Taxation of Life Insurance Companies

Taxation of Life Insurance Companies by Government Is a Special Tax on the Men Who Are Trying to Look After the Welfare of Their Families—Wrong in Principle.

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The taxation of life insurance companies is such a serious problem that the companies have decided to contest the right of the provinces to impose taxes.

By agreement among the companies, one of them declined to pay the taxes of Ontario, and it is now in the Courts. The companies came off second best in the first round, but they intend to carry it to the highest Court in the Empire.

It is pitiable to note the ignorance respecting life insurance, even as exhibited by the debate which recently took place in the Dominion Parliament, by some of the brightest men in Canada, and men who made the Canadian Insurance Act. Evidently they did not study the Act which they created in 1910.

A great many people note that a certain company has a large accumulation of money; they think that it is safe to raid that pile of money. They do not understand that the accumulated money is practically a sinking fund required on the policies to wipe them out at a stated time. If a city borrows a million dollars on forty year debentures, they must create a sinking fund to meet those debentures when they mature. When the forty years roll round and they have about one million dollars accumulated, it would be absurd to think that they could use that million dollars for some other purpose than that for which it was intended.

If a company insures a man, say, on a 20-year endowment for $1,000, they must start the first year to accumulate a sufficient sinking fund to meet the $1,000 when it matures.

In one sense there is no such thing as profits in a life insurance company. The proper term would be "return of the overcharge." When the rate is made up, the company must charge enough to meet the greatest possible death rate in accordance with the mortality table. Then they are required by law to add a sufficient amount to create the necessary reserve or sinking fund on the policy. In order to make it absolutely sure, the Government dictates that they must assume that they will earn only 3½% interest. Added to these two items is a loading for expenses. Now, if at the end of a year or any given period they find that there is a saving in mortality or a greater earning of interest than 3½%, or a saving in expenses, they say to the insured, "We overcharged you; we give it to you back." It goes under the misnomer of profits. These profits added together is the surplus of the company, except for a small margin which is kept as a safety contingency fund by all companies, so that every tax on this fund simply means a theft of a certain part of that man's money.

There are some men who do not insure their lives. They prefer to think of their wives grubbing for a living if they took their departure. Such characters hold up both hands and say, "Steal this money from this man," who is denying himself probably certain pleasures in order that his family may be protected.

Where the Legislature taxes a life insurance company, they are picking out a certain number of the inhabitants of the Province to bear a special tax, viz.: the men who are trying to look after the welfare of their families.

These so-called profits vary in the various companies in accordance with the experience they may have in mortality, interest earnings and expenses. Some companies have to pay as high as 70% or 80% of the mortality provided for, while other companies perhaps only pay 39%. Some companies earn 4½% interest, leaving a margin of 1% for profits. Other companies earn 7% or 8%. The more a company is taxed, the less money is returned to the policy-holder.

A life insurance company is not like a fire insurance company. A contract of life insurance as a rule extends over a long period of years. The company cannot send out a notice to the policy-holder and say, "Your Legislature has taxed us a certain amount of money, therefore you must pay a higher premium"; but the fire insurance company can adjust its rates as a rule annually. Many people designate such a tax as a crime on the people who are trying to protect their families.

According to the Canadian law, stockholders of a life insurance company cannot retain more than 10% of the so-called profits (as defined above) of the company, and also the profits from non-participating insurance, less a proper charge for investment. Of course, the stockholders' money, which they have paid in to create the company, is a part of the general assets and is earning interest, as well as all other moneys belonging to the company, which goes a considerable way to meet the charge mentioned above.

The new provinces of Canada do not attach the same importance to the supervision of insurance as older countries, or as the United States, so that the inhabitants of British Columbia particularly have suffered by being induced to take insurance in questionable companies, assuming—as a great many people do—that one life insurance company is as good as another.

It would be to the advantage of the people if, before they insured, they would take the same care as if they were going to buy a piano, or an automobile, or a harvesting machine, or a plough, or a cooking stove.

NEW SECRETARY OF FIRE BOARD.

Mr. W. L. Foster has been chosen secretary of the Mainland Board of Fire Underwriters, succeeding Mr. A. W. Ross, who resigned to accept the position of manager of the Commercial Union Assurance Company and affiliated companies in the Province of Alberta and British Columbia.

Mr. Foster is a son of C. C. Foster, secretary of the Western Assurance Company, of Toronto, and has been inspector of the Mainland Board for the past five years, previous to which he was inspector of the Canadian Fire Underwriters Association at Toronto.

He undertakes his large responsibilities with the best wishes of the insurance interests of the Province.