

STRAITS OF THE FRATERNAL SOCIETIES.

(By F. H. Hardison, Massachusetts Insurance Commissioner.)

The current year has furnished graphic illustrations of what insurance departments have been preaching for many years, namely, that sooner or later fraternal societies on inadequate rates will be in financial straits. Two societies domiciled in Massachusetts are now seeking to fill up big vacuums in their treasuries by making extra assessments and increasing rates, to the great disturbance of their members, and others have the same operation in prospect. These two are some ten months behind in the payment of claims, that is, a beneficiary has to wait about that period after the death of the member before the claim is paid. Whether all claims will ever be paid is uncertain. Thus is again demonstrated the fact that inadequate rates will be followed by a day of reckoning. It is impossible to draw more out of a barrel than goes in. Obligations incurred in excess of possible income, with no accumulation upon which to draw means bankruptcy. Bankruptcy for a fraternal society means a harvest of bitter disappointment and resentment. It means distrust of other financial institutions, distrust of government which permitted unsound concerns to start, distrust of men and things generally. This feeling is to a degree explainable from the point of view of the person who sees all of his hard-earned savings, which he and his family have sacrificed much to lay by in the form of expected insurance, swept away because of the system that the state has permitted to be operated in an unsound way—unsound because not based on proper legal requirements.

FRATERNAL VS. LIFE COMPANY RATES.

To say that the person should have known better, that he should have studied the subject before investing, that his acts were his own, and if his judgment was poor he must take the consequences is not satisfying, for long ago the Commonwealth undertook the supervision of the transaction of ordinary insurance business and saw to it that such systems and companies were sound and reliable. It was natural that the public, unschooled in technical insurance matters, should not comprehend the difference in the treatment of fraternal organizations by the Legislature from its treatment of regular companies; yet that treatment has been very different.

Compare the strict and definite laws which govern life insurance companies with the laws under which such of our fraternal societies as are now struggling for life had their start. Life insurance companies were placed by law on a sound basis years ago, and that it was sound is evidenced by the fact that no Massachusetts life insurance company organized on the legal reserve plan has ever failed. But fraternal societies, on the other hand, were allowed to operate practically as they pleased, as it seemed impossible to resist the importunities of their members to be let alone. Any small group of men could start one, and adopt such rates as they wished, regardless of what the mortality tables indicated. The result was that many were brought into being and conducted by persons without training in the business of insurance, and in many cases with no business training at all.

That age had anything to do with the cost of life insurance never entered the brains of some of them. What the future would bring forth apparently never had consideration. The idea seemed to be that there was magic in the word "fraternal," not only to hold men together but to supply funds to pay death claims. But that illusion has now vanished as far as the real leaders are concerned, though some of them appear to be still in awe of unschooled members. To learn the lesson, however, required a bitter experience. Many a fraternal has reached a greatly lamented end which could have been avoided had they been required by law either to collect proper rates for whole life insurance or else to offer insurance for a limited period only.

LOSSES NOT DEPENDENT ON LOCATION OF INSURANCE.

It has been found that the Silent Reaper will take about so many out of a thousand persons each year at each age, and it makes not the slightest difference in his programme whether they belong to fraternal societies or old-line companies, or to neither. The fraternal societies, consequently, must provide for the payment of as many claims as the old line companies. As it has no other way of getting the funds they must come from its members just as the funds of an old-line company come from its members. For the young man the actual cost is small, and hence his fraternal rate for current age, coupled with the statement that it will never be higher, is very attractive. Hence thousands become members of such societies. Those who died young had cheap insurance. Those of the living, now old, find the rates a burden, and the disappointed wail of the old man, or perhaps of the person who is carrying the insurance on speculation, is heard on every hand. "They are trying to freeze me out," "they are in league with old-line companies to kill fraternal," are some of the unreasoned notes. They fail to recognize even yet that claims can be paid only by money that comes from the members, and that when each member is required to pay his share the old man's share is much greater than the young man's share. The exhortation has been to "Let the young man do it," which has resulted in a rule in all readjustments of rates to give him an undue share of the burden. But how long will he continue to carry it? When he clearly perceives that he is assessed a larger amount than is necessary to pay for his own insurance in order that his older neighbour, who perhaps is better off than he is, may pay less than his share, as determined by the actual cost of his protection, is it reasonable to suppose that the young man will continue to bear that burden? Will he not conclude that there is no more reason for his paying for the old man's groceries? When he does reach that conclusion, as a rule it means that the old men will be left in the societies which place an undue burden on the young, to carry the insurance of old men. The result will be still higher rates, which if not paid will end in the closing up of such societies as have not seen and heeded the handwriting on the wall.

A Washington judge has just decreed that a man waiting for his dinner, though at his employer's boarding house, is not at that time, in the course of his employment.