Mr. LENNARD: Is he prepared to name the clients on whose behalf he appears here today?

Mr. CROLL: We asked him.

The WITNESS: No, I am not prepared to do that.

The CHAIRMAN: Mr. Mercer made a request to appear here and we wired and told him that he could come at his own expense.

Mr. LENNARD: Well, my question was all right and if he does not care to answer it that is all right too.

By Mrs. Fairclough:

Q. Mr. Mercer has made some statements with regard to administrative costs and, rightly or wrongly, I have to take into consideration also, when I am viewing this picture, the transfers to maintain reserves—which are separate from administrative costs. In the year ending March 31st, 1931 the figure was approximately $660,000. In addition to that sum, some transfers have been made every year, not always in the same amount but close to that amount for the past few years. There was, however, in 1938 a transfer of $8,941,000, odd which, over an eight year period would mean an average of another $1,100,000 per year. Then, from 1938 to 1949 it went along with yearly transfers. Some of them were small but in the year ending March 31st, 1949, the transfer to maintain reserves was $11,408,000. which is an average of $1,037,000 for those eleven years. Now, the insurance companies have no funds, as was said here the other day, from which they can draw to build up their reserves. Would you care to comment on the relationship between fund transfers to maintain reserves and straight administrative expense with regard to the cost of annuities?—A. Yes. I will make it perfectly clear that I do not question those reserves at all.

Q. I am not questioning the reserves.—A. The reserves are a result of guesses. We all understand that. That reserve is a book figure; no cheque is issued, and maybe it is not high enough—I do not know; and perhaps the actuary does not know—only the future will tell.

The large figure which you quoted is the actuary's estimate of the bargain that the people got who bought the old annuity contracts on the basis of 4 per cent interest and on the basis of the mortality table which was in existence, I think, up until 1931. I think it was changed in 1931 but I am subject to correction on that, and it was changed again in 1949.

Mr. KNOWLES: In 1948.

The WITNESS: It was a figure, not as the result of interest—I do not think that transfer to reserve has anything to do with interest, only mortality; and it simply means that back in the old days the actuary did not guess how long people were going to live as accurately as subsequent actuaries have.

By Mrs. Fairclough:

Q. How does the insurance company handle the same situation?—A. We are getting down to almost a philosophical discussion. The insurance company must put up money by law to meet its reserves. The government does not have to. Why? Because the government has the taxing power and the government cannot go broke.

If you will follow that argument through you might come to the conclusion that the government has made fantastic profits out of government annuities—because, even at 4 per cent interest the rate of inflation has gone on in excess of that figure, and money has become cheaper faster than the rate of interest has accumulated. The government does not, as insurance companies do, have to invest in bonds. The government invests in equities—that