Forehanded Man Believes Life Insurance Valuable

(Will Payne in Saturday Evening Post.)

For any man who has a family and not a fortune, by far the most important of all investments is life insurance. For a young man who has no family it is a good investment too; for he can, so to speak, invest his youth and health in it, and later on he may have dependents when youth and health are gone.

No insurable man, with wife and children who would be deprived of their support by his death, can afford to go without life insurance for a day; in fact I believe it would be a good thing to make life insurance compulsory for married men without fortune.

Eugenics proposes that a doctor's certificate of sound health shall be a condition precedent to the issuance of a marriage license. I would make the prospective bridegroom show his life-insurance policy too. If it is to parents have the interest of society, that only healthy parents have children it is equally to the interest of society that some provision be made for the child's support in case the father dies.

There is still a good deal of silly prejudice against life insurance among young, sentimental and inexperienced women. They call it taking blood money for a husband's death. That is nonsense. If every wife felt that way and every husband were guided by a wife's feeling, there could be no life insurance, and thousands of women and children who are now somewhat provided for would be plunged into beggary.

Life insurance is really the simplest and surest thing in the world. That it is not universally so understood is largely due to past sins of the life-insurance companies themselves. In the palmy days before the Hyde explosion, when the big companies were striving to accumulate the greatest possible mass of assets, life-insurance agents seldom clearly explained the business.

Intead of talking straight life insurance they talked endowments, annulities and various other investment frills. They boasted of their company's big dividends; insisted that the insured in their company did not have to die in order to win, and in general strove to create an impression that a life-insurance company might be a sort of magic cornucopia out of which the policy-holders could take more money than they put in.

As practically all life insurance is mutual—whether the company be nominally mutual or one with capital stock—the policyholders cannot possibly take out more than they put in, plus accumulated interest at about four per cent; and in any form of straight life insurance you do have to die in order to win.

A Simple Illustration.

Turn, for example, to the vital statistics of Massachusetts. You will find that for years the annual death rate per thousand has never been less than fifteen or more than seventeen. Suppose the state undertook to pay one hundred dollars on every death. There would be nothing uncertain about its calculations. It would say:

"Not less than fifteen or more than seventeen people out of every thousand will die this year. To be on the safe side we must provide for the higher number, which will entail an expenditure of seventeen hundred dollars for each thousand inhabitants. So we will levy a tax of one dollar and seventy cents on each inhabitant, and that will provide a fund sufficient to pay one hundred dollars on every death."

It is astonishing how evenly death falls on people under modern conditions when great plagues are unknown. In any large, populous area just about the same number in a thousand die each year. In all civilized countries, it is true, the death rate tends to fall, but the decline is gradual; and it would be perfectly practicable to insure en masse the population of any state or civilized country. The amount of death benefits to be paid could be figured out with substantial accuracy years in advance.

There is a great difference, however, in the death rate at different ages. Taking the whole registration area of the United States—that is, the area comprised in those states which keep vital statistics—nearly one-fifth of all the deaths are of infants under one year of age. More than twenty-score out of every hundred deaths are of children under five years of age; but children from five to nine years of age account for little more than two out of every hundred deaths.

The life-insurance actuaries have been studying those vital statistics for a century and checking up by the experience of the companies. Thus they have constructed mortality tables that show with substantial accuracy the greatest number of persons out of every thousand of a given age and living under ordinary conditions that will die in a year.

Of any three policyholders of the same age and in good health on January first one or two may die and one survive; or all three may die; or none may die. Of any ten policyholders of the same age one may die during the year; or nine may die; or death may take all ten, or none. But out of ten thousand policyholders of the same age the number that will die during the year may be accurately foretold.

The Arithmetic of Insurance.

Suppose now a hundred thousand men twenty-one years old should get together on January first and agree to pay one thousand dollars to the heirs of each of them who died during the year. Turning to the mortality table they would find that seven hundred and eighty-five was the largest number that would die in a year; so they must provide that number of benefits—or seven hundred and eighty-five thousand dollars in all. Each of them contributes seven dollars and eighty-five cents, thereby making up a fund that will surely pay all the death claims accruing during the year. There is no guesswork or uncertainty, about it.

Suppose they wish to continue the arrangement another year. The death rate will be a trifle higher that second year, because they are older. At the same time there will be fewer of them to contribute to the fund, because of the number that died the first year. Consequently each one will have to contribute a little more the second year than in the first.

So in each succeeding year, as the death rate mounts and the number of survivors declines, the yearly contribution rises higher and hibher until finally there would be a solitary survivor ninety-odd years old, who would dutifully pay one thousand dollars into the fund at the beginning of the year, which sum his heirs would receive when tardy Nature finally removed him.

Nobody likes an arrangement under which he pays more and more every year. So the actuaries equate the payments the average life would make and spread them evenly year by year. Thus—allowing interest at the rate of three per cent, which is disregarded in the preceding paragraphs—a man aged twenty-one is entitled to a thousand dollars insurance for that year on contributing seven dollars and sixty-two cents to the fund; but twenty years later, when he is forty-one, he must contribute nine dollars and seventy-one cents—in another ten years fourteen dollars and eleven cents—in another decade twenty-eight dollars and three cents.

However if at twenty-one he begins by paying fourteen dollars and seventy-two cents he may continue paying that same sum—neither more nor less—every year. At first, so to speak he pays too much; but as he gets older he pays too little, and the accumulated over payments of his early years make up the deficits of his older years.

I have taken the figures of the American Experience Table of Mortality, which is commonly used by life-insurance companies, and have disregarded expenses and fractions. There are other tables yielding somewhat different premiums; but the main point is that insuring lives is perfectly simple and certain, because out of a large number of people the proportion that will die in any given year can be foretold with substantial accuracy; and to tell how much each one should contribute in order to meet the death claims that will accrue in any year or in any number of years is a mere matter of arithmetic.

The life-insurance company is merely the custodian of the fund its policyholders make up in order to pay one another's death claims. These contributions to the fund are called premiums.

As a matter of fact all conservatively managed companies base their premiums on a death rate considerably higher than the actual one. They want to be on the safe side. Also they add to the premium a certain "loading" to cover expenses; and this loading is rather more than expenses actually come to.

In short they collect from their policyholders every year more than is really necessary to meet the death claims and pay expenses. And the next year they hand back this overcharge, together with interest, in a rebate that is miscalled a dividend. This rebate has, in fact, no resemblance to a real dividend, but is merely an overcharge, collected in order to keep on the safe side which is handed back when the year's business has shown that it was not needed.

This is straight life insurance, to which, however, a great many investment features may be added. Our hundred thousand young men, referred to above, find that seven dollars and eighty-five cents—or seven dollars and sixty-two cents if interest at three per cent be allowed—will create a fund sufficient to pay one thousand dollars to the heirs of each of them who dies during the year. "But," they say, "we want something left over at the end of the year."

So each of them pays in two dollars more, and at the end of the year, besides meeting all death claims, they have a fund of two hundred and six thousand dollars, supposing the bank in which the fund is deposited allows them three per cent interest.

In the same way the life-insurance company finds out from its mortality tables how much you must pay in order to carry straight insurance on your life. Then, if you want the company to pay you a thousand dollars in cash at the end of twenty years—or any other sum at the end of any other period—it will figure out how much, in addition to the straight life premium, you must pay in order to create the amount you want to receive in the specified time.

If You Only Knew—

Or, if you want to stop paying premiums at the end of ten or twenty years, the company can easily calculate how much more you must pay each year in order to accumulate in ten or twenty payments a sum equal to what you would have paid in if you had continued paying every year during your expectancy of life.

All these things are simply investment features added to straight life insurance; and straight life insurance is nothing more or less than a mutual agreement among the policyholders to contribute in just proportions, as established by mortuary statistics, to a fund that will surely meet the various death claims accruing against it.

Assessment insurance is exactly the same sort of mutual agreement in a crude form. As we have seen above, if our hundred thousand young men adopted assessment insurance, and admitted no young newcomers to their ranks, their payments would steadily increase year by year, until finally one hoary survivor paid in the whole amount of his policy.

Generally speaking it may be said that assessment insurance is good for the time being, and a man who cannot meet the higher payments of old-line insurance should certainly take assessment insurance; but the insurance that is based squarely on the experience of mortality and which does not depend on the taking in of young members is best.

You may insure today and die tomorrow, in which case the company will pay you a great deal more than it received from you—or you may insure today, at the age of twenty-one, and live to be ninety-five, in which case you will have paid the company more than it pays your beneficiary; but it is absolutely immaterial to the company whether you die the day after you insure or live to be ninety-five, because out of all its policyholders only a certain number will die in a given year and only a certain number will live to be ninety-five. It gets the average.

If, beginning at twenty-one—or any other age—you reach just the average length of life you will have paid in as much as your beneficiary receives—interest considered. If you knew you were going to reach just the average length of life you would be as well off to put your premiums in a savings bank; but you do not know. Hence the necessity of life insurance.

RICH MEN TAKE BIG INSURANCE POLICIES

The Shrewdest and Ablest of the Big Financiers.

The late Joseph T. Carew, head of the Mabley & Carew company of Cincinnati, left an estate of the considerably more than one million dollars. A part of this estate, disposed of in Mr. Carew's will, consisted of eleven policies in the Mutual Life of New York. The oldest of these policies was taken out in 1884, thirty-two years ago, and the last was taken in 1904, the total insurance in force at the time of his death being $222,000.

The popular supposition is that men of wealth do not need life insurance; yet many of the shrewdest of our great financiers and successful business men find it to their advantage to carry insurance in large amounts. They may not need life insurance in the ordinary sense, as in the case of the average man who, but for his life insurance, would probably leave no provision at all for his dependents; but men of large means nevertheless know the importance of corresponding amount of ready funds for the protection of their estates at the time of their death. If rich men died only when their affairs were in the most prosperous condition, and when general financial conditions were favorable, so that property and securities could be disposed of to good advantage in the settlement of the estate, a large amount of ready funds would not be so essential. But death often comes just when conditions are the reverse of this, when ready money cannot be had save at a tremendous sacrifice of securities, real estate, or other property. The man of wealth is usually interested in many enterprises and projects which are in an uncompleted state at the time of his death. Undertakings which could have been handled and brought to a successful issue had he lived may end in great loss in the event of his untimely death. It is then that large amounts of ready money are needed to save the estate from disaster.

There is another point for the man of wealth to consider. Rich and prosperous today, his family would be amply provided for in case of his death; but no man can say what his condition may be a few years hence. It is no burden upon the rich man to make certain provisions against the contingency of his death when reverses have come. This certain provision he may make from his present abundance by paying the premium on a goodly amount of life insurance. The insurance will likewise be a provision for his own old age, should fortune desert him in his declining years. If, on the other hand, prosperity attends him through all his days, as in Mr. Carew's case, it is probable that no part of his estate will show a better return than his investment in life insurance.—Educator Monthly.

Leaves Sure Estate.

Loewenherz, Columbus, Ga., insured for $35,000. "I consider policies issued by first class old-line companies the only safe and absolutely sure estate a man may leave to his family after death. A man using all of his capital in his business, it is due to his family to provide sufficient life insurance to protect them from want. Many business concerns wound up after death leave the widow and children penniless. I consider policies held in first class old-line companies, in addition to the insurance feature, firstclass paying investments. Matured policies held by me have so proved themselves. Every man should carry some insurance."—The Spectator.

Some men say they will be governed by your advice—but you know what King David said all men were.