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ONLY TWO WAYS

ONLY TWO WAYS.

The fact cannot be too clearly expressed or too often reiterated that there are only two ways by which any company can put itself in a position to give permanent insurance. It may either charge a sufficient level premium, to provide a sufficient reserve and cover such contingencies as are incident to the business of life insurance, or it may charge a premium rate sufficient for each risk to cover the chances of death in each year and any other expenses from year to year.

These two methods, and these two alone, are all that have ever been devised to afford permanent safety to any company or society granting life insurance.

They may, of course, be modified variously to attract insurers, or to suit their convenience, but the principle always holds that where a level premium is taken it must be large enough to provide a reserve which will produce interest sufficient to pay for the risk which is not covered by reserve or current premiums from year to year to the ultimate limit of life.

The principle to be observed in all forms of permanent insurance that do not provide a reserve, which, according to theory, will ultimately equal the face of the policy, if the insured survives and keeps his policy in force and does, in practice, steadily advance towards that end on a thoroughly scientific basis, must be to make each insurer pay a steadily increasing premium, at either longer or shorter periods, and sufficient at all times to cover the full risk on his own life.

On the first mentioned of these plans a reserve must be maintained, on which a rate of interest is anticipated which is so low as to be, humanly speaking, safe to be realized throughout the continuance of the contract. This system is safe to the company, and when properly administered, absolutely safe and fair to the insured, and, at the same time, certain to give much greater satisfaction in the long run.

Nobody will seriously dispute the proposition that equity must be preserved as far as possible between insurers if satisfaction is to be given. To secure and maintain equity between insurers, rates of premium must be so adjusted that each individual insurer, while he lives and keeps his insurance in force, must pay the full value of his own risk. This is secured at first and always under the level premium plan, if the rates charged are sufficient. Under what are called natural premium plans it is only secured by charging enough to start with to cover the ascertained value of present risk, and advancing the cost to each insurer when and as often as it is necessary to do so to secure from each insurer payment in full for all the risk covered on his own life, and also his full share of expenses of management.

Failing to require each insurer to pay fully for his own protection on an equitable basis, in order that funds may be in hand to meet claims, it is absolutely necessary that some other insurer must pay more than he should for the protection he is getting, and to adopt any method which does not preserve the equities amongst the various lives is to introduce an evil which will increase in magnitude as time goes on and business increases in age and magnitude.

Let us illustrate what we mean by referring to the methods followed by some societies, of grading their rates of assessments at the issue of their contracts on a basis that is fairly equitable for the first year or two, or three years at most, and then the inequity between members begins to increase, greatly to the advantage of the older members. Take the rates of the I.O.F. for instance, which claims to be the best of all organizations of its kind, and certainly has been very much more successful than any other Canadian institution in attracting attention, and we find that its rates run as follows, and are supposed to be level rates of assessment, for the constitution, to which we now refer, contains the following statement, along with the rates which we quote :—

"The monthly rates of assessment which every beneficiary member in the 'ordinary class' shall pay, according to his age at the date of his enrolment, shall be as follows :—

Age.	$1,000	$2,000	$3,000
18	$0 60	$1 20	$1 80
25	67	1 34	2 01
30	72	1 44	2 16
35	78	1 56	2 34
40	88	1 76	2 64
45	1 02	2 04	3 06
49	1 35	2 70	4 05

and shall pay the same rate of assessment thereafter so long as he remains continuously in good standing in the order, etc."

Now, multiplying the monthly rate by twelve gives annual rate per $1,000 of insurance at date of issue, and in future to be as follows, or at least the relative cost to members is as follows :—

Age.	Per $1,000	Natural Premium for a single year, H.M. 4½%, standard tables.
25	$ 8 04	$ 7 77
30	8 64	8 42
35	9 36	9 28
40	10 56	10 36
45	12 24	12 21
49	16 20	15 06
55	....	21 66
60	....	30 33
65	....	44 08
70	....	64 93
75	....	95 56
80	....	140 40

We have placed for ready reference the natural cost of insurance for a single year, increasing every year, as shown by our standard tables, according to which our regular companies are compelled to put by their reserves by law, alongside of the annual rates at which the I.O.F. proposes to carry on its business for ages at five year periods.

Now the proposal is to carry insurance on the life of a man aged 25 for $8.04 per annum, until he reaches 70 years of age, at which time old age benefits begin and assessments cease. Forty-five payments of $8.04, making in all $360.20, entitle a man to forty-five years protection for $1,000, and an annuity of $100 a year for ten years. Beginning at forty-nine, a man who became a member while the above rates were in force, which was until recently, will be entitled to twenty-one years' insurance at $16.20 a year, or $340.20 in all, and $100 a year for ten years thereafter.

We shall not attempt just now to ascertain by what means it is going to be possible to accomplish the splendid results that are predicted, but shall confine ourselves to our original purpose of showing how soon inequities creep in as the age of the members increases.

Suppose two men to have joined the society ten years ago, the one aged 25 and the other 49. In the interval, for we understand that no extra assessments have ever been levied, the man aged 25 will have paid $80.40 for his ten years' insurance, and will be paying annually $8.04 for what the tables say is worth $9.28, the natural premium at age 35, and the other man will have paid $162.00 for his ten years' insurance, and will still be paying $16.20 for insurance which the tables say is worth $28.24 for a single year at the increased age. Not only is he now paying $12.04 less for a single years' insurance than should be provided, were the legal standard adhered to, but he has paid less for each of the past eight years than he should have paid to provide for current insurance only, to say nothing of the old age benefits which begin at the end of eleven more years. The younger man is paying $1.24 less than his equity per $1,000 for insurance alone and he is years away from his old age benefits, and the older man is already paying $12.04 less for a single year than his equity for protection alone, without making any provision for the old age benefits which are soon to come. We ask is there any equitable relation between these two cases?

If there is not an equitable relation between these two cases, can our readers conceive of there being a strictly equitable relation between any two cases where the age at entry or year of entrance to the society differs?

Let us suppose another ten years to have elapsed without the necessity for extra assessments and we find the younger of our two men is still paying $8.04 per annum for his risk, while, according to the tables, he should pay for a single year's insurance at his then age $10.36, or $2.32 more than he is paying. In fact, he is paying for a mortality amounting only to 70 per cent. of the expectation, and, with the experience of the past, he may still be paying enough to cover his own risk, if lives have been carefully selected, but the small amount of his over payments must now soon become rapidly extinguished, for the value of his risk runs up rapidly and his payment is very small.

Take the other man, however, and it will be found that, while he is only called upon to pay $16.20 a year, and is within one year of discontinuing his payments and reaping his reward for perseverance, the tables show that for insurance alone he should be paying in his last year $60.08. He is, therefore, paying only about 27°/₀ of the expected cost of his insurance, and certainly less than half its value under the most favorable rate of mortality ever experienced by any company for a considerable length of time.

The man who started at forty-nine has evidently had his current protection for twenty years largely at the expense of others, and, if the contract is carried out, must shortly begin to draw an annuity towards the production of which he has not contributed a single cent.

This case is but a typical case, and there must be many thousands of cases approximating it in their injustice to the younger members. Truly this assessment endowment annuity or old age benefit feature, which returns to the older members what they have never paid for, and depends on assessing younger members, or at least the members who have not reached the age to receive benefits, must prove rather severe on those who are not within easy reach of the retiring age.

The society is comparatively young, and as most of its lives have been recently selected, it is not surprising that even at the low rates which have been charged it has been able to save a considerable sum, but the death rate must increase in this society as it always has increased in the course of time in every company and society, and what is now called surplus will be found to be something which has deceived very many of the members who understood that it would prove all sufficient to meet contracts maturing as old age benefits.

Even should the rates being charged prove sufficient to carry insurance without increase for many years, as is contemplated under the new arrangement, which does away with any old age benefits under new contracts, there must be many thousands of contracts now in existence calling for hundreds of millions of dollars of such benefits during the next twenty or thirty years, and faith must be broken with the brethren, or somebody must pay up handsomely when those who get these benefits cease to contribute to the funds and begin to draw out their annual allowances.

According to our latest information there are 88,024 members and $1,640,604.38 of surplus funds without any recognized liability, for all funds are called surplus funds. That is, there is an average of $18.64 per capita of the membership, or, in all, sufficient to pay old age benefits for ten years to 1,640. Old age benefits have already begun to be paid, and if the members retain their faith and persevere in their allegiance to the society the number of those entitled to receive them must increase very rapidly within a few years.

We have already pointed out that our man, whom we started at age 49, has been not only not contributing anything towards paying the benefits he is to receive, but has been paying entirely insufficient to cover his fair share of the current cost of insurance to members of his own age. Who, then, is providing for the payment of the old age benefits?

This question of old age benefits is, however, aside from the one question which it was our intention to discuss in this article, and we leave the further discussion of this attachment to the natural, or so-called natural, premium system of the I.O.F. until a later issue, and come back to the statement that any system of life insurance that does not require that each member shall pay for his full risk according to age while he lives and remains insured is entirely unworthy of confidence and must ultimately prove unsatisfactory. Indeed, whether any system, other than that which provides against the necessity for advancing premiums, can be permanently satisfactory is a question; for most men are certain not to be willing to give up their insurance when old, on account of the heavy premiums which must be paid on plans, whether scientific or otherwise, which only pretend to provide for current risk at current cost, and most men are unable to pay heavy premiums in old age.

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