FRATERNAL INSURANCE.

Societies Fail to Have Sufficient Reserve—With Increasing Death Rate Comes Increasing Cost—Older Orders Managed With Greater Economy.

For many years The Monetary Times has criticized the unscientific underwriting methods of fraternal insurance societies. Before the Life Underwriters' Association of Saskatchewan, Regina, Mr. A. H. W. Phillips delivered an address on "Fraternalism." The subject is a controversial one and will always be so until the general public commence to look more closely into the financial status of each of the orders.

Fraternalism in principle, said Mr. Phillips, is undoubtedly a fine thing even when carried into life insurance, provided there was only one great fraternal society doing business in this line. As far as the actual cost was concerned, adequate insurance could be provided at an extremely low cost when coupled with economical and actuarial management. However, one society after another has sprung up based on the assessment plan, and as a result there has been a struggle among them all to secure new business, new blood as it is commonly called, which struggle for survival has resulted in very low rates being quoted, to be an easy bait to the unsuspecting man who wishes protection for his estate. This has had its effect on all the fraternals, as sooner or later the officers in charge find that rates are too low to meet their increasing obligations, and an increased rate necessary, followed as it always is by the withdrawal of the older and healthier members, the sitting tight of the frailer and loss of new members.

Fraternal Insurance Men Unskilled in Life Insurance.

One great trouble with fraternal societies is that the men who organized, and for years conducted these institutions were unskilled in the science of life insurance. They knew little or nothing about mortality tables, or the cost of protection, but thought that an institution was in a flourishing condition as long as it continued to have money in its treasury to meet the current obligations. At the beginning no heed was paid to age or physical conditions and every man in the organization contributed a like amount upon each call for funds, regardless of these considerations. The unfairness of this situation in time became apparent, and then began a system of medical examinations to raise the standard of health. It became apparent that there should be a difference in the contributions, and tables were formed, but in an arbitrary sort of way, without any scientific accuracy. The cost of protection in so far as the payment of death disability benefits are concerned, as distinguished from the expense of management, is practically the same in fraternal benefit associations as in the old life insurance companies. It takes a dollar, therefore, to pay a dollar of insurance obligations in a fraternal as well as in an old line life insurance company.

The great defect in all fraternals is the increasing mortality and absence of an emergency fund or reserve, an increasing death rate is the disintegrating force that works inevitably, the dissolution of every assessment organization or every society that fails to make a provision mathematically adequate to offset its effects. This law of an increased mortality is now recognized by practically all fraternal societies and practically all are making some attempt to provide in advance a fund for meeting the increasing cost that comes with the increasing age of their members.

Societies fail to have Sufficient Reserve.

The difficulty is that these societies, while admitting the necessity for providing for an increasing mortality, have failed to realize that if an emergency or reserve fund is needed at all it is equally necessary to have a sufficient reserve. They have failed to understand that this is purely a question of mathematics and mortality tables, and few, if any, organizations of the kind are accumulating reserve funds mathematically sufficient to provide for the increasing cost of old age. The history of fraternal insurance societies and all other assessment life insurance organizations has been the same in every case, the results differing only in degrees. The case of every such society may be outlined as follows: During the first few years the death rate is abnormally low for the reason that the members of the new organizations are all young or middle aged, and have all recently passed a medical examination that culled out the impaired lives and doubtful risks.

While a normal death rate of such a body of men taken as they come would be in the neighborhood of seven or eight in each thousand—depending on their several ages, the usual experience gives us a death rate of three or four thousand during the first two or three years. If no new members were admitted the mortality would rise in the course of five or six years to the normal rate of seven or eight per thousand. If new members were secured the death rate would still advance somewhat though not so rapidly. The rapidity with which the death rate of an assessment society will rise will depend chiefly upon the relative influx of new members. In the the case of a very rapid growth the death rate will advance slowly, nevertheless it is bound to advance. If the growth is less rapid, or if the society is reckless in selection of risks the rate will advance more rapidly There is not an organization in existence ten years old or older whose death rate will not average higher in the last five than it did in the first five years. In the organization fifteen or twenty years old no matter how rapid its growth may have been the average death rate of the last five years will be greater than that of the preceding five, and greater still than the death rate of the first five years.

With Increasing Death Rate Comes Increasing Cost.

With the increasing death rate necessarily comes increasing cost. For the time the rapidly increasing claims may be met from the proceeds of the stipulated rates, but sooner or later either more assessments will be required or the stipulated rates must be advanced. So long as not more than one assessment per month is levied or assessment rates are not raised, the slightly increasing cost may have no perceptible effect upon the growth of the order. The latter is likely to proceed at a more or less satisfactory rate until the average death rate approximates ten or twelve per thousand. When that stage is reached, if not before, the rates of assessment or the number of assessments levied will be increased of necessity. This increase of cost usually marks the beginning of the end. As a rule general dissatisfaction ensues and many members lapse forthwith. These are usually the sound lives or the younger members who can get insurance elsewhere.

The over-aged and impaired life will remain and the death rate and cost will advance more rapidly than before. It now becomes more difficult for the society to obtain new members in competition with the younger societies having a lower death rate and a smaller cost. It is at this point, therefore, that the membership of the organization begins to decline. The new insurance written is not sufficient to replace the termination by death and lapse. Of 180 fraternal societies of this class doing business in the United States in 1908 no less than 78 have reached this stage—the dead line—the decreasing membership that marks the beginning of the end. Most of the remaining 102 are young orders of recent organization.

Declining Membership Means Increased Rates.

In a few instances a decline of membership when following an increase of rates has been overcome in the course of four or five years, but all such recoveries are merely temporary. The old men are still there and their relative members are increasing, for with every year a thousand years are added to the aggregate age of every thousand members of the organization. The impaired lives are still there save those who have died and other lives are becoming impaired yearly. The organization is unable to maintain a rate of growth under such conditions sufficient to offset death and lapses. In a little while the decline in membership again begins and permanent recovery is impossible.

It would seem that the present plight of so large a proportion of existing fraternal orders should demonstrate to any unbiased mind the impossibility of securing permanent protection on the assessment plan. The fact that several fraternal insurance societies operating on the assessment plan have been in existence for over three decades is often cited in support of the feasibility of modern assessment methods. In reality the older orders prove precisely the contrary.

Older Orders Managed With Greater Economy.

1. Every order organized over three decades ago that has not already failed is in a decadent condition.
2. All these older orders have been managed from the beginning with much greater economy than prevails among the later organizations.
3. All have been managed with the strictest integrity and with excellent business sagacity, save in respect of adhering to a defective system.
4. All of the older orders are collecting to-day higher rates than the most of the younger ones charge, and they find those rates wholly inadequate to actual needs, owing to the greater demands that come with the advancing years.
5. None of the older orders have undertaken to do more than to pay death benefits, yet all find their assessment rate inadequate to save them from decay and inevitable dissolution. Most of the younger orders on rates much less than the older orders have found futile, are promising sick and accident insurance, disability benefits and old age endowments in addition to death benefits.
6. While many of the younger societies are accumulating, a so-called reserve or emergency fund, most of the older societies have done or are doing the same thing, the reserves in either case being alike inadequate and equally futile.

The Grand Trunk Railway proposes to spend between nine and ten millon dollars for the improvement of its terminal facilities in Montreal. The plans have now been laid before the Railway Commission. They embrace the elevation of the tracks between Bonaventure station and Turcot yards, and from St. Henri to the Point St. Charles yards. The work as contemplated also includes the erection of new freight and passenger terminals at Bonaventure.