

INDEPENDENT ORDER OF FORESTERS

Actuarial Science Points Out Defects—Supreme Court Adopts New Plan

(Written for *The Monetary Times* by W. H. Orr).

The important feature of the sixteenth session of the Supreme Court of Independent Order of Foresters held at Toronto, was the question whether or not the society should accept the new Dominion Forester Consolidation Act, which was passed at last session of the Dominion parliament. Over two hundred delegates were in attendance, including 37 from the four High Courts of Ontario, 17 from Quebec, 18 from New York State, 13 from Michigan, 9 from Ohio, and 8 from Illinois. After discussing it from every view-point for nearly six hours, a vote was taken, showing 176 for and 28 against. On a motion to make the acceptance unanimous, four of the twenty-eight only opposed the measure.

All the old officers were re-elected, but the office of secretary-treasurer was divided. R. Mathieson remains supreme treasurer, and F. J. Darch is constituted supreme secretary, Alexander Stewart becomes supreme auditor, in place of Mr. Darch.

Much interest was developed in the benevolent work of the order, apart from the insurance feature, and 5 cents, instead of 2 cents per member, per month, is to be collected for charitable purposes hereafter. Chief Ranger Elliot G. Stephenson announced that within two years there would be provided a home for aged foresters without any expense to the order. As long as he lived he would maintain it at his own expense, and at his death, two old line policies of \$50,000 each would give it a suitable endowment for future maintenance. Nothing has been revealed, however, as to what rules would govern admittance of members, as to age or illness, or ability to contribute a weekly fee towards the expense.

The supreme secretary's report shows the membership of the order to consist of 246,463, being a gain of 3,410 since the beginning of the year. On the 1st of August the accumulated funds were \$20,721,428, being an increase since December 31st, of \$508,251. The supreme physician's report showed that during the past two years, of the 56,107 applications accepted, one-half were for only \$500 each, and the rest for \$1,000.

Change in Value of Certificates.

The feature of the session, however, was the change made in the value of certificates of all old members—those who joined previously to January 1st, 1899. The number of these is about 86,000, or about one-quarter of the whole membership. Of the three plans indicated by the new law for choice, the first one was accepted—that of placing a special block assessment, according to age, against each certificate, varying in amount, from \$100 to \$260 per \$1,000. The amount thus called for is to be paid in cash, on or before the 1st day of October next, or it may stand as a lien on the certificate at 4 per cent. per annum compound interest, or the 4 per cent. may be paid in equal monthly instalments with the usual monthly assessment.

To provide a hope of relief, as the years go by, from this heavy burden thus placed upon all the old members, it was resolved that in addition to \$1,000,000 which is taken from the accumulated funds belonging to the post-1899 members, (and without which the liens would have been still heavier), there is to be an annual valuation, by actuaries, to ascertain if a further amount can be spared from the future accumulated funds, without trenching upon the 4 per cent. interest which the new Act requires to be earned as a minimum on all funds, old and new. The following is the way this is stated in the "notice of assessment" which has been sent to all the members, namely:—

"Until the first such valuation is made, the grant from the fraternal fund to reduce the lien upon each mortuary-benefit certificate becoming a claim, is fixed at \$60, where the lien on the 1st of October was \$260, and at \$50 where it was \$250 or less, and between \$260 and \$250, the grant is in like proportion. It is expected that the grant from the fraternal fund can be increased from time to time, as the excess interest earnings of the funds increase year by year."

In the circular sent to the members is an extensive table showing the amount of lump assessment thus placed against each of the pre-1899 certificates, per \$1,000, according to the age at entry, and of the time elapsing from the date of joining until now. In nearly all cases it is the full \$260 per \$1,000 that is levied, because so many of them were over age 38 at entry, or if younger than that when they joined, have been ten, fifteen or more years in the enjoyment of the low assessments made upon the pre-1899 members. For instance, every entrant at ages 39 to 54 inclusive, is now assessed for an extra \$260. Every entrant of between ages 23 and 38 in-

clusive, if less than ten years on the books, will pay from \$180 upward to \$257, and all of those ages at entry, if more than ten years insured, will pay \$260. And so will all ages from 16 to 23 if they have been twenty years in enjoyment of low rates. A person who was 16 years old at entry in 1898, and has been insured 15 years, and is now aged 31, will get an extra call for only \$100; but, if he joined in 1888, and therefore has had a benefit for 25 years, his extra will be \$205. And if he joined in 1883 and has had 30 years' benefit, he is assessed for the full \$260, being now 46 years old. A table in the August number of the "Forester," covers, in pretty solid figures, a space of about 5 by 13 inches, giving the ages, from 16 to 54 in the first perpendicular column, and the years of entry along the top of the twenty columns, from 1877 to 1899 inclusive.

This table, so nicely graded as to do even-handed justice to the different ages, puts the society for the first time in its long history, upon a somewhat reasonably equitable footing, as between the old and the new members.

What Actuaries Demonstrated.

It was ascertained, from the report of the actuaries employed to value the two sections, that on December 31st, 1912, there was, in the total accumulated fund, \$6,245,660.62 belonging to the old members, who joined before January, 1899, and \$14,314,250.09 belonging to the newer members who joined since 1898. To meet the liabilities of the pre-99 members this left a shortage of \$26,000,000.00, while the post-98 members had a small surplus (in the \$14,314,250.09) of about \$1,725,000, supposing the funds to be safely invested, in future, at not less than 4 per cent. compound interest per annum.

It was rather a bold proceeding on the part of those 204 supreme representatives, nearly all of whom are said to have belonged to the pre-98 section, to lay hands upon so large an amount of cash as one million dollars belonging to the younger members, and transfer it into the old people's purse, to lighten their burden. Hence the Supreme Chief deems it needful to have "A Word with the Post-'98 Members," in which he labors to show them that it will prove a paying operation to thus heal the sore spot, so that "none of the '99 members should be forced to drop out of the order." But far greater than the million is the excess of interest on the gross funds above 4 per cent. interest, that is to go to the relief of those against whom the extra assessments are made. The May number of "Forester," in each year, is to contain a "valuation and explanation of the financial condition of the order, and the condition of the fraternal fund."

Work is Commendable But Not Complete.

But, after all that is thus commendably done to repair the loss occasioned by failing to accumulate a fund in the earlier years of the order, it seems apparent that little has been done, to speak of, to really fill that gap. These extra assessments now imposed at so late a date, do nothing more than raise the unfit old rates up to what they need to be for the future. The premium that a man of 30 or 31 years of age pays to an old line company for a policy of \$1,000 without profits, is about \$20. After the small amount needed for expenses has been deducted, one-half of the remainder is needed to pay the one year's death losses, and the other half (about \$10) has to be accumulated to meet the future heavy loss belonging to that policy. Therefore, every time any fraternal order collects \$100,000 to bravely meet death losses, it should collect another \$100,000 to be laid aside at 4 per cent. interest. If it does not do this during a space of say 20 or 30 years, how can it, at the end of that, or at any time, assess those members who have died or dropped out long ago, so as to fill this gap, and prevent an ultimate collapse? A small portion may be obtained, as in the present case, by a heavy extra call, and by devoting the extra future interest above 4 per cent. to that end; but, no one can say that the future extra interest will not, every cent of it, be needed to meet the extra mortality such as is experienced during certain unfortunate years, by every life insurance company. If any regular life insurance company were seen to be holding, to-day, only a 4 per cent. reserve, with no surplus above that scale, and no capital stock to fall back upon, it would be deemed so unsafe that business would fall off, and early insolvency would be staring it in the face.

Therefore, the officers of the Independent Order of Foresters are to be congratulated upon what they have succeeded in getting the 16th supreme session to do, but they must not allow themselves to imagine that the deficiency is filled once and for all. The basis adopted is that used for medically selected lines, but a process of heavy adverse selection is operating in every society on the assessment plan.

That adverse selection has been affecting the Independent Order of Foresters for many years. It is impossible to say whether it will not call for all the interest that can be earned on the funds above 4 per cent., and still another extra assessment, as the years go by, to bring it safely through.