally confused. Maybe you could help me. Do you have a product in your company-- First of all, let me say before I start to say this that I think it is quite all right and it is okay to sell in the marketplace, as long as we know what we are selling and what we are doing, and I believe in competition; let me start out by saying that. By the way, your company has, in some cases, a good group product. I know, I placed a case with them last week - group insurance. But, I am confused. Do you have a product where a person initially puts out a lump sum of money in addition to a premium.

MR. WEISS: We have a product with an additional first year premium, two products in fact. And, we make it very clear in all of our literature and in the way we describe this product that the first year premium is greater than in subsequent years; that there is no return of this premium if the product is lapsed prior to the tenth year; that the product is convertable either to whole life or to term, or it can be renewed every ten years; and that there is, in fact, only the return of the cash values which are published and shown as required.

ASSEMBLYMAN ADUBATO: Is the person purchasing any term insurance at all, or is your modified whole life really term insurance in the intial years and then it automatically goes to an equity situation after three or five or seven years?

MR. WEISS: If you mean that the product does not have cash values in the first year, no, it does not, sir.

ASSEMBLYMAN ADUBATO: When does it have cash value?

MR. WEISS: It depends upon the product and the age, but it begins developing cash value, in some cases, as early as the third year.

ASSEMBLYMAN ADUBATO: As early as the third year?

MR. WEISS: Yes, sir.

ASSEMBLYMAN ADUBATO: But, you still have a split fund, is that a fair statement?

MR. WEISS: No, sir.

ASSEMBLYMAN ADUBATO: You don't have a split fund?

MR. WEISS: No, sir. We have an additional first year premium, which is greater than others. There is no separate fund. There is no return of that fund.

ASSEMBLYMAN ADUBATO: Where does the additional money go?

MR. WEISS: The additional money is a first year premium.

ASSEMBLYMAN ADUBATO: Where does it go?

MR. WEISS: Where does it go? To the company, obviously, sir. If you mean where does it ultimately go, you have already discussed the fact here that, in fact, the commissions payable on this type of product are higher than on term, but they are lower than on whole life.

ASSEMBLYMAN ADUBATO: I am glad you answered that, but I didn't ask that. I am trying to find out from you, as clearly as I can to help me. Although I have been in the life insurance business 20 years, I never cease to learn and you are teaching me something now that I am not aware of. This lump sum premium is one premium ? Or, is it two separate premiums?

MR. WEISS: It is one premium. It includes an additional first year premium, which we show separately as well as show the total premium in the first year. But, it is not returnable other than the fact--

ASSEMBLYMAN ADUBATO: Whoa, whoa, whoa, wait; I am trying to be patient with you, and I have difficulty sometimes when I talk to lawyers because I think you get paid to complicate situations; but be that as it may. What I am asking you, simply as I can, is, if I were to purchase your product that is similar in some ways to a product called deposit term , I would make out one check for one premium--

MR. WEISS: The first year.

ASSEMBLYMAN ADUBATO: (continuing) --to your company?

MR. WEISS: Absolutely.

ASSEMBLYMAN ADUBATO: Would that money go into your life insurance product, or would it be partially split?

MR. WEISS: No, sir; it is treated entirely by our company as a first year premium.

ASSEMBLYMAN ADUBATO: It is a first year life insurance premium.

MR. WEISS: Premium, period.

ASSEMBLYMAN ADUBATO: What happens the second year?

MR. WEISS: You have a smaller yearly premium which stays level through the remaining ten years of the product.

ASSEMBLYMAN ADUBATO: And where does that go?

MR. WEISS: Second and third and fourth year premium.

ASSEMBLYMAN ADUBATO: What happened with the lump sum money?

MR. WEISS: It is premium to the United Life and Accident Insurance Company.

ASSEMBLYMAN ADUBATO: Well, how is it growing? Where is it growing?

MR. WEISS: No one said it was. You are talking about marketing a product in which once again you are talking about making a separate deposit upon which you are then going to suggest to someone they are going to get some kind of a return on their investment. If you take a look at the way our cash values develop on our product, they develop much more swiftly and much larger. Also, the product does specifically say, if you buy our modified premium whole life, that if you die during that ten year period, the death benefit is increased by an amount equal to that first year premium. Or, if you buy our modified premium ordinary product and you die during those first ten years, the death benefit is increased by an amount equal to the tenth year cash value.

ASSEMBLYMAN ADUBATO: By any chance, do you have an illustration of your product with you today?

MR. WEISS: No, sir; I didn't bring one.

ASSEMBLYMAN ADUBATO: Does anyone in the room have any kind of illustration of the product? I would appreciate looking at it if anyone has it.

MR. WEISS: I will be happy to submit one to you afterwards.

ASSEMBLYMAN ADUBATO: Well, rather than take any more of this hearing's valuable time, I must say to you that I don't think you know-- I don't know, forgive me, what you are talking about, and I admit that I have only been in this business 20 years, and I think I probably know as much, if not more, than anyone in Trenton about insurance. But, I am totally confused with what you are saying, and I might also add that to the best of my knowledge, the Commissioner who is a fine gentleman has never sold insurance either. But, that doesn't mean that he is not competent to make rulings.

You in your presentation-- I know this room is filled with insurance people advocating different sides of this issue, but maybe some speakers coming up after you can enlighten us, because I don't know what the hell you are talking about. Thank you.

ASSEMBLYMAN BORNHEIMER: Mr. Weiss?

MR. WEISS: Yes, sir.

ASSEMBLYMAN BORNHEIMER: If I remember correctly, your original statement said that your company sells a product with an additional premium charged the first year.

MR. WEISS: An additional first year premium, yes, sir.

ASSEMBLYMAN BORNHEIMER: In your statement it indicated that was for some type of an annuity, possibly.

MR. WEISS: No, sir.

ASSEMBLYMAN BORNHEIMER: What is it then?

MR. WEISS: It is the product which we have been discussing here. I think there is a misapprehension here that the product is always sold as an additional deposit which earns a specific amount on the side. That is not the case with our product. What the consumer is buying in this case is a product in which in return for the additional first year premium, the product develops cash values of a much greater value over this ten year period, such that at the end of the ten year period, if you take a look at the ultimate cost to the consumer who keeps the product in force for the full ten years, he has bought a product at a much lower cost.

ASSEMBLYMAN BORNHEIMER: That's term.

MR. WEISS: Exactly. It is not purely term, because it does develop cash values.

ASSEMBLYMAN ADUBATO: Forgive me for interruping, Mr. Chairman. What we have, then, is a product that is a life insurance vehicle where all the money is going into the life insurance vehicle. There is no side fund, right?

MR. WEISS: Right.

ASSEMBLYMAN ADUBATO: There is no side fund, and in your comparatives are you saying to me now you are a stock company?

MR. WEISS: Absolutely, sir.

ASSEMBLYMAN ADUBATO: So, there are no dividends involved?

MR. WEISS: Exactly.

ASSEMBLYMAN ADUBATO: So, everything that you determine is guaranteed cash value?

MR. WEISS: Absolutely.

ASSEMBLYMAN ADUBATO: Regardless of the marketplace ten years from now, whether the price of butter goes up or down, ten years from today you are going to say to that individual, "This is what you are going to get, regardless of a 20 prime or a 13% inflation rate or interest rates being up, or six, or whatever; this is what your return is, guaranteed?

MR. WEISS: Absolutely.

ASSEMBLYMAN ADUBATO: Well, I think you have a right to sell that product, and I think everyone has a right to sell that product; there is nothing wrong with that. But, from the standpoint of the marketplace, it is obvious that if the individual, everything being equal-- Again, I think it is-- And, you are saying that the money is refundable any time within the ten year period. He is not penalized.

MR. WEISS: No--

ASSEMBLYMAN ADUBATO: Wait a minute, forgive me. Help me. I put out one thousand dollars today and then for the next nine years I put out two hundred dollars a year. Now, in the third year, I decide that I don't want this product anymore. Do you give me back my thousand dollars?

MR. WEISS: No, sir.

ASSEMBLYMAN ADUBATO: Why not?

MR. WEISS: Because, sir, you have deliberately bought a product which - we have revealed this to you before you bought it - will, in the long run, be cheaper to you only if, in fact, you do keep it in force. And, for those people who want to make the conscious decision to keep a product in force for ten years, because they have a legitimate need for permanent life insurance, not term insurance, this product will, at the end of ten years be cheaper to you. This product includes a disincentive to lapse that product in early years. This is very clearly understood by our clients and that is the way we sell the product. We believe the public has the right to make that choice if they want to.

ASSEMBLYMAN ADUBATO: You are absolutely right. And, I am with a very fine company that has a similar product that I have never sold, never will sell, and I don't think it should be allowed to be sold because 99% of the people out there do not understand what you just said.

MR. WEISS: Well, that is where the difference--

ASSEMBLYMAN ADUBATO: In all deference to you.

MR. WEISS: Because we believe the public has a right to make its own decisions.

ASSEMBLYMAN ADUBATO: Now, if the Commissioner-- Do you have any problem if the Commissioner formed a regulation that said the individual would have to sign a statement saying that he understood?

MR. WEISS: We have such a form and they sign it now, sir. And, it says specifically: "This product is designed with a disincentive for you to keep in force for less than ten years," and it is signed by people who buy our product. So, they do understand that, sir.

ASSEMBLYMAN ADUBATO: It says it is a disincentive?

MR. WEISS: Absolutely.

ASSEMBLYMAN ADUBATO: Or, does it say that you don't get your money back?

MR. WEISS: No, is says that this is your first year premium, second, third, fourth, sixth, seventh, eighth, nineth, tenth. It says you will only get the following cash values if you lapse during those ten years. And, at the top it says this product is designed with the incentive to keep it in force for a full ten years. And, that is given to everyone who buys our product. So, yes, sir, we do sell it that way.

ASSEMBLYMAN ADUBATO: I totally agree with you that anyone should be allowed to buy any kind of a product that is in the marketplace, regardless of whether it is good for them or not. I just think we have an obligation to let people know that they could probably do several hundred percent better with the same amount of money in another way. But, thank you for your time.

ASSEMBLYMAN BORNHEIMER: Thank you, Mr. Weiss.

Richard Bex. I knocked your name around pretty good, but I hope I got it right.

RICHARD BEX: That's all right. I have a way of describing how my name is spelled, but it is not nice for this kind of a hearing. Good morning.

ASSEMBLYMAN BORNHEIMER: Do you have a written statement?

MR. BEX: No, I do not.

ASSEMBLYMAN BORNHEIMER: Okay, fine.

MR. BEX: My statement is going to be very, very short.

ASSEMBLYMAN BORNHEIMER: Sure.

MR. BEX: Because you have had-- First of all, my name is Richard Bex. I am Assistant Vice President and Assistant General Counsel of Firemen's Fund American Life Insurance Company. You have had the benefit of our rather lengthy presentation at the previous hearing.

I just wanted to bring two or three general statements to the attention of the Committee. One, Mr. Chairman, you mentioned earlier this morning when you asked if anyone had seen the proposed regulations. We have seen the proposed rgulations. We are prepared to support them fully. We told the Commissioner we would support them fully.

The other point that I would like to bring to the attention of the Committee also is what Mr. Weiss alluded to, and that is the existence of Senate Bill 3023, if you are not already aware of it. This bill, among many other things, has a large number of potential amendments or changes to the Non-Forfeiture law in a lot of different areas. But, among them is the issue seeking that which Assembly Bill 2001 seeks to address, i. e. cash values on policy forms, where the first year premium is greater than subsequent year premiums. We believe Senate Bill 3024 solves this problem on an equitable basis. What it does is, it provides for a mandatory grading-in of the values. It will not permit a level of no values for a stated number of years and then suddenly a large value; it will not permit that. It requires a mandatory grading-in of the values over, I believe, a minimum of five years.

The Firemen's Fund policy already has that provision in it, but that is neither here nor there. The bill represents many, many years of work by the National Association of Insurance Commissioners and the industry and everyone concerned, really. It is, admittedly, a compromise. Certain parts of it are admittedly a compromise.

Section (k) of Senate Bill 3024 is identical to the Section 8 reference of Mr. Weiss to the model bill. It is idential in its wording to the model bill.

Rather than belabor you with a lot of discussion, Mr. Bernard Halstead of Kemper Insurance Company, who is an actuary, will be speaking later, and I think he will be able to anser the technical questions that this might engender in the minds of the committee.

Thank you for your time.

ASSEMBLYMAN BORNHEIMER: Thank you, sir. Mike, do you have any questions?

ASSEMBLYMAN ADUBATO: No. I would just like to say to Mr. Bex that at the last meeting your company was well represented by a very knowledgeable individual, who also agreed that the product was really a compromise, and it was not necessarily a product where the individual was given the most value for his money, if that was the intent. As he pointed out when I asked the question -- he agreed that deposit term-- And, with Firemen's Fund we are talking about the side fund situation.

MR. BEX: No, we are not.

ASSEMBLYMAN ADUBATO: There is no side fund?

MR. BEX: Not on the basic policy. We have an annuity that is sold in tandem, or in conjunction with the policy.

ASSEMBLYMAN ADUBATO: Wait a minute, whoa. Wait a minute. Are you saying that when an individual is approached and a comparative is made between his existing life insurance situation and the value that he would recieve if, for instance, he borrowed maximum, or cancelled the policy, relieved that equity, and purchased a new product -- in that new product do you illustrate growth with the side fund as well as a life insurance entity?

MR. BEX: Yes, but not a side fund. An annuity contract, I believe, is different.

ASSEMBLYMAN ADUBATO: Okay. I would accept that terminology. It is different than equity funding was in that respect.

MR. BEX: Right.

ASSEMBLYMAN ADUBATO: You're right. I would respect that. But, the point is that in an annuity from a life insurance standpoint, that is the least amount of life insurance you will probably get for your money.

MR. BEX: Well, no. What we are saying--

ASSEMBLYMAN ADUBATO: I'm talking about life insurance value, the least amount of value that the individual would receive in protecting his family. I don't know of any other life insurance product - you know, maybe annuities, endowments, retirement income products - where the individual really isn't buying it for life insurance; it is not life insurance, even though it is a life insurance product. All I am trying to say is that if the individual took the same amount of dollars, regardless if he left it with an existing policy that was a whole life situation, or if he took it out and bought a deposit term policy which is a combination of a side fund and a term policy, or annuity and a term policy, if you will-- Is that okay?

MR. BEX: That's not quite, but I will try to explain our difference, the way I view it, when you are finished.

ASSEMBLYMAN ADUBATO: Well, I don't want to misrepresent the product, first of all. So, I would ask to be corrected if it is not that situation.

MR. BEX: It is not quite that situation.

ASSEMBLYMAN ADUBATO: Well, could you tell me what it is?

MR. BEX: Okay. Number one, we have the basic modified premium, whole life policy, which Mr. Weiss alluded to. That policy has an additional first year premium, which is larger than the subsequent year premiums.

ASSEMBLYMAN ADUBATO: Let me stop you right there. In the norm, we talk about the terminology "modified whole life". Modified whole life in life insurance terms, meant, in the norm, that you were paying less of a premium for your beginning years because you couldn't afford the amount of protection you needed and the interpretation, when a person says modified life, doesn't mean that it has to be that way. It could be more. It could be greater. But, what I am saying to you is, historically it has always been less.

MR. BEX: I would have to agree with you.

ASSEMBLYMAN ADUBATO: All right. So, when we use the term modified life to illustrate what you are selling, there is a psychological impact to people, because when you say modified life to people who are in the industry anyway, they would assume that you are talking about less of an in-going rate than more. But, it is okay to have more; I am not saying there is anything wrong with that. So, you are using the same term and you are modifying it. You are not charging what a whole life contract--

MR. BEX: We are not charging a level premium for the life of the contract, that is basically what it is.

ASSEMBLYMAN ADUBATO: Right. Okay. You are charging more in the first year.

MR. BEX: Right, on which we pay premium taxes, we pay--

ASSEMBLYMAN ADUBATO: No, no, I am not challenging anything, I just want to understand it. You are charging more in the first year, and in the subsequent years you are charging less.

MR. BEX: Right.

ASSEMBLYMAN ADUBATO: All right. Now, does the individual own one eitity or two entities? Does he own one policy? Does he get one policy furnished?

MR. BEX: Yes.

ASSEMBLYMAN ADUBATO: And in that one policy is the annuity?

MR. BEX: No.

ASSEMBLYMAN ADUBATO: Okay.

MR. BEX: He gets a life insurance policy which has a face value of, let's say for illustration, one hundred thousand dollars -- a life insurance policy.

ASSEMBLYMAN ADUBATO: Yes.

MR. BEX: In addition to a life insurance policy with a face value of one hundred thousand in our illustration, he has -- there is a rider to that contract which is an annuity rider. Now, the way we generally sell it is, as Mr. McCormick, you may recall, illustrated it, what he can do with the same amount of dollars that he would pay, for example, for a one hundred thousand whole life--

ASSEMBLYMAN ADUBATO: Yes, you compared it with a participating contract from Prudential.

MR. BEX: I don't remember.

ASSEMBLYMAN ADUBATO: That was your comparison.

MR. BEX: Okay.

ASSEMBLYMAN ADUBATO: And my question - forgive for interruping you; I don't want to belabor the point - was, why didn't you compare it as well with an annual renewable term product from a good stock company, and take the differential? You were trying to show how much more value you were giving the people for the same money. What I am saying to you is if that is your concern and it is not commission, then you should sell annual renewable term without the side fund; you don't need it. People would make a lot more money putting that differential in a savings bank today, and they would get a lot more money and they would have no penalties. Is that a fair statement?

MR. BEX: There is a penalty on the life insurance portion, not on the annuity. That annuity-- Let me illustrate. Let's just quickly say that the basic policy's annual premium is $1500, on a whole life policy; $500 is going into a life insurance premium, and $1,000 is going into an annuity. I am just using round figures. Any time that individual lapses, he gets his $1,000, plus his accumulations back. He doesn't get any cash value on the life insurance portion unless he has held it for the ten years.

ASSEMBLYMAN ADUBATO: That is in your product.

MR. BEX: Yes.

ASSEMBLYMAN ADUBATO: That's not in United Life's product.

It is not in some other companies' products, where you lose that money, 100%. If you cancel in the eighth year, you lose your entire deposit. Is that correct?

MR. BEX: What I would say--

ASSEMBLYMAN ADUBATO: I am not saying with your product.

MR. BEX: No. As I understand it--

ASSEMBLYMAN ADUBATO: I am saying with some products you lose everything.

MR. BEX: As I understand United Life's product, they do not have a deposit. They have an additional first year premium, which is treated as a premium, just like any other life insurance premium is treated. It is not a deposit.

ASSEMBLYMAN ADUBATO: They did it--

MR. BEX: It is not a deposit. It is not earmarked.

ASSEMBLYMAN ADUBATO: No, no, no, what they do with that money, if I understood the gentleman correctly, is they take more money than they need in order to deliver that life insurance. That's what they are doing. They are taking more money than is absolutely necessary, or even imaginable. I would say it is 1,000% to 3,000% more than is necessary to buy that life insurance for that individual. They are taking that money that first year -- and we are talking about people, number one, who are victims of people going in and taking a product-- You see, we are not talking about wealthy individuals. We are not talking about corporate entities. We are talking about hard-working people who have struggled, and even though they maybe haven't gotten the most value for their money, and I might agree with that, quite frankly - that they can do better and they should - Nevertheless, we are taking that profile of that individual, we are raping that policy, and we are going out and buying another product where that individual is paying ten times more than he has to for that amount of protection in the first year.

MR. BEX: No, he is not. He is not. For protection, pure protection, he gets $100,000 of life insurance. In addtion to the $100,000, in my illustration--

ASSEMBLYMAN ADUBATO: Forgive me. You see, what I am trying to do here is unfair to you, because I am making a comparative not only with your product, I am making a comparative with the product that was represented by the gentleman before you and with other products that I am aware of, and I am lumping you all together, which is unfair to you, and I admit that. But, nevertheless, you are all on the same side of the fence, presenting the same story with different terms.

MR. BEX: I would be less than truthful with you too if I said to you that we always sell the annuity, because we do not. That is true. We do sell the separate life insurance product separately, and the so-called deposit term - we call that modified premium whole life. We do sell that separately.

ASSEMBLYMAN ADUBATO: Do you have an opportunity for people to go into, if they desire, a non-guaranteed return, into a similar situation as buying stock? Do you offer that opportunity?

MR. BEX: We don't have the facility to make that mutual fund, or something like that, available to them, no. We do not have that facility, but they can do it if their agent, or their counsel, recommends it. By doing it that way, he buys only the additional first year policy. He does not buy our annuity, which he can do.

ASSEMBLYMAN ADUBATO: But, you are aware that that happens?

MR. BEX: Oh, sure.

ASSEMBLYMAN ADUBATO: You are also aware that if the individual, again, instead of buying your first year contract with a high load, went out and just bought term insurance and took the differential of that money and did the same thing with that agent, and put it into the side fund, that he would be a hell of a lot better off? Wouldn't he?

MR. BEX: Well, I don't think anyone will disagree with you, Mr. Adubato, that annual renewable term is the best possible buy that you can get on life insurance.

ASSEMBLYMAN ADUBATO: With your patience, I think you are the person, quite frankly, that I should present this to. I am not opposed to people having the right to choose. I am opposed to government over-regulating and over-interfering. That being said, however, we do have an obligation in government not to be silent if we feel that people are being taken advantage of.

I would like to share with you one of my concerns, not only as a legislator, but as a person in the life insurance industry as well, as a citizen of New Jersey. This is a record of a transaction that took place with a person who is now selling deposit term in this State. This transaction, however, was with Pennsylvania Securities Company, Equity Funding.

MR. BEX: You mean Equity Funding, not the equity funding scandal that we have had?

ASSEMBLYMAN ADUBATO: Oh, yes, that is what we are talking about. This took place in 1969. I took it out of my records. And, this person is still in the life insurance business, and is selling deposit term in New Jersey as well as in Pennsylvania. I am not accusing this individual, by the way, of doing anything wrong or illegal. But, I would like to just share this transaction very briefly with you.

On the first page what these people did when they interviewed the individuals was, they put out the proposed program with the results dealing with mutual fund purchases as well as buying a whole life contract with term insurance, with the term rider, and they combined them. And, on the first page you saw a deductive logic, if you will -- the total situation of a result. And, you saw the premium, and so forth and so on. On the next page, you saw the present existing program, and you also saw a deductive situation, with the premium and the kind of coverage, and so forth and so on. And, I would just refer you to one item. It says "premiums", and in parenthesis it has the word "gross premiums", and there is a figure there. It is $288.94 a year. So, we are not talking about a hell of a lot of money, are we?

Now we go to the growth, and what they are showing over the previous 20 years is two ten year periods and what would have happened if this individual started this investment in 1948, and began and left it there until 1958 -- you see? Then they turn it over, or roll it over again, from '58 to '68, and now this is 1969 when this individual is buying this. I don't think I have to share with the people in this room what occurred in those 20 years, if anyone was in the industry, so I won't belabor that.

The important thing, in spite of this outrageous illustration, was the State replacement information and notice to prospects. We showed four policies existing, three with Metropolitan and one with Prudential. I have never sold for one of those companies, even though I think it is a fine company; it is not my marketplace. But, I had sold for a mutual company in my first seven years, just to tell you I have some experience with mutual companies. What we are seeing here is the proposal of Pennsylvania Life Insurance Company by this individual and the existing policies. And, he shows the breakdown. What is interesting is when we talk about premium mode, he shows an annual premium of $355.92 for the life insurance. There is nowhere in here, number one, about the side money. It is not even mentioned. It is not shown. That's bad enough. But, in addition, when he shows the premium, including all benefits in the existing policies which were an annual premium of $288.94, he labels that, "semi-annual." Now, I don't know what that means to anybody in this room. I know what it means to me.

MR. BEX: I know what it means to me too.

ASSEMBLYMAN ADUBATO: I am not against competition. I am not against the marketplace. But, I am against people in this industry of ours who don't know what they hell they are doing, who have rushed through and gotten a license because we are too lax in who we give our licenses to sometimes, and who are out there presenting situations that are not accurate, and that are not accountable.

The present Commissioner, by the way, was not the Commissioner, as you know, when this took place, but I personally wrote to the then Commissioner, presented this situation to him - and I wasn't in politics at that time; I wasn't a legislator at that time - and I asked if this man could be challenged. I couldn't find out anything about this individual at that time, except that he maintained his license, he was never even questioned, and the Commissioner never asked him a damn thing.

Now, let me tell you someting -- what does this have to do with deposit term? Everything. We are taking a situation that is similar in approach, where we are going in and we are saying to people, "Let's take that equity, let's take that money, and let's divest it into this, this, this, and this. Now, I don't know what you know about the Insurance Department, but I do know that they are nice and they are good people, but in many ways, historically, not only in New Jersey, all insurance departments are inept. I say that emphatically.

MR. BEX: I would have to disagree with that.

ASSEMBLYMAN ADUBATO: Well, you are entitled to your opinion, and I am entitled to mine. No problem.

What I am saying to you is, I have much more confidence in the people in the industry that understand it, and I have much more confidence in the fact that people have a right to be protected, an inalienable right. The marketplace does not mean that we allow people to be abused, even if they want to be abused.

MR. BEX: I couldn't agree with you more fully.

ASSEMBLYMAN ADUBATO: Well, to show you where I am coming from, I thought it was important to publicly present this transaction and to say that these are some of the risks that we take whenever we have people who are unaccountable, and we have people who go in there like gangbusters, shouting and screaming at people and telling them how they got "screwed" - you see? - and we have a carnival atmosphere and dogma where they say everyone else is wrong and they are right. That scares me a little bit. unfortunately, many people who sell deposit term have that personality, and that scares the hell out of me, not the product but the way it is sold. Thank you, Mr. Chairman.

MR. BEX: Could I respond to that?

ASSEMBLYMAN BORNHEIMER: Sure.

MR. BEX: I think I have a couple of quick comments. One, and I don't want to get into a dialogue with you, I think you mentioned 1969. That is when this transaction occurred. To the best of my knowledge, at that time there were no replacement regulations in effect; there were no solicitation regulations in effect at the State Insurance Commissioner level. There were, however, certain securities regulations by the SEC, and I would have suggested to you at that time that you should have gone to the SEC with this problem because of the misrepresentations that you felt occurred in the securities sale.

Now, we don't disagree with that portion of Assembly Bill 2001 that deals with trade practices, if you feel that it can be better regulated or administered by putting it in the statute, instead of leaving it to the Commissioner's regulations. We happen to think that it is better to be done by the Commissioner, but if the committee feels it could be better handled by putting it in a legislative bill, it still has to be administered and enforced, and that is going to fall to the insurance commissioner, I would assume. Right?

Our prime concern is the section of the bill dealing with non-forfeiture values; it is that simple.

ASSEMBLYMAN BORNHEIMER: Thank you, sir.

The next witness will be Ted Millstein.

TED MILLSTEIN: Good morning, members of the committee, my name is Ted Millstein, and I am speaking in favor of Bill A-2001. I am the President of the Middlesex-Somerset Chapter of the New Jersey State Association of Life Underwriters. I am also a licensed life insurance agent with the Equitable Life Assurance Society of the United States, doing business in New Jersey. First, I would like to thank you for the opportunity to appear before you and present the following comments regarding an area of grave concern to my membership. Our Association membership consists of 164 licensed life insurance agents, representing a number of different insurance companies throughout the Middlesex-Somerset County areas. Our members, however, reside in all parts of the State.

Gentlemen, competition as defined by Webster is "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms." I, and my fellow association members, are not now nor will we ever be afraid of true business competition, as defined by Webster. True and fair competition has a net final result that is good for the consumer. When unfair business practices are allowed to continue and go unchecked, this negates the true spirit of positive competition and the ultimate loser will be the consumer. The sellers of this product called deposit term, for the most part, use marketing and sales practices that are generally deceptive and misleading and which ultimately hurt the life insurance buying public.

Deposit term is generally sold through replacement of existing life insurance policies and by deceitfully destroying the credibility of the prior insurance agent and the prior insurance company. Some of their deceptive sales materials are in front of you now, lettered exhibits A, B, and C.

Exhibit A is a letter from a deposit term company received by an associate of mine, subsequent to receiving a computer prerecorded telephone call, which to our knowledge is not an approved soliciation technique. The stationery upon which the letter was typed is in itself deceptive to the public, who assumes that they are receiving a letter from a consumer group and not a life insurance company or agency. The letter closes with a postscript telling the reader that they have everything to gain and nothing to lose by comparison shopping. We have no argument with comparison shopping. However, the comparison shopping is not being encouraged initially, but it is being encouraged after the fact, after the consumer has purchased and in many cases has owned for some period of time an existing life insurance policy.

My exhibit B, which is before you, is a typical sales instrument used by deposit term salespeople. To the consumer who is not schooled in life insurance, this sales piece on the surface would appear to represent a great bargain for an equal amount of money invested. However, we believe that this instrument is deceitful as well as misleading for the following very important reason: The footnote at the bottom of exhibit B referring to the annuity portion of their recommended program mentions a current annuity yield. They go on to mention that the yield is not guaranteed. However, the illustration in itself would lead the policyowner to easily assume that the figure shown is what they would receive, and not actually what they would get as a guaranteed retirement return. Further, no where in their presentation in the footnote under the present program do they mention that cash values of traditional whole life insurance are guaranteed in advance at the inception of the policy and are listed within the contract itself.

My exhibit C is another example of how the deposit term salesperson totally destroys the credibility of the life insurance agent and the company he represented when the initial policy was purchased. Without taking up too much of your time, let me make reference to the paragraph quoting the U.S. Federal Trade Commission, from a 1979 Staff Report which I have underlined. As you know, on May 28th of the year 1980, the President of the United States signed into law a federal bill, after passing both Houses of Congress, curtailing the Federal Trade Commission activities in investigating and attempting to regulate the life insurance industry. The passing of this bill was successful because the information distributed by the commission to the American consumer, including this statement, was shown subsequently to have contained fallacious and erroneous information about the life insurance industry.

A question also arises in my mind: If what we sold the consuming public originally was so bad that it had to be changed by these deposit term salespeople, then why do they have, as one of their options, at the term of expiration, the right to convert back to a whole life policy? Remember, this is the same whole life policy which is in most cases what they originally have replaced. Also, my associates and I do not sell insurance based as an investment vehicle, but rather as a way of protecting a family's future. If the deposit term salespeople are so concerned about the consumer in the State of New Jersey and they feel that what I and my associates have sold is wrong, then why not do the right job and see to it that the policy is converted back with the original company to what it should be? If it is permanent insurance that was sold and term insurance is better for the consumer then why not recommend that that's the way the consumer should go and have the product converted back by the original agent and the original company? The reason, gentlemen, this is not done is because these people do not have the consuming public in mind; but, rather, look at their high commission scale which ranges from 100% to 265% that they would get by selling new policies. See exhibit D for these percentages.

Speaking as a life insurance agent, there is not a product that we sell where an agent is entitled to a first year commission of 265%.

Speaking of commissions, from what I have seen, the deposit term salespeople only receive initial commissions, paid on the original first year deposit, and little or no renewal commissions in future years. This then means little or no incentive for the client to be serviced in the future years. Whereas, your full commission structure is based over a lifetime of service to the consumer.

I also would say to you that if upon checking how the operation of these deposit term companies is run, I am sure that you would find in your records that a great portion of their business is done on replacement of existing life insurance, and not the selling of new life insurance on a need basis, as we do.

We do not stand before you here today saying that everything we sold in the past was right and proper. There are times that I and my associates have sold products that probably a few years later may be viewed as our having made a mistake and it should be changed. However, I feel, and I know, that those are in the minority. I am prepared, as my associates are, if we did make a mistake, to stand behind our product, as I know our companies will, and retroactively change those contracts after meeting any evidence of insurability requirements, without any unnecessary harm to the consuming public. We are trained to sell on a need basis. We solicit on that type of a basis. We are not trained to sell as a parasite and feed off other types of life insurance business. If the product of deposit term is so good, then my question to you and to them is, why are not more of their policies sold as an original item to the consuming public and not as a replacement?

Gentlemen, I want to emphasize the point that I am my associates are not now and will never be afraid of true competition. However, we cannot constantly enforce what we sold years ago without your help. We are in this business to serve the consuming public; however, once our credibility is destroyed, as I tried to illustrate by the type of literature that is given to our clients, it is almost impossible for us to get back and see our people and possibly preserve and protect them with the right product that was originally sold.

Being an agent of one of the largest life insurance companies in the world, the Equitable Life Assurance Society, I would like now to give you some statistics showing the good that just this one life insurance company, one among many, had done in 1979 in the State of New Jersey.

In referring to Exhibit E, you can see that the total benefits paid to policyholders in 1979 exceeded $144,351,000, with the total dividends paid to policyholders alone being more than $13,936,000. The total number of policyholders that the Equitqble Life serves in the State is 650,000, and the amount of life insurance in force is in excess of $6,567,000,000. You can see from these figures that this one company alone not only provides service for a tremendous number of New Jersey consumers, but also provides a tremendous boost to the New Jersey economy.

In conclusion, my livelihood and the livehihood of all my associate members depends on our professionalism in dealing with the public. We would not do anything in our daily sales activities to jeopardize our good relationship with the consuming public, and we would like to see the public protected against misleading and deceitful sales practices. Thank you for your time.

ASSEMBLYMAN ADUBATO: I would like to make some observations, if I may, Mr. Chairman. I was very interested in the individual who sent out these borchures. In looking for new agents, one of the things they ask for is that the individual have at least one year's experience in the life insurance business; they were looking for general agents and they were showing them where they can earn up to 265% commission. One of the things that struck me as being funny, if you can call it that, is that they wanted an individual who had a low lapse ratio. I thought that was very interesting, that they wanted someone - and I will repeat it - who had a low lapse ratio. The individual who sends the letter also, I took interest in noting, is the regional sales director of the mutual funds division. There is nothing wrong with that. That is perfectly all right. But, it sounds familiar to me -- mutual funds division. It seems to have a cousin in a product that was, as we all know, a sham and a skam. I am not saying that these products are, I am just saying that there is an identity again. I will not go any further, except to say that the name of the company interests me too, it is Puritan. Thank you.

ASSEMBLYMAN BORNHEIMER: Thank you, sir.

The next witness will be Charles Tomaro.

C H A R L E S   T O M A R O: My name is Charles C. Tomaro, Jr.

ASSEMBLYMAN BORNHEIMER: If I may, I would like to suggest to you that you don't have to read your statement in its entirety. You can paraphrase and the whole thing will go into the record -- unless you prefer to read it.

MR. TOMARO: I prefer to read it. My name is Charles C. Tomaro, Jr. I am President of Tomaro's Financial Services, Inc. I have been a licensed life insurance agent in the State of New Jersey for 22 years. I would like to add that I have had no complaints from any of my clients, nor from the Insurance Department. In the last 12 years, I have been a duly licensed representative, and I spent the first 10 years with the Prudential Life Insurance Company. In the last 12 years I have predominantly sold term insurance, i.e. also deposit term, or what we have been discussing here -- various products in that area.

I am speaking for 65 other individuals who are associates of mine, and who market the same products. I would like to make four basic points at this hearing. One, the basic reason for proposing this legislation is that it is not a good product for the consumers of the State of New Jersey.

Two, that the compensation on this product is too high.

Three, that it lends itself to misrepresentation and that the people marketing this product are not basically providing proper information, advice, and service to the consumers of the State of New Jersey.

Four, and final point, in my opinion the real reason why this legislation is being proposed.

In reference to the product itself, in 1978 the N.A.L.U. petitioned the Insurance Department and its chief Actuary and the Commissioner that a ban should be placed on this product, for many of the same reasons that this legislation has been proposed.

At that time, myself and an associate of mine, Mr. James Fosbre, wrote a ltter to the Insurance Department, asking for the opportunity to present information to them on why it should not be banned.

In 1978, a meeting took place at the State Insurance Department, Trenton, New Jersey, to discuss the matter of deposit term with the members of the Insurance Department. In attendance were Commissioner James J. Sheeran, who had to leave before the meeting was completed; Chief Life Actuary, William White; Dr. Naomi LaBastille, legal counsel; Dr. Eleanore Lewis, in charge of consumer protection, representing the Insurance Department. Also, in attendance besides myself was Mr. James Fosbre who had written the letter to the department and Mr. Andrew Brasno, Attorney, acting as our counsel at the meeting.

This meeting was devoted entirely to the discussion of whether or not deposit term should be banned as the N.A. L. U. had petitioned the Department to do. Actuary White said that the reason why it should be considered - the banning - was that this product could lend itself to misrepresentation, but he quickly admitted that so could all other types of insurance that are sold, including and especially whole life insurance or cash value type life insurance, endowment, etc.

During this discussion, a pointed question was asked of Actuary White, and the question was: "Which was a better product, deposit term or whole life?" And, after a lengthy discussion, Actuary White's statement was in conclusion that deposit term, and I quote, "Is a better product than whole life, but you don't want me to ban whole life, so you?" And, therefore, the final conclusion of the Department of Insurance was that they could find no reason to ban this product, and subsequently made such a statement that the State Insurance Department refused to ban the deposit term policy and it was considered actuarily sound.

What I would like to present and offer to you legislators is that if we were to compare the deposit term product to the traditional product - the so-called permanent insurance, whole life, endowment, etc. - from a consumer's point of view, the deposit coes out better, as the Insurance Department also found in commenting on it.

This was also substantiated by a report released by the Federal Trade Commission that policyholders who purchased whole life insurance were losing close to four billion dollars a year of profits as compared to if they had saved their money or invested their money at 4% interest only. And, in this day and age, with interest rates in the neighborhood of 20%, it is a guesstimate that the financial loss suffered by purchasing this type of life insurance, whole life, throughout the nation could be close in its cost to a trillion dollars a year.

I must say in conclusion that I do agree that there is not enough full disclosure made to the buying public by insurance agents in all cases at the time of the sale of deposit term, and an argument can be made about full disclosure because I am aware of that myself. However, if this same agrument were applied to whole life insurance, it would be magnified a hundredfold, and therefore I recommend that it be considered that this bill be amended and not only have full disclosure against this one specific product because of its deposit, but all policies where cash values are involved.

The client should be told exactly what his profit or loss will be if he aborts the contract, whole life or any other, from time of purchase, and then you will be doing a justice for the constituents in the State of New Jersey, and truly producing a consumer-oriented bill.

Part two of my question, another misleading argument is related to the compensation earned in the sale of this product. Statements have been made - 270% commission, 350% commission, etc., etc. Percentages can be extremely misleading and they are especially in this case. I would like to offer you legislators the following factual information. One of the companies I represent offers whole life and deposit term. As a general agent, I could sell deposit term and get a commission of 270%, or I could sell whole life with the same company, whose rate, by the way, is lower than most traditional companies, and I would receive 100% commission, first year, plus renewals.

I would like to quickly explain the difference between a general agent and an agent so that you may understand the compensation and its effect.

A general agent has the responsibility for all of his overhead, postage, phone, office space, secretary, etc. An agent, whether with a large or small company, has this mostly provided for him. Therefore, the general agent received the total compensation including that which covers expenses; whereas, the agent receives approximately one-half of that compensation that the general agent receives. This is true in all companies, including the majors.

Getting back to the comparison in compensation that I would receive selling the two various products, the commissionable premium per thousand at age 35 is $5.12 for deposit term. Now, this multiplied by 270% or 2.7 equals $13.82 per thousand. That is the total compensation paid out over a two year period for this contract at age 35.

For that, as I stated, I must pay all overhead and expenses to run my operation and receive no additional support from the company. If I sold our lowest costing whole life policy at age 35, it would be $17.56 per thousand, upon which the first year I would receive compensation of $17.56. As you can see, this is already more than the total compensation paid on deposit term. The second through fifth year, I would receive 15% per year, and then additional percentages throughout the life of the contract. The total paid in the first five years on whole life would be $27.50 as compared to the deposit term $15.82. As you can see, from a compensation point of view, I would earn twice as much money by selling whole life as compared to deposit term. If the argument against deposit term is that compensation is too high, then you can see, again, if this argument is applied to whole life, obviously the customer is paying more commissions with whole life than he is with deposit term. So, again, if the legislators are thinking of banning this product because of high compensation, then certainly they should amend the bill to adjust the compensation paid on whole life and also consider banning it.

Point three was this product lends itself to misrepresentation and that the people marketing this product are questionable from the point of view of representation, service, and consideration of the clients' well-being.

I could spend a year of time in this particular area, and I offer to you legislators, and to anyone else who is interested, much documentation into what I call massive insurance abuses in the State of New Jersey. I would like to remind you of a hearing, again, in 1978, held at the Insurance Department, where all members of the Insurance Department in attendance agreed that all products in the insurance area can lend themselves to misrepresentation. I would like to cite one example at this moment. In early 1980, hearings were held at Rutgers University in Newark, New Jersey by the New York and New Jersey Insurance Departments in reference to misrepresentation involving the sale and service of the Prudential Annuity to teachers and other non-profit organizations who can take advantage of 403B.

I have here, which is for public record, excerpts and comments made by the participants in this plan at which time they accused the Prudential Insurance Company of misrepresentation, lack of interest or concern, lack of service, and we could go on and on and on. Statements were made by the participants in this annuity that they had felt that the Prudential Insurance had lied to them, cheated them, and in fact, one individual participant made a comment that he considered what Prudential had done to him as malfeasance.

I have with me, sitting to my left, one individual who was referred to me by her son. I sold a deposit term product to her. Her name is Mrs. Olga Zabe of Linden, New Jersey. She has been a Prudential policyholder for forty years.

In 1972 she was injured and has not worked since. Her contracts had clauses in them where the premiums were to be waived. Almost six years later her agent finally submitted the claim. He, by the way, was collecting her premiums in the house. Even though she was disabled for five years, she only had one year of her premium returned of the five. We have now been trying for two years to get this justified claim paid, and despite effort after effort and letter after letter to the company and its officers, to this date, this claim has not been settled, even though we have letters written by her attorneys and so on. I wish that a legislator in her area would look into this problem for this lady to see her and assist her in counseling to get this claim settled.

If we had to discuss the capabilities and compare the average deposit term salesman to the average traditional whole life salesmen, in both eduction, service, and knowledge, as before, on average, the deposit term agent would win out; and for every one case that you can give, i.e. deposit term or term agent, we will supply you with tens of cases against whole life or traditional whole life insurance agents.

Now, let's discuss the real problem, which again I would like to relate back to the meeting in the Insurance Department in 1978. It was presented that the real problem with deposit term wasn't the product itself, but the competition to replace the whole life policies traditionally sold by the large companies and the agents that represent the N.A.L.U. At the hearing held at the Department, it was agreed upon that this was the major complaint. There weren't massive complaints from policyholders. The complaint was that this product lent itself to replace the traditional whole life product in force in most homes.

It was stated at one of your hearings that the Prudential Insurance Company has had three to five thousand policies replaced in this State by deposit term. And, it was also stated that the Prudential Insurance Company does a lot of good things for the State of New Jersey. Example: The recent ice house for energy in Princeton, New Jersey. This was in an article that appeared in the newspapers. If you look further into this article, you will also note that the Prudential Insurance Company discusses its annual report, which stated that they earned twelve point four billion dollars last year, and their assets grew in one year by more than five billion dollars, to a new total record of fifty-four point seven billion dollars.

During 1980, when your average constituent could not buy a house because he could not afford it, maybe got laid off, and found that his pay check, because of tax and infaltion, did not go as far, this company increased their net worth by more than ten percent after paying all bills and expenses. What we are pointing out here is is that they are in business to make money, and there is nothing wrong with that and no argument with that, but what is wrong is they are now trying to use the legislature to eliminate their competition falsely, when their competition is, in fact, offering a better product than their traditional product which created this five point four billion dollar addition to the assets last year.

This is not the first time they have used their influence in certain matters. During the 1940's they were the chief lobbyists against social security benefits for widows and children because it obviously interfered with the amount of insurance they could sell.

They also lobbied against G.I. insurance and S.L.I for the military. In fact, they had been successful because it now is in control of their market.

They further lobbied against the savings bank life insurance and it is not allowed for sale in this state.

Now, their latest fight is deposit term. They are asking the legislators to eliminate their competition and give them monopolistic control over the sale of life insurance.

One one hand, when government agencies asked them to submit information about the minorities and women that they are hiring, they delayed amd never submitted information until eventually government has felt it necessary to cancel government contracts they had with them. These articles were all referenced in the Star Ledger.

Another article that appeared in the Star Ledger was, Prudential Chief Executive criticized the Federal Trade Commission for regulatory misuse, concerning how they run their business, and comments were made that they wished the government would stay out of free enterprise. And, then, on the other hand, self-interest group and large companies are influencing the legislators of this State to eliminate their competition with this proposed bill.

The last and most important problem that this product poses for the large companies is, for many years the sale of term insurance has really never been massive, and the main reason that it was not massive was because of the commission structure, and the compensation earned on the sale of term insurance. Therefore, for that reason, the public never saw it. There was no incentive to sell it. Now, with the sale of deposit term, the life insurance industry not only feels the loss of policies, but moreover many agents are realizing that they can now sell term insurance and come closer to making the money that they would have made by selling the traditional whole life insurance, and their fear is loss of their sales force.

There is one other most important bit of information that I would like to submit to the legislators for documentation. We have factual comparisons, called a Widow Study, where sales of so-called deposit term, or deposit term agent, or deposit term products, were made to individuals in the State of New Jersey in place of existing whole life, or cash value type of insurance, and subsequent death occurred. It resulted in claims of more than one point five million dollars as compared to the four hundred thousand dollars that these widows and children would have received if they had not been approached by a deposit term agent, for approximately half of what they were spending before for their other insurance. If we, therefore, look at it from a consumer's point of view, it is beyond me how we can consider that this bill is in the best interest of the constituents of the State of New Jersey.

I would like to add that my office is open and available to any legislators or anyone else who wants to come in and examine any or all records involving these sales.

Thank you very much for allowing me to make this statement. (applause)

ASSEMBLYMAN BORNHEIMER: Mike, do you have any questions? Once again, I want to remind you that we don't need cheerleaders, so keep your emotions to yourself because they do not affect us one way or the other. We are only here to get the facts, not cheerleaders.

ASSEMBLYMAN ADUBATO: Mr. Tomaro, I want to congratualte you on an excellent presentation, but I feel like a judge sitting here right now. It was something like a resentment a company, more than it was a presentment of a product. But--

MR. TOMARO: I apologize if that appeared to be that way, sir.

ASSEMBLYMAN ADUBATO: No, no apology necessary. You know, I am not defending anyone. I am just saying what it said.(laughter) Well, I apologize too. I am defending over seven million people in the State of New Jersey against unethical practices. That is what I am doing. I apologize. I stand corrected.

In your resume that you were kind enough to present to us, you point out that you spend your first ten years in the life insurance industry, as a debit agent, with Prudential. What did you feel about ten years of selling debit insurance?

MR. TOMARO: What do I feel about it?

ASSEMBLYMAN ADUBATO: Yes, what do you feel about it, and all those people you sold debit contracts to?

MR. TOMARO: I feel that--

ASSEMBLYMAN ADUBATO: Forgive me. Do you feel that you did these people a service?

MR. TOMARO: As compared to them not purchasing any form of insurance at all, yes.

ASSEMBLYMAN ADUBATO: In spite of the fact that any form of debit insurance is probably the least amount of value that the individual receives of any insurance product known to man, you still feel that you did these people a service? And, I am not belaboring that. My mother still has debit contracts. It is a habit, and I would not deny her the opportunity of sitting down and having a cup of coffee with the guy who comes around once a week on a

Saturday morning for that half a buck or that dollar. To her mental stability that means something -- okay? -- for the last 25, 30, or 40 years, or however long she has been doing it, and in spite of the fact that there is a 33 1/3% return over that period of time.

MR. TOMARO: Yes, if you will give me a moment to speak, Mr. Adubato, what I would like to refer to is that I was a debit agent, but I sold mostly the ordinary products. I personally believe that debit insurance should be totally eliminated for the very reasons you are describing.

ASSEMBLYMAN ADUBATO: So do I.

MR. TOMARO: Yet, they are still--

ASSEMBLYMAN ADUBATO: I am glad to see there is something we agree on.

MR. TOMARO: Yes. Yet, they are still on the books, and that allows the competition to manifest this.

ASSEMBLYMAN ADUBATO: What I am trying to say is that times change, values change--

MR. TOMARO: Absolutely.

ASSEMBLYMAN ADUBATO: (continuing) --and those debits that we can criticize today and say they should not be allowed, if it were not for the availability of that product, I wouldn't have had any life insurance because my parents couldn't afford anything else --

MR. TOMARO: That is an excellent point.

ASSEMBLYMAN ADUBATO: (continuing) --except that quarter or that fifty cents. What I am trying to say is, as bad as that product looks to us today, it served a purpose.

MR. TOMARO: Absolutely. I agree.

ASSEMBLYMAN ADUBATO: That's all I am saying; I am not defending the product. When we talk about banning, you spoke about people wanting to ban the product, let me say that as one legislator, I am not looking to ban anything. Two, we talked about conversions. One of the previous speakers brought up an interesting point, and I want to know what your feelings are about it. Although I don't agree in toto with what he said, that the first agent should be the agent of record and get the commission in spite of the fact that he doesn't have the product, one of the things that he did bring out is interesting in that, assuming the person, first of all, is still insurable and there are no problems-- Because he can't convert with another company if he does have an insurable problem; we are allowing him to convert with a company that sold him the deposit term product, regardless of insurability, isn't that correct? In other words, he doesn't have to take an exam; it is an automatic conversion.

MR. TOMARO: The company can request an examination if he is going to a lower premium; that is by contractual term.

ASSEMBLYMAN ADUBATO: Right. But, that is in any situation.

MR. TOMARO: Yes.

ASSEMBLYMAN ADUBATO: That's in any situation.

MR. TOMARO: That is correct.

ASSEMBLYMAN ADUBATO: If a person had an endowment and went to a whole life situation, he would have to prove insurability.

MR. TOMARO: What I think you are referring to, Mr. Adubato, is that it is advantageous possibly to consider going back to his first company instead of going to someone like us, who is coming in to do a replacement.

ASSEMBLYMAN ADUBATO: Forgive me for interrupting. I am not defending that. I am sorry if I mislead you. I am not defending his right to have the policy or not have the policy. I am only talking about the individual who is the purchaser of the product. Forget the agent for a minute.

MR. TOMARO: Okay.

ASSEMBLYMAN ADUBATO: That individual with the profile - correct me if I am wrong - is the individual you are talking about. We are not talking necessarily about a corporate entity, are we? We are not talking about for the most part, a person who is in a business situation.

MR. TOMARO: If I could correct you and if I could categorize it, I would say that we are talking about circumstances existing of higher priced contracts where this is volitile.

ASSEMBLYMAN ADUBATO: What I am trying to get at is--

MR. TOMARO: It could be any entity; it could be corporate or it could be individual.

ASSEMBLYMAN ADUBATO: Okay. But, you know, in all deference to that statement, you know at the last public hearing we had there was a gentleman here who represented Firemen's, I belive very eloquently. He stated, for the record, that they really are not going and soliciting corporate clients with this product. That was his statement; not mine.

MR. TOMARO: Okay, but you cannot attribute his statement to me. I am speaking here as an individual.

ASSEMBLYMAN ADUBATO: No, I'm just saying that was his statement.

MR. TOMARO: Yes. Okay. But, it has nothing to do with my statement.

ASSEMBLYMAN ADUBATO: You know, it happens to be a person who I understand makes about a million dollars a year in income in the industry, and who is stating for the record that he doesn't deal - his people for the most part do not deal with a corporate entity. For the most part, they are dealing with working people. I mean, I don't know if I am on safe ground saying that, but it appears we are not talking about the industrialist or the corporate president or people like that; we are talking about people who work every day, who are on a fixed income for the most part.

MR. TOMARO: Well, if I could interrupt you, sir, for a moment, just the other day I delivered a case to one of the General Executives at Johnson and Johnson, so, again, it depends on the circumstances.

ASSEMBLYMAN ADUBATO: I agree. There is always an exception to the rule.

MR. TOMARO: Right.

ASSEMBLYMAN ADUBATO: I'll accept that.

MR. TOMARO: What I am saying is, where the product is applicable in certain situations, it can be anywhere, not in one specific situation.

ASSEMBLYMAN ADUBATO: I don't want to belabor it, but I was trying to get you to agree that - if it is not true, you shouldn't agree - your profile, the people to whom you are selling, would you say that 80% of them are not corporate people? What I mean by corporate people-- You know what I am asking.

MR. TOMARO: I never kept records, exactly, as to percentiles.

ASSEMBLYMAN ADUBATO: Oh, okay. Well, I do, so I don't want to--

MR. TOMARO: Okay. Because it is not relevant. What is important is he is the consumer.

ASSEMBLYMAN ADUBATO: You're right. Let's get back to conversions. The question is this: If a person goes from a whole life situation-- And, I assume, because all the documentation that I have heard at two meetings now is comparatives with whole life, it is pretty fair to say that is what we are dealing with, because that is all that was attacked here.

MR. TOMARO: If we could--

ASSEMBLYMAN ADUBATO: Let me finish.

MR. TOMARO: Oh, I'm sorry.

ASSEMBLYMAN ADUBATO: We are talking about an environment, where an individual, for the most part, has a whole life product and you are going in and you are showing him where he can take that equity and that situation for the most part and transfer it over here - whatever that product is with the different variables in deposit term. You are saying, "this is what you are getting now, and this is what we will give you." I hope you are saying, "this is what will happen in ten years if you stay where you are at, and this is what can happen if you move over here." All right? Then, you are saying that at the end of that time period of ten years he has an option -- every ten years; every decade -- to either roll this over again into term insurance - and the by product - or modified, or whatever you want to call it. But, basically, in principal that is what you are doing. You are rolling it over again at his option, either to term insurance, plus your side fund, or you are saying you can convert this to whole life. Is that a fair statement?

MR. TOMARO: Mr. Adubato, I don't know if at this time you are making a statement or asking me questions. There is much discrepancy in some of the things you just related to me. First of all, the client does not have to wait ten years to make an exchange, and there are many other discrepancies. I don't have a tape recorder here, so you are asking me to answer a statement, and I don't know whether it is a question or not.

ASSEMBLYMAN ADUBATO: Don't be alarmed, this isn't on.

MR. TOMARO: It don't bother me at all, in fact--

ASSEMBLYMAN ADUBATO: I am using it because it also has a calculator and I just wanted to double check any math I had to do, because I am not too good at it.

MR. TOMARO: I have been recorded many times, Mr. Adubato.

ASSEMBLYMAN ADUBATO: You are being recorded, so don't worry about it, in two places; so I don't need a tape recorder.

MR. TOMARO: Good.

ASSEMBLYMAN ADUBATO: But, I am not here to split hairs with you.

MR. TOMARO: I understand that, but sometimes--

ASSEMBLYMAN ADUBATO: Allow me to finish. I will say that what I have seen from what has been presented here, whether he can do it before ten or after ten years, that the normal illustration projects a ten year period. Is that a fair statement?

MR. TOMARO: That is not a fair statement.

ASSEMBLYMAN ADUBATO: What do you project?

MR. TOMARO: It can be projected at any time. It can be projected for ten years--

ASSEMBLYMAN ADUBATO: I am not saying that it could be.

MR. TOMARO: (continuing) --twenty years, age 65.

ASSEMBLYMAN ADUBATO: I'm not saying it could be, I am saying what do you project?

MR. TOMARO: What do I project?

ASSEMBLYMAN ADUBATO: Yes, you, in your presentation. What do you project?

MR. TOMARO: Mr. Adubato, to fairly answer you, before we accept money from a client when we market our product, I spend five hours with them, and I can document it with all of my clients. Now, if you wish to take the five hours in order to give this justice, I would be more happy to spend it with you.

ASSEMBLYMAN ADUBATO: Mr. Tomaro, I realize - and no ill respect meant-- I never sold a debit; I never sold an endowment; I never sold a retirement income contract. I have sold many, many whole life contracts, and I have sold many, many term products, but that is my prerogative to do the best I can for my individuals, and you are entitled to yours.

MR. TOMARO: I--

ASSEMBLYMAN ADUBATO: What I am saying to you is simple. I am saying that if you give people an option-- There is an option, is that a fair statement? Somewhere along the line there is an option?

MR. TOMARO: An option to do what, Mr. Adubato?

ASSEMBLYMAN ADUBATO: To change the policy?

MR. TOMARO: There are many options, yes.

ASSEMBLYMAN ADUBATO: All right. Now, in that option, one of those options is to convert to whole life, is that a fair statement?

MR. TOMARO: Yes.

ASSEMBLYMAN ADUBATO: All right. Now, when that person converts to whole life, and assuming he does it - not that he has to - ten years down the road, he is ten years older, isn't he?

MR. TOMARO: Yes, sir.

ASSEMBLYMAN ADUBATO: His premium, as opposed to the life insurance he had, is based on a mortality table, scientifically gathered - as we all know - where his premiums, even with that same company, are going to be increased because of the fact that he is ten years older, isn't it?

MR. TOMARO: Mr. Adubato--

ASSEMBLYMAN ADUBATO: Wait, is that a fair statement?

MR. TOMARO: That is not a fair statement. Let me give you--

ASSEMBLYMAN ADUBATO: Well then I don't--

MR. TOMARO: Let me give you--

ASSEMBLYMAN ADUBATO: Forgive me, I don't want to question--

MR. TOMARO: Mr. Adubato, I would like to make a statement to answer that question.

ASSEMBLYMAN ADUBATO: All right, go ahead.

MR. TOMARO: Consumers Union, Consumers Digest, and Consumers Report have made the following statement, and this is a factual statement: "No matter what type of insurance contract you purchase, the cost for the insurance element rises each and every year." I can document and prove this to anyone in this audience or anybody, any time, any place. It rises in every contract, so you are taking that out of context. No matter what, if he bought a whole life, if he bought an endowment, no matter what kind of contract he bought, the insurance element - the cost of that - will rise in that contract.

ASSEMBLYMAN ADUBATO: Well, I realize--

MR. TOMARO: That is positive proof.

ASSEMBLYMAN ADUBATO: You know, I don't want to argue with you.

MR. TOMARO: I don't consider this an argument.

ASSEMBLYMAN ADUBATO: You made some statements that I thought were very flagrant, but you are entitled to your opinion, not only about a company in the industry, but about the agents who are in the life insurance business and who believe in what they are doing, just like you believe in what you are doing. When you talk about the ability of people, and you question their education, I don't know what standards you are using, number one, to question education. I don't know if you are talking about life insurance courses when you question people's education, if you are talking about people who have been in the L.U.T.C. program and the C.L.U. program, or if you are talking about people who are selling on the stock market or who are selling mutual funds and misrepresenting it with life insurance. I don't know what you are talking about.

MR. TOMARO: I don't know, Mr. Adubato, if you are making a statement or if you are asking me a question.

ASSEMBLYMAN ADUBATO: When you question tradition, and you make the statement that you can prove that people who sell deposit term are - in both education, service, and knowledge - above those people who are selling life insurance and the traditional method, and say that you are above them, I think that is a very distorted statement, unless you can document something that you haven't documented here.

MR. TOMARO: Mr. Adubato, what I would like to say is I made that statement in the same text that you made your statement, and from the same direction that the rest of the legislators are looking upon the deposit term salesmen. From my observations, being an agent for 22 years, observing both the people who market the deposit term product in general and observing the people who market, the N.A.L.U. representatives and the traditional life insurance agents, that is what I am making my statement based on -- that observation, and on actual cases of policyholders. Again, I throw open to this committee and to this legislature documentation of blind people paying premiums. I will document case after case of disabled people who continue to pay premiums, and death claims going unpaid. I have this information. I offer this legislature and anybody else this information.

ASSEMBLYMAN ADUBATO: Forgive me for interrupting you, Mr. Tomaro. I realize that time is running short, and I would just like to make a statement, Mr. Chairman, after you have asked any questions you may have. I have no more questions.

ASSEMBLYMAN BORNHEIMER: I just want to ask Mr. Tomaro a question. Are there any disadvantages in purchasing deposit term insurance?

MR. TOMARO: Yes, sir.

ASSEMBLYMAN BORNHEIMER: Would you recite some of those for me, please?

MR. TOMARO: As was stated in prior statements before me, if the contract is lapsed in the early years, there could be forfeiture of the additional first year premium, and that is a negative. This also, again, if we look at the legislation-- And I have no argument, quite frankly, with banning deposit term. My argument really is I believe that whole life insurance should be banned and that this bill should be amended, and then we are really doing something for the consumer, if we go strictly to annual renewable term. Because I agree with Mr. Adubato, it is the best buy. The problem is that if we take compensation out of the product, it won't get sold, and that is what you are attempting to do. Right now, I am being - you know, with this regulation - put into a category, and also I am not going to be able to market a product that I feel, in comparison to many products that you are not proposing legislation for, should be allowed. That is my thought.

ASSEMBLYMAN BORNHEIMER: Is there any other disadvantage, other than the one you just stated, about forfeiture?

MR. TOMARO: Are there any other disadvantages?

ASSEMBLYMAN BORNHEIMER: Yes.

MR. TOMARO: If you have a specific I--

ASSEMBLYMAN BORNHEIMER: Well, specifically, as Mike was alluding to before, in other words, based upon insurance, if you had a whole life policy and it continued in existence, you don't have to take out a new whole life policy. When you kill the old policy and take out a new term policy with a rider for a possible conversion to a whole life policy, that whole life policy is going to be based on that year's actuarial age -- what year will that be, at the end of the tenth? Or will it be based on when you take out the original term policy?

MR. TOMARO: I'd like to answer your question. It will take just a quick explanation. The true cost on a whole life contract, whether we take stock, or a participating company, or a cash value policy, should be calculated by the premiums paid, plus the lost interest on reserve held by the company, subtract from that the dividend and then you will receive the true cost. As this cash value continues to build in the contract, this cost becomes greater. If we apply that to what you just mentioned to me, Mr. Bornheimer, if we surrender the cash value policy and take that reserve that was built up with the company and place it in another document upon which interest could be earned, it will in almost every case, in fact in every case that I have ever done, come out much better for the client, if we actually, in fact, did that.

ASSEMBLYMAN BORNHEIMER: Now, back to the original question I asked you.

MR. TOMARO: Yes. I hope that answered it.

ASSEMBLYMAN BORNHEIMER: What will be the amount of premium paid by an individual who has given up his old policy, taken a term policy with a rider, and now at the end of -- whether it is five, seven, eight -- whatever period it may lapse, what will be the rate of premium charged to that individual when he decides to go into a whole life policy again? Will it be higher than it was originally? Most likely it will be higher than the original policy he had. Will it be higher than when he purchased the term policy?

MR. TOMARO: It will be higher, as it would be in every single circumstance, no matter what company or what--

ASSEMBLYMAN BORNHEIMER: Do you have any idea how much higher?

MR. TOMARO: It depends on the company, their rates, and the age; they can vary to great degrees.

ASSEMBLYMAN BORNHEIMER: If you looked at a table book right now, and say I had an individual and I said to him, "Today you are 35 and it will cost you 'x' amount of dollars; ten years from now you will be 45 and it will cost you 'x' amount of dollars." What would the dollar span be between those two age categories?

MR. TOMARO: Again, that can vary. It depends on whether it is a par or a non-par company, whether it be stock or mutual. The cost for the mutual company would be about 30% or 40% higher than a stock company.

ASSEMBLYMAN BORNHEIMER: But, in all cases it would be higher if the person were older?

MR. TOMARO: Yes, as it is with every single contract that you buy, no matter when you buy it or no matter how long you keep it; the cost rises.

ASSEMBLYMAN BORNHEIMER: Thank you. Do you have any other questions, Mike, or do you want to make a statement?

ASSEMBLYMAN ADUBATO: It is not a question. I want to say, first of all, Mr. Tomaro, while I don't agree with you on most of the things, I think, based on your presentation - even though it was emotional, as I can be emotional at times--

MR. TOMARO: I understand that, sir.

ASSEMBLYMAN ADUBATO: Because you have a conviction.

MR. TOMARO: I think we come from the same nationality.

ASSEMBLYMAN ADUBATO: Don't let everyone know that because then they will accuse me of being kind to you, because I am sensitive to that.

MR. TOMARO: I don't think we have to worry about that, sir.

ASSEMBLYMAN ADUBATO: I think you are a very sincere individual, I want that on the record, and you are entitled to your views, and we are entitled to our differences. May of the things that you spoke about, quite frankly, I am not happy with. I do not mean to disinfranchise anyone, because I have a lot of respect for the people in the industry, believe me. But, just for the record, so you may be aware, I don't belong to any insurance organizations.

MR. TOMARO: I don't either, sir.

ASSEMBLYMAN ADUBATO: For the past 13 years I have not been a member of the N.A.L.U. or the million dollar round club, for which I am qualified, and so forth and so on -- not because it is bad, I just don't belong. I am a little bit of a maverick in a lot of ways, but that doesn't mean that I don't respect them and what they are doing, or that I don't respect you.

The one point I wanted to make, without accusation and without emotion, I think is a fair point, and I could be wrong. But, from where I am sitting, it appears to be fair to say that no matter how you do it, once you eliminate that policy - and I am not saying that some policies shouldn't be eliminated necessarily - you are dealing with an individual who bought a policy, regardless of what company it was with,regardless of whether it was a stock or a mutual company, and the policy has been in effect for quite a bit of time. You are dealing with a different set of rules and figures, with mortality tables, number one, with longer life expectancy, and those policies were never changed, which I resent -- you see? But, in addition to that, things being as they are today, is there any kind of consideration given to the individual? I will get back to that point of conversion. I am not arguing cost of insurance. Not only is it a fact that he is ten years older, as I tried to say before, but when he converts, and as long as he converts to a higher form of insurance he doesn't have to prove insurability, as we agree, but he is restricted in only converting, if he can't prove insurability, to that company and that company's equity growth, that company's cost of doing business, that company's cost of whatever $1,000 worth of life insurance is worth. I don't want to question the company you are with, except to say that I think your premiums are too high for a man at age 35, respectfully. But, in addition to that, what I am saying is, that person doesn't have, as in any situation, the opportunity to shop and say, "I want to convert with this company because I want to get a lot more value for my money." He is restricted there. He is in that box. He has to stay with that company when he converts. Fair statement?

MR. TOMARO: Are you talking about from an insurability point of view?

ASSEMBLYMAN ADUBATO: Right.

MR. TOMARO: Oh, I agree with you.

ASSEMBLYMAN ADUBATO: Fair statement.

MR. TOMARO: No one can convert his contract if he is not--

ASSEMBLYMAN ADUBATO: I don't want to argue with you. It is a fair statement?

MR. TOMARO: Yes, it is a fair statement.

ASSEMBLYMAN ADUBATO: When we look at interest rates today, and we look at the fact that while these other inequities exist in old contracts, we should not forget that most of those policies that are being turned over, if you will, are contracts that have a guaranteed interest rate if the individual were to borrow maximum at 5% and 6% interest, is that a fair statement?

MR. TOMARO: No, it is not, Mr. Adubato. And the reason--

ASSEMBLYMAN ADUBATO: It is not?

MR. TOMARO: No.

ASSEMBLYMAN ADUBATO: Well, then help me.

MR. TOMARO: All right. Let me help you, sir. The reason why is that the policyholder in that type of contract contributed to this fund that he is now borrowing, therefore he is, in essence, paying interest to borrow his own capital. When we go to a bank and we borrow money, we are borrowing the bank's capital. In this situation you are borrowing your own capital and paying interest on it.

ASSEMBLYMAN ADUBATO: Isn't that the same case with the contract you are selling? Isn't he borrowing his own capital if he borrows the money?

MR. TOMARO: Our contract, in the marketing approach-- Again, we didn't take the five hours to explain this, but I would be glad to do that with you, sir.

ASSEMBLYMAN ADUBATO: I am saying when he converts.

MR. TOMARO: Its intention has nothing to do with borrowing from the contract. It is to be maintained on a term basis. There are other vehicles that we recommend to our clients to place their assets in, other than insurance policies. In fact, that is the very reason why we believe our concept is better than the traditional whole life plan.

ASSEMBLYMAN ADUBATO: Mr. Tomaro--

MR. TOMARO: He doesn't have to borrow, or give up his contract, to get the money.

ASSEMBLYMAN ADUBATO: Mr. Tomaro, in very limited situations I might even agree with you -- in very limited situations. Here is the thing that we are unable to discover here. I wonder how many people who are selling deposit term have ever had the opportunity to set up a trust. I wonder how many people who are selling deposit term have ever worked on a estate planning.

MR. TOMARO: Well, you are looking at one that does, sir.

ASSEMBLYMAN ADUBATO: I am just wondering.

MR. TOMARO: I can't speak for everybody else, sir.

ASSEMBLYMAN ADUBATO: I am just wondering how many people have sold insurance to individuals who needed insurance for tax purposes - permanent insurance.

MR. TOMARO: Why can't it be term?

ASSEMBLYMAN ADUBATO: Pardon?

MR. TOMARO: Why can't it be term insurance?

ASSEMBLYMAN ADUBATO: Oh, it can be term.

MR. TOMARO: I do much estate planning, sir, and I use term insurance.

ASSEMBLYMAN ADUBATO: It can be term, but term is limited; it is term. There is a point in time--

MR. TOMARO: Is term to one hundred limited?

ASSEMBLYMAN ADUBATO: There is a point in time, with a cost factor -- because you are interested in cost factors, aren't you?

MR. TOMARO: Yes, sir.

ASSEMBLYMAN ADUBATO: Aren't you interested in cost factors?

MR. TOMARO: Yes, sir, I am.

ASSEMBLYMAN ADUBATO: Well, that smart-assed statement about term to one hundred, if you want to compare that with me at any time, I will be delighted to compare the cost. If you want to compare the cost of term insurance and an individual aged 65, or 70, or 80, I would be delighted to compare it with you in an analysis, if that is what you are suggesting.

MR. TOMARO: Mr. Adubato, I think you are losing control of yourself.

ASSEMBLYMAN ADUBATO: No, I'm not. No, I'm not. What I am saying is that you are suggesting that term insurance is always the cheapest way to go for the individual.

MR. TOMARO: I did not say that, sir.

ASSEMBLYMAN ADUBATO: Oh, then I stand corrected. I thought that was what you were saying.

MR. TOMARO: No. Sometimes, sir, no insurance is applicable when it is old. When people have built adequate reserves to provide for their families, they don't need any insurance, and many people are still paying for it.

ASSEMBLYMAN ADUBATO: Well, again, Mr. Tomaro, I don't think anyone wants to restrict anything. I think that you are, like all of us, a product of your experience and a product, like all of us, of your exposure. And, unfortunately, in your first ten years in our industry, which I think has nothing to apologize for, you were selling the worst product for ten years that has ever been known to man in the life insurance industry--

MR. TOMARO: That statement, Mr. Adubato, is not accurate.

ASSEMBLYMAN ADUBATO: (continuing) --and that is why I think you have a very negative attitude about life insurance, and you are entitled to it.

MR. TOMARO: I am sorry, sir, that last statement you made is not accurate. That is your statement. I would like to conclude by saying one thing, unless you have another question. My concluding statement is, a moment ago you paid me a compliment, Mr. Adubato, and I know you meant it and I wish to--

ASSEMBLYMAN ADUBATO: I meant it; I still mean it.

MR. TOMARO: (continuing) --publicly thank you for it. However, it does not change any of my statements or my thinking that I provided for this legislature and for this hearing.

I again thank you for allowing me to make my statement. Thank you very much.

ASSEMBLYMAN BORNHEIMER: It was our pleasure.

We will break now for lunch, and we will come back at approximately 1:15 to reconvene this hearing.

(lunch break)

AFTER LUNCH

ASSEMBLYMAN BORNHEIMER: We will now reconvene the hearing. The next person to testify is Burnett Halstead.

B U R N E T T   A.   H A L S T E A D, JR.: My comments are made on behalf of two Kemper Life Insurance Companies: Federal Kemper Life Assurance Company and Fidelity Life Association. Both companies are licensed in New Jersey and both companies write policy forms that would be adversely affected by Bill 2001. The comments, which were presented in writing on November 12, 1980, have been modified to reflect events which have occurred since then.

I am a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries and a C.L.U. I am a member of the Actuarial Committee of the American Council of Life Insurance, and was a member of their Task Force assigned to solve one of the problems addressed by Bill 2001.

In our opinion, the bill addressed two problem areas which are: One, Advertising on additional first year premium policies; and, two, the "pegged cash values" problem.

While we have no basic objection to the advertising solution in 2001, we believe the solution proposed by Commissioner Sheeran, which appears in the New Jersey Law Journal, dated January 8, 1981, is a better and a fairer solution. Also, it is more appropriately handled, as the Commissioner suggests, as a regultion rather than as a law.

We believe the solution proposed in connection with the pegged cash value problem is not appropriate. A satisfactory solution was developed by the industry and adopted by the NAIC at its December meeting. We believe 2001 should be amended to reflect this uniformly agreed-to solution.

We have redrafted Bill 2001 to eliminate the advertising language, and to amend the cash value language. This assumes the Commissioner's regulation would be used to solve the advertising problem. A copy of the proposed new bill is attached.

We have also attached illustrative numbers which show cash value results for the first 10 policy years for a typical additional first year premium policy issued at age 45 and providing pegged cash values. The numbers compare the minimum values allowed, one, under the current law; two, under Bill 2001 as currently drafted; and, three, under Bill 2001 as we propose amending it, that is the solution adopted by the NAIC. I might also say as adopted in Senate Bill 3042 as well. The numbers illustrate the compromise nature of the NAIC method.

In summary, we appreciate the fact that you are addressing these problems. We belive that there are better and more acceptable solutions to these problems than the solution currently in Bill 2001. We have provided the language for such a solution and hope you will consider it.

We appreciate this opporutnity to express our views.

ASSEMBLYMAN BORNHEIMER: Thank you very much. Do you have any questions, Mike?

ASSEMBLYMAN ADUBATO: No questions.

ASSEMBLYMAN BORNHEIMER: The next person we will hear from will be John Corica. (no response) The next person we will hear from then will be Martin J. Moran, consumer.

MARTIN J. MORAN: Members of the Committee, thank you very much for giving me this opportunity to speak to you. My name is Martin Moran. I am a resident of Turnersville, New Jersey, Gloucester County. My occupation is sales manager for an electronics distributer, and you are probably wondering what I am doing here. Well, I am here as a consumer. My agent asked that I take the day off. I thought that I would only be taking the morning off, but it looks like I am taking the day off to come here and speak on behalf of the policy that I bought from my agent. From my understanding of what this bill stands for, I would like to express my opinion as a consumer.

I am presently a deposit term policy owner, and have owned this policy since 1976. From 1960 through 1974, I had purchased five cash value policies and it wasn't until 1976 that my present agent took the time to explain to me and my wife and children the benefits of separating my savings from my insurance. This was never explained to me when I had whole life insurance. In fact, to be quite honest with you, I only buy life insurance for one reason, as protection. I have six children. They need money if I die in order to continue living. That is the only reason I buy life insurance, and I think I speak on behalf of most consumers. They do not know what they are buying, nor did I, because I think in most cases they don't have the time to understand the policies that they have; they are ambiguous; and most times it is explained to them in what I call "insurancese."

Now, there is a reason why I switched. Not only did I get more coverage on myself and my children and my wife, but I was able to save approximately fifty percent of the cost. I received over $2,000 from my cash value policies, which now have been put to good use. In other words, I control the $2,000, not someone else.

At this time, I would like to take the opportunity to relate to you an experience that I had when I wanted to surrender my cash value policies. And, I don't think it is that important that I mention any companies. When I called them and told them what I wanted to do, I was told that the correct forms could not be miled to me, that I had to take time off from work, for their convenience, and go to a branch office, bring my policies, and my payment book. Well, I did that, and after doing this, I was faced with the procedure that only the Branch Manager could handle the surrendering of policies. Apparently it is not a routine thing. By the time I got to see the Branch Manager, he stated that I was making a very grave mistake and he wanted to know if I understood the consequences of surrendering my cash value policies. I told him that I did, and I showed him the comparison. He said no more, and he just continued on to give me a sales pitch, which I don't think was to my interest but to his.

It is my understanding that the bill before you would have two negative consequences to the consumer. One is marketing the product and the other restriction would be that this product would be unavailable to the consumer.

Well, as a consumer, I am in favor of making available proper sales materials and more information that would help me, and not only me but all of us, to comprehend what we are purchasing. To make any product unavailable to the consumer for the sole purpose of the convenience and profitability of some insurance companies, would have a direct adverse effect on all of us as consumers.

Gentlemen, I am wholeheartedly recommending the defeat of this bill for that purpose. I will be glad to answer any questions you may have, but I cannot say I am an expert in the insurance field.

ASSEMBLYMAN ADUBATO: I would like to make an observation. You may not be the expert, but you are the reason why we are all here. I think that is the issue -- you, not the insurance companies who have one approach, or the agents who have another approach, but how you are affected, period.

What I would like to ask you, Mr. Moran is, when you were shown a comparative of what you had purchased - and I believe you said you had five separate policies--

MR. MORAN: Yes, I did.

ASSEMBLYMAN ADUBATO: And you were shown a comparative as to what value you would be getting by switching to another form of insurance. Were you given an opportunity - because I agree with you, quite frankly, basically, that insurance is primarily for one purpose. Primarily it is to provide protection.

MR. MORAN: Correct.

ASSEMBLYMAN ADUBATO: With that in mind, when you were shown this comparative with the equal amount of dollars, as you pointed out, that you were putting out -- you know, you said you saved 50% of your outlay.

MR. MORAN: Approximately 50%.

ASSEMBLYMAN ADUBATO: Yes, but you saved money -- considerable money--

MR. MORAN: Absolutely.

ASSEMBLYMAN ADUBATO: (continuing) --for the same amount of protection, if not more, than you presently had.

MR. MORAN: That's correct.

ASSEMBLYMAN ADUBATO: Were you shown a comparative of buying straight term insurance, or a product that is known in the industry strictly as term insurance?

MR. MORAN: I was shown, to my knowledge, deposit term. I don't know what deposit term is. All I know is, I purchased term insurance and got more coverage, and it didn't cost me more.

ASSEMBLYMAN ADUBATO: I can appreciate that. Right. Well, were you shown a product-- Let me back up and ask it this way: were you shown a product where your would be putting out 'x' amount of dollars with no equity build-up, just protection, which, as you pointed out, is the most important thing to you? Were you shown that kind of a product?

MR. MORAN: I believe so.

ASSEMBLYMAN ADUBATO: You belive so, but you are not sure.

MR. MORAN: I was shown a term insurance policy that would cost me so much per year over a certain period of time. I knew what I was putting out annually for whole life. He increased my coverage and I am paying less.

I realize about the cash value and it was not important to me to have cash value at that time.

ASSEMBLYMAN ADUBATO: I agree with what you are saying. You see, I don't want to be accused of using insurance legalese either. I want to just try to understand a little better. That is why we are all here up at this table, to try and understand how an individual who says-- It is obvious you are an intelligent being and you don't have to know insurance to appreciate all the statements you made because you are right on target about the purpose for insurance. I agreed with you before. That $2,000 that you took out in equity, what did you do with it?

MR. MORAN: I invested it.

ASSEMBLYMAN ADUBATO: Did you invest it on your own?

MR. MORAN: I don't understand your question.

ASSEMBLYMAN ADUBATO: Well, did that money go to the person in some way, shape, or form who was selling you the new product?

MR. MORAN: No.

ASSEMBLYMAN ADUBATO: None of that money went there?

MR. MORAN: No.

ASSEMBLYMAN ADUBATO: You were just dealing not with the cash surrender value then, you were dealing in your comparative with the amount of premium or outlay, if you will, that you were putting out? When the comparative was made that showed you so much more, not only in protection but in return, the analysis was only made on your outlay of premium dollars and had nothing to do with that $2,000 projection as to what it would grow to in 10 years?

MR. MORAN: I am not sure if I can answer that.

ASSEMBLYMAN ADUBATO: That's fair. What I am trying to get at is, number one, regardless of whether you are switching or not switching, you had five separate policies, and at the time you bought those policies evidentally you wouldn't have bought them if you didn't think they were something you wanted to pay for -- at the time you bought them. Is that a fair statement, or do you feel they were misrepresented to you?

MR. MORAN: I bought insurance policies because I knew I had to have insurance.

ASSEMBLYMAN ADUBATO: Okay.

MR. MORAN: I bought an insurance policy from a certain company because my mother and father had bought from that same company.

ASSEMBLYMAN ADUBATO: Okay.

MR. MORAN: I remember the debit man coming around also, but no one has ever sat down with me and explained what I bought, why I bought it, or what it is doing for me. My present agent did that; he showed me where he could save me money, and on that basis, and on that merit, I decided to switch.

ASSEMBLYMAN ADUBATO: All right. I can't refute the fact that you bought five policies and you were paying five separate policy factors automatically that had no value, except administrative costs to begin with. You know, you were paying maybe $10 or $15 per policy for nothing every year -- every year, because of the mere fact that each policy has the policy factor. So, right there you had a cost that had no return.

The one thing that I wanted to say to you, Mr. Moran, is not to convince you of anything, either way, except to say to you that if you have improved your situation and you feel a confidence in the agent that you are dealing with, until you have reason to believe otherwise, I think you are doing the right thing for yourself. In spite of the fact that some people may think that it is not to your interest, it is not for me to judge and it is not for anyone else to judge. If you feel better about what you have done, maybe five years from now or ten years from now, you may feel a little different. That is possible, and I say that to you not with tongue in cheek, but to say to you that if you changed for whatever reason, five or ten years down the road from now you may say, "Why the heck didn't I just buy term insurance and buy protection, like I wanted to? What do I care what the agent makes in commission, whether he sells me whole life or whether he sells me deposit term; I am interested in my six kids."

MR. MORAN: That's correct.

ASSEMBLYMAN ADUBATO: What I am suggesting to you is that if we are going to compare equal dollars for equal value, you may question your agent and ask him if you could get more protection for your family if he sold you a product called annual renewable term, and not necessarily with the company he represents, maybe with another company that could be as much as 70% or 80% cheaper. Because if that is the bottom line we are looking at, I want to say to you that the bottom line, as far as I am concerned, is that there are approximately 1500 life insurance companies in this country and I don't know all of them and I don't know all of their products.

MR. MORAN: Well, if you are in the business and you don't know them--

ASSEMBLYMAN ADUBATO: How could you know? But, what I am saying to you is, you are lucky and fortunate enough that you have an agent you have confidence in today. And, with that confidence I would ask you to ask him that question -- if you can get more protection. I don't want to get into a big dissertation here. But, for your interest, and your protection, and your value, I would suggest that you ask him if you can get more protection for your six children if you buy a term product -- a pure term life insurance policy, and take the difference of your money and even put it into a savings and loan bank.

MR. MORAN: What you are saying may be very true. I am the last person in this room that could argue with you, or even debate or discuss that subject with you. I am here for one reason. I am a satisfied consumer of what I bought. I understand you are going to introduce a bill to do away with that product, is that correct?

ASSEMBLYMAN ADUBATO: No.

MR. MORAN: Well, that is my understanding.

ASSEMBLYMAN ADUBATO: No, what the bill does is mandate that the people selling that product would do more in the way of disclosure of what the product is, and that is what this argument is all about.

MR. MORAN: I was under the impression that you were going to--

ASSEMBLYMAN ADUBATO: It does not eliminate the product.

ASSEMBLYMAN BORNHEIMER: No. There was an assumption made by some people that that is what was going to happen.

ASSEMBLYMAN ADUBATO: All it says is that you are entitled to more information, to know what you bought.

MR. MORAN: Well, I certainly got a lot of information on what I bought and that is one of the reasons why I bought it.

ASSEMBLYMAN ADUBATO: Well, then, there should be no problem in disclosing it publicly. That's great.

ASSEMBLYMAN BORNHEIMER: We appreciate your coming, sir.

MR. MORAN: Thank you very much.

ASSEMBLYMAN BORNHEIMER: I'm sorry you had to lose the whole day.

MR. MORAN: Thank you.

ASSEMBLYMAN BORNHEIMER: John Johnson.

ASSEMBLYMAN ADUBATO: Oh, by the way, Mr. Moran, before you leave, with that unfortunate experience you had in getting those contracts, the present agent that you are doing business with, all he had to do was send a letter with your signature to that company and tell that company, whichever one it was, to disclose whatever information that he wanted on those policies, or send those policies, and they would have done it. And, if they didn't do it, then they would have a big problem. You do not have to lose a day's work for anybody.

MR. MORAN: I will discuss that with him.

ASSEMBLYMAN BORNHEIMER: John Johnson.

J O H N J O H N S O N: May it please the Committee, my name is John Johnson. I am a licensed insurance agent with Metropolitan Life for 15 years, since 1965. I am currently the President of the Ocean County Association of Life Underwriters, and I am here today to simply voice my opinion on behalf of my membership of 90 members for the support of Assembly Bill no. 2001.

Our Association feels that this bill will be a step in the right direction, to maintain and enhance the professional nature of life insurance in the State of New Jersey. With respect to the fact of time, I simply ask that his Committee consider and, hopefully, act favorably on Assembly Bill 2001. Thank you for your time.

ASSEMBLYMAN BORNHEIMER: Thank you very much.

Thomas Phillops. (no response) Ray Reed.

R A Y R E E D: My name is Ray Reed. I represent the New Jersey Fraternal Congress. I am a licensed agent in the State of New Jersey, and my message will be very brief.

The purpose of the New Jersey Faternal Congress is to act as a watchdog committee to review bills promulgated in the Legislature which may be detrimental to the members of our socieity. We have 37 societies in the State of New Jersey, reflecting membership of 250,000 members. We are in strong support of Bill A-2001. Our only problem with deposit term has been the marketing techniques, and I have experienced some of these personally, which I don't want to get into. I think you have heard enought of this in the past.

Just as background data, the Faternal Benefits System is a cosmopolitan membership of men and women representing many nations, many religions, and many walks of life. It is a positive, democratic force for peace at home and abroad. Powered by the principle of brotherhood, the Fraternal movement offers unlimited potential for the future. In every sense, fraternalism today, as much as every time in history, truly provides a torch for countless human hopes.

We, the New Jersey Fraternal Congress, strongly support Bill A-2001.

ASSEMBLYMAN BORNHEIMER: Thank you very much, sir.

James Fosbre.

J A M E S   F.   F O S B R E, JR.: My name is James F. Fosbre, Jr., and I am from Berkeley Township, New Jersey. I am an independent insurance agent and broker. I am not beholden to any insurance company, and I am here today free to state my own opinions and express the opinions of over 130 agents associated with me through my general agency. I am not receiving any salary, bonus, payments, or subsidies from any person, or organization for being here today. I am here today to show why this bill that we are discussing is a detriment to the consumer and is only helpful to restrict fair trade in the State of New Jersey in the life insurance field.

Because of the time factor, and what has happened today, rather than read my whole statement, I would like to try and condense it a little bit. I might skip around, is that okay?

ASSEMBLYMAN BORNHEIMER: We would appreciate that.

MR. FOSBRE: Number one, here is why this bill is adverse to the consumer. First of all, the consumer who spoke previously asked if this bill would restrict or ban the sale of deposit term in New Jersey, and the answer was given, no. I believe that in fact, in practice, this bill would restrict and ban the sale of deposit term because one of the consequences of forcefully creating an artifically high first year cash value, would be that all the companies who market the product will probably withdraw it from the state, from the portfolio. That would mean that the product would not be available in its present form to consumers in this State. So, although it doesn't say that it bans the product, in practice I believe it would.

Number two, in the bill, A-2001, it attempts to restrict the use of the words interest, equal to, 7.2% interest factors, and other relationships between the deposit, or additional first year premium, and the tenth year cash value. It is interesting for me to note that these words and these concepts are used throughout the industry, and you have a copy of this on the back of my remarks. Here is a copy of best's review, February 1980. On the front they show the percentages -- 1.3%, that is the percentage the Federal Trade

Commission says whole life pays out on consumers and interest, and 5.9%, which is what the industry--

ASSEMBLYMAN BORNHEIMER: Is that a trade journal?

MR. FOSBRE: Yes, sir, it is.

ASSEMBLYMAN BORNHEIMER: Does the average person get that?

MR. FOSBRE: Pardon me?

ASSEMBLYMAN BORNHEIMER: Does the average person get that?

MR. FOSBRE: He certainly can, and the company is in Oldwick, New Jersey.

ASSEMBLYMAN BORNHEIMER: Can the average person who is not in the insurance business get that?

MR. FOSBRE: No, he would have to call Oldwick, New Jersey. You would have access to it though, sir.

ASSEMBLYMAN BORNHEIMER: I know what it is all about.

MR. FOSBRE: Fine. I can and anybody in this room can, either the press or legislators, or other agents who want copies of this. I will be glad to make copies when I have time. I didn't have time to prepare 15 copies for everybody.

You have asked a question. I would like to continue on about the interest rate, Mr. Bornheimer. Everybody in this business, when they sell whole life insurance, and endowments, and retirement income endowments, and debit insurance, and all the other things that we have in this potpourri of insurance in our state, uses the word interest and yield and factors in that concept, and I would like to know why we can't use that same concept in describing deposit term; and if it is a bad concept, then let's not use it to describe any insurance policy. I think that would be fair.

I think the third thing that is wrong with this bill is that this bill is really to create some form of legislation, and I have no doubts that this bill was supported and the momentum was begun by the National Association of Life Underwriters and some large insurance coporations who are in league with them, and the purpose of this bill is to create a propaganda device that their agents can use when they go into a home and say, "Look, Bill 2001 was passed against deposit term. It is such a bad product, or it is so risky, that we have special legislation against it." Gentlemen, I submit to you that all insurance is very confusing to the average consumer unless he has a good, well-educated, well-defined, well-spoken agent, which many of them don't have. And, I think that what we need is not any type of language or propaganda devices against one policy, I think that what we need is a truth in life insurance bill in New Jersey, which I proposed - Mr. Bornheimer may remember this - to Mr. Bornheimer two years ago.

The fourth thing that this bill is defined to do, although it is not stated in the bill, I believe - and it is quite obvious to me, in my opinion - is that this bill was created by the people who sponsor it to usurp the power of the present insurance commissioner, James J. Sheeran, and to take some power away from him. I believe the reason for this is because Mr. Sheeran has done too much for the consumer already to suit the tastes of certain agents and companies in this State.

I know they are some pretty outrageous statements and they might sound a little bit strange. I see they are amusing to some people, but if I may be allowed, I will give some testimony that I think will be meaningful.

What I would like you to know is my background, just so you know how I gathered this information. I joined the Prudential Life Insurance Company in 1971 as an agent. In case Mr. Adubato is interested, it was a debit agent that I joined the company as. I did sell--

ASSEMBLYMAN ADUBATO: I apologize; I heard you mention my name but I didn't get the reference.

MR. FOSBRE: Okay. I joined Prudential in 1971 as an agent and I said that I noticed you were interested in debit and ordinary agents. I was a debit agent. I was taught exclusively to sell that stuff -- debit insurance to consumers; go around with the black book and collect house-to-house. And, Mr. Adubato, I have only been in the business 11 years; I am not as highly educated as some people in the business, but I am intelligent enough to know at this point that what I did was a great disservice to consumers. I will tell you that. However, at that time you have to realize that I, as every other agent in that situation, did not know when I was a new employee. We are taught what the company indoctrinates us to sell. And, when I say indoctrinate, gentlemen, I am talking about a heavy program of tape recordings, reading eight hours a day in a closed office, and taking homework with you to your home at night. Everything I was taught to sell in the beginning was whole life insurance. I was told if you saw a term insurance policy - and I agree with some of the statements you made, that term insurance is excellent when compared to whole life or even deposit term in certain cases - it was my job to go out and convert that back to whole life, and I did it every effectively, and almost always, I realize now, it was to the detriment of the consumer.

In 1979, I believe, the Federal Trade Commission made a report that they had been working on for over two years and they were very critical of whole life insurance. As a matter of fact, they characterized and defined whole life as a combination of decreasing protection coupled with an increasing investment of some type. I think people who have read the report are familiar with that.

The life insurance industry hotly contested that and said no, no, no; we have never, ever emphasized cash value and savings in selling insurance, or respectable agents from the NALU and from Prudential and Metropolitan and Equitable had always sold protection first; cash values are an ancillary or supplemental effect. Gentlemen, nothing could be further from the truth.

Mr. Adubato, you said before that in fact the prime purpose of insurance is protection. You are right and everytime we cloud the picture with a savings program with interest rates and investments we possibly could confuse some consumers. I agree with Mr. Adubato, the prime purpose is protection. However, I think Mr. Adubato will have to admit that the great majority of insurance marketed on the whole life plan in this state is marketed as a savings plan.

I have here something I didn't have time to make copies of, but I will provide copies for you and anybody else who wants them, certain brochures that I was given by the Prudential Insurance Company when I joined them in 1971. May I just quickly go over a few headlines from it?

Number one is, "You will earn a fortune." It goes on to describe-- The entire first page is devoted entirely to how much money you will get back from your plan. I have to get all the way down to the bottom before I realize this is insurance and a man might die.

Here is a particularly offensive one: "Every child needs a helping hand," used by the Prudential Insurance Company. By the way, I am not-- The only reason I am singling out Prudential, gentlemen, is that I happen to have their material. I have seen Metropolitan, John Hancock, and Equitable material that is just as offensive to me and should be offensive to the consumer. This one, "Every child needs a helping hand", once again, is described as a cash savings plan to turn your childhood dreams into reality. Once again, this is not insurance; this is a bank account.

I am not going to go on; it would be boring. I would like to show you one that I have given you gentlemen copies of in my prepared statement. If you turn to I believe it is the second page, you will see a Prudential form. It has been xeroxed, and I have filled some figures in. Now, this form is an actual case that I picked up out in the field. We deleted the client's name and the agent's name for obvious reasons. If we have to go into it, I will be more than glad to and take the risk on that part.

Read this particular brochure with me. It is, "A Young Man With a Future," by Prudential. It has a nice picture on the front of a young man and a town. Inside - I am reading from the first page - it says, "Today's Young Man Expects a Bright Future. He expects to accomplish his goals, achieve success, and enjoy financial security. That's why he needs a systematic approach now to his plans for education, career, and financial independence.

"What About Your Future? Your hopes and dreams...no matter what they are...all require money. Money to start you on a rewarding career. Money for a home and a family. Money in reserve to free you from financial worry. Most mothers and fathers understand how important life insurance can be to your financial planning. But planning should begin now, while your're young. Premiums are the lowest they'll ever be, and you'll have more time to build up cash reserves. That's why Prudential has tailored this special...

Low-Cost Life Insurance" - my God, I'm three-quarters of the way through and I just realized it is life insurance. So far, it sounds like an investment or a bank account.

In the interest of time, I will go onto the second page, which is Modified Life 3. You will notice, gentlemen, that the written-in life 3 -- that is blank and it allows the agent to write in any name of any insurance policy he wants to sell and describe it by using these glowing terms of investment. You will also notice that the first thing it does is tell the insured about at age 65 how much money he is going to get back, and the total cash available is portrayed at $90,300. This, gentlemen, by the way, is Prudential's Modified 3, whole life plan, their most popular policy. It is very interesting that they show $90,000. If you are a good reader, you will find a little asterisk, and if you are careful enough, after your agent leaves, to read the back, you will find out that that is a totally speculative figure. That depends on economic conditions and expenses of the company, and you may receive as little as $30,000 back. So, before we were speaking about how much are you guaranteed. Here is a young man, aged 20, who is going to pay $691 a year for the rest of his life, if he wants his plan to be paid up, and if he is lucky at age 65 he can cash it in and get back $90,000. Sounds pretty good. In the beginning I sold a lot of these. I thought it was good. I wasn't too smart then.

As I started to make more money and had more free time, I started to investigate this situation, and I found out that this whole thing is a hoax. Whole life insurance is characterized by the Federal Trade Commission's Report, by many consumer groups, by many advocates of term insurance, as nothing more, in fact, than decreasing protection and increasing cash, and the investment is of a very poor nature.

Now, you know there is a problem. Mr. Adubato asked the gentleman who was speaking before me, the consumer, if he was shown a term insurance policy. And, I think that is very important, sir, and I agree with you totally. Whenever I go out and present a case, I give a booklet to my clients which shows all types of policies -- whole life, limit-pay life, even endowments, and all major types of term insurance, including deposit term. At that point, I then make a recommendation. I don't only sell deposit term. I sell a lot of other types of term. I don't sell whole life.

After several years, I came to realize what a hoax this was, when it came to me that the same company that puts this out - and once again, I am not picking on Prudential, I can use any company that sells whole life as an example here - could have allowed their agent, and trained their agent to go out and recommend, as Mr. Adubato suggested, one year term insurance, or decreasing term, or five year term; but, in fact, they didn't. I was not trained that way, and I doubt seriously whether any other agent in this state was ever trained that way in the beginning, until they educated themselves.

I come to find out that this man could have taken the $691 a year that this policy is costing him and he could have bought the same amount of protection on a term basis for only $164 a year. If he took the difference in premiums saved and invested it at only 7½% interest over his lifetime, by age 65 he would get back $126,000, instead of $90,000. I don't know how much $36,000 means to people in this room; it means a lot to me. It also means a lot to have the choice and to choose, but we were never taught to give that choice.

Gentlemen, this points up a factor. This is why we are really here today. The argument is not whether deposit term is better than other term insurance. There is no other term insurance out in the field. In practice, I am a replacement life underwriter. I make no mistake about that, and I want everyone to understand that. I go into a home and I look at the policies the people have. If they are good, I tell them to keep them. If they are bad and I can improve them, I tell them to scrap them. And, I do it according to replacement regulation I-72, notifying the other company, and I help the client cash surrender his policies, as we spoke about.

I have never found a case, never ever found a case, where the client was told when he was sold whole life originally that he could buy term insurance and bank the difference. I have found cases where term insurance is sold when the client is smart enough to beat the agent over the head for it, but then within three years the company sends the agent back to convert it back to whole life, which is always, once again, to the detriment of the consumer.

I think it is academic, it is a very academic point that we even discuss whether deposit term is better than one year term, or as you may put it pure term insurance. However, since that question has been asked a number of time, I will address myself to that question.

Deposit term -- the question was asked before, if I am not mistaken, isn't it true that if a clinet took the money he was paying for deposit term and bought a one year term policy he could get more protection for his money? The answer, very definitely, is sometimes. Some deposit term policies are more expensive than one year term. Some deposit term policies are less expensive than one year term. I find that some of the questions being asked here today indicate a lack of understanding of how deposit term policies are properly marketed in this state. When deposit term is marketed, the client should always be informed, and to my knowledge he is always informed, that the deposit or the additional first year premium is forfeited in the first ten years if he lapses a policy. It is also always explained to him that at the end of ten years-- to answer a question that Mr. Adubato asked someone before: what happens at the end of 10 years? - I will tell you what happens at the end of 10 years in my sales proposals. I show the client that he has four basic options. Option number one is, if he has built up enough cash in equity investments, because he has so much extra premium to work with now, whether he uses the forbidden mutual funds, or bank accounts, or gosh knows what, diamonds or whatever, if he has built up enough cash at the end of 10 years and he doesn't need life insurance, God bless him. His first option is to drop the policy, surrender it for his cash value, and don't carry any insurance if he doesn't need it. He should confer first with his legal attorney and with his accountant before making that decision.

Option two is if he does want to continue level term insurance, he has the right in most deposit term policies, at least the ones I have seen and marketed, to continue his level term insurance every ten years for as long as he wants, usually up through age 70 -- in some cases up to age 100 -- and the rates are guaranteed in the policy.

Option number three is that if he wishes, he can convert his policy to decreasing term insurance to age 100 at rates that are guaranteed in the policy.

So far the first three options are just about anything a man could want: no insurance, level insurance, or decreasing insurance with guaranteed rates, regardless of his health.

There are some forms of deposit term, known as modified premium life, which I believe someone touched upon before, where, at the end of the tenth year, they include the fourth option, to continue the policy as an ordinary whole life policy. I say to everyone in this room, and this can be printed and blasted before the world, if you can find one client where myself or any of the agents associated with me have recommended at any time that a client take that option, you can pin me up to a wall and shoot at me, because that is probably the worst option that a client could ever take, except in the case when he is disabled. When you sell whole life insurance, one of the things agents tell people is, "This is a great whole life plan, Joe, if you become disabled the company is going to pay the premiums and the cash values will build in your name and it won't cost you a thing. You can still cash it in for money at age 65." Well, gee whiz, that's just how modified premium life works. At the end of 10 years, you can let it continue as ordinary whole life if you are disabled. On the waive of premium, the company pays the premiums and the cash values continue to build. Do you know what that makes that plan? That makes that plan a term policy that in some cases is less expensive than other term policies. In other cases, it may be more expensive. But, primarily, it makes that deposit term a policy that is extremely flexible, allowing the client to control his own destiny, his own insurance plans, without undue pressure from the agent or the company, and it guarantees him all those options. That is why I am sure this is one of the most desirable policies in the state. That's why I am sure it is being discriminated against by this bill, mainly because companies - I don't think it would be harmful to name names like Prudential, Metropolitan, New York Life, Equitable, John Hancock - basically market whole life insurance, which I think, Mr. Adubato, you said is the type policy you mainly market.

Someone made a comment before that over 5,000 policies had been replaced in the past 15 years in this state. I don't know about that. In my agency we have a record of over 6,000 having been replaced in the past four years ourselves. I know there are other people doing it. The problem, gentlemen, is that this concept is allowing consumers to take their cash out of Prudential, out of Metropolitan, out of Provident Life, out of the companies I represent, to take cash values where the insurance companies are only paying two or three percent yield on them and now the consumer can put it in his own bank account and get eight, nine, ten, fifteen percent in a money market fund.

If I take the time, and I will not bore you with it now, I could to show you an illustration. The difference is in tens of thousands, and sometimes hundreds of thousands of dollars to the consumer's advantage to invest his money separately.

Gentlemen, I really think that the reason this bill has been supported by the NALU, backed by major insurance companies, is totally to restrict it from the marketplace. Because if you pass this bill in its present form, as I said in the beginning, it will, in practicality, make companies withdraw it from the market. If this product is no longer sold, you may say, Mr. Adubato, and you may belive it, that they, in fact, can sell term insurance. Agents can't sell term insurance. For one reason, the companies put too much pressure on them and won't let them sell too much. You can deny that, but I have agents here with me -- you wouldn't deny it, but other companies would -- who were fired for selling too much term insurance, for not selling enough whole life.

The other thinq is that ordinary term policies, as I am sure you are well aware, sir, have certain stumbling blocks built into them intentionally by the companies. Stumbling block A, you cannot keep the policy past age 65 in most cases, and the bugaboo there is, what happens if you aren't insured past age 65? You can't continue ordinary term insurance renewal past age 65 or 70.

Number two is the bugaboo that if you buy ordinary life insurance, you have to keep renewing it every one or five years and it get more expensive and more expensive. That is not true with deposit term because you can convert it to decreasing term and keep your premium level, and fit right in with the buy-term/invest-the-difference approach.

Another stumbling block to ordinary term insurance is that you had better believe that if you sell it, within three years if you don't go out and convert it, your company will send someone else out to convert it, and I have records of letters that are sent down to the agents to assist them in this ungodly transaction that I have never seen benefit the consumer yet.

I had planned to say much more, but I suppose in the interest of time, unless you have any questions, I won't go into all the bad things that Prudential did and Metropolitan does, but I invite you, sir, if you are really interested in the consumer, to come to my office and I will show you dozens of illegal and illicit trade practices carried on by the very people who are sponsoring and trying to nurture this bill. I will also show you that for every one case that you can show me, such as that 1974, or '69 case you pulled out, I will show you a score of cases by cash value oriented agents replacing cash value with cash value to the detriment of the consumer, with no replacement forms, time after time after time. I pointed that out to certain companies, Prudential was one of them. I have had the good furtune in the past four years to have been the victim of a personal slander attack by certain agents, not the company, but the agents. I have had the good furtune to have Prudential's ranking executive in the Eastern Home Office threaten me over the phone and say he would waste as many of his employees as he had to to get me out of business. I have had the extreme pleasure of having death threats made on my telephone at night, after I appeared with Mr. Tomaro at the Insurance Department and stopped them from banning deposit term in 1978. I know for a fact that Mr. Tomaro did too, but I don't think he wanted to mention it to you.

I have had threats, slander, and innuendo. I stayed in a closet for two years because I didn't want to subject myself to this. But, gentlemen, this entire bill has an odor of corruption about it and of discrimination, and that's why I am coming out and speaking against it. I believe it should not be passed in its present form.

Commissioner James Sheeran who, to date, has done an excellent job championing the consumer against insurance companies. If you gentlemen have read your Register - and I know you have - you know that he has two companion regulations in the Janauary 8th Law Register. One is amending the full disclosure of all life insurance policies in this state, and the other, on the solicitation agreement, addresses itself directly to Bill A-2001, and accomplishes some things for the consumer that you want done. However, the way his regulation is written, if I may be allowed to finish, it does not make it so that the product will be restricted from sale in this state.

I think Commissioner Sheeran should be allowed to deal with this problem. He has been effective in the past. I think he will continue to be effective. And, I think this bill should be defeated and should never even come out of committee. And, gentlemen, there are not two ways about it, this bill should never have been even supported and should never have been presented to committee, Mr. Bornheimer, if the research had been done on it to an in-depth degree. Thank you.

ASSEMBLYMAN BORNHEIMER: I thank you for your comments, and I am glad that you find that 2001 is worthless, because if it didn't appear, Jimmy Sheeran wouldn't have put regulations in place. I rest my case.

MR. FOSBRE: Sir, may I say anything, or am I restricted from rebutting now that you have said that?

ASSEMBLYMAN BORNHEIMER: I haven't refused anybody yet.

MR. FOSBRE: Okay, sir. In fact, I went and saw Commissioner Sheeran after I talked to you about your sponsoring the truth in life insurance bill and we couldn't get too far because, sir, you told me if I were to give it to you in writing - and I am not casting innuendos; I am just stating a fact - you wanted to show it to your insurance adviser first, who was your Prudential agent, and who was your brother.

ASSEMBLYMAN BORNHEIMER: I wanted somebody to look at it. I am not an insurance agent.

MR. FOSBRE: I understand, but Macy's does not tell Gimbels, sir, not before they even have the chicken hatched. At that point, I took that bill to Commissioner Sheeran and he, along with Dr. Lewis at that time, and now some other people - Richard Goldman was active in this - worked on the thing that we presented to him back in 1978, with the aid of Mr. Tomaro and some of the other gentlemen here -- as a matter of fact, a lot of the contributers are here -- and that is what has led to this legislation.

The NALU -- I don't want to go on; I don't want to get into personal debate on how you feel about the bill.

ASSEMBLYMAN BORNHEIMER: It just seems that all of a sudden when this bill appeared, something is happening.

MR. FOSBRE: Sir, that was two years ago.

ASSEMBLYMAN BORNHEIMER: It happened on three different other occasions on three different things too.

MR. FOSBRE: It is very interesting that two years ago, Prudential was going to -- at least they had in their notes, I don't know if they are going to change them now or not-- They had in their notes that this was not a Prudential sponsored bill, that this bill was nurtured by the NALU. It is very strange, because two years ago, I had Prudential executives and employees tell me that Prudential was looking for political contacts - two years ago - so that they could have this bill put into effect, and that is pretty sudden also -- that all of a sudden, it comes up now. I see some surprised looks. All I can tell you is, that is true. I got that information from a Prudential employee two years ago, and I saw information in the National Association of Life Underwriters little weekly reader that you fellows put out for your members, and in there you have asked for political support for the past two years, to have legislation passed. If you can deny it, I can produce the documents to disprove you -- so, the case is over.

ASSEMBLYMAN ADUBATO: I would like to take you up on the invitation you made available to this committee, or to Commissioner Sheeran, because he is the Insurance Commissioner. As you pointed out, he is interested; and, I agree, he is interested in the consumer. Whether or not the Commissioner, or any Commissioner, is effective is something I don't want to debate. Whether or not they are interested is something else. But, I agree, he is certainly interested in the consumer.

Have you brought these allegations, or these charges, of these alleged illegal trade practices to the attention of the Commissioner that you have so much confidence in?

MR. FOSBRE: Yes, sir.

ASSEMBLYMAN ADUBATO: What has been done?

MR. FOSBRE: They were investigated. He want as far as he could as a regulatory body, and he came to the point that he had to refer them to the offending companies. By the way, since you are asking, that is the reason why I was threatened by George Exner, the Vice President of Prudential at the time, because I had 47 individual complaints of Prudential agents illegally replacing Prudential and other policies with new cash value policies to the detriment of the consumer -- all done without a replacement form. The reason we couldn't have anything resolved is that the client said, "These guys robbed me," in essence. The agents--

ASSEMBLYMAN ADUBATO: I'm sorry, I didn't hear that, they what?

MR. FOSBRE: In essence, the client said, "These guys robbed me." In other words, the insurance agent--

ASSEMBLYMAN ADUBATO: Robbed me?

MR. FOSBRE: Some of the clients said things much cruder than that. I mean, they were upset. They lost thousands of dollars in these transactions. The agents in all the cases said that, "no, they didn't intend to replace." You know, you are an insurance agent, sir. You have a little block that says, "Did you intend to replace this policy -- yes or no?" It seems, the way it stands, that if the agent lies and says, "no, I didn't intend to replace," there is nothing that you or the insurance commissioner can do about it. It then goes to the judicial system in the State of New Jersey. That would be effective, whether you passed the law or whether it says regulation. But, sir, most consumers do not have the time, nor the expertise, nor the funds to take a case through a civil complaint and try and extract retribution from a giant insurance company who has enough lawyers to beat him into the ground. That's why our 47 complaints were investigated. The clients are firmly entrenched in their belief that they were done a wrong. The company said, we did nothing wrong.

I admired your advice before, that the consumers agent, I believe it was Mr. Rosanski, could have mailed a letter over the client's signature. Sir, unless I misunderstood you, I am restricted by law from doing that as an agent. It seems that if I am replacing a policy and I write a letter over a client's signature, even though he signs it, and send it to a home office, I am surpassing the original agent.

ASSEMBLYMAN ADUBATO: That's not what I said.

MR. FOSBRE: I misunderstood you then, I'm sorry.

ASSEMBLYMAN ADUBATO: I said that he could have those policies cashed in very easily if the agent knew what to do, that he had so much confidence in. It is very simple. Again, I am not saying that Mr. Moran did not present an accurate picture. I am sure he did. And, I am not here to do anything except to try and maybe learn something, because I am a product, like you are a product, of my experience, and my experience has been negative with people, for instance, in equity funding, as I tried to point out to you.

MR. FOSBRE: Is that a deposit term company?

ASSEMBLYMAN ADUBATO: Well, I didn't say it was a deposit term. I said in some appearances and the advertising and the growth, especially if you dealing with mutual funds with deposit term-- As you were so justly offended to the packaging of some products in the industry, and, by the way, I would be proud if I worked for any of the companies that you mentioned, but I--

MR. FOSBRE: I am sure you would, sir.

ASSEMBLYMAN ADUBATO: (continuing) --but I have never worked for any of them.

MR. FOSBRE: Would you be proud to market insurance with that brochure?

ASSEMBLYMAN ADUBATO: But, what I am saying to you is that it appears that you are throwing stones at the way the industry is packaging their product, and it is impossible for me to understand how that equity and that fairness and that same outrage is not displayed at the way people are presented, from what I have seen, as packaging in dealing with mutual fund concepts. You talk about an asterisk--

MR. FOSBRE: I am not talking about mutual funds. I am talking about deposit term, sir. I haven't sold a mutual fund since I left Prudential.

ASSEMBLYMAN ADUBATO: Well, what I am saying to you, sir, is that when you deal with non-guarantees as part of some deposit term products deal with--

MR. FOSBRE: I don't understand what you are saying.

ASSEMBLYMAN ADUBATO: (continuing) --non-guarantees, non-guaranteed return, are you saing to me that all the products that you sell in deposit term are guaranteed returns? Do you guarantee a return of equity 20 years from now or 10 years from now?

MR. FOSBRE: On a deposit term policy?

ASSEMBLYMAN ADUBATO: Yes, sir.

MR. FOSBRE: Of course, because on a deposit term, the only return is a guaranteed cash value, sir. It is always guaranteed. Do you mean supplemental products sold with it, separately?

ASSEMBLYMAN ADUBATO: Well, of course. Isn't that what we are here for?

MR. FOSBRE: Mr. Adubato, if he takes his money to the bank, I am not going to guarantee the bank. That is up to the bank to do it, sir.

ASSEMBLYMAN ADUBATO: Isn't that what we are here for?

MR. FOSBRE: It sure it.

ASSEMBLYMAN ADUBATO: Okay. We are here to protect the consumer, and you don't have to convince me--

MR. FOSBRE: Sure I do.

ASSEMBLYMAN ADUBATO: (continuing) --that life insurance companies can't do a lot more for a person's money.

MR. FOSBRE: Than what? Than whole life or deposit term?

ASSEMBLYMAN ADUBATO: No, no, no, all life insurance, including the companies that are selling deposit term

MR. FOSBRE: Than why are you so hot to defend this bill which only restricts deposit term, sir? Is it because you sell whole life?

ASSEMBLYMAN ADUBATO: I didn't know I was defending anything.

MR. FOSBRE: Well, it certainly appears to me and to the other people here that you are. And, I want to be very forthright when I say that.

ASSEMBLYMAN ADUBATO: Well, probably the people who have a carnival attitude think I am.

MR. FOSBRE: Well, that may be.

ASSEMBLYMAN ADUBATO: Probably the people who are shooting from the hip think I am.

MR. FOSBRE: Sir, I don't shoot from the hip; I take aim.

ASSEMBLYMAN ADUBATO: Probably the people who have a dogma in what they are saying think I am.

MR. FOSBRE: Principle, do you mean?

ASSEMBLYMAN ADUBATO: No, dogma. You know, they have been sanctioned as the righteous of the world.

MR. FOSBRE: Do you sell deposit term, sir?

ASSEMBLYMAN ADUBATO: I have it in my portfolio.

MR. FOSBRE: With Provident Life and Accident?

ASSEMBLYMAN ADUBATO: Yes, sir, and I have never sold it.

MR. FOSBRE: I contacted your home office and they said it is not in the portfolio and it is not approved in the State of New Jersey.

ASSEMBLYMAN ADUBATO: Oh, that's not true. It is was approved almost two years ago.

MR. FOSBRE: Sir, I open my invitation to you once again. I want you to come to my office.

ASSEMBLYMAN ADUBATO: That was two years ago.

MR. FOSBRE: Your home office said it is not, sir.

ASSEMBLYMAN BORNHEIMER: If I may interject now--

ASSEMBLYMAN ADUBATO: You are not accurate in your statement.

MR. FOSBRE: My invitation is open, Mr. Adubato. I would like you to see my evidence, and I would like to see yours.

ASSEMBLYMAN ADUBATO: Wait a minute. Let me say this to you: I, as a legislator, am here to the best of my ability to deal with the piece of legislation, not to cast any judgment against Prudential, or you--

MR. FOSBRE: Or Equity Funding?

ASSEMBLYMAN ADUBATO: (continuing) --or anybody else. No, Equity Funding I condemn totally.

MR. FOSBRE: Okay, but you--

ASSEMBLYMAN ADUBATO: Explicitly.

MR. FOSBRE: Are they a deposit term company?

ASSEMBLYMAN ADUBATO: Do you know about Equity Funding?

MR. FOSBRE: Do I know abut Equity Funding?

ASSEMBLYMAN ADUBATO: Did you ever sell Equity Funding?

MR. FOSBRE: No, sir; did you?

ASSEMBLYMAN ADUBATO: Did any of your agents ever sell it?

MR. FOSBRE: Not to my knowledge. I have over 100 -- I have 137 agents, and I don't think anyone was ever licensed with Equity Funding. I do know some members of the NALU that sold Equity Funding though before 1972.

ASSEMBLYMAN BORNHEIMER: Are there any more statements in reference to deposit term?

ASSEMBLYMAN ADUBATO: No. Mr. Chairman?

ASSEMBLYMAN BORNHEIMER: Do you want to criticize any other company or anybody else in the room?

MR. FOSBRE: No, sir, I think we have all criticized each other enough and I think now is the time for full disclosure.

ASSEMBLYMAN BORNHEIMER: All right. The purpose of this hearing is to take testimony.

MR. FOSBRE: Pardon me?

ASSEMBLYMAN BORNHEIMER: It is to take testimony and to get information.

MR. FOSBRE: Yes.

ASSEMBLYMAN BORNHEIMER: Not being an insurance agent and not being an insurance salesman, or anything else, I don't know anything about insurance;

I would like to learn.

MR. FOSBRE: I understand that, and I don't know why there are only two members on this committee, instead of a full committee to hear this.

ASSEMBLYMAN ADUBATO: That's like going to church and criticizing the members who are present, isn't it?

MR. FOSBRE: I find it offensive that an insurance agent is the only one that is knowledgeable on this whole board today. Aren't your other legislators interested? I find it offensive and you, sir, as an insurance agent are the only one that seems to be knowledgeable to any degree on this subject. Where are the other sponsors?

ASSEMBLYMAN ADUBATO: I can't answer that.

ASSEMBLYMAN BORNHEIMER: It is very simple. Knoweldgeable is one thing. I am knowledgeable too, but I am knowledgeable in finance. If you want to take about finance, I will talk finance with you every day in the week.

MR. FOSBRE: Sir, I am talking about insurance.

ASSEMBLYMAN BORNHEIMER: Insurance is finance in a way.

ASSEMBLYMAN ADUBATO: Do you know what would be a good idea? And, I mean this not in jest; I mean it seriously.

MR. FOSBRE: Yes, sir?

ASSEMBLYMAN ADUBATO: For the record, I am mean this, there are some good, well-intentioned people who are here, and I don't doubt their motives in presenting their view on both sides.

MR. FOSBRE: Yes, sir.

ASSEMBLYMAN ADUBATO: But, it is strange to me that some of the people who are here defending deposit term are outraged that there is a life insurance man who is in the legislature.

MR. FOSBRE: It seems strange to me, that's all.

ASSEMBLYMAN ADUBATO: It seems strange?

MR. FOSBRE: Sir, you don't have convicts on the parole board.

(laughter)

ASSEMBLYMAN BORNHEIMER: Thank you for your comments, sir; we appreciate them.

MR. FOSBRE: Thank you, sir.

ASSEMBLYMAN BORNHEIMER: The next person we will hear from will be Steve Richman.

S T E P H E N R I C H M A N: My name is Steve Richman. I am a licensed insurance agent in the State of New Jersey. I work for R. Richman and Associates. The reason I came up is because I understand from what we have been talking about, that there are really no guarantees as far as equity is concerned at age 65 with the deposit term product. The reason I came up is, I recently sat down with a fellow who owns a Prudential Life Insurance policy, and I ran him against, let's say, a product that is similar in nature to deposit term, that has guarantees -- the cycle you were talking about, minimum guarantees, total guarantees, etc., etc. I wanted to review him.

This was a fellow up in Irvington. It was a client I met. When I met him, he owned a Prudential Life Insurance policy. He was spending $916 a year and he had $43,000 of decreasing insurance. His wife had $3,000 in insurance, and his three-year-old baby and his six-year-old baby had $25,000 in life insurance on each one of them. I had heard statements that agents - not Prudential agents, but agents in general - were well trained. I don't think that is too good training, to put $25,000 on each one of their kids. At retirement his money, minimum guarantee - the guaranteed cash value - would be $30,000 with Prudential; with dividends he would have a total of $90,000. His death benefit at age 65, with dividends and face amount, etc., would be $73,000.

After we met him, we had him buy a product that has guarantees at age 65, etc. If I had given him the exact same insurance, there would be no difference in outlay; he would spend the exact $916 that he was spending with the Prudential. Okay, his minimum guaranteed cash value at age 65, with our product, was $68,755, versus with Prudential, where he would have had $30,000 in cash value. The difference would be that when he died with the Prudential product the $30,000 was not given to his family in addition to the face amount, the way their contract reads. With our situation, when the people die their minimum guarantee would apply, in addition to the face amount. His total cash, with dividends and cash value would be $90,000 from Prudential. With ours, he would receive $368,076 for the same money. If I went to improve the man, because that was his dollar for dollar, giving his family the exact same amount of coverage, the difference is the change in savings within the product that I am telling you about.

After we met him, we suggested that he take $100,000, instead of the $43,000 that he would have. We suggested that his wife receive $75,000 instead of the $5,000 that she had. And, all their kids receive $10,000 instead of $25,000, putting less on them because we didn't feel that they needed that amount of insurance. We felt it was needed on the man because he was the main income person.

His cash at age 65 would be $202,123, versus his $90,000. His total death benefit with our situation was $225,000 versus 73,000 at age 65. Now, I have heard all the objections as far as there should be earlier non-forfeiture provisions in our policies; if that were to occur, I believe it should occur in all cash value type policies.

We have heard that the deposit term people, from what people have been saying, are bandits, they do certain things illegally, they are robbers, this and that, I don't believe they are. I believe they are a bunch of dedicated people that are really looking to do the proper things of the consumer, as whole life agents are trying to do the proper thing for the consumer. I believe it goes deeper than just us talking about why we are trying to regulate deposit term. It is not because deposit term is a bad product, it is because it replaces the heck out of whole life insurance, and it does just what I read here as far as the difference to the consumer. If you go into the field, you see that the majority of the people switch because of the larger amount of money to their kids and themselves.

So, that is basically why I wanted to come up, because there are products that do have guarantees of cash value and that do have total guarantees written within the policy. The only difference is, in this type of product I am describing, instead of having to loan out your money - as you said before, Mr. Adubato, - and pay 5%, he can just withdraw his cash value and there is no interest charge, as there is in the ordinary type whole life policy.

Also, in whole life policies, as we know, when we take the money out, it reduces the death benefit. In this type program, when he withdraws his cash value at no interest charge, it does not reduce the death benefit.

As we know, in most cash value policies when a man dies, the cash value is absorbed like a sponge by the insurance companies. This one, they get it in addition to the face amount, and they are the exact same guarantees; it is just that the rules are changed for the consumer. And, this product is a mother in the same classification as a deposit term product, but I don't think we should throw all of them into one basket, because there are differences. I agree with you that some deposit term products should not be allowed to be sold. They should be modified or changed to protect the consumer more, because there are some deposit term products that don't really have the interest of the consumer at heart, I believe.

I just want to thank you for your time. I will answer any questions you might have. I just wanted to come up and say that.

ASSEMBLYMAN BORNHEIMER: Thank you very much, Steve.

ASSEMBLYMAN ADUBATO: Steve, what I would like to ask you is, the product that we were referring to we label the whole life product -- that you are speaking of. It is a whole life product. It's an alternative.

MR. RICHMAN: Yes.

ASSEMBLYMAN ADUBATO: Based on what you are saying, I am assuming you are talking about a stock company.

MR. RICHMAN: Correct.

ASSEMBLYMAN ADUBATO: Okay?

MR. RICHMAN: Non-participating.

ASSEMBLYMAN ADUBATO: You are dealing with a stock company, and you are saying that the individual is purchasing a straight whole life contract.

MR. RICHMAN: Correct.

ASSEMBLYMAN ADUBATO: And he is building up an equity in that policy.

MR. RICHMAN: Yes, correct.

ASSEMBLYMAN ADUBATO: All right? I am familiar with a product that I sell, quite frankly, where the individual cash value is part of the face amount.

MR. RICHMAN: Okay.

ASSEMBLYMAN ADUBATO: So, if a person purchased $100,000 and he had $30,000 in equity, the death benefit is really $130,000. It is equivalent to the cash value at all times. If he takes the cash value out, it is the face amount, the original face amount minus that equity that he took out, which he is already in receipt of.

MR. RICHMAN: Okay.

ASSEMBLYMAN ADUBATO: I am not familiar, in spite of 20 years in the industry, with the product where the individual relieves the company of the equity in the policy and doesn't pay any interest on the money if he is allowed to put that back. Now, is he allowed to put that money back?

MR. RICHMAN: It's his choice. If he would like to he can, but he doesn't have to. It is up to him. It is his choice.

ASSEMBLYMAN ADUBATO: So, in other words, we are saying that the product allows him to use the equity, put it into another basket, so to speak--

MR. RICHMAN: Correct.

ASSEMBLYMAN ADUBATO: (continuing) --once he has enough money to make money, let's say--

MR. RICHMAN: Right.

ASSEMBLYMAN ADUBATO: To diversify to another entity, not life insurance and he still has the right to take that money, if he wants to - for whatever reason - and put it back with no cost factor of interest?

MR. RICHMAN: Correct.

ASSEMBLYMAN ADUBATO: What's the product?

MR. RICHMAN: It is a product from Charter Security Life.

ASSEMBLYMAN ADUBATO: You did tell me that before.

MR. RICHMAN: It is a product created by a company by the name of ADCO.

ASSEMBLYMAN ADUBATO: ADCO?

MR. RICHMAN: Yes. A-D-C-O, it stands for Assurance Distributing Company; they are out in California.

I have a question about the product you were talking about. Was that a participating company or not?

ASSEMBLYMAN ADUBATO: No.

MR. RICHMAN: Okay. What company is that?

ASSEMBLYMAN ADUBATO: Provident Life and Accident.

MR. RICHMAN: I was just curious.

ASSEMBLYMAN ADUBATO: It is the lowest net cost life insurance company in America. (laughter)

MR. RICHMAN: All right. When we talk about putting more regulations on deposit term--

ASSEMBLYMAN ADUBATO: By the way, some people referred to the best be-for. I don't know if you were in the room. But, you can check that with with the best report -- the statement I just made.

MR. RICHMAN: Okay.

ASSEMBLYMAN ADUBATO: Some people like the challenge.

MR. RICHMAN: We have been trying to put more regulations or more amendments in to make deposit term harder to sell. I think we should take a look at all products on the market because I believe that if people were given a full disclosure from the first day they walked in -- what they own and what they were being sold -- they wouldn't buy whole life insurance if they really knew what was happening with the money and they knew a lot of other alternatives available to people. That's all I am saying, sir.

I appreciate your time, and you have a nice day.

ASSEMBLYMAN BORNHEIMER: That is one of the reasons for the hearing, to hear about some of the side products that you just mentioned.

We are going to take a break for ten minutes to give the stenographer an opportunity to rest his fingers and his arms. We will be back at 3:00.

(ten minute break)

AFTER BREAK

ASSEMBLYMAN BORNHEIMER: We will now proceed with the hearing.

The next witness we will hear from will be Gary Poisic.

G A R Y   E D W A R D   P O I S I C: I will give everybody a few minutes to sit down. I have something to say that I would like everybody to listen to with very intent ears. So, if I might have everybody's attention, please?

ASSEMBLYMAN BORNHEIMER: Quiet please. Will everybody please take a seat.

MR. POISIC: Gentlemen? Is Mr. Adubato going to be present for my statement?

ASSEMBLYMAN BORNHEIMER: He is right here. Go ahead; he can hear you.

MR. POISIC: Okay, I would prefer he sat in his chair.

ASSEMBLYMAN BORNHEIMER: Well, what you prefer and what is going to happen doesn't matter.

MR. POISIC: That's true. Very well. My first question is to Mr. Adubato. I would like to reiterate a statement that he made here as to who these hearings are designed to protect. May I have a reiteration from Mr. Adubato, please?

ASSEMBLYMAN BORNHEIMER: Surely, when he gets back to his seat. Go on to the next thing.

MR. POISIC: I think it is important. I will go on, but I will state for the record that I think his reiteration of that statement is important.

ASSEMBLYMAN BORNHEIMER: Fine, if he desires to.

MR. POISIC: It is an important prelude to my statement. Not to put any words in his mouth, but I believe these hearings are being held to protect the consumer. We are going to address a couple of points here.

My name is Gary Edward Poisic. I live in Tampa, Florida. My address is Suite 1104, Clubhouse Circle, Carolwood, which is a Tampa suburb. I am a licensed agent in the State of Florida. I am a licensed securities agent in the State of Florida. I am a licensed real estate broker in the State of Florida. I have had three years of unblemished sales as a licensed agent here in the State of New Jersey.

We are going to address presentations, and we are going to address what is said to the client because although we are really here to protect the consumer, I don't see too many of them here. I see a lot of professionals. I see a lot of people who make their livlihood both from selling whole life insurance and selling deposit term, whatever it might be.

I am going to read from my statement, which was relatively hand scratched. The reason these hearings are relative to me, Mr. Chairman, is because four years ago, when I first entered the business, I entered as a replacer. As Mr. Fosbre mentioned, I also am of the replacement life underwriter school.

I approached two of my family members to replace their life insurance with deposit term. One of my family members, Mr. Stanley H. Ghetter of Perth Amboy accepted our replacement proposal and was taken from the face amount of $10,000 to a face amount of $40,000, with no increase in expenditure. The investment, or cash aspects of this case, though totally documented as having been improved, are not the case I am going to pursue here. We are going to talk about protection, which I have heard spoken about at length.

He accepted that presentation, and as a result had $40,000 worth of insurance instead of $10,000. The other presentation was made to my uncle

Lewis Poisic, also of Perth Amboy, who was offered an increase in death protection of $55,000, from an existing face amount of $25,000 to a proposed replaced face amount of $80,000. While awaiting issue of the proposed replacement product, an agent of the existing company, who I will not name because litigation is ensuing as a result of this case, came back into my uncle's house and told him that deposit term was about to be made illegal in the State of New Jeresey -- trained and told to say that by the insurer, which we will find when litigation does, in fact, ensue. My uncle kind of got scared. He said, "Well, my nephew is new in the business and he is selling a product, obviously trying to flim-flam somebody and sell them a bill of goods." He stayed with the $25,000 face and he stayed with the existing whole life insurance, overtaking the deposit term.

My question, Mr. Chairman, is, is all the rhetoric going on here today going to give my Uncle Louie's kids the extra $55,000? The reason I pose that question to you is because he is now terminally ill. The only reason he is not here today is because he is too sick. Today, he would replace in a minute. He would tell that other agent to go pound off if the other agent today told him that that product was illegal, because in no way, shape, or form have I heard anyone say that deposit term doesn't pay the death claim. Who is going to give the extra money to his kids? This was a matter of presentation. This was a matter of saving in-force business. They saved the business. They didn't save my family members who are three and six. They have not been saved. And, let me tell you something, Mr. Adubato, until we go to court, no one here in this room, replacement oriented or otherwise, is going to make up the difference to their family.

I am not finished. You have said today, Mr. Adubato, and I quote: "The replacement oriented people are operating in a carnival atmosphere." I have drawn inference from numerous people, piers in my own business -- now, don't get me wrong, I have been in the business for a short time; there is enough experience in this room to go back to the pyramids -- that we are the gangsters. I can hardly help, respectfully, Mr. Adubato, feeling that you are slightly to one side of being objective about Bill A-2001. So, in closing, and in light of my statements, who in your opinion, Mr. Adubato, were the gangsters? The floor is yours, sir.

ASSEMBLYMAN BORNHEIMER: It is not a question of--

MR. POISIC: Wait. Mr. Adubato--?

ASSEMBLYMAN BORNHEIMER: Just a minute, please. Gary?

MR. POISIC: Sir?

ASSEMBLYMAN BORNHEIMER: When you sit in this chair, you run the meeting. But, until you sit in this chair, you will abide by my rulings, otherwise you will leave the room.

MR. POISIC: I will leave the room, sir, respectfully. Thank you.

ASSEMBLYMAN ADUBATO: I wish you wouldn't. I would like to talk to you.

MR. POISIC: I'm sorry, Mr. Adubato, I have nothing to add. Respectfully, Mr. Adubato, you have had enough to say at these hearings.

ASSEMBLYMAN ADUBATO: Mr. Chairman, I was going to ask the question that I will ask anyway. Because of that unfortunate incident, I was going to ask the witness how much protection his uncle would have received for the same money if he bought term insurance -- that's all -- not the fact that he became uninsurable; I don't think that is the issue. No one, to my recollection, said that the face amount would not be paid if a person died. I don't recall one speaker coming here accusing anybody of not paying off on a death claim.

MR. POISIC: Have we not been referred to as gangsters, thieves, and greed-oriented individuals?

ASSEMBLYMAN ADUBATO: Now, you are talking to me, right?

MR. POISIC: I am talking to the assembled group.

ASSEMBLYMAN ADUBATO: I did use the words carnival atmosphere. I did use the word dogma.

MR. POISIC: Yes. Carnival atmosphere.

ASSEMBLYMAN ADUBATO: It's true. I said those words. If you want to interpret them in your words, that is up to you. I never used the word gangster.

MR. POISIC: My question was, Mr. Adubato--

ASSEMBLYMAN ADUBATO: I never usd the words that you are using.

MR. POISIC: I am addressing the assembled body. My question, Mr. Adubato, when we are talking about presentation was, what good was the presentation of the "traditional whole life people"? What good was that to the children in my family? You see, I am talking about three year olds. I am not talking about agents making a living at this. I am talking about babies that are going to have a harder time, Mr. Adubato, thanks to us approving this type of legislation.

ASSEMBLYMAN ADUBATO: I didn't know we approved anything.

MR. POISIC: I'll tell you something else, Mr. Adubato -- excuse me, approving the spirit of this sort of legislation -- that the existing insurer didn't do when he came back to try to save his business. Do you know what he didn't use? He didn't use AIT. If he had, the members of my family, the babies, they would be in a lot better shape. What the existing insurer did - who will remain nameless but who has a position of some authority in this meeting - was, he convinced him that $25,000 was more than $80,000. You see, the true fact of the matter is, if you want to take -- now, I know the bill isn't directly to ban the product, it is to change the non-forfeiture options; I know the 'technicalese' of the bill, that is not at question here -- if you do take us out of the marketplace, why don't you do it in the field? Why don't you go ask my uncle who he would rather be with? Ask him if he wants to deal at the carnival or if he wants to deal at the walnut boardrooms of the Prus and the Mets and the Equitables. Ask him who he thinks is on his side. You see, one thing, Mr. Adubato, and I think I speak for all the people who feel the way I do about this legislation and about the individuals who think we are gangsters - okay? - you can take the product off the market, and you can take my license, but you will never stop me from replacing that garbage. You have to kill me first, because this proves that I am right. You see, the death of my uncle makes this bill a farce. It makes it a farce. And, the reason I wanted to get up here, and that I flew from Florida to speak directly to this Assembly meeting was so that when I go into litigation, the case-- (interruption) Gentlemen, excuse me, one speaker at a time. So, when this case goes-- (interruption)

ASSEMBLYMAN BORNHEIMER: I'm still running the meeting.

MR. POISIC: I understand that, but rudeness is rudeness, Mr. Bornheimer.

ASSEMBLYMAN BORNHEIMER: Rudeness is rudeness, but I don't hear it right now; I'm paying attention to you.

MR. POISIC: Okay. Well, I heard it, Mr. Bornheimer.

The true question of the matter is, who is right -- me or them? You see, I am not going to talk "technicalese" with you, Mr. Adubato. We have to talk about my three year old and my six year old cousins, who are going to live with $55,000 less money because somebody came back and said deposit term was going to be banned. What is this meeting being used for?

ASSEMBLYMAN ADUBATO: How--

MR. POISIC: Mr. Adubato, respectfully, there are no answers.

ASSEMBLYMAN ADUBATO: You can make that statement, and we can't defend the allegation here. I mean, what do you want us to say?

MR. POISIC: Only if you defend it, Mr. Adubato, respectfully.

ASSEMBLYMAN ADUBATO: How can anyone do that?

MR. POISIC: You can't, sir. You can't. They can't. They can't. Nobody here can, you see, because I am talking about children that have less because of-- We are talking about presentation. Do you want to stop my presentation? Do you want to stop people from saying that deposit term is better? Do you want to talk about nebulous subjects and leave children out there being burned, and you being paid with tax dollars? You are a collectivist, Mr. Adubato. You are a bigoted collectivist, respectfully, sir. Because if you are objective, I'm green.

ASSEMBLYMAN ADUBATO: Respectfully -- that is my favorate word, by the way. I like that word.

MR. POISIC: Mine too, sir.

ASSEMBLYMAN ADUBATO: Let me respectfully say to you that I appreciate the sad events--

MR. POISIC: I don't appreciate them, sir, neither do those children.

ASSEMBLYMAN ADUBATO: And your emotionalism, and I understand emotionalism--

MR. POISIC: You should go talk to those kids then; you might be singing a different song if you went and talked to my aunt.

ASSEMBLYMAN ADUBATO: Unfortunately, I have had the opportunity to pay death claims and, unfortunately, I have been involved with situations where people lapsed their policy.

MR. POISIC: Too bad you weren't using deposit term, Mr. Adubato; you would be on our side. We have had the same thing happen.

ASSEMBLYMAN ADUBATO: I would like to just ask you one question, if I may.

MR. POISIC: Sir?

ASSEMBLYMAN ADUBATO: Were you present at the last public hearing?

MR. POISIC: Yes, I was, sir.

ASSEMBLYMAN ADUBATO: Well, then, you know what I meant by a carnival atmosphere.

MR. POISIC: You're right, sir. The only reason I requested to come here was because I was going back to Florida, sir; it is just that I heard that Prudential had requested, obviously rather effectively, that they be the last speaker. I just thought that that story might take some wind out of their sails. I hope that there is one person in this room who doesn't make a living from life insurance. I hope you, madam, and you, and Mr. Bornheimer himself, is listening to all of this with an unjaundiced eye, because do you know who we are burning here? You. Thank you.

ASSEMBLYMAN BORNHEIMER: Let me explain someting to you, Gary, before you leave.

MR. POISIC: I'll stay here all day, Mr. Bornheimer, respectfully. I have a lot to say.

ASSEMBLYMAN BORNHEIMER: I have been criticized for introducing this piece of legislation.

MR. POISIC: Correct, sir, by myself included.

ASSEMBLYMAN BORNHEIMER: Right. I agree with you. Fine. And, I don't take offense to it either. But, the important factor is, just by the fact that you do introduce legislation, I was concerned enough to find out what was going on. Take the average people in the street, for instance your uncle--

MR. POISIC: Yes. My dying uncle.

ASSEMBLYMAN BORNHEIMER: (Continuing)--your dying uncle, and other persons have more information provided to them--

MR. POISIC: Respectfully, sir, is the passage of Bill A-2001 going to stop the kind of discrepancy that happened to my uncle? If it is not, sir, it is discriminatory.

ASSEMBLYMAN BORNHEIMER: Just a second. If you know what happened--

MR. POISIC: I know what happened, sir. You can attend court. As a matter of fact, you will because I am going to subpoena you.

ASSEMBLYMAN BORNHEIMER: What was I going to say? Do you know what is going to happen?

MR. POISIC: No, sir, all I know is, what is going to come out of your mouth, respectfully - one of my favorite words too - is rhetoric because it doesn't help my three and my six year old nieces.

I have one thing to say, because presentation of products seems to be of major concern. What I say about Pru products and Met products and Hancock products seems to be of major concern. Who am I hurting? What was said about my product hurt children. Screw the agents. Screw them. Let's worry about the kids. The last time we were here, Mr. Adubato, we had some people that were wearing a sign that said: "Save the children." You made fun of it. Who the hell are you to make fun of how I feel? Because you are not going to stop me from changing. I am licensed in Florida. We happen to be a pro-replacement state. Take it off the market in New Jersey; you are not going to stop me from knocking out the business in Florida and in the other states I am licensed in. Screw the agents here. Let's get some people here. Let's start to have some complaints about deposit term from the people of this state, not from the damned agents. Let's all sell ART, guys; we will all be in shape. I'll tell you one thing: you will have bigger offices.

Thank you, I really have nothing more to say, Mr. Adubato.

ASSEMBLYMAN BORNHEIMER: Ron Richman.

R O N R I C H M A N: Real excitable, aren't they? You have to be calm.

ASSEMBLYMAN BORNHEIMER: Is this going to be like the last time?

MR. RICHMAN: Well, he is emotionally moved because he is a relative.

ASSEMBLYMAN BORNHEIMER: Did you testify the last time?

MR. RICHMAN: Yes. I am not testifying on my behalf this time. I am here, really, to read you something that happened to Felix Neives, who is a licensed, 20-year-old Puerto Rican. And, the reason I asked to speak for him is, he gets very nervous at this kind of hearing. He is a 20-year-old, and has gone through an awful lot for someone who is 20 years old.

What I am here for is really to talk about bureaucracy. I am talking about government putting their fingers into private citizens' ability to earn a living, basically. The Bill, A-2001, as I see it, is just a way to restrict those who oppose a different philosophy. They are trying to hurt us.

Now, I am going to be nicer to, or try to be -- and I will be nice to Mike because I think I really understand him. One of the statements that we are going to shout out, because it is the one that I always shout, Mike, is: "we are here to protect the consumer." Yet, I have seen no consumer, in two hearings to date, who has been hurt. I have seen some that have been helped, and they have told you how they have been helped. My son, Steve, was up here before and he showed you another case. There is such a tremendous difference. Why we are aggravated, and I speak basically for people in the modified premium whole life business, or the deposit term business, is because we are always being attacked. What have we done wrong?

You know we went in and banned business. I know some of these fellows. I started with Prudential. They are in back of me. There is one over here and one over there. And, we were good friends, and I hope that we still are good friends because people are stronger than corporations, and I believe that we are bigger than any insurance company, if we all get together. We should not sell products from any company that hurt people like us, because half of them don't even buy the products that they sell. I know I didn't when I worked for Prudential.

It is interesting to see that Charlie Tomaro, Jimmy Fosbre, and also myself, started with the Prudential Insurance Company. They taught us what was wrong. It took us a while to find out what was wrong, but we found out, and when we tell somebody, all of a sudden it is crime, and regulations are put in against us. People, like yourselves, get together to make the product that we believe in -- and you should really question why we believe in it-- I'll explain why. Come to my office. I am the only man in the United States of America that I know of, besides Jimmy, who just offered it also, to say, "look at all of my files." I already had them from the Insurance Department up there. But, if you find anything I am doing wrong, close me up. The apologized.

Now, when you are always under the gun, you get so you want to hit somebody. You really do. There are some people here who are selling a certain kind of a product and they don't even know why because they don't even know the difference.

I appreciate a private conversation you had with me, and I will keep it private, but at least you had the thirst to gain knowledge; some of them do not. Now, I am talking about, once again, legislation, government putting fingers into the lives of private people. I am going to read a letter that Mr. Felix Neives has to answer to the Insurance Department of the State of New Jersey, which basically isn't a legislative body; it is appointed, but it is a bureaucracy. Here is a man who is selling the product that my son told you about. There is no charge to get the cash value out. When a person dies, they get the face amount of the insurance, plus the cash. There are a lot of things about it that are better than ART, which I respectfully think is a good product for maybe a millionaire, but not for Mr. and Mrs. John Doe, because the average guy selling a product to Mr. and Mrs. John Doe can't make a living and, therefore, he is not going to be able to stay around and replace insurance. He has to make a decent living to stay in the business. I have been through selling that very inexpensive kind of a product, and my family went broke and for about two or three years I had to live with my mother-in-law, and that is not very pleasurable, although she was a decent lady -- God rest her soul.

I want to read a letter that the Insurance Department, which I do respect, but I don't respect, once again, how they have all the rules and regulations, and I am going to tell you about one that has to do with replacement, because this law is really designed to make a replacement product tougher for people to use. If you really break it down, that's what it is all about. We are trying to put this and that on the product so it is harder for this guy to go and use. And, if he does something a little out of line: "I'm going to take your license, you little insignificant nothing." I love him.

ASSEMBLYMAN ADUBATO: Excuse me, watch how you treat minorities.

MR. RICHMAN: Okay. I have a lot of minorities with me. They are watching over me.

Now, there is a replacement law in this State that says if we go into a home and we replace their insurance - and,basically, a lot of it is done with deposit term, as you know, or modified premium whole life - we have to notify them of what they did wrong so they can come back and maybe do it right. I must say a name, a Mr. DeAngelo, and I want this to be on record, and recorded, and everything, so the world will hear. I had a conversation with Mr. DeAngelo in the Department of Insurance, who has the authority to recommend that we lose our license. I don't know if he earns $12,000 or $14,000, or what it is, but he doesn't like people.

I have witnesses to the fact that when we talked about the disclosure statement, he said: "If you go into a home" - and this was most interesting to me - "and you replace insurance and charge the people five times more for the product and give them half the amount of insurance, it is okay as long as you make out a disclosure statement." You can hurt the people, kill them, murder them, but it is okay if you make out a stupid piece of paper to notify them. I said, "Why don't you pass a regulation to make a phone call; it will save you all the paperwork. Now, that kind of a man, looking after the people in the State of New Jersey, should be taken away from his job.

Now, the letter is addressed to Mr. DeAngelo, and it has something to do with bureaucracy and legislation and big government and big business and big people squashing people who want to make a living. I will read it. These are borrowed glasses from J.J. Savio, and I appreciate it. I can't read or see anymore.

ASSEMBLYMAN BORNHEIMER: These are good.

MR. RICHMAN: Are they good? Well, let me try them. I refuse to buy them. Oh, these are dynamite; I can see. Thanks a lot, J.J.

It says: "Dear Mr. DeAngelo:" This is from Felix. He was helped. "As best I can, I will point by point cover each of the matters mentioned in your statement to Charter Security Life." I will tell you what they were. One of them was the submission of an updated and unsigned application. Kansas City Life made this complaint. They are a major coporation against the little guy here.

"I am enclosing the new application from Charter. I was told incorrectly that I could use it. After I got it signed, I was told I had to use the old application, enclosed. So, I had to go back and take the information on this application, which became amended to the original application taken and issued. Just a lack of communication on my part and the company." That's a minor matter, but he has to even tell them that.

Then it says, "Failure to Comply with Regulation I-72", regarding what I think most of this hearing is about, the replacement of existing life insurance. "Since my entire thrust in the business is replacement oriented, the regulation concerning replacement is not a new one to me, although ethically I am opposed to the statement as it presently is used. I have always filled out the required form. Replacement was not indicated by the clients mentioned; if it was, I most certainly would have done the forms. By checking the application on these cases, a copy of which I have attached to and made part of this reply, you will note that the clients indicated by signature that replacement was not involved. On all cases that I have ever written when replacement was indicated, I filled out the replacement forms, regardless of my personal and moral stance. It is for this reason you have never received any complaints prior to now concerning my professional standing or my dealings with my clients."

The reason, once again, each time I am reading this, was, as we put more and more regulations in, we are going to spend more time writing letters and not helping people.

Number three, "Representation as to Being a Consumer Counselor to the Sodo and Plott families." I have heard here rhetoric from a lot of people with the NALU, which I respect if that is what they want to represent, that we once in a while tell people that we are consumer oriented. Well, we are consumer oriented, whether you like it or not. Don't ask us, ask your client who says they are no longer keeping your policy.

"Although I am only 20 years old, I have been exposed to the insurance business for four years, as my adopted father, Ron Richman, often showed me and shared with me his own frustrations and success with the business. In my time" - and I want you to listen to this, particularly the people in back of me - "in the business, I have never once seen a client spend more money after becoming my client; yet, every client, every one, realized substantial increases in face amount, return at age 65 in cash, and control of their savings." Every one. If, in the eyes of the department, or if in the eyes of this Legislative body he is not oriented to his client, please indicate to him in writing your reasoning. This is all done with a product called modified premium whole life, which is kind of cousin to deposit term.

Once again, I will state what my son stated, there may be some deposit term that I don't agree with. I don't think that has anything to do with legislation. Let the people decide that. Set up a committee and if someone does something wrong, take the guy's license away. But, it has to be proved that he hurt the client, not that he hurt an agent or a company.

"Use of Enclosed Sales Material" -- and I want you people, particularly you elected people, to listen to this next one. This is the United States of America; it is not Cuba; it is not Russia; it is not China. They are now a bureaucracy trying to legislate or tell us what articles we can bring the people, and what you can read. There are 'x' rated movies you can go and see; you can certainly read these articles. And, I am going to tell you why you can read them. We put out an article called "The Ripoff" article, which a lot of people are familiar with. We like it. They hate it. I know why they hate it; it is the truth.

"All statements contained in the article were taken from books and periodicals available at any local library. I refer the Department to the bibliography contained in the back page. If the Department views the wording as being too strong, please indicate the same and I will consider not using this article." I would have made it stronger, Felix. I would have said, "if anything is not the truth, let me know."

FTC article -- We all know about the FTC. This ran in the Daily News, Wednesday, July 11, 1979. "I feel it is my duty to point out things to my clients that my clients missed reading." And, here is something important for the legislation. You see, we are trying to legislate us. In replacement competiton anti-deposit-term articles are constantly used by representatives of existing companies, like they are going to use this bill. You know, they are questioning deposit term: "You shouldn't buy it." That is like what happened to Guy's uncle. That's what they did: "Look, it is outlawed in Vermont. Maryland don't use it." What does that have to do with New Jersey? They don't pay taxes down there for us. But, that's what they use.

It says: "If your Department can help me with this problem, I will be glad to consider not using the article."

C, Life Insurance Questionnaire -- There is published a life insurance questionnaire , and we tell a client to have the agent, when he walks in, answer these questions and sign it. They never do because if they do they will burn themselves.

It says: "If your Department requires that I not ask these questions in written form, I will stop. I will not stop, however, asking these questions verbally. Each of these questions and the answers are important to my sales presentation, which as stated previously is replacement oriented."

One of the questions is: "What happens to the cash value when they die?" They really don't like that question. You know, they really object to that. I don't know why they do. If it was them they wouldn't want it kept.

"In closing, Mr. DeAngelo" - and this is really the heart of this whole meeting, I believe: we are talking about, once again, making it hard for people to either buy a good product, or making it hard for people to sell a good product. Who brought up this bill? Who brought it up? I would like to talk to them. I would like to see who they are. I would like to see if they like people.

It says: "In closing, Mr. DeAngelo, I would like to call your attention to some very important aspects of this case, which must be considered by you in order for you to make a valid judgment. I am working in a Puerto Rican market." Incidentally, that is part of New Jersey in the United States. "It is relatively a low income market, and one where every dollar is very important to my clients. I know, because my family is of the same economic group." Now, we want to keep you there with these regulations, and keep you low.

"Mr. Santos Torros, the representative of Kansas City Life has failed repeatedly to be able to compete with my products as far as return, cost, guarantees, etc. If his products are inferior to mine, I cannot help but bring to my people what is better for them. In a closed community, such as my marketplace, Kansas City Life is losing far more than in-force business; it is losing face." And, that is what is happening to some of the great companies like Pru; they are losing face to people. They don't like that. "This is important to a people struggling against all odds to bring their families the dream of this nation -- financial security.

"I will do whatever you feel is necessary to solve these problems because I love this business almost as much as I love the Puerto Rican people."

The only thing I want to add to that is that I love the people of this country, if you know anything about me, as much as I love anybody. I do. And, I detest any company or anybody that tries to hurt people. I think that is what this is about. Who are we trying to hurt? We keep saying, let's help the consumer. I don't even see him here complaining. All I saw was some people come forward, like the lady who didn't have a chance to speak today. She was crippled. She wanted to tell you why it was good. Mr. Gurman came down and wanted to tell you it was good. I don't see these vast amounts of people that are complaining. I see many agents.

This letter is just a form of many, many, many more that would constantly come down if we put more and more legislation and more and more rules and regulations in for us to follow. Please relieve us of this.

I don't mind saying this: I have always kind of been a Democrat, and this nation kind of showed that they wanted free enterprise. Now, take a look at what people said, and what Mr. Regan is saying -- whether you like him or you don't like him. He is saying, "Let it just take its natural course. Let's stop guilding it."

You see, I believe that adults have a right to pick up a phone and call their other agent. No one has to make it a rule because there is nothing in the world that you buy-- If you bought a Ford, respectfully, and you want to buy a Chevy, you don't have to tell the Ford people that you want to do that. Now, think of what I just told you. This legislation is just another step towards what they want done. Stop them. I can't do it alone, and these pople can't do it alone. But, you have the power to do it, to take a bill like that and throw it in the garbage can. It is not in the interest of people. It was not sponsored by people. You didn't get masses of people coming down and saying, "Hey, look what they are doing to us." You got a major corporation that says, "Our policies are being replaced like crazy; you'd better stop it."

Help people like him. He is just a young guy trying to get up in this world. Don't make it harder. And, don't make it harder for a client to understand how simple life insurance is -- and that is this: how much money you put out of your pocket; if you die what your family gets; and if you live, what is there for you? I am a great believer in whole life, belive it or not, but the proper kind of whole life. Most of the products around which are called whole life are not the proper kind, respectfully.

I thank you for Felix. I know him well. He was a fellow I met when he was 17 years old, and I will say this publicly, at that age he was kind of drifting into the drug field, which happens in communities like that. I kind of took him out of it. I love him. At 20 years old he is trying to be a gentleman and he is trying to make a living. Let's not make it hard for this guy, man.

They have all kinds of money. I think about three or four years ago they bought a nine million dollar castle up in New York State - the Prudential - so they could have meetings. He don't need nine million. Give him a couple of thousand and he will be happy. I thank you very much. Are there any questions?

ASSEMBLYMAN BORNHEIMER: I don't believe so, unless Mike has some.

MR. RICHMAN: I will give you your glasses back, incidentally, before I forget.

ASSEMBLYMAN BORNHEIMER: Thank you.

ASSEMBLYMAN ADUBATO: It is not really a question, but to highlight some of the regulations that we are dealing with today. It was pointed out to you that regardless of what you do when you replace a contract, if you fill out that form and it is signed that is the end of it. It has nothing to do with what you are doing for the individual. That is one of my concerns, quite frankly, like it is your concern. While it is true that equity funding is not deposit term, for the record, it was an equity funding vehicle that automatically compared these things. And, I am not saying that there are not people who, on one side of this issue or the other side of this issue, maybe should not be in the business. I am not saying that. I am not saying it is exclusive at all. What I am saying to you is that is one of the reasons why we have a responsibility to be here. It is one of the reasons, quite frankly, why I feel more of a responsibility than most of the people on the Committee, because I have the opportunity to be in the life insurance business. I have had the misfortune to pay death claims. And, I have had the opportunity to take people, when I saw them with retirement income contracts, and convert them, but with the same company. You know, I did it with the same company. I am leveling with you.

MR. RICHMAN: Sir, I would just like to say--

ASSEMBLYMAN ADUBATO: And I am saying that for the record. Maybe I was a dummy for doing it that way.

MR. RICHMAN: I appreciate what you are saying but I don't think we should do business with any company that hurts a client. I don't do business with that company.

ASSEMBLYMAN ADUBATO: I am not even questioning motivation. What I am saying is, it has been my experience in the industry that some of the easiest products to market when I came into the industry, and for quite a few years after I had been in the industry, were those contracts that were not life insurance, in my definition of life insurance. They were endowments and retirement income, which I have never sold. So, I am not defending anything.

What I am saying is, those people who sold it have a right to believe in it. They have a right to believe in it, and I have a right to go in there and point out to that individual, "Hey, for a lot less money and a lot more protection, you can maybe do something else with that money." That's not the problem with me with deposit term or anything else.

MR. RICHMAN: What is the problem?

ASSEMBLYMAN ADUBATO: My problem is, first of all, when you use those forms, as you pointed out--

MR. RICHMAN: Replacement forms?

ASSEMBLYMAN ADUBATO: Right. When you use those forms there is no way that anybody can do anything to stop anyone, whether it is you or an agent that doesn't sell the deposit term, from doing what he is doing-- (interruption from audience) Shhhhhh--

MR. RICHMAN: Shhhhhh--

MR. POISIC: They stopped my uncle, Mr. Adubato. That's bull shit what you just said.

MR. RICHMAN: He is a little excited. Take a shower, Gary.

ASSEMBLYMAN ADUBATO: I would end by saying to you that there is -- well, it is obvious, I hope, to a lot of people that there are a lot of questions and answers on both sides of the issue.

MR. RICHMAN: Yes, there are.

ASSEMBLYMAN ADUBATO: And, it is unfortunate that some people who have never been to Trenton before are here today for the first time, some of them - some of them are here for the second time - and they are accusing people of having made up their mind one way or another on an issue. If that were true, we would not be sitting here. I wouldn't be sitting here.

MR. RICHMAN: I appreciate the fact that it is being heard.

ASSEMBLYMAN ADUBATO: What I am saying to you is that through this education that we are receiving and through the Department's efforts that have been put forth here as being so grandiose -- you know, that we have done so much for people in this State-- I talk to constituents every day, not only clients. Most of my clients are not my constituents, to put it where it is at. But, most of my constituents are very upset with the Insurance Department of this State.

MR. RICHMAN: Rightfully so.

ASSEMBLYMAN ADUBATO: They are very upset with the Legislature. They are very upset with the chief executive officer, you see? And, they are very upset about the economy in general. Now, we are here trying to siphon between the emotion that we are all under and the conditioning that we are all exposed to. And, certainly I am not totally objective, even though I may try to be. I can't be because I am conditioned too. I believe in what I am doing, otherwise I wouldn't do it. It is very simple. I am not convinced, one way or the other, that deposit term is something that should be outlawed or that should not be allowed to be sold. But, I am convinced that when a person buys a product we have an obligation, no matter what that product is, that he understands it to the best of his ability, as Mr. Moran I believe has said, and not to inflate on either end what you are going to do for him. You know, dividends are one thing. Dealing with annuities are another thing. Dealing with mutual funds are another thing. And, for us to say this is the say it is going to be-- That's the system. The pople that are elected here make that the system. It is not the individual; it is the office that makes it that way.

In all due respect to some of the people that are here, they have every right to run for public office. They have every right to establish credibility. And, I wish they would, on both sides of this issue -- more of them.

MR. RICHMAN: I think if I ever ran for public office and they understood how I feel, Prudential would spend a million dollars, or more, to prevent me from getting into office because I would make sure they went out of business.

ASSEMBLYMAN ADUBATO: Hey, but don't say that because at the last public hearing one of the people here told me they were going to spend four million to defeat me, one who represented deposit term.

MR. RICHMAN: Well, I don't have that kind of money.

ASSEMBLYMAN ADUBATO: So, evidentally some of the people selling deposit term have more money than Pru.

MR. RICHMAN: I just want to close by saying this: I appreciate the time you have given me, particularly since you have heard me a couple of times. The second time I spoke for Felix. My main thrust in this thing is that we should really search our minds as human beings and understand that we are the consumer and we want something that is fair to us. We as a consumer should have a right to call anybody, but I should not be forced by any legislative body -- a rule should not be forced -- to make me do something with one situation that I don't have to do with the other. That is discrimination and I feel that eventually-- I am going to make a prediction. I did this years ago with some of the fellows. This is going to end up in court. And, what I mean by saying it is going to end up in court, I mean there are some people who are being deiscriminated against. It is unfair business practice. It is an invasion of people's privacy. These are things that I am not knowledgeable enaough to know about, but legal people are. I don't think it should be brought to that. It doesn't have to be. I think that the pople in power, like yourselves, should say no to anybody who wants to put any regulation on anything in order to stop free enterprise. Period. This is the United States of America.

The English people said: "I don't want to pay you one-third of my tea. Take a cab." A black lady one time said: "I don't want to sit in the back of the bus. Take off." We have to be able to stand up, no matter what the powers are and say to them: "We are not going to do that because it is not good for people. This is a free country. We have free enterprise." That's what all of you should stand for, and all of us in the country should stand for that. We should stop putting rules and regulations on each other. That's what we are doing. Who puts them on? The big companies, not the people. Let's stand up for the people. I thank you very much. I really do. Thank you.

ASSEMBLYMAN BORNHEIMER: The next speaker will be Bob Anderson.

R O B E R T A N D E R S O N: Well, we have heard from a lot of ex-Prudential agents; it is time we heard from Prudential now. This is my first time down here in Trenton. I have been very impressed with the missionary zeal of the deposit term advocates. Prudential does not agree with them, even though they at one time were with Prudential. We support Assembly Bill 2001. We didn't cause it to be introduced, but we do support it. I think a lot of other large, old-line companies likewise support the bill. We think it is a needed step in the protection of the New Jersey insurance buying public. We think it is appropriate that your Committee should be involved in the examination of this important issue, since I understand it was your Committee that led the way two years ago in protecting New Jersey insurance consumers from misleading practices in the sale of health and accident insurance. You called for regulations establishing minimum standards for health insurance policies in New Jersey.

This Legislature has passed laws calling for insurance contracts to be written in plain, concise language. It is in keeping with this consumer concern that you should now focus your attention on Assembly Bill 2001. We will outline Prudential's concern with deposit term and our reasons for supporting this legislation.

We feel there is a lack of adequate disclosure information dealing with deposit term insurance available to purchasers. We are deeply concerned that the type of information that is currently required to be given to life insurance consumers, whether by the current model soliciation regulations or by the model replacement regulation, is not sufficient for the consumer to make a good purchase decision.

Commissioner Sheeran's proposed Regulation, in our view, only addresses part of the problem. We need legislation, such as is proposed. Prudential does not market deposit term insurance, or its variations, but we have had a great deal of experience with it. Obviously, some of our dealings with deposit term agents and companies can only be described as acrimonious or bitter -- choose your word. We refer to the fact that in many jurisdictions a large number of replacements of in-force Prudential premanent life insurance contracts have occurred in which the replacing policy was deposit term, or one of its variations, such as modified whole life. During 1980 in New Jersey we know there were thousands of replacements of Prudential in-force policies. Since the advent of deposit term in New Jersey, this number has been increasing. We believe that an extremely high percentage of the total number of replacements in New Jersey of Prudential policies are by deposit term policies. Why are there such a large number of replacements?

Deposit term typically involves a very large first year premium or payment. Where can the buyer get the necessary funds? We all know what a big hurdle the payment of a large lump sum can be. We believe that a very frequent approach by the deposit term salesman, as part of his sales presentation, is to review and examine the customer's current insurance program. If there is existing permanent insurance, there is a very strong propensity to use or to raid existing cash values to cover the heavy initial premium for the deposit term policy. Frankly, we wonder how much deposit term would be sold if there were no pre-existing policy values to raid, and if there were no unusually high first year commissions paid.

Because of the adverse impact on policyholders of replacements we have studied these kinds of replacements intensively, and we have come to the condlusion that, in our judgment, the promotional material associated with deposit term products is all too often ambiguous and misleading. Consumers are confused and in some cases mislead. Consumers are not placed in a position where they can make a really sound purchase decision. In part this is so because of the nature of the sales process. The deposit term salesman is on the scene making his presenation. Usually there is no advocate present at the point of sale to fully explain the virtues of retaining existing whole life coverage. Cost disclosure material associated with deposit term policies as required by present regulations does not, in many cases, disclose all that consumers need to know and ought to know about those products.

What will a newly issued deposit term policy be worth in two or three years if lapsed? Absolutely nothing. No matter how sick you may be, it is worth nothing. In fact, deposit term policies lapse--

ASSEMBLYMAN ADUBATO: Excuse me, Mr. Anderson, in the absence of the Chairman I respectfully request that there be no side comments. People have had their opportunity to speak here without interruption. Let's give that same opportunity to everyone else. Thank you. I am sorry to interrupt you, Mr. Anderson.

MR. ANDERSON: A deposit term policy that lapses is worth absolutely nothing, and few can afford that kind of a loss. In fact, deposit term policies lapse during the first five or six years and typically forfeit one hundred percent of the so-called deposit. We at Prudential question whether such forfeitures are consistent with the spirit and legislative intent of the standard non-forfeiture law.

Finally and most important, our studies indicate that in the case of replacements consumers do not receive the information needed to make intelligent, informed decisions on whether or not to replace in-force, permanent insurance with a deposit term policy. Frankly, our detailed analysis indicate that rarely, if ever, is a replacement of one of Prudential's in-force policies by a deposit term policy justified on the basis of comparative values or costs.

In the case of replacement, Prudential loses an in-force policy, but, of course, the consumer is the real loser. With one stroke, all the values which the policyholder has built up over the years are used. If the new deposit term policy lapses within the first five years, the policyholder has nothing. The only one who really benefits is the replacing agent. In our view, the financial effect of such sales is very simply to convert the cash value of a policyholder's permanent policy into a substantial and, in some cases, almost unconscionable commission for the replacing agent.

We would like to recommend to your committee that proper safeguards for deposit term products, such as those contained in Assembly Bill 2001, be put into place to protect New Jersey life insurance consumers against the kinds of problems and abuses we have just enumerated.

In the remainder of this presentation we will cover some specific suggestions. Almost all of these suggestions have been incorporated in the proposed legislation. Our concerns and recommendations fall into four main headings: misleading terminology; disclosure; replacements; and non-forfeiture values.

My associate, Gabe Cillie', will discuss the competition issue and he will discuss non-forfeiture values. I am a lawyer. He is an actuary. He is in a far better position to discuss those issues.

Any legislation which is adopted should make it clear that it would be a misrepresentation to imply or state there are so-called deposit buildups with interest at a specified rate to the end of the deposit period, usually ten years. A good deal of literature has been distributed by deposit term agents condemning cash value, whole life insurance, and asking the question: Would you put your money in this bank?" This must be stopped. Usually deposits held by financial institutions, like bank deposits, are sums of money in which the loss of principal can never occur, except in the case of the insolvency of the financial institution.

In the case of deposit term, however, all or most of the so-called deposit is forfeited in the event of a lapse within the first five or six years of the contract. In some deposit term policies there are no surrender values until the end of the tenth policy year. Further, it should not be stated or implied that the tenth year maturity value is based just on the first year additional premium. We note that the proposed legislation effectively deals with this issue. A number of misleading terms are often used in conjunction with the promotion of deposit term and related products -- terms such as "profit", "savings", "investament", "tax-free", and "fund accumulations." Misleading terms should be prohibited. The proposed legislation does prohibit the use of such terms.

Another problem is presented by the commonly used name, "deposit term." In our opinion, this type of insurance would be far better understood by the life insurance consumer if it were called partial endowment insurance. We also think that the word "modified" should be prohibited for deposit term policies, least customers be confused into thinking that they are being sold a plan similar to the modified plans which usually have reduced early premiums and are so prevalent in the industry. Modified policies usually provide consistent values and reserves.

Disclosure -- For all insurance proper and complete disclosure is extremely important. This certainly is true for deposit term insurance. This type of contract is completely different from both conventional term and whole life plans. The latter types with which consumers are familiar have been marketed for many years. Because of the consumers' unfamiliarity with deposit term insurance and its variations, all of the distinctive features of these types of contracts should be clearly explained both in the disclosure material and in any replacement comparisons.

We will now mention a number of items that should be clearly disclosed to consumers. The first is future premium changes. One common variety of deposit term is called modified whole life, where at the end of the initial premium period, usually ten years, the policy automatically converts to whole life insurance. The whole life insurance policy is generally an attained age, non-participating contract. At the point of automatic conversion the annual premium increases very substantially. Of course, after ten years it is going to cost the consumer much more for the coverage. Was he fully made aware of the price of this delay at the time of the original sale?

We have seen a number of instances in which the material furnished to consumers did not clearly show these future premium increases. The proposed legislation, Assembly Bill 2001, does deal with this issue.

The last item of disclosure concerns the manner in which projected results of deposit term and any companion annuity or side fund are shown.

We feel such projected results should be shown separately from the results of the deposit term policy based on guaranteed interest rates and optionally showing results based on current rates. By showing such results separately, the customer is placed in a position where he can purchase the combination, reject the combination, or select one of the elements of the combination. Only then is the consumer able to determine which is the most cost efficient product. Non-competitive deposit term policies are sometimes sold in combination with a competitive annuity product. The combination appears attractive because of the projected annuity results, but the customer would be far better off if he purchased a more cost-efficient term policy and the annuity or another type product.

In light of these comments, we believe that the New Jersey Life Underwriters Assocaition should ammend the proposed legislation, Assembly Bill 2001, so that it would require that premiums and values be shown separately for a deposit term insurance policy and for any annuity, side fund, or rider.

As previously mentioned, much of the controversy over deposit term insurance stems from the fact that it is so frequently marketed as a replacement vehicle.

We believe that we have evidence that deposit term is, in fact, sold as a replacement vehicle and the problem faced by policyholders who must make the important decison of whether or not to replace their in-force permament insurance is a serious one.

Now, as far as the element of replacement activity is concerned, testimony by the advocates of deposit term at an Alabama hearing in late 1979 leaves no doubt that these products were often sold as replacements. At said hearing, deposit term advocates admitted proportions of 30% to 44%. I understand one deposit term company which testified at the prior hearing admitted 26% of their deposit term sales are replacement sales. Many of the people here today admitted that they sell on a replacement basis. In fact, there are many indications that a majority of deposit term sales are replacement. The NAIC task force noted indications that a majority of deposit terms sales were replacement.

This tells us a lot about deposit term. You have to have their whole life there in the first instance to fund a deposit term. These estimates regarding replacements by deposit term should be compared with data which indicate that only 5% or 10% of conventional whole life and term sales are replacements of existing insurance.

Our conclusion then is that there is little doubt that in contrast to conventional whole life and term insurance, deposit term products are sold as replacement vehicles. In fact, as I have mentioned several times, we wonder how much deposit term would be sold if there were no existing policy values to raid and cover that large additional premium.

Gabe Cillié has some slides and I am supposed to work the slide projector. I don't know whether I can, but I will give it a go.

ASSEMBLYMAN BORNHEIMER: Will you state your name, please?

GABE CILLIÉ: My name is Gabe Cillié. I am Vice President and Assistant Actuary of the Prudential Insurance Company. I am a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and a CLU. I would like to take up where Bob left off with the replacement issue.

The consumer information problem -- As far as deposit term is concerned, we believe consumers do not receive sufficient information so they can decide between a deposit term replacement and the retention of an in-force permanent policy. Deposit term has an irregular premium period. After an initial ten year period it may convert from term insurance to term insurance with a corresponding substantial increase in premium. Typically, its initial premium level, except for the first year, is considerably lower than the gross premium for the in-force policy. Sometimes the face amount is considerably higher. On the other hand, it has little or no cash value, and no dividends, while participating whole life policies usually generate substantial cash value increases and substantial dividends.

The typical consumer without training in insurance and finance will often be unable to compare or weigh these different types of data. He will be placed in the impossible position of trying to make a decision of whether to replace or not to replace.

Now, I have an example of a--

ASSEMBLYMAN BORNHEIMER: Are they premium figures?

MR. CILLIE: No, I will get to that. I am not ready for the slides yet. He is about a page ahead of me. Okay, Jim?

ASSEMBLYMAN BORNHEIMER: All right, fine.

MR. CILLIE: Sorry about that.

ASSEMBLYMAN BORNHEIMER: Go ahead.

MR. CILLIE: We forgot our extension cord. You know, you have a lawyer and an actuary. Now, here is an example of a deposit term replacement. This is a real case. This actual example of a replacement situation illustrates the difficulties which a consumer might find in comparing his in-force policies versus a proposed deposit term replacement. This replacement sale involved an offer to replace five in-force Prudential policies covering five different family members by a ten-year whole life plan.

The proposed replacement included increases in insurance on some family members, decreases on others. This complicates the consumer's ability to assess the cost implications of replacement. He would need five actuaries to figure it out and I think he would be in trouble then.

The proposed replacement gave the appearance of more coverage for a lower premium. Undoubtedly this is the feature which led the consumer to replace, and did replace. Now, we have made an analysis of this replacement situation and we are convinced that it was a far more cost effective deal for the consumer to keep his existing policy in force. Yet, he decided to replace. He made a very bad financial error in our opinion.

ASSEMBLYMAN BORNHEIMER: His existing five policies or one policy?

MR. CILLIÉ: He replaced them all, Jim.

ASSEMBLYMAN BORNHEIMER: I know he replaced them all, but you are referring to one policy when you said--

MR. CILLIÉ: Well, they sold him one contract, but they replaced coverage on five contracts on different members of the family.

Let me just go on a little further. Now, the consumer cannot normally perform an extensive financial or actuarial analysis of the replacement information. Now, what we have done is, there is the so-called adjusted net cost method, which is used in solicitation. When a policy is delivered to the policyholder, there are cost figures on there. Now, what we have done is-- Bob, would you please put on slide one? Now, this is the replacement case that I am talking about - okay? What this shows -- on the left is the proposed replacement, the index for the Mod Whole Life deposit Term. Note, the top line has $10.00; the bottom line has $14.00. Now, to the right is the interest adjusted cost for the Prudential policy that was replaced. The index is $7.00 at the end of ten and $8.00 at the end of twenty. Now, what do these figures mean? What they mean is, it costs this guy, if he keeps the policy in force, 75% more dollars to replace than not replace. It doesn't make a good deal of sense. And, the way I get that is, I take fourteen less eight and I get six bucks. If I divide six by eight I get seventy five percent. Now, that is a pretty expensive deal for the consumer. He would be much better off if he kept his existing policy and bought a new policy, whether it be a deposit term or whether it be something else.

ASSEMBLYMAN BORNHEIMER: Let me ask you a question: How much coverage did he have with the five policies? What were the five policies?

MR. CILLIE: I'm not sure. I don't have the whole example with me. Okay? (audience reaction) I will submit the whole deal to you, okay?

ASSEMBLYMAN BORNHEIMER: In other words, for me to understand what you are presenting to me is rather difficult.

MR. CILLIE: All right, Jim. On November 12th, at the original hearing you had here, I submitted a paper. The paper was written by myself and by one of the other Prudential actuaries. Attached to that paper are the complete details of the replacement. So, it is in the record of your hearing and it is in the paper that was submitted there; so you already have it. I don't know whether you have read all the stuff, but it is in there.

ASSEMBLYMAN BORNHEIMER: We haven't read everything yet, but could you give me a smattering of what the total amount of coverage was?

MR. CILLIE: I don't have the case in front of me, Jim. I would rather not do that. I would rather move on.

ASSEMBLYMAN BORNHEIMER: Michael?

ASSEMBLYMAN ADUBATO: This illustration that we are looking at here - correct me if I am wrong - isn't this an illustration of only one contract?

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: It is not an illustration of five contracts. This is an illustration of one contract on either side of that column.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: Now, we talked about the ten year index and you have a label, "Proposed Replacement of $30,000 Mod Whole Life, Age 44." That is his going in at age 44 when he is lapsing one and replacing it at that attained age.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: On the right you are showing an illustration, I believe, of a $13,000 Mod five to ten year situation.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: And you are labeling those ten year indexes that you have labeled as indexes -- are you talking about the cost per thousand?

MR. CILLIE: Right. I'm sorry--

ASSEMBLYMAN ADUBATO: You are not talking about a cumulative, you are talking about a per thousand cost?

MR. CILLIE: Right. I'll will make that clear, okay?

ASSEMBLYMAN ADUBATO: Yes.

MR. CILLIE: In each case, comparisons with respect to insurance on the primary insured, who happens to be the husband - and you are right, Mike, those are all per thousand; I should have made that clear--

ASSEMBLYMAN ADUBATO: That is not cumulative?

MR. CILLIE: No,

ASSEMBLYMAN ADUBATO: You are talking about per thousand cost of purchasing.

MR. CILLIE: It is almost like a premium per thousand. I am saying one product costs $8.00 a thousand - that is the one you have - and the one that you are buying costs $14.00, and I am asserting that it doesn't make a heck of a lot of sense, right?

ASSEMBLYMAN ADUBATO: Respectfully, the way you explained it didn't make a hell of a lot of sense.

MR. CILLIE: I'm sorry about that, Mike, okay?

Now, I would like to move on to the nonforfeiture issue, which is my second part of this. The purpose of nonforfeiture legislation is to ensure that policyholders who lapse their polices for non-payment of premium receive a fair benefit. This benefit represents, in essence, the accumulation of premiums paid in excess of the portion reasonably necessary to provide for insurance coverage and for excess first year expenses incurred by the insurance company up to the date of lapse. The Standard Nonforfeiture Law, in effect in most states, sets forth a formula which, in effect, places a limit on how much the company can reasonably charge for mortality and these excess first year expenses in the nonforfeiture calculation.

The formula in the law was unquestionably designed with whole life insurance in mind. In fact, straight term insurance is specifically exempted in most circumstances. We believe the formula works reasonably well with respect to whole life insurance. We also believe, however, that it has been interpreted to give unreasonable results in the case of deposit term insurance.

Now, we would like to stress one important observation on the subject of forfeitures. The intent of nonforfeiture legislation is to prevent undue forfeiture. Many deposit term policies offer absolutely no nonforfeiture benefits for lapses through the fifth or sixth policy year, despite the fact they contain a substantial extra first year premium well above and beyond the on-going term premium. This, in our judgment, is unreasonable.

The NAIC in December adopted amendments to the Standard Nonforfeiture Law, which would require higher minimum cash surrender values for deposit term policies. Those amendments represent a substantial improvement over the current law, which at some issue ages don't require any values for nine years. The effect of the amendments will be to require a cash surrender value beginning in the fifth year on a ten year deposit term. The cash surrender values for succeeding policy years will increase in a consistent fashion, reaching the endowment benefit amount at the end of the tenth policy year.

Now, while Prudential supports these amendments as a necessary step toward providing deposit term policyholders with a more fair scale of nonforfeiture values, we do have some remaining concerns. First the amendments provide no cash surrender values for the first four years. You still have the problem that Bob mentioned.

Secondly, the amendments will not be effective until 1/1/85; that's three and one-half years. The use of deposit term as a replacement product is a continuous and growing problem which needs effective action now, not three and one-half years from now. In view of these reasons, we believe New Jersey should adopt the minimum cash values in your bill. Such action could quickly provide New Jersey deposit term policyowners with a fair cash value scale. Policyholders whose previous permanent policy's cash value was used to provide all or a large portion of the additional first year premium on their deposit term policy will receive a fair cash value if they lapse later. One of the problems with this stuff is, in a replacement situation the equity is taken. A person has coverage. You buy the deposit term. He lapsed later. Okay. What does he lose? He lost his whole insurance program. He lost the first policy. He lost the second policy. The cash value is gone. And, the agent has the commission. Because that is what is going on with some of this stuff.

Now, it should be noted that even under A-201, policyholders who lapsed during the first few policy years will sustain a substantial loss on their purchase. Now, Bob, would you put on the second slide; I just want to show something.

Now, Mike, I will try to be a little more explicit when I mention the numbers here. Okay? Now, again, we are talking about a deposit term policy, and this is issued at age 35. The first year additional premium is $8.50. That is at the top. It is tough to see from here.

ASSEMBLYMAN BORNHEIMER: Let me ask you a question before you go on. Is this a conversion or anything else? Are you comparing term with deposit term?

MR. CILLIE: No. What I am doing, and I will take you through it, okay, Jim--? For this deposit term policy I am showing what the current law would require the cash values to be and what your bill, 2001, would require. So, on the left I am saying that under the current law no cash values are required for four years - okay? You have zeros there. It is a little tough to see. I am on an angle here.

Now, under 2001-- Okay? Remember, there is an $8.50 additional first year premium. That would be $8.50 in the first year; $2.36 in the second year; $3.96 in the third year; and $5.63 in the fourth year. Now, under your bill if a deposit term policy is issued and the person pays the $8.50, what happens to it at the end of the first year when it lapses? What does the consumer get back under your supposedly tough legislation? They get 81¢ on the dollar. They lost 90% of their money. Okay?

In the second year - okay? That's 81¢ per thousand, but still everything is proportional, okay?

In the second year, under your bill they lost 72% of their money. Under the third year they lost 53% of their money. And, in the fourth year they lost 34% of their money. Okay? So, we don't really regard this bill as being extremely onerous. I think if it did come out and it was adopted in New Jersey, consumers who bought deposit term and lapsed it might still be losing some equity on their existing insurance if it was replaced. I think it is pretty obvious from looking at those numbers that that is the case, okay?

All right, I would like to move on and address the competition issue.

ASSEMBLYMAN ADUBATO: Could we interrupt you to ask questions?

MR. CILLIE: Sure, go ahead. You can do anything you want, Mike.

ASSEMBLYMAN ADUBATO: Almost anything I want; not quite everything I want.

My question is, when we are referring to the loss on the lapse, we are referring to total outlay. In other words, you are talking about the initial lump sum deposit.

MR. CILLIE: That's all I am doing here. He was covered for the insurance. They pay an additional term premium. I am not taking that into account.

ASSEMBLYMAN ADUBATO: You are talking about a $2,000 initial payment up front.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: That isn't necessary to buy life insurance if you want to talk consumerism.

MR. CILLIE: Exactly. Exactly. Right.

ASSEMBLYMAN ADUBATO: Because that $2,000 can go anywhere. You don't need it for the life insurance.

MR. CILLIE: Exactly, Mike.

ASSEMBLYMAN ADUBATO: So, what you are saying is that that lump sum-- The policy, as was testified to here, is cashed in -- without debating how many policies, or whatever; let's talk one on one.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: A person cash surrenders a policy because he feels he is going to get a lot more protection for less money or the same money. The difference is initially while that may be true, if everything stays the way it is, what we are not recognizing and what you are pointing out here is that after a period of years where he has had this policy in effect and in most cases the growth in that policy is almost equal to his outlay, he is just taking the money from one pocket and putting it into the other pocket, into the insurance company. I am not going to split hairs as to lessening face amounts with the equity build up and all that jazz, which is true, but what I am saying is, he is now in a situation with any company of any integrity - and most of them have integrity - where his outlay that he is taking from his cookie jar, or whatever--

MR. CILLIE: His cookie jar is his cash value policy.

ASSEMBLYMAN ADUBATO: He is putting out into that cash value his equity growth, because most of the expenses are in the first year. His equity growth is equal in most cases to the actual cost of that contract in that year. In other words, if he puts out $1,000, his cash value in some cases can go into a thousand dollars after five years, for that year and each year beyond. That is something that I didn't hear anybody talk about that I think is very important, you see?

Now, when you twist that and you say, "drop this; we are going to give you more protection" - which is true, we are going to give you more protection except you are going to have to put up a lump sum payment because that is really where the commission comes from and where the investment comes from, and everything else. It doesn't come from the term portion, it comes from that lump sum being restricted and forced to stay there under the guise and the penalty of total loss when you take it out within those time frames.

MR. CILLIE: Right. Within those time frames.

ASSEMBLYMAN ADUBATO: In addition - correct me if you disagree - to what you are showing here there is a truth in what the person is being told about increased death protection. That is the truth.

MR. CILLIE: Oh, right.

ASSEMBLYMAN ADUBATO: He is getting increased death protection, but at a much higher risk to him, his equity, and his cost, because if the people in the industry on both sides of the issue would agree that the average life span of a whole life policy is seven years-- I don't know if you agree with that or not.

MR. CILLIE: I don't agree with that. With Prudential the average whole life is in force - my memory may have failed me a little - about thirteen years.

ASSEMBLYMAN ADUBATO: Industrywise--

MR. CILLIE: Term insurance is about seven.

ASSEMBLYMAN ADUBATO: It is four. Industrywise I believe term is four, whole life is seven. I could be corrected. But, what I am saying to you is that if he lapses this contract, below that mark he loses just about everything he put in.

MR. CILLIE: That's exactly what I am trying to say.

ASSEMBLYMAN ADUBATO: He loses everything.

MR. CILLIE: That's right.

ASSEMBLYMAN ADUBATO: Everything.

MR. CILLIE: He would be far better off--

ASSEMBLYMAN ADUBATO: If he lapsed the whole life policy, on the other hand, he would still be losing money but he would be getting a hell of a lot back if he had it in force for five years.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: Okay, continue.

MR. CILLIE: All right. Now, I would like to go on and address the competition issue, which I really think is a very interesting issue. It was bought out again today and it was brought out very strongly at the November hearing. It was actually brought out stronger today in my opinion.

Deposit term companies asserted in their testimony in several state insurance department hearings on the deposit term issue that life insurance companies marketing traditional term and whole life are supporting legislation and/or regulations like A-2001 in order to stifle competition in the life insurance marketplace. Your committee will recall that some of the testimony by deposit term companies during the November 12, 1980 hearing made that assertion. They assert that insurance companies marketing the traditional policy types find deposit term a hard product to compete with and therefore are supporting bills like yours to eliminate competition in the marketplace. In this section we will consider issue, including our general position on competition how competitive is deposit term versus traditional products in new sale situations, and how competitive is deposit term versus traditional products in replacement sale situations. Now, we have already addressed that one, so that will be a short topic.

Now, our general position on competition is, the Prudential supports free and open competiton in not only the life insurance marketplace but throughout every marketplace in our economic system. One important advantage to the consumer of free and open competion should be lower cost products since free markets will not tolerate excessively high costs and profits. That is the way our system works and that is the way it is supposed to be. However, in the case of deposit term insurance, just the opposite has occurred. Deposit term is not cost efficient to the purchaser. Deposit term products are being successfully sold in large numbers by sales people who are attracted by the very high first year commissions, which are as much as 250% to 300% of the first term premium for deposit term policies. These high commissions which are reflected in the high premiums and low cash surrender values contained in deposit term, make deposit term a high cost life insurance product which is very poor for the buyer - the consumer. I think that is who we are talking about around here. Okay?

Bob, would you put on slide three, please? The numbers are a little bigger on this one, but this is a commission illustration. It is a first year commission comparison. It is deposit term versus Prudential. It is for a male, age 35, $25,000 face amount. Okay, on the left side we have a deposit term policy with a first year deposit of $212 with a renewal premium of $152. Okay, now I have assumed a 200% commission here. Their commissions vary all over the lot. Under this particular plan I couldn't get the exact commission, but I think 200% is a reasonable number. Don't hold me to it; I am saying assumed.

The first year commission is $304 on this product. Now, next to it, the next product, is a Prudential five year, renewable, convertable term policy. This is not a high class, one year, annual renewal policy. This is a garden variety, five year R & C. I have four of them myself. I like the product. Three of them are with Pru, and I am not going to mention the other company. The first year commission on the five year R & C is $53. Now this compares to $304 on a deposit term policy.

Now, let's move over to the policy on the far right. This is a whole life contract sold by Prudential. It is called an Estate 25. It is available in amounts down to $25,000. We are talking about $25,000. Now, this is the so-called honors commission that is paid on whole life. It happens to be 50%. Now, I am talking about Prudential products, not other companies; I am talking about Prudential. The whole life premium is $431. The commission is 50% of that, and the commission is $215. That is $100 less than the deposit term. And, on the term five year R & C, the deposit term commission exceeds the commission on the R & C by $250.

ASSEMBLYMAN BORNHEIMER: Take it to the second year.

(outburst from audience)

ASSEMBLYMAN ADUBATO: You are not helping your cause.

ASSEMBLYMAN BORNHEIMER: Can you take it to the second year?

ASSEMBLYMAN ADUBATO: Would you continue, please? To repeat the Chairman's question: What happens in the second year as far as commmissions are concerned?

MR. CILLIE: I'm glad you asked the question. I was going to bring it up. Most-- (comments from members of audience)

ASSEMBLYMAN ADUBATO: Excuse me, who is holding this hearing? You know, we have a limit to patience too. Because we hold elected office, it doesn't mean you can kick us around. Now, just keep your cool. Would you please continue?

MR. CILLIE: Right. Now, I have been out of the actuarial department for about nine months. I am on the actuarial staff of the law department. I am not up on my commission rates. I will come up front with you on that one. However, most deposit term policies pay most of the commission up front.

We had a little informal hearing in Commissioner Sheeran's office and we talked a little about commissions. That statement was made by at least one deposit term company.

ASSEMBLYMAN ADUBATO: We have brochures, submitted to us today, that show as much as 265% in the first year with renewals of 15% a year. That is the illustration I have here from people selling deposit term.

ASSEMBLYMAN BORNHEIMER: What about whole life?

ASSEMBLYMAN ADUBATO: Maybe I can help him with whole life.

MR. CILLIE: No, let me. After saying I don't know, I think I probably do, all right? I am that type. On Prudential's five year R & C policy, the first year commission rate is about 44% on the term policy. After that, there are like three tens and some fives -- five percent -- out to about ten years. There is a total commission over ten years of about 100%, and service commissions maybe of 2%. On the whole life the picture is pretty much the same.

ASSEMBLYMAN ADUBATO: Some of the agents wish you were paying them that much.

MR. CILLIE: Okay. I went too far over my head.

ASSEMBLYMAN ADUBATO: Respectfully.

MR. CILLIE: But, I want to make this point, okay? Prudential does pay renewal commissions to its agents, but I want to go further into the competition argument and show that despite the Prudential paying renewals and despite some deposit term companies only paying a one-shot commission up front, the Prudential's products are far superior and far more cost efficient than deposit term. I don't care what commissions we pay. I don't care if we pay 300% in the fifth year, we are still better and more cost efficient, and that is what the numbers show. So, I don't care what the renewal commissions are. There are renewal commissions, but you have to look at the cost to the consumer. What does the product cost? Does the consumer really care in a competitive environment if one company which has been, let's say, more cost efficient in some respects can pay its agents more money and still do a better deal for the consumer? That's kind of the issue here.

Bob, would you put on slide four? Now, I will just continue this section. It is only a couple of more pages and then Bob is going to come back on, okay?

Now, while life insurance products are in general sold rather than purchased, we believe that purchasers should buy the type of insurance which satisfies their particular need. The need may be for temporary insurance - term - permanent insurance - whole life - or a combination of term and permanent insurance where temporary and permanent needs are present. Well over 50%

of Prudential's new sales of individual life insurance by face amount - and I am talking about individual life insurance - is term. I haven't looked at the numbers in a year or so, but I think it is more like 60%. Prudential sells a lot of term insurance. There are temporary needs. There is nothing wrong with term insurance.

Bob, would you put-- We have the slide up there. That is slide four. Now, I would like to-- This is tough. I have a lot of numbers up there and it is going to be somewhat confusing. I have the stuff in front of me and it is tough for you people to see. But, this is a competitive position of deposit term, and I am going to take two deposit term policies and compare them against three traditional products and we are going to see how they stack up. Okay? I think that is part of the issue, how they stack up in the eyes of the consumer. What is the best deal? Okay?

Now, on the left side I have years. They are like policy durations. I have one, two, three, four, five. Then I have ten, eleven, and twenty. Now, go back up to the top. This is a Mod Premium Whole Life Deposit term. It has a first year additional premium. The first premium is $364. Then it has a level renewal premium, payable for nine years, of $152. Then the automatic option is a conversion to a whole life in the eleventh year, and the premium is $676. Okay?

Would you show them the next column, Ross? I have this column totaled loss or gain. Loss or gain is equal to just the dollar. This is the dollar loss or gain that the policyholder receives if he lapses at the particular duration, and it is equal to the cash value that he receives at that point, minus the sum of his payments that he paid into the plan. For example, in the first year of this deposit term policy, the policyholder pays $364 and there is no cash value. If he lapses, he is out $364. At the end of ten years -- I don't have the sum of the premiums. I didn't write them down here, but it would be $364, plus 9, times 152. Okay? The loss or gain at the end of ten years is $1307. Now, the purchaser has something for his money. He has bought a term product. He has bought term insurance. He has enjoyed coverage. If he died his beneficiary would have received the proceeds. But, this is the real cost of the product in dollars. Now, we haven't taken interest into account in this situation.

Now, Ross, would you just go underneath to the indexes. I show a surrender index there. Okay, now this is a parallel index to what we showed before on the replacement case, and this is used in soliciation. This is an index which is good for comparing different insurance policies: If you have a $6 index on one and a $5 on another, there had better be some other reasons why you are buying a $6 policy because you are going to be out a dollar a year per thousand. That's all it really means.

Now, next to the Mod Premium Whole Life Deposit Term is a Prudential five year R & C, the same product we talked about before. Now, I am assuming in this case that the five year renewable convertable policy is not converted. It has just run out. The insured just pays his premiums year by year. I assert for every year that I have shown that the loss -- and they are all losses because there are no cash values in the term policy -- if that consumer needed term insurance, he would be far better off with that Prudential contract. His losses are much less, and this is shown by the relationship between the surrender indexes to the right. Instead of 577 at the end of ten for the deposit term, the five year R & C is 364, okay? And, at twenty it is 834 versus 427. At that point it is like half as expensive to have the five year R & C. Frankly, I would rather have the five year R & C if I need term insurance. Now, I would like to go on. Bob, would you go on to the next slide?

ASSEMBLYMAN ADUBATO: Let me ask you something. Are you saying here that in your opinion if a person were primarily interested in having the most amount of protection for the least amount of money, that instead of cashing in his policies -- and we are using very small numbers here; you are talking in relatively smaller numbers-- Using those numbers, you are saying that at the end of the twenty year period he would have had equal protection under either example?

MR. CILLIE: Oh, right, it is a $25,000 policy.

ASSEMBLYMAN ADUBATO: It is a $25,000 face amount.

MR. CILLIE: Yes. Right.

ASSEMBLYMAN ADUBATO: Under either example.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: And, you are saying that his cost under the first column, or using the rollover of the deposit term, for twenty years his cost would have been $3,066 in the twentieth year?

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: For having that $25,000 worth of life insurance. And, under a five year renewable term, that was turned over four times.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: His cost for that twenty year period would have been $2,307.

MR. CILLIE: Exactly.

ASSEMBLYMAN ADUBATO: Or, over $700 less over the twenty year period for the same amount of protection. Is that what you are proposing?

MR. CILLIE: That's what I am saying.

ASSEMBLYMAN ADUBATO: Is that what you are saying?

MR. CILLIE: That's what I am saying.

Okay. now, can we go on to--

(member of audience challenges accuracy of statement)

ASSEMBLYMAN ADUBATO: I have one question. I don't know who is saying he is wrong.

ASSEMBLYMAN BORNHEIMER: We have to take a ten minute break to let the gentleman rest his hands.

(ten minute break)

AFTER BREAK

ASSEMBLYMAN BORNHEIMER: I made a commitment to my wife that I would be home by midnight tonight. My two aides are getting very tired. we will now proceed.

MR. CILLIE: Bob, would you put slide four back on just for a second? There is one qualification I would like to make in all fairness, okay? The deposit term policy is a non par contract. The Prudential policy had dividends, which are non-guaranteed. The illustrated dividends are what we are currently paying now. Now, they could be reduced in the future. They could be more in the future. I don't know what is going to happen.

ASSEMBLYMAN BORNHEIMER: Say that again.

MR. CILLIE: Prudential is a mutual company, so it does pay dividends. These are non-guaranteed.

ASSEMBLYMAN BORNHEIMER: Even on term?

MR. CILLIE: Oh, yes. Even on term.

ASSEMBLYMAN ADUBATO: One other thing I want to make clear, even though you did make it clear when you made your presentation and when you made your comparative. I thought I made it clear, but in all fairness to everyone here, what we are really doing in the deposit term is converting to whole life in the eleventh year.

MR. CILLIE: That's right.

ASSEMBLYMAN ADUBATO: As opposed to staying with the annual renewal term for ten more years.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: To be fair.

MR. CILLIE: Now, let's go to slide five. Now, this gets a little more interesting. What I have done here is, the products are parallel. We have the same deposit term contract converted to a whole life at the end of eleven. Now I come along with the Prudential five year R & C and I convert it at the end of the tenth year to an estate 25. Now they are on the same basis. It is almost like I built a little deposit term policy with the Prudential using a five year R & C. It is not deposit term. It is not an additional first year premium. But the analogies are the same. I am doing the same thing.

ASSEMBLYMAN ADUBATO: You are converting the Prudential contract after ten years to whole life.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: okay.

MR. CILLIE: People sare saying, "Hey, you are not comparing apples and apples; you are being somewhat unfair in the other comparison." Change the ballgame. Now I am being fair in this situation and look what happens. What is the best deal? The five year R & C with the conversion at the end of ten years clearly beats the deposit term policy. You say $1500 and the cost indices bear it out.

ASSEMBLYMAN ADUBATO: That net cost at the end of the 20 year period, is that the determination of the total outlay minus the returns that are guaranteed and not guaranteed?

MR. CILLIE: Yes.

ASSEMBLYMAN ADUBATO: In both entities?

MR. CILLIE: Yes. Deposit term is non par; that is a guaranteed deal.

ASSEMBLYMAN ADUBATO: Strictly non par?

MR. CILLIE: Right. What I have done with the Prudential is, I have taken the dividends out of the-- It says gross premium less dividends.

ASSEMBLYMAN ADUBATO: You are applying the dividends to reduce the premium?

MR. CILLIE: Right. Exactly. That's why I put the dividends--

ASSEMBLYMAN BORNHEIMER: On the term?

MR. CILLIE: Yes, on the term.

ASSEMBLYMAN BORNHEIMER: On the modified five?

MR. CILLIE: On the five year R & C, right.

ASSEMBLYMAN BORNHEIMER: All right. Now, let me ask you a question: On deposit term, is there any money value in the side policy that is not reflected in this? Or, that doesn't reflect it?

MR. CILLIE: No, what I have done, Jim, and Bob Anderson addressed this issue and Mike has addressed it on at least six or seven occasions in the two day hearings, deposit term can be sold separately - okay? A lot of deposit term is sold in conjunction with an annuity. I think an annuity is a good product. It has a nice return. What we are saying here is, a combination is sold. Why doesn't a person buy a five year R & C and buy another investment vehicle, whether it be an annuity, whether it be a government bond?

ASSEMBLYMAN BORNHEIMER: Well, what I am trying to say to you is, show me what happens when they buy a term policy with a side policy. Can you show me that?

MR. CILLIE: Jim, I really don't think that is the issue.

ASSEMBLYMAN BORNHEIMER: The question is--

MR. CILLIE: Here is what I would like to state on that.

ASSEMBLYMAN ADUBATO: Could I interrupt you and say something?

MR. CILLIE: Yes. Go ahead.

ASSEMBLYMAN ADUBATO: To try to be as fair as everyone, I hope, wants to be up at this table, what we are saying is, if you take the same amount of money and you buy a term policy and the differential of the money that is necessary to go into a side fund-- Not in this illustration so much, because over here you are talking about a situation with deposit term where their option to convert in ten years converts to whole life with all that money going into that life insurance product.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: That's one form of deposit term.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: The other form of deposit term is a form where you are doing this but you are also applying money that is accruing somewhere else.

MR. CILLIE: Right.

ASSEMBLYMAN ADUBATO: It is not necessarily in the life insurance vehicle.

MR. CILLIE: Right.

ASSEMBLYMAN BORNHEIMER: You see, that's what I am trying to understand.

ASSEMBLYMAN ADUBATO: Now, if you took the term and you applied the same money either to an 8% or whatever annuity contract that someone else is doing with the deposit term, you could do the same thing here and take that money and apply it to a damn annuity the same way. There is no big deal with that. The point is that whatever shows, these figures are not going to change if you are applying equal money and an equal investment somewhere else.

MR. CILLIE: In fact, you are going to have more money left over, when you buy the five year R & C, to plunk down on the annuity.

ASSEMBLYMAN BORNHEIMER: What I was referring to was the loss factor, what you forfeit. In other words, if you buy a policy up front with deposit term, you buy term insurance and you buy something on the side. All right? Under the present law, you lose what is on the side. Am I correct or am I wrong?

MR. CILLIE: By "on the side" you mean the annuity?

ASSEMBLYMAN BORNHEIMER: I don't know what is on the side. Deposit is on the side.

MR. CILLIE: Well, in the deposit term contract, you pay your additional first year premium or your deposit, and if you lapse before the fifth or sixth year you are going to lose an awful lot of your deposit. And, there are some policies out there where you are going to lose your whole deposit if you lapse in the first nine years. I have seen them. I didn't use them here.

ASSEMBLYMAN BORNHEIMER: You see that is one of the facts I have to take into consideration. I have to compare what happens if you buy a policy with a deposit on the side or an annuity on the side. Mike understands this a lot better than I do. With an annuity I think I can understand what happens.

MR. CILLIE: Okay. Let me try and answer it again. I didn't see quite what you were driving at. Now, you have a consumer. He wants to buy life insurance and he wants to buy an annuity. All I am saying is, he would be better buying the Prudential five year R & C and the annuity rather than the deposit term policy and the same annuity, which is what Mike is saying. Isn't that what you were saying, Mike?

ASSEMBLYMAN ADUBATO: Well, it would appear that way. I am not totally convinced that it would be better, but it appears that he is not subject the way you are illustrating it, to losing that kind of money if he did it that way as opposed to buying a deposit term vehicle. He is not subject to those losses in those years.

MR. CILLIE: A five year R & C is more cost efficient. Here the products are parallel. Deposit term is converted at the end of the tenth year and the five year R & C is converted at the end of the tenth year.

ASSEMBLYMAN ADUBATO: In this example.

MR. CILLIE: In this example, right.

ASSEMBLYMAN ADUBATO: Right. Okay, continue.

MR. CILLIE: Okay. Now, the next example-- Would you put slide six up, Bob, please? Now, this should go faster because the numbers are basically the same for deposit term. The same deposit term contract converted at the end of the tenth year to a non-par whole life-- Now, stack it up against a Prudential whole life contract, all right? What we can see from this is, if the insured lapses in the very early durations under deposit term, he is going to do a little bit better, along about to the fourth policy year and all of a sudden there the estate 20 is a better value. And, I assert over 10 years and over 20 years, by the surrender indexes the estate 25 is a far superior product. Now, if the consumer does lapse early, he is better off with the deposit term. But, if he needed term insurance or there was a chance that he felt he couldn't keep up his premium payments, he should have bought the five year R & C.

ASSEMBLYMAN BORNHEIMER: Now we have to go back to another question that I have in my mind. We are talking about the person that is being insured and how much money can be provided for the individual, which is not reflected in these figures.

MR. CILLIE: Well, the face amount-- I am keeping the face amount constant. Actually, I should say one other thing. This was brought out earlier in the hearing. The deposit term policies do provide a little tiny extra death benefit, say equal to the deposit or double the deposit. The Prudential policy is $25,000. The deposit term worked out at $25,000, but actual insurance might be $25,150. There is a slight bias in the amounts, but the amounts are almost the same. Okay?

ASSEMBLYMAN ADUBATO: We are not talking 25/50, where in one example he is getting $25,000 worth of insurance and with the deposit term and those equal values he would be getting $50,000?

MR. CILLIE: No, they are very close, except for the little insurance amount on the deposit. I did want to mention that. I want to be careful. We are playing with a lot of numbers here and it can be kind of confusing as to what is really going on.

Now, if we could move on to slide seven, Bob-- This shouldn't take very much longer. Now here I have a parallel product situation. Now, I have another deposit term policy. It is called a Mod 10 Whole Life, and this is a deposit term policy where it is not converted at the end of 10. In other words, it is term insurance for 20 years. Now, what I have done is, I have run it against a Prudential Five Year R & C, which I don't convert either. I run it all the way. These are parallel products. We are comparing term for 20 years against five year R & C for 20 years and again you can see that the insured has lower premiums; he has lower net losses; he has lower cost indexes. Again, the five year R & C is clearly superior to the deposit term in this situation. It is not even close.

Would you put up slide eight, Bob? Now, these are non-parallel again. This is the Mod 10 Whole Life and deposit term. It is a deposit term rolled over into another deposit term at the end of 10. Again, we have our losses and gains, and I have it against the five year R & C, converted at the end of 10. Now, this is like a reverse sitution. People were complaining that I was comparing a whole life against a term and not playing fair. Well, I am doing it to myself in this case. I want to assert that there is obviously more premium dollars paid, particularly when you get up to the 11th and 20th years on a five year R & C situation where I had the conversion. But, the gain-- You are $1500 better off at the end of 20 years under this situation, and when you interest adjust the situation, which is shown by the surrender indexes, you are better off with the five year R & C converted at the end of 10 years than you are with a deposit term policy rolled over at the end of 20 years. I assert that the five year R & C is far superior to the other combination.

ASSEMBLYMAN ADUBATO: Yes, but isn't it fair to say that while what we are showing there is accurate, the difference shown is outlay as opposed to deposit term, starting with the 11th year, okay?, where he is putting out $158 a year and you are putting out $640 a year, the differential of that money. Again, turn it around now and apply it to your product, the same as I have been accusing them of doing. If you took that money and put it into a savings and loan and had the interest factor growing there, that wouldn't show up that way. If you took that same amount of money that it took for the individual to buy a whole life - because now I have to do to you what I did to them-- Now, when you take that money as opposed to putting $640 into a whole life product and you put $158 into the same face amount, basically, but you took the differential of that money and put it somewhere else, at the end of your next ten year projection where you are showing that they lost $3,108 - because you have all term premium as a total loss - and you are deducting the equity from the outlay to show your loss of $1500. You are really not showing a fair projection because that other money that they didn't put out would more than make up that $3,000 loss. In fact, I would assume that where you are showning a $1500 loss, they may even show a break-even point if you applied the same money.

MR. CILLIE: Well, I would really like to do some work on this thing. But let me--

ASSEMBLYMAN ADUBATO: The reason I have to say that is because that is what I am accusing them of doing.

MR. CILLIE: Let me just talk a little bit about the numbers. Now, at the end of 20 years--

ASSEMBLYMAN ADUBATO: Forgive me. You didn't answer my question.

MR. CILLIE: I'm sorry. I wanted to discuss your question.

ASSEMBLYMAN ADUBATO: Okay, continue.

MR. CILLIE: What I want to assert here is, I was home last night and I was adding up premium figures and I didn't have one of the computer sheets with me and what not, so I was trying to do things by just eyeballing it, but I think I am pretty close. On the Mod 10 Whole Life, the purchaser would pay, over a 20 year period, about $3500 in premiums, and he would receive back about $400. That is the cash value at the end of 20, hence the $3100 loss. Okay? On the Prudential Five Year R & C, with the conversion - and remember in the early years with the Prudential some of the premiums are less than on deposit term if the dividends are payable - the Prudential policyholder would pay about $7,000 and would receive back about $5500. But, you are right about the incidence of the money. But, the surrender indexes, which are shown underneath, do reflect interest, and they do show the comparison to be quite favorable as far as the whole life policy is concerned.

I thought you were going to ask a question.

ASSEMBLYMAN ADUBATO: No, I was just looking at the net payment index where you show $641.

MR. CILLIE: Right, that doesn't have the--

ASSEMBLYMAN ADUBATO: As opposed to $1136 for your product.

MR. CILLIE: You have to look at the surrender indexes, Mike. That doesn't have the cash value in it and they get distorted. I included those in completeness to be fair about it, but they don't mean too much. Okay?

All right. That concludes my slides, Bob, all right? I will just go on and read this. Bob, I have about one more paragraph and then you are on again.

I would like to discuss, very briefly, the competitive position of deposit term versus traditional policies in replacement sales situations. This issue was discussed in the replacement section. It is obvious, however, that if a traditional whole life policy is competitive - and I am saying it is with the slides - against a deposit term policy in a new sale situation, it would be far superior in a replacement sale situation where the consumer could avoid the exorbitant first year commissions on the deposit term policy by retaining his in-force whole life policy. Additional life insurance needs caused for example by inflation or additional family responsibilities should be met by the purchase of additional policy and not be replacement.

Now, I am all done with my presentation.

ASSEMBLYMAN ADUBATO: The replacement issue is one thing. When we talk about pure insurance protection, I think it is fair to say that if you are dealing with a term product, pure term-- You know, forget deposit term. Let's talk about pure term.

MR. CILLIE: Annual renewable term, is that what you are talking about?

ASSEMBLYMAN ADUBATO: Well, I happen to sell annual renewable term because I think a person gets more value with that than even with your five year renewable, in my opinion.

MR. CILLIE: It is.

ASSEMBLYMAN ADUBATO: So--

MR. CILLIE: We have those too and we don't sell them in amounts below $100 or $200 thousand, but they are really good.

ASSEMBLYMAN ADUBATO: Yes. Well, that is it; you are restricted in your market. You're right. You are absolutely right. You have minimum contracts, and the contracts I am talking about are minimum contracts of $100 thousand and so forth and so on. But, be that as it may, the pure insurance that we are talking about, with the protection, is that in an equity build up contract, the day a person buys a life insurance policy he buys term and the same day he buys whole life. The outlay is less with the term. Now,let's project it ten years down the road. Forget deposit term and everything else. After ten years if that individual has built up, let's say for the sake of discussion, $10,000 in equity, he doesn't have to die to get that money. His pure insurance is $90,000 in most cases -- not all cases, in most cases. Meanwhile, he is paying the same premium as he did before the $10,000 was accumulated. With mortality tables in there and everything else -- you know, I am not an actuary and neither am I a lawyer-- The point is, for the value - the way I interpret whole life - one of the things for whole life is that even though everything I said is true, your actual pure insurance is less ten years down the road--

MR. CILLIE: Right, the net amount.

ASSEMBLYMAN ADUBATO: (continuing) --than it is when you initially start out, you are buying that insurance at that age to keep that level of premium, number one, so when you are 50 it doesn't jump and, number two, what you are saying is that this is a product that is not an investment to make money, in my opinion; it is a product that if everything else you do goes bananas, at least you are going to have this. It is harder for you to touch. Now, that may be a sick way to talk about it in today's money market and everything, but that is the way I interpret whole life.

MR. CILLIE: That's true.

ASSEMBLYMAN ADUBATO: After that whole life product is there, assuming the person in the profile can afford to pay it - as I said before, and I have to repeat it - I think it is a great value and he is really not losing anything outside of that first year, so to speak, not counting interest and so forth. He is taking money from this pocket and putting it into that pocket. His premium outlay - his growth - with the products I am talking about, his cash value is growing more than his premium, in effect. Now, to compare that and say this is wrong; the guy shouldn't do that; he is getting robbed; he shoudn't have it -- you know, I don't buy that. No one can ever convince me of that because I believe with a missionary zeal in what I am selling. What I am saying is, if those people are more interested, whether it is Prudential or a guy from Puritan, or whatever company, in selling more protection for less money, what is the problem with selling in term again? We are right back to square one. What is the problem with it?

MR. CILLIE: You know when I started this thing -- you know, there are temporary needs; there are permanent needs; there are needs that can be satisfied with a combination of term and permanent. You know, I am not pushing permanent and I am not pushing term; I am pushing both. I believe in both products. I think they both have a need.

ASSEMBLYMAN BORNHEIMER: All right. Let me put this back in square one. Deposit term is not a bad produce - quote, end quote. It depends upon what the needs of the individual are. In other words, if the individual is looking to buy protection for his family if he should pass away, term insurance is the best vehicle at the lowest cost. Now, at some point in time he bought a life insurance policy, which was a whole life policy. When he was a youngster and graduating from high school, like I was, somebody said to him, well you ought to provide, if you get married and everything else, for your children's education and therefore you ought to buy a life policy. Now, we are in a marketplace where it says about the cost of tuition. Maybe it is better to buy a term policy and lower the cost, which will provide more coverage if I pass away. I have a problem where it talks about deposit term paying me additional and having a side fund. That is my problem.

ASSEMBLYMAN ADUBATO: Not with term.

ASSEMBLYMAN BORNHEIMER: Term versus term -- I have no problem. It is when I get to the point whereby I pay an additional premium up front that says to me, you are not buying additional term; you are buying an annuity and you are buying something else and you are going to provide for your retirement besides providing for your death benefit. My question is how that money is handled. Mr. Richman said it is handled in a separate fund in some policies, right? But this is another policy. You see, that is where I have a hangup.

MR. CILLIE: It is a rider to one policy, where it is an attachment to the policy.

ASSEMBLYMAN BORNHEIMER: He is shaking his head no.

MEMBER OF AUDIENCE: It is just a benefit. It is on the same policy. Can't you comprehend that?

ASSEMBLYMAN BORNHEIMER: No, I can't.

MEMBER OF AUDIENCE: It is like attaching an additional feature on a car.

ASSEMBLYMAN BORNHEIMER: Wait a minute. Don't talk about cars. You are in my ballpark.

Just so I can understand, and it has been raised not only by myself but by some of the people who are very close to me, I have to have it clarified. Say for example I have a whole life policy. Say it is for $10,000. Now I can buy term insurance which will give me $50,000, all right? I take the cash surrender value of that policy and I buy term insurance. Head to head I make money. I am in good shape. Head to head I am in good shape buying term insurance versus whole life.

MR. CILLIE: Well, here is my--

ASSEMBLYMAN ADUBATO: He is talking about face amount.

ASSEMBLYMAN BORNHEIMER: Yes, face amount.

ASSEMBLYMAN ADUBATO: He is saying that he can get more face amount for the same dollars than he is getting with ordinary life. I mean that is no problem.

ASSEMBLYMAN BORNHEIMER: That's right. I'm ahead. Now, I am at the same point and I buy deposit term. Now, it costs me a little bit more for deposit term than it does for head to head, dollar for dollar term insurance, straight on.

MR. CILLIE: Right.

ASSEMBLYMAN BORNHEIMER: What I have to have explained is what happens to that excess? You are still here, Mr. Richman, go ahead I will let you testify.

MR. RICHMAN: First of all, Mr. Chairman, I would like to apologize for my outburst before. It is an emotional thing with me. I apologize and I will try to watch myself from this time forward.

If we have a chance, I will answer exactly what happens, and I will make it very simple, because the public buys things simply.

ASSEMBLYMAN BORNHEIMER: I want it so simple that I understand it.

MR. RICHMAN: You are going to understand this, Jim, if I may call you that - or Mr. Bornheimer. There is $600 that a person puts out. In a conventional whole life policy it is called insurance.

ASSEMBLYMAN BORNHEIMER: Forget about that. Forget about conventional whole life. Term to term I will be even. I have money left on the side. What happens to the money on the side?

MR. RICHMAN: In our policy, which is one that the Prudential Insurance Company is totally unfamiliar with, the money automatically is put into a cash value -- period. If it is $600 and the cost of the insurance is $50, $550 will go into a cash value which the person can use at any time without penalty, interest, or changes of any kind.

ASSEMBLYMAN BORNHEIMER: The first year?

MR. RICHMAN: Every year. You see, the comparison has to be outlay to outlay, not insurance premium to insurance premium because there is a mixture of words that is trying to confuse the public. This is money out of your pocket I am talking about. Now, I don't care what you call it, it is money out of your pocket. They can never prove, and never have in all the years I have been in the business, that if I take dollar for dollar over any period of time, there is a cash value in the first and the second and the third and the fourth and the fifth year. You have to understand the product that we have. Our product--

ASSEMBLYMAN BORNHEIMER: We are talking about my product.

MR. RICHMAN: Yes, sir.

ASSEMBLYMAN BORNHEIMER: I am buying this product. I have term insurance and I have term insurance, and they are equal. I pay the same amount or maybe I pay a little bit more, depending on the company.

MR. RICHMAN: Yes.

ASSEMBLYMAN BORNHEIMER: Now I have this other product that says if I pay an additional $500 down payment as a deposit, what happens to that $500 the first year?

MR. RICHMAN: Basically what happens to that $500 compared to their term product is that--

ASSEMBLYMAN BORNHEIMER: I don't pay it with their term product.

MR. RICHMAN: Okay. Well, that $500 is buying other benefits for that client over the period of that product. It isn't just-- People don't buy it for one year. If I walk into someone and they want a one year product, I will buy them a one year R & C, but that is not what the public is buying. They are buying a whole life situation, and that is where the confusion is.

ASSEMBLYMAN BORNHEIMER: No, I'm telling you what I am buying. I am buying a ten year term policy.

MR. RICHMAN: Okay, if you are going to buy a ten year term policy, straight--

ASSEMBLYMAN BORNHEIMER: Now I am buying a deposit term for ten years with that override.

MR. RICHMAN: Mr. client, are you going to stay in the program for ten years?

ASSEMBLYMAN BORNHEIMER: Yes.

MR. RICHMAN: If you are, you are better off with deposit term than the other one. If you are not, don't buy it. Buy a one year R & C that you can have next year. I don't want to hurt you.

ASSEMBLYMAN BORNHEIMER: Tell me why.

MR. RICHMAN: Because what happens on a deposit if it is sold incorrectly is it is lost. But, the product is not sold for a one or a two year period. It is sold forever. They make people believe that it is being sold for ten years. It is sold as an alternative to whole life insurance. That is what the fight is about.

ASSEMBLYMAN BORNHEIMER: Now I have you at the right point. What am I buying with that deposit which is an alternative to whole life?

MR. RICHMAN: I will explain what you are buying. You are buying a product that gives you many, many more options than the five year R & C.

ASSEMBLYMAN BORNHEIMER: I am not talking about a five year R & C.

MR. RICHMAN: I will tell you what you are buying. You are buying a product that has guaranteed -- guaranteed -- retirement benefits at age 65, which a five year R & C does not have.

ASSEMBLYMAN BORNHEIMER: What if I die before age 65?

MR. RICHMAN: You get all the cash in there plus the face amount of the policy. With term you get nothing but the face amount of the policy.

ASSEMBLYMAN BORNHEIMER: Can I withdraw the money?

MR. RICHMAN: Pardon?

ASSEMBLYMAN BORNHEIMER: Can I withdraw the money?

MR. RICHMAN: Yes, sir.

ASSEMBLYMAN BORNHEIMER: The first year?

MR. RICHMAN: Yes, sir.

ASSEMBLYMAN BORNHEIMER: Now, I go back.

MR. RICHMAN: Go ahead.

ASSEMBLYMAN BORNHEIMER: What if I give you the deposit and everything else for the first year and six months later I say I want my money back for the deposit?

MR. RICHMAN: I'm sorry, you want the deposit back, sir?

ASSEMBLYMAN BORNHEIMER: Six months after I gave you the deposit and everything else.

MR. RICHMAN: It is forfeited, and if you are going into the program for six--

ASSEMBLYMAN BORNHEIMER: All right. Now--

MR. RICHMAN: Don't buy it.

ASSEMBLYMAN BORNHEIMER: All right.

MR. RICHMAN: I'm being honest; don't buy it.

ASSEMBLYMAN BORNHEIMER: Let me be a real devil's advocate. Let me take a person. I will take my son, all right? He is not married, but I will marry him.

MR. RICHMAN: Okay. (laughter)

ASSEMBLYMAN BORNHEIMER: He has two children.

MR. RICHMAN: He has children. Because if he is single he doesn't need it and if he is married he doesn't need it. If he has a good looking wife he don't need it.

ASSEMBLYMAN BORNHEIMER: Well, that is my wife.

MR. RICHMAN: Okay. He is married with children?

ASSEMBLYMAN BORNHEIMER: He is married and he has two children. When he graduated from high school he bought a $10,000 policy, whole life. Now it is the fourth year and he has equity and so forth in the policy. Now he is married and he has two children, and their ages are six and ten. I have to put them into that range to get them into the high school level. All right?

MR. RICHMAN: Yes, sir.

ASSEMBLYMAN BORNHEIMER: Now he says to you, "Review my insurance policy," and he shows you the whole life policy. What would be the recommendation that you would make?

MR. RICHMAN: First of all, I would see how much the man is spending.

ASSEMBLYMAN BORNHEIMER: Say he is spending approximately $300 a year.

MR. RICHMAN: Okay, let's say the man is spending $300 and he has a $10,000 policy which he has had for four years. In many cases there is no cash value in it. Or, maybe he has put in $1200 for four years and it is worth $102. I mean, it is worth something. Now, what I would say to the man is, number one, what is the $10,000 worth to you if you die? What is it going to do for your children and your wife? Will it take you to the movies once? What is it going to do for you?

ASSEMBLYMAN BORNHEIMER: What if he says I am not concerned about building up a fund to educate my children; I want to provide for them if I die?

MR. RICHMAN: I would ask him what he is interested in.

ASSEMBLYMAN BORNHEIMER: But, you didn't say that first.

MR. RICHMAN: Well I have to get done with the guy. I want to know what he is interested in accomplishing. Now, once I find out he is interested in-- Let's say he is a man who doesn't love his family. First of all, I don't think you should talk to any man about insurance if he doesn't love his family. There is no need for it if he doesn't care what happens to them. But, I am assuming your son loves his children and loves his wife and he either wants to have some retirement money or he wants to have some money to give them anything. I don't care what he wants the money for. It is none of my business why he wants the money. That is not my business. I would take the same about of money that he is spending and put it into the computer, which is what we do; we put it into the computer. I would show him for the exact same outlay -- no more money -- in all probability, and I am going to be very conservative, he would have at least twice the amount of insurance for the rest of his life without putting out more than $300. He would have twice the amount, minimum, without spending a nickel more and he would have at least two or three times the money at age 65, guaranteed, when he is ready to retire.

Now, I don't know if I am a great financial planner or estate planner, but I do know one thing, they would be taking his $300 and not giving him the best shot. The problem, Mr. Bornheimer, is that I have to notify these major companies that they made a mistake with this man.

ASSEMBLYMAN BORNHEIMER: I am not interested in that at the present time.

MR. RICHMAN: Well, now when they come back and they say, "Well, maybe you are better off with the R & C--"

ASSEMBLYMAN BORNHEIMER: All right. Thank you, Mr. Richman.

MR. RICHMAN: All right. Thank you.

ASSEMBLYMAN BORNHEIMER: I found out what I wanted to know. Now, would you make your final statement. I am sorry to interrupt you.

MR. ANDERSON: I have a concluding statement.

ASSEMBLYMAN BORNHEIMER: That's okay. You have as long as you need.

MR. ANDERSON: If I understand correctly, on deposit term with your initial payment plus your deposit, take the usual policy, three years, complete lapse, and then the person dies in the fourth year -- what does the person get?

MR. MASKIN: Face plus tenth year cash.

ASSEMBLYMAN BORNHEIMER: Will you stand up, please, and be the spokesman? Now, answer the question as it was asked.

MR. MASKIN: Like every term policy, or whole life policy, from different companies vary on death, with some companies you receive the tenth year cash value; with some companies you receive just the initial deposit back; and some companies you receive the deposit plus interest. But, one thing is interesting: You don't lose it if you die.

MR. ANDERSON: It was my understanding that with some companies you lose everything on a lapse.

MR. MASKIN: On a lapse, yes, but not on a death benefit.

ASSEMBLYMAN ADUBATO: Let me try and be helpful. The question was if a person buys a deposit term policy, including the additonal money up front and so forth and so on, and he keeps it for three years and it lapses - he doesn't have it any more if it is lapsed - in the fourth year he doesn't get anything if he lapsed it. I mean that is-- If a policy is lapsed it is lapsed. If it is not it is not.

MR. MASKIN: That's all policies.

ASSEMBLYMAN BORNHEIMER: That is the same thing with whole life.

ASSEMBLYMAN ADUBATO: Now, maybe I am wrong; I don't know.

ASSEMBLYMAN BORNHEIMER: Go ahead, continue.

MR. MASKIN: Okay. Number one, you are talking about technicalities here. Let's say I have kept a one year whole life policy to 65. I have $80.000 of cash value built up. I die. What happens to that money?

ASSEMBLYMAN BORNHEIMER: Okay, I understand what you are saying.

MR. MASKIN: You know, he is looking for all little technicalities.

ASSEMBLYMAN BORNHEIMER: No, I think what he is trying to do is--

ASSEMBLYMAN ADUBATO: No, let me tell you what the difference is. The difference is simple. Some people said whole life policies at four years have no cash value. Well, the whole life policy I sell, the cash value is equal to the premium in the second year. Now, if that person lapses after three years, it goes automatically into an extended term provision without him paying any more premium. Now, you can draw that out according to the tables, and I am not going to get into that, but he can go as long as ten years or fifteen years without ever paying another dime. That is a benefit - the no-forfeiture value clauses - that you have to recognize. Not to take one side or the other, it is a fact of life.

Now, you know, I have to speak up because quite frankly that is part of the nonforfeiture value provision in that whole life policy. And, if you are selling deposit term and that guy doesn't pay that premium any more, it is not the same thing. And, if it is, then I stand corrected.

ASSEMBLYMAN BORNHEIMER: All right, continue please.

MR. ANDERSON: I will conclude. Obviously deposit term is a very controversial subject. It is of interest across the country. State after state has been considering it and principally it is because of the replacement aspect of deposit term sales. This is the reason it causes so much controversy across the country.

Now, in Georgia the deposit term issue has led to specific legislation requiring higher minimum cash values for deposit term products and the adoption of a strong advertising and marketing regulation, that is almost - as I understand it - similar to the Assembly Bill 2001 that is suggested here.

In Florida the Insurance Commissioner appointed a study commission to analyze and make recommendations on the deposit term issue. He commented on the national scene by saying there have been efforts to pass legislation, control commissions paid in replacement situations, issue disclosure rules for deposit term sales, and there have been outright actions by some commissioners to ban the sale of the product.

In Wyoming the Insurance Commissioner has ordered all approvals of deposit term policies withdrawn. The Commissioner in Wyoming stated that such policies of insurance violate Wyoming law in that they are deceptive, do not provide required nonforfeiture values, are tontine in nature and refer to premiums as deposits.

In Alabama last summer the Insurance Commissioner ordered a 180 day moratorium on policy approvals, solicitations, sale and effectuation of deposit term. In Alabama the Insurance Commissioner stated that evidence also exists that the principal mode of marketing partial endowment type, which is deposit term there, is encouraging policyholders to cash in or to replace existing insurance policies, which action may well prove to be financially detrimental or tend to do irreparable harm to such policyholders. While the moratorium was lifted, it is highly likely that as an outgrowth of a previous deposit term hearing and subsequent hearings, a strong advertising and marketing regulation dealing with deposit term will be promulgated, conceivably similar to Assembly Bill 2001.

In Delaware, Kentucky, Michigan and Vermont there have been hearings. In Illinois, Indiana, Maryland, Mississippi, Missouri, New Hampshire, Okalahoma, Pennsylvania, Tennessee, Texas, and Washington -- all of them have had hearings of one sort or another on deposit term.

Now, our conclusion is that we like Assembly Bill 2001. We think that it will ensure fair cash surrender values upon lapse. Under Assembly Bill 2001 new purchasers of deposit term policies will not be subjected to misleading practices that currently some deposit term salesmen use. New purchasers will be better informed about making this extremely important long-term financial decision.

We thank you very much, Mr. Chairman, for your attention.

ASSEMBLYMAN BORNHEIMER: Thank you. Mike.

ASSEMBLYMAN ADUBATO: I want to thank you gentlemen for coming here today. The one thing that I would like you to respond to -- Mr. Chairman, with your permission -- when you were making your presentation, arms were waiving behind you - you couldn't see them - in a challenging way, which is better, and I appreciate your not shouting out. So, we are learning to deal with each other a lot better and I appreciate it.

I would like the gentleman to have an opportunity to respond. I think it was Wyoming that was mentioned and you got a little shakey in your seat. Would you like to comment on that?

MR. RICHMAN: Yes. You know, I really feel quite humbled that I am able to talk against a great, large company like Prudential and basically a respcted lawyer, and I would say that he should really get his facts straight and take an oath before a statement is made.

ASSEMBLYMAN ADUBATO: Wait a minute. You were doing pretty good up until then.

ASSEMBLYMAN BORNHEIMER: And you are losing your head.

MR. RICHMAN: In the State of Wyoming--

ASSEMBLYMAN ADUBATO: Forgive me for interrupting you. You were doing pretty good until then. Just deal with the issues.

MR. RICHMAN: Statements are made to this Committee that unfortunately are not true.

ASSEMBLYMAN ADUBATO: All right. Tell us about Wyoming.

MR. RICHMAN: In the State of Wyoming, sir -- respectfully, to the two gentlemen from Prudential, and I have said this to you before, Mike -- there are a lot of deposit terms that have been thrown out, but not our product, which is called Modified Premium Whole Life, which is a cousin to--

ASSEMBLYMAN ADUBATO: You told me that there were some deposit terms that were being sold, for the record, that you feel shouldn't be allowed to be sold.

MR. RICHMAN: Yes. Thank you.

ASSEMBLYMAN BORNHEIMER: We have one more gentleman to testify.

Proceed, sir.

ASSEMBLYMAN ADUBATO: Don't be nervous, please. I wish all you guys would have an opportunity to serve down here for at least one term. I'm sorry, proceed.

ASSEMBLYMAN BORNHEIMER: I think that everybody ought to give the court reporter a tremendous hand because he has worked under tremendous pressure. (applause)

ASSEMBLYMAN ADUBATO: That we are allowed to clap for, right?

ASSEMBLYMAN BORNHEIMER: And his associate. Normally, we have two or three, where they get a break. He has been a tremendous gentleman and I thank you.

GATINO MARTINI: My name is Gatino Martini, and I am the Vice President of the New Jersey Association for Truth in Life Insurance. Before I get into some of my basic comments, I just want to congratulate you people here today. This has been my first experience with the legislature and the process. You know, you hear a lot of things on the street about, you know, "this guy here and this guy there"--

ASSEMBLYMAN ADUBATO: I have a hell of a rep, don't I?

MR. MARTINI: I believe you are fair people, and I think you have demonstrated that here today.

At the first hearing there were many discussions. Well, now I am at the second hearing. There were many discussions about what is better, whole life or term? And, there were also comments made regarding A.R.T. Although I would agree that the above mentioned are healthy debates for both sides, I find these subjects are not in the proposed legislation. So, with your permission, I will speak directly to the subject on hand, and that is A-2001.

As I see it, there are two main objectives of this bill, and they are:

1. To implement certain restrictions regarding marketing of this product, like double your money and ten percent interest. The bill states that these are unfair trade practices and misrepresentation. In fact, one person at the last hearing said that "deposit term products are an actuarial trick."

2. To raise the minimum nonforfeiture laws for one particular policy to create early cash values for this product.

As far as the first objective of the bill, as to the marketing of the product, it is no more or no less an actuarial trick than a dividend is. For those of you in the legislature who are not familiar with the life insurance dividend, U.S. Treasury decision number 1723 states: Dividends declared by participating companies are not dividends in the commercial sense of the word, but are simply refunds to the policyholder of a portion of the overcharge collected, which overcharge is merely held in trust by the company issuing the policy." But, the worst part is that in a mutual company the client does not know how much he is being overcharged for his dividend. My point in bringing this up is, if the Life Underwriters Association wants to put the marketing practices of people who sell modified premium products under a magnifying glass and use actuarial backup to support their proposition, they must also be willing to look at themselves and their own marketing practices and how they match up with their policies from an actuarial point of view. We of the New Jersey Association for Truth in Life Insurance want to go on record as being in favor of full disclosure but not just for one policy -- for all policies. Furthermore, on February 19th, the Insurance Department of the State of New Jersey will be speaking directly on the subject of marketing practices of deposit term products in a public hearing with proposed new regulations. This where we feel the topic should be dealt with.

The second objective of this bill is to raise the minimum nonforfeiture laws for this one particular policy to create early cash values. This is a most serious mistake and we strongly oppose this portion of the bill for the following reasons:

1. There are already products in the industry that have early cash values, and if the consumer wishes to have that kind of policy, he or she may do so.

2. For the thousands of policyholders in the State of New Jersey that currently own this product who will have to pay higher premiums when they purchase additional coverage. Again, for those of you who are not familiar with life insurance, all cash value comes directly or indirectly from the premiums you pay. If you raise the minimum nonforfeiture laws for this one policy, you will raise the premium for the people who want to purchase it. In this age of inflation where the cost of energy and the basic necessities of life are continually on the uprise, it is a shame that there is a bill before us now that will even raise the cost to die. That is all she wrote.

I have one letter here I was asked to read from a client. I will omit one part of it because it kind of puts a bad light on large insurance companies and I don't think that is relevant here. It is from a consumer by the name of James Walker from Burlington, New Jersey.

"Dear Sirs; I have read an article in reference to your bill, Number 2001. I have contacted my agent, Mr. Martini, and after finding out that he was going to Trenton to the hearing, I asked him to read my message to you.

"I am an executive with a shoe import company in New Jersey. I am married with two children and currently suffering the same escalating economic pinch as I am sure you, the members of the committee, are.

"In reviewing the content of the bill, Number 2001, it seems very obvious to me that what is being proposed is nothing more than an increase for the same protection currently available at a much lower premium.

"This bill is nothing more than a well"-- I'm sorry, I will omit that.

"With the current exploding economic costs that the average consumer is facing, I feel that this will only cause more undue hardship on an already strained pocketbook.

"If you, the legislature, confirm this bill and put yet another burden on those who have voted for you to help curb inflation, I am sure the public will respond accordingly.

"I thank you in advance and I do hope that this bill is defeated.

"Sincerely, James Walker, Vice President."

ASSEMBLYMAN BORNHEIMER: Are you finished?

MR. MARTINI: I just wanted to offer some quick comment on what you were trying to get to before, Mr. Bornheimer. I think it was very

very good, where you used the analogy, "Gee, I bought term insurance and that's okay. Now I want to buy deposit term insurance and there is that additional first year premium. What's that for?" That's what you are saying, right? Where does that go? Okay. The concept - and I am not an actuary, by no means - of the reason for the additional first year premium is this: In all life insurance you have cost per thousand. You have the basic mortality experience. On top of that is agent's commission, company expenses, and so forth. And, there is another one in there. I am told it is in every policy that has ever been created. It is another charge called a lapse load. I am told it runs anywhere between 18% to 22% of the premium. I am only telling you what my experience is and what I have been told. That's the basic concept of a premium, normally.

Okay. Then there is a premium in there that nobody sees, that is in the first premium, called a lapse load. In fact, someone mentioned that the average policy lasts seven years. I think if you look at many cash value tables you will see the increase traditionally, not always. The cash value starts to accumulate greater on a percentage basis after the seventh year. And, the concept has been that this has been a very-- If somebody lapses a policy in the second year, it is a cost to the insurance company, and that is why they stick that extra charge in there -- to cover those losses.

The concept of the additional first year premium is, "okay, what if we took the premium for the lapse load out of the rate?" We took it out. We put it up here on the side. Again, this is only on a concept basis, maybe not mechanical in the policy. We put it up here on the side and called it an additional first year premium. Well, then we say the product will give you the choice. What we usually show is that there is a good guy/bad guy story. You know, the two good guys-- You know, they say statistically that out of three people who purchase life insurance, at least one will get rid of it before the tenth year -- okay? So, we are saying if you take the lapse load out of the rate and put it up here on the side and call it an additional first year premium, now it gives you the choice. You are not going to pay for the bad guy.

If you are a good guy this is what the contract will do: It will give you a certain cash value at the end of the tenth year. It will be an overall lower cost with that one particular company's expenses over a ten year period, and you will have some additional benefits. Whereas, you have the opportunity, if you want to be a bad buy and lapse your policy at the end of the first year, to pay for that lapse. You will pay; it will not be an average cost over everybody. That is the basic concept.

ASSEMBLYMAN BORNHEIMER: If it were straight term, I wouldn't pay that penalty.

MR. MARTINI: Excuse me?

ASSEMBLYMAN BORNHEIMER: If I bought straight term I wouldn't pay that penalty.

MR. MARTINI: Okay. Then you would have to compare the rates over a ten year period.

ASSEMBLYMAN BORNHEIMER: Well, if I pay the rate I will come out ahead.

MR. MARTINI: Okay. Well, we would have to look at an analogy of that.

ASSEMBLYMAN BORNHEIMER: I'll use Mike's company.

MR. MARTINI: Okay. Oh, by the way, I checked out Provident Life and Accident; they are okay.

ASSEMBLYMAN ADUBATO: Thank you.

MR. MARTINI: Using that tenth year cash also you would come out better than that company's regular term that they are offering.

ASSEMBLYMAN BORNHEIMER: For whole life?

MR. MARTINI: No, their regular-- In other words, you say I would make out better with them. I wouldn't have that expense if I used straight term.

ASSEMBLYMAN BORNHEIMER: No.

MR. MARTINI: Well, if you used the company's own straight term--

ASSEMBLYMAN BORNHEIMER: Eggs and eggs.

MR. MARTINI: Yes, okay. In other words, here is a regular ten year R & C. It is the same company. And, here is a deposit term with the same company -- all right? That deposit term, because he puts up the additional first year premium, will be cheaper than the regular term, within the same company.

ASSEMBLYMAN BORNHEIMER: Oh, sure.

MR. MARTINI: Okay?

ASSEMBLYMAN BORNHEIMER: That's obvious.

MR. MARTINI: That's--

ASSEMBLYMAN BORNHEIMER: If I invested that money it would be cheaper too.

MR. MARTINI: That is the basic concept for it. I know you were trying to get to that, and that is the basic concept of it. It may not be actuarily sound, or whatever.

ASSEMBLYMAN ADUBATO: Mr. Martini, first of all I want to thank you for being here.

MR. MARTINI: Thank you.

ASSEMBLYMAN ADUBATO: Anybody with a name like Gatino Martini can't be all bad.

How do you think you would do in the marketplace in selling your product to people who do not own any life insurance today? I am not saying it is wrong or right. I am just saying that if a person doesn't have any life insurance product today and you are not comparing it with a whole life or anything else-- And, I disagree, as strong as I can - although there is a pretty strong guy sitting back there - that single people don't need life insurance. If that were true, I would lose a lot of business because a lot of those single people did get married, and unfortunately - just to backtrack a little bit - some of them became uninsurable. Now, I am entitled to sell and tell those same stories that I have been hearing. I have to have that same permission, because I know your stories are true and so are mine. They are emotion, and that is what we sell. We don't sell dollars and cents, even though it is important. What we really sell is the emotion. What we really sell is what you are going to do for those kids and what you are going to do for that woman you married, who walked down that long mile when she gave birth and risked her life. And, if you don't love your family you shouldn't have life insurance. I agree with him. In fact, I wouldn't sell it. I would tell the guy to take off - to be nice; I realize we are being recorded - and I would take off. I wouldn't waste my time trying to convince him. There are too many other good people out there I can talk to.

What I am getting at is I certainly don't question your zeal, or anybody else's zeal or your convicitions, but what I am trying to ask in maybe not too intelligent a way is, when you see a person who doesn't have life insurance, what do you sell them? What do you propose?

MR. MARTINI: I am going to answer that very honestly, Mike. I have been in the business for five years. I have never ran into anybody who didn't have any life insurance. In the twenty years I am sure you have had considerably more time. But, I guess that is partially because of the way we market too. You know, many of us, not all of us, work on a referral basis and if you are a single person you are going to get leads and referrals from single people, and if you are married you are going to get married people.

ASSEMBLYMAN ADUBATO: Well, let's take a hypothetical case then. Let's say you did run into someone who didn't have life insurance.

MR. MARTINI: Was he working?

ASSEMBLYMAN ADUBATO: Yes, he is earning a living.

MR. MARTINI: Okay.

ASSEMBLYMAN ADUBATO: He is on a fixed income, a modest income.

MR. MARTINI: He is earning a living and he probably has some group term, or group life.

ASSEMBLYMAN ADUBATO: That's a good possibility, sure.

MR. MARTINI: Okay. If it was $10,000 and he was a single person, let's say maybe he was 20 or 21 and let's say he is a male and he is making $14,000 a year, I would have to ask him a question. I would say: "Mr. Single Person, if you were to die tonight, is there anyone that would be financially worse off because you died?"

ASSEMBLYMAN ADUBATO: Good question.

MR. MARTINI: He may say: "Well, yes, I have a mother." And, I would say, "Fine, let's get some insurance on you." If he said to me: "Gee, I just need some money to bury me. If I die tonight, there wouldn't be anybody who would be worse off." I would say, "Keep your group term and see if maybe you can get some more, because that is probably your best deal, and take it from there. When you get married and have kiddies, give me a call. Or, if you get a mortgage, you may not be married but if you buy a home and have a considerable mortgage, give me a call and we will talk some more."

ASSEMBLYMAN ADUBATO: Okay. I totally believe that you believe that and you are sincere in what you are saying. I am not going to question that at all. Just let me say to you that I sell them life insurance right away -- immediately. Whether he has that need that minute or not, if he has the money and he can afford it and he is in good health, I sell it because I believe in it. I don't know what is going to happen five years down the road. I don't know if he is going to be disabled. I don't know if that PW factor in there may be the only thing he has.

You see, when I was out in the field my first week I had an experience that I want to share with you briefly. I was trained to sell a package sale. It was a combination of an LP-65 that had sickness and accident with it in one policy that was stapled together. It was a very good product, by the way. It was a mutual company and for the dollars and so forth it was very good. I dealt with all business people out of the telephone book because I was not allowed to sell a friend of a relative for one year. I wasn't even allowed to approach them. That's why I went with that company. That was my decision. This was a cold call from the telephone book. I walked into this service station and I had an interview with this gentleman. I made the proposal and it was for $40 a month, believe it or not. He said: "Look, I like the product but I don't have time to talk to you now. We are busy. There is snow on the ground. Come back after January 1st and leave the proposal, I am going to buy it." Well, I was happy as heck. I was living up in the attic and I ran home and said: "Hey, I am going to make my first sale after January 1st." Well, I went back after January 1st and there was a young boy pumping gas and I walked in and said: "Where is Mr. So and So?" And, he said, "He is in the back, in the bay." So, I went in the back in the bay and there was a guy up there greasing a car. I said, "Hey, how are you doing Mr. So and So?" And, he came out and said: "Who are you?" I said, "Well, gee, who are you?" He said: "I am So and So." I said: "No, not you; there was another guy here." He said: "Oh, my brother." And, as we were talking a young man walked in and he said to me: "Who are you?" I said: "I am Mike Adubato. I am with so and so company and I was talking to--" and he said: "That was my father." He said: "I have been wanting to meet you." And, he opened the top draw of the desk in the office and he showed me the proposal and said: "Did my father ever buy this?" I said, "No, he didn't. That's why I am here, to get him examined and have him buy it." He said: "Well, you are too late. He died of a heart attack Christmas Day." I said: "Was he sick?" And, he said: "No. He never spend a day of his life in the hospital -- never." I said: "Well, how much life insurance did he have?" He said: "None -- zero." I said, "Well, I am sorry. I didn't take a deposit and I didn't get him examined." That unfortunate experience taught me something, that when you are there you get the application, you get the money, and you sell him life insurance, whether it is deposit term, whether it is whole life, whether it is term -- I don't care what it is; you sell to the best of your ability and then you argue about the statistics and what is involved.

So, what I am saying is, I am not opposed to anybody buying any life insurance from any company if it is going to deliver the goods. What I am interested in is a simple, simple thing that says, whether I like it or not, I am sitting on this end of the mike and you are sitting out there. And, I perceive my responsibility here to try and say, just because I don't like a person losing that deposit if times change in the next ten years and he doesn't want it anymore and he loses it, I won't sell it because I don't believe in your product. That doesn't mean that you shouldn't have the right to sell it. That doesn't mean you don't have the right to believe in your product.

I want you to know - and I took the time to say this to you - whether you are the Chairman of the Board of Prudential or you are Gatino Martini, you have the same vote and you have the same rights and you have the same ear of the people sitting here, and don't ever be afraid to come down here or call anybody down here. I hate to get schmaltzy, but that is the problem with everything. Come down here, even though you are in the lowest rated territory in New Jersey for auto insurance. (laughter)

ASSEMBLYMAN BORNHEIMER: Don't get him started on that, please.

ASSEMBLYMAN ADUBATO: Okay.

ASSEMBLYMAN BORNHEIMER: At this point I would like to say, for all interested parties who did not get a change to testify, you will have until February 9th to submit written statements. You can send them to our aide, Laurine Purola, or to myself. We will make them part of the public record. There will be no action taken on this legislation until after the public record is printed, which will probably be sometime in early March or late February. I will make you all aware that there is a public hearing being held by the Commissioner, by rules and regulations, dealing with the same matter. You may want to attend that and appear there. Or, I may appear there also, or Mike may appear, or somebody else may appear, because we are citizens too.

The thing is, I appreciate you all coming down. I think we have set a record with the Banking and Insurance Committee. We have never failed to pack the halls when we have public hearings. I thank you for being here and I will now close the hearing.

(hearing concluded)

ILLUSTRATIVE CASH VALUES (per $1000) for a

TYPICAL ADDITIONAL FIRST YEAR PREMIUM POLICY

ISSUED AT AGE 35

Year	Current Law	Bill 2001	Proposal
1	0	$ .81	$ 0
2	0	2.36	0
3	0	3.96	0
4	0	5.63	0
5	0	7.35	2.00
6	0	9.14	5.43
7	0	10.99	8.07
8	0	12.92	11.71
9	0	14.92	14.50
10	$ 17.00	17.00	17.00

PROPOSED AMENDED ASSEMBLY BILL 2001

1. As used in this act:

a. "Collateral term policy" means a policy of life insurance, other than group or blanket, which requires an insured to provide collateral as security instead of paying an initial additonal premium, and which may provide that if a policy lapses or is surrendered during its term, the collateral may be used to pay what is, in effect, an additional premium because of the lapse or surrender.

b. "Additional first year premium policy" means a term, modified term, modified life or other policy of life insurance having the following, or similar, characteristics:

(1) an additional first year premium payable at the inception of the policy;

(2) a cash value available at the end of the initial term period, which is a multiple of the additional first year premium;

(3) there may be a right to continue the policy beyond the initial term period.

2. N.J.S. 17B:25-19 shall be amended to add the following subsection k:

k. This subsection, in addition to all other applicable subsections of this law, shall apply to all policies issued on or after ______________________ . Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary shall be in an amount which does not differ by more than two tenths of one per cent of either the amount of insurance, if the insurance be uniform in amount, or the average amount of insurance at the beginning of each of the first ten policy years, from the sum of:

(a) the greater of zero and the basic cash value hereinafter specified and

(b) the present value of any existing paid-up additions less the amount of any indebtedness to the company under the policy.

The basic cash value shall be equal to the present value, on such anniversary, of the future guaranteed benefits which would have been provided for by the policy, excluding any existing paid-up additions and before deduction of any indebtedness to the company, if there had been no default, less the then present value of the nonforfeiture factors, as hereinafter defined, corresponding to premiums which would have fallen due on and after such anniversary.

The nonforfeiture factor for each policy year shall be an amount equal to a percentage of the adjusted premium for the policy year, as defined in subsection g. Except as is required by the next succeeding sentence of this paragraph, such percentage:

(a) must be the same percentage for each policy year between the second policy anniversary and the later of:

(i) the fifth policy anniversary and

(ii) the first policy anniversary at which there is available under the policy a cash surrender value in an amount, before including any paid-up additions and before deducting any indebtedness, of at least two tenths of one per cent of either the amount of insurance, if the insurance be uniform in amount, or the average amount of insurance at the beginning of each of the first ten policy years, and

(b) must be such that after the later of the two policy anniversaries specified in the preceding item (a) no percentage may apply to fewer than five consecutive policy years. Provided, that no basic cash value may be less than the value which would be obtained if the adjusted premiums for the policy, as defined in subsection g,were substituted for the nonforfeiture factors in the calculation of the basic cash value.

All adjusted premiums and present values referred to in this subsection shall for a particular policy be calculated on the same mortality and interest bases as are used in demonstrating the policy's compliance with the other sections of this law.

Any cash surrender value available other than in the event of default in a premium payment due on a policy anniversary, and the amount of any paid-up nonforfeiture benefit available under the policy in the event of default in a premium payment shall be determined in manners consistent with the manners specified for determining the analogous minimum amounts in this section. The amounts of any cash surrender values and of any paid-up nonforfeiture benefits granted in connection with additional benefits such as those listed as items (1) through (6) in subsection i shall conform with the principles of this subsection k.

3. This act shall take effect 180 days after enactment.

FACT SHEET: ADDITIONAL FIRST-YEAR PREMIUM LIFE INSURANCE PRODUCTS

What It Is:

Additional first-year premium is a relatively new form of life insurance protection developed in the 1960's that:

--charges an additional premium in the first year (sometimes referred to as a security deposit).

--develops a cash value which is often double the amount of the first year additional premium at the end of the 10th year.

What Does It Do:

Additional first-year premium provides a significantly improved lapse rate over any other form of product, according to a persistency study conducted by Kemper Life Insurance Companies in 1978:

Lapse Rates for Policy Year

	1	2
Additional first-year premium	7.7%	4.5%
Permanent Products	14.8%	14.2%
Renewable Term	14.1%	15.9%

Note the example of an agency selling additional first-year premium-type products: "We have marketed in excess of $25 million of this product in 1977, with a lapse rate below 2 percent."

Why Some Life Insurance Companies Don't Like It:

Burnett A. Halstead, actuary for the Kemper Life companies, explains it this way:

> "We believe the primary reason for the criticism of additional first-year premium heard in many quarters of the whole life industry, is that many competitors find it a hard product to deal with. They cannot, or have refused, to compete.
>
> "When you take a good whole life policy and compare it to a good additional first-year premium policy, cost adjusted for inflation, additional first-year premium is always more attractive in an inflationary period. This naturally leads to replacement as agents explain to policyholders that they could be getting as much or more insurance for a lesser amount of money with any term policy, additional first-year premium or ART, and put the money they save into high interest bearing bank accounts.

Today's Young Man Expects A Bright Future.

He expects to . . .

- accomplish his goals
- achieve success
- enjoy financial security

That's why he needs a systematic approach now to his plans for . . .

- education
- career
- financial independence

What About Your Future?

Your hopes and dreams . . . no matter what they are . . . all require money.

- Money to start you on a rewarding career.
- Money for a home and a family.
- Money in reserve to free you from financial worry.

Most mothers and fathers understand how important life insurance can be to your financial planning. But planning should begin now, while you're young. Premiums are the lowest they'll ever be, and you'll have more time to build up cash reserves. That's why Prudential has tailored this special . . .

Low-Cost Life Insurance For Young Men Like You.

The guaranteed cash value of your policy will increase year by year. It can help you . . .

- start your own business
- buy a home
- meet financial emergencies
- retire early

At your retirement, the plan can provide you with an income for life. An income you cannot outlive.

This policy will continue to provide lifetime protection even if you become uninsurable later on. And your right to buy protection in the future can be insured now! Every year . . .

- More than half a million people can only buy insurance at premiums higher than standard
- More than 300,000 people are unable to buy insurance at any price!

Can You Choose Your Path? Make It . . . Your Way?

You can, but only if you have a plan. If you do, one of these four things will happen . . .

1. *You will live* to complete your plan.
2. *You will die before* you complete it.
3. *You will become disabled* before you complete it.
4. *You will stop paying premiums* for other reasons.

* *EXPLANATION OF DIVIDENDS*

In a mutual company like Prudential, income—over and above amounts needed to assure policy benefits—can be returned to policyholders as dividends. Dividends may be used to reduce your policy cost or to provide additional benefits. Dividend results shown are based on our current scale, and are not guarantees or estimates for the future.

Total cash available consists of the guaranteed cash value, dividend accumulations, and a termination dividend. A termination dividend will be first available no later than the 8th policy year based on our current dividend scale.

PAID-UP INSURANCE

To obtain fully paid-up insurance using dividend accumulations, or to obtain reduced paid-up insurance, a proper written request must be submitted to the Company Home Office. The Waiver of Premium Benefit terminates when the policy becomes paid up.

INSTALMENT INCOME

Total cash available may be used to provide an instalment income. Income results illustrated are based on current settlement rates and include both principal and interest. The rates applicable when the income is taken may vary from those shown, but will never be less than the rates stated in the policy.

SPECIAL FEATURES

WAIVER OF PREMIUM BENEFIT (A Self-Completing Feature Included at No Extra Cost)

Prudential will waive your premiums if you become totally disabled as a result of disease or bodily injury. Yet your cash value will continue to grow and your policy will still be eligible for dividends. Waived premiums *never* have to be repaid. To qualify for this benefit, you must be disabled on or before your 60th birthday and be unable to work for at least six months at any and every job you are reasonably fitted for by education, training or experience. Certain other conditions and exceptions are spelled out in full in the contract.

ACCIDENTAL DEATH BENEFIT

Your beneficiary will receive an additional $__________ if your death results from accidental bodily injury and occurs within 90 days of the injury. Certain other exceptions are fully set forth in the policy.

This benefit: ☐ is automatically included.
☐ may be included at your age _____ for a small extra _______ premium of $________.

OPTION TO PURCHASE ADDITIONAL INSURANCE

This benefit guarantees the right to purchase $__________ additional insurance at certain future intervals *regardless of health or occupation*. It includes "Marriage" and "Stork" Options which automatically provide additional insurance for up to three months.

This Option may also include the Waiver of Premium Benefit. If premiums for the basic policy are being waived when the Option is exercised, the premiums for the additional insurance will also be waived for as long as the disability continues.

The Option to Purchase Additional Insurance may be included for a small extra __________ premium of $__________.

Results illustrated for a specific age are available on the anniversary of the policy. Figures shown are based on premiums payable annually.

THIS PROPOSAL IS A BRIEF DESCRIPTION OF THE HIGHLIGHTS OF THE PLAN, NOT A CONTRACT. SEE POLICY FOR EXACT TERMS AND CONDITIONS.

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(Young Men, Gen'l. Life) Litho in U.S.A.

THIS MODified 3 PLAN PROVIDES FOR ALL THESE POSSIBILITIES.

1. IF YOU LIVE

this plan will provide you, at age 65, with an income for the rest of your life. If you accumulate dividends, at compound interest, you may expect to receive $670* per month. Or, if you prefer, you may take a cash settlement.

SUMMARY AT AGE 65

Total Cash Available*	$90,300	
Total Annual Premiums	$30,873	
Difference	$59,427	

2. IF YOU DIE

it will pay your beneficiary $50,000 (or the cash value if greater), plus any dividend credits. This may be taken in cash or as a monthly income to suit the specific needs of your loved ones.

3. IF YOU BECOME DISABLED

your plan contains a "self-completing" feature called the Waiver of Premium Benefit as described on the next page.

4. IF YOU MUST STOP PAYING PREMIUMS

for other reasons, this plan offers one of the following, depending on how long premiums have been paid:

- cash for opportunities or emergencies
- reduced paid-up insurance*
- continuation of the plan for a limited time (extended insurance).

AT YOUR AGE 20

THE Annual PREMIUM IS ONLY

$ 617 for 3 years

$ 691 thereafter

$ ______ ______

RECOMMENDED FOR: ______

PRUDENTIAL REPRESENTATIVE: ______

DATE: 2/75

*See explanation of dividends, total cash available, paid-up insurance, and instalment income, on back cover.

Did you know that there is a *hidden cost* built into your life insurance premium? It's to protect the insurance company against the "drop-out" (a person who cancels his policy in the early years before the company has had a chance to make a reasonable profit). It's a fact! Up to 30% of every dollar you have paid for insurance has gone just to cover this expense. But now, there's a plan which *eliminates* this extra cost. After all, why should *you* pay for life insurance *someone else* didn't keep?

To reduce your cost, you pay an additional premium in the first year only. Seem odd? Here's how you'll come out ahead:

IF YOU LIVE . . .
and pay premiums for a full 10 years, we *guarantee* to give you *in cash, twice* as much as the additional premium — TAX FREE!

IF YOU DIE . . .
during the 10 years, we *guarantee* that 100% of the additional premium, *plus* your policy proceeds, will be paid to your beneficiary.

IF YOU QUIT . . .
during the 10 years, we *guarantee* that you will receive the cash value stated in your policy. This amount may be more or less than the additional premium which we will retain.

Remember, Modified Renewable Term reduces life insurance premiums for responsible people like yourself. By eliminating a hidden cost . . .

1. *You pay lower premiums.*
2. *You receive tax-free cash equal to twice the additional first year premium.*
3. *You enjoy the peace of mind that comes from knowing that you're not paying for life insurance someone else didn't keep.*

Modified Renewable Term is one of the most flexible plans you could ever hope to own. Here are some of your options at the end of each 10-year period, even *after* having received *in cash, twice* as much as the additional first-year premium, *TAX-FREE! Remember, these options are guaranteed regardless of possible changes in your health!*

1. If you're 70 or less then, you may renew your Modified Renewable Term plan merely by paying a new additional first-year premium, and the low regular premiums, based on your new age. Those rates are guaranteed in your policy today and can never be increased.

2. If you're age 65 or less then, you may exchange your Modified Renewable Term plan for any whole life or endowment policy we offer. Your new policy will build substantial cash values for retirement or for business opportunities.

3. Again, if you're 70 or less then, you can exchange your Modified Renewable Term plan for *Decreasing Term to Age 99*. Your new premium will be level thereafter.

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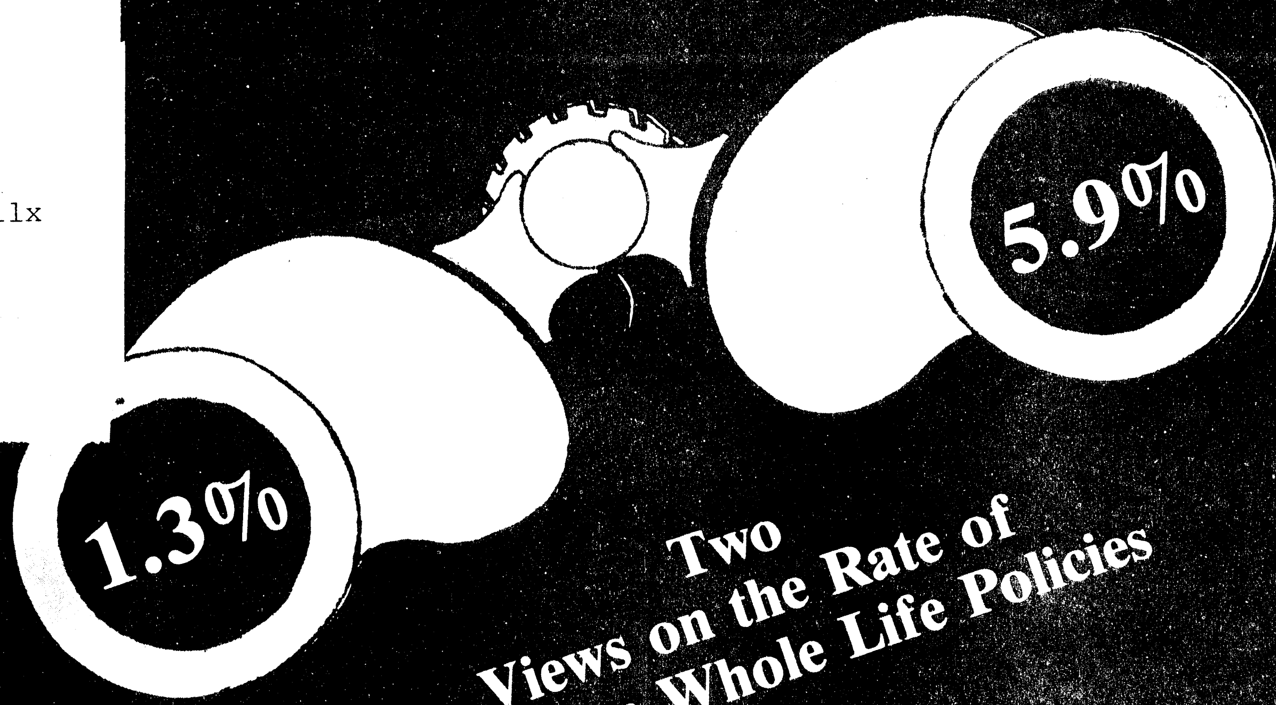

Two
Views on the Rate of
Return on Whole Life Policies

DATE DUE
