SOME PRACTICAL HINTS ON LIFE ASSURANCE.

OUR object in this paper is to place before our readers a few simple rules for guidance in the selection of a Life Assurance Office, and, while doing so, to endeavour to explain the relative advantages of the various methods upon which assurances can be effected. But before commencing this, let us fully understand the principles upon which the business of the societies is conducted.

If a number of persons, all of the same age and in the same condition of health (that is to say, with the same expectation of life), were to club together to provide a fund for the payment of a given sum at the death of each, it is evident that each would have to make the same periodical contributions to the fund, those contributions being just sufficient at compound interest to amount to the sum required at the end of the expectation of life, whatever that might be.* Some of the members of this club would, it is true, live longer than the time calculated upon, others would, perhaps, live about that time, while some would die early. But if the number of members was sufficiently large to provide a fair average if no severe epidemic occurred, and if the calculation of expectation of life turned out to be correct, it would follow that the amount of the contributions would be just sufficient to pay all the sums arranged for. Those blessed with long life would by their extra payments have contributed to the welfare of the families of those who had died early, the result being an equitable one, as the possibility of either event to any member was uncertain at the commencement of the club. But as the ages of the members would vary—it being impossible to gather together a sufficient number of the same age—it would be necessary, to put all upon an equal footing, that the amount of the contributions should vary according to the health of each member, and the number of years he might be expected to live and contribute to the fund.

Having proceeded thus far, let us now consider what is the practice of the Assuring Societies. It here becomes evident that there must be added to the contributions required to make up the amount payable at death, a sum sufficient to provide for the working expenses of the society (such as management, expenses of obtaining assurers, investing the funds, the employment of actuaries, and a staff to make the calculations necessary from time to time). Provision must also be made for the various contingencies likely to affect life; and in the case of Proprietary Companies there must also be added a sum to remunerate the shareholders for their risk and the guarantee of their capital. The amount added for these purposes to the necessary contribution is technically known as the "loading," and the two together make up the "premium" charged.

The profits which are divided from time to time among assurers or policy-holders, under the name of "Bonus," are chiefly derived from three sources:—First, from any excess of loading beyond the actual expenditure in the conduct of the business; secondly, from any excess of the interest earned by the invested funds of the society beyond the rate assumed as obtainable in the calculations on which the premiums are based; thirdly, from the selection of healthy assurers, likely to live longer than the expected duration of life at their ages; and fourthly, from profits derived from non-participating and short term assurances. It will be seen from the first of these sources alone how important it is to the assured that the affairs of the society he may select are conducted with the strictest economy.

It may be of interest here to mention that it has been found by experience that a policy-holder in a good and sound Assurance Office, living his expectation of life, would make from about 3 to 3½ per cent. compound interest on his money—that is to say, the amount of his policy and its accrued bonuses would be about equal to the amount of his yearly payments put away at per 3 cent. compound interest. It is obvious, too, that if he died before attaining his expectation his family would derive greater advantage than if he had invested the amount of his premiums in any other manner.

We now have to consider the necessary steps to be taken by a person proposing to assure his or her life; the first being the choice of the office, and this will be influenced by many questions, all needing careful consideration.

First, Shall the office be a Proprietary or a Mutual one? In a Proprietary Company the assured has the guarantee of the capital and liability of the shareholders, and, to a certain extent, can be sure that the expenditure will be carefully watched by them. It must not be forgotten, however, that all this must be paid for by way of shareholders' interest on capital and proportion of profits—this last, however, being generally comparatively small, as the greater portion of profits is commonly divided among the policy-holders. On the other hand, the expenses of a Mutual Society (and consequently the rates of premium) should

* Various tables of the average expectation of life have been compiled, those best known being the "Northampton" and "Carlisle" (both based upon the experience in those districts), the "Government" (based upon the ascertained duration of lives of Government Annuitants), and the "Experience," from the actual experience of seventeen Assurance Societies.

be lower than those of a Proprietary Company, there being no payments to make to shareholders; and every assurer having a vote at the meetings, and therefore a voice in the management, it is in his power to interfere should a lavish or less careful scale of expenditure be inaugurated. It would therefore appear that while in a recently established office the guarantee of a large and wealthy body of shareholders is of great moment to the assured, in the case of old and well-established offices his decision would much depend upon personal feeling in the matter.

Next comes the question of the soundness of the office—that is, has it been hitherto so managed that its funds are now sufficient to meet all liabilities were it immediately wound up? By liabilities we mean the sums that should be returnable to the then existing policy-holders, having regard to the duration of the policies, the ages of the lives assured, and the future premiums likely to be received from each. It is obvious that an exact answer to this question could only be given by an actuary in possession of data concerning all the policies of the office then in force, and we are therefore thrown back upon generalities. One thing, however, is self-evident: that being—the larger the proportion the funds of the office bear to the total amount assured, the greater must be its safety. Mr. Gladstone, in his speech on the Government Annuities Bill (7th March, 1864), says:—"You know a good deal about the position of an Insurance Society when you get three things: first of all, its date; secondly, its income from premiums; and thirdly, its accumulations. From the relation of these three one to another you know pretty clearly the state of the society." In acting upon this, one must of course select for comparison two or more offices founded at about the same date. An eminent actuary gives us this caution:—"Do not insure with an office that possesses an insurance fund or accumulated capital in hand of less than a million, or at any rate three-fourths of that sum, without inquiry into the condition of that company."

These points settled, the very important question presents itself as to the percentage of premiums devoted to the working expenses of the society. Though a policy-holder in a Proprietary Company can afford to lay less stress upon this point (having the guarantee of shareholders' capital) than one assured in a Mutual Office, it will be seen from our introductory remarks that the subject is of the utmost importance to all, as not only do the bonuses depend in a great measure upon it, but also the ultimate soundness of the office. Great diversity of opinion exists even among the most experienced actuaries as to what is a proper percentage of premium income allowable for this purpose—a young office being at greater expense than an old and well-established one to obtain its business. It is, however, evident that the lower the working expenses are in proportion to the premium income of the office, the greater will be the advantage to all concerned. About 16 per cent. appears to be the average percentage of all the offices, and it would therefore be advisable not to select an office whose expenditure (both working expenses and shareholders' dividends, &c.) exceeds that rate. Indeed, about thirty offices spend less than that percentage, and as many as about fifteen spend less than 13 per cent.

In comparing the expenditure of different offices, there must be borne in mind the rates of premium charged, as a moderately high percentage of expenditure on a low office rate of premium would in some cases be less than a low percentage on a high rate of premium.*

The rate of premium charged by the office, though not so important from an economical point of view as the percentage spent in expenses, is yet of great moment to a young assurer or to one of limited income desirous of making the greatest present provision for the least yearly outlay, as the lower the rate may be consistent with safety, the greater amount will a given sum provide in the event of an early death. Some attention should therefore be given to this subject when selecting an office.

Reference should also be made to the rate of interest assumed in the office calculations as obtainable by its invested funds; and it will here be granted that the lower this rate may be, the less will be the risk of the office to under-estimate its liabilities. Though some offices have received about $4\frac{1}{2}$ per cent. interest on their investments, it must be borne in mind that money cannot now, and in all possibility will not in future, be invested in thorough safety to pay more than about $3\frac{3}{4}$ per cent. Considering too that the office must always keep in hand a large sum of money to meet current liabilities and waiting investment, and therefore not earning interest, it would appear advisable to select an office not assuming in its calculations more than $3\frac{1}{2}$ per cent. as derivable from its investments.

Lastly, attention should be given to the reputations the various offices may have for the amount of care exercised in the selection of healthy assurers; or if lives liable to more than ordinary risk be assured, that proportionate increases are made in the rates of premium charged.

The office once selected, the intending assurer has next to determine upon what method or table to assure.

The first method, and the one most usually adopted, is that of Annual Payments for the Whole Term of

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* The following rule will give a ready means of comparison on this point:—First, find your "expectation of life" by the Carlisle table (given in almost every Ready Reckoner), that being the table most generally used. Next, ascertain—also from the Ready Reckoner—the sum required at 3 per cent. compound interest to be put aside for the number of years of the expectation to amount to £100 at the end of that time: this will give the yearly contribution required, apart from all question of the office-loading already explained. Then work out the following as a common proportion sum in arithmetic:—As the Net Contribution (*a*) is to the Office Premium (*b*) so is the rate of percentage on the premium (*c*) to the rate of percentage on the Net Contribution (*d*). Thus—

	(*a*) Net Contribution. £ s. d.		(*b*) Premium. £ s. d.		(*c*) Percentage on Premium.		(*d*) Percentage on Contribution.
As	1 10 3	:	2 0 0	::	9·5	:	12·56
	1 10 3	:	2 5 4	::	7·75	:	11·62
	1 10 3	:	2 5 4	::	6·75	:	10·12

Life, with Participation in Profits. This, if the life assured should be a long one, will ultimately, by the accretion of bonuses, yield much more to the policy-holder than one assured by (secondly) Annual Payments for the Whole Term of Life, *without* Participation in Profits, for which the rate of premium is lower, and which would consequently for the same yearly payment give a much larger amount in the event of an early death.

The practice of the offices varies with regard to requiring proof of age when death may happen; some require it, others do not. But in all cases it would be advisable to have the age of the life assured admitted on the policy, as the necessary proof can always be obtained by the assurer with much greater facility than by his executors. The proof required would be either (*a*) a Copy of the Register of Birth—that is, if the person assured was born after registration became compulsory; or (*b*) a Certificate of Baptism, provided it gives the date of birth; or (*c*) a certified copy of the Entry of Birth in the Family Bible of the parents; or, failing all these, (*d*) a declaration made by a friend with full personal knowledge of the age (he being, of course, older than the assured); or (*e*) by a declaration made by a younger friend able to give satisfactory grounds for his belief as to the age.

The assurance once made and the policy received, the assurer has but a few things to attend to beyond, for his own satisfaction, watching the affairs of the office, as shown by its annual reports and balance-sheets. He must, however, take care regularly to pay the Renewal Premiums within the days of grace allowed (fifteen or thirty days, according to the office and the terms of the policy), or else the assurance will lapse and all benefits be lost. With this view he must keep the office informed of any changes of his residence.

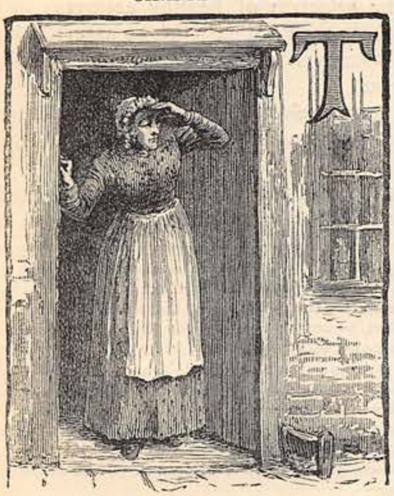
Should he wish to travel beyond the limits allowed by the policy, he must give notice to the office of his intention, and pay any additional premium required in consequence of the increased risk arising from the voyage, the climate of the country to be visited, or any change of occupation likely to arise.

And, lastly, whenever the quinquennial or septennial division of profits takes place, the policy-holder has to decide in what form he will receive any bonus falling to his policy. He generally has offered him the selection of any one of four modes:—First, an addition to the sum assured and payable at death (termed a Reversionary Bonus). This is the form usually accepted, as, in addition to increasing without further expense the sum assured, it as a rule has the advantage of earning additional bonuses in future. Or, if the assured be of opinion that the present amount of the policy is sufficient for his purpose, he can (secondly) commute the bonus for a sum in ready money; or (thirdly) he can commute either for a reduction of premium for the whole term of the policy, or for (fourthly) a still greater reduction of premium for the next five or seven years only—that is, until the next division of profits.

THE TROUBLE IT BROUGHT.

By C. DESPARD, Author of "The Artist and the Man," "When the Tide was High," &c.

CHAPTER THE ELEVENTH.



THE dinner passed pleasantly and gaily away. Horace appeared with dessert, and had to stand the brunt of many inquiries from his uncle and aunt. He parried them skilfully, and as he was an immense favourite with everybody, the absurdity of his conduct was not disastrously enlarged upon. To my mind he looked rather as if he had been assisting at a merry festival than as if he had just missed his dinner; for here, in spite of urgent entreaties from soft-hearted Mrs. Green, the colonel stood firm. If young people could not be in to hours, they must do without their meals. There should be no return of soup or entrées; pudding and fruit must now serve the young gentleman's turn. "Discipline," he observed sagaciously; "military discipline, if you like. There is considerably too little discipline about now; young people have it all their own way. They'll be giving *us* lessons in deportment soon." Horace protested that he was not hungry, and made the most of the pudding. Certainly, when we all went out into the garden he did not seem to enjoy himself the less for the lack of his dinner.

The storm our friends had prophesied had not arrived, and the night was still and sultry. The harvest moon hung, yellow and large, in a heavy leaden sky, and huge sulphurous clouds came moving up steadily from the west, and settled in heaped-up masses over the horizon; now and then, like a grim messenger warning danger, a ragged sheet of vapour swept the pale faces of moon and stars, and a sighing wind arose, to fall back again into sullen silence.

Nina and I and the other dinner guests, including Miss Ashley, Dr. Perry and his wife, Mr. Montgomery