

Actuarial Society of America

Officers Re-Elected—Taxation of Life Insurance Companies—Critical Developments of Past Few Years—War Experience—Annuity Business

ABOUT one hundred and twenty members were present at the annual meeting of the Actuarial Society of America, held in New York on May 15th and 16th. The officers re-elected for the ensuing year were:—Henry Moir, president; Wm. A. Hutcheson, Arthur B. Wood, vice-presidents; Wendell M. Strong, secretary, and David G. Alsop, treasurer. D. E. Kilgour, actuary of the North American Life, Toronto, was among those elected members.

The address of President Moir was of outstanding interest, his subject being "Taxation, Especially in Its Bearing on Life Insurance." The first part of his address dealt with the general economic subject of taxation as developed by political economists from Adam Smith to date. It gave the accepted canons of taxation and outlined the best sources of revenue for a nation, showing that the taxation of capital is unthrifty, although that course may properly be followed in times of great emergency. The taxation of necessities and of luxuries was also dealt with, showing that the former is positively harmful, while taxes on the latter may be properly imposed.

Passing from this subject, Mr. Moir referred to the taxation of life insurance, stating that while the questions are not necessarily clear cut and definite, nevertheless there is no doubt that life insurance is an enterprise for mutual good; therefore, it should be fostered by the nation. Moreover, it is more in the nature of a necessity than of a luxury, and it is in no sense income, but rather capital. Accordingly, following the generally accepted canons of justified and proper taxation, life insurance has an excellent plea for exemption.

He went on to show the many forms in which life insurance is taxed; the extent of the excessive taxation of premiums, of profits, of capital, even of excess profits which do not exist in any common sense viewpoint of life insurance. After this taxation during the continuance of the policy contract, there is still another drain when a claim arises, for the policy then becomes subject to inheritance taxes, Federal as well as State. The imposts upon insurance as affecting the public were discussed and explained.

He finished with a plea for the same exemption from taxation that is accorded to fraternal societies granting insurance benefits, and to savings banks, since the scientific life insurance company is a combination of these two sources for the encouragement of thrift.

"The most intelligent writers on taxation," Mr. Moir said, "have all urged exemption of the life insurance as being a tax upon thrift, prudence and frugality. Why should those steps taken to avoid losses and calamities to a nation be made a source of national revenue? It shows lack of intelligence, yet a careful student of the subject, F. L. Hoffman, writing several years ago, said: 'Life insurance companies are more heavily taxed than any other commercial interest, and the rate of taxation is increasing more rapidly than the growth of the business.'

"Not only are the taxes excessive; but the principles on which they are applied violate all the primary rules of just taxation. We have seen how there is lack of equality—how older men pay more than younger—how different states impose varying imposts, how a mutual company is taxed differently from a proprietary, and how there is a discrimination as between participating and non-participating insurance. The indefiniteness of the laws are another source of trouble—litigation has been frequent and more litigation seems inevitable, since it seems impossible for experts to agree on the meaning of many obscure sections.

"There may also be raised an interesting question as to whether the constitutional amendment authorizing an income tax will permit and cover the assessment of such a tax on the proceeds of policies payable to corporations and others.

"Many of the difficulties attending the Federal taxation of life insurance could have been avoided. A committee of

experts in 1918 submitted another plan in lieu of the complex conglomeration now on the statute books. This substitute measure was approved by the Treasury Department, also by the Senate Committee. It was drawn as an emergency measure on simple and scientific lines to provide revenue while the war was still raging, and it would inevitably have granted the revenue desired. But in conference Committee Representative Kitchin showed that he distrusted, or failed to understand the measure, and insisted on his own original plan. Then with grim humor the influenza took a hand in the proceedings, and in the last month or two of the year wiped out any profits which Mr. Kitchin was attempting to tax.

"The total taxes paid by life insurance companies thirty years ago were represented by about 1.42 per cent. of the premium income. This figure has gradually increased to some 2.20 per cent. of the maximum premiums. If the computation were made upon the premiums actually paid by policyholders the rate would be about 2.70 per cent. for 1918, although the effect of the Federal tax laws of 1917 and 1918, had not yet become apparent in the published accounts of the companies. We may therefore say that the cost of insurance would be about 2½ per cent. less each year if the business interests of the people were studied in this question, which is both a national and a local issue.

"We have dealt with the multitudinous and complex forms of life insurance taxation; we have seen how the treatment, both of companies and of individual policyholders, runs counter to the best thought and best systems of taxation as planned for the common good; we have seen also how instead of the appropriation of public funds for building up this 'enterprise for mutual good' the enterprise itself is made to furnish a revenue for general State and Federal purposes; we have seen how there is a discrimination and inequality of taxation as between companies of different character and operating in different states; and lastly we have seen that the determination of the taxes payable is intricate through the ambiguous expressions often used and through the nature of life insurance which differs from that of ordinary commercial business.

"The power to tax is the power to destroy, and life insurance should be fostered, not hindered. We may therefore make a strong plea for some proper consideration being given to this large question, and especially we can claim that life insurance in its protective nature and in its building up of the capital assets of the country should have the same favorable treatment which is accorded to the fraternal orders, where in general pure insurance protection is granted, and the savings banks which, like life insurance companies, give evidence of the thrift of the people and form a means whereby middle class and poor people may accumulate small sums against the time of calamity and stress."

American-Canadian Mortality Experience

Mr. Arthur Hunter, chief actuary of the New York Life, dealt with the results of the American-Canadian mortality investigation which has recently been completed by the Actuarial Society of America, with the co-operation of the American Institute of Actuaries and the National Convention of Insurance Commissioners—an American-Canadian Mortality Investigation. This investigation is based on the experience of life insurance companies of the United States and Canada during the years 1900 to 1915, inclusive, on policies issued from 1843 to 1914, inclusive, the number of policies investigated being about 1,800,000, and the investigation being on the basis of amounts so as to give financial results.

This table was the result of the feeling that the American Experience Table for insurance purposes in this