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Life Insurers Charge Consumers More for Splitting Up Premiums

By **CHRISTOPHER OSTER**
Staff Reporter of THE WALL STREET JOURNAL
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If you're paying for life insurance in installments, you're paying more for the privilege -- in some cases a lot more.

While the cost of paying for insurance in monthly, quarterly or semiannual installments -- rather than annually -- is easy to deduce in dollar figures, few insurers reveal how those payments equate to annual percentage rates, or APRs. For some companies, those rates can be as high as 34%.

A few life-insurance companies have recently begun sharing more information about what they charge life-insurance buyers. Consumer advocates say the new numbers are vital for comparing policies. The insurance industry and some insurance regulators say insurance shoppers shouldn't see them at all.

PAY MORE AS YOU GO

See the **premium payments**⁰ for a 40-year-old, male nonsmoker, in good health, on a 20-year, \$500,000 term policy.

Critics say that by not providing those figures, insurers are failing to show policyholders the true cost of making installment payments. Joseph Belth, professor emeritus for insurance at Indiana University in Bloomington, Ind., says: "People are being gouged by some of these

companies because they're adding extra charges with no disclosure."

Despite the industry's stance, more and more insurance companies are including APRs in mailings to policyholders and on company-run Web sites. Late last month, MassMutual Financial Group in Springfield, Mass., added a calculator to its site that helps policyholders determine rates charged when making premium payments more than once a year. John Hancock Financial Services Inc., a unit of Manulife Financial Corp., Northwestern Mutual Life Insurance Co., and MetLife Inc. have developed similar online calculators.

Why does it matter? Consider a \$500,000, 20-year term-insurance policy offered by MetLife. The annual payment is \$599, the monthly payment is \$53.91 and the semiannual payment is \$317.47. Simple math will show you pay more for the more-frequent payments, Prof. Belth says. But it's not so simple to determine that by paying the "fractional" premiums, you are being charged the equivalent of 17.2% and 25.5% interest rates, respectively.

Prof. Belth says that insurers should be able to make money on installment payments, particularly

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because there are costs involved with the bank drafts and mailings involved in making the payments. He says APRs below 10% are low, APRs between 10% and 15% are moderate and anything above 15% is high. The charges most commonly apply to term and whole life insurance.

Critics of current insurance-company practices say that disclosing APRs might make policyholders think twice about paying by installment and could prompt them to compare competing policies from other insurers more carefully.

The insurance industry says showing insurance buyers APRs is deceptive, because it gives the impression that there's a loan involved that needs to be repaid. "APR disclosure in insurance would be tremendously confusing and unnecessary," says Victoria Fimea, senior counsel at the American Council of Life Insurers, an industry group.

In December, the Utah insurance department, part of the state government, took a similar stance, and forbade First Colony Life Insurance Co., a subsidiary of Genworth Financial Inc., from including APRs in its policies offered in Utah.

Insurers for decades have charged more when policyholders don't pay their annual premiums all at once. But more than a dozen lawsuits filed against insurers in New Mexico are forcing companies involved in the suits -- as well as some hoping to avoid being sued -- to share more of this information with policyholders. MassMutual posted its calculator this week as part of a settlement reached two years ago.

Also in a settlement two years ago, John Hancock was required to post an online calculator, but was not compelled to include APRs in future policies or mailings.

Write to Christopher Oster at chris.oster@wsj.com¹

Pay More as You Go

Premium payments for a 40-year-old, male nonsmoker, in good health, on a 20-year, \$500,000 term policy.

	ANNUAL PREMIUM	MONTHLY PREMIUM	MONTHLY APR	QUARTERLY PREMIUM	QUARTERLY APR	SEMIANNUAL PREMIUM	SEMIANNUAL APR
MetLife	\$599	\$53.91	17.20%	\$161.73	21.5%	\$317.47	25.5%
TransAmerica	485	42.44	10.8	128.53	16.1	252.20	16.7
Allstate	430	37.63	10.8	116.10	21.5	223.60	16.7
Prudential	425	38.25	17.2	112.63	16.1	221.00	16.7
Lincoln National	400	34.80	9.5	112.63	34.2	204.00	8.2
AIG	395	34.56	10.8	104.68	16.1	205.40	16.7

Source: AccuQuote.com, Prof. Joseph M. Belth

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(1) [mailto: chris.oster@wsj.com](mailto:chris.oster@wsj.com)

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