

MERITS OF DIFFERENT KINDS OF LIFE POLICY

ACTUAL COST OF INSURANCE PRACTICALLY SAME UNDER ALL POLICIES—NEEDS OF THE APPLICANT THE CHIEF CONSIDERATION.

Discussing the relative merits of different kinds of policies, Mr Percy C. H. Papps, actuary of the Mutual Benefit, shows that, so far as this is possible to be done, the policyholder in all cases is given the same return for his money. Mr. Papps says:

"It is interesting to listen to a discussion of the merits of different plans of insurance and to note the widely differing views held by men who have been long connected with the business of life insurance. Some men will advocate nothing but ordinary life policies, while others will favor the limited payment life plans and still others the endowment policies. It is not difficult to imagine a very heated discussion as to the merits and demerits of a ten payment life policy. For example, suppose that we take such a policy issued at age 35 for \$1,000. To avoid any complications such as loading for expenses, surplus interest earnings or saving in mortality, we will assume a net rate, mortality according to the American table and three per cent. interest. The net premium for the policy is \$49.73.

DIFFERENCE IN POINT OF VIEW.

"The opponent states that a ten-year term policy would afford the same amount of insurance for the next ten years at a premium of \$9.42, so that the insured is paying \$40.31 a year for a pure endowment policy for which he will get absolutely no return if he fails to survive ten years. The opponent is taking the view that there is always \$1,000 insurance during the first ten years of a ten payment life policy and that if death occurs at any time during the first ten years, the actual insurance is \$1,000. From this point of view the opponent is quite correct in saying that the ten payment life policyholder is buying a ten year pure endowment policy of \$504.59. If the insured lives the ten years, this \$504.59 gives the single premium required for \$1,000 of paid-up life insurance at the attained age of 45.

"The advocate of the ten payment life plan states that under any level premium plan of life insurance the actual amount of insurance is the difference between the amount that is to be paid in the event of death and the reserve which the company has on hand and which is available toward the payment of the death claim. For example, under the policy in question the reserve at the end of ten years is \$504.59, so that the insurance in the tenth year is \$1,000 less \$504.59 or \$495.41. The advocate of the ten payment life plan contends, therefore, that under this plan the amount of the reserve, built up by the premiums paid by the insured is payable in cash, if the insured surrenders his contract, subject to a small surrender charge in some cases; and if death occurs there is payable in addition the difference between the reserve and \$1,000. He contends, therefore, that there is no forfeiture under a ten payment life policy if death occurs in the first ten years, while the opponent claims that the insured forfeits the entire amounts paid for the pure endowment portion of the policy.

BOTH VIEWS RIGHT.

"Here we have two widely different views of the

same contract. Each man believes he is right and the other wrong. They are both right, but they are looking at the contract in different ways.

"There are doubtless many who would side with the views of the opponent of the ten payment life plan, yet they would stoutly contest the statement that the very same objections apply to an ordinary life policy. For example, at age 35, the ordinary life premium for \$1,000 insurance is \$21.08, the ten year term premium for \$1,000 insurance is \$9.42, and the difference of \$11.66 is the premium for a ten year pure endowment policy of \$146.01, which is the reserve at the end of ten years on the ordinary life policy. Taking the point of view of the opponent of the ten payment life plan, the ordinary life policy is in every respect as objectionable as the ten payment life policy, so far as the principle involved is concerned. The only difference is in the amount of the pure endowment purchased. Taking the point of view of the advocate of the ordinary life plan, it may be said that since the premium is smaller, the reserve also is smaller and consequently the actual amount of insurance is greater under the ordinary life than under the ten payment life plan. The larger reserve built up by the ten payment life policyholder, however, so reduces the actual amount of the insurance that the interest on the reserve is sufficient to render the payment of any further premiums unnecessary.

ACTUAL COST CONFORMS.

"The one point for an agent to bear in mind is that so far as it is possible for the company to do so, the actual cost of a policy on any plan is made to conform to the cost under any other plan; each plan being a mathematical equivalent of any other, the one consideration is, which plan best suits the needs of the applicant.

"For purposes of illustration, it has been shown that a ten payment life policy might be considered as a combination of a ten year term policy and a ten year pure endowment. The period of ten years was taken quite arbitrarily. Any limited payment life policy or whole life policy may be analyzed in a similar manner no matter what the term of years may be."

RE-INVESTING POLICY MONEYS.

A new method of dealing with the problem arising from the fact that the whole of a lump sum secured by an insurance policy is often not required when it becomes payable and is frequently wasted or dissipated owing to inexperience in the use and investment of funds has been devised by a British life office. This office undertakes in respect of each £100 of policy moneys left on deposit to (1) guarantee the capital against depreciation; (2) pay interest thereon half-yearly at an annual rate lower by 15s. per cent. than the gross yield on the funds of the office for the preceding year; (3) return the capital intact on 8 days' notice or on one month's notice if the sum deposited exceeds £1,000. The interest yield would be about 4¼ per cent. In these days, especially, the guarantee against capital depreciation should make the scheme an attractive one.

The National-Ben Franklin Fire of Pittsburgh has been licensed by the Dominion Department to transact automobile business.