A Critique of Primerica

I recently had a young couple in their mid-30's (Ricky and Lucy) contact me to review a financial proposal they had received. They thought it was wise to get a second opinion before they proceeded. Providentially, we had a mutual friend who put the three of us together to talk things over.

Why do I say providentially? Once Lucy emailed the proposal to me, I immediately knew I would be able to show them how to save a great deal of money. How much money? Almost 600K as it turns out! Why? Because the proposal was from Primerica.

Before you get the wrong idea, or think I'm a competitor, or have a vendetta or axe to grind, I don't. I'm retired. However, I do have an interesting background that makes me highly qualified to render an unbiased critique of Primerica.

I started my career in finance all the way back in 1984 with the A.L. Williams Company. I knew the founder, Art Williams, quite well. In fact, we vacationed with Art and several top producers in Hawaii, Acapulco, Austria, and Paris. I vividly remember celebrating Art's birthday in the Eiffel Tower and a wonderful dinner party in his home back in the 80's. Art's a great guy, super motivational and very, very successful. He was gracious enough to endorse my first book. The A.L. Williams Company had a very profound and positive impact on me and my career. The point? A.L. Williams eventually became part of Primerica, so I know both companies well. Their mantra was, and still is, "Buy term and invest the difference," which is sound advice.

The concept makes economic sense, and numbers don't lie. Primerica sells thousands of term life insurance policies every year through 100,000 plus licensed agents. They also sell mutual funds through 25,000 licensed securities representatives.

So, here's my take: They are a good company with a good idea, with lots of part-time people selling term life insurance, mutual funds, and other financial products. However, they do not have the most competitive products in the marketplace. You can do better, a lot better!

Back to our young couple and their Primerica proposal. I spent several hours dissecting the material and came up with a detailed analysis and an alternate plan for Ricky and Lucy that could save them a ton of money over their working lifetime. How much is a ton of money? Read on.

The first thing I did was compare Primerica's term insurance quote with several companies which provide on-line quotes. My findings were enlightening. Primerica's cost per year was $1,865 for one million coverage on Ricky and $500K on Lucy, guaranteed for 20 years. The best quote for the same coverage I was able to find was from one of the top insurance companies in America, $1,350 per year, also guaranteed for 20 years – an annual savings of $515. If invested for 20 years, our couple would end up with $42K. If the $42K were invested for another 10 years until their retirement age, they would have $130,000[1] without making any additional contributions. That's a lot of money for Lucy and Ricky! According to Value Penguin's website: Primerica's cost for term insurance ranged from 11% to 29% more expensive against 50 insurers they compared.

Next on the proposal, the Primerica agent recommended identity theft insurance costing $22 per month for a family plan. What's identity theft insurance? In a nutshell, it covers expenses incurred to restore your identity if stolen. Is it worth it? According to the US Department of Justice, the median indirect loss for victims was just $30. According to the National Association of Insurance Commissioners, typical costs are around $25-$60 per year for an identity theft policy. Primerica charges $264 for a family plan per year, considerably more than the national average.

According to Credit Karma, major insurers can do an add-on rider to your homeowner's policy that covers expenses incurred to restore your identity. Just call your insurance agent and have her add it to your existing policy, or better yet, AAA members get coverage for free as part of their membership. As an FYI, most credit card companies and banks cap your liability at $50 or less, so you don't have a great deal of exposure.

So, here's my next money saving idea for Ricky and Lucy: Take the $22 per month they were going to waste with Primerica and invest it. By the time they reach age 66, the investment account would have grown to roughly $64,370.95.[2] I would say that's a fair amount of money, wouldn't you?

Next on the Primerica proposal was investing in mutual funds. The agent's recommendation could cost our young couple a fortune! According to the Primerica website, they offer eleven mutual fund providers. According to Wikipedia.org, there are 61 fund families offering mutual funds in America, which means Primerica only offers about 16% of the mutual funds available in the USA.

[1] Using an assumed 12% average annual compounding
[2] Assuming a 12% average annual compounded return

So why would anyone want to limit their investment choices to only 16% of the funds available nationwide? Got me. That's like offering mutual funds that only start with letters A-D in the alphabet.[3] That's nuts! Open a brokerage account with one of the big firms instead and you instantly have access to just about the entire universe (A-Z) of mutual funds. The sales rep from Primerica recommended investing in funds with "a 4-5% one-time commission." Why? Guess who gets most of the commission? Bingo! Why would anyone want to pay a commission if they didn't have to? The reality is, you don't. By investing in a no-load mutual fund (available just about everywhere you won't find a commissioned salesperson) you can skip the front end sales charge.

So, here's the math: Our couple was thinking about investing somewhere in the neighborhood of $50,000. The up-front sales charge would have been 4.5% with the Primerica funds. If instead, our couple purchased a no-load index fund, they would save $4,500 and around 1% per year in annual expenses. The savings over 30 years is about $400K. That's not a misprint. By eliminating the up-front sales charge in a no-load fund and by buying a very low cost[4] index fund, which, by the way, has outperformed 90% of all actively managed funds over the past several years, our adorable couple can save almost a half million dollars over their working lifetime[5]! Sweet, huh?

Let's add it all up:

$400,000	Saved on mutual fund fees and commissions
$ 64,000	Saved on identity theft protection
$130,000	Saved on term insurance
$594,000	Total saved by going elsewhere and investing the difference

Other than overpaying Primerica for their financial products, I can think of two additional reasons you might want to consider shopping elsewhere:

1. Their salespeople are "captive agents." They can only represent companies that have selling agreements with Primerica. They are not free to shop around to get you the best deal. And that, my readers, is the reason I left and started my own investment firm. I had a really hard time looking a potential

[3] 16% of the alphabet
[4] about 10 basis points
[5] By investing the savings at an assumed 11% average annual return

client in the eye and telling them that this was the best product available when I knew otherwise.

Remember, these are commission driven salespeople, who only get paid if they sell you something. Their interests are not necessarily aligned with yours. Money can blind objectivity. Which brings me to point #2.

2. Their sales agents are not fiduciaries,[6] which means they are neither financially responsible nor accountable for the advice they give you. If their investment doesn't work out, you have no recourse unless fraud is involved. So, be very, very careful. They work for Primerica – not you!

I suggest you work with a registered investment advisor (RIA) who is a fiduciary and held to a higher standard by the US Securities and Exchange Commission (SEC). They are legally and ethically required to put their client's needs above their own at all times.

So, there you have it, just the money savings facts. I do hope my critique allowed you to see Primerica from a different set of eyes.

Want to know more; have comments or questions? Contact me at info@greatinvestor.org.

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[6] A fiduciary is a person to whom property or power is entrusted for the benefit of another.

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