I. O. F. vs. WM. McCABE.

A Red Hot Letter from the Supreme Chief Ranger.

Mr. McCabe is Accused of Falsifying the Record.

THE I.O.F. ON A SOLID BASIS.

To the Editor of The Orange Sentinel:

I have carefully read the letter which appeared in *The World* of the 28th December, over the signature of the "well-known insurance expert," William McCabe, of the North American Life. Before, however, taking up the new points raised by Mr. McCabe in this last letter, let me briefly recapitulate what has gone before.

The Insurance Guardian of London, Eng., in reviewing certain criticisms upon the I.O.F., said, among other things:

"We do not see any objection to cheap insurance at the I.O.F. office, that does not apply with at least equal force to those British Offices which have adopted the same principle of cheapening insurance. The Foresters have taken ample precautions to meet, not only what is probable, but also what is merely possible. * * *

"The only point of difference (between the I.O.F. and the Actuaries) is—not the 'actual cost' of assurance but as to the amount of the 'loading' which it is politic to add to such actual cost so as to make up the exact premium payable.

"*The only question really at issue, is as to whether the old offices load too heavily, or the I. O. F. too lightly.*"

The italics above are ours.

On the strength of these utterances of *The Insurance Guardian*, Mr. McCabe felt it to be his duty to publish another attack upon the I.O.F., in *The World* of the 19th of October. Let me summarise briefly the points made by Mr. McCabe in his first letter, and the answers which I made thereto.

1. That Mr. McCabe was a "well-known Insurance Expert."

THE ANSWER.

In my reply I endeavored to show:

(*a*) That Mr. McCabe's claim to be a "well-known Insurance Expert," was not supported by the records of the Institute of Actuaries (Great Britain) which indicated that he had never passed any of the examinations required for "the Class of Fellow."

(*b*) That Mr. McCabe was not entitled to be regarded even as a very ordinary authority on insurance matters, by reason of his record in connection with "The Commercial Endowment Plan" of insurance which he inaugurated in 1883, and which, though pronounced by him to be "legally, mathematically and commercially" sound, yet, inside of three years, he was engaged in the task of quietly burying the "monstrosity."

2. Mr. McCabe said, in referring to the article in *The Insurance Guardian*, that "the man who wrote or inspired the article intended to wilfully mislead his readers, or was utterly ignorant of the subject of Life Insurance, in having the audacity to state that the only difference in the rates between the I.O.F. and those of the regular companies, is in the loading."

THE ANSWER.

I showed that the premium rates of the I.O.F. were based on the estimated cost of risk at age of entry, as laid down in "The Actuaries or Combined Experience Table"—one of the standard mortality tables of the Actuarial world—and then loaded the same so as to provide, ultimately, for a mean death rate of 14.88 per 1,000, which is exactly what is done by the Old Line Companies, the difference being in the loading, just as stated by *The Insurance Guardian*, that of the Old Line Companies being about 75 per cent., while the loading of the I. O. F. was only about half this amount. The matter, therefore, stands just as stated by *The Insurance Guardian*, the real issue between the I.O.F. and the Actuaries being "whether the old offices load too heavily, or the I.O.F. too lightly."

We have over 1,560,000 solid facts for believing that in the rates of the I.O.F. the "actual cost" of assurance is not too lightly loaded, while Mr. McCabe's statement that the North American Life's "cash interest income [for 1895] exceeds the claims under its policies for the year by over $20,000," *if true*, would seem to establish that the "actual cost of assurance has been altogether "too heavily loaded" in that company.

Mr. McCabe's next point is as follows:

3. That "the Superintendent of Insurance had pointed out before the Banking and Commerce Committee at Ottawa in July last, the utter unsoundness of the system of the Order," as well as "the entire inadequacy of the premiums" of the I.O.F.

THE ANSWER.

In reply I stated that I was dealing with those statements, in a paper which was intended to be laid before the Banking and Commerce Committee of the House of Commons at the present session of Parliament, thus giving evidence that it was not my purpose to leave this statement unanswered.

Mr. McCabe's next point, which embraces the essence of the controversy between us is as follows:

4. When asked to show how the I.O.F. rates were inadequate, in other words, to furnish the "proofs" for his statements, Mr. McCabe replied as follows:—"I cannot do it more briefly than by stating that at the average age of the members of this Order (35) *the rate available* "(*sic*)" is only about 40% of the net premiums our Dominion Insurance Department holds to be absolutely necessary to meet the insurance part of the contracts being issued by the Order."

THE ANSWER.

In reply I said the "net premiums" referred to above by Mr. McCabe were intended to, and do apply only to "Old Line Companies" who have *a fixed level premium rate* with no power or authority to call for extra assessments, and that they did not apply at all to "assessment companies." That as the I.O.F. was an assessment company, therefore, the "proof" given by Mr. McCabe was wholly inapplicable to it, and hence the very foundation of his attack was wiped away.

Let me put a parallel case. Suppose I were the owner of one of the clipper tea ships, which sail between England and China, and Mr. McCabe, to serve his own purposes, were to say to the merchants "you are foolish to intrust your merchandise to the Supreme Chief Ranger's ship, because it does not come up to the Government requirements," and when asked to explain his meaning, would reply "the boilers of the Doctor's ship have never been inspected and carries no certificated engineers, as required of ships, by the laws of the land." Would it not be a complete answer to say:

"Mr. McCabe, the provisions to which you refer apply only to steamships, and do not apply to sailing ships, because the law does not require a sailing ship to carry boilers and engineers."

Would not such an answer be regarded as wholly demolishing Mr. McCabe's position?

THE I.O.F. RATES SUFFICIENT.

But I did not content myself with simply showing the absurdity of Mr. McCabe's "proof," but went further, and tried to show that the "available rates" of the I.O.F., owing to the powers of the Order to levy "extra assessments" whenever. and as often as wanted. were. and would always be sufficient to meet all the obligations of the Order.

THE I. O. F. SYSTEM.

I tried to show that the I.O.F. was constructed on the basic principle of giving its insurance to its members at the cost thereof, whatever that may be, the only limitation being that the insurance shall not be given for less than the premium rates laid down in the Constitutions and Laws of the Supreme Court, and which, though Mr. McCabe alleges are 60 per cent. less than they ought to be, have nevertheless proved to be, during the past fourteen and a-half years, more than sufficient to meet all demands in the I.O.F. by *over a million and a-half of dollars*. I cited the experiences of old line companies that were about half a century old, and of societies like the I.O.F., that were from eighty to one hundred or more years old, and showed therefrom that if the I.O.F. had a similar experience, and there was no reason why it should not, then the present monthly rates of the I.O.F. would be sufficient to meet all claims arising in the Order for at least 100 years and more to come.

One would have imagined that Mr. McCabe would have tried to show that the experience of the companies and societies cited were so exceptional, that it could not possibly be repeated by the I.O.F.; but he does not try to do anything of the kind. His one stock argument is that the rates of the I. O. F. do not come up to the "net premiums" required by the Government, of old line "level premium" companies, and that, too, in the face of the fact that, while it existed, the rates of Mr. McCabe's "legally, commercially and mathematically sound" Commercial Endowment Plan of Insurance were not even 20 nor 10 per cent. of such "net premiums."

THE LAST LETTER.

I now come to the consideration of Mr. McCabe's last letter published in *The World* of the 28th of December last. Notwithstanding that in my reply to Mr. McCabe's first letter, I had met fairly and squarely each point raised by him, as shown in the preceding observations, yet he makes this extraordinary statement,

"Your readers will have observed that there is an utter failure of even any attempt to answer the points in issue. On the contrary, the Supreme Chief indulges in a sea of words to draw off attention from this matter."

If I have seemed to any one else, who has read this correspondence, other than Mr. McCabe, to be guilty of evading any points at issue, I should be very much surprised, and will say to him I have not been conscious of even having a desire to avoid any issue that Mr. McCabe has ever raised in connection with the I. O. F., or with myself personally.

IT'S McCABE WHO RUNS AWAY.

On the other hand, it appears from *The World* of the 4th inst., that at least one gentleman who has read this controversy is of opinion that Mr. McCabe is guilty of the very thing of which he accuses me, for he says:

"Surely the above questions are very pertinent to have answered by a gentleman posing as an Insurance expert. Yet, Mr. McCabe rushes off with all convenient speed upon a new tack, crying 'Stop thief,' hoping to divert our attention from his peculiar qualifications as an insurance expert."

The object of Mr. McCabe's last letter is, presumably, to give "additional facts" to prove the inadequacy of the premium rates of the I.O.F., and to that end furnishes 8 specifications which I will answer one by one, though as a matter of fact, with the exception of the first, all the specifications may be said to have nothing to do with the question at issue.

1. Mr. McCabe once more reiterates the story that "the Superintendent of Insurance proved conclusively" (sic.) before the Banking and Commerce Committee in Ottawa, "the entire unsoundness" of the I. O. F. system.

Let it suffice for me to say in reply, that so far from proving "conclusively" any such thing, the jury who heard the arguments, viz.,—the members of the Banking and Commerce Committee, said by their verdict, which was reached by a majority of about two to one, that the I.O.F. was all right, and ought to be given the powers it was asking for in its Bill, then before Parliament.

2. Mr. McCabe charges myself and my colleagues with "supreme incapacity, extravagance and recklessness," in carrying on the work of the Order, especially in connection with the building of the "Forester's Temple" in this city.

THE TEMPLE A GOOD INVESTMENT.

Although I cannot see what this subject has to do with the "adequacy of the rates of the I.O.F.," yet I will say in answer to the charge, that so far as the Temple of the Order is concerned, the Executive are simply doing what they have been specifically instructed to do by the Supreme Court itself—which may be appropriately called the "Parliament of the I.O.F."—that every step taken has been by and with the advice of competent legal authority. As to the security for this investment I have no hesitation in submitting to any three competent valuators to determine which is the better, the mortgage which the I.O.F. has on this property or a number of the investments of the North American Life, which I can name. But whether the security is or is not good that is certainly a matter which wholly concerns the Foresters themselves, and with which Mr. McCabe and the outside public have nothing whatever to do.

SOLID FINANCIAL BASIS OF THE I. O. F.

With regard to the general charge of 'supreme incapacity, extravagance, and recklessness," which Mr. McCabe hurls at the Executive, I may say that it is just 14½ years ago since the alleged "supreme incapacity, extravagance, and recklessness," began to dominate the I.O.F., but in spite of it all, our numbers have multiplied 220 fold. We have disbursed *over three millions of dollars* in benefits to our members and to their beneficiaries. We have planted the banners of the Order in two continents, and although we have been taxing our members, according to Mr. McCabe, 60 per cent. less than we ought to have done, we have, nevertheless, accumulated a "surplus" that on the 1st January, 1896, stood at $1,560,372.46, of which no less than $67,380.26 were added during the last two months of the period, and as some further evidence of our "supreme incapacity," I may add that we received for the month of December alone 3,251 applications for membership, a number which probably equals Mr. McCabe's work for the whole year. I am willing to admit that these results have been accomplished in spite of the Executive, and that the chief credit for these great achievements—for they are great—is due to the solid financial and social basis of the Independent Order of Foresters.

THE I. O. F. "SURPLUS."

3. Mr. McCabe disputes that the I.O.F. has any "surplus" but that, on the contrary, it owes to-day three millions of dollars, and that this liability is increasing at the rate of a million of dollars a year.

What are, however, the real facts. According to Mr. McCabe, we tax our membership for their benefits 60 per cent. less than we ought, but notwithstanding this little drawback we have paid in the past all claims, more promptly than any other insurance company. We have paid claims which were simply moral and not legal claims, and which would never have been entertained by Mr. McCabe and his company. Yet after having paid all this, we have left over from our "40 per cent." premium receipt, considerably more than *a million and a half of dollars* which we call "surplus." We are willing Mr. McCabe should give it any other name he likes. It will not alter the fact that we have that much gold left over from our premiums notwithstanding they are alleged to be only 40 per cent. of what they ought to be.

THE I. O. F. OWES NOT A CENT.

As to the three millions of I.O.F. debt, it is the "boilers and engineers for sailing ships" style of argument again. For if the I.O.F. be an Assessment Society—and not even Mr. McCabe disputes this—then the "Old Line" methods of valuing their policies do not apply to the I.O.F. at all, and the Order is not in debt to the extent of one cent.

4. Mr. McCabe next refers to the amendment of the Insurance Act recently adopted, providing that assessment Insurance Companies doing endowment and annuity business shall not be eligible for registration, and then proceeds to ask a number of foolish questions, which I have appended hereto with my answers to the same.

It is not necessary to say more in reply to this specification than to point out that the I.O.F. is one of the societies which is specially exempt from the provisions of the Insurance Act, and is not affected in any way by the amendment referred to and that it has special authority from the hands of Parliament itself to give the benefits which are promised in its policies.

THE QUESTIONS AND ANSWERS.

(a) Are not all the certificates (policies) of the I.O.F. illegal. Ans. No. On the contrary they are all legal and perfectly good.

(b) Is it true that the benefits promised by the I.O.F. policies cannot be collected by law? Ans. No. It is not true.

(c) Why is this Order permitted to promise benefits which are prohibited by law? Ans. The law to which Mr. McCabe refers does not apply to the I.O.F. The benefits in question are specially authorized in Section 1 (e) of Chapter 4, Statutes of 1889.

(d) Do members understand the waiver they are required to sign on the back of the I.O.F. policies? Ans. Certainly they do.

(e) Why are such waivers required if the certificates are legal? etc., etc. Ans. The waivers do not apply anywhere except in States where the laws prohibit some of the benefits given by the Order, and as a matter of fact, the waiver applies to-day nowhere except in Indiana.

This fact was communicated to the members of the Order in Indiana by "official circular No. 8," dated Toronto, 23rd December, 1892, from which I take the following extract:—

"Officers and members of courts in Indiana are also specially enjoined to take particular pains to explain to all applicants for membership, that, until the laws of the State permit, no special Endowment nor Annuity Benefit can be given to Foresters within the State of Indiana."

MR. McCABE'S SILLY CHALLENGE.

(5 and 6) These specifications relate to an alleged challenge to have the affairs of the I.O.F. submitted to a government examination.

In the first place Mr. McCabe knows well that there could be no such examination because the Government has no authority to cause such an examination to be made. In the second place if there could be such an examination it would have to be made by the Superintendent of Insurance, who, Mr. McCabe alleges has already "conclusively proved" the unsoundness of the I.O.F. plan. Need I say any more as to the character of such a challenge.

But notwithstanding its character, it might well be claimed that the challenge has already been accepted. For in the Bill to be submitted to Parliament at its present session by the I.O.F., it is there provided that the I.O.F. shall make annual returns the same as the Old Line Companies, and that it shall also be subject to government inspection. If Mr. McCabe is sincere in his challenge he will help us to get that part of our Bill through Parliament. We shall see what we shall see.

A BASE INSINUATION.

7. Mr. McCabe's next specification is an insinuation that I had perjured myself when I verified by my oath the returns of the I.O.F. made to the Insurance Department of Ontario, in which it was represented as follows:

"(1). Amount covered by Endowment Contracts in force Dec. 31, 1894, was $1,204,500."

"(2). Amount covered by contracts other than Endowments, or for Sick or Funeral benefits, in force Dec. 31, 1894, was $86,302,000."

After quoting the above items in our Ontario returns Mr. McCabe makes the following observation:

"The fact is, notwithstanding the oath of the Supreme Chief to the above items (1) and (2), that all of the insurance contracts issued by the I.O.F. are Endowments."

The I.O.F. has two kinds of policies. The one provides that the whole of the insurance should be paid to the member himself on his reaching his expectation of life. This kind of policy, in our returns to Insurance Departments, we place under "Endowment Contracts."

The other kind of policy does not provide for the payment of the whole sum assured on reaching the Expectation of Life period, but it provides for the payment of the sum assured in ten equal annual instalments, as an old age disability benefit, beginning with the 70th birthday, or the whole amount at prior death. This latter kind of policy, whenever a distinction is made by the questions in the Government Forms sent to us to fill, we always return as "other than Endowment Contracts," for the purpose of calling special attention to the fact that we had two kinds of policies. No Commissioner or Superintendent of Insurance has ever found any fault with such classification, on the contrary, the distinguished Superintendent of Insurance of New York, when admitting us, ruled that the benefits given by us on such policies were not "endowment benefits," but "old age disability benefits." Then, too, we always file copies of our Constitutions and Laws, Policies and other Forms, thus disclosing the exact nature and kind of benefits given by us.

The perjury charge, therefore, which Mr. McCabe insinuates against myself is wholly baseless, as also are his statements that

"The Chief has apparently succeeded in misleading the State and Government Insurance authorities on this point, thus escaping making provisions to meet such contracts."

LYING UNDER A MISTAKE.

In a word, when Mr. McCabe made the above statement he was simply *lying*, as he very frequently does, *under a grave mistake* and he wantonly insulted the intelligence of the Commissioners and Superintendents of Insurance concerned.

I know that the able head of our Insurance Department in Ontario understands exactly what we meant in our returns when we said we had in force in 1894, $1,204,500 in "Endowment contracts," and we had $86,302,000 in force other than the "endowment contracts" above referred to, and as the I.O.F. has always found Dr. Hunter to be perfectly fair and just in his dealings with us, I have no doubt if asked, he would without hesitation say that he has always found the officers of the I.O.F. to be frank, open and straightforward in their dealings with his department, and always willing to give any information he desired, and that they have in no way attempted, nor as a matter of fact have they misled him in any particular.

With regard to the differences in the figures of the New York returns and those of Ontario, the explanation is a simple one. The New York returns were intrusted to a clerk who made them out from the Treasurer's books, as those books stood on the 31st day of Dec., 1894. The returns for Ontario were made out by the bookkeeper who has usually made them out from the books of the Supreme Secretary as they stood on the same date. In the past, while the books of the Supreme Treasurer were kept in London, there were always more or less differences in the two sets of books at the close of each year, dependent on the amount of the receipts and disbursements which were entered in the Secretary's books and then sent to the Treasurer on the last day of the year, and which would not get into the Treasurer's books till the 1st or 2nd of January following. The differences in the two reports were due to the foregoing facts. I am free to confess if my attention had been called to the matter at the time, I certainly would have had all the returns made from the Secretary's books. It is noteworthy that Mr. McCabe refers only to the difference in the "total expenses of management" and does not point out the fact that the "total receipts" in the New York report were also different from that in the Ontario report by nearly the same sum as in the item of "management expenses." and that as a matter of fact the liabilities in the two reports are the same and the reported assets differ by only $1,300.

McCABE'S CHARGE OF FALSEHOOD.

8. Mr. McCabe next charges me with falsehood in that I stated under oath in the last report made to the Ontario Insurance Department that the total management expenses of the I.O.F. in 1894 was $184,186.33, and that the total receipts of the I.O.F. for the same period were $1,023,387.36, hence the management expenses were nearly 18 per cent. of the total cash receipts, whereas I had printed and had laid before the Banking and Commerce Committee of the House of Commons, a statement showing that these expenses were only five per cent. of the cash premiums.

Let me reproduce so much of the printed statements which was laid before the Banking and Commerce Committee by me, as bear directly upon the above most serious charge. It is as follows:—

"TABLE 8.

Name of Company.	Year.	Premium Income.	Amount of Premium Income used for Management Expenses and Dividends to Stockholders.		Percentage of Premium Income used for Management Expenses.
North American Life (commenced business in 1881)............	1889	$256,437	$ 90,446		35
	1890	304,062	95,256		31
	1891	330,027	101,569		31
	1892	368,022	116,041		32
	1893	398,379	126,944		28
	1894	459,849	135,130		29
Totals and averages............		$2,116,796	$665,386		31
The Independent Order of Foresters (commenced business in 1874)............				*Total Expens.	
	1889	$191,957	$ 9,597	$33,287	5
	1890	284,334	14,116	47,860	5
	1891	399,585	19,979	49,285	5
	1892	530,116	26,505	55,602	5
	1893	696,152	34,807	110,267	5
	1894	885,753	44,287	133,157	5
Totals and averages............		$2,987,897	$149,291	$429,458	5"

Look at the headings of the columns in table No. 8 and read this one.

"*Amount of premium income used for management expenses, and dividends to stockholders.*"

Then look down the column to the figures of the I.O.F. and you will find 2 sets of figures. Those to the left represent five per cent. of the premiums of the I.O.F. which were used towards management expenses. No other figures were really necessary for the purposes of the table, but to insure against any misconception, the figures to the right headed with the words "total expenses" were placed there in order to make it impossible for any honest person to misunderstand the meaning of the writer that the "5 per cent." did not constitute the whole of the management expenses of the I.O.F. But this is not all. Read the following comments which appeared on the same page of the pamphlet, and directly under Table No. 8.

"It also appears, from the above exhibit, that the Superintendent of Insurance was amply justified when, in 1889, he said:

'The rates of the Society [I.O.F.] are acknowledged to be very much less than the rates required by the Government standard, due allowance being made for the expense element, **which is certainly, in the Foresters, reduced to a minimum.**'

The Superintendent, I understand, is now of opinion that the Independent Order of Foresters is no longer entitled to the certificate for economical management he gave it in 1889. Let us see upon what grounds he has seen fit to withdraw such certificate. At the time he gave us the certificate, viz., in 1889, we expended in management expenses $17.34 to each $100 of premiums received, as against an average of $28.34 spent by the old line companies, named in Table No. 8, notwithstanding that the premiums of the I.O.F. were only about one-half as large as those of the old line companies. In 1894 we expended for the same purpose **$15.03 to each $100 of premium income received, thus making a reduction in our expenditures of $1.31 in every hundred dollars of premium income.**"

FALSIFYING THE RECORD.

Can there be any possible doubt, from the above extracts that Mr. McCabe had absolutely no ground whatsoever for charging me with falsehood. Will any one deny that the substance of what I printed and laid before the Banking and Commerce Committee was this:

We use only 5 per cent. of our premium receipts towards management expenses, while the North American Life uses an average of 31 per cent. It is due, however, that I should explain that the 5 per cent. does not cover the whole of our management expenses, for that is equal to 15.03 per cent. of our premium receipts.

It only remains for me to say that the difference between the $133,157 given by me in the table No. 8 as being the total management expenses of the I.O.F., and the $184,486,33 given in the Ontario report is due to the fact that the latter contains the expenditures for the supplies or stock in trade of the Supreme Court, and which is sold by it at a profit. We think this item ought not to be included in "management expenses" any more than the cost of the stock in trade purchased by a merchant, should be included in estimating the running expenses of his business.

If in the foregoing I have correctly represented what I did say, and the reader can judge for himself, then it follows that when Mr. McCabe accused me of saying that the total management expenses of the I.O.F. were only "5 per cent. on the cash premium receipts," he simply falsified the record. And for what purpose? So that he might accuse me of falsehood in connection with this subject. I am happy to say that in all my experience I have never before met an opponent who would stoop so low to gain a point.

Under these circumstances I must decline in the future to waste any more of my time upon Mr. McCabe unless his utterances are endorsed or confirmed by a gentleman who can be trusted, at least, to quote records truthfully.

Yours truly,
ORONHYATEKHA.

Toronto, 9th Jan., 1896.