# Analyzing Life Situations for Insurance Needs

## The Case Method

Griffin M. Lovelace

# ANALYZING LIFE SITUATIONS FOR INSURANCE NEEDS

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# ANALYZING LIFE SITUATIONS FOR INSURANCE NEEDS

## THE CASE METHOD

BY
GRIFFIN M. LOVELACE
*Formerly*
DIRECTOR OF THE LIFE INSURANCE TRAINING COURSE AND
PROFESSOR OF LIFE INSURANCE, SCHOOL OF COMMERCE,
ACCOUNTS AND FINANCE, NEW YORK UNIVERSITY

*Endorsed by*
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ANALYZING LIFE SITUATIONS
FOR INSURANCE NEEDS



A-B

To

WALTER VAN DYKE BINGHAM

Director of the Division of Co-operative Research at the Carnegie Institute of Technology, whose enthusiasm for vocational training and vision of great possibilities in life insurance education were largely responsible for the organization of the Carnegie School of Life Insurance Salesmanship.

# CONTENTS

# PREFACE

THREE years ago the author adopted the case method of studying the needs of prospects in his first classes at Carnegie Tech, and from the very beginning students showed a deep interest in it. Results have proven that this method possesses practical value.

During the past year a widespread interest has been developed in analyzing individual situations to discover "life insurance needs." At the international conventions of Life Underwriters, held in Cleveland in 1921 and Toronto in 1922, and at several sales congresses, the programs have contained specimen cases for analysis. *Life Association News* now carries a regular department for this purpose under the heading, "The Life Insurance Clinic."

The aim of this book is threefold: (1) to emphasize the fact that human beings will be interested in a commodity or service if they can be made to feel that they need it for specific purposes; (2) to illustrate how we may analyze individual situations to discover needs and prescribe for them; and (3) to give a few examples of what is meant by "talking needs" instead of "talking policies."

## PREFACE

The average person has far less life insurance than his situation requires. Perhaps one of the reasons for this condition is that clients don't realize just what their life insurance needs are; and it is, no doubt, within the truth to add that the average life underwriter does not give as much help in this direction as he should. Few persons are financially able to carry enough life insurance to supply completely all their needs; but this is no reason why we should fail to point out to clients their urgent specific needs and give them an opportunity to plan their life insurance intelligently.

In solving any problem, the difficulty itself must first be clearly understood; then various ways of overcoming it are considered; and, finally, the best solution is selected and applied. The same process should be used in life insurance practice. The individual's situation should be analyzed to show clearly the problems soluble by means of life insurance—*i. e.*, to discover his life insurance needs. The best life insurance solution should then be worked out and applied. In medical terms, the case must first be diagnosed by a study of symptoms to find out just what the trouble is; then a remedy is prescribed and treatment is given.

It is a pleasure to acknowledge the help and inspiration which the author has received from his students at Carnegie Tech and, particularly, from his friend John A. Stevenson, whose advice has been invaluable. Grateful acknowledgment is also made to Edward A. Woods, who read the entire manuscript and made very helpful suggestions.

G. M. L.

NEW YORK UNIVERSITY,
NEW YORK,
*October 2, 1922.*

# PART I

# OUR INTEREST IN NEEDS

# I

## THE TARGET OF INTEREST

THOUSANDS of life insurance representatives are saying every day, "Mr. Brown, I would like to show you the latest life insurance policy issued by my company. It contains new and valuable features." The "features" are enumerated and explained to hundreds of thousands of absolutely indifferent or bored listeners, most of them remarkably patient and polite; a few, however, erupting with Vesuvian fury. They have heard the same, or similar, stories over and over again. Though most of them are courteous and give the agent a reasonable time to "explain his proposition," they rarely experience any thrill of interest. Often they buy finally because the agent is very persistent. They know that life insurance is really a good thing after all, and had intended to take another policy some day. They compromise by taking a small policy, and heave sighs of relief: "Well that's over with. Guess I needed another $1,000, anyhow."

Another agent says, "Mr. Doe, a life insurance policy is simply a contract for the delivery of money at a time when it will be most needed. I suggest for you a policy that will pay you $10,000 if you live to old age or $10,000 to your family if you die prematurely. Wouldn't you like to have $10,000 when you are sixty-five years old and may be obliged to give up your work wholly or partially? And wouldn't you feel comfortable to know that your family would have $10,000 if you should die in the meantime?"

This type of soliciting is much more interesting than the first. Men are not nearly so interested in the idea of "life insurance" as they are in the idea of "money." The thought that, at sixty-five, one will get $10,000, or that, at prior death, one's family will have $10,000 is much more attractive to the average man than is the explanation of a lot of intricate details about a policy. That is A, B, C, to a successful life insurance man or woman.

It is, however, not always clear, even to some life underwriters of considerable experience, that in a life insurance interview there is something even more interesting to talk about than money.

### MONEY A MEANS TO VARIOUS ENDS

After all, we are not interested in money itself. If some one should present you with a million roubles of Russian money (in 1922) your interest would hardly extend beyond curiosity. You would attach relatively little importance, or value, to roubles. But, if you were offered $5,000 of United States money, you would be delighted. The Russian money would have too little buying power to cause you any excitement. It would not represent, to any great extent, food you could eat, clothes you could wear, an automobile in which you could ride for pleasure or economy of time. But, $5,000! At once you would think of the things you need that you could buy with $5,000, of the things you want to do—the liquidation of a debt, a trip around the world, a fine automobile, a year of study in Europe, a little home in the country. Five thousand dollars would start your imagination working. You might even think of adding the money to your savings account, so that you could buy things you would need in the future.

There is quite a difference between various kinds of money; *e. g.*, roubles and dollars. Yet the difference is not so much in the money itself, as in what the money will buy. If dollars wouldn't purchase any more than roubles will buy at the present time, we shouldn't be much interested in dollars, either.

Money is only a means to various ends. Whenever we think of money, our imaginations jump to the things we desire and which money will buy. There lies our interest. Suppose you owned a city home and a summer home both tax free; that the state would keep them in repair for you, that you had a perpetual right to receive without cost all the food, clothing, books, automobiles, and services you needed of all kinds; that anything you required for your health, comfort and happiness would be furnished you at any time free of charge: would you care even about dollars? Of course not. Piles of money would give you no satisfaction, if you had everything you needed or if you could not buy with it the things you need and desire.

## THE PURPOSE OF LIFE INSURANCE

What is the purpose of life insurance? To provide money in certain contingencies.

What is the reason for providing *money* through *life insurance*, against certain contingencies? To enable someone to buy *commodities or services that will be needed.* Of the three items, the most important is *the things that will be needed.* Life insurance and money are important only as means to a desired end.

Then why should we spend so much of our time talking about life insurance and money first, instead of talking about the ultimate purpose for which life insurance and money exist?

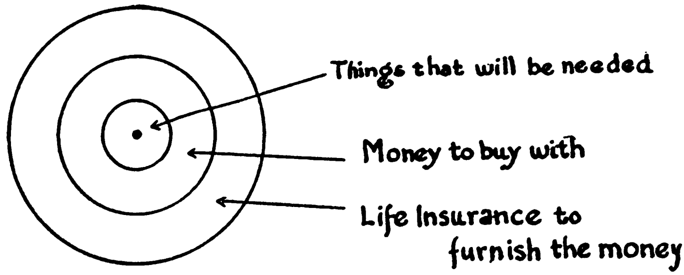
Life insurance provides money, and money provides commodities and services which contribute to our health, our safety, our comfort and our happiness.

### THE TARGET OF INTEREST

It is obvious, even to anyone who has never shot a rifle or a revolver, that the highest degree of marksmanship skill would be represented by a shot in the bull's-eye of a target. The person whose shot would hit in the first circle would be an excellent shot, but not so good as the man who hit in the bull's-eye. The shot which struck on the next circle, or near it, would not be a very good one; yet it would be on the target. Some people are such poor shots that they would miss the target altogether.

Let us think of this target as being a "target of interest." The life insurance solicitor must aim for his prospect's chief interest. He should always shoot at the bull's-eye of interest.

THE TARGET OF LIFE INSURANCE INTEREST




The solicitor who wants to hit the bull's-eye, will first talk to the prospect about the things which he or his family will need. The money to buy the things that will be needed is next in degree of interest. The agent who constantly talks about life insurance policies before pointing out the things for which money will be needed is hitting on the outer edge of interest, and so long as he keeps shooting so far from the bull's-eye, he can't expect to make the best possible score.

Our needs are the chief source of our interest in considering any commodity or service offered for sale. The surest means of arousing our interest is to talk about our needs, to make us realize them more keenly, to show us finally that the commodity or service offered will fill our needs, give us better health, or greater safety, comfort or happiness.

## II

### THE VALUE OF SELLING THROUGH NEEDS

THE purpose of this book could not be better illustrated than by the following interesting experience related by Mr. William H. Jones, who practices life insurance in a country district of Maryland:

"The other day I heard that Mr. A, who is a tenant on a large farm, had his business affairs very much tangled up, and I went out to show him how an insurance contract would put him on his feet. When I drove up, his wife inquired if I wanted to sell him insurance; she informed me that he did not want any, and furthermore could not pay for it if he wanted it, stating that she did not think much of insurance anyway. I explained to her that I was there to sell her a friend, and outlined what it would do. She asked me to see her husband if it would do what I claimed.

"I then saw Mr. A and told him what his wife had said in regard to his financial condition. He acknowledged this, and I told him that I was there to help him get his affairs straightened out. He then told me that he owed one man a note of $1,175, about $1,500 to a bank that was going to push him, and about $300 scattered around. The $1,175 note was further protected by a bill of sale for $1,200, and this same party was going to demand another bill of sale of his wheat as soon as it was out of the ground, and would not advance any more money either. Because of these bills of sale it was impossible for him to get further credit, and his creditors were getting ready to sell him out.

"I told him that I could put his affairs in order, have all his debts at one bank and have the bills of sale lifted through an insurance policy, if he could get it. He consented to be examined and to take the insurance if I could do for him what I claimed. The policy came through, and I went to the bank, his heaviest creditor, explained the condition of his affairs, and stated that he was willing to take out $5,000 of insurance and assign $3,500 to the bank for a loan of that amount. His brother, who was the endorser on all his papers, endorsed for him, and he borrowed $3,500. This protected everybody, including Mr. A's family, in case of his death. I had the bill of sale lifted, and now Mr. A has plain sailing, because he is protected in case of death or disability and has sufficient stock and implements to pay off his indebtedness three times over. There won't be anybody to sell him out now, and he thanked me heartily for helping him. I told him to thank the insurance policy."

Life underwriters of long experience will recognize in the above story a striking example of presenting life insurance strictly from the point of view of the client; even beginners can see that Mr. Jones' whole attitude was one of service. No physician ever displayed a more conscientious purpose in treating a patient than Mr. Jones showed in helping his farmer client.

There are other ways of selling than the one employed in this case. No doubt all of you who read these pages have known persons who would probably have addressed the Maryland farmer somewhat as follows:

"Mr. Vesey, I represent the Hearth and Home Life Insurance Company, one of the great life insurance companies of America, and I have come to show you a new policy which our company has put out. It contains all the good features of other companies' contracts and some that are new and exclusive. In fact, this is a *special* policy. It is called 'The Unique Policy' and will do the following things for you. (Here the agent enumerates the main features of his policy.) In addition to these splendid advantages, the policy provides for cash values (which the agent explains and illustrates), extended insurance, paid-up insurance, etc. The policy is incontestable after two years, etc., etc., etc. At your age you can carry $10,000 on this new special plan for only $285.29."

This type of selling consists in talking the "policy points" and the "rates and values." It is the same method employed by the average commodity salesman, who goes from door to door, telling over and over again the good points of his commodity. Millions of dollars of life insurance have been sold in this way, and much good has been accomplished. But millions have remained unsold, though there was great need for them, because, as a rule, prospects have not been deeply interested in that kind of presentation. And there is nothing professional in such methods. There is no similarity between the methods of the physician and the methods of the man who sells commodities or life insurance service in this way. But even a casual observer can note that there is a great resemblance between the methods used in Mr. Jones' talk with the farmer and the methods of a conscientious physician.

### DIAGNOSIS

When a physician is called in to treat a case, he does not get out a box of favorite pills and say to his patient: "I am glad you called me, for I have here a box of the finest pills made in the United States. They are manufactured by one of the leading pharmaceutical companies and we call them the 'Universal Pill.' They will cure almost anything, and you are very lucky to have a chance to buy them." The physician sets down his little black bag when he enters his patient's room and for a time forgets all about it. He doesn't think of medicines at all. He isn't pondering any theories he learned in the medical school. His mind is concentrated on his patient's trouble. What is the matter with the patient? What symptoms does he show? What is the diagnosis of his case? Or, to express the idea in simple language, *what does the patient need?*

### ETHICAL PRACTICE IS SERVICE

And the doctor proceeds to discover what is his patient's trouble, counts his pulse, puts a thermometer under his tongue to take his temperature, searches his face for tell-tale signs, and asks many questions. Once the doctor makes up his mind what the trouble is, he remembers his little black bag, turns to it and selects the proper medicine; or he writes a prescription, to be filled at the drug store. The remedy is the last thing he considers. His first step is diagnosis—finding out what the patient's trouble is, what are his physical needs.

All truly professional men follow the same procedure. So do many men engaged in business; for it is possible to be "professional" even in business. The professional attitude is that of service. Not all members of the so-called professions—medicine and law, for example—are truly professional in their practice. We use the words "quack" and "shyster" to designate the despicable type of physician and lawyer whose methods are commercial rather than service-rendering.

### SERVICE IS SERVING NEEDS

Service really means "serving needs." When a person is in need of something without which he cannot be *well*, *safe*, *comfortable*, or *happy*, whoever furnishes that which will satisfy the need renders service. The man or woman who, in practicing his vocation, takes "service" as his guiding principle is performing a professional duty to his clients; and we may say that his attitude is *ethical*. It is quite obvious that *providing for the needs of the life insurance client constitutes ethical life-underwriting practice.*

No doubt the story of the farmer who was told to "thank the life insurance policy" would leave as its deepest impression the thought that the case was a striking example of ethical life-underwriting practice—golden-rule salesmanship.

Yet it is not the purpose of this book to develop the ethical aspect of "serving needs." The desirability of golden-rule salesmanship in life insurance is so obvious that the limited scope of this book will not permit us to discuss the subject further than to emphasize these two points: (1) that, unless the client gets the kind of policy, the kind of settlement, and, as nearly as possible, the amount of insurance his beneficiaries will require, he has not been well served and has not truly had his money's worth; and (2) that, if the underwriter neglects to consider carefully the specific purposes for which beneficiaries will require money after the client's death, women and children may suffer as the result of his inefficiency.

### WHAT IS THERE IN IT FOR THE AGENT?

"But what is there in it for the life insurance agent?" someone may ask. "The prospect's interests are served; but does the salesman benefit in any way from the effort he makes to diagnose the prospect's needs and prescribe for them? It takes time to conduct each sale as a separate and individual case, and time is money. It is much easier just to learn the valuable points of each policy and then to talk the most attractive policy or, perhaps, to offer the prospect the policy which seems best to fit his case and explain it fully."

It does, indeed, take time and effort to handle each case in an individual manner. But this does not necessarily mean that it is harder to sell insurance in this way. Indeed, it is quite possible that *we may find it easier to sell a proper amount of insurance by discovering the prospect's needs and drawing up a program that fits his case.* At any rate, let us consider the matter from this point of view.

Suppose William H. Jones had simply made a "policy talk" to his farmer prospect. Would his task have been made easier? He would have told the farmer about the strong points of his policy, outlining what each provision would do for him—insurance to pay off the mortgage, if he died, or to provide a certain income for his wife; cash values, which would enable him to borrow money after a few years; extended or paid-up insurance in case the policy was allowed to lapse after it had a cash value; the premium loan privilege, which would automatically continue the policy in force; and many other excellent privileges found in the average policy contract. He might also have dwelt on the satisfaction the farmer would derive from cashing in his policy for a substantial amount at age sixty-five, and showed the benefits of the total and permanent disability provisions.

Would the farmer have been more interested than he was in the conversation that actually took place? Really, it is hard to believe that he would have been interested at all; for during the whole policy-story, he would have been waiting for the agent to finish in order to explain that he didn't have the money to buy any insurance, no matter how good it might be; that he was head over heels in debt and wanted to get money, not spend it. It seems quite clear that any other method than the one employed by Mr. Jones would have resulted in utter failure. The farmer's problem was to pay off his debts—to secure money for this purpose. The "policy talk" would have impressed him largely as an attempt to induce him to pay out money, the one thing above all others that he was not in a position to do. Unless the agent could have hypnotized his prospect, there was hardly any chance that an application would be signed; and, if a policy had been issued, it is quite probable that the policy would have been returned to the Home Office with the sad legend "not taken."

It is interesting to consider, also, what would have been the attitude of the average life insurance representative who, having this farmer's name on his prospect list, might have learned, before making a call, the facts concerning the farmer's financial situation. Isn't it probable that the agent would never have gone to see the farmer? The agent would have reasoned thus: "This poor man hasn't any money and is badly in debt. He will probably be sold out; and if I wrote him a policy, perhaps I never would get my money. So I'll just scratch his name off my list."

There is no doubt but that Mr. Jones used the only method by which this particular prospect could have been induced to sign the application, make his premium deposit, and continue to be a satisfied policyholder—indeed, a happy one.

### IS THIS METHOD SCIENTIFICALLY SOUND?

These thoughts suggest two questions: (1) Is it not quite likely that many agents fail because they are constantly making just the kind of mistakes that Mr. Jones avoided? (2) What is the principle underlying the methods employed by Mr. Jones, and have we any scientific authority for believing that the principle is correct?

The answer to the first question cannot be stated with assurance until we have answered the second one. If an analysis of Mr. Jones' methods reveals an underlying principle which is found to be scientifically correct, then we may at once conclude that many salesmen who do not pursue these methods are making costly mistakes which can be avoided.

Note well the first statement from the account of the interview with the Maryland farmer! "The other day I heard that Mr. A, who is a tenant on a large farm, had his business affairs very much tangled up, and I went out to show him how an insurance contract would put him on his feet." The farmer was in need of help. Was his trouble of such a nature that life insurance would help him? The *principle* on which Mr. Jones acted when he made up his mind to call on this farmer may be stated as follows: *Human beings have certain needs which give rise to financial problems. Some of these problems may be solved, partially or wholly, by the use of life insurance.*

### USING NEEDS TO GET INTEREST AND ACTION

How will the application of this principle help the life insurance agent to accomplish the two most important things to be done in an interview, *viz.*, (1) to secure the prospect's interest and develop it until he really desires the service which is offered, and (2) to cause the prospect to take favorable action—or, as we commonly express it, to "close the case"?

When a person is hungry, in what can he be most easily interested: in books, jewelry, clothes, or food? When a man is very cold, in which of the following things will he probably be most interested: an automobile, an inkstand, a pair of scissors, or an overcoat? If a man who couldn't swim fell overboard in the middle of a deep stream, which would he desire most: a meerschaum pipe, a bag of gold dollars, a Rembrandt painting, or a large piece of driftwood? If a father of four children knew he was going to die to-morrow, for which would he be willing to spend the most money: shares of oil stock, a ticket to Europe, a life membership in the leading club or a life insurance policy?

It makes no difference what situation you examine, you will find that our interest will always be centered on the things we feel will satisfy our needs or solve our problems.

Will the realization of a need assist in "closing"? Consult your own experience and your own tendencies. What usually happens when you feel that you need something?

(1) Don't you find that you begin to desire the thing which you think you need? (2) Don't you begin to think about securing that "thing"—commodity, service or experience? (3) If you continue to feel that you need and desire the particular "thing" under consideration, don't you begin to think about how you may secure it? (4) Don't you finally try to secure it, or, if not, is it not because you have decided that you "can't afford it"; *i. e.*, that there are other things you need and desire more, and that your means or your time or your strength will not permit you to secure all you need and desire?

There is no doubt but that your answer to these few questions will be "yes," for all human beings are alike in possessing the tendency to act in just the way described. Your prospect's answer to these questions would also be "yes," and you will find upon experiment that an analysis and discussion of *his needs* will interest him far more than a discussion of your policy features; and that if you can succeed in making him feel that he greatly needs what your service will do for him, he will be inclined to secure it.

## III

### THE PROSPECT'S "PICTURE"

HOW can we discover an individual's needs which may be satisfied through life insurance? Many of them seem obvious to us; but if we stop to consider any individual case, we shall see that we really find needs by analyzing information about the prospect. For example: An agent asks a prospect whether he is married, because he knows that a married man has needs to be filled by life insurance which the unmarried man has not. If the prospect is married, the next question is, "Have you any children?" Children's future needs require the protection of life insurance in particular ways. If the prospect says he is not married, the agent probably asks if there are any dependents—mother, sister, or younger brother—for if there is a dependent, the prospect has needs which will require more life insurance than would be required if there were no one dependent on him.

There are many other questions which we may ask to advantage. Is there a mortgage on the home? What are the prospect's total annual taxes (federal income and local)? What is the estimated net estate which the prospect would leave if he should die now, and where is his property located? What are his plans for his son and daughter? What kind of an education does he wish them to have? What amount of money does he ordinarily owe at the bank, or what is the maximum amount of money he may owe to banks or trade creditors at any one time? These and many other questions will help us to determine the amount of money that will be required after the prospect's death. Of course, there are many questions which cannot be asked until the agent has won his prospect's confidence.

### NEEDS VARY WITH DIFFERENT PEOPLE

Needs vary greatly with different individuals. Persons situated similarly will have much the same needs. Two married men earning about the same salary, having each two children, and having approximately the same amount of money saved up *may* require about the same insurance protection. Yet this is not certain. If their children are both boys or both girls of about the same ages, the needs of the two families *may* be the same. Suppose, however, that Mr. A has a boy eighteen and a girl ten years old, while Mr. B's son and daughter are five and three years old, respectively. The needs of Mr. B's family for money after his death will probably be greater than the needs of Mr. A's family after Mr. A's death, because B's children are younger than A's. No doubt A's son has finished high school or is at least in his fourth year at high school, whereas B's boy is only five years old. If B should die this year, it would be thirteen or fourteen years before his son would complete his high-school course. A's daughter will require about eight years more before finishing high school, while it will take B's daughter fifteen years more to finish. If both A and B should die now, it would take more money to support and educate B's children than would be required for A's. We might find that A has a large mortgage on his home and owes money to his bank secured by $20,000 of bonds, and that B has no such obligations. This additional information might reveal that, after all, A had greater life insurance requirements than B.

Although A and B seem at first to be in quite similar situations, each having the same income, the same number of children and about the same amount of savings, their needs demanding life insurance are different because of the difference in the number of years' income necessary to give their children a fair start in life. Also, if they wish their children to have a college education, still more money will be needed, if A and B die prematurely, than would be the case if they considered a college education unnecessary.

These illustrations show us, first, that needs vary with different individuals, and that the needs may be discovered only by securing and studying various details of information about the prospect's situation. We should learn all we can about the prospect's family, his business, his financial situation. No detail of information which we obtain should be discarded. We should consider every item as forming a part of the total group of facts which *pictures* the prospect's life. Suppose that Mr. C has a wife and three children and carries a large amount of insurance, sufficient, it seems, to provide an income for his wife and children, educational funds for the children, cash payments to liquidate debts, taxes and other obligations. The agent may not see that Mr. C requires any more life insurance. But suppose he asks Mr. C, "Have you any dependent outside of your immediate family," and that Mr. C says, "Yes, I am sending my niece to school. She is a senior in the high school." And suppose the agent asks, "Will she go to college?" and that Mr. C says, "Yes."

The agent has uncovered a new need for which life insurance will be required; *viz.*, to furnish money for the niece's education, if her uncle dies before she finishes college.

Again, suppose Mr. C has secured what seems to be a sufficient amount of life insurance to provide for the living expenses and educational needs of his children, and the agent says, "Mr. C, there is something I feel I ought to ask you in the interest of your family. If a man dies leaving securities on deposit at his bank as collateral for a loan, it is, of course, obvious that the bank will be entitled to reimbursement for its loan by sale of the collateral, unless there is cash in the estate sufficient to release the securities. Most business men frequently have loans outstanding against collateral, and I was wondering if this isn't often true in your case. If Mr. C says he owes now, or sometimes owes, money secured in this way, the agent has discovered a new need requiring the aid of life insurance to furnish cash at C's death, in order that his family may be in a position to release collateral securities.

These examples illustrate the ease with which the agent may discover needs requiring the use of life insurance, if he can obtain information regarding the prospect's situation. It may not always be easy to obtain complete details in a given case, but such information is so important that the life insurance salesman should be constantly on the alert to secure data about the personal, family, business and financial situation of his prospects.

### THE PICTURE

A few years ago the writer adopted the word "picture" to indicate the collective information obtained by the life underwriter regarding a prospect. The word has come into general use among the graduates of Carnegie Tech and will be used in the books published in the Harper's Life Insurance Library.

A real picture, a photograph or a painting, shows us what kind of person one is physically. The "prospect's picture" gives us a good idea of what kind of man the prospect is in terms of his interests, activities and responsibilities. For example, if a friend wished to give you a good idea of some person he wanted you to meet, he might show you a photograph so that you could see his physical features, but in order that you might understand what manner of man he was in other respects, your friend would tell you about this person's interests, responsibilities, talents, abilities, his family relationships, and his business, perhaps even his hobbies. If your friend says, "This man is forty years old, married and has two small children, is owner of a knitting mill, earns $25,000 a year, has made $200,000 on real estate, is a college man, a Mason and an earnest Red Cross worker," you may well feel that you have quite a good "picture" of the man.

#### THE PICTURE REVEALS INTERESTS

It is much easier to talk with a person of whose interests we know something, and the prospect's "picture" would be very valuable to the life underwriter, even if it served no other purpose than to facilitate the opening and conduct of the interview by talking about things which concern the prospect and in which he is therefore interested.

You have often had the following experience: You have been introduced to some one—say, Mr. Rodman—at some gathering or reception and entered into a conversation, starting with something with which both of you were familiar—the purpose of the gathering, the talents or personality of the host, or the weather. Almost immediately you have found yourself wondering who Mr.

Rodman really was, where he lived, in what business or profession he was engaged. Perhaps you asked him point-blank if he lived "here," and what his business was. And, in turn, Mr. Rodman was wondering about you and perhaps asking you similar questions. A little later your host appeared and you told him that you and Mr. Rodman "had been getting acquainted." And how much easier it was for both of you to keep the conversation going once each had learned something of the other's interests.

If, before introducing you, your host had said, "Mr. Rodman is Secretary of the Water Board, and Chairman of the local organization of the Red Cross; he is a Princeton graduate, and has a lot of money; he is also Assistant Treasurer of the Orient Manufacturing Company," you would have found it much easier to begin your conversation. If your host had told you in advance that he was going to introduce you to Mr. Rodman, but had not volunteered the information, you would probably have said, "Who is Mr. Rodman?" or "Tell me something about him," for you would have felt immediately that you would have a much "easier" time talking with him if you could know what manner of man he was—what his interests were.

But the "picture" serves another very important purpose. As we have already seen, if, before attempting to discuss life insurance with a prospect, we can know what are his responsibilities, his obligations, his problems, his purposes in life, we may be able to discover the various needs which exist in his own life and the lives of those with whom he is connected by family or business ties and which may be satisfied by life insurance.

Below we print a specimen "picture" card prepared at Carnegie Tech by one of Dr. John A. Stevenson's classes in Practical Selling. At first the card may seem to some persons to be objectionable because of the many different kinds of information indicated and because of the size of the card (8 inches by 5 inches). However, it is in constant use by Carnegie Tech students and graduates, and a good many agencies are using it regularly. Once the underwriter has begun to realize the value of "picture" details and that, often, it is some apparently insignificant bit of information that reveals the correct way to the prospect's interests or to his needs, he may even think the card ought to be larger than it is. The "picture" card is not to be carried about. It remains in the file, as the permanent repository of cumulative information about a prospect or an old client whose life insurance program is being developed over a period of years. Even though you may have insured a client several different times, his "picture" card should be kept and any new information about him should be entered on the card from time to time, so that you may on any occasion have before you the facts which may show how your client may be further served through life insurance.

| JAN | FEB | MAR | APR | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC | BIRTH | AGE CHANGE |
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NAME

RESIDENCE ADDRESS

BUSINESS ADDRESS

PHONES

OCCUPATION

FIRM NAME

SINGLE
MARRIED
WIDOWER
DIVORCED

INCOME
PERSONAL
WIFE

SALARY WORTH TYPE OF INVESTMENT SAVES CAN SPEND FOR INSURANCE

HOME SITUATION

FINANCIAL SITUATION

BUSINESS SITUATION

WIFE

BORN

POLITICS CHURCH COLLEGE AUTOMOBILE

CHILDREN

BANK NATIONALITY ATTITUDE TOWARD INSURANCE

HOBBIES

CLUBS

HABITS CHARACTER HEALTH WHERE MET

FRIENDS ADDRESSES

MADE BY

DATE

| INSURANCE CARRIED | | | | | MONTH OF PAYMENT[1] | | | | | | | | | | | | DATE OF |
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| INSURANCE PROGRAM | | | | | LITERATURE |
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| NEEDS | PLAN | FORM | AMOUNT | ADOPTED | |
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| POINT OF CONTACT | REMARKS |
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[1] Prospect Card. Compiled by Class 1, 1920, School of Life Insurance Salesmanship, Carnegie Institute of Technology

## IV

### GATHERING INFORMATION

WHILE practically all successful life underwriters agree that the more information we can secure about a prospect, the easier it is to work out a serviceable life insurance plan for him and to secure his interest and make the sale, yet they are not agreed as to how much time should be spent in securing information before approaching the prospect. Many agents study their prospects for some time before approaching them. Others do not. If they can gather information quickly in advance, they do so; if not, they call without information, trusting to their ability to get the desired facts from the prospect himself. Different methods suit different people and *the agent must use the method by which he can get the best results.* He must see many people in order to do a proper amount of business; and if he finds he cannot collect information in advance without retarding his production, then by all means he should depend on the interview with his prospect for the necessary facts. However, it must be conceded that the more information you can secure before approaching the prospect, the better will be your chances of securing an interview, arousing his interest in life insurance and making a sale.

The writer is personally acquainted with many underwriters who make it a practice to collect very complete information about their prospects before they submit a definite proposal. A friend, one of the most successful underwriters in the country, recently said, "I never call on a man till I know 'all about him.'"

Of course, the agent must have some information before he can make an intelligent presentation of insurance to a given prospect. The only questions are how and when to get the information.

There are three methods of obtaining information about prospects:

1. Securing it in advance through other persons.
2. Interviewing the prospect for advance information.
3. Securing information from the prospect at the time of the interview.

Let us illustrate each method with a concrete case.

### SECURING ADVANCE INFORMATION FROM OTHERS

An agent read in his morning newspaper that Mr. E had been promoted from assistant manager to manager of the local branch of a national organization. He had never met the man, although the name was not unfamiliar. The agent noted Mr. E's name on a card, and wrote a congratulatory letter referring to the promotion, and said he expected to call in a few days in regard to a life insurance matter which had been suggested by the notice in the paper. During the day the agent was in his bank and asked the cashier if he knew anything about the new manager. The cashier did not, but gave the name of a man he knew who was a customer of Mr. E's store. The cashier gave some interesting information about the business. He said the previous manager had received a salary of about $10,000 a year, although it was unlikely that the new manager would get as much at the start. The next day the agent spent five minutes with the man mentioned by the cashier, learned that his prospect was about 32 years old, had started in the stock room of the local store and gradually worked his way to the top; that he was quick in doing business, and was said by a certain banker to be a very promising man. On the way to his office the agent stopped to see this banker (whom he knew) and learned that Mr. E was considered thrifty and careful in investments.

The agent said, "Suppose I should take Mr. E's note for $1,000 in payment for a life insurance premium. Would you consider it a safe credit?" The banker said: "Mr. E is probably good for any obligation he would assume. We have known him since he was a boy." Answering another question, the banker said that he thought E owned his own home. That day at the City Club, the agent had some one point out Mr. E, who was lunching with several other men. The agent knew one of them well and spoke to him before leaving the club, commenting on E's promotion, then asking some questions. He learned that E was married and had two or three young children, that he was a golf player, a member of the Presbyterian Church, and an Elk. The agent was an Elk himself. After reviewing all the information secured, he planned how he should approach Mr. E and what, in general, should be the method of handling the case. To gather this information, he had spent a few minutes in each of two banks, called on a friend and spoken with a friend at the club. It is almost certain that with this information in hand the agent would have a much more satisfactory interview than he would without it.

A very common way of gathering information is to secure the names of prospects from friends, clients, and acquaintances and to ask questions about each person. The underwriter should develop a series of standard questions to use in securing such information. The data given on the card reproduced on pages 30 and 31, will suggest certain questions.

A successful general agent told the author that he always has his new agents begin gathering information in the following way: The beginner is told, "Go to ten of your friends, those whose influence will be the most helpful to you, tell them you have taken up life insurance as your life work and that you desire their co-operation in starting to build the right sort of a clientele. Ask each of them for five or ten names of persons who they believe need life insurance. Then request your friends to give you all the information they can about each person whose name has been listed, asking questions which will assist your friends to give you the facts you want."

By this method each beginner starts with a list of people concerning whom he has information before he calls on them. The new agent continues to gather information about other prospects from week to week, so that he always has on hand a list of prospects concerning whom he knows certain important facts.

## SECURING ADVANCE INFORMATION FROM THE PROSPECT

The second method—securing advance information from the prospect—is used by many successful life agents. For example: An agent called on Mr. F, whose name he had noted. He said, "Mr. F, my name is Van Doorn. I represent the Hearth and Home Life Insurance Company. Like other men, you have certain needs which grow out of your family and business relationships and which, either now or at some time in the future, may be provided for with certainty in only one way—*viz.*, through life insurance. No doubt you find yourself in the same situation as does the average business man; if you ever adopt a substantial life insurance program you will do so only after you have satisfied yourself that it has been planned in such a way as to solve your economic problems of the future. Such planning requires a scientific analysis of your needs and this I want the privilege of doing for you. Your business is selling electrical power plants. The first thing you do is to look over a man's place to see whether he really needs a power plant. Sometimes you tell a prospect he has no need for one. But you first get certain information and analyze it to discover what, if any, needs exist for an electrical power plant. I haven't come to try to sell you any life insurance this morning. I haven't any idea what amount of life insurance, or what kind you need; or, indeed, whether you need *any*. But I am going to ask you to give me a little information in order that I may analyze your personal and business needs in which life insurance may possibly be helpful." This approach, or a different one, according to the case, is followed by carefully planned questions, such as: "What is the date of your birth?" "Are you married?" "Have you any children?" "Boys or girls?" "Their ages?" "Are all the children in perfect health?" "Do you, like the average man (like myself), carry a mortgage on your house?" "Do you, like the average good business man, often have valuable securities deposited at your bank as collateral?" "Do you mean to send your boy and your daughter to college?" "Have you arranged a plan for buying out your partner's widow automatically, if your partner dies?" etc.

Sometimes, this preliminary call for information will result in an immediate interview based on some question such as the last one, or on this one, "Do you mean to send your boy and your daughter to college?"

In such a case the agent's questions have aroused the prospect's interest and the interview may proceed on the basis of the need discovered.

As a rule the "preliminary call" does not result in an interview unless the agent intends that it shall; but the agent secures information which enables him to select the right plan and method of presenting it at the "regular interview," arranged for a convenient time.

In either of the two foregoing methods of securing information, the data are collected *in advance* and then analyzed to determine the chief needs requiring life insurance, and to find the interests of the prospect that can be most effectively used in the interview. The beginner must not make the mistake of considering the information as the end in view. *The information will be of no use unless it is used in a real interview. And don't make the mistake of using too much time to prepare for the interview.* Between the two extremes of making no preparation and spending most of one's time getting ready lies the happy mean—the securing of necessary information and devoting a reasonable time to planning for the interview on the basis of the needs and interests discovered.

### GETTING INFORMATION AT THE REGULAR INTERVIEW

A large number of successful life insurance salesmen gather practically no advance information. They solicit by "straight canvass" without any information or having merely selected prospects by such standards as health, financial ability and good habits. They depend on an approach which arouses curiosity or some other interest of the prospect and then, before proceeding with the interview, secure information on the basis of which the interview is immediately built up.

For example: An underwriter called on Mr. G, whom he had never met. He knew only that Mr. G was manager of the store. The underwriter said, "Mr. G, my name is Ford. I represent the Hearth and Home Life Insurance Company. You have a fine business here and I want to insure it for you." Mr. G replied, "I thought you said you represented a life insurance company." "Right," said Ford, "the Hearth and Home Life Insurance Company, but my specialty is insuring various businesses." Mr. G said, "Well, I didn't know that life insurance companies wrote fire insurance." "They don't," said Mr. Ford, "but they write business insurance. I'll explain our proposition.

But first may I ask you a few questions so that I can explain our plan on the basis of your particular business?" "What do you want to know?" asked Mr. G.

"Are you the sole owner, or have you a partner?"

"There is a partner."

"Are you equal partners?"

"No, I own a two-thirds interest."

"Is your partner active or silent?"

"Silent. He merely has a financial interest. I run the business."

"Please don't answer this question unless you want to, but it will help me, if you do. What is a conservative estimate of the value of the total capital invested?"

"I don't mind telling you; we have $40,000 invested here."

"And you have a two-thirds investment interest and take two-thirds of the profits?"

"Yes."

"And you are making 20 per cent interest on your invested capital?"

"Better than that—30 per cent."

"Splendid. Now here's my proposition." And Ford proceeded to explain how life insurance could be used to protect the family's interest in the business, to strengthen credit, and to build up a sinking fund for future emergencies.

Soliciting without advance information is more effective in selling small policies than in developing larger lines. Consistent selling of large or even fair sized lines, or of life insurance programs, requires, except perhaps in very exceptional cases, that a certain amount of information be collected and analyzed. Proper consideration cannot be given to the prospect's needs, unless his needs are carefully reviewed either before or during the interview. There is grave danger that this may not be done at all if it is not done in advance. The cases of people whose means are too small to permit of their carrying more than $2,000 to $5,000, can, as a rule, be satisfactorily handled without advance information. Yet *even in small cases, if the agent knows something about his prospect his task will be easier and he can be more certain that he will give the prospect what he ought to have.*

## SUMMARY

It is obvious that, if we have essential information about a prospect's responsibilities and interests, it is much easier to determine his needs and to decide how our interview may be made interesting to him. Many of the most successful salesmen in the country make it a rule to call only on people concerning whom they are well informed. They get names from friends and policyholders, even from prospects they have failed to sell, because it is then easy to secure advance information. They cultivate "centers of influence,"* persons who become interested in them and their work and who are glad to indicate new prospects and give essential information.

These successful underwriters do *not*, however, make the mistake of spending an undue proportion of their time in securing information. If they can't get the desired information readily in advance, they go direct to the proposed prospects and ask questions in such a tactful way that the prospects, though strangers, usually tell what is wanted. If you find you cannot get the necessary information in advance without sacrificing time which should be spent in interviews with your prospects, you should by all means get your information from the prospects themselves; even if you are obliged to do "straight canvass."

After all, the most important thing in successful soliciting is to spend as much of your business day as possible talking with

*For an explanation of "centers of influence" see *Selling Life Insurance*, by John A. Stevenson (Harper & Brothers).

your prospects. No matter how much time you may have spent preparing to see people, if you do not interview them, you cannot succeed.

Of course, the rule for average cases does not always hold good for large cases. It often pays to take plenty of time to secure essential information before attempting a big case, even though it may result in considerable postponement of the interview. Yet many of our most successful underwriters depend even on the "big prospects" for their information.

*As in everything else, there must be a combination of a good system used with common sense, and practical business economy—including economy of time—must be kept constantly in mind.*

# PART II

# CASE ANALYSIS

## V

### CASE ANALYSIS

A COSTLY experience with automobile electrical repair men illustrates the purpose of training the life insurance beginner in the analysis of life situations. The writer's car seemed to be ill. If it had been a human being, a doctor would probably have diagnosed the case as heart trouble; there were unmistakable signs that there was no current. However, as the invalid was an automobile we went to the auto "service" man.

This individual very promptly said, "You need a new battery. This one is all shot." Although we were not quite sure what "shot" meant, it was clear that the prescription would cost about $40. The prescription was filled and the bill paid, but in a few days the new battery was down. This was before the common installation of ammeters on the dash, and after a week or two of exchanging batteries (with a rental charge), an "expert electrical service man"—so his advertisement ran—tested the generator, announced that "she wasn't making any juice," rebuilt a portion of the generator and presented a bill for about $35. In a day or so the battery was down again.

At last, after careful search, a man was found who was declared by several of the leading automobile dealers to be the only electrical engineer who could be employed for such work. This man opened the cover of the generator, took one look, said what the trouble was and, the next day, had it really fixed.

While paying the engineer's bill, the author told of his previous experiences and asked why it was the other men had not been able to remedy the trouble. "Because," the engineer said, "they are not trained fundamentally. They can't diagnose trouble. If they had only known what was the matter, they could have done the work just as well as I could."

It is even more important that the life underwriter be trained in discovering the real trouble which must be remedied by the use of life insurance; for, too often, mistakes are discovered only after the death of the insured—usually errors of omission rather than of commission on the agent's part—failure to provide for needs which become apparent to the family only after it is too late.

The average agent would have failed to solve the problem of the farmer who was helped by Mr. William H. Jones simply because he would have been untrained in diagnosis or analysis. Yet it is comparatively easy to learn how to analyze life situations, and the chief purpose of this book is to show the beginner by a few concrete examples how he may practice analysis by considering each bit of information about a prospect.

Six cases of different types are presented in the following pages. First the pictures are given. Then the information is analyzed and the needs are fully discussed. Finally certain life insurance plans or programs are suggested.

It is not possible to make an exact science of life insurance diagnosis and prescription any more than the doctors and lawyers have succeeded in making exact sciences of medicine and law. Life underwriters differ in their analyses of situations, just as do physicians and lawyers. Often physicians will accomplish the same results by different treatments. Likewise different underwriters may arrive at a satisfactory solution of a client's economic problems by different plans, provided the case receives careful thought and attention.

### HOW TO STUDY THE CASES

Each of the cases analyzed is discussed at considerable length. It may occur to some that the discussions are too long and that the points developed could have been made clear with less detail. However, these discussions have been prepared with the idea of furnishing examples of how we may "*think cases through*" by putting ourselves in the prospect's place, seeing what his situation is, what his point of view, and trying to decide what are his objectives in life and what is lacking to assure the accomplishment of the things he wants to do for himself, his wife, his children, or for others to whom he has some obligation.

*In studying the cases given here, it will be better not to read more than one of them the same day.* Otherwise, they may become confused. They are not for hasty reading, but rather for careful study. After you have been over a case, re-read the picture, close the book, and think the case over for yourself. Make a note of your ideas, particularly if they differ from our analysis. Write down any new thoughts that occur to you.

When you have studied John Brown and taken up Paul Miller, or some other case, you will, no doubt, find some suggestions that have already been made in previous cases, and you may think the repetition unnecessary. Indeed, repetition may be unnecessary for you; but it is an advantage to the average student to have certain ideas emphasized by repeating them. Moreover, this repetition is natural; for, as we proceed in our soliciting from one new case to another, we find that, while there are many essential differences between them, there are also many points of similarity.

If you have the patience to write out a full discussion of a few cases during your evening study hours, although the exercise may seem long and tedious, you will be repaid for your trouble. Soon, however, you will discard this laborious practice and simply "*think your cases through*," making necessary notes of the needs you will talk about, and outlining your plans or programs.

### THINKING YOUR OWN CASES THROUGH

If you desire to become skillful in "thinking cases through," try the following as a regular plan: In the evening, take your memoranda of information about the prospects you expect to call on the next day and sit where you will not be interrupted. Read carefully the picture of a prospect, pausing long enough on each detail to be sure that you have fixed it in your mind. Then begin to think of your prospect, putting yourself in his place, letting your imagination tell you what are his problems and his specific objectives in life, and what he must accomplish, if he would attain them. Picture, if you can, what it will mean to him if he lives to see his hopes realized. Then imagine what loss there might be to his family, or business, or to other persons to whom he may have some obligation, if he should die prematurely.

Keep this thought constantly in mind: *The imagination of the prospect will not be awakened by the agent unless the agent's own imagination has been stimulated by the pictures which have flashed into his mind* as he has analyzed the prospect's situation, considered his responsibilities, obligations and problems, and tried to imagine the prospect's hopes, ambitions and purposes for the future.

At first, the beginner may find it somewhat difficult to follow, in his own thinking and planning, the suggestions arising from the cases presented in this part of our book. But practice will gradually bring him to the point where the "picture" of the prospect will quickly suggest "needs" and their solution.

### SELECT ONE URGENT NEED

In deciding what plan, or program, to suggest upon approaching the prospect, it may be unwise to select a complete program at the start. You may work out a complete program; but *as a rule you should select some one urgent need that would seem to make a strong appeal to the prospect* and concentrate your sales talk on this one need. Once he has become your client, it becomes much easier to submit a more comprehensive plan.

## VI

### THE JOHN BROWNS—A THRIFTLESS FAMILY

THE first case to be analyzed is that of a person whom we shall call John Brown. You have known many John Browns, and you will meet more of them, with just such wives as Mrs. Brown and little children like the Browns' baby girl. The following picture tells their story:

Picture—John Brown, thirty years old. Is married and has one child, a girl two years old. Is chief clerk in a steel-manufacturing company and receives a salary of $4000 a year. Has never saved any money and has no estate. Carries no life insurance. Says he and his wife are still young and have plenty of time to save for the future. Says he "does not need any life insurance"; Mrs. Brown was a milliner before she was married, and expects in case of her husband's death to open a millinery shop and earn a good living for herself and child. The Browns live with Mrs. Brown's parents, who are not in good circumstances.

The Browns are typical of thousands of American families and in analyzing their needs we shall point out several that will be found in many other cases.

### NEEDS NEW ATTITUDE

*The first need we see is for a new attitude toward life.* The Browns are spendthrifts. Their mental, as well as their physical life, is thriftless. They have no conception of the value of time as a factor in permanent success. Their chief purpose in life is "to have a good time"—to enjoy temporary pleasures without a thought of future happiness. *They appreciate only the minor values of life.* The larger values of life—orderly habits in their thinking and their living, contentment, foresight in dealing with their economic problems, laying a foundation for their daughter's happiness, establishing the means of a comfortable rather than a wretched old age—these greater values of life now mean little to the Browns. They don't realize that such things will bring much more real happiness and satisfaction than the little pleasures in which they are interested.

Intimately connected with this need of a new attitude toward life is the *need for the habit of laying up whatever margin of Brown's earnings can be saved,* by careful planning of their expenditures and the elimination of unnecessary expenses. Saving is the result of careful spending. The Browns would no doubt *like* to have an estate, but they do not *truly desire* a substantial estate as much as they desire the trifles in which they are constantly indulging. It is obvious that they will never have any estate unless they modify their spending habits materially. They need to understand the greater value to them and to their child of money saved for the future, as against the value of the things on which they now fritter away their time and their money. Only then will they be disposed to save. But without a system to develop the habit of saving, they will never succeed. Some plan is necessary by which they can regulate their spending in such a way as to save money every month, over a long period of years.

### THRIFTY HABITS

The saving habit will do much more for the Browns than merely to make it possible to accumulate money. It will help, perhaps as much as anything else, to give them the new angle on life which they so greatly need. People who are thrifty in their finances are likely to be thrifty in other habits, even in their thinking. Waste in any form may become abhorrent to the man who carefully and regularly saves his money, especially if he saves with worth-while purposes in mind. And it becomes easier to interest the man who is orderly in his living in what we have called the greater values of life.

### NEEDS TO GET AHEAD

Brown *needs to strengthen his chances for success.* He has done fairly well thus far. At thirty he has $4,000 a year and a position of some responsibility. Apparently his success thus far has been due to his ability. But the man who attains large and permanent business success must be careful to form certain habits which will be helpful in business. There can be little question but that the man who saves his money will, other things being equal, be a better man in business than the man who does not save. Thrift habits in personal affairs necessarily beget thrift in business affairs. Moreover, Brown's employer will no doubt have a higher opinion of him if Brown settles down to a program of careful spending and saving. His banker will think better of him and, as he accumulates an estate, a higher estimate of him as a business man will prevail in his community. The time may come when Brown will have a chance to make a good business connection requiring the investment of some money. If he wants to accept it, he must have money of his own or he must be able to borrow. Unless he begins soon to save his money, he is not likely to have any funds when the need arises; and, unless he saves his money, he will not impress his banker nearly so favorably as a credit risk as he would if he had saved an amount which seemed fairly large, taking into account the size of his earnings and his opportunities to save. Lenders of money are greatly influenced by a man's intentions and purposes. If Brown had tried to accumulate something, had saved all he could, but had been obliged to use his savings on account of illness in the family, or had suffered some investment loss which did not reflect seriously on his judgment, a banker would, nevertheless, grant a loan much more willingly than he would if he knew Brown had always been a spendthrift. A purpose and an effort to save are important factors in establishing personal credit.

### NEEDS SAFETY IN EMERGENCIES

Brown's present situation is really deplorable. With no savings, no emergency fund, what would he do if he had a long illness. Unless his company was willing to continue his salary, he would have to borrow the money to pay the doctor's fees and the hospital bills. There are thousands of families in which failure to save in times of good health and high earning power have resulted, in emergencies, in an accumulation of debts which have not only handicapped the whole family, but have depressed them and lowered their morale. Young married people should save for the rainy day; for sooner or later it comes to everyone, and he who is not prepared for it may suffer permanently from its effects. The Browns *need to accumulate a substantial emergency fund.*

### OLD-AGE PROVISION

This suggests another need that can be satisfied only by spending carefully and saving regularly over a long period of time. The Browns are young now, but they will not always be so. Old age seems far away; the average young man or woman can hardly picture himself or herself as an old man or an old woman. Perhaps it is fortunate for many reasons that young people take such a rosy view of life. But, in one sense, it is unfortunate that young people can't realize how short life is; that even three-score years and ten pass quickly, and that the years of strength and talent are none too long to prepare against old-age dependency. Of a large number of persons in good health at thirty to thirty-five years of age, about one-half of the total number will live to be seventy years old. And how many of them will be prepared to spend their old age in reasonable comfort and peace? Statistics give a sad answer to this question. The vast majority of men who attain sixty to seventy years of age are dependent on other people. Because of ill health or failing mind or a decrease in ability, they are obliged to give up their work; or they fail in business, or lose their positions.

Most old men and women are unhappy, *living on the bounty of their children or other relatives, occupying homes for old men and women or eking out a poor living by some unpleasant employment.* No doubt, *a great many of them have been comfortable in the past and could have laid by something for their old age had they been willing to make the necessary* sacrifices. Mr. and Mrs. Brown *need to begin saving now for their old age.*

### LIFE INSURANCE REJECTED

Brown carries no life insurance. Mrs. Brown does not see the necessity for it and he agrees with her. They reject life insurance as a needless "expense" that would deprive them of other things. Mrs. Brown thinks she has solved the problem of income after her husband's death. She was a milliner before she married, and says that, if her husband dies, she can earn a satisfactory living for herself and her daughter by opening a millinery shop. It is true that many women have done such a thing; but let us see whether there are needs for which this plan might not provide.

*In discussing life insurance with a prospect, it is usually helpful to begin with some idea or plan in which the prospect is already interested.* We find that the Browns have already decided that they will depend on Mrs. Brown's ability to earn a living in case of Brown's death. Here is an interest, or plan, already established. Let us see if it can be linked up with life insurance.

### THE NEED FOR CAPITAL

Even from the Browns' own point of view, life insurance seems to be indispensable. Suppose Brown dies and that Mrs. Brown decides to open a millinery shop. She will require capital. She must rent a shop, buy fixtures and furnishings, purchase a stock of goods and, perhaps, employ some help. Then, unless she has unusually good fortune, there will be a period during which she will not earn very much. Her place must become known. Buyers accustomed to go elsewhere will only gradually transfer their patronage to her shop. It takes time to build up a satisfactory trade. *Capital will be needed to open the shop, keep it running, and provide for living expenses, until Mrs. Brown has had time to build up her business* to a point of profit large enough to pay her own living expenses and those of her daughter. We may congratulate Brown upon having a wife who is competent and willing to support herself and her daughter in this way; yet we should point out to him that their plans cannot succeed unless there is capital. Since they do not wish to deprive themselves by saving a large part of their income, he *should at least save a little and use the money to carry a few thousand dollars of life insurance to provide the capital to start the shop and keep it going until Mrs. Brown has had time to build up a business.*

### FINAL EXPENSES

But suppose that Brown provides, say, $3,000 of life insurance for this purpose and that he dies. What then? Mrs. Brown will undoubtedly find that her capital will not all be available for the millinery business. Brown was ill for, say, two or three months, and perhaps had an operation. Mrs. Brown finds that she has a lot of bills to pay—doctors' bills, the surgeon's bill, medicine bills, hospital bills and bills for nursing, food and other expenses. What a lot of money it costs to be ill and to die! Funeral expenses are high. The Browns didn't own a lot in the cemetery and Mrs. Brown had to buy one. During Brown's illness bills accumulated at all the stores. Mrs. Brown pays them. There was $3,000 to provide capital to start the little shop. More than half of it is already spent; and the widow is in no condition to undertake a business at this time. She must wait until she can get rest and recover from the numb pain that seems to possess her mind and body. She and her husband had been living at the rate of over $300 a month. She reduces expenses in every way possible to, say, $125 a month. Six months elapse. Her capital has shrunk to about $750.

Brown and his wife can both see that what would really happen would be something like the above. The money intended for capital wouldn't suffice. If he dies *Mrs. Brown ought to have at hand enough life insurance money to square Brown with the world, to pay her living expenses for six months or a year, and to furnish $3,000* *or $4,000 clear with which to set up in business.*

#### IF MRS. BROWN DIED

Let us assume that this is done. Is the the plan now made safe? Did you ever hear of a wife or a husband dying within a comparatively short time after the other had passed away? It isn't an uncommon occurrence. Suppose that Mrs. Brown has enough money at her husband's death to pay all outstanding bills and funeral expenses and to buy a lot in the cemetery, that she uses her capital to start the millinery shop, and the business succeeds, but that she dies while the child is still young. In this case, the Browns' plan will fail. After all, the real problem is to make it possible for Mrs. Brown to see that the child is taken care of until it is grown, and that it receives a proper education. If she should die while child is still young (and this is possible) how will the child be cared for? Perhaps the grandparents will look after her. But from the "picture," we see that they are not in good circumstances. They probably will not be able to give Brown's daughter the advantages he wants her to have. And they are no longer young. If the grandfather dies or becomes incapacitated, the child might, at a tender age, find it necessary to go to work to help support the home. Such a situation would not be a strange or unusual one. There are thousands and thousands of similar cases in the world all the time.

Mrs. Brown might not die before her daughter grew up. But she might have a long illness, or her health might fail to such an extent that she would lose her business. Or, the business might fail, even if she kept her health. Such shops are being opened and closed year in and year out in all our cities.

So life insurance is needed to enable the Browns to guarantee capital for the millinery shop, to pay off bills at his death, so that the capital will not be used for this purpose; also to furnish a certain amount for living expenses so that if Mrs. Brown has a long illness, she and the child will not be destitute, and to guarantee that, if Mrs. Brown, *too*, dies, the little daughter will have something to live on.

### THE CHILD'S GREATEST NEED

The Browns' plan to depend on Mrs. Brown's success in a millinery business causes us to think of a most important need which has probably never occurred to them, as it rarely occurs to many other fathers and mothers. What will Brown's child need more than anything else, if its father dies? When Brown, at his business, thinks of home, he thinks of mother and child. The average mother and a young child are practically inseparable, except after the little one's bedtime has come. Even the mother who has a nurse for her babies is with them or near them most of the time, watching out for their welfare in every particular. If Mrs. Brown should die, her little daughter would lose that great advantage enjoyed by the child who grows up under its mother's eyes. A child can sustain no greater loss than the death of its mother. If Mrs. Brown should suggest spending most of her time away from home and leaving her baby now to someone else to look after, Brown would realize how keenly he feels the need of his child for its mother. Yet he has allowed his wife to propose, and he has accepted, a plan (contingent on his death) which would result in just what he knows would be a very unfortunate thing for his daughter. If Mrs. Brown runs the millinery shop, how can she give her child proper care? *Brown's child needs its mother's time now and, if Brown dies, will need its mother's time even more than now. It will need the mother's supervision of its physical, mental and moral welfare.* Nobody else will do for the child what its mother will do. No nurse or governess or friend, nor even an aunt or grandmother will, as a rule, do for the child what its mother would do. There is no advantage Brown can give his little daughter that she will need more if anything happens to Brown, than to guarantee that she can have her mother's time. Life insurance should be used to keep Mrs. Brown free of any responsibility that may deprive her baby of a chance to have good health, and to be well educated, and to grow up under proper moral influences.

### THE NEED OF INCOME PROTECTION

The "picture" reveals another point to be carefully considered. Mrs. Brown's parents, with whom the Browns are living, are not in good circumstances. Suppose Brown left life insurance payable in a lump sum. The needs of Mrs. Brown's parents might be such as to cause her to spend a considerable part of her life insurance money trying to help them. Her father might become unable to earn any income. There might be a serious illness, an operation, need of a change of climate for the father or mother or both of them. Would it, or would it not, be natural for Mrs. Brown to spend her money to help her aged parents? If Brown wants to assure his wife and child the means to pay their living expenses until the little daughter is grown up, he should provide an income payable monthly for a specified number of years, rather than a lump sum.

After all, then, wouldn't it be better if the Browns would abandon the idea of having Mrs. Brown support the child, in case of Brown's death, and, instead of leaving capital with which to open a shop, concentrate their savings on a plan to assure Mrs. Brown an income for living expenses at least until the child is grown. It would also be wise to leave a certain amount at Brown's death in cash to pay his final expenses.

### SUMMARY

*Needs:*

*Mrs. Brown:*

1. She will need money to pay outstanding bills at Brown's death.
2. She will need money to pay Brown's doctors' bills and funeral expenses, and buy a cemetery lot.
3. She will need money every month to pay living expenses.

*The Child:*

1. The child will need support until she is grown.

2. She will need her mother's time and care more than anything else, and she can have them only if her mother is free from the necessity of working.
3. She will need an education and should be free of the necessity of working, at least until she has finished high school.

*Brown:*

1. Needs to cultivate the habit of thrift if he expects to be permanently successful.
2. He needs to build up a fund for emergencies.
3. He needs to create an estate for his old age.

*Life Insurance Requirements to Satisfy Above Needs*

| | |
|---|---|
| 1. Cash payable at Brown's death to pay outstanding bills, doctors' bills, and funeral expenses, say........................ | $2,000 |
| 2. Small income for Mrs. Brown, payable for life if possible—To provide $25 monthly, on interest option, say at 4½%, will require about........................ | 7,000 |
| 3. Additional income for twenty years to enable her to take good care of child and train and educate her properly—To pro- | |

| | |
|---|---|
| vide average amount of about $75 a month for twenty years only, assuming surplus interest of, say, 1½%, will require about | 13,000 |
| Total | $22,000 |

*Program:*

The Browns should save at least 20 per cent of their income, $800, and Brown should invest $500 or $600 a year in ordinary life or long endowment insurance. At age thirty, $22,000 will require an initial annual deposit (participating 3 per cent basis) of about $520 on the ordinary life plan, or about $630 for endowment maturing at age sixty-five (non-participating rates, 3½ per cent, about $100 less than the initial participating premiums, 3 per cent.)

*Settlements at death:*

$ 2,000 in cash
$ 7,000 at interest until Mrs. Brown is fifty years old, then in continuous installments, twenty years certain.
$13,000 in twenty years installments certain.

Total amount of monthly income for twenty years about $100, and $25 to $30 thereafter for life.

The child should be named as contingent beneficiary for all the insurance.

Cash value at age sixty-five—

| | |
|---|---|
| Ordinary life—22× $549 | $12,078 |
| Endowment, sixty-five | $22,000 |

The plan to recommend will depend on how Brown's interest develops, *i.e.*, whether the agent's discussion arouses interest chiefly in the protection for his family or in saving for his old age. The analysis of the case indicates that it will be best to develop, first, protection for the child, then for the mother in order that she may help the child, and, finally, for old-age savings and the value of habits of thrift.

### *Life Income Plan*

Instead of a simple ordinary life or long endowment policy with income settlements, it might be desirable to use one of these plans in connection with the deferred survivorship annuity, commonly known as the monthly income policy or the continuous-installment policy. A given amount of premiums on this plan would give Mrs. Brown (now probably about twenty-eight years old) a larger income than a continuous-installment settlement under a regular life or endowment policy, provided Brown died during the next twenty-two or twenty-three years. If Brown survived twenty-two or twenty-three years the continuous-installment option under the regular life or endowment policy would pay a larger income than the monthly income policy.

It is more important to provide the maximum possible income while the child is young, rather than after it is grown, and the monthly income policy might well be recommended.

On the other hand, since cash values (for a given premium) are larger on regular life and endowment policies than on the monthly income policies, if Brown should become greatly interested in the old-age provision. the regular policies might be preferable.

## FOR IMMEDIATE ACTION

Eventually the entire program should be sold to Brown, if possible, as a plan that will not only protect his child and his wife and enable him to save some money for himself, but will also make it possible for him to spend the rest of his money, if he feels he must, without any fear as to the welfare of the family in case of his death.

At first, however, since the complete minimum program will look very large to such a spendthrift, it would probably be wise to begin by submitting say, $7,000 to supply $2,000 cash for final expenses and emergencies and $5,000 to furnish capital or to provide an income of $5 \times \$65.25 = \$326.25$ a year, or a little over

$27 a month to pay the rent of a small apartment for twenty years.

Or, Brown might be willing to invest about $350 to $375 a year in life insurance, in which case we might recommend $15,000 of ordinary life or long endowment—$2,000 for final expenses and $13,000 payable about $70 a month (plus interest) for twenty years. This would pay rent and groceries for twenty years. Or $5,000 could be used for business capital, and the balance of $8,000 would pay nearly $45 a month for twenty years.

Only in rare instances is it likely that, in such a case as John Brown's, the entire program would be assumed at the start.

# VII

## THE PAUL MILLERS—A THRIFTY FAMILY

IT is unfortunate that there are not more people like Paul Miller* and his wife, whose case we shall study in this chapter. They are good citizens and set a fine example for their child to follow.

Picture—Paul Miller, twenty-seven years old; wife, twenty-five; one child two years old. Is a traveling salesman, earning a salary of $3,000 a year. He has bought a house for $8,000, on which he still owes $5,000, that is to be paid on the installment plan at the rate of $600 a year. Interest on mortgage is 7 per cent. He carries no life insurance.

### CHIEF INTEREST IS THE HOME

The first point we observe in considering the Miller family is that their attitude toward life is in marked contrast to that of the John Browns. The Millers realize the value of foresight and thrift. They are already saving their money. Although not yet thirty years old, they have a definite ob-

* This case, under a different name, was discussed by another writer in an insurance journal some months ago. However, it originated in the writer's classes at Carnegie Tech and has been used there for the past three years.

jective—a home—for which they are glad to make a sacrifice of temporary pleasures. They have been married only a few years, yet they have paid $3,000 on their $8,000 home. They may have had a couple of thousand dollars for the first payment; but they have probably made at least one or two payments of $600 each on account of their mortgage. They still owe $5,000, and are to reduce this at the rate of $600 a year. It will require eight years and four months longer to complete the principal payments at this rate. Thus they have laid out a definite savings program for several years ahead. With an income of only $3,000 a year, it is apparent that, in order to live comfortably and keep up the payments on the principal, as well as interest payments, the Millers must plan their expenses carefully. It is clear that one of the Millers' chief interests is their home. Probably no other investment would interest them so much. They attach to the home more than a financial interest. It possesses for them also a sentimental interest. They love the house, enjoy the feeling of ownership, the sense of security, which it affords. It is, therefore, reasonable to assume that the life insurance need which the Millers would feel most keenly would be a provision to guarantee that Mrs. Miller and the child would own the home, have it all paid for, if anything happened to Miller.

In considering any case, it is wise, as stated in the Brown case, to begin with needs suggested by some interest which the prospect already has. In the Browns' case, we saw that they had adopted the idea that Mrs. Brown would earn a living for herself and daughter if Brown died prematurely, and we first pointed out the need of capital to start the business. The Millers have a splendid plan to own their home and that suggests, as the need of most immediate interest, the necessity of money to pay off the mortgage if Miller dies, so that the wife and child may own the property clear of all indebtedness and have a home assured them.

It is not certain that Mrs. Miller and the child ought to occupy their home after Miller's death. Much will depend on how far Miller can go in providing expenses for maintaining such a home. He knows that it takes considerable money to run his house. If he can't leave his wife a sufficient income, she may be obliged to rent the house or sell it. But the mortgage insurance would be just as important, if Mrs. Miller were not to occupy it, as if she should do so; for unless the mortgage could be paid, there might be a forced sale with a shrinkage in Mrs. Miller's equity; and if Miller has bought his house under a certain type of installment contract (we hope he has not), the equity will be lost unless all payments are completed. With the mortgage paid off, in case it were necessary to sell the house Mrs. Miller could wait for a good real estate market or for a buyer who wanted her house so much that he would pay a good price. If she could, in good time, sell it for $8,000, this money, properly invested, would pay her, at 5 per cent, $400 a year, about $33 a month, for which she could probably rent a small heated apartment or rooms.

It is probable, however, that Miller would expect that his family would continue to live in their home in case of his death.

### KEEPING THE HOME INTACT

With the mortgage provided for, Miller would regret to have anything happen that might impair his wife's interest in the home. Yet if he provides only enough life insurance in cash to pay the mortgage, she may not be able to keep the house free from debt. When Miller dies, there will be a good many bills to pay, amounting to a considerable total. Funeral expenses will require several hundred dollars; it may be necessary to buy a lot in the cemetery; there will be doctors' bills and possibly a surgeon's bill and hospital and nurses' bills. Accumulated bills at the grocery, the drug store, the department store and many other accounts will have to be settled. The total may well reach from $1,500 to $2,000; and when all these things are paid for, there may not be enough money left to pay off the mortgage, certainly not if Miller should die soon. *There is need for life insurance to cover all these cash requirements, at Miller's death, in addition to the mortgage.* If the mortgage were paid off before Miller died and he left no life insurance, Mrs. Miller might find it necessary to borrow money on a new mortgage in order to pay the various bills. From whatever angle we view the situation, life insurance will be needed to protect the home, in which the Millers are so deeply interested.

### TAXES AND LIVING EXPENSES

So far as we know, Miller's equity in his home constitutes his only estate. With the mortgage lifted, his family would have the greater part of their rent paid for life—most of it, but not all, for there would be taxes, fire insurance and repairs to pay annually. There must be a certain amount of income from some source to complete the "rent" by paying these costs.

Then there will be other regular living expenses from month to month. The house must be heated in the winter, and it will cost something to run the kitchen range. The house must be lighted at night. There will be grocery bills to pay. While the child is young, it should have at least a quart of milk a day. At fifteen cents a quart, it will require $1,000 safely invested at 5½ per cent to provide one quart of milk a day, year in and year out. At fifteen cents for a full sized loaf of bread, it will take another $1,000 safely invested at 5½ per cent to provide one loaf a day, year in and year out. In addition to groceries, meat and milk, there will be incidental housekeeping bills, new clothing must be brought from time to time. There will be doctors' and dentists' bills, and there will be some expense incurred for the child's education, etc.; there must be provision for recreation and there should be some allowance for a little vacation every summer, a change to the country or the seashore for a few weeks.

### THE CHILD'S NEEDS

Suppose Miller should die within the year. The child is only two years old. For the next sixteen or seventeen years at least Mrs. Miller should be in a position to take care of the child comfortably without its having to aid in the family support. This would enable it to go through high-school. It would, of course, be still better if Mrs. Miller could support the child completely until it was, say, twenty years old, in order that it might have the advantages of special vocational training after finishing the high-school course.

Just as we saw in the Brown case, there is here also the need of the child for its mother's time and care; Mrs. Miller should, if possible, be relieved of the necessity of earning money for her living expenses while the child is growing up. It appears, then, that there ought to be life insurance to enable Mrs. Miller to keep up the house and to pay all the other living expenses, at least until the child has finished its education. Afterwards, it would also be desirable, if it could be arranged, for her to have a certain smaller provision for her own living expenses.

## PRINCIPAL NEEDS

The chief needs we see in the Miller case which could well be provided for by means of life insurance are (1) cash to lift the mortgage, (2) cash to pay funeral expenses, doctors' bills, etc., (3) cash to pay outstanding bills, (4) a monthly income for payment of bills for groceries, clothing, medical care and incidental expenses, and for taxes, fire insurance and repairs on the home. The monthly income should be sufficient to provide for both mother and child until the child is eighteen or twenty years old. There should also be a small income paid to Mrs. Miller during the balance of her life. She is now twenty-five years old. She will be forty-five when the child reaches age twenty. Unless she is a woman of considerable ability or has had special training or previous business experience, she would at this age find it hard to earn a good living. It may be difficult for Miller to provide a life income for his wife, but this is clearly one of the needs we see.

### *What Can Miller Afford?*

Needing or desiring something and being able to afford it are two quite different things. Miller, with his attitude toward life, will probably be very much interested in the analysis of his life insurance needs. It is quite likely that he will recognize all of the suggestions as being reasonable, but the next thought that will come to his mind, as well as to the mind of the life underwriter, will be how far he can go toward adopting this program. Perhaps we may find that he can't adopt an adequate program as indicated above. Possibly he can do much more than he thinks. This question must be decided by Miller, but the underwriter should help him with suggestions.

If Miller will budget his expenses, he may accurately determine how much he can invest in life insurance. He earns a salary of $3,000 a year. As he is a traveling salesman, we may assume that his board is paid while he is away from home.

He is paying $600 a year on his mortgage. His interest the first year will be 7 per cent on $5,000, or $350. Taxes will vary, according to where he lives. In the suburbs of Pittsburgh, they would probably be about $150 a year. Fire insurance will cost $10 a year and, if the house is a new one, repairs may not exceed $50 a year provided Miller attends to all the easy repairs himself. This makes a total of $1,150, leaving a balance of income amounting to $1,850.

### UNITED STATES TREASURY THRIFT BUDGET

The United States Treasury thrift budget for a family of three with an income of $3,000 a year provides for a total of rent and savings amounting to about $1,000. Miller's rent (taxes, interest and upkeep) and savings

$3,000 a Year—$250 a Month

| | Number in the Family | | | |
|---|---|---|---|---|
| | Two | Three | Four | Five |
| Savings. . . . . . . . . . . . . . . | $65 | $53 | $40 | $30 |
| Taxes (Federal income). | 5 | 4 | 3 | 2 |
| Rent. . . . . . . . . . . . . . . . . . | 30 | 30 | 35 | 35 |
| Food. . . . . . . . . . . . . . . . . . | 40 | 48 | 56 | 64 |
| Clothing. . . . . . . . . . . . . . . | 30 | 33 | 36 | 39 |
| Housekeeping expenses. | 25 | 30 | 32 | 32 |
| Church, Charities. . . . . . | 19 | 17 | 16 | 16 |
| Health, Recreation, Education. . . . . . . . . . . . . . . | 18 | 18 | 16 | 16 |
| Personal, Miscellaneous. | 18 | 17 | 16 | 16 |
| Total for month. . . . | $250 | $250 | $250 | $250 |

($600) amount to about $1,150; so he has $150 a year less remaining for other provisions than he would have if he followed the United States Treasury budget. Moreover, the United States Treasury budget makes no special mention of life insurance. This is, no doubt, covered by the general item of savings, $636 a year, just about the amount Miller is saving by annual payment on his mortgage. If Miller carries a substantial life insurance, he and his wife must adopt a more economical scale of living than the United States Treasury budget. It will be difficult; yet it is possible.

Perhaps they can and will do it. As Miller is traveling most of the time, they may be able to save, say, one-fourth of the food allowance, $48, for which the budget provides. That makes $12 a month, or $144 a year. They might save $10 a month, or $120 a year more, from other items. This would make a total of $264, which is probably as much as we could expect the Millers to save, under the circumstances. But they can do it, barring serious illness. If they have heavy doctors' bills, they will probably be obliged to borrow the money, or to pay off the bills gradually.

The author is well acquainted with a man whose financial situation is practically identical with Paul Miller's and who saves $400 a year for life insurance; yet by good management he and his wife and child are living comfortably and are highly respected in their community.

### MORE MONEY FOR LIFE INSURANCE

Next year and each year thereafter for several years Miller will have a little more money for life insurance than he has now. Each payment of $600 on the mortgage reduces his interest charges by 7 per cent of $600, or $42. Every year for the next eight and one-third years, if he pays off $600 on the mortgage, he will have $42 less interest to pay than he paid the year before. The money released in this way will increase year by year as follows, $42, $84, $126, $168, $210, $252, $294, $336, $350 ($14 being released on the last $200 mortgage payment in the ninth year). As only $200 will be required to make the last payment on the mortgage, $400 previously paid annually on the mortgage will be released, increasing the total available by the end of the ninth year to $750 (annual interest $350, plus $400) over and above what Miller might be able to invest in life insurance now; and in the tenth year this will be increased by another $200, a total increase of $950 in the ten years, since in that year there will be no mortgage payment due.

It is probable that Miller's living expenses may be unavoidably increased in the coming ten years. His child will be older. There may be other children. Yet we may reasonably expect that a young man who is progressing as Miller is will gradually increase his earnings sufficiently to provide for a normal growth in expenses.

### DESIRABLE PROGRAM

Miller's general attitude of conservatism encourages us to present life insurance to him as a means of saving further sums of money for three purposes: (1) to guarantee the home to his wife and child, in case he dies prematurely; (2) to guarantee the payment of taxes, fire insurance and repairs, and to provide for the living expenses for his wife and child, in case of his premature death; (3) to guarantee the education of his child, and (4) to provide an old-age income. With the home all paid for, a provision for living expenses for his family, if he dies, or for himself and family, if he lives, is ideal and completes perfectly the objective Miller and his wife have of *being independent in their own home.*

Within a few years Miller will be financially able to carry a very substantial life insurance program on a plan calculated to provide amply for his own old age. He should, *if possible,* have a minimum program somewhat like the following:

MINIMUM EVENTUAL PROGRAM

1. $ 5,000 cash to lift the mortgage.
2. 2,000 cash for final expenses and emergencies.
3. 10,000 payable in twenty installments certain, about $652 a year (3%)
4. 14,000 at interest to yield about $600 a year at an assumed rate of 4½%, to provide a life income for wife.*

Total $31,000

* Since Mrs. Miller is young, we recommend the interest income rather than the continuous installment plan. The policy might well provide that she may have the choice of either plan at any time after she reaches 45, or 50, years of age

The above program would clear the mortgage, pay outstanding bills and funeral expenses, probably furnish a small emergency fund and provide a minimum of about $100 a month for twenty years and approximately $50 a month thereafter as long as Mrs. Miller lived, 3 per cent interest being guaranteed and assuming surplus interest of 1½ per cent. But $31,000 is too large a program for Miller just now. *He should adopt it in principle and gradually build up to it.* Ten years from now it will be easy, if things work out as expected. But what shall he do now?

### PRESENT PROGRAM

*Whatever insurance is taken now should be considered as the first step in a more complete program to be worked out as soon as financial circumstances will permit.*

It would probably be best for Miller to choose his permanent plan of insurance—ordinary or thirty-payment life or an endowment maturing at age sixty-five or seventy—take $1,000 or $2,000 on this plan and then put as much money as he can into ten-year term insurance. The idea of having a small amount of the permanent insurance is that *he will have made the beginning on the final program of life or long endowment, to which the term insurance will gradually be converted.*

One thousand dollars of ordinary life would require a first deposit of about $21, and thirty-payment life about $25, while a thirty-five-year endowment would require about $27. If Miller can save $260 for life insurance this would leave about $235 for a ten-year term. At about $12.50 per $1,000, $235 would carry about $19,000 of ten-year-term insurance. Miller would have a total of, say, $20,000, with only $1,000 on the permanent plan, and $19,000 on the term plan. But *he should be "sold" originally on the permanent plan, and then on the use of term insurance to initiate the permanent insurance.*

Twenty thousand dollars of ordinary life would mean a premium of about $420 a year; the thirty-five-year endowment would take about $540. If Miller can put $260 a year into the insurance now, the decreasing interest on his mortgage and the dividends on his $20,000 of insurance will release enough money annually so that practically all the term insurance could be converted to ordinary life or long-term endowment within seven years, the time within which most companies require conversion of ten-year term policies. (Some companies allow conversion at any time within the ten-year period.) No doubt Miller's situation six or seven years from now would permit him to complete his conversions. If not, he could borrow enough on the converted policies to convert the balance of his insurance within the time limit.

The plan of converting the term insurance into ordinary life or long-term endowment should be worked out carefully. Separate term policies of \$2,000 or \$3,000 each may be issued, so as to simplify gradual conversions. Each year the \$42 released by the decrease in mortgage interest would make it possible to convert about \$3,000. (Term rate \$37.50 + \$42 = \$79.50.) In the ninth year of this program, there will be only about \$5 of interest to pay on the final \$200 for four months. Thus, \$37 of interest money will be available and as only \$200 is due on the mortgage instead of \$600, there will be \$400 more of Miller's savings released, a total of \$437. Therefore, by the end of the ninth year Miller may add the balance of his total program of \$31,000, and more, too, if it seems desirable for him to do so, without drawing on any funds in excess of what he had previously paid on his home-purchase contract.

### PLAN OF SETTLEMENTS

We should suggest a definite method of paying the \$20,000 to Mrs. Miller. Perhaps the following would be advisable:

1. \$ 5,000 for mortgage, payable in cash.
2. \$ 2,000 for bills, etc., payable in cash.
3. \$13,000 for living expenses, payable in monthly income, fifteen years certain (3% basis) $\$81 \times 13 = \$1053$ annually for fifteen years.

There will also be surplus interest averaging (at 1½ per cent) about \$80 or \$90 a year. This plan would enable Mrs. Miller to pay outstanding bills and funeral expenses and clear the mortgage, and would furnish her an income averaging over \$1100 a year for fifteen years, if we assume surplus interest will continue at 1½ per cent. If Miller died in the first year, the fifteen-year period would end when his child was seventeen years old. If he died three years from now, the income would continue till the child was twenty years old. About \$2,000 more of the mortgage would then have been paid off and \$2,000 of the \$5,000 mortgage policy could then be arranged under the fifteen-year installment certain plan, increasing the annual income by \$162, plus interest. When the mortgage is paid off, the child will be ten years old, and no insurance will be needed for this purpose. Eighteen thousand will then be available for income, and would furnish installments of about \$1,170 a year for twenty years certain, plus surplus interest.

After the insurance is in force, the underwriter should confer with Miller every year or two regarding any advisable modification in the settlement provisions. As the need for mortgage protection grew less and his child became older, a different settlement might be advisable. As soon as possible a settlement should be arranged providing at least $25 or $30 a month as long as Mrs. Miller lives, with additional limited installment income to increase her income to about $100 a month until the child is 18 or 20 years old.

*Term insurance is not to be sold with the idea that it is a satisfactory substitute for permanent insurance.* But, in such a situation as this, it is often advisable as the introduction to a permanent plan. Without it, Miller could probably not afford over $10,000 or $12,000 of insurance. The plan suggested above will, in case of Miller's early death, free Mrs. Miller from debt, give her the home paid for and provide about $100 a month until her child is through school or even college; that is, if Miller should die within ten years—before the child is twelve years old. In order to provide similar protection, if he should die after the child is twelve years old, *i.e.*, after the expiration of the term insurance period and to assure permanent provision for his wife. Miller must carry out the plan to convert to whole life or long-term endowment within seven years (in some companies within ten years).

Good service to Miller will require very careful handling of his term insurance. As has already been mentioned, the underwriter should, first of all, arrange the $19,000 of term insurance in small policies. A $2,000 policy should be marked "to provide cash for immediate expenses." Another $2,000 and a $3,000 policy, or two $2,000 policies and one for $1,000, should be marked "to pay the mortgage." The others should be marked "for income," and the income settlement should be arranged without delay. The agent should have a term-conversion file, and a card for each of Miller's term policies should be prepared and filed in such a way that it will automatically come to the agent's attention at a proper interval before the conversion date previously selected. *The permanent plan should be thoroughly sold to Miller at the outset,* so that he will always think of the term insurance in its true light—*as initial term insurance.*

If both the agent and Miller live to the ninth year, the agent should endeavor to complete the original plan of at least $31,000 to furnish an income sufficient to provide for Mrs. Miller and the child until the child's education is complete, and to provide a reasonable monthly life income for Mrs. Miller.

Term insurance—even as a means of initiating a program of permanent insurance—would probably not have been advisable for John Brown.

### FOR IMMEDIATE ACTION

The beginner will probably find it advisable to sell first $1,000 or $2,000 to pay final expenses and $5,000 to cover the mortgage. With $6,000 or $7000 placed for these purposes, he may then take up with Miller a more extended program, to be added at once or to be adopted gradually.

If it seems doubtful that Miller will adopt so large a program as the one suggested, it would be better to place as much insurance as he can afford to carry on a life or endowment plan.

# VIII

## PETER DALE—AN AVERAGE CASE

THE following example is typical of many cases seen by the life insurance agent every day, in that only a small amount of information is available. Yet, even these few facts are sufficient to suggest very important needs—perhaps the most important ones in this kind of a situation.

Picture—Peter Dale, thirty-five years old, married; has a son ten years old and a daughter seven. Is head of a department in a large store—earns $3,000 a year—occupies a small house which he inherited from his mother—has saved only about $500 in Liberty Bonds—carries $1,000 of life insurance.

Since the information is quite limited, there is no item which suggests any need in connection with a plan or interest of which we may assume Dale may already be thinking particularly.

### *Needs.*

However, it is easy to see the following needs in this case:

1. Cash for final expenses—accumulated bills for groceries, light and gas, telephone,

household and other current expenses for two or three months, doctors' bills and funeral expenses and, perhaps, a cemetery lot; also for emergencies.

2. Money for living expenses for his wife and children for as long a period as he can afford, especially while the children are young.

3. Both children should receive a high-school education. Perhaps he will want them to go to college or take a course in a business or vocational school.

4. Dale has not been thrifty. He needs a system of compulsory saving. Probably he would not have saved what he has, if it had not been for the campaign for Liberty Bonds.

5. His prospects for largely increased earnings do not seem to be particularly good. He should plan to accumulate an old-age fund.

6. There is a possibility of his becoming totally and permanently disabled and he may well provide against this contingency.

### HOW MUCH CAN DALE SAVE?

The following United States Treasury budget for a family with an income of $3,000 a year was shown on page 83, but it is reproduced here for convenience.

$3,000 a Year—$250 a Month

| | Number in the Family | | | |
|---|---|---|---|---|
| | Two | Three | Four | Five |
| Savings | $ 65 | $ 53 | $ 40 | $ 30 |
| Taxes (Federal income) | 5 | 4 | 3 | 2 |
| Rent | 30 | 30 | 35 | 35 |
| Food | 40 | 48 | 56 | 64 |
| Clothing | 30 | 33 | 36 | 39 |
| Housekeeping expenses | 25 | 30 | 32 | 32 |
| Church, Charities | 19 | 17 | 16 | 16 |
| Health, Recreation, Education | 18 | 18 | 16 | 16 |
| Personal, Miscellaneous | 18 | 17 | 16 | 16 |
| Total | $250 | $250 | $250 | $250 |

Examining the column for a family of four, we see that if Dale followed this budget he would save $40 a month or $480 a year. It will be all the easier for him to do this, since he owns his home and the cost of his rent will be only the expenses for taxes, fire insurance and upkeep.

No doubt, in view of his failure to accumulate much money, it would be advisable for Dale to put all he can save into life insurance. This plan would give him a voluntary-compulsory system of saving regularly. It would have the double advantage of guaranteeing protection for his family in case of his premature death, and also of *guaranteeing* that when it came time for him to retire from business, or at least to decrease his activities, he would have the money he had saved. Investment of his savings in life insurance will furnish the safety which he requires. As his margin of savings is not very large, safety is a more important consideration than profit. Life insurance will afford an increase in his funds commensurate with a high degree of safety, while furnishing the protection he needs for his family.

Perhaps Dale will not be willing to put aside $480 a year; yet he should do so. If he saved this amount, he might object to investing all of it, or even most of it, in life insurance. However, the amount of life insurance which an annual premium of $480 would carry (about $18,000 or $19,000 on the ordinary life basis, participating) would be none too great to pay for his family's living expenses, if he should die before his children are grown. At 5 per cent, $19,000 would yield an income of only $950 a year.

### *Some Recommendations.*

Suppose that Dale would invest $400 a year in life insurance and deposit $80 in the savings bank for an emergency fund. What recommendations should we make?

(1) The $500 Liberty Bond and his present life insurance of $1,000 should be used to provide cash at death to pay bills and funeral expenses.

(2) Four hundred dollars would carry $15,000 or $16,000 of participating ordinary life insurance—say, $16,000—and about $13,500 on the thirty-payment life plan or endowment maturing at age seventy; and this insurance should be used to provide for the family's monthly expenses. Non-participating rates would, of course, be less for a certain number of years. Continuous premium endowment maturing at seventy-five might be substituted for the ordinary life policy, the difference in premium being very slight. It is quite possible that Dale could be more easily interested in an endowment maturing at age 65. A participating 3 per cent premium of $400 would pay for nearly $12,000 of insurance on this plan. The old age provision would probably make a strong appeal. Yet, if he will invest $400 in endowment maturing at 75 or in ordinary life, this would probably be better for his family and, therefore, in the main, for him.

(3) The insurance is not sufficient to furnish an adequate life income to Mrs. Dale,

either on the interest plan or the continuous installment plan. At 4½ per cent the interest income would be about \$720 a year. Assuming Mrs. Dale to be between thirty and thirty-five years old, if Dale died within the next few years, each \$1,000 would provide, on the continuous installment plan, a guaranteed income of about \$45 a year for twenty years certain and for life, or about the same as the interest plan. But there would be surplus interest, starting at about \$10 and gradually declining, throughout nineteen years, averaging perhaps about \$5 a year per \$1,000 of insurance. Beginning at about \$880 and decreasing a few dollars annually to about \$720 at the end of twenty years, \$16,000 would provide an average of about \$800 a year for twenty years certain. This average is on an assumed surplus-interest basis of 1½ per cent. The guaranteed annual income thereafter would be about \$720. Since Mrs. Dale is a young woman, the interest plan would be recommended if the insurance were somewhat larger, with the privilege of changing to the continuous installments after age forty-five or fifty. The difference of \$160 year in the beginning between the interest income and the installment income might be a very important consideration, especially as there are two children. Yet neither of these plans seems to meet the situation. Even $880, the probable initial income on the installment plan, is not large enough.

(4) The children are young, the boy ten years old and the girl seven. If possible, the boy should be free to pursue his education at least until he is eighteen or twenty, and the girl until she is twenty or twenty-two. If Dale should die the first year, the boy should have protection for about ten years and the girl for about fifteen years.

(5) With these facts in mind, let us see if we can work out the income from $16,000 in such a way as to meet the requirements of the case, by arranging a maximum installment during ten years with a smaller income until the end of fifteen years, followed by a still smaller income to continue as long as the wife lives.

SUGGESTED PLAN OF SETTLEMENT

| | Annual Income |
|---|---|
| $ 2,000 to be paid on limited installment plan, ten years | $ 226 |
| $ 4,000 to be paid on limited installment plan, fifteen years | 324 |
| $10,000 to be paid on continuous installment plan, twenty years certain, about | 450 |
| Total guaranteed annual income for 10 years | $1,000 |
| Monthly payment | $83.33 |

If the surplus interest rate is 1½ per cent there will be an additional income of about $170 the first year, the surplus interest gradually decreasing. The total first year's income would be about $1,170, and there would be a gradual reduction from year to year for ten years.

Assuming death to occur in the first year of insurance, at the end of ten years the boy will be twenty years old, through high school, and earning his own living. The guaranteed income to the mother will be reduced in the eleventh year from $1,000 to $774 ($1,000–$226), or $64.50 a month. The surplus interest on the $2,000 will cease and the interest on the balance will be materially reduced. The daughter will then be seventeen years old, almost through high school. Five years later, at the end of fifteen years from the time of Dale's death, the daughter will be twenty-two years old, her high school education completed and the mother's guaranteed income will be decreased from $774 to $450 ($774–$324), and this will be paid as long as she lives, but with no surplus interest after the installment-certain period has expired. It will be at least enough to pay Mrs. Dale's board.

(6) It is quite possible that Dale may live to, say, age sixty-five, thirty years longer—

at which time it might be necessary for him to retire, or, at least, to do less work. What would this insurance do for him at that time? The cash value per $1,000 of ordinary life (either 3 per cent or 3½ per cent reserve) would be over $500 or more than $8,000 for the entire $16,000. This sum he could withdraw in whole or in part, if he then needed the money more than the insurance.

If he takes thirty-payment life, the policies will be paid up at sixty-five and the cash values of $13,000 insurance will then amount to about $9,760.

The endowment at 65, say $12,000, would pay $12,000 at maturity—age 65.

On the accelerative plan the ordinary life (participating) may be matured as an endowment, comparing quite favorably, as to the combination of net cost and maturity with the long endowment policies; but, of course, no maturity date can be guaranteed at the outset, as is the case with endowment policies.

(7) Suppose that Dale should become totally and, presumably, permanently disabled: (*a*) He would have no more premiums to pay, no matter how long he continued to be totally disabled. (*b*) In addition, under some contracts he would receive a life income of $160 a month (1 per cent a month basis)

as long as he lived, assuming that the $1,000 he already has does not contain the disability provision. At his death the original insurance would be paid to his beneficiaries as he might have directed.

If long endowment were used instead of ordinary life, the disability income would, in some companies, be paid only to the maturity of the endowment, which would then be paid in full to Dale. Or, Dale could have the company hold the proceeds and pay him an income as long as he lived, with certain beneficial interests to his family.

Non-participating premiums are, of course, less for a certain number of years and 3½ per cent values are less than 3 per cent values quoted on the life policies. Endowments mature for their face at a given time on either interest basis.

## IX

### A YOUNG CHEMIST, WHO HAS NO DEPENDENTS

THE following interesting and typical case of a young man without dependents was found in the Gold Book of the Eastern Underwriter of September, 1921. Just such young men are being solicited, particularly by the younger agents, all over the country every day.

Picture—A young man twenty-two years of age—out of college one year and now working as assistant chemist in a steel mill, has no dependents, parents well to do, but not wealthy, has not saved anything since leaving college, although his salary has been sufficient for him to save at least $25 a month. Appreciates the value of insurance for those who have dependents, but cannot see his own need for it.

Following our practice of seeking first some present interest of the prospect which may suggest a way in which he may most readily comprehend that life insurance may be useful to him, let us see what responsibilities and interests this young man has. He has no dependents to care for. He is not married. His parents are well-to-do. Perhaps in our interview with him we may discover that he is engaged to be married, although he is only twenty-two years old. So far as we know he has no debts. He has never saved any money, so he has not been greatly interested in saving; yet it is barely possible that he may think of it now. He believes in insurance for persons with dependents. He can afford to set aside $25 a month in savings. Perhaps we can persuade him to use life insurance as his saving medium, for we can make the double appeal through savings and life insurance.

He is assistant chemist in a steel mill. The "picture" tells us nothing about his character, whether he is industrious and ambitious or not. Yet it is fair to assume that the one responsibility which this young man has and in which he feels a keen interest, is his business progress. No doubt he is anxious to get ahead, to make good in the eyes of his employers, so as to secure promotion. This he feels as a need and he will probably be interested in anything that will help him to win the approval of his employer and thus improve his business prospects.

Can life insurance help him in this direction? Recently a student at Carnegie Tech told the author the following story: "An inspector of a surety bond house was making a survey of the personnel in the financial department of a very large concern. Among other steps, he took the time to go over the "history" cards of all these employees, in order to learn what their previous experience had been and to note any items of information which might give some insight into each employee's character. Every now and then the inspector would throw aside a card. After he had thus separated a number of the cards from the file, the representative of the concern (who was also the student who told this story) asked why these cards were being laid aside. "Because," said the inspector, "those men carry life insurance. Our experience has taught us that, as a rule, a group of men whose lives are insured is a pretty good one. They certainly have a sense of responsibility, and are doing something to guarantee their obligations. They are saving regularly. Usually they are less extravagant in their habits than a group of men who don't carry insurance, because they are saving. In making a detailed inspection we shall not go any further with your employees who carry life insurance. Moreover, they have been inspected by the life insurance companies, and life insurance companies are careful as to whom they insure."

### *Approval of Employers*

It is obvious that life insurance will give this young assistant chemist an advantage in the eyes of his employer. Ask any employer what he thinks of the young unmarried man who carries life insurance, and you will find that he has a better opinion of such a young man and considers him a more desirable employee because of his life insurance.

Also an employer likes to know that his employees are laying aside money for a rainy day and for the future. Almost every firm of any importance is called on from time to time to assist an employee who is financially embarrassed because of some emergency, such as a long illness or an operation, or the necessity of helping some member of his family. The employer knows that employees who are accumulating savings accounts are not likely to become a charge on the company in such emergencies, that they are preparing to stand on their own feet when things get wobbly, instead of leaning on their employers for support. Then the employer is all too familiar with the case of the employee who dies and leaves a widow and children unprovided for. Many firms feel it their duty to give a little help in such cases; but as a rule what seems a generous contribution on their part is not really enough to go far, and they know it. Sometimes they pay the funeral expenses and other pressing bills. An increasing number of employers are using group insurance to protect themselves, as well as the families of employees, in such cases. They would feel better satisfied with an employee who, they knew, was preparing himself for financial emergencies by saving his money and carrying life insurance. If the employee is young and unmarried, the employer is none the less glad to see him have his life insured. He knows that the young man will probably marry soon and that it will be harder for him to learn to save after he is married, because of his increased expenses, unless he happens to have an unusually thrifty wife. Also *the employer knows that the young man who is careful and foresighted in his personal affairs is more likely to be careful and foresighted in the affairs of the firm.* Personal thrift induces habits of thought and conduct which may affect favorably all a man's actions, both in his own affairs and in those which concern others.

Since an employer estimates a young man's value to the firm partially upon his habits of thrift and foresight, then it should be obvious to the young chemist that saving money and carrying life insurance will make him a better man in all those relations of life in which self-control, care and foresight are required. The spendthrift exercises little or no self-control in one of the fundamental things of life. Of course, money in itself is nothing. But the right use of money means much. The young man who saves is, through self-control, building for himself a position in which he may later control many different things—a business, better education, enjoyment of the greater values of life, even the opportunity to be charitable and generous where gifts will do the most good. Saving develops careful habits, because saving requires careful spending. The spendthrift is likely to be careless in many things, for he has developed a habit of carelessness in one of the fundamentals of life.

### LIFE INSURANCE PROVIDES AN ESTATE

This young man has no estate. Life insurance is an estate, purchased on the long-time installment plan with a guarantee that unpaid installments will be canceled at death. It is a remarkable thing that, without a dollar, the young chemist may at once, by signing an application (to be approved by the company), and making the first installment payment, become the owner of an estate which under certain conditions may do as much for him as an estate of equal amount and composed of first-class real estate, stocks and bonds, which a wealthy father might have left him. Every man *needs an estate.* The man who has no estate is in the same situation as the savage, in one sense, *i. e.*, he is living from day to day. Even though he earns thousands of dollars every year, if he has accumulated no estate he is, in a very real sense, living from hand to mouth; and in case of death, total disability or old age, will be no better off, practically speaking, than the improvident savage in similar situations.

Life insurance makes it possible for the young man who has not yet lived long enough to build an estate through accumulated savings to possess an estate which in certain important contingencies will accomplish just as much as an estate of equal amount accumulated by a man sixty years old over a period of thirty years of frugal living and careful saving.

Thrift develops character-habits which appeal to substantial people. The young man who saves always commands the respect of superior people. Those who would condemn the thrifty young man are almost sure to be persons whose opinion in most matters would not be worth while and whose recommendations would not carry much weight. Good business men, bankers, rich men would almost unanimously urge the young man to save; their opinion *is* worth while. The spendthrift, on the other hand, does not inspire respect in the minds of substantial business men. They do not expect that the spendthrift will have self-control, will be careful and foresighted.

### EMERGENCIES AND OPPORTUNITIES

There are other practical reasons why the young chemist should take advantage of the opportunity to save money on the life insurance plan. The average young man is not able to meet emergency demands which come to everyone sooner or later. He might have a long illness or some other emergency might arise in which he would require more money than he is earning from week to week or month to month. An illness might not only entail an accumulation of expenses, but it might result in a loss of income. If he has no surplus funds he may be obliged to go in debt.

Again, he should be prepared to take advantage of a good business opportunity. The man who has funds or security at such a time has a chance to start in business for himself or to make a business investment. A life insurance policy has cash and loan values. Moreover, the policy has collateral value and occasion might arise when the assignment of the policy to a creditor or to someone willing to employ him in some undertaking might secure him an unusual opportunity.

### GRATITUDE TO HIS PARENTS

The young chemist's parents have probably done much for him. No doubt they paid for his education and have assisted him in many other ways. Even though they have no need of his help, he would like to feel that, if he died, his current debts and funeral expenses would be paid out of his own estate. Besides, he would take great satisfaction in the thought that, in event of his death, he would leave some estate to his parents or, perhaps, directly to his mother. She would always be very happy to think that her boy had thought of her and wanted to leave her all he could.

### HE WILL PROBABLY MARRY

He realizes, too, that he will probably marry. The average young man marries at 27 or 28 years of age. The chances are that he will be married in only a few years, that he will become a father and have all the obligations of a married man. It is wise to begin to provide against these almost certain responsibilities.

### BUYING NOW MEANS SAVING

He will save money by insuring now instead of waiting until he is married. A young man insuring at twenty-five years of age will at the end of a given number of years have an advantage over the man who waits until he is thirty or forty. For example, a young man who is twenty-five years old buys a twenty-payment life policy of $10,000 at a non-participating rate of $225.30. At the age of thirty he buys another twenty-payment life policy for $10,000 at the rate of $247.10. At fifty, when the second policy becomes paid up and has a cash value of $5,084.90 (3½ per cent), the policy which he bought at age twenty-five has the same cash value, although the total premiums on the age twenty-five policy amounted to $4,506 against $4,942 on the age thirty policy. Moreover, he has had insurance protection for $10,000 five years longer under the first policy than under the second one.

Again, if the young chemist thinks it would be better to wait until he is married before insuring, he should remember that even young men may become uninsurable. If he should wait five years and then be rejected for insurance, he would never cease to regret his procrastination, which had deprived his wife and children of protection. Prudence and foresight demand immediate action.

*Needs.*

1. Habit of saving and thrift.
2. Approval of employer and substantial people.
3. An emergency fund.
4. Capital for business opportunities.
5. An estate for his own future and the future of dependents.
6. To show gratitude to his parents.
7. Payment of his final expenses.
8. To save money by buying now rather than waiting.

The prospect can save $300 a year. We might recommend that he select an endowment maturing about sixty, or a twenty- or thirty-payment life policy. The ordinary life is not nearly so attractive to the average young man situated as he is. The annual deposit on the twenty-payment life or the thirty-five-year endowment at age twenty-two would be between $26 and $27 per $1,000, while the thirty-payment life and the forty-year endowment rate would be about $23 or $24 (3 per cent participating policies); non-participating rates, $5 or $6 less at the start. He could carry $10,000 or $11,000 twenty-payment life or thirty-five-year endowment and $12,000 or $13,000 on the thirty-payment life or the forty-year endowment plan. Perhaps it would be wise to recommend a forty-year endowment or an endowment at sixty, with the idea of proposing life insurance as one of his chief investment plans. Yet he may prefer a limited-payment plan, which usually makes a strong appeal to young men.

We should finally (perhaps after placing a certain amount of insurance) work out a more extensive program, stressing the value of life insurance as a permanent investment medium. For instance, it would be a splendid idea if the young chemist would now make up his mind that, when he is sixty years old, he will have $50,000 absolutely guaranteed, and gradually increase his savings and invest from year to year in additional policies maturing at age sixty. Here would be a worth-while investment program, definite, safe and unquestionably more certain of accomplishment than any other he would ever adopt. If he begins it now, in a few years he will have $50,000 of life insurance protection and be on the sure road to a snug fortune of $50,000 in cash.

## X

### RICHARD DIGGS—A PROGRESSIVE MANUFACTURER

THIS case was taken from the "Life Insurance Clinic" of *Life Association News*, page 375, February, 1922. The prospect had no name, so we christened him Richard Diggs. Though the analysis may seem to involve a good many considerations, this case is, in fact, no more complicated than thousands of others which are met by our underwriters every day.

Picture—Prospect, aged thirty. Married, three children, two girls and one boy, all under six years of age. President of manufacturing concern and owns 51 per cent of stock. Capital stock paid in, between $50,000 and $60,000. Sole income from business is about $10,000, being salary and dividends. Owns $9,000 home mortgaged for $6,000. Owes bank personally about $10,000 for stock in business. Business is on a good paying basis and not in debt except for $25,000 on $35,000 building which it occupies. Carries $55,000 life insurance on various plans, $30,000 of which is payable to business.

It takes only a moment's reflection to decide that the interest which chiefly absorbs Diggs' attention, energies and hopes at the present time is his business, which we may assume is passing through a period of initial development, although it is said to be "on a good paying basis."

This may be indicated by the large mortgage on the building, by the moderate income of the president, who is also the majority stockholder, and by the fact that he has borrowed $10,000 from the bank to pay for his stock. The problem which concerns the president particularly is to develop profits to a point where the mortgage on the plant may be liquidated, the position of the company rendered secure, and the dividends increased to a satisfactory rate.

So far as we may judge from the "picture," Diggs has no other estate, except the small equity in his home. Therefore, his business is not only the source of his present income, but it is the foundation of the estate he hopes to build for his future. Frequently we see men who get their living from their business, but who have, in addition, accumulated an estate in other investments. Such, however, does not seem to be the case with Diggs. He is young and is probably staking everything on his business, depending on its success, both for living expenses during his active years and for the support of himself and family in his old age.

### PRESENT BUSINESS INSURANCE

That he recognizes the possibility of not living long enough to see his plans succeed is evident from the fact that he already has a considerable amount of life insurance. Twenty-five thousand dollars is payable to his family and $30,000 to the business. We do not know at whose instance the corporation insurance was placed on his life. Possibly the minority stockholders pointed out the weakness of their position in case of his death, the uncertainty of the future management. They can't foresee who might be elected by the president's heirs to succeed him. The minority stockholders might wish to sell out, if they could not buy control of the company, and a substantial amount of cash would strengthen the assets of the company immensely and make their stock more valuable and more marketable. Or, the stockholders may all have realized that, with Diggs out, the company might be embarrassed by demands from creditors for cash, that the mortgagee might not be willing to extend the mortgage, and that, even if it could be extended, their credit might be so weakened that it would be only a question of time until the business would go into liquidation. Whatever may have prompted their action, the company is carrying $30,000 on the president's life.

### INSURING VARIOUS STOCKHOLDERS

The protection of this business against possible losses resulting from death is very important. We have no way of knowing whether this is a very close corporation or not. If there are only two or three other stockholders, it might be an excellent plan to have each of them insured for the benefit of the company in an amount equal to the proportion of his holdings to the company's total maximum indebtedness at any time. Thus, in case of the death of any stockholder, a portion of the company's obligations could be at once retired, which would strengthen the situation not only for the surviving stockholders, but also for the family of the deceased.

Each stockholder might be insured for the amount of his stock and an agreement could be made for purchase by the survivors of the interest of the deceased shareholder.

Or, it is possible that the minority stockholders might prefer, and it might seem to Diggs reasonable, to have a larger amount of life insurance carried on his life instead of having the minority stockholders insured. The choice of these alternatives will depend on the value of the various stockholders to the company and the possibility of loss, in case of death, of some important service previously contributed by the one who died. Suppose that there were two minority stockholders: that Diggs' chief abilities were in organization and sales; that one of the other stockholders was a strong financier whose co-operation had been sought for his credit ability and his judgment in money matters, and that the other was the technical man, through whom the company had succeeded in developing very successful commodities. In such a case, as we can easily see, it might be wise to insure all three of them. But if the two minority stockholders do not contribute any unusually valuable service, it is probable that all the corporation's life insurance should be on Diggs' life.

### SUPPOSE DIGGS SHOULD DIE?

Against this contingency, it would be wise to recommend to him that the amount of business insurance be increased. From the picture we cannot tell what the situation would be if he should die to-day and the company should be forced into liquidation. Fifty thousand dollars or $60,000 of capital was paid in. Ten thousand dollars of this is probably in the equity in the building. The balance is largely invested in machinery, raw materials, equipment, trucking and shipping facilities, etc. No doubt, some of it has been spent in organization, advertising, or other development expenses, and will be restored only out of future profits. We have no idea how much cash there is on hand. At present there are no debts, except the mortgage.

But Diggs' death might occur at a time when there would also be outstanding a considerable amount of loans, borrowed for short terms, for raw materials or new machinery and equipment.

Creditors for loans and trade creditors who had not yet received payment for goods or services would demand settlement of their loans and accounts. Unless the mortgagee were thoroughly satisfied with the security of the building, he might also call for his $25,000. It is not at all improbable that there would be an avalanche of demands for money which would overwhelm the business. (Such a result has developed in thousands of similar cases.) The company might easily be forced into liquidation, despite a promising outlook for future growth and success.

At such a time there is especial need for two things: (1) Stability within the organization; (2) confidence on the outside. In many cases the inability to meet obligations promptly may undermine both the morale of the responsible survivors and the confidence of creditors.

The $30,000 already carried on Diggs' life would be of great assistance in case of his death. If the mortgagee should not demand his money, this sum might be ample to protect the company's credit. But if he should require payment or reduction of the mortgage, there might not be enough money left to tide the company over a very difficult period. There would be only $5,000, if the mortgage had to be paid in full, unless a new loan could be obtained promptly. It would be wise to *estimate the total possible demands for cash at Diggs' death, including the mortgage, and arrange a total insurance of this amount.* Such a plan would provide against a serious situation, so that, in all probability, the company would have little or no difficulty with their credit in case of Diggs' premature death.

### IN CASE OF LIQUIDATION

Yet it is possible that even if there ~~was~~ were enough life insurance money to satisfy all creditors, the apparent future of the business might be such that, with Diggs gone, the surviving stockholders, including his heirs, might deem it advisable to close out the business. Assuming all indebtedness to have been paid with the proceeds of corporation policies, what would be the stockholders' positions in case of liquidation?

Indebtedness having been paid in cash, their assets would be the building, $35,000 (?); machinery and equipment (?), bills receivable (?), raw materials and finished products (?), and good will (?). No one can now estimate what the net worth of the company would be. The building might, or might not, be worth $35,000. Machinery and equipment would be second hand, raw materials and finished products might bring good or poor prices.

If, immediately, or very soon, persons could be found desirous of continuing the business, the company would have an excellent market for all its assets, including good will, and the business might bring a fair price. Otherwise good will would be worth nothing, machinery and equipment would go at a very low price as second-hand goods, raw materials and finished products would have to be sold as odd lots. Even the building might be sold at a sacrifice.

It might not be so well adapted to a new business as it was to the old one. General business conditions might be such that it would be necessary to sell at a loss or to hold for some time, at the expense of taxes, fire insurance and loss of interest on the invested capital. If Diggs' heirs, owning 51 per cent of the stock, should be very anxious for their money, it is probable that the business would be sold promptly for whatever it would bring. If the general business situation should be as it was in 1921, it is almost certain that the liquidation value of assets would be relatively small. It has often been said that men usually die at the wrong time. Thousands and thousands of men die in a critical period of their business. If they could have lived a little longer, they might have left things in good condition for those interested in the business as well as for their families. Sometimes men die during a temporary business depression, when a forced sale usually results in serious losses.

Unfortunately, it is not possible to know six months or a year in advance that death will come on a certain date, and so most men die leaving their business unprepared for the inevitable difficulties that follow.

### *How Much Insurance?*

It is clear that *complete protection of this company by means of life insurance would require an amount of life insurance equal to the estimated loss that might be suffered through a shrinkage of liquidated assets, in addition to the amount of insurance necessary to pay off all indebtedness.* Such protection would enable the company to pay all creditors and to return to each stockholder at least the par value of his shares of stock. In case the assets could be sold at a good figure, the insurance carried as anti-shrinkage protection would be a boon to all stockholders, for it would give them a profit on their original investment.

## STOCK CONTROL

There is another angle to the business-insurance situation which should be considered. Would Diggs really want his estate to control the company's stock after his death? Men feel differently about this problem. Many men would much rather have their wives or daughters sell the stock, or, at least, a part of it, especially if they thought it would bring a good price. They know that their beneficiaries have not the business experience and knowledge to manage the company successfully. Their heirs would probably lose their own money as well as that of their fellow stockholders. Sometimes, especially if the majority stockholder thinks the minority stockholders deserve special consideration, he may consider it only fair that the stock control should pass to them. In such cases the insurance may be for the amount of an estimated future valuation of the stock. Under a special agreement, at the death of the majority stockholder the insurance may be paid to a trustee. If the amount of insurance is sufficient to pay for the stock, an exchange is made, the insured's heirs receiving the money, while the minority stockholders get the stock. If the value of the stock is greater than the amount of the insurance, the difference must be paid to the trustee by the minority stockholders.

It is impossible to say what will be advisable in this case. Diggs has a son, who is so young that no one can predict what his ability will be. Yet Diggs may feel that he wants to build up this business for his son. In this case, it would be his purpose to retain control and the minority stockholders would be interested in protecting their interests. On the other hand, Diggs may feel that the minority stockholders are contributing so much to the building of the business that they should have at least 51 per cent of the stock at his death. He might even want them to take over the entire business at a price and have the proceeds left in a trust fund for his family. Only a thorough discussion of the case with Diggs will make it clear how the business insurance should be arranged.

### A SPLENDID IMPRESSION

It is easy to imagine the effect that would be produced if, at Diggs' death, the business community should be told: "You know Diggs has died. He was always considered a good business man, but nobody really understood what a long head he had. He had his stockholders carry $70,000 of insurance on his life. There was a mortgage of $25,000 on their building. They have paid that. They owed $10,000 at the First National Bank and $15,000 at the Riverside Bank. As soon as Diggs died, the company notified the banks that these loans would be paid immediately, and within a week the banks had their money. That made $50,000 in all. They have $20,000 of the life insurance in cash and all debts are paid. You can see that they are in fine financial shape. I understand the stockholders have notified the banks that as soon as a new president is elected he will be insured for $50,000.

"Besides, they say that Diggs had a loan of $10,000 at the bank against his stock holdings. He carried personal life insurance to protect his stock. The loan has been paid off and the stock released to his family."

"You scarcely ever see such a case. As a rule, at such a time, a company, and an estate, are on the defensive, and need help. But Diggs had fixed things so that the interests of all stockholders, including his family, were safeguarded and creditors were satisfied at once.

"It doesn't matter so much now whom they elect as President, provided he is level-headed and has the full confidence of the Diggs family. Financially, that company is out of the woods."

We can't say now how much additional corporation insurance we should recommend. But having thought the case through, it is quite clear that we should begin by asking Mr. Diggs some questions to make him think about the company's possible maximum obligations and the present distribution of its assets. If he will consider these points and assume what seems to him to be a fair valuation of the shrinkage that would normally occur in case such a business were liquidated, he will quickly see for himself what are the needs of his company for further business insurance.

### PERSONAL INSURANCE

Let us now consider Mr. Diggs' personal insurance situation.

He owes his bank $10,000 which he borrowed to complete payment on his shares of stock in the company. It is possible also that the large mortgage on his house ($6,000 on a $9,000 property) was given for the same purpose. If his stock holdings (51 per cent) are worth $25,500 to $30,600 (total stock estimated at $50,000 to $60,000), his equity in his shares is only $15,500 to $20,600.

Diggs has an income of $10,000. He and his family continue to live in a modest home. Probably they are living economically so that the bank loan and the mortgage may gradually be paid off. If Diggs lives long enough he will release the stock at the bank and lift the mortgage on his house. If he dies, his wife will be in a position to take up the stock, if she desires to do so—and which she must do to retain control of the company—and to clear the mortgage, for Diggs is carrying $25,000 of personal life insurance.

If Diggs should die soon, and Mrs. Diggs should use $16,000 of her insurance money for these purposes, the balance remaining would be $9,000. It would require a considerable sum to provide a proper emergency fund and to pay bills outstanding at Diggs' death—hospital and doctors' bills, funeral expenses, and perhaps the cost of a lot in the cemetery—possibly a total of $3,000 to $5,000; to be safe, say $5,000. There would be only $4,000 of the insurance money left. At 6 per cent net this would earn $240 a year, not more than enough to pay fixed charges on the house, taxes and fire insurance, and the cost of upkeep, painting, repairs and replacements.

In approaching Diggs on the subject of his personal insurance, let us assume that the $25,000 is for the purpose of paying his final expenses and his family's monthly bills, and that additional insurance should be taken to cover the mortgage and the loan against the stock.

### DISCUSSING DIGGS' PERSONAL SITUATION

"Mr. Diggs," we might say, "you have provided $25,000 of personal life insurance for the benefit of your family. Have you ever considered just what this insurance would do? The purpose of life insurance is to furnish money at the time it is needed to settle bills which the beneficiary must pay.

For example, when a man dies, there are certain obligations and bills that must be paid in cash.

| | |
|---|---|
| The average man is probably sick for one, two or three months during his last illness, and ordinary bills have accumulated for two or three months, say | $1,000 |
| Expenses of last illness for doctors, hospital, nursing or surgical operation, say at least | 700 |
| Funeral expenses, say | 1,000 |
| Accrued income tax, say | 400 |
| There should be cash provided for unforeseen obligations of the estate, say | 1,000 |
| That makes a total of | $4,100 |
| Sometimes a man can think of other items to be provided for—such as local taxes, due but unpaid, say | 200 |
| And there should be a fund for emergency needs of the family, say | 1,000 |
| These items all total | $5,300 |

"Five thousand dollars wouldn't be too much for the average man, situated as you and I are, to leave in cash, so as to prevent the sale of property in order to pay bills and other obligations. In your case it might take even more. I don't know. But assuming you would want to leave at least $5,000 in cash, there would be $20,000 left (out of your $25,000 of personal insurance) to help pay your family's living expenses.

"If you should leave this sum to your wife to invest, you would no doubt want her to select conservative investments. In normal times 5 per cent or 5½ per cent investments would be the kind you would probably prefer for her, since they would, as a rule, be much safer than investments at a higher rate of interest. But there would be taxes on your wife's investments which would materially reduce the net amount which she would have to spend.

### INCOME SETTLEMENT

"My recommendation is that you require the life insurance company to hold the $20,000 on deposit* and pay Mrs. Diggs the interest in monthly installments. The present rate which the company is paying is, say, 4½ per cent. Of course only 3 per cent is guaranteed, but the company has paid 4½ per cent for many years. Since this interest would be a part of the proceeds of your life insurance, it would be exempt from the income tax and there would be no local

* Mrs. Diggs is young and the difference between interest on the principal and on installment income with surplus interest would be so small that the interest-income plan should be used. The policy might provide that when she reaches forty-five or fifty it would be settled on the twenty-year-certain-and-for-life plan, if she then so wished.

taxes on the principal. So the 4½ per cent interest (assuming this rate would be continued) would be net—probably as high as the net rate Mrs. Diggs would receive on high-grade securities. The safety of the life insurance plan would far exceed the safety of personal investments. If Mrs. Diggs did her own investing, she might, from time to time, re-invest some of the money and have the same experience that the average man has, *viz.*, lose a part of the principal. Under the life insurance plan the principal is held in trust for her, and she receives the income in monthly installments only.

"There is another great advantage under the life insurance income plan. If Mrs. Diggs invests her own money, she will not be able to arrange her investments so that she will receive the same amount of money every month. Interest payments are made, as a rule, annually or semi-annually. She would have some fat and some lean times of the year.

"Now, 4½ per cent of $20,000 is $900. That would provide $75 a month. It occurred to me that, as your family's minimum expenses will probably be considerably more than this, you would, no doubt, feel that you would want to increase the monthly income which the company would be obliged to pay Mrs. Diggs to at least $100 a month."

Diggs thinks of the income his stock will produce. At 8 per cent it will provide about $2,000 a year. But if the stock is sold at fifty cents on the dollar, as might happen after his death, the invested proceeds, say, $12,500, would not produce over $750 a year, at 6 per cent.

Although it is by no means certain that the stock will yield $2,000 a year after Diggs' death, let us assume that it may do so. This added to an income of $1,200 a year from life insurance would give a total of $3,200 a year.

We might say, "Mr. Diggs, $3,200 a year wouldn't be too large an income for Mrs. Diggs and the children, *would* it? Assuming that you provide $1,200 a year through life insurance and that the stock might yield $2,000 a year, we might put it this way: Your wife and children would have $1,200 a year as a minimum provision, whether the company continued successful or not. And it might not; for its success to-day depends on *your* ability. With you out, who knows what may happen? But if business continues to prosper and pays, say, 8 per cent or $2,000, then your family will have $3,200 a year and be able to live in a comfortable manner. But I am sure you will agree that it would be a source of great satisfaction to you, when you consider the problems of your business, to know that, no matter what happens, your wife and children will have at least $100 a month.

"Your present insurance will provide $5,000 to guarantee prompt payment of your final expenses without selling any property, and leave $20,000 to provide $900 a year, or $75 a month, at 4½ per cent. You need to add only about $6,700 more to increase the interest income to $100 a month.

"To make your life insurance program complete, you will probably want to consider also two other items. If your family are to derive the income from your stock, they must own it, and you would want to have the stock held by the bank as collateral released. A special policy of $10,000 will guarantee this. Besides, you would want your family to have their home free of encumbrance. You say your mortgage is $6,000. A special mortgage policy for $6,000 will leave the home clear.

"The total amount of new personal insurance proposed under this program is $22,700, $6,700 to raise the income to $100 a month, $10,000 to release the stock, and $6,000 to guarantee payment of the mortgage."

## PROGRAM OF PERSONAL INSURANCE

Following is an outline of the Minimum Program of Personal Insurance:

| | |
|---|---|
| I.—Present Insurance. | |
| (a) Payable in cash at death for immediate needs | $ 5,000 |
| (b) To provide income of about $75 a month at 4½% | 20,000 |
| II.—New Insurance. | |
| (a) To add $25 a month at 4½% (making total of $100 per month) | 6,700 |
| (b) To release stock by paying bank loan | 10,000 |
| (c) To pay mortgage on home | 6,000 |
| Total of new insurance | $22,700 |
| Total of minimum insurance program | $47,700 |
| Premiums. | |
| The annual premium for $25,000 of present insurance at, say, $20, Ordinary Life | $ 500.00 |
| Premiums for $22,700 new insurance, Ordinary Life, at, say, $23 per $1,000 | 522.10 |
| Total annual investment in life insurance premiums | $1,022.10 |

Long-term endowment or thirty-payment life might be preferable to ordinary life, and the premium deposits would not be much greater.

The above plan, which should be Diggs' minimum program, would be a great improvement over his present one. But it does not go far enough. There is no special provision for the education of the children.

If the company should fail, there might be little if any income in addition to that from the insurance, and Diggs undoubtedly considers the education of his children as one of the chief ambitions of his life.

### FIGURING A BUDGET

Let us see whether it is possible for Diggs to carry a more substantial insurance. His income is $10,000. Some of his principal expenses may be estimated as follows:

| | |
|---|---|
| Interest on mortgage (at, say, 6%) | $ 360 |
| Interest on bank loan (at, say, 6%) | 600 |
| Local taxes | 200 |
| Federal Income Tax | 400 |
| Total | $1,560 |
| Add annual savings for present life insurance | 500 |
| Total | $2,060 |
| No doubt Diggs is paying off the bank loan gradually at $1000 to $2000 a year. Say $1,500 | 1,500 |
| Total to be deducted from income | $3,560 |
| Balance of $10,000 | $6,440 |

We now face questions that are difficult to answer. Do Diggs and his family use all this $6,400 or $6,500 for living expenses, or has Diggs some other important obligations of which we know nothing. He may expect to pay off more than $1,500 a year on the bank loan. We can only speculate from this point on. The amount which Diggs can invest annually in life insurance might be $500, $1,000 or $1,500, leaving a net income for living expenses at $6,000, $5,500 or $5,000, respectively, plus the home, for which the interest and taxes have already been deducted.

### POSSIBLE PROGRAMS

1. We have already shown an additional program based on $522.10 of new premiums.

2. Assuming he can invest $1,000 in new premiums, *i. e.*, still another sum of about $500, what shall we recommend in addition to No. 1?

An additional $20,000 of ordinary life, thirty-payment life, or long-term endowment would provide $5,000 to each of the three children for an educational income to start at age eighteen and another $5,000 to add to Mrs. Diggs' income. Until the children begin to receive their educational income, Mrs. Diggs will receive interest at, say, 4½ per cent on the entire $20,000—about $900 a year, or $75 a month. This would give her a total income from the insurance of $175 a month.

As each child reaches eighteen, Mrs. Diggs would be relieved of its support and it would begin to receive the installments of $5,000 payable for four or five years. Mrs. Diggs' income would be reduced by 4½ per cent on $5,000, then on $10,000, and finally on $15,000; when the youngest child reached eighteen. The income would, by stages, be cut down from $175 a month, or $2,100 a year, to $1,875, $1,650 and $1,425 a year respectively.

3. If Diggs can invest new premiums of about $1,500 a year (still another $500) we should recommend still another policy of $20,000 of ordinary life, thirty-payment life or long-term endowment for the purpose of increasing Mrs. Diggs' income to such an amount that he and she may both feel that, whether their company was a permanent success or a complete failure, she would have enough income to provide quite comfortably for herself and the children. This $20,000 would, at 4½ per cent, yield another $900 a year.

Only an interview with Diggs will give us any idea as to which is the most reasonable new program for him to adopt. No. 1, as a minimum, is clear. It is essential because it will provide $5,000 cash for final expenses, will pay the mortgage on the home, pay off the stock loan at the bank and give Mrs. Diggs an income of about $100 a month.

*Summary of Suggested New Insurance Programs:*

| Additional Premiums about | $522.10 | $1,000 | $1,500 |
|---|---|---|---|
| Total new insurance...... | $22,700 | $42,700 | $62,700 |
| For income............ | 6,700 | 26,700 | 46,700 |
| For cash............... | 16,000 | 16,000 | 16,000 |
| Additional annual interest income about.......... | 300 | 1,200 | 2,100 |
| Interest income from $20,000 of present insurance. | 900 | 900 | 900 |
| Total interest income about | $1,200 | $2,100 | $3,000 |
| Reduction after children reach eighteen......... | | 675 | 675 |
| Mrs. Diggs' net income after children reach eighteen.............. | $1,200 | $1,425 | $2,325 |
| Total premiums on present and new insurance about | $1,000 | $1,500 | $2,000 |
| Per cent of total annual gross income.......... | 10% | 15% | 20% |

If his means permit, Diggs should adopt program No. 2, or at least enough of it to provide $4,000 or $5,000 for the education of each child, interest being payable to Mrs. Diggs until the children are eighteen years old.

If he can save 20 per cent of his income for life insurance, program No. 3 should be adopted. But it is highly probable that, if it were possible for Diggs to save so much, he would use the money to pay off the loan at the bank, so great is his interest in his business. Yet he is already a believer in life insurance and an interview might reveal to the agent that program No. 3 should be presented.

Program No. 1, the minimum, can probably be sold, if it is properly presented, assuming the facts used in the above discussion are correct.

## XI

### JOHN P. DREW—HEAD OF A LARGE FAMILY, WHO HAS SAVED AND LOST CONSIDERABLE MONEY

PERHAPS the reader's first reaction to the following case will be somewhat as follows: "This is an interesting situation, but it is so unusual that it doesn't seem to be worth while to study the case in such detail."

The case is indeed unusual, in that, nowadays, we don't find many men who have as many dependents as Mr. Drew has. Yet in every community there are some men who have just as many needs for life insurance and as great financial ability as Drew. Ordinarily, we don't know much about them. Drew is a fictitious name, but the man himself (a few details are changed in the picture, such as the $25,000 of insurance already carried) has been known to the author for many years. It was only accidentally that, one day at a club, Drew was prompted to tell a bit of his story and to answer questions which gave the rest of it. He is well insured on a plan somewhat resembling Program I below.

Every separate need as revealed in Drew's picture makes him, as it were, a new prospect—*i. e.*, a prospect for more insurance.

In every community there are men of large and varied responsibilities who would carry much more substantial amounts of life insurance if competent agents would learn their various needs and present plans to insure them.

Several of the most successful underwriters in the country have told the writer, "*The first thing I do in undertaking a new case is to sell it to myself.* I find out all I can about my prospect, analyze his situation, work out what seems to me to be an essential life insurance plan and then sell myself on it. If, when I get through, it seems to me that, in the prospect's place, I would really need the insurance proposed, and if I am convinced that, from every angle, the man can't afford to be without it, I can go to him with confidence in myself and my plan, and assume that he must buy."

There are many men like Drew, who have various needs for life insurance and who have the money to buy important programs, but who are carrying relatively small policies, bought at various times from different agents who had not analyzed the cases and first "sold themselves." Such men would in many cases have bought large amounts, if some agent had had sufficient imagination and personal conviction.

Take the case of Drew's invalid daughter. If an agent will put himself in Drew's place and try to imagine as nearly as possible what Mr. and Mrs. Drew think and what they say when they talk about this daughter's affliction, he will find it easy to "sell himself on the idea" that Mr. Drew *must* make a special provision for this daughter's future. To "sell ourselves" we must, in our imaginations, be the "*other fellow*" and think the "other fellow's" thoughts.

Of course, a beginner cannot, as a rule, manage a complete program for a "Drew" case. Nor can most young lawyers handle large and complicated law cases. Yet, even a beginner who has the right point of view can take up an individual need in such a case with a fair chance of success; and he can continue to insure for separate needs until he has worked out a complete program.

All about us are men who have needs for insurance that have never been uncovered by life underwriters, with the result that these needs remain unprotected, to the ultimate regret of everyone concerned.

Recently, in one of our large cities, the head of a nationally known organization bought $600,000 of life insurance as the result of a careful analysis of the post-mortem needs of his estate and the members of his family. He already had $200,000, but the agent had made a careful study of his case and worked out a specific amount for each separate need. This case was just as "unusual" as the Drew case which follows, and it was possible to control it only by thorough study and analysis.

Let those who hesitate to believe in the possibility or the wisdom of a large program for Mr. Drew remember that sometimes they have been greatly surprised to learn that a client with whom they had placed $20,000 or $30,000 of life insurance has shortly afterward taken $100,000 or more through some competitor who had more imagination, deeper conviction and greater courage.

### JOHN P. DREW

Picture—Forty-five years old, married; has three children, a boy nine and two girls, seven and five; the seven-year-old girl had infantile paralysis. Is expert in optical research; a graduate of Johns Hopkins University and a Ph.D. in physics from the University of Berlin. Has made valuable discoveries in optics and invented various optical devices and methods of making lenses. Is also expert in glass making. Is retained by one of the large glass companies at a salary of $15,000 a year, and by an optical lens company at a salary of $15,000 a year. Is now working on a process for reducing the brittleness of glass which, if successful, will be patented by the glass company and will be a very valuable asset to the company. Enjoys no royalties, as he is paid by both companies on a salary basis. Lives in country house costing $30,000 with mortgage of $15,000. Is not practical in financial matters; has saved a good deal, but lost most of his money in war stocks and oil properties. He partially supports his father and mother, his father earning about $1,200 a year, and also takes care of a widowed sister and her two young children. Carries $25,000 of twenty-year endowment insurance, all over ten years old.

There are four things which strike us as being of immediate interest in connection with life insurance in this case: (1) Mr. Drew has an unusually large number of dependents and the question must often arise in his mind, "What would become of all these dear ones if anything should happen to me?" (2) He has lost what money he had saved. He has failed as an investor. (3) His elder daughter is at least a partial invalid, which makes her the object of special care and thought. (4) His employers are greatly interested in his living until he has completed the investigation he is carrying on and has perfected a plan for reducing the brittleness of glass.

### PICTURING THE FUTURE

Let us consider Drew's personal interests first. The only estate he has now is the $15,000 equity in his home and $25,000 of life insurance, a total of $40,000. He must realize that this amount invested at 5 per cent will not support his dependents in case of his death. He has tried to increase his estate by investing his savings, but without success. Perhaps we can show him that the surest and simplest way to provide an estate either for his old age or in case of death is through life insurance. Let us first see what will be the needs of his dependents after his death in order to determine what estate would be necessary to furnish the required funds.

Immediately after his death there will be demands for cash to pay his final expenses. Five or ten thousand dollars would probably not be too much for this purpose.

If Drew expects his family to continue to live in the country house, they will need the money to pay off the mortgage, which would require $15,000 of life insurance. But if he thinks they should move to the city and live in a more simple establishment, it might be better to let them sell the house for whatever they can get, adding the $15,000 of insurance to the fund which will produce income for living expenses.

There will also be a need for cash to pay Drew's income tax, for whenever he dies there will be some due or accrued income tax to pay. It is possible that he may eventually have a large enough estate, including life insurance, so that there will be substantial inheritance taxes at his death; but that need not be considered now.

After the cash requirements have been provided, his various dependents will need money each month to pay living expenses. Later the children will need money for their educational expenses.

If Drew lives to old age, he should have an independent income to support himself and any members of the family who may still be dependent on him.

Drew's situation is somewhat unusual in that he has so many dependents. Yet we occasionally see men who have assumed the support of several relatives in addition to the care of their immediate families. Such men are usually very generous and are glad to do all they can for those whom they are helping. Drew has probably come to feel a real obligation for the support and education of his sister's boys. If he lives, he will no doubt do everything within his power to give them a good foundation for their futures. His sister, as well as his father and mother, will be well cared for during his lifetime.

Of course, he must realize that the more he does for the five persons whom he supports in addition to his wife and three children, the less he can lay aside for his own family's future and for his old age. It is, therefore, all the more important that whatever investments he makes should be safe.

If he lives long enough, keeps his health, and continues to prosper as he has in the past, he will be able to bring up his own children and his sister's boys, care for his parents and sister as long as they live and then, if his future investments turn out well, he will have the funds on which to retire and live comfortably with Mrs. Drew and, possibly, the invalid daughter.

### WHAT PRESENT INSURANCE WOULD DO

But if, prematurely, he should be taken away, what will be the situation of those nine persons who now depend on him for support? Suppose he should die in the next few years. His wife would receive the $25,000 of life insurance* now in force. It would require a few thousand dollars to pay Mr. Drew's final expenses, maybe $5,000 or $10,000. There would be the remaining $15,000 or $20,000 and the equity in the home, perhaps $10,000 ($15,000 at the most), a total not exceeding $25,000 or $30,000. Invested at 5 per cent net, this would yield $1,500 to $1,750 a year. It is doubtful if Mrs. Drew would spend only the income. The needs of the children, especially for their education, would be so great that the principal would gradually be drawn upon, unless Mr. Drew should leave the money in trust with a provision forbidding the withdrawal of any of the principal. It is quite possible that at the end of ten years Mrs. Drew would have little, if any, of the principal left, unless a part of it should have been invested in a small home.

### EDUCATION OF THE CHILDREN

Or, it is possible that Drew's children would not go to college. Seeing their mother's situation, it is quite probable that they would refuse to accept the money that would be required to pay the expenses of their education. They would certainly finish high school, but might then secure positions in order to help out at home—that is, the boy and younger daughter; and it might well be that, on account of the invalid sister, the other two children would refuse to go to college.

Drew would be greatly troubled, if he thought his children would be deprived of a college education, for he enjoyed unusual privileges himself, not only a four-year college course, but also post-graduate courses which prepared him for his professional career. No doubt, the failure of his children to receive a college education would seem to him a catastrophe. Because Drew had such a splendid education himself, we may certainly assume that the education of his children will strike him as being a very great need to be provided for.

And what of the others, his father and mother, and his sister and the two nephews, in all of whose welfare he is now so deeply interested? The father and mother would be obliged to make out as best they could with the $1,200 a year which the father earns, as long as he is able to work. If he should become incapacitated, what would he and his wife do? And what would Drew's mother do, if his father should die?

It would probably go hard with the sister and her two boys if Drew should die within the next few years. She would be obliged to go to work and it is quite likely that she is not trained for any vocation, so that she could earn only unskilled wages—not very much—and the kind of work she could get might be very hard or distasteful to her. The boys would be obliged to leave school just as soon as possible in order to earn their mite to help pay for their own food and clothing. Their chances for the future might suffer very greatly.

### THE INVALID DAUGHTER

We may feel sure that there is no other need for his protection that makes a stronger appeal to Mr. Drew than the helpless condition of his invalid daughter. As a rule, the condition of an invalid or defective child of any age is worse than that of a baby. It is not only helpless; it is hopeless. And the prospect of utter dependence during the child's entire life brings to its parents a grief worse than almost any other. It isn't the child's present loss which troubles Mr. and Mrs. Drew most. It is when they think of her future that they are most depressed: She will never be able to do what other girls do. She will never be able to join them in their sports and parties. Always she must be different from other girls. The certainty that she will be an object of sympathy, or even pity, makes Mr. and Mrs. Drew suffer.

Although she may be unusually intelligent, cheerful and companionable, the thought comes to them that she will, in all probability, never marry. And she may not be able to engage in any employment which might take the place, in her life, of having children and making a home.*

What can they do to make her future as happy as possible? There is probably no other problem that so often occupies their minds. Of course, they have thought of her education and they plan to do all they can to give her every advantage. If she shows any special talent they will see that she has the best possible opportunities to develop it. Perhaps she may be unusually gifted in music or drawing or writing. And one hope comes to them: if her talents are developed, she may not only derive pleasure from her music or her painting or writing, but she may even be happier than thousands of other

* The sale must first be made in the agent's mind. When he has so canvassed the case in his thinking that he is convinced that, from every angle, the prospect really needs the insurance, he is strongly fortified for the interview. This sad yet truthful picture of our imagination *helps us to see the importance of our doing something to help Mr. and Mrs. Drew to provide adequately for their daughter's future.* Of course, we would not discuss these details. We would only say that we know from our experience with fathers, situated as he is, that one of their chief desires is to guarantee his daughter as happy and comfortable a future as possible.

people who have two strong legs but no resources within themselves for keen enjoyment.

Mr. and Mrs. Drew are undoubtedly willing to make great sacrifices for the sake of this little daughter's future, for they feel her needs very keenly. Her needs are theirs. Her loss is their loss, her suffering, their suffering; any future happiness which they can provide for her will make them happy.

And no doubt Mr. Drew will be very much interested, if we talk to him about a plan for guaranteeing that this daughter may receive a suitable education, if he should die too soon, and for guaranteeing that, after her father's death, she will have a monthly income as long as she lives, so that she may be comfortable, independent of other people and happy.

### THE OUTSTANDING NEEDS

The outstanding needs in Drew's case are: (1) cash to pay all his bills due at his death; (2) cash to pay income tax; (3) cash to pay his final expenses; (4) an income for his wife's living expenses as long as she lives; (5) an income for his invalid daughter's living expenses as long as she lives; (6) an income for the living expenses of his other daughter until she is grown and also for life, if possible; (7) an income for the living expenses of his son until he is grown (and capital to start in a profession or business, if possible); (8) money to pay educational expenses for all three of his children; (9) an income for the living expenses of his sister until her children are grown and for life, if possible; (10) money to pay educational expenses for his two nephews; (11) an income to pay the living expenses of his father and mother as long as they live; (12) if the other needs can be amply provided for, there might be a provision for money to pay off the mortgage; (13) if Drew lives to old age, he should have an income that will provide for his living expenses as long as he lives, and take care of any dependents after he has enjoyed the income during his old age; (14) if Drew should become totally and permanently disabled, he will need a source of living expenses, as he has not yet built up an estate that would support him and his family in such a circumstance; (15) eventually there might be need for cash to pay inheritance taxes.

### HOW SHALL HE INVEST?

What is the best course for Drew to pursue? How shall he invest his money? Shall he divide his savings into two parts, an insurance premium fund and an investment fund to place in stocks and bonds? Or, would it be advisable to put his entire savings into life insurance?

Let us consider the matter in the light of his probable success in investments. Drew has failed in his investments. He is the type of professional man who can earn money but cannot invest it wisely. He has only the $15,000 equity in his house and his endowment insurance, as the result of his lifetime savings. What he put into other things is all gone and it is not improbable that he may buy unsafe securities again, with the same result as in the past. He will probably be susceptible to the persuasion of stock salesmen as long as he lives and has any surplus money. Even if he should be induced to limit his investments to bonds, it is quite possible that some day he would do what many others have done, *viz.*, sell his low-interest bonds when some alluring stock was urged as an unusual opportunity.

### SAFETY THE ESSENTIAL THING

Being forty-five years old, Drew hasn't very many years left in which to accumulate whatever estate he may create for himself and family. He can't afford to take many more chances. It is perfectly clear that, in the future, his investment slogan should be, "Safety first, last and all the time." There is no other place where his savings will be so safe as they will be in life insurance. Profits might be greater in something else, but no other investment can compare in security. Irrespective of the question of protection for his family, Drew should seriously consider life insurance as a safe place for his money with a fair return of interest. Even high-grade bonds would not be so safe. They might depreciate. And if they didn't, they would eventually mature and the problem of reinvesting would bring with it new chances of loss.

Drew may object, as others sometimes do, that life insurance will not pay annual interest or profits, as bonds and stocks do. However, after deducting from life insurance net deposits a fair allowance for the cost of insurance, the life insurance investment yields a satisfactory increase in compound interest. While there is no annual profit paid, the estate is growing all the time, a certain amount of interest being added to it. This is, indeed, just the kind of result that Drew should have. He is earning more than enough to pay all his expenses with a margin of savings besides; and, even if he received interest or profits from investments, this money should not be used, but should be added to the estate. If Drew re-invested interest or profits as he ought to, he would be doing just what would be done by the life insurance company with the interest added annually to his life insurance investment.

### FORECASTING AN AMPLE PROGRAM

Out of his income of $30,000, Drew could undoubtedly save at least 25 per cent, or $7,500. This would leave $22,500 to spend on his large number of dependents. We should first see how much of this would be required for an ample life insurance program. If less than $7,500 is needed for premiums, then we may consider whether or not a balance should be put into other investments or added to his life insurance estate.

For living expenses, there should be $5,000 or $6,000 for Mrs. Drew and the three children, at least until the children are in college. Each of them should have $1,000 to $1,500 a year during their college course. Drew's father and mother will need from $1,200 to $2,400 a year, as he may be able to provide. His sister should have from $1,200 to $2,400 a year. His nephews ought to have $750 to $1,000 a year for college expenses.

To cover cash requirements at death, with sufficient margin to provide for emergencies that may arise in such a large family, there should be at least $10,000 payable in cash.

We shall not make provision for the mortgage, for the house is a relatively costly one, too large for Mrs. Drew to maintain. The cost of carrying charges would be so large, if she attempted to hold it some time for a good price, that her income would be materially reduced. It seems better to increase her income and let her sell the place for what she can.

### TWO PROGRAMS

With these ideas in mind in regard to the details of a program, we may well consider two types of program, since we are not sure what will be Drew's point of view when we suggest that he invest $7,500 annually in life insurance. Will he be chiefly interested in making his investment procure maximum protection for his dependents, or will he feel that a reasonable minimum of insurance should be secured, the balance of his $7,500 being reserved for investment only?

The survivorship annuity is suggested for the parents, since, for beneficiaries of advanced ages (particularly if the insured is young), this plan yields a high income for the amount of premium invested. It has no cash values and adds nothing to Drew's personal estate, but would serve admirably in such a case.

## *Program I*

| | Annual Premiums |
|---|---|
| 1. Present Insurance, $25,000—Twenty-Year Endowment ten years old, (net) about.. | $1,040 |
| 2. Survivorship annuity to parents of $1,200 each, about | 400 |
| 3. $200,000 Ord. Life at about $30* per $1,000, (net) | 6,000 |
| Total Premiums | $7,440 |

*Distribution of Insurance*

| | |
|---|---|
| 1. Total insurance $25,000 plus $200,000. | $225,000 |
| 2. Payable in Cash | 10,000 |
| 3. Available for income purposes | $215,000 |

*Incomes Payable at Drew's Death.* (Interest is assumed to be 4½ per cent.)

| | |
|---|---|
| 1. Interest on $30,000 to elder daughter after age eighteen | $1,350 |
| 2. Interest on $30,000 to second daughter after age eighteen | 1,350 |
| 3. Interest on $30,000 to son after age eighteen | 1,350 |

* Thirty dollars per $1,000 would probably be the approximate average participating net cost for the first ten or eleven years. Of course, it would be higher the first few years and lower afterwards. Also, $30 is an approximate non-participating rate.

| | | |
|---|---|---|
| 4. | Interest on $80,000 to wife (permanently) ........................ | 3,600 |
| 5. | All of above interest payable to wife, subject to reduction as each child begins to receive the interest on $30,000 at age eighteen .................. | $7,650 |
| 6. | Interest on $45,000 (three policies, one of $37,000 and two of $4,000 each, to sister with deduction of interest on $4,000 as each son reaches eighteen.. | 2,025 |
| 7. | Survivorship annuity to father........ | 1,200 |
| 8. | Survivorship annuity to mother....... | 1,200 |
| 9. | Total income to beneficiaries at Drew's death............................ | $12,075 |

*Insurance to Be Written in Following Policies*

It is assumed that Drew's $25,000 policy will, at maturity, as an endowment, be left with the company, at interest, to be paid eventually as a death claim.

1. $25,000—Twenty-Year Endowment, now in force, for son.
2. 5,000—Ordinary Life to be used with Endowment policy for son.
3. 10,000—Ordinary Life, payable in cash to wife (or estate).
4. 30,000—Ordinary Life for elder daughter.
5. 30,000—Ordinary Life for second daughter.
6. 80,000—Ordinary Life for wife.
7. 37,000—Ordinary Life for sister.
8. 4,000—Ordinary Life for first nephew.
9. 4,000—Ordinary Life for second nephew.

Total $225,000

Also survivorship annuities for parents, two policies of $1,200 a year each.

*Educational Incomes to Children and Nephews*

As the son, and each daughter, reaches eighteen he or she will begin to receive his or her income, the mother's income being reduced correspondingly. The daughters will receive their incomes for life. The son will receive his income until he is thirty years old, when $30,000 will be paid to him in cash. As each nephew reaches age eighteen, a $4,000 policy will be paid to him in installments over a period of four years, their mother's income being reduced accordingly.

*Permanent Incomes*, after the children reach eighteen (assuming 4½ per cent interest), will be as follows:

| | |
|---|---|
| 1. To Mrs. Drew | $3,600 |
| 2. To three children ($1,350 each) (son's income to age thirty) | 4,050 |
| 3. To sister | 1,665 |
| 4. To father and mother | 2,400 |
| Total | $11,715 |

Mr. Drew may wish to modify this plan in such a way as to give the invalid daughter a somewhat larger income than the other children. Or, anticipating that the invalid daughter would always live with her mother, he may count on Mrs. Drew to contribute from her own income any additional funds needed by this daughter.

*Contingent Beneficiaries.* The three children should be named contingent beneficiaries of Mrs. Drew's policies, share and share alike; or, Mr. Drew may feel that the invalid daughter should receive a larger share than the others. The daughters' shares should be payable in incomes for life, the son's, in income to a specified age, say, 30. At the death of any child, his, or her, interest should probably be made to revert to the surviving children, share and share alike.

### *Value of Policies and Income if Drew Reaches Age Sixty-five*

At age sixty-five, Mr. Drew may, as his circumstances and his needs for life insurance may then appear, use a part or all of the values of his policies for the support of himself and family. Of course, the son will then be self-supporting, the younger daughter may be married or self-supporting or she may still be dependent on her father. If the invalid daughter is still living she will still be dependent on her father. Mrs. Drew may still be living. If it seems wise to use all his policy values, they will provide as follows:

| | |
|---|---|
| **Endowment, matured at, say, fifty-five, but left with the company at interest........** | **$25,000** |
| **$200,000 of Ordinary Life at $441 per $1,000 (3% policies)..........................** | **88,200** |
| **Total cash value of all insurance at age sixty-five ............................** | **$113,200** |

At, say, 4½ per cent, $113,200 will pay Mr. Drew annually $5,094 and there will still be $113,200 of principal which can be distributed at his death to his various beneficiaries as he may direct. Or, if Mr. Drew is still earning a satisfactory income and his health permits him to work, he may continue all his insurance in force (the $25,000 endowment still being on deposit with the company); or, a portion of his cash value may be used to purchase an annuity. After the endowment matures, the income from the principal may be used to carry additional life insurance or to apply towards payment of premiums on the above program.

*Total and Permanent Disability*

By payment of a relatively small additional amount annually, Mr. Drew may obtain the following advantages (*up to the Company's disability limit on the new insurance*) in case he becomes totally and permanently disabled before reaching age sixty (or sixty-five, according to company):

1. Waiver of premium: premiums falling

due after he becomes totally disabled will be waived.

2. Under some contracts a monthly income will be paid to him as long as total disability continues.

*Inheritance Taxes*

If Drew adopts the above program, assuming that he will accumulate no more real estate, or stocks and bonds, etc., that the equity in his home will be worth $15,000, and that at least $40,000 of his insurance will be paid to named beneficiaries, his estate will require cash to pay the Federal Estate tax on life insurance in excess of $75,000, for which additional life insurance should be provided.

### *Program No. II**

If it seems advisable to approach Mr. Drew from the point of view of maximum income for his old age, the twenty-year endowment would be the policy we would recommend, since it would mature at age sixty-five, and, considering the quality of the security, would show a good profit on the excess of his deposits over the cost of insurance for the average amount at risk during the endowment period of twenty years. Some men,

* It will be better to study programs I and II at different times. If both are read at the same sitting, they may prove confusing.

similarly situated, could be persuaded to carry more insurance for their families on a plan that would provide a maximum old-age fund than they would be willing to carry on the Ordinary Life plan; especially if they argued that most of their savings ought to be invested in stocks, bonds and real estate. For example, Drew might reason that with $6,400 of savings, over and above the premium on his $25,000 endowment policy, he would do well to add only $100,000 of Ordinary Life at, say, $3,000 a year for premiums, and put the balance of $3,400 into stocks and bonds. If he favored such a plan, surely it would be wise to propose that he put $400 a year into Survivorship Annuities for his parents and invest $6,000 a year in twenty-year endowment. At $45* per $1,000 net annually, $6,000 a year would provide $133,000 of new insurance. This would, of course, be much better for his family than $100,000 of Ordinary Life; and there are many cases in which professional and salaried men can be induced to provide more insurance on an endowment plan maturing at sixty or sixty-five than on the ordinary life plan.

* Forty-five dollars per $1,000 would probably be the approximate average participating net cost for the first 10 or 11 years. Of course, it would be higher the first few years and lower afterwards. Also, $45 is an approximate non-participating rate.

Drew's investment experience has been so unfortunate, that it would be decidedly to his advantage to invest the bulk of his savings in twenty-year endowment insurance.

*Greater Old-Age Income Furnished*

The $133,000 of new endowments and the $25,000 already in force make a total of $158,000. Assuming 4½ per cent, the old-age income would be about $7,100 a year, or about $2,000 more than the total values would provide under Program I.

In event of death, Program II (with $10,000 payable in cash) would furnish the same incomes to Drew's father and mother as Program I, but there would be only $148,000 for incomes to his other dependents instead of $215,000 as in Program I. The income on $148,000, assuming 4½ per cent, would be about $6,660. This could be increased somewhat by settling the insurance that would be permanently payable to Mrs. Drew and Drew's sister on the continuous-installment plan. Assuming that they are approximately forty years old, if Drew died the first year, each $1,000 of insurance would pay about $50 a year for twenty-years-certain-and-for-life (3 per cent policies; somewhat more on a 3½ per cent basis) plus an average surplus interest of $5.00 or $6.00 a year per $1,000 for the period certain, if the surplus interest rate is 1½ per cent. There would be no advantage in placing the children's incomes on an installment basis, since at the younger ages for beneficiaries the installment is only about $40 per thousand (plus surplus interest), the interest also being smaller for younger beneficiaries, as the commuted values are smaller.

*Details, Assuming Drew's Death in First Year of Insurance, Total Interest of 4½ per Cent and Surplus Interest at 1½ per Cent* (3 per Cent Policies).

| | |
|---|---|
| 1. $10,000 payable in cash to Mrs. Drew. | |
| 2. $60,000 continuous installments, twenty years certain, to Mrs. Drew, average annual income about | $3,300 |
| 3. $20,000 continuous installments, 20 years certain, to Drew's sister, average about | 1,100 |
| 4. $5,000 at interest (4½%) to sister till sons reach eighteen | 225 |
| 5. $21,000 to elder daughter from age eighteen ($1,000 reserved for installments for four years); $20,000 at 4½% interest | 900 |
| 6. $21,000 to second daughter from age eighteen ($1,000 reserved for installments for four years); $20,000 at 4½% interest | 900 |
| 7. $21,000 to son from age eighteen ($1,000 reserved for installments for four years); $20,000 at 4½% interest | 900 |
| 8. Survivorship Annuity to father | 1,200 |
| 9. Survivorship Annuity to mother | 1,200 |

*The Widow's Income*

Mrs. Drew's income includes interest on her children's policies, $21,000 each, until they are eighteen years old. Her total income would start at about $6,400. After all the children reached eighteen it would be something over $3,000 until the end of the twenty years certain, and would continue at about $3,000 for life. Of course, if Drew died several years after taking the insurance, when Mrs. Drew is fifty or sixty years old, the guaranteed annual installment would amount to considerably more (about $5 or $6 per $1,000 more at age fifty and $10 or $12 per $1,000 more at age sixty). If Drew died the first year, his sister's income would start at about $1,400, including interest of $225 (4½ per cent) on $5,000 until her boys reached eighteen years. As each became eighteen years old, he would begin to receive installments of $2,500 payable over four years. Thereafter, the sister's income would gradually be reduced as the surplus interest decreased. After nineteen years, it would be about $1,000 a year for life, no further surplus interest being payable (and only a very small amount in the twentieth year, if monthly interest were allowed).

*Interest or Installments?* At 4½ per cent Mrs. Drew would receive, on the $60,000, only $2,700 a year, as against an installment income starting at about $3,600 (assuming Drew's death in the first year and that surplus interest is 1½ per cent) and averaging about $3,300 a year through the twenty year period certain, being about $3,000 thereafter for the balance of her lifetime. Under the interest plan the principal of $60,000 would be conserved for the children, whereas there would be nothing for them, as contingent beneficiaries, after twenty years' income had been paid on the installment plan. Many men would prefer the interest plan in order to leave more eventually to the children. Others would prefer the larger income during the earlier years of Mrs. Drew's responsibility for the children, with the slightly larger permanent income even at the sacrifice of the principal. It would be decidedly better to use the installment plan for the sister. At 4½ per cent interest her $20,000 would yield $900 a year. Her installment income (same assumptions as above) would start at about $1,200 a year, average about $1,100 a year for twenty years and continue at about $1,000 as long thereafter as she lived.

*The Children's Incomes*

The permanent income payable to each of Drew's children, assuming 4½ per cent interest, would be $900 a year, and during four years, eighteen to twenty-two, it would be increased by the payment to each of $1,000 in four annual installments of about $260, making a total of about $1,160 for each of the four college years.

The daughters' interest incomes would be payable to them for life, except that they would have the option of changing their settlements to continuous installments after age fifty, when installments would pay considerably more than the interest plan. The son would receive his interest income to age thirty, when $20,000 would be paid to him in cash. If Mrs. Drew died before the end of the period certain, the three children would receive equal shares of the balance of the installments certain. At the death of any child, its interest income would be paid to the other children in equal shares, except that, at thirty, the son would get his share of the principal, if any, in cash.

*Drew's Income if Living at Sixty-five*

At age sixty-five Drew would have $158,000 (assuming that he will have left his present endowment of $25,000 on deposit with the company after it matures). Interest at, say, 4½ per cent would yield him $7,100 a year.

His matured funds being on deposit with

the company, Drew could enjoy the interest during his lifetime and arrange for distribution of the money to his beneficiaries at his death—making new beneficial provisions to suit the conditions as they exist after he reaches age sixty-five.

### CHANGING BENEFICIARY

The situation of Drew and his dependents may change materially as he grows older, with the result that marked changes may be advisable in his beneficiary provisions. The agent should review Drew's circumstances from time to time and recommend necessary modifications.

### ANNUITIES TO PARENTS

If the company in which Drew insures does not write survivorship annuities, the $400 may be used to carry (at $30, net cost, per $1,000) about $13,000 of Ordinary Life, with provision that at Drew's death the proceeds shall be used to purchase life annuities for his parents aggregating about $1,000 to $1,200 a year. In such case it may be desirable to divert a portion of the insurance designated for Mrs. Drew to increase the annuity income for parents; or, preferably, Drew would increase his deposits sufficiently to provide enough insurance to purchase satisfactory annuities for his parents.

### BUSINESS INSURANCE

Drew's value to the companies whose problems he is solving no doubt represents an even larger sum of money than his value to his dependents.

The success of his research work may mean hundreds of thousands of dollars of profits. A superior quality of glass produced under a patented process might give to the company making it command of the market to a remarkable degree.

On the other hand, if Drew should die before completing his investigations, the prospective profit would be lost. Moreover, there would be loss to the glass company of at least a considerable portion of Drew's salary for the period during which he would have been at work on the problem. In addition, there would probably have been considerable cost for laboratory expenses, including materials and the wages or salaries of assistants.

An intelligent presentation of these facts should be made to the proper company official in order to point out the danger they are running of losing a large potential profit and of losing what they are investing in their research experiment.

Perhaps an estimate of $200,000 to $500,000 might eventually be made of the total loss that would be sustained in case of Drew's premature death.

If the underwriter who handles Drew's personal insurance will talk with him about his firm's need of protection on his life, Drew will undoubtedly be glad to explain the situation thoroughly, so that the underwriter may be able to discuss it intelligently with the proper official.

Drew will also be able to tell which of the officers are most directly interested in this work and what directors are especially concerned.

### HOW TO INTEREST MR. DREW

No doubt the best way for the average agent to interest Mr. Drew will be to select one urgent need, such as a life income for the invalid daughter, or the education of his children, or a minimum life income for his wife, presented in each case in connection with a provision for his old age. Once an initial insurance has been taken, the agent may then proceed to develop step by step an extended program. There are some successful underwriters who would succeed in presenting a large program from the beginning.

# PART III
# TALKING NEEDS

# XII

## TALKING NEEDS

SUPPOSE this extraordinary thing should happen to you: A prosperous man comes into your office and says, "You sell life insurance, don't you?"

"Oh—yes—of course."

"I want to buy all the insurance I need and I will buy it from you. But the trouble is, I don't know how much I ought to have. Won't you please tell me?"

What would you do, after you had recovered from the shock, assuming that you judged the man really meant what he said.

You would probably do just what we have been talking about in the preceding pages. You would first ask the man questions, in order to learn what were his responsibilities. You would endeavor to find out what he was trying to do, what were his hopes for the future of himself and family. Then you would talk to him about these things, see if your estimate was correct, and get him to confirm your ideas as to his needs. Next you would suggest amounts of money or get him to do so. Finally, you would recommend insurance plans for the amounts required, and probably suggest separate policies for different purposes.

The prospect's statement that he wanted to buy all the insurance he really needed would practically force you to follow the above procedure, the sequence of which is the one illustrated with the "Target of Interest" in the first chapter. In our interviews, let us always "talk needs" first, either directly or indirectly. If you say, "Mr. Ale, you are probably going to send your son to college, aren't you?" you have made a direct mention of the need—the thing the father feels he must do for his son. And if you begin by saying, "Mr. Ale, you have never bought an educational policy for your boy, have you?" although your direct reference is to a policy, you have made reference to the need itself by naming your policy "educational." Either method is sound. But either opening should be followed by a discussion of the father's wishes as to the son's education, or of how the educational policy provides for an education. The father's confirmation of the excellence of the idea makes easy the next step, "How much money will it take to put the boy through college?" The kind of policy or plan is the next step in your explanation.

In order that the beginner will understand clearly just what we mean by "talking the need" in the early part of the interview, we have prepared a few illustrations, which follow. These illustrations are brief and are, as it were, only extracts from interviews. Each illustrates a different need. Careful observation of these illustrations will convince the beginner that discussing the need is a step in managing the interview. It is laying the mental track of interest on which the prospect's mind is to run. Moreover, it places the underwriter in a position of confidence with his prospect; for consideration of the prospect's needs is golden-rule salesmanship and is easily recognized as such.

# XIII

## TO PAY FINAL AND LIVING EXPENSES

WHEN a man dies, his final bills must be paid by his family or by his estate. Then the family will begin to have bills of their own. A minimum life insurance program will include provision for closing the insured's estate and making reasonable provision for the family's living expenses. These needs are the basis of the following interview.

*Byng:*—Mr. Cowan, you believe in life insurance, I feel sure. Practically everybody does nowadays. Nearly everybody carries a certain amount of insurance, and is fairly well posted on the main features of a life insurance contract. But there is one thing the average man does not know as regards his own insurance—one of the most important points of all, *viz.*, how much life insurance he should have.

Have you ever had anyone explain to you the only scientific way of arriving at the amount of life insurance you need?

*Cowan:*—No, I don't think so.

*Byng:*—The thing is absolutely simple, yet very few men have ever tried it. Indeed, it is so simple that comparatively few life insurance men ever think of using it. May I take just a few minutes to explain it to *you?*

*Cowan:*—Yes, just a few minutes.

*Byng:*—The method is the same you would use if you were going to start a new business. You would make up a list of the expenses you would have to meet for rent, or the purchase of a building, remodeling and fixtures, office equipment and a new stock of goods. Then you would figure your overhead, advertising expenses, delivery costs, etc. In this way only could you form any idea of how much money it would take to begin.

I am using what we call the minimum-program method, to determine first of all the minimum insurance requirements. Later, if you wish, we can figure out a complete program.

The minimum program falls into two general divisions or sections.

The first section relates to items for which your family will need cash—your own final expenses—closing *your* administration.

For example, there are always some accounts which must be paid promptly. As a rule, a man's last illness lasts some little time; it might be for two or three months, or longer. In such an event, *in my own case, for example,* it is quite probable that there would be an accumulation of monthly bills to be paid after my death. My wife would have been so occupied trying to help me that she would probably have failed to pay the bills promptly during my illness. As a result, at my death, there might well be two or three months' bills to pay—from the grocer, the butcher, the milkman, the department stores, and even the landlord. My annual state, county and municipal taxes might have become due in the meantime, my Federal income tax for the previous year might not have been paid in full, and there would be some income tax accrued for the current year to be paid later. All these bills ought to be met promptly and they would require cash.

Then there would be bills on account of my last illness; doctors' bills, bills for medicines, maybe a hospital bill, possibly a surgeon's bill, and, of course, my funeral expenses. It also happens that we have never bought a cemetery lot. That would also have to be attended to at once. There are some other things for which she ought to have cash immediately after my death. I carry a small mortgage on my home—$3,000. The house is not a very large one and would make a good home for my family as long as they live, if I can make sure of leaving it to them clear. So I want to add to the cash I will have paid at my death $3,000 to lift the mortgage.

Sometimes I owe money at the bank, $500, $1,000 or $1,500. Sometimes I put up collateral, sometimes I don't. But, in either case, I would want to leave enough to liquidate any such loans, leave my estate clear for my wife and children and release any securities I might have put up at the bank.

Summing up these items, I find that it would probably take the following amounts paid in cash at my death to clean up all *my final expenses* (shows the following list already typed on a card):

| | |
|---|---|
| For accumulated bills, say, $400 a month for three months | $1,200 |
| " doctors' bills (medicine, surgeon, etc.) | 1,000 |
| " funeral expenses | 1,000 |
| " cemetery lot | 500 |
| " mortgage | 3,000 |
| " loans | 1,000 |
| " income tax | 300 |
| " local taxes | 200 |
| " miscellaneous | 300 |
| Total final expenses | $8,500 |

Of course, I don't know how much would be required in your case. Perhaps more for some things and less for others. For instance, I don't know whether you have a mortgage on your home.

*Cowan:*—Yes, my house is mortgaged for $6,000.

*Byng:*—Would you need to provide cash for loans at the bank?

*Cowan:*—No, I don't think so. I would take care of those in another way. My loans are practically all on account of the business and I figure I'll let the business pay them.

*Byng:*—I see. Well, wouldn't you think that, in your case, the other expenses would be as much as in my own case, or maybe more?

*Cowan:*—I guess so. My regular monthly bills run around $600. Two or three months' bills would amount to $1,200 or $1,800.

*Byng:*—Well, let's put these things down—a sort of budget for cash payments. (By asking some questions tactfully as he goes along, he gets the following list.)

| | |
|---|---|
| Mortgage | $6,000 |
| Bills | 1,800 |
| Doctors' bills, hospital, nurses, etc. | 1,000 |
| Income tax | 600 |
| Local taxes | 500 |
| Funeral expenses, cemetery lot | 1,000 |
| Miscellaneous | 500 |
| Total | $11,400 |

Mr. Cowan, I don't know whether you have made a will or not?

*Cowan:*—No, I haven't.

*Byng:*—Well, let's see. Would you want to leave anything to anybody outside of your immediate family? I mean other than to your wife and children.

*Cowan:*—No.

*Byng:*—Of course, I don't know how much of an estate you estimate you would leave. I was wondering if we could get at the probable amount of your inheritance tax.

*Cowan:*—Well, I figure I wouldn't have any inheritance tax. I don't think my net estate would exceed $50,000.

*Byng:*—Aren't you thinking of the Federal Tax? Of course, there would be no Federal Tax on a net estate of less than $50,000. But there is the State Inheritance Tax.

*Cowan:*—Is there an inheritance tax in this State?

*Byng:*—Yes; in our State there is a tax of 2 per cent on estates between $25,000 and $100,000, with an exemption of $5,000, if the estate goes to your wife and children. From what you say, I would suggest you provide $500 to $1,000 for the State Inheritance Tax. Your estate will probably grow gradually. With this in mind, I am going to suggest that the total provision for cash payments be fixed at a minimum of $12,000 or $13,000. I would rather see it $15,000, for there are always unexpected needs for cash. You and

I can't sit here and think of everything, no matter how hard we try. You can see that we haven't put down anything that is not very likely to be needed, have we?

*Cowan:*—No, I guess not. But I think my estate could take care of most of these items.

*Byng:*—Mr. Cowan, as a good business man, you don't carry anything like a cash balance of $15,000 in your personal account, do you?

*Cowan:*—I should say not!

*Byng:*—Of course not. It would be foolish to do so. Therefore, these final expenses which are personal would have to be paid by your executor by selling some of your assets. The choicest assets would be the ones to go, for they would be the easiest to sell and would bring the best prices. The market would probably be bad for some of your assets. There would probably be some loss, which would be most unfortunate. Life insurance to provide the cash to pay your final personal expenses would be an easy way not only to protect your wife but also to protect your best assets against shrinkage.

* * * * *

Now, in this program I have a second provision for a monthly income to pay your family's minimum living expenses from month to month. If your estate is well managed, it will provide comforts and make it possible for your family to live on a larger scale. But this minimum income will be guaranteed and your family will have this much, no matter what may happen.

We might think of the two sections of the program in this way: that the first provision for cash is really to pay your own last bills, to close out *your* administration. The second provision is to guarantee a minimum for Mrs. Cowan's administration—for the bills *she* will have to pay.

You know how it is at the end of every month; you get a batch of bills, and sometimes they look pretty big. And you get out your check-book and write checks to pay the grocer, the meat man, the milkman, the telephone company, and all the rest. Or, maybe you draw a check for so much money and Mrs. Cowan pays the bills. Some day Mrs. Cowan may have to pay the bills at the end of the month. The purpose of the second part of this program is to provide her with a check every month, so that she will be able to pay her bills promptly. That is just what you would want, of course; isn't it?

*Cowan:*—Yes, I guess so.

*Byng:*—The question arises, "How much will it take as a minimum?" You said a while ago that your monthly bills now run around $600. As a minimum you might want to provide $150 or $200 a month. In order to get at this problem, I brought with me some specimen budgets issued by the United States Treasury Department's Savings Division. Here is the budget of expenses for a man earning $200 a month.

$2,400 a Year—$200 a Month.

| | Number in the Family | | | |
|---|---|---|---|---|
| | Two | Three | Four | Five |
| Savings | $48 | $40 | $31 | $21 |
| Taxes (Federal Income) | 2 | 1 | ... | ... |
| Rent | 25 | 25 | 27 | 27 |
| Food | 40 | 48 | 56 | 64 |
| Clothing | 22 | 25 | 28 | 30 |
| Housekeeping expenses | 18 | 20 | 20 | 20 |
| Church, charities | 15 | 12 | 11 | 11 |
| Health, education, recreation | 14 | 14 | 13 | 13 |
| Personal, miscellaneous | 16 | 15 | 14 | 14 |
| Total for month | $200 | $200 | $200 | $200 |

This budget was planned as a Thrift Budget, and you will see that, for a family of three, $40 a month is set aside for savings. If you should leave your family, your wife and two children, an income policy of $200 a month, you wouldn't expect them to save anything, so we may disregard this item for the present; treat it as surplus in case we need it. The next item is for rent—$25 a month. Your family would have your home with the mortgage paid. But would this rent allowance of $25 be too much to allow for taxes, fire insurance, water, rent and upkeep? Three hundred a year?

*Cowan:*—No, it wouldn't.

*Byng:*—The next item is for food. The amount given here, $48, or $16 a month per person, wouldn't be too much for groceries, would it?

*Cowan:*—No, I would say that was minimum.

*Byng:*—The next item is clothing. Twenty-five dollars a month—$300 a year—for three persons, $100 each. I don't believe that would be too much for clothing, do you? You know how little clothing you can buy to-day for $100.

*Cowan:*—No, $100 would be a small amount. My wife pays that much for a dress.

*Byng:*—"General Housekeeping Expenses" is the next item—$20 a month—$240 a year. Since there is no special provision in this budget for fuel and light, it is evident that "general housekeeping expenses" is meant to cover fuel and light as well as brooms, soap, towels, replacement of household equipment, broken glass and chinaware, and other things. All those things can hardly be taken care of on less than $240 a year, can they?

*Cowan:*—No.

(Byng proceeds in a similar manner with other items.)

*Byng:*—After going over this budget, doesn't it seem to you that a minimum income of $200 a month wouldn't be more than enough to guarantee just the necessities for a comfortable living?

*Cowan:*—I guess not. But I have some investments in addition to my insurance.

*Byng:*—That's fortunate. The $200 a month minimum would guarantee living expenses. Assuming your investments would be well managed after your death, the income from them would provide many comforts and perhaps certain luxuries. But if anything *should* happen to your investments, the $200 a month to pay living expenses would be guaranteed. Now, let's see; can you let me have a pencil and a piece of paper? (Cowan furnishes paper and pencil.) We found that you would need at least $12,000 or $13,000 to cover final expenses, including the mortgage. How much insurance are you already carrying?

*Cowan:*—$20,000.

*Byng:*—That's fine. Is it payable in cash?

*Cowan:*—Yes.

*Byng:*—Well, I recommend that you set aside $12,000 to $15,000 of this $20,000 for cash requirements, including the mortgage. Which would you say, keeping in mind the possibility of unforeseen emergencies?

*Cowan:*—I guess $15,000 would be better.

*Byng:*—I think you are right. That leaves $5,000 to apply on the income. What you want to know now is how much it will take in addition to the $5,000 to provide $200 a month. What is your age?

*Cowan:*—Forty.

*Byng:*—I suppose Mrs. Cowan is about the same age?

*Cowan:*—No, five years younger.

*Byng:*—In case you should die the first year, Mrs. Cowan being, say, thirty-five, each $1,000 of your present insurance would provide a guarantee of about $47 a year for twenty years certain and for as much longer as she lived. There would be surplus interest averaging, on our present earning basis, about $5 per $1,000 for nineteen years. Figure the total income per $1,000 while the children are growing up at about $52. Your $5,000 would provide about $250 or $260 a year on the average for nineteen years and $235 or $236 a year as long as Mrs. Cowan lived.

*Cowan:*—A little over one month's income.

*Byng:*—About five weeks.

*Cowan:*—Why, that means I would have to carry about $50,000 more. I can't do it. How much would that cost on the ordinary life plan?

*Byng* (figuring):—It would take about $42,000 on the regular ordinary life plan. The first deposit would be about $1,300 or $1,400. But let's *not* call it cost. If you put $1,000 in the bank, you wouldn't say it had cost you $1,000, would you?

*Cowan:*—Call it what you please, I'd have to lay out $1,300.

*Byng:*—You would have to lay it *away*, of course. But the cash values would give you a constantly growing fund for emergencies or for yourself in your old age. But I wasn't going to suggest the regular ordinary life policy. My plan is to use what we call the life income policy with ordinary life basis. The $5,000 will provide about $250 a year at the start, say $235 permanently. That leaves about $2,150 a year, or about $180 a month to figure on. The premium to guarantee $180 a month under the life income policy would be only about $1,100 a year at the beginning, being gradually reduced by annual dividends. If our present dividend scale is maintained, the second deposit would be less than $1,000 [figuring]—about $960.

The above presentation may seem to be rather long and in too much detail. It is necessarily longer when written out than when spoken. The essential plan can be outlined in ten or fifteen minutes in such a way as to give the prospect a clear idea of his minimum insurance needs and to serve as the basis for the interview.

Throughout the interview Byng keeps closely to the things for which money will be needed after Cowan's death, emphasizing also the time when payments will be required. He estimates the amount of money that must be provided and finally submits a plan of insurance. This method follows the sequence of (1) Needs, (2) Money to provide for them, (3) An insurance plan to furnish the money.

# XIV

## A PLACE TO LIVE

IN this case the agent, Stark, has already broached the subject of life insurance and the prospect, Bates, now raises a stereotyped "objection":

*Bates:*—No, Mr. Stark, I am not in the market for any life insurance.

*Stark:*—I suppose you carry *some* insurance, Mr. Bates, for I am sure you believe that life insurance is a necessity for a man who has dependents.

*Bates:*—Yes, I carry a policy.

*Stark:*—Would you mind telling me how much it is?

*Bates:*—Three thousand dollars.

*Stark:*—I'm glad you are carrying that much, for it does show that you are a believer in life insurance. *Mr. Bates, have you decided what this $3,000 policy is to be used for?*

*Bates:*—What do you mean?

*Stark:*—Is it to be used to pay your final expenses or to help on your wife's administration?

*Bates:*—I don't get you.

*Stark:*—Let me illustrate. The first thing that insurance money is ordinarily used for is to pay the final expenses of the head of the family. For example, at my death, my family will have to pay certain bills immediately—outstanding bills, doctors' bills and hospital expenses, expenses for the funeral and all the many things in connection with it. Sometimes a man's taxes are due and unpaid. Sometimes he owes money and his family always wants to square him with the world. Frequently there is a mortgage. There are always emergency expenses that can't be estimated in advance. In the average case, for men situated as you and I are, it will take at least $2,000 to $3,000.

"*I would say that your case is like that of the average man, in that your present insurance is just about what would be needed for your final expenses.* Do you own your home?

*Bates:*—No, we rent.

*Stark:*—Let us consider for a moment a rent policy.

*Bates:*—A what?

*Stark:*—A rent policy. I don't know how much rent you are paying; but in case of your death, what would you say would be the least rent your family could get along on?

*Bates:*—I don't know. We now pay $65 a month for our apartment.

*Stark:*—Well, suppose we take $30 as the minimum. Wouldn't you like to guarantee that, if anything happened to you, your family would at least have $30 a month for a little apartment or a small cottage in the suburbs? You see, the first item of living expenses is the rent. If a family owns its home without any mortgage, or if they have the steady income every month from a rent policy, they have a *place to live.* That reduces the living problem to a minimum. But if they haven't a home guaranteed them, their problem is much greater. Just think what it would mean to your family, if, after your death, they found that you had done two big things for them—provided for payment of all your final expenses and guaranteed a minimum rental of $30 a month for twenty years.

The above method of presenting a small income insurance is often used by agents who recognize the value of basing their presentation on *some specific need.* The same method can be applied to income provision for other monthly needs—the grocery bill, general household expenses, etc.

# XV

## AN EDUCATION

AFTER food, shelter, clothing and medical care, the most important need of children is for an education. Most parents are very anxious to do all they can to educate their boys and girls. Discussing a plan to guarantee a child's education is a sure way to the prospect's interest.

*Davis:*—Mr. Adams, my name is Davis. I represent the Hearth and Home Life Insurance Company. If you are not too busy I would like to discuss with you a matter which I know is of great interest to you.

*Adams:*—Well, I am too busy to talk life insurance, and besides I have all the life insurance I need.

*Davis:*—If you are too busy to give me any time now, Mr. Adams, I will be glad to arrange for an interview at your convenience. However, you are mistaken in thinking I came to discuss life insurance now. I might want to do that later, but not right away.

*Adams:*—Well, what is it?

*Davis:*—You have a son, haven't you, Mr. Adams?

*Adams:*—Yes.

*Davis:*—He's ten or twelve years old, isn't he?

*Adams:*—Thirteen.

*Davis:*—Then he's about ready for high school, isn't he?

*Adams:*—Almost.

*Davis:*—I suppose you expect him to go through high school and then go to college, don't you?

*Adams:*—Yes.

*Davis:*—Have you decided what college he will go to?

*Adams:*—Yes, Columbia University.

*Davis:*—It is interesting to see fathers planning many years ahead, as you are, just what they want to do for their boys at least until they are grown. And, of course, the most important plan nearly always concerns the boy's education. Talk with any father who has a boy the age of yours, and you will find he is thinking just as you are—planning for the boy's education. That is quite natural; for the biggest thing a father can do for a son is to give him a good education, isn't it?

*Adams:*—Yes. That is true. If I can give my boy a good education that is the best thing I can do for him. But why do you want to talk about my boy's education?

*Davis:*—I'll tell you in just a moment.

First, however, I would like to ask you a question, Mr. Adams. You are planning for your boy to have a fine education so that he will be equipped to meet his responsibilities. Have you guaranteed that he will have a chance to go through college?

*Adams:*—Guaranteed? You mean by life insurance?

*Davis:*—Here is what I mean. If you live and keep your health, your boy will have the opportunity to go to Columbia and get the kind of education you want him to have. But suppose your boy should be so unfortunate as to lose his father before he has completed his college course; have you made arrangements to *guarantee* that his college expenses will be paid just the same?

*Adams:*—No, I haven't.

*Davis:*—It would be a splendid thing to do for your boy, wouldn't it? And wouldn't you feel a great satisfaction if you knew that no matter what might happen, your son could complete his education?

*Adams:*—Yes. I suppose your idea would be to carry a policy for the boy?

*Davis:*—Perhaps. If that would be the best and surest way to guarantee it.

*Adams:*—Well, I have all the insurance I want to carry at this time. Maybe sometime later.

*Davis:*—Let's leave life insurance out of the discussion for the present. I'm not here just to sell you a life insurance policy. Of course, my business is life insurance, but I do not prescribe life insurance unless it seems to be needed. You might call a doctor who would prescribe no medicine for your particular trouble, but simply fresh air or a change in diet. It is my business to help people with life insurance, if they need it; not otherwise. Now, here is something you want to do for your boy more than anything else. And I am sure you want him to go through Columbia, whether you live or not, don't you?

*Adams:*—Yes, of course.

*Davis:*—Then you would like to *guarantee* his college education, wouldn't you? The question is how to do it. Have you thought of any other way to do it?

*Adams:*—No, except to leave him the money from my estate.

*Davis:*—How much would it take to pay his college expenses for four years?

*Adams:*—Oh—I guess about $5,000 or $6,000.

*Davis:*—Mr. Adams, can you think of any better way to guarantee that your son will have $5,000 or $6,000 paid to him in an income during his four years at college in case of your death than to get the life insurance company to make a contract with you to do that?

*Adams:*—Well, maybe not. But I could arrange to leave him $5,000 or $6,000 for that purpose.

*Davis:*—Mr. Adams, even if the average business man who dies left enough estate in property, securities and life insurance to support his family, his wife might find it hard to set aside enough to put a son or daughter through college. Then there's another thing. You know your boy better than I do; but I know the average boy well enough to feel sure that, unless you could leave Mrs. Adams such a large income that she could send your son to college without making some sacrifice, he wouldn't let her do it. He would do one of two things. He would give up his dream of a college education, or he would try to work his way through college. Am I not right? Don't you believe that is just about the way he would feel about taking any money from his mother?

*Adams:*—Yes, I guess it is.

*Davis:*—Besides, you wouldn't want him to work his way through college, would you?

*Adams:*—Well, I don't know. Many a good man has worked his way through college.

*Davis:*—You are right. But the average man who has done so—not the exceptional man, but the *average* man—has done it at a sacrifice of thoroughness, often at the sacrifice of health. College teachers and administrators agree that the average boy is at a disadvantage if he is obliged to work his way through college. You would like for your boy to have just as good a chance, if you died, both in his education and in laying the foundation for good health, as he will have if you live, provided you can make provision for him in a reasonable way. If you do this, you can be sure that if anything happens to you, he will get his chance, without danger to his health from trying to do his college work and earn a living at the same time, and with plenty of time to do his college work well. How much do you think you would like to make it, Mr. Adams, $5,000 or $6,000?

*Adams:*—I might do something later but not now. I really can't afford it.

*Davis:*—Mr. Adams, of course that is a question you must decide for yourself. I would be presumptuous if I insisted that you can afford it when you say you can't. But I feel that I ought to point out this fact—that you will get enough satisfaction out of knowing that your boy's education is guaranteed to compensate you for any hardship in meeting the premium deposits. And if it would be hard for you to spare $150 or $200 a year now, think how much harder it would be on your boy, if he were deprived of $1200 to $1500 a year for the four years when you want the boy to be in college.

*Adams:*—Would the premium be $150 to $200 a year?

*Davis:*—About; depending on whether you want the boy to have $5000 or $6000—Which will you make it—$5000 or $6000?

*Adams:*—Better make it $6,000. What is the correct amount of the premium?

The above interview is logically conducted, from the point of view of *interest* in the need, money and life insurance. First, the *need* is discussed. Secondly, the amount of money which will be necessary to supply the need. Thirdly, the *life insurance* policy, which will provide the money to supply the need. Life insurance is not what the prospect wants. He wants his boy to have a college education. Life insurance is the means to the desired end.

Mr. Adams is, of course, interested in his boy's education. Davis knew that Adams had a son and knew his approximate age. The need of a good education is, after the need for food, shelter, clothing and medical care, the greatest need in the boy's life for which the father must provide. He is doing that now, and will continue to do so, if he lives. It is reasonable to assume that he will want this great need provided for even in event of his death.

It is therefore reasonably certain that we can get a good hearing from a father if we talk to him somewhat as Davis talks to Adams.

Talking the *need* of a college education and then showing how easily this need may be provided for is *hitting the bull's-eye of interest.*

## XVI

### TO LIFT THE MORTGAGE

THE man who has a mortgage on his home is a good prospect for life insurance. The family will need a home to live in. The mortgage threatens the home. Life insurance is a means by which the money to lift the mortgage can be most readily guaranteed in case the head of the family dies before paying it off. The need of clearing the mortgage is discussed in the following interview:

*Billings:*—Good morning, Mr. Ray.

*Ray:*—Good morning, Billings. What can I do for you?

*Billings:*—Can you give me ten or fifteen minutes, Mr. Ray?

*Ray:*—To talk life insurance?

*Billings:*—Yes. But first I wanted to talk to you about your new house. I understand you have bought a home on Woodlawn Avenue. That's a nice location and I guess you like it, don't you?

*Ray:*—Yes, we like it very much.

*Billings:*—I assume that like nine men out of ten you made a part payment on the house and gave a mortgage for the balance. That is the usual way of buying a house, and that's the way I bought mine.

*Ray:*—Yes, there's a mortgage.

*Billings:*—When you bought the house, one of the first things you thought of was fire insurance, and no doubt had the fire insurance that was already in force transferred to you. As a matter of fact, you would not have been able to get a mortgage without the fire insurance, would you?

*Ray:*—(Shakes his head) No.

*Billings:*—You are probably paying 6 per cent interest. That's what I pay. Did the bank offer to put a clause in the mortgage deed, canceling the mortgage and giving your wife a clear deed to the property if you should die?

*Ray:*—No.

*Billings:*—No, of course not; banks don't do that sort of thing. I know a family that had a mortgage on their home. The husband died and it was necessary for the widow to give up her home. It had to be sold to pay off the mortgage; and, as it was a forced sale and the real estate market was dull, the house brought a low price and the poor woman's equity was very small. No doubt she and her husband had expected they would eventually pay off the mortgage and have their home free from debt. And it is probable that both of them figured that, after they paid off the mortgage, if the husband died, the widow and her children would have no rent to pay and that this would make it much easier for them to live. I don't know whether you have thought of your home in that way as yet. You have just bought it. But one of the most important reasons for owning a home is to be able to guarantee our families a permanent place to live and sooner or later you will be taking a lot of satisfaction in the thought that when you pay off the mortgage your family will have a home as long as they live, even if you should die. But why not guarantee them this home, even if you should die before the mortgage is paid? Of course, you are in good health, and count on living a long time. But there are thousands of men who have been situated just as you are, and who have left their families a mortgage instead of a home clear of debt.

Suppose the bank had proposed to put a clause in your mortgage to the effect that, if you died before the mortgage was paid, the entire debt would be canceled and your wife would receive a clear title to the house, in consideration of the payment of about 8 per cent interest instead of 6 per cent;

don't you think that would have been a very attractive proposition?

*Ray:*—Yes, it would.

*Billings:*—Well, that is my proposition. My company will add that feature to your plan for owning your home, so that you can leave it to your family without any encumbrance, if you should die. Do you mind telling me the amount of the mortgage?

*Ray:*—Five thousand five hundred dollars.

*Billings:*—You are paying 6 per cent, or $330, a year for the use of $5,500 you have borrowed on your house, and which you must pay back. Wouldn't it be worth another 2 per cent to *buy* $5,500; that will cancel the loan and give your family a clear title? Indeed, that is a wonderful contract—only 2 per cent to *buy* $5,500 payable in cash to wipe out the loan, when you are paying 6 per cent for the privilege of *borrowing* $5,500 which you will have to pay back.

You would want this paid direct to your wife, wouldn't you, Mr. Ray?

*Ray:*—Yes.

Here again we have used the sequence of need, money, life insurance; with reference to the prospect's interest, this sequence is correct.

# XVII

## THE NEEDS OF A YOUNG MAN

PERHAPS no other prospect seems to possess so little tangible need for life insurance as the young man who has no dependents and no important obligations. Of course, life insurance furnishes a splendid savings plan, but the average young man isn't very deeply interested in saving his money. The accumulation of money for the distant future does not make a strong appeal. However, there is one interest or need which holds the attention of the average young man—the need of getting ahead in business. Can life insurance help him? In the following conversation, McAtee tries to show Nesbit how life insurance may help him by winning the approval of his employer and of other people whose good opinion will be valuable to him. Other needs are touched on to strengthen the proposal—the need of protecting his parents, the need of accumulating capital, and the need for a plan that will make saving comparatively easy.

Mr. McAtee, thirty-five years old, calls on Mr. Nesbit who is twenty-two years old.

*McAtee:*—Good morning, Nesbit. I want to talk to you a few minutes.

*Nesbit:*—All right, sit down, Mr. McAtee.

*McAtee:*—I want to talk about something the *average* young man isn't much interested in—saving money. But I believe *you* will be interested. When we think how sorry the average man forty or forty-five years old is that he didn't save all he could when he was young, it seems strange that young men don't save all they can. As a matter of fact, don't you agree with me that young men ought to save their money?

*Nesbit:*—Yes, I guess they ought.

*McAtee:*—Can you think of any specific reasons why it would be a good thing to save something regularly?

*Nesbit:*—Well, it's always a good thing to have something saved up.

*McAtee:*—May I tell you why I think a regular habit of saving some of your money would be a good thing for you or for anyone? Of course, everybody ought to have an an emergency fund saved up, so that if the unexpected happens, there will be extra money on hand to pay the bills. Many a young fellow has a spell of sickness and has to borrow the money to pay his doctors' bills. Frequently a young man has an opportunity to make a good investment, but he hasn't the money to invest. Saving makes it possible for a young man to take advantage of business opportunities. But I wasn't thinking so much of that sort of thing. Here's what I have in mind. You are still young. (I wish I were twenty-two again.) Your business life is practically all ahead of you. You have the choice of being successful or of just making a living. You hope for success. But, you know, hoping won't win out. It will take a lot of other things. Industry, for instance, and, no doubt, you are industrious. In order to have financial success, you will have to have money. But making a lot of money doesn't guarantee real success. Financial success depends on what we lay up. The financially successful man has built up an estate, and that's what you will have to do—build up an estate which in later years will return you an income even after you are unable to work. Andrew Carnegie and practically every successful man who has given his reasons for success has said that the foundation of success is saving. You know that as well as I do. No matter how little you can save, you ought to save that little. Many millionaires have told how they began saving when they were earning only $3 or $4 a week. The thing that counts is the *habit* of saving. It is hard for most people to save regularly. If it wasn't there would be more people with money in the bank and real estate and stocks and bonds. Now, I'm going to tell you one reason why I believe life insurance would be a good thing for you. *You would assume an obligation to save.* The only easy way for most people to save is to assume some obligation—a mortgage on real estate or a life insurance policy. Payments come due regularly and are met regularly; the money has to be saved. A life insurance policy has been the sole means of enabling thousands of young men to save regularly who otherwise would have saved irregularly and would perhaps have accumulated very little. Here is another reason why a life insurance policy would be a good thing for you. Some time ago a young man I knew died. He had no estate—not even a life insurance estate. He owed a little money—his tailor, his month's board, his doctors' bills, and a few other things—probably two or three hundred dollars. His father, who wasn't very well off and who already had heavy obligations, had to pay these bills. More than that, his father had to pay the boy's funeral expenses, $500 or $600. Altogether, the father had to assume a total indebtedness of nearly $1,000; for he didn't have the money and was obligged to borrow it. Now, wouldn't it have been a fine thing and the right thing if this young man had had an estate of at least $1,000?

*Nesbit:*—Yes, it would.

*McAtee:*—Another thing. That young man's father and mother had made a good many sacrifices to give him an education and other advantages. Wouldn't it have been splendid if, instead of leaving only liabilities and debts, this young man had left an estate of $2,000 or $3,000, so that there would have been enough to pay all his bills and final expenses and something to help his mother and father—a token of his appreciation of what they had done for him? Don't you think it would?

*Nesbit:*—Yes, life insurance is a good thing. But I can't do anything now. Maybe later.

*McAtee:*—Nesbit, not long ago the owner of a large and successful business was looking for a young man in this city to manage a small branch office. He offered it to a young man I know, provided he could raise $1,000 with which to buy a small amount of stock. But the young man couldn't raise the money. He had nothing saved up and he couldn't borrow. The young man who got the position had saved up $500 in the bank and he had a $5,000 life insurance policy on which he was able to borrow the rest. Suppose such an opportunity came to you. Wouldn't it be fine if you had the money saved up so you could take advantage of it?

*Nesbit:*—Yes, I guess it would.

*McAtee:*—I know another young man who wanted to start in business. He had only a little money in the bank. He had supported his mother for years. A long illness and her death had taken what money he had accumulated. But he said to the banker, "If you will loan me $1,000 I'll assign my life insurance policy to you. If I live you know I'll pay you. If I die, the life insurance company will pay you." He got the money. Although his savings had been spent, they had been spent for an emergency. The banker knew he had saved before and had the saving habit. He knew the young man was industrious and would pay if he lived. If not, the insurance company would pay. Now, if you should ever need to borrow money, wouldn't it be a good thing to have a life insurance policy to strengthen your credit?

*Nesbit:*—I guess it wouldn't hurt.

*McAtee:*—Nesbit, let me ask you to decide a question for me. You are interested in getting ahead, in being promoted or in securing a better position than you have, because you want to be successful. Would it or would it not be a good thing for you to plan and do those things which win the approval of successful business men—of employers?

*Nesbit:*—Of course.

*McAtee:*—All right. Now, I'm going to ask you the question I want you to decide for me. Suppose an employer should be on the point of selecting one of the young men in his office for advancement and that he should call in his assistant and say: "John, I must select somebody to put in charge of the new department, but I can't decide who it shall be. We have two young men who I believe can fill the job, Bill and Sam; but I don't seem to be able to decide which is the better man for the job. They are both about the same age. Both are industrious. Both are punctual. Both are capable. They are both very much interested in their work. Neither one watches the clock. Both of them know the business. Both of them are popular in the office and with customers. As a matter of fact, I can't see that either one of them is a better man than the other. I thought maybe you could help me."

And suppose that the assistant should reply, "It *is* hard. They are evenly matched. But I'll think it over and come back in a little while."

And suppose he came back in an hour or

two and said: "I can think of only one respect in which one of these boys may be considered to be a better business man than the other. Bill saves his money; I know he has quite a little money in the savings bank. He is not a tightwad, but for a long time he has always set aside something out of every month's salary. Besides, I found out recently that he's carrying $5,000 of life insurance. I asked him why he was carrying this insurance, because, you know, he isn't married, and his folks don't need any help from him. And he said there were three reasons: first, because he wanted to save more money and he found it was a lot easier if he forced himself to save by buying a life insurance policy; secondly, he wanted to be sure he had an estate that he could depend on in his old age, so he has taken an endowment policy that would pay him $5,000 when he is sixty years old; and thirdly, that if he should die, he would want to leave an estate large enough to pay all his debts and funeral expenses and leave a substantial amount for his folks. Said he always felt that a man was a failure if he couldn't leave some estate when he died. But Sam is just the other way. He never saves anything. He is a good spender, wears good clothes, sees all the latest shows, gives the girls a good time. I know he hasn't anything saved up, because he had a big dentist's bill a few months ago and I lent him the money to pay it. He paid me back just as quickly as he could. He's absolutely honest, but he doesn't save any money."

Now, Nesbit, I want to ask you: If you were the employer in that case, whom would you promote, Bill or Sam?

From the point of view of interest, the above presentation is logical. Nesbit recognizes the need of saving money, though it does not seem pressing. He means to save some day, though he prefers to delay the sacrifice. He recognizes the need of protecting his father against expense in case of his own death; also the need of satisfying his own wish to have something for his parents; but these needs, though apparent, do not press. The need of having something saved up in case of an opportunity to take up some business proposition seems more pressing. Finally, the needs of getting ahead, winning the approval of his employer and of other business men are urgent. Nesbit can feel the importance of doing that which will help him in this direction.

## XVIII

### CONFIDENCE OF THE BUYER

WHEN a man starts out to sell stock in a newly organized company, he needs the confidence of prospective purchasers. This interview shows how one of the author's friends, an Illinois agent, used this need as the basis for placing $100,000 of life insurance.

*Allen:*—Mr. Williams, I received your circular regarding the new company you are organizing and was very much impressed with it.

*Williams:*—That's good. We really have a good proposition, and I believe we shall make a lot of money.

*Allen:*—I think so, too. In fact, your explanation of what you are going to do interested me so much that my first impulse was to sit down and write you a check for $1,000. I'd really like to have about ten shares. But on reflection I decided I wouldn't buy without having a talk with you. I read the circular two or three times, but there wasn't anything in it about life insurance.

*Williams:*—Well, I guess not. We are not starting a life insurance company.

*Allen:*—No, of course not. But I'm going to ask you a question: Why do you suppose I was inclined, as soon as I read your circular, to subscribe for ten shares of your stock?

*Williams:*—Because it looked like a good thing.

*Allen:*—Right—partially. But that isn't the whole story.

*Williams:*—What's the rest?

*Allen:*—Because you—*Williams*—are promoting the company and are going to manage it.

*Williams:*—Thank you.

*Allen:*—You don't get me. I'm not complimenting you. I'm simply stating a fact. In deciding to buy an interest in a new company I must have confidence, first, in the merit of the proposal, and, secondly, in the man back of it. There are hundreds of other men in this town whose names, signed to the same circular, would have made me afraid to buy. But I have confidence in your ability and integrity.

However, a thought came to me which weakened my confidence in the proposition considerably. If you live and keep your health, I feel sure the new company will be a success. But if you should die before the business has been put on its feet, the company might fail and I might lose all, or a part of, my $1,000.

Now, I believe there are many others who feel just as I do. In order to market this stock easily and to give your shareholders the greatest possible feeling of satisfaction, you must establish the maximum of confidence, not only as to the merit of the proposition, but also as to the safety of their money.

Many of them will say to themselves, "This is a fine plan. Williams is all right. Guess I'll put in some money. But suppose something should happen to Williams. Maybe I'd better not put in as much as I first thought I would."

If this circular letter [holding it in his hand] had contained the following sentence, the confidence of your prospects would have been greatly increased: "Mr. Williams has taken out $100,000 of life insurance for the protection of the shareholders. In case of his death, this sum of money will be paid to the corporation by the life insurance company."

*Williams:*—Allen, you are right. We'll fix that up at once, and I'll get out another circular letter to follow up the first one. And I guess you will take those ten shares.

*Allen:*—You bet I will.

THE END