Insurance may be granted under what is known as a yearly renewable term policy. Under such, the insurance is granted from year to year at a constantly increasing premium; each premium being just sufficient to cover the cost of the insurance during the twelve months following the payment of the premium. The premium will be comparatively small when the insurance is first effected, but it will increase each year, so that, if the life lives to old age, the premiums will eventually become prohibitory.

A more popular plan is what is known as the whole life policy. Under this plan, premiums are payable each year, during the life of the insured, and the insurance becomes payable upon his death. The premiums in this case are level premiums, that is they do not increase or decrease, During the early policy years the premiums paid are more than sufficient to pay for the cost of carrying the risk, and the balance is each year set aside and forms what is known as the " reserve."

There are several ways of looking at the question of what this reserve is. For our present purpose I would ask you to consider that, when the first premium is paid, a portion of that premium is set aside towards reserve, so that the amount at risk the first year is the difference between the amount of the insurance and the reserve. When the second premium is payable the reserve is increased, and consequently the amount at risk is diminished. In this way, although the cost of providing a certain amount of insurance increases as the life gets older, the otherwise steadily increasing cost is kept down, owing to the fact that the increasing reserve reduces the amount at risk. This reserve, under a whole life policy, increases with the age of the policy, finally, if the life lives to the oldest age shown by the mortality table, the reserve equals the amount of the policy.

The reserve varies greatly according to the plan of the policy. A one-year term policy provides insurance for the year only, and there is consequently no reserve. The reserve on a five-year term policy only amounts to a few cents per thousand insurance the first year, increases to a maximum at the third year, and vanishes at the end of the fifth year. On the other hand, the reserve on a ten-year endowment insurance, increases each year and amounts to the full face of the policy at the end of the ten years.

This short account of what is meant by the reserve on a life insurance policy will enable us to understand, that the amount which a life company has at risk under any policy is not the face value of that policy, but the difference between the face value of the policy and the reserve on it; and, since the reserve depends upon the plan of the insurance, the amount at risk does also.