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### THE PRIMERICA REPLACEMENT EMPIRE

by Alan Press

Arthur Lynch Williams, Jr., a former Georgia high school football coach, founded the A. L. Williams organization (ALW) in 1977. By 1981 he had built ALW into a large national agency representing Massachusetts Indemnity and Life Insurance Company (MILICO). He made clear that his objective was to sell MILICO term policies to replace all policies issued by other companies. By 1988 ALW had more than \$300 billion of insurance in force, in 1987 had sold \$92 billion of insurance, and had a sales force of 225,000. A very large majority of its sales force consisted of individuals working part-time.

#### Early Discussions

The four-page April 1981 issue of *The Insurance Forum* was devoted in its entirety to the first significant examination of ALW's activities. The article was entitled "The A. L. Williams Replacement Empire" and was written by Editor Joseph M. Belth, professor of insurance at Indiana University. The article was

widely circulated and so infuriated ALW that the organization began an extraordinary national campaign which had as its objective the discrediting of the article and its author. The campaign was a complete failure, and it caused an even wider circulation of the article. Over the next 20 years, Professor Belth wrote 40 additional articles about ALW.

Soon after Professor Belth's first article about ALW, I began writing articles, making speeches, and disseminating information about ALW in other ways. I did so because I was deeply concerned about the dangers that ALW's activities posed to the buying public and the life insurance industry.

#### ALW and Primerica

In 1990, Mr. Williams was forced to leave the company he had founded because of an investigation conducted by a U.S. Attorney in Florida. Allegations were made that Mr. Williams had organized "hit squads" to try to destroy a competitor's business.

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Eventually the case was dropped, but Mr. Williams did not return to the business. In 2008, *Forbes* magazine listed him among the world’s billionaires.

After Mr. Williams left ALW, MILICO became Primerica Life Insurance Company and ALW became Primerica Financial Services, which was acquired by Citigroup and later became a subsidiary of Primerica, Inc. (NYSE:PRI). In the spring of 2010, PRI engaged in an initial public offering; Citigroup retained 40 percent of the stock. There are some differences between ALW’s activities and Primerica’s activities now, but many similarities remain.

**Harsh Rhetoric**

ALW trained its agents to view every other life insurance company and every agent of every other life insurance company as enemies. Furthermore, ALW trained its agents to view every other company’s life insurance policies as objects of contempt. Among ALW’s rallying cries were “Wet on Met” and “Screw Pru,” and cash-value life insurance was called “trash-value life insurance.” Primerica does not engage in such behavior today.

**High-Priced Term Insurance**

In his first article about ALW, Professor Belth said its activities frequently result in the sale of “high-priced term insurance.” Today, despite its assertion that its “distribution model uniquely positions the company to reach the underserved middle income market in a cost-effective manner,” Primerica still sells high-priced term insurance relative to that offered by many other companies. The high-priced nature of Primerica’s policies has three dimensions: annual premiums, unisex premiums, and modal factors.

*Annual Premiums*

Primerica’s annual premiums are substantially higher than many other companies’ annual premiums for similar coverage. For example, Primerica’s \$292.50 annual premium for \$250,000 of 20-year level term issued to preferred nonsmoking men aged 35 is substantially higher than the corresponding annual premiums for those of ten competitors, and 29 percent higher than the \$226.05 average of those companies’ corresponding annual premiums for similar policies. The annual premiums for men are shown in the box on page 3.

*Unisex Premiums*

ALW used, and Primerica still uses, so-called unisex premiums; that is, women pay the same premiums as men for similar policies. For the policies above, Primerica’s \$292.50 annual premium for men and women is 41 percent higher than the \$207.55 average of the other ten companies’ annual premiums for women. The annual premiums for women are shown in the box on page 3.

Because women experience lower death rates than men, other companies invariably charge lower premiums for women. The \$207.55 average of the other ten companies’ annual premiums for women compares to the previously mentioned \$226.05 average for men. Thus the average of the annual premiums for women among those ten companies is 8 percent lower than for men.

*Modal Factors*

Primerica multiplies annual premiums by the same factors ALW used to arrive at modal premiums. The factors may be translated into annual percentage rates (APRs) to express the relationship between annual premiums and modal premiums. Here are Primerica’s modal factors and the associated APRs:

Premium Mode	Factor	APR
<b>Semiannual</b>	<b>0.52</b>	<b>16.7%</b>
<b>Quarterly</b>	<b>0.265</b>	<b>16.1</b>
<b>Monthly</b>	<b>0.095</b>	<b>29.7</b>

Primerica’s APRs for semiannual and quarterly premiums, while fairly high, are in line with the APRs charged by some other companies. Primerica’s 29.7 percent APR for monthly premiums, however, is very high. It is especially outrageous because Primerica’s monthly premiums are paid automatically by pre-authorized withdrawals from policyholders’ checking accounts. The arrangement lowers administrative costs substantially and therefore should cause the company to charge lower APRs than for semiannual and quarterly premiums, which are paid by mail. For the same policies mentioned earlier, the monthly premiums for men and women and the associated APRs are shown in the box on page 3.

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The APRs for men and women usually are identical. Small differences sometimes exist, however, because of rounding errors or because some companies use a modal factor and a constant to calculate modal premiums rather than a modal factor only.

Primerica trains its agents, as ALW did, to convince policyholders to pay premiums monthly by pre-authorized withdrawals from their checking accounts rather than by mail annually, semiannually, or quarterly. Thus most of Primerica’s business involves monthly premiums that include the very high modal charges. The effect is to create a profit center. Professor Belth estimated in 2001 that Primerica’s modal charges created a five-year, \$550 million “bonanza” for the company.

Primerica does not disclose its APRs to agents or policyholders. Nor does it disclose modal charges in filings with the Securities and Exchange Commission (SEC). In 2001, the company won a major legal victory when it managed to settle a class action lawsuit relating to the company’s nondisclosure of APRs without having to agree to disclose them.

**Indiscriminate Replacement**

Primerica, as did ALW, engages in the indiscriminate replacement of other companies’ life insurance policies and uses incomplete comparisons to do so. Such activity emanates from and is encouraged by top officers of the company.

D. Richard Williams (not related to Arthur Williams) and John A. Addison, Jr. are Primerica’s co-chief executive officers. According to a Primerica prospectus filed with the SEC in April 2010, they

received 2009 total compensation of \$690,515 and \$666,668, respectively. According to an 8-K (material event) report filed with the SEC in August 2010, they entered into employment agreements under which each will receive an initial annual base salary of \$750,000 and an annual bonus ranging from 100 to 200 percent of base salary depending upon achievement of certain performance goals. They also will be eligible for equity compensation awards as determined by the compensation committee of the board of directors. In an interview published in the January 2005 issue of *Best’s Review*, Mr. Addison said:

**Two-thirds of the company’s sales go to people buying for the first time, while the other third replaces whole life policies that charge higher annual premiums and provide lower face amounts.**

Mr. Addison’s comparison of the premiums for whole life and term insurance ignores the cash-value growth and any dividends associated with whole life. It is the same type of incomplete comparison for which ALW was famous. Similarly, his comparison of face amounts of whole life and term insurance is the flip side of the same type of comparison. Also, in view of Primerica’s apparent objective to replace all other companies’ life insurance policies with the company’s term policies, it is hard to believe that only one-third of the company’s sales involves replacement.

**Agent Recruiting Practices**

For Primerica, the distinction between recruiting and selling is blurred, as it was for ALW. Often the

<b>ANNUAL PREMIUMS, MONTHLY PREMIUMS, AND APRS FOR SELECTED POLICIES</b>						
(20-Year Level Term, \$250,000 Face Amount, Age 35, Preferred Nonsmoker)						
Company	Men			Women		
	Annual	Monthly	APR	Annual	Monthly	APR
Primerica Life Ins Co	\$292.50	\$27.79	29.7%	\$292.50	\$27.79	29.7%
American General Life Ins Co	\$216.50	\$18.94	10.8%	\$199.00	\$17.41	10.8%
Ameritas Life Ins Corp	245.00	21.07	6.9	230.00	19.78	6.9
Banner Life Ins Co	210.00	18.38	10.9	190.00	16.63	10.9
Genworth Life Ins Co	207.00	17.49	3.0	187.00	15.81	3.2
MetLife Investors USA Ins Co	216.50	19.49	17.2	204.00	18.36	17.2
Principal Life Ins Co	230.00	20.13	10.9	212.50	18.59	10.8
ReliaStar Life Ins Co	218.00	19.08	10.9	198.00	17.33	10.9
Transamerica Life Ins Co	225.00	19.69	10.8	200.00	17.50	10.8
Union Central Life Ins Co	245.00	21.07	6.9	230.00	19.78	6.9
United of Omaha Life Ins Co	247.50	22.03	14.7	225.00	20.03	14.7
Other-than-Primerica Average	\$226.05	\$19.74	10.4%	\$207.55	\$18.12	10.3%

*Notes:* Primerica Life’s premiums are from the company’s ratebook. The other companies’ premiums are from the website of Rampart America, LLC. Annual percentage rates (APRs) express the relationship between annual and monthly premiums. The calculator on the website of *The Insurance Forum* was used to calculate the APRs. See the accompanying text for an explanation of the occasional small discrepancies between APRs for men and women.

approach to a prospect is not an effort to sell insurance. Rather, it is an effort to convince him or her to try to become licensed as a part-time agent. When the recruit agrees to try to become an agent, Primerica urges him or her to buy life insurance to demonstrate sincerity about the decision to try to become an agent. If the recruit eventually qualifies as an agent, Primerica would urge him or her to persuade family members and close friends to try to become agents.

Professor Belth said in 1981 that ALW places “inordinate emphasis on the alleged opportunity to get rich quick.” Today Primerica still does so. Here are some website comments (emphasis in original):

- **Unlimited income potential.**
- **Get paid in the future for what you do today!**
- **At Primerica, you leverage TIME for WEALTH!**
- **Primerica allows people to take control of their future by providing financial solutions AND the opportunity to run their own business.**
- **Primerica is looking for people *just like you* who want something better for their lives.**
- **[We] [offer an entrepreneurial opportunity that can help YOU make YOUR dreams come true.**
- **Primerica is a company built for people who dream of taking control of their destiny and having their own business. Are you one of those people? Do you dream of being your own boss, living a dream lifestyle and calling your own shots? Take a closer look at Primerica. Here, you can be the kind of entrepreneur you want to be—and live your dream.**

Primerica’s prospectus contains information about its recruiting practices. See the box below.

Over the last three years, Primerica recruited an average of 226,000 prospects per year, but only an average of 38,000 of them became licensed. Thus 83 percent of the recruits did not become licensed.

Over the last three years, Primerica issued an average of 2.4 policies per year per licensed agent. An agent’s financial dreams cannot be fulfilled by that level of sales.

Primerica collects from each recruit a \$99 fee (recently reduced from \$199) to begin pre-licensing training and licensing examination preparation programs. Primerica also collects from each recruit \$25 per month for a subscription to *Primerica Online*, a website for the sales force, and collects \$25 for the first month with the \$99 fee. Over the last three years, Primerica recruited a total of 678,000 prospective agents, but only 113,000 of them became licensed agents. Yet Primerica collected \$84 million from those recruits, assuming that all of them paid the reduced fee. Primerica’s prospectus does not indicate when the fee was reduced from \$199 to \$99.

**Conclusion**

Recent years have brought distressing investigatory reports that some of our largest and most trusted financial institutions have taken unfair advantage of unsuspecting consumers. However, no investigations have been initiated into the techniques used by Primerica to take unfair advantage of unsuspecting recruits and policyholders.

Recruits have been charged substantial fees up front and have been led to believe that they can “live your dream.” Most of them, however, never become licensed agents and experience disappointment when their expectations are not met.

Primerica and its predecessor have been taking advantage of recruits and policyholders ever since ALW was founded in 1977. The time has come for regulators to examine the operations of the company. One way to begin would be to ask Primerica to justify its relatively high premiums, its unisex premiums, its very high modal charges, the incomplete comparisons used in its replacement activities, and the false promises made in its recruitment practices.

<b>PRIMERICA RECRUITING AND SALES DATA 2007-2009</b>			
<b>Item</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
1. Number of new recruits	220,950	235,125	221,920
2. Number of newly insurance licensed sales representatives	36,308	39,383	37,629
3. Average number of life insurance licensed sales representatives	97,103	99,361	100,569
4. Number of term life insurance policies issued	244,733	241,173	233,837
5. Number of policies issued per licensed sales representative	2.5	2.4	2.3
6. Fee income for Primerica from new recruits (millions)	\$27.4	\$29.2	\$27.5

*Notes:* Items 1 through 4 are from the prospectus filed by Primerica, Inc. with the SEC in April 2010. Item 5 is item 4 divided by item 3. Item 6 is item 1 multiplied by \$124 (the sum of the \$99 fee for a new recruit and \$25 for the first month of the subscription to *Primerica Online*).