EXPENSE MARGINS IN LIFE ASSURANCE.

The following are extracts from the paper read before the recent meeting of the Actuarial Society of America at Hartford, by President Sheppard Homans, on "Margins for Expenses and Contingencies and Surrender Charges":—

The generally received idea of an endowment assurance contract is that of an increasing investment and a *pro tanto* decreasing insurance. Another view, equally correct, suggests some practical considerations which may be valuable. We may look upon an endowment assurance in the light of two separate and independent contracts: (1) A pure endowment of the face value, payable only in the event of survival; and (2) a pure insurance of the face value, payable only in the event of death within the specified term. An ordinary whole life policy is an endowment assurance contract payable at oldest age in the table or at death, if prior.* * * * The margins added for expenses and contingencies should not be the same for the two elements in the premium. The margins added to the endowment or investment portion should be such only as are sufficient to provide, at least after the first year, for the proper management of trust funds. These margins would naturally be derived from interest gains or profits, and might properly be obtained by computing the endowment portion of the premium at a lower rate of interest than that adopted for the insurance portion. The margins added to the insurance portion of the premium should be sufficient not only to provide the necessary expenses of conducting the insurance business, but should also be sufficient to meet unexpected or adverse insurance contingencies, such as excessive mortality, any undue exodus of sound lives, etc. For the contingencies named the margins should be a percentage on the net term premiums, which would not greatly differ from the current normal costs or insurance values of the temporary insurance, but they should not be a percentage of the insurance values of the *dual* contract, for this last would make the margins for expenses and contingencies less on an endowment assurance than that on the temporary insurance only. The determination of the proper margins for expenses is more difficult. Excepting exchange on remittances, taxes on gross premiums, when so imposed, and commissions, when so awarded, there are no items of expense which depend directly on the amount of the premium paid. Postage, printing, stationery, actuarial. medical and clerical services, rent, etc., have no necessary relation to the amount of the premium or the amount of the insurance on individual policies, or to insurance values of either the *dual* contract or the temporary insurance alone. In fact, it is impossible to reconcile theory and practice in any general method of adjusting expenses as applied to all policies, differing as they do in amount, terms and conditions. We must fall back on general averages. * * * * * Again, the surrender charge should not be a percentage of the reserve or investment. It should not be a percentage of the insurance values of the *dual* contract, as that would make the tax on surrender diminish as the self-insurance or endowment to be paid over increases. It might rather be based on the insurance values or normal costs of the temporary insurance. In any event, the surrender charge should be included in the margin added for contingencies to the net term premium, and as such should be retained by the company during the life of the policy.

That these views are correct is evidenced by the fact that the endowment or investment part of the contract might be made by the individual with a life insurance company selling pure endowments, or with a purely financial institution having such expenses only as pertain to the proper administration of trust funds, while the insurance part of the contract might be made with a life insurance company selling pure or term insurances. Life insurance will not fulfil its true mission until the investments as well as the insurance portions of policy contracts are treated upon correct principles.

The separation of the investment portion of the premium from the insurance portion suggests the proper method of providing for extra hazardous risks, as in the case of impaired lives, dangerous occupations, residence in unwholesome climates, etc. The insurance portion only of the premium should, of necessity, be increased. The endowment element might rather be diminished, as it would be naturally when based upon higher rates of mortality. The whole force of the increased premium should be to cover the increased insurance risk. The rating of impaired lives at a higher age than the actual is an incorrect method of providing for extra mortality risks, since it is not only empirical, but it increases unnecessarily the investment element. A better way would be to adopt renewable term premiums, based upon increased mortality rates, at actual ages, with or without the endowment feature. Dividends might be applied at stated times either to reduce renewal premiums or to purchase pure endowments payable only in case of survival. In this way a practical, safe and equitable method of insuring impaired lives might be devised.

DOCTORS DISAGREE.

We print in this number of our paper, extracted from two prominent insurance journals, articles treating of the subject of fixed cash surrender values. The views of these writers are diametrically opposite. The editor of the *United States Review* occupied the position of actuary with the mismanaged American Life Co. of Philadelphia. The associate editor of the CHRONICLE, of Montreal, from whose pen the article we print doubtless came, was also for several years connected with the home office of a life company. The latter writer assumes exactly the position which *The Chicago Independent* has always held regarding this matter.

There is nothing in the idea of life insurance which contemplates the conveyance from the shoulders of the husband and father to those of the company managers the responsibility or title of family guardianship. There is not in the characters or reputations of these managers any element of superiority to the average *paterfamilias*, which entitles them to assume that they are better guardians of another man's family than the man himself can be. Such an assumption smacks of pharisaism. Home office officials should bear in mind that they are not in fact the insurers. The company is an existence far greater than the little coterie of gentlemen at the head office.

We confess some surprise that even the learned actuarial-editor of the *U. S. Review* should state "the fact that the purpose of the company is to sell insurance and not to buy it." This pretty-sounding phrase, though, has been used before, by a greater man than he is, to dodge an honest responsibility. When a life insurance company returns to a person the unearned portions of the latter's previously paid premiums, the company being released from all further insurance liabilities on account of the contract which has been annulled, the company does not buy one cent's value of insurance through the transaction. It does only what it should do.

When the editor of the *U. S. Review* asserts that the aversion of the offices to the endorsement of cash values upon a policy "arises from the fact, that in case of a stringent money market the company might be embarrassed by the difficulties incident to the realizing from its investments of the amount required to pay for surren-