Life Insurance

TENTH EDITION

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tenth edition

LIFE INSURANCE

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Preface

This textbook is a revision of its predecessor, published in 1976. Earlier editions were published in 1915, 1923, 1935, 1950, 1958, 1964, 1969, and 1976. Recent years have seen continuing changes in the life insurance business. For example, the group insurance method of providing life, health, and pension benefits continues to grow with astonishing rapidity. Concern over consumer issues such as cost disclosure and replacement activity have stimulated considerable self-evaluation within the business and a marked increase in state regulatory activity. During this period, the life insurance business has also played a dominant role in the individual health insurance field despite continuing interest in a national health insurance plan. To recognize these and other dynamic changes within the business, this volume attempts to provide an integrated treatment of life and health insurance throughout. Both life and health insurance have an economic justification in the earning power of the human life (the so-called human life value) and play an essential role for the creative, concerned individual in a free, industrialized society. It is hoped that this text on life *and* health insurance will meet the needs of the student, the underwriter, and the layman.

A special effort has been made to produce a text that is logically developed and easily assimilated. It aims to bring together in an organized manner those facts, principles, and practices that will enable the student, underwriter, and layman to have a comprehensive understanding of life and health insurance and the legitimate ways they may and should be employed in the interest of personal, family, and business welfare. Special effort has been taken to make the presentation simple and compact.

The book is divided into nine distinct parts: The Nature and Uses of Life Insurance; The Life Insurance Product: Types of Contracts; The Life Insurance Product: Analysis of the Contract; The Health Insurance Product; The Mathematics of Life Insurance; The Mathematics of Health Insurance; Selection, Classification, and Treatment of Life and Health Insurance Risks; Special Forms of Life and Health Insurance; and Organization, Management, and Regulation of Life and Health Insurance Companies.

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K. B., Jr.

Introduction

Humanity's quest for security is universal. Although security means different things to different people, there appears to be one common frame of reference. All views of security relate to needs or wants.

Economic security can be evaluated only for a particular individual, family, business, or country at a given point in time.[1] In terms of a nation, the distribution of its wealth is a critical element in such an evaluation. Security in general can be thought of as peace of mind and freedom from uncertainty; insecurity implies feelings of doubt, fear, and apprehension. Security is measured by the probability that man's needs will be satisfied. The personal statement, "I feel secure," is an expression of relative confidence that consciously felt needs will be met.

There is considerable evidence that men and women have a preference for security. Customs, usages, and, in fact, civilization rest on the instinct of stability. The balancing of Fournier's two instincts[2]—(1) the instinct for adventure, movement, discovery, risk taking, and progress and (2) the instinct of repose, repetition, security, and stability—is the essence of the human condition. The optimum balance varies from individual to individual and in a

[1]See Davis W. Gregg, "Economic Security: Patterns and Philosophies," *Life and Health Insurance Handbook* (Homewood, Ill.: Dow Jones–Irwin, 1973), Chap. 1.

[2]Paul Fournier, *The Adventure of Living* (New York: Harper & Row, 1965), p. 156. Cited by Gregg, "Economic Security," p. 3. Current theory accepts the idea that human beings have no instincts (i.e., there are no specific behaviors that qualify as instinctive). The use of the word "instinct" in the sense used here is that there are some very general and almost universally found needs in human beings.

given individual over time because each human being has a unique genetic endowment and is nurtured in a continuously changing environment.

THE INDIVIDUAL AND SECURITY

It is generally accepted that personal insecurity relates to the lack of confidence or the uncertainty of individuals regarding one or more of their needs. Social scientists agree that needs are almost unlimited and change over time. As soon as one satisfies a given need, another appears. They also suggest, however, that a *priority* of need levels exists that is applicable to most individuals.[3]

The significant point for the purpose of this discussion is that need levels have a definite sequence of domination. When physiological needs are satisfied, the safety needs tend to dominate. For the majority of people in the United States today, basic physiological needs are reasonably well satisfied. However, in parts of the world where there is a very low productivity or famine or disaster, the priority of physiological needs is clear, because the first level of survival is the issue.

Higher-order needs are likely to be the dominant ones in advanced civilizations. Lower-order needs are satisfied primarily through economic behavior. One must have money to fulfill physiological and economic security needs. One's higher-order needs, on the other hand, are satisfied primarily through symbolic behavior of psychic and social content. One senses meaning in experiences and derives satisfactions from them, a behavior of a totally different order from economic behavior. Thus, individuals strive to satisfy their needs as they perceive them from a frame of reference that has been built over a lifetime of individual, family, and other environmental influences. Each individual is dominated by a need level that is reflective of his or her economic, psychological, and social circumstances.

Many experiments have examined the factors that cause persons to make different decisions under uncertainty. What personality traits or environmental conditions are likely to be associated with a willingness to assume risk? For example, many psychologists have argued that individuals do not necessarily strive to achieve the optimum result. The immediate objective may be a "satisfactory" outcome.[4] Consequently, they argue that in experiments it is not always reasonable to assume optimum behavior with respect to risk taking.

Levels of aspiration also differ, and this may affect the amount of effort that people will put forth in making a decision and in their willingness to assume risk. Some individuals set levels just a little above their probable level of performance. Others set goals that are impossible for them to attain because they seek approval for the goals themselves and so their failure will be "excusable." Still others set goals below their abilities because they fear failure.[5]

How much security is good? How much is bad? How do risk and uncertainty, qualitatively and quantitatively, relate to economic security—to the family's life cycle or the human life cycle? As mentioned earlier, the response to risk and uncertainty varies widely, depending on factors such as educational experience, sex, maturity, relationships of love and friendship, and age.

Accepting and coping with risk and

[3]Keith Davis, *Human Relations in Business* (New York: McGraw-Hill, 1957), pp. 24–29; see also A. H. Maslow, "A Theory of Human Motivation," *Psychological Review*, Vol. 1 (1943), pp. 370–396; and Maslow, *Motivation and Personality* (New York: Harper & Row, 1954).

[4]H. A. Simon, "Theories of Decision-Making in Economics," *American Economic Review*, Vol. XLIX, No. 3 (June 1959), pp. 253–283.

[5]C. T. Morgan and R. A. King, *Introduction to Psychology*, 3rd ed. (New York: Mc-Graw Hill, 1966), p. 234.

uncertainty up to a certain point builds character; beyond this, the burden can be negative. In recent years, uncertainty has increased significantly, both because of the complexity of life and the rate at which change occurs. People are finding it more difficult to predict the future and, therefore, the consequences and the benefits of their acts.

In 1968, 64% of the public felt that they had a great deal of control over their long-term financial responsibilities. By 1977, only 48% felt that way, a drop of 16 percentage points. Similarly, the feeling of a great deal of control over accumulating funds for retirement dropped from 58% in 1968 to 41% in 1977. Perceived control over the ability to save earnings and provide funds for a child's education also decreased significantly.

In the past, in a more stable environment, it was possible to predict, and to some extent control, one's destiny and future; this has become more difficult, and at times virtually impossible. As a result, the value of delayed gratification—the idea that one should work today and save and sacrifice for a brighter day tomorrow—no longer seems as applicable or reasonable. Because individuals can no longer predict or control the future, they tend to live more in the present. This tendency to live in the present is reflected in consumer habits and, in general, in our unwillingness to wait too long to achieve desired results. Most people are no longer willing to apprentice for many years to reach a desired position. They tend to want results now. Fewer people are oriented toward long-term goals. The problem here obviously is one of uncertainty and control. If one cannot control the future, if it is highly uncertain, then one will cease worrying about it and deal with those things that one can control. Among these things are life and health insurance. Their future orientation and their function of eliminating uncertainty encourages planning and control over the future and allows for the development of a greater degree of certainty. As we shall see, the planning process and utilization of life and health insurance in implementing selected goals and objectives permit a degree of future certainty that is invaluable to individual identity.

THE UNIQUE INDIVIDUAL AND IDENTITY

". . . All men are created equal." No statement in the history of man's literature has created more problems, been more misunderstood, and been further from the truth. This universally accepted theme, known to be false by any parent of more than one child, lies at the heart of many of the social and economic problems of this country. All individuals are considered equal in our society in the moral sense of having an equal right to opportunity and equal treatment under the law. Each person is, however, a distinct genetic phenomenon and cannot, as a result, be equal in genetic endowment.[6] This natural inequality of people, coupled with the tenet of moral equality of individuals, is at the heart of our confused perception of society's responsibility toward its members.

Acceptance of Human Inequality

In the United States, citizens are not prepared to accept human inequality. But the consensus among behavioral scientists is that human growth and fulfillment begin with self-acceptance.[7] Self-acceptance means accepting the notion that a black person may be a better candidate for a position than a white applicant, and vice versa. It means accepting that a female may be a better executive than a male, and vice versa. It also means accepting the idea that

[6]See Fred J. Borch, "The Universal Demand for Equality," address to Engineering Education Conference, General Electric Company, Crotonville, N.Y., July 25, 1972.

[7]G. Hugh Russell, "The Crisis of Personal Identity," *Journal of the American Society of Chartered Life Underwriters*, Vol. XXVII, No. 3 (July 1973), pp. 18–23.

the technician may be as valuable as the manager and the actor may be as important as the director.

Accepting such notions is complicated by a troublemaker, *status.* A poll of the American public would show that the executive is accorded more status than the worker. Used cars are advertised as being valuable because they were driven by an "executive." Mobile homes, boats, and other articles are often graded, with the largest and longest bearing the model name "executive." What hotel has a "worker" suite? It is as if our entire society were conspiring to value only the manager, the decision maker, the young, the affluent, and the beautiful. Where does that leave the rest of us? It leaves us with an identity crisis.

The identity crisis of *not knowing* who we are, stemming largely from *not being able to accept* who we are (our basic inequalities), begins in childhood but is perpetuated in adulthood.[8] The child is born with curiosity, a desire to learn and create, an urge to explore, and the unique ability to use symbols in creating languages, religions, values, ideals, and future aspirations. But because individual differences are often unrecognized or discouraged, children quickly discover that it is sometimes painful to be who they are and rewarding to try to be who they are not. The child is urged to develop a "good" personality and "get along with others." The creative, innovative, and, therefore, different individual is predictably oppressed and at times ostracized by his or her group or, at the very least, viewed with suspicion.

Robert Ardrey, in the book *The Social Contract,*[9] makes a significant contribution to an understanding of the social dilemma of human equality and inequality. He suggests that it is our unwillingness to recognize the basic inequality among people that prevents us from reaching our greatest possible fulfillment. A society survives, he says, to the extent that its members have *equal opportunity* to achieve *identity* through a recognition of the full range of *individual differences.*

[8]*Ibid.*

[9]Robert Ardrey, *The Social Contract* (New York: Atheneum, 1970).

Maximizing Human Potential

Human inequality in an environment providing equal opportunity for all, will maximize human potential if an additional principle is observed.[10] *Make it possible for every individual to experience the consequences of his or her behavior.* This is a principle of learning as well as a principle of optimum human utilization. Unless we recognize and reward performance, we tend to discourage the growth of each individual's potential.

It seems clear that excellence is most likely to result in a society that exposes unequal individuals to equal opportunity and lets the principle of natural selection guide decisions regarding the full utilization of human resources. This realistic picture of self-identity could lead to the most appropriate stimulation of human talents so that a sense of *real* rather than unreal self-adequacy may emerge.

Maximum development of a society's members is contingent on acceptance of individual differences, the stimulation of competition, and a reward system based on performance. We need stimulation and competition on the one hand and security and stability on the other. Too much competition can be destructive and too little can lead to uniformity and a decline in human productivity. Creating an environment in which there is an optimum balance between stimulation and security is critical to the continuing life and development of any society. It is time we accepted the reality of human inequality and sought excellence through a flexible motivational environment. The free society, where the individ-

[10]Russell, "Crisis of Personal Identity."

ual is considered sacrosanct, is the one place where individual differences should be acknowledged, creativity and innovation should be stimulated, and experiencing the consequences of one's behavior should be a way of life.

HUMAN INEQUALITY AND PRODUCTIVITY

It is the judgment of many that our failure to recognize human inequality and individual differences is a significant element in our declining productivity. It would certainly overstate the case to attribute all the current ills of the American economy to a less involved, less committed work force. But the fact is that Americans are making less of a commitment to their jobs than in the past while demanding more benefits.

Work Motives

In recent years, people's work motives have changed significantly, requiring reconsideration of our incentive systems. Some feel that management has not faced up adequately to the changes in worker attitudes and motivations, or to the need for revised incentive systems as a method for improving productivity.[11]

Despite the public addresses by business leaders, there is some resistance in management circles to the idea that human resources are a key to improving productivity and competitive efficiency. The traditional view concerned itself primarily with capital investment, technology, and management systems. The motivation to work hard has been regarded by most managers as being important, but not critically so. The reason is that in the past, technology and capital investment were, in fact, key factors in improving productivity. They also are easier to deal with than people.

Today, some researchers are suggesting that present incentive systems are outmoded and are a significant cause of the decline in productivity and, consequently, of inflation as well. In the past, management had ready tools for motivating people adequately to ensure reasonable increases in productivity. But this is no longer true.

Key Motivational Tools

In the past, management could always count on four key tools to motivate people:

1. The fear of loss of a job and the ensuing economic insecurity.
2. The use of money as an incentive to get people to work harder.
3. The use of production techniques such as the assembly line that made productivity less dependent on individual motivation.
4. The desire to do a good job—the work ethic that the individual brought to the workplace—on which the manager could count.[12]

Today, all four of these tools have tended to lose strength. There is less fear of economic devastation from the loss of one's job—which is a good thing. People demand money increases all the time, but not all of today's workers are motivated to do a better job by money increases. In fact, there is evidence that some people work less hard when they make more money.

Also, our economy has changed so much that 70% of all jobs today are of the service type—where techniques that increase productivity without depending on people's motivations are simply less applicable.

And, finally—when people feel that they are not getting as much out of the jobs as they are putting in, as people appear to

[11]See Daniel Yankelovich, "The Noneconomic Side of Inflation," *Inflation and National Survival,* Vol. 33, No. 3 (New York: The Academy of Political Science, 1979), pp. 20–25.

[12]*Ibid.*

feel increasingly today, they are likely to ease up and withdraw involvement and commitment to their work.[13]

Flexible Incentive Systems

Much can be done once these motivations are analyzed and are taken seriously as drains on productivity. We have an extremely diverse and pluralistic work force—the best educated work force in history. Indeed, it is our greatest natural resource. But we have an almost totally homogeneous incentive system which assumes that money and status rewards will universally motivate people to give everything they have to the job.

In selling products and services to the American public, we recognize the diversity of the marketplace and we customize products and services to fit every taste. But when we confront the same people as employees, we do not allow sufficiently for individual differences. Some people value time flexibility, others are motivated by educational opportunities, by longer vacations, by variety and diversity, by the challenge of the job, by attention and feedback, by the inherent interest of the work, by more participation and involvement, and by the social world afforded by the job.

Computers would enable us, if we wished, to put together a whole range of cafeteria-style incentive systems to fit individuals.[14] We do not do so because we do not yet understand fully the new motivations of the American worker and we do not really believe that these motivations affect productivity.

Many researchers feel that such reasoning is leading us astray. They believe that we have pushed the psychological factors under the rug and concentrated only on the economic variables to account for the decline in productivity. The big challenge, therefore, is to revamp incentives to match changing expectations.[15]

Individuals who have accepted the concept of human inequality, and hence their own strengths and weaknesses, are most likely to strive for excellence in terms of their own constraints. Excellence is not restricted to the talented. Everyone cannot run a 4-minute mile, but everyone can strive for excellence relative to their own ability. We must reward excellence wherever we can find it if we are to survive as a society. It is time to draw the line and take a stand in support of equality of opportunity, with its many responsibilities, rather than equality of rewards, with its ruinous consequences. We must make it possible for every individual to experience the consequences of his or her own behavior in an equal opportunity environment. We must face the reality of human inequality and seek excellence through a flexible motivational-reward environment where individual differences are acknowledged and accepted and individual performance is measured and rewarded appropriately.

INDIVIDUAL LIFE INSURANCE AND IDENTITY

By contributing materially to the financial stability, continuity, and general survival of small and medium-sized business and professional organizations, life and health insurance helps keep open avenues for personal achievement and positions of status. Individual initiative, enterprise, and achievement are essential to the attainment of individual identity. This is well recognized. In addition, however, there is an important role for *individual* life and health insurance in satisfying the innate need for identity, a need that is critical to the survival of our society. Life under-

[13]See *Trend Analysis Report* (TAP 17) "The Changing Nature of Work" (Washington D.C.: American Council of Life Insurance, 1979).

[14]See Robert W. Cooper and John J. McFadden, "Cafeteria Compensation Plans: The Revenue Act of 1978—The New Group Rules and Some New Issues," *Journal of the American Society of Chartered Life Underwriters*, Vol. XXXIV, No. 2 (April 1980).

[15]Daniel Yankelovich, "The New Work Psychology," *Management Review*, August 1978, p. 27.

writers help satisfy this need for identity through the individual and family planning process.

Individual Value Systems

Paul Tillich has stated that man is most human at the point of choice, when engaged in decision making. It is this ability to make conscious choices based on *understanding of past events* and *prediction of future consequences* that most markedly distinguishes human beings from other animals. A person is vastly superior to other animals in the capacity to visualize the long-range consequences of alternative courses of action. This capacity permits one to maintain his or her individual identity, to develop a self-image based on a matrix of values—an individual value system all one's own. An individual's reaction to varying degrees of uncertainty in life influences decisions and provides an individualistic identity.

It is only with reasonable economic security (physiological and safety needs reasonably satisfied) that one is motivated by, and makes decisions based on, the higher order of needs, such as self-realization and understanding. Therefore, a reasonable level of economic security can provide one with the opportunity to become more attuned to oneself, to find greater meaning in life, and to ponder interrelationships with other human beings. One has a drive to belong and to relate without being subservient. This becomes possible under conditions of reasonable economic security.

Economic Security Institutions

In the United States, economic security—that is, sufficient money as a medium of exchange to purchase satisfactions for physiological and safety needs—is provided through an intricate blending of private and government enterprise. The primary basis of economic security that has resulted from individual, group (or corporate), and social (or government) effort is reflected in the growth and development of individual, group, and social insurance.

Individual insurance represents the oldest of the economic security systems. Its growth and development have come essentially from *voluntary decisions of individuals*, based on an awareness of security needs and an ability to pay premiums. Group insurance[16] has been developed through business, union, or other group action on behalf of well-defined groups, usually employees. Social insurance has evolved through government action to meet the economic security needs of broad segments of the population.

Gregg suggests that our economic security system can be likened to a platform resting on a tripod.[17] At the turn of the century, only one leg, individual insurance, was of significance in the United States. The second leg, added early in the twentieth century, developed in the form of private pensions and group insurance. The third leg, social insurance, received a major thrust with the substantive entry of the federal government into the field of economic security through the passage of the Social Security Act of 1935.

All three legs of this tripod of security have grown remarkably, but the rate of growth has been in inverse relationship to the order in which they were introduced. In 1941, the economic security system reflected an individual segment of 65% of the security dollar; group, 25%; and social, 10%. In 1971, 30 years later, these percentages had changed dramatically, to the point where the individual segment of the security dollar was 20%; group, 40%; and social, 40%.[18]

[16]Defined to include insured and uninsured pensions, group life and health insurance, and other elements of employee benefit plans.

[17]Davis W. Gregg, "Economic Security: Patterns and Philosophies," *Life and Health Insurance Handbook,* 3rd ed. (Homewood, Ill.: Dow Jones–Irwin, 1974), pp. 12–16.

[18]Yung-Ting Chen, *Social Security In a Changing Society* (Bryn Mawr, Pa.: David McCahan Foundation, 1980), pp. 16–19.

Assuming that a significant measure of maturity is the willingness to choose to postpone present pleasure, then the rapid growth of our total security complex should please us because it implies social maturity. On the other hand, the "institutionalization" of security through the great growth of the social and group mechanisms (from 35% to 80% of the security dollar) as well as the increasing role of government, as reflected in the increase of its share of the security dollar (from 10% to 40%), does not bode well for individual responsibility, the sine qua non of identity.

Individual Savings and Responsibility

The shift in the relative role of individual versus group and social insurance in providing security reflects a change in the philosophical concept and technique of providing security to the individual in the United States. In an aggregate sense, capital formation, which promotes new technologies and increases *real* income, is the only *real* measure of progress toward security. Aggregate security results from growing income per capita, *not* redistribution of income.

Individual retirement income involves building up the security of deferred income through individual savings and accumulation, and ultimately new capital formation with resultant income growth. The Social Security system presently utilizes a process of redistributing income. The change from savings and accumulation to the transfer payment principle in the Social Security system, started in 1935, was effectively accomplished in 1951. Originally, the Social Security program was a method of institutionalizing security, designed to provide a minimum level of support for wage earners of society. Later, Congress moved to provide a kind of average benefit to all eligible recipients instead of the few that needed minimum support. The negative impact on individual savings was both predictable and unfortunate.

Similarly, the rise of the corporation, limited partnerships, and the like have tended to minimize the individual's control over decision making in the savings and investment area as managerial entrepreneurs and collective group processes have been substituted for collective individual decision making. The 1900 census showed that 50% of the Americans were wage earners, that is, not entrepreneurs or risk takers. The 1970 census showed that 92% were wage earners. Thus, in addition to the negative impact on savings of the Social Security shift to the transfer payment principle, virtually all workers are now wage earners rather than risk takers. There has been a *major* shift in the role of the individual in the risk/savings decision process.

The individual's ability to save regardless of motivation is seriously affected by inflation rates of 8 to 10 % each year. In 1978, the financial assets owned by households increased about $180 billion, or 7.7%. But inflation at 7.8% offset this, so there was no net gain in the real value of financial assets of households during the year. Current rates of inflation have soared to even higher levels. With the current low level of savings, the real value of the financial assets of households may actually decline in 1980. Consumers are able to save only a small part of their incomes compared to past times. In 1979, for example, we saved only a little over 4% of our after-tax income, which is well below our historical level of 6% to 7%.[19]

The net effect of all of this is to raise risk levels and uncertainties in personal economic transactions regarding savings and investments. And as the individual gives up on the social or economic benefits of savings and thrift, the incentives to maintain strong long-term investment activities required for real economic growth are reduced or destroyed.

[19]Morrison H. Beach, "Insurance: Financial Intermediary," *Point of View* (Hartford, Conn.: The Travelers Insurance Companies, 1979).

The current lack of savings and investment is due partly to a shortage of savings, but it is also due in large part to an even greater decline in entrepreneurial inclinations. American business is now managed by professional managers who tend to be more concerned with security than the benefits of risk taking. There are many who believe that many present-day managers are *risk averters* rather than risk takers.

Thus security provided through the technique of transfer payments and redistribution of income is being substituted for individual approaches to security at a time when income growth, not income redistribution, ought to be the goal. Individuals are, in fact, no longer effectively involved in decisions in many areas. Thus, as mentioned previously, the original goal of Social Security—minimum support for those who need it—has been replaced by the goal of an average level of benefit support for everyone. Society is setting the standard for a reasonable retirement income rather than allowing us to take responsibility for our own financial security. Politically, it is painless and desirable to increase benefits through transfer payments. There is a clear trend toward equality of benefits rather than providing equality of opportunity. Even in private industry, group insurance and other fringe benefit decisions are made for the individual. The net result is that capital formation through individual savings has been undermined, so that today private business looks primarily elsewhere for the capital essential to innovation, technology, and growth. In sum, we have changed the system to one of a *social allocation of capital* rather than an *individual and private responsibility (risk taking and saving) allocation,* where individual decisions collectively cause the allocation of capital to occur. In the short run the social system of allocation can be effective, but as the British experience has shown, in the long run capital wears out and is not replaced and productivity declines. We have an example in our own steel industry, where we have reallocated income to security through wages and fringe benefits rather than replacing our capital and rebuilding our technology.

The dynamic of social control vis-à-vis free market control should be a serious consideration for each American. Individual responsibility and motivation is a key to productivity under any system. As the following comment suggests, if we fail to give this serious consideration, we will also be unable to provide for those who do need help:

> The belief that all men and women are equal in intrinsic worth and are entitled to equal access to the rights and privileges of our society is a legitimate and fundamental value widely accepted. . . . On the other hand, the belief that . . . all distinctions between individuals and groups should be suppressed is a danger to economic and individual freedom. The move from equality of opportunity to equality of rewards must be slowed and in time reversed if we are to maintain a sense of personal responsibility in a society of individuals capable of sufficient productivity to permit some reasonable redistribution of income for those who are really in need.[20]

Individualized Economic Security Program

The freedom to make a decision based on one's individual values is the final and finest criterion of self-determination. Similarly, freedom of choice is the essence of personal identity in a situation in which individual value systems are pressured and molded by the interactions of human beings with their environment, family, friends, and others. In this area, the opportunity for creative response is a function of reasonable economic security.

[20]Kenneth Black, Jr., *Maintaining Individual Values in a Changing Society,* Kathleen Price Bryan Lecture, University of North Carolina at Greensboro, December 1, 1976.

Social insurance and group insurance, if kept to a reasonable proportion of total needs, can become a foundation upon which a responsible person can design an *individualized security* program that provides an environment for creative life and living. Individual life and health insurance represents the opportunity to bring an appropriate level of economic security to the individual and his or her family that will permit family members the freedom to decide where to live, where to work, where to retire, if and when to marry, and how to live. Regardless of death or disability, life and health insurance can permit members of a family to continue to live in accordance with *their* life plan. In short, economic need will not force them into an unwanted life style. The decisions involved in setting up an individualized security program are made as a result of analyzing individual goals and needs and guaranteeing attainment of these goals regardless of the risks of death, disability, or old age. The self-respect and confidence that arise from the conscious, individualized decisions involved in building a security program contribute materially to the creative risk taking essential to individual fulfillment.

If there is truth to the view that human growth involves intelligent decision making and that individual identity is critically important to human growth and fulfillment, careful attention should be given to maintaining an environment wherein we retain a sense of personal responsibility for our welfare and that of our family.[21] The opportunity to identify one's goals and needs, to develop an individual matrix of values, and to implement these through individual decisions regarding one's tailor-made economic security program are critically important elements in maintaining a virile, creative society. American contemporary capitalism is a political, economic, and social system under which the individual and individual responsibility are paramount. It *assumes* that financial compensation is geared generally to contribution. It further assumes that free individuals with *reasonable* economic security can control their own destinies through risk taking, while protecting their loved ones by consciously arranging a tailor-made security program consistent with their individual goals and objectives.[22]

The institution of life insurance provides the vehicle through which individuals can pledge their human life values (their potential estates) and achieve identity and fulfillment by stretching toward heartfelt goals (risk taking) with the assurance that their families will not suffer if their skills and talents are eliminated from the scene by premature death or disability. The institution of life insurance also plays a major role in maintaining a vital environment for individual enterprise through its capital-gathering function. The savings of millions of individual and group policyowners, accumulated by life insurance companies, are directed through investment to help finance American business and government in response to the supply and demand for funds in the various sectors of our economy.

Consumers can improve the efficiency with which they use the services provided by life and health insurance through sound planning with the advice and counsel of professionally qualified life underwriters as they develop financial plans to implement their matrix of values. While the planning process is important in helping individuals develop a sense of personal identity, its use is also the distinguishing characteristic of the professional prac-

[21]See Davis W. Gregg, "Family Life Cycle: A Conceptual Legacy," *Journal of the American Society of Chartered Life Underwriters,* Vol. XIV (Fall 1960), p. 308. But see "A Culture in Transformation: Toward a Different Societal Ethic," *TAP Report 12* (New York: Institute of Life Insurance, Fall 1975).

[22]See Robert J. Myers, "Government and Pensions" (Washington, D.C.: American Enterprise Institute, 1969), p. 17. See also "Social Security: Future Prospects," *TAP Special Report* (New York: Institute of Life Insurance, December 1974).

titioner. Well-qualified, client-oriented financial planners use the planning process to establish the objectives of the clients, to identify and evaluate alternative ways of attaining those objectives, and generally to deliver their services utilizing life and health insurance where appropriate. The general purpose of the planning process should be to facilitate a reasonably efficient use of the clients' resources in implementing their financial plans. As Herbert A. Simon has pointed out, traditional economic doctrine holds that organizations and individuals always make key decisions on the basis of information that *maximizes* their gains—that is, they will always seek the *best* possible price, the *best* possible share of the market, and the *maximum* profit to themselves or their firm.[23] In the real world, this just does not happen, even with the help of today's sophisticated computer-based decision aids. "People," Simon says, "satisfice!" Thus, although individuals, by utilizing the services of professional life underwriters seek to facilitate their efforts to determine and implement sound financial plans, it is not reasonable to assume that they must have the *best* plan or the *best* policy with the *best* company. It is expected that the result will produce a good plan using an appropriate policy offered by a cost-effective company. Although Simon is correct that people satisfice and do not optimize, people can still improve their relative position by selecting a good agent and improving their own knowledge of life and health insurance. Sound financial planning and management are the sine qua non of individual self-adequacy. Increased sophistication and understanding on both sides of the financial counseling interview can only make the interaction more productive for all concerned.

[23]John M Roach, "Simon Says . . . Decision Making Is a 'Satisficing' Experience," *Management Review*, January 1979, pp. 8–17.