WHAT SORT OF LIFE INSURANCE?

Policyholder of Nearly Half a Century Gives Figures of His Own Policy Results

Editor, Monetary Times:—

Sir:—I was very much pleased to find in the May 8th issue of your valuable financial and commercial paper, a contribution by Mr. Langstaff as to the difference between the two leading styles of life insurance, participating and non-participating. It seems to me that nearly every subscriber to your paper holds a policy of insurance in some company, on one or the other, or both of these plans. The chief difference between the plans, as he points out, is that in the one case the insured shares in the profits, and in the other case these are devoted chiefly to paying dividends upon the capital stock of the company. The only exception is in the case of the company being a purely mutual one, in which case it would appear that a small amount of profit might accrue from the non-participating policies for division among the mutual members.

It appears from Mr. Langstaff's compilation from the blue-books, that there is now in force, in the seventeen Canadian companies doing life insurance business, the following total amounts at risk on the two plans, namely:—

On the participating, or with profits	$745,378,135
On the non-participating plan, no profits	124,412,673
And the percentage of the one to the other, is	16.69

Over-estimated by Agents.

While this percentage of 16.69 correctly enough indicates the relative amount of non-profit business in force up to December 31st, 1912, I feel satisfied that a much larger percentage of the business is now being done on the without profits plan than formerly, owing, as has been intimated, to the expected profits having been over-estimated by agents, many years ago, and disappointment resulting therefrom. It therefore appears proper that the truth about the profits should be told, so that people who have been disappointed should not rush to the conclusion that it is better to not expect any profits, but instead, to get as low a level rate of premium as the best companies are willing to offer.

Such people sometimes tell the agent: "Your company has been long enough in business to know, by this time, what is the actual cost of insuring a person of 30 or 35, or other age, and therefore why cannot you quote a premium so low as will just cover that cost, and let me have the benefit of it from the very commencement?" Responding to this appeal, it is not strange that many an agent "gives way," as the saying is, even though he knows perfectly well that to do so is to do his client a serious injury in the long run. Between writing him up for a $10,000 policy on the spot, at an annual premium of, say $418.50, and urging upon him a with-profit policy costing him $440.50 to begin with, he too often "falls down," and gives him the cheaper rate, lest the delay might mean total failure. The situation is crucial, but if the agent can show by recent cases that this company has been able, in a very few years, to reduce the $22 of difference, by annual profits, down to and below the non-participating rate, he should stand firm for the right. In the long run he will win out.

Earned in Twenty Years.

At the close of Mr. Langstaff's article, at the foot of page 7, are furnished some figures, (compiled from the last Dominion Report) showing the profits which four leading Canadian companies have earned during the past twenty years, (including one fifteen year case), as compared with what would have resulted from the low without-profit rate, if the difference in the rates had been accumulated with 5 per cent. compound interest. In the four companies, twelve policies of $1,000 each are taken as examples, and the footings of the columns come out, for the $12,000 of total life and endowment insurance as follows:—

The twelve participating yearly premiums	$389.36
The twelve non-participating yearly premiums	369.20
The difference in the annual premiums is	20.16
But with 5% compound interest this comes to	693.51
While the with-profits cases yielded	2,210.21
Difference in favor of participating	1,516.70

Thus it can be seen, very plainly, with the aid of the sworn statements of the several companies, now being made to the Dominion Government, that the average man who applied for a policy of $12,000 at a premium of $369.20 (and thus thinks he saves $20.16 per annum) has been throwing away somewhere in the neighborhood of $1,516.70, if he has survived the twenty years and kept his policy in force. It is quite true that in the individual case of dying in one, or even five years, the cheaper plan would win out. But the average person lives far beyond five years. Only about eleven per cent. of the insured die within the first five years, which shows that the chance of the with-profit plan resulting favorably is very great, comparatively.

Is a Handsome Result.

This is a very handsome result, indeed, in favor of with-profits, to be produced in only 20 years. What would it be if it could be continued for double or treble that period of time? Well, in order to give some idea of the result of double the time, let me give some figures respecting two ordinary life policies in my own family, one of them for $8,000 and the other for $5,000.

But I will deal only with the results during and at the end of forty years, as follows:—

The combined annual premiums were	$324.88
The third payment was reduced to	288.50
The tenth payment was reduced to	243.37
The fortieth payment was reduced to	211.44
At $324.88, the cost in forty years would have been	12,995.20
But the profits, during 39 years, came to	4,364.33
Thus producing a net cost of only	8,630.87
The Canada Life's non-profit rate would have cost	11,396.00
Difference saved, in the 40 years, for other uses	$2,765.13
An annual saving to me, on the average, of	69.13

Now, turning to an interest table, it is easy to see that at 5 per cent. compound interest, each $1 paid annually for forty years, foots up to $126.84. Multiply the average annual saving above shown, of $69.13 by the $126.84, and the product is no less than $8,768.44.

During Forty Years.

Therefore is it not clear that, during the forty years I have been benefited to the extent of this sum, at least, by having wisely chosen to have the profits myself, even though it did look like quite a temptation to take the $13,000 of insurance upon the lower, straight, without-profit rate?

In the case of the $8,000 above-mentioned, I find that the 47th premium is now due for the year 1914. Instead of $197.68, which is the premium called for by the policy, I am only required to pay $119.64, the year's dividend being $78.04. Adding this $119.64 to the footing of the other 46 premiums,

the total payments have been	$6,096.54
As compared with 47 times $174.40 (the non-profit).	8,196.80
A saving during this period, of no less than	$2,100.26

At Six Per Cent.

That is a pretty handsome result, as it stands, but I find that I have been keeping tally, all these years, as to what the saving has been amounting to, on the supposition that money could be safely invested, one year with another, at six per cent. compound interest. It looked like that at the commencement, and for several years, because there was then no difficulty in getting perfectly safe mortgage investments at seven per cent., which would allow one per cent. for expenses and idle money, between one investment and another.

However, the actual footing of my six-per-cent. column for the 47 premiums is (instead of the above, $2,100.26)	$8,373.42
Comparing this with the whole cost of the $8,000	6,096.54
There is a balance to the good of	$2,276.88

This seems to show that the profits on the $8,000 would have paid the premiums upon another policy of $10,000, on $18,000 in all.

Now to conclude, will some one who is "good at figures" take up his pencil and tell me how much more than the $8,000 of insurance I would have been justified in taking out, 46 years ago, had I then been able to foresee that I would live to pay 47 or more premiums thereon, assuming that one could