a psychiatrist. That person should be investing in something like real estate where he could get a much better deal and a better return than from life insurance. This provision certainly will not be a moneymaker.

Let me quote again from this letter from the Life Underwriters Association. I was not going to read more of it, but in view of the minister's remarks I would like to continue. It is from Mr. R. L. Kayler, executive vice-president of that association. He has stated:

● (1632)

The argument that the interest rate on policy loans is low really begs the question because the policy loan privilege obviously costs something and this is paid for by policy owners as part of their premium cost. Actuaries do not normally give anything away in their premium structures.

Perhaps the minister is accompanied by some actuaries today. The letter continues:

If policy loan interest seems low one can be sure the policy owners are paying for that advantage either in higher premiums, lower dividends or both.

Mr. Rynard: Mr. Chairman, I do not believe the Minister of Finance knows anything about the material he read. I do not believe he can sell a policy on the reading that he gave in the House today. No life insurance company will lend more than the value accrued. If the policy is to be used as collateral, then it has to be taken to a bank, and the policy owner is required to pay bank interest on the loan.

My next point has been well demonstrated by the hon. member for Parry Sound-Muskoka. I sold life insurance. People do not buy life insurance for the purpose of investment, because of the type of other investment opportunities which are available today. Every year they would lose 2 per cent under the present scheme. How much is expected to be gained? His actuaries are with him now. The minister should know what he is doing.

Mr. Chrétien: Mr. Chairman, I think the hon. member is telling me that I do not know much about insurance.

Mr. Rynard: That is correct.

Mr. Chrétien: The hon. member is a doctor, and he has sold insurance policies. My father was the director of a small insurance company for 49 years. Also he sold insurance as a part time job for more than 50 years. Even though I am not an expert, I know a little about life insurance, but probably not as much as the hon. member.

Sometimes policies are designed by insurance companies in order to attract funds to create potential loopholes. As the hon. member said, I was reading from a text. I could recite it again in French to indicate that I understand a little bit about it. If people were to invest in one-payment insurance policies, a loophole would be created when their money is drawn out of the policies and they avoid paying taxes. We have been apprised of examples where people have done just that. Therefore we felt it was necessary to move in that direction. It is always the abusers who create the necessity for the government to plug loopholes such as this.

I agree with the hon. member for Parry Sound-Muskoka. This aspect will not be applied very often. We do not want to create a situation where life insurance companies will go to people who have money and suggest this loophole.

It is not a good investment if one has to pay taxes. If a person avoided taxes, it would be extremely attractive for him. We do not want to provide a tax shelter for these people. I realize people cannot draw more than they have contributed. That is the case in so far as most policyholders are concerned.

Mr. Darling: Ninety-nine per cent.

Mr. Chrétien: Ninety-nine per cent. Therefore this additional requirement is created for one person in a hundred. I do not want to create the impression that a new tax shelter has been devised because of one person abusing the system.

Mr. Rynard: Can the minister cite one specific instance where this loophole was used? How can it protect a person's investment?

Mr. Chrétien: Mr. Chairman, I just gave that answer. If a person buys a one-payment policy of $100,000, his investment will grow in the books of the company. After 12 years it will have a value of $200,000. On that gain, $100,000 will have been earned without any taxes. If this clause were not in effect, the person could withdraw the $200,000 and not be required to pay any tax on the second $100,000. He would be required to maintain his policy in force, but he would avoid paying taxes on $100,000 of gain.

Mr. Rynard: The same principle applies with respect to Canada Savings Bonds. People buy bonds and hold them for ten years in order to double their investment. I challenge the minister on this point.

Mr. Chrétien: Mr. Chairman, when a person cashes Canada Savings Bonds, he is required to pay taxes on the interest. That is also the case if he cuts his coupons. If this loophole were not plugged, a person could avoid paying taxes on the interest earned, namely, the second $100,000 which I referred to earlier.

Mr. Rynard: When a person borrows money through his life insurance company, he is required to pay an interest rate of 6 per cent, whereas the ordinary interest rate is approximately 10 per cent. How long will it take for the interest rate provided by insurance companies to catch up? What mortality table is used? One must take into account the age of the person, as well as the much lower rate of interest.

Mr. Chrétien: Mr. Chairman, the much lower rate of interest applied on old policies. At the present time the interest rate on new policies is closer to the prime rate offered by banking institutions. Old policies with the 6 per cent interest rate are still in existence, but the new ones have an 8 per cent rate of interest, or a rate of interest closer to the prime rate. This was changed a few years ago.