a year (1855), and appears to have made a deep impression upon Lowell. The public knows little of Clough, but all poets know the author of "The Bothie" and "Qua Cursum Ventus." He had a beautiful, spiritual face and delicate, shy manners: such a face and such manners as are dimly seen in morning dreams. One may be sure that such a rare being, if real flesh and blood, would at some time be found at Elmwood. Clough strongly advised Lowell to continue and develop the Yankee pastorals. In the introduction to the *Biglow Papers* Lowell says, apropos of the approval of friends: "With a feeling too tender and grateful to be mixed with any vanity, I mention as one of these the late A. H. Clough, who more than any one of those I have known (no longer living), except Hawthorne, impressed me with the constant presence of that indefinable thing we call genius."

The artists Stillman and Rowse were frequent visitors. Many of their pictures and sketches adorn Lowell's house. President Felton was a stanch friend, and had great delight in Lowell's society. He and his brother-in-law, Agassiz, were alike hearty and natural men, fond of social pleasure, and manifesting the unaffected simplicity of children.

Longfellow's house is but a short distance from Elmwood, perhaps a quarter of a mile; and the relations of the two poets have always been intimate, as every observant reader knows. Holmes lived in Boston, but he was a frequent visitor in Cambridge at the old house near the college, especially while his mother lived. Lowell always paid tribute to the consummate art and finish of his friendly rival's verses, and to the vigor and freshness of his style. The father of Dr. Holmes was a stout orthodox clergyman; Lowell's father was a mild and conservative Unitarian. The Autocrat has developed into a liberal, and our poet has been growing more conservative, until now the relative positions of the sons are nearly the reverse of those of their fathers.

The historian Motley and the genial essayist Edmund Quincy were among Lowell's firm friends; but there is no room even for these incomparable persons.

In the course of this sketch there has been little attempt to follow order. The events of Lowell's life since 1860 have been few. The important dates are the dates of his books. One year has been like another, passed at the same residence, cheered by the same friends, engrossed in the same studies and pleasures. He visited Europe with Mrs. Lowell in 1873. He had never held office, not even that of justice of the peace; and though he has always had a warm interest in public affairs, he has not been a politician. It was therefore with some surprise as well as gratification that his friends heard of his appointment as Minister to Spain. He had been offered the Austrian mission, and had declined it; but a good spirit (or Mr. Howells, a relative of the President) suggested that Vienna was, perhaps, not the place to attract a scholar and poet, and that Madrid would be preferable, even with a smaller salary. After the retirement of Mr. Welsh, Mr. Lowell was transferred to London. His reception in the metropolis of letters has been in the highest degree flattering to him, and a matter of just pride to his countrymen.

He still holds his rank as professor at Cambridge, evidently expecting to resume his duties there.

Perhaps in the Indian summer of his life he may put his heart into a poem that will be even more worthy of his genius than any he has yet written.

DOES LIFE-INSURANCE INSURE?

I.—THE AMOUNT OF THE AMERICAN BUSINESS.

CHANCELLOR KENT said, in 1828: "Nothing can appear to an English or American lawyer more idle than the alarm of the French jurist, or more harmless than an insurance upon life, which operates kindly and charitably in favor of dependent families."

Chancellor Kent had in mind the idea of a life-insurance business which should be strictly confined to life-insurance, which should be built upon just arithmetic, and managed honestly, wisely, and economically by upright and able men. "Life-insurance," wrote a Massachusetts commissioner in 1873, "consists mainly in receiving premiums, investing them at compound interest, and out of the accumulation paying the sums when deaths occur." Surely nothing could be more harmless or more beneficial in the way of a public trust than life-insurance; and the trust has grown to proportions which indeed call for upright and able men in its management. During the fifty years since Chancellor Kent wrote as above, Great Britain and Ireland have come to assure 1935 millions of dollars on 810,000 lives; the United States assures 2705 millions on 1,100,000 lives; while the French, who save more money annually than any other country, assure but 390 millions on only 198,000 lives. Is the Frenchman's caution or the American's confidence the better justified by experience? "There are in this country more than half a million families who have voluntarily subjected themselves to a tax amounting in the aggregate to about 100 millions of dollars a year, and are under bonds, more or less, in the aggregate amount of about 400 millions to continue to pay this tax for life or for a long period."*

Let us look at some of the facts in their experience. I will keep mostly to recent dates, in order to avoid the objection which may be made that life-insurance is an essentially different thing to-day from what it was a few years ago. How far it has been bettered, and how far it still needs improving, I will try to show.

Since 1861 thirty-six companies have started in New York State alone: in March of this year only four of them remained. From 1859 to 1878, fifty-two companies ceased doing business in this State: the most of them failed. Of all American life insurance-companies, two have failed, thus far, to one that survives; while not one of our surviving large companies has yet reached the critical period of its career—the age when heavy pressure from death claims might be expected. But that pressure, it must be added, is not likely to be put upon any of our companies very soon, for the sufficient reason that our companies confiscate the vast majority of the policies for non-payment of premiums. This is done generally at an early period in the so-called investment. *The average duration of an American policy is only about seven years.* Of the multitude of policies which terminate yearly in our companies, only "one in ten matures by death; the other nine mature by causes other than death."† Or, as a searching critic of the subject, Professor Van Amringe, of Columbia College, has put it: "Of every ten policies which cease, but one will cease by death and expiry. One and a half will be given up for a slight compensation, and seven and a half will be absolutely thrown away by the holders."

* *Traps Baited with Orphan.* By Elizur Wright, Ex-insurance Commissioner. Boston, 1877.

† Testimony of Sheppard Homans. Assembly Documents for 1877, No. 103, pp. 348–350. Mr. Homans adds, "The odium attached to the forfeiture of so many policies has made it very difficult to get new business." One would hope so.

The amount now at risk in the American companies, 2705 millions, though less than it was a few years ago, is more than one-twelfth of the entire capital wealth of the Union. Their yearly income is more than half the yearly accumulation of wealth in the German Empire. In New York State thirty-four companies were doing business at the end of 1878. They had over 600,000 policies outstanding, assuring 1481 millions. Their assets were 404 millions—more than the value of the entire cotton crop of the world. Their income for the year was 80 millions—a sum equal to twice the American tobacco crop of the year, and to more than the entire potato crop; or equal, again, to the entire silk crop of India, China, and Japan.*

II.—THE GETTING OF THE MONEY.

How have the companies come into the possession of this money? By inducing the public to pay it to them in premiums, and by the interest from investments. Most of their bargains with the public are made in the shape of life policies; and endowment assurance policies constitute about a fifth of the business. The first question is, Do the insurance companies make fair bargains with the public? Our annual accumulation of wealth is greater than that of any other nation, and we are paying about one-ninth of it to the life-insurance people. Is that too much or too little? Have the companies charged an equitable price, say within forty millions per year, for the insurance that they have promised?

1. They make a large profit on receiving interest at a higher, and paying it (when they pay it) at a lower rate. They calculate the interest which they promise to pay at four per cent.; they receive six or seven per cent. This is legitimate enough, but the policy-holders are commonly led to think that they are to get much more than four per cent.

* Mulhall's *Progress of the World.* London, 1880. In this article I give the nearest round numbers, whether of cents or of millions of dollars, whenever round numbers will help to make the case clearer.

2. In computing the risks of their business the companies use "a table which gives a death rate, on the whole, considerably larger than that which it expects in practice." Having computed the chances below the average, they then pick out the lives that are above the average, and most of the companies refuse to insure any other. A man can not go in from the street and claim life-insurance at the average mortuary rates: he will not be accepted unless he can satisfy the medical examiners that his health and strength are better than the average. This selection of risks is another source of great profit. One New York company reported its gain from this source, for eleven months of 1869, as $649,000. Did that company charge too little or too much in making its bargains?

3. Every premium on a life policy is composed of three distinct elements. First, the *net premium*, calculated more or less equitably from the mortality tables. That is intended to insure the risk of death within the average lifetime. Second, the *reserve*, or self-insurance; it is the yearly payment which will amount, at four per cent., to the face of the policy at the time of the average lifetime. This is the policy-holder's own money, put out at interest for him. Third, the *loading:* that is guessed at by the companies: it is the charge for expenses. These three items make up the gross, office, or load premium; and all three are legitimate items.

But how great is this third charge, the "loading" for expenses? Instead of computing it, as they should, upon the net premium, they make a charge amounting to one-third of the gross or office premium —say thirty-three per cent. of the many millions per annum which they receive directly from the public. This would seem, indeed, enough to conduct the expenses of the business. An expert estimate gives eighteen per cent. as sufficient, even under the present lavish system, to pay all legitimate expenses of management.

4. Another source of great profit to the companies has been the buying up of policies. This, happily, is not so common as it was. How it was managed we may learn from the instructive testimony of Mr. Stephen English:*

"*Q.* [Mr. Moak]. What were the irregularities which you complained of in regard to the Continental Life?

"*A.* Robbery and plunder.

"*Q.* In what way?

"*A.* They sent agents out all through the West; they would call upon a poor unsuspecting policy-holder, and by telling him the company was insolvent, induce him to give up the policy for a small amount, and then pocket the reserve.

"*Q.* In other words, if the reserve was $600, they would get the policy surrendered for a small sum?

"*A.* Yes, for $40; and then pocket the difference.

"*Q.* Who would?

"*A.* The president and vice-president: they have run away."

5. The profit from all these sources is many millions of dollars per year. Yet even these profits do not account for half of the enormous wealth of the surviving companies. They have a fifth source of profit, which is more abundant than any or all of these four; namely, the confiscation, as already said, of the vast majority of the policies. In spite of the law of 1879, to be mentioned presently, the forfeiture of the policy and the total confiscation of the reserve is still the fate of all but a small minority of the insured. Here are some of the facts: In 1871 lapse and surrender swallowed up ninety-three per cent. of the number of policies that were terminated in the New York business (Van Amringe). In 1876 one company confiscated about 2500 policies—nearly the same number that it issued during the year; 1254 of them were absolutely forfeited, the holders getting nothing for them. In another company, during the same year, about 3000 policies were terminated, only about 300 of these by death. Of the balance, about 150 were re-instated; the rest, over 2000 in number, were absolutely forfeited. Still another company, in the same year, 1876, issued 8000 policies, and confiscated (always legally) no less than 7500. Of these, however, it bought up, according to its actuary's testimony, a large number "simply as a gratuity," being "not legally bound to pay anything" to the policy-holder who is behindhand with his premiums.* During the year 1879 the same company reports 8615 of its policies as terminated; the company is thirty-seven years old, and yet only 1156 of these policies were terminated by death! How many lapses and surrenders there were in its business does not appear in its annual report. The latest State returns are for 1878. During that year the number of policies terminated in the New York business was

* New York Assembly Documents, 1877, No. 103, p. 250.

* Assembly Documents, 1877, No. 93, p. 23.

87,222. Of these, 11,357 terminated by death and expiry; while 57,895 were terminated by lapse and surrender, representing the failure of 151 millions of insurance. The premiums paid upon those policies, and the profits accruing thereon, remain for the most part as profits to the companies. Do their officers lessen the charges for outstanding insurance in view of such experience as this? By no means; "'tis not in the bond." But some of them have announced lessened charges for the future.

The upshot of this slaughtering of policies, which forms the leading feature of our life-insurance thus far, is, as we have seen, that the average duration, or "life," of a policy in an American company is but seven years. On the so-called "life sentences" in our State-prisons the actual average term of imprisonment is computed at the same number of years. This is more than a curious coincidence: it illustrates another of those great illusions which rule our much-believing, soon-forgetting, long-suffering community.

I am speaking of the present as well as the past condition of the case as regards most of the policies heretofore issued and now issuing. Their usual fate is forfeiture. But, for the policies of the future, this principal source of gain to the companies is checked by a recent law, the New York State law of 1879. That law provides that no policy issued after the 1st of January, 1880, and kept up for three years, shall be forfeited by subsequent non-payment of premiums; but that the reserve, computed at four and a half per cent., which shall have accumulated on the policy, shall be applied, according to its amount, to the purchase of further insurance. This further insurance may be either a continuance of the original policy as long as the reserve will pay for it; or paid-up insurance under similar conditions to those of the original policy—of course for a smaller amount, and generally for a very much smaller amount. In one case the law allows a cash payment. In the case of failure to keep up one's endowment policy, the excess of the reserve, if there be any excess at the end of the term of years, shall be paid to the policy-holder if he be still living. The new Massachusetts law (act of April 23, 1880) provides that on policies issued after the 1st of January, 1881, the holder who shall have paid his premiums for two years shall be credited, if he fail to make further payments, with either life or endowment insurance for such an amount as his reserve, less eight per cent. charges, will purchase. If he have no wife or dependent child, he may draw this reserve in cash. A fair surrender value on ordinary life policies is one of the chief things needful in future insurance. But these laws will be a great deliverance to those who shall intrust themselves hereafter to life-insurance under the present system. They would have restored hundreds of millions of dollars to American families had they been enacted and enforced thirty years ago.

These are the chief sources of the profits of the companies, and we see that they are vastly in excess of equity, and that the cost of life-insurance is proportionately too great. This matter is summarized in a few words of expert testimony which I will quote from the State investigation of 1877. The case supposed is that of a policy of $1000, payable at death, the holder being assured at the age of twenty-five years, and paying $20 annually:

"*Q.* [Mr. Moak]. Of an annual premium of twenty dollars, six would be for loading, five for mortality, and nine for reserve; to secure for himself such an insurance at his age he pays $20, and gets just $5 worth?

"*A.* [Mr. Sheppard Homans]. Of insurance, yes.

"*Q.* In other words, on the mutual plan, without expense [of agents and management, etc.], $5 would pay for just as much insurance as he gets now by paying $20?

"*A.* Certainly.

"*Q.* You say $5 actually pays for the benefits which the man actually gets in insurance for which he now has to pay $20, or, in other words, which the present system requires him to pay?

"*A.* Certainly."

—Considering, I should add, that at twenty-five the insurer's expectation of life is thirty-nine years, while that of his policy is but seven years!

Of these excessive profits the agents promise to return a great part in dividends; a small part of them is actually so returned. But the whole system of dividends to policy-holders is a vicious one. The promised dividends are a bait to the public, and the occasion of an irresistible temptation to the officers of the companies: the excessive premiums which make them possible demoralize the business. The more nearly a premium approaches the minimum that is consistent with security, the better both for the companies and for the insured.

III.—THE SPENDING OF THE MONEY.

It may be said, Grant the fact of these abuses: do not these very overcharges make the companies stronger, and so accrue to the benefit of the policy-holders? They would if the companies used the money in that way. But we have seen already that the companies, even the oldest ones, let but a small part of the policy-holders' money go back to them. The agents of the companies distribute little tracts, pleading with the public for their salvation by life-insurance, and pleading with more zeal and at greater expense than any tract society. One company admits paying in one year (1876) the sum of $62,000 for "printing and stationery." And in these tracts they announce, among many other good things, the actual payment of large sums upon their policies. But let us see what large sums, to which attention is not called in their tracts, they spend on other objects than the payment of insurance to the beneficiaries of their policies.

The New York companies reported 80 million dollars income for 1878, and 72 millions expenditures. A considerable part of this sum was doubtless paid to widows and orphans—how much, the report does not make clear. Mr. Wright estimates that of 100 millions paid annually in premiums to all American companies about one-fourth is annually returned to the beneficiaries. In the New York business of 1878, as reported by the companies themselves, three millions were paid to agents; three millions more went for salaries, medical fees, "and other charges of employés"; and a lump sum of five millions is reported, without any explanation, under the heading, "All other expenditures." This makes 11 millions per annum for running the business in New York State.

Nothing is harder than to analyze accounts in which there are concealments and evasions. But we may gather from more sources than one some interesting details respecting the ways in which our insurance companies scatter the policy-holders' money. They are, principally, payments to agents; payments in salaries, fees, and bonuses; cost of buildings; loss in speculation and in bad investments; and loss by legal plunder and wrecking. A glance at each of these great drains will be enough.

1. Payments to agents, called the "cost of getting the business." During the years 1876, 1877, and 1879 a single New York company paid nearly two millions of dollars to agents. If we look back to the times of inflation in the business we shall find still higher figures. During five years, 1867–1871, the authorized companies of New York State paid 40 millions to agents, and but 75 millions during the same period for losses and claims. These are the reported figures; but the usual practice has been to pay the agents thirty per cent. of the first premium paid, and seven and a half per cent. on from six to ten annual renewals. Thus the agent gets $75 out of $700 paid in $100 premiums for seven years; but seven years, as we have seen, is the average limit of the existence of an American policy. As the great majority of the policies last less than seven years, the agent receives at least fifteen per cent. of the whole premium payments. The agents get less now than formerly, because the business is less; but the community is still paying to them a tax of probably ten millions per annum. Millions past our counting have been won from the public by their solicitations. The agents persuade people into insurance that does not insure. The reformed system will insure, but *it will conduct the business without agents.* It should be known to those of us who are interested that the strongest English company, the Equitable Assurance, of London, built up its great business and its reserve of 55 millions of dollars without employing agents; it has "never paid any commission at all."* "Good wine needs no bush," and there will be no need to tease people into insurance that does insure.

2. Salaries and bonuses form an important item in the "cost of conducting the business." Salaries, indeed, there must be, and under the present system not a few of them, in order to get men enough, and capable ones, to manage a business that is injuriously enlarged and complicated by questions of dividends and profits. But even under this system the salaries should be kept within bounds. *Est modus in rebus;* there is, or should be, a limit to everything, even to life-insurance salaries. They should be paid only to competent persons; and they should not be supplemented by bonuses. In 1879 ten New

* Assembly Documents, 1877, No. 103, p. 351.

York companies paid for salaries and "other compensation" to employés in their home offices only, $958,000; this does not include medical fees. And a single president admitted, at the State examination of 1877, that he had received $525,905 25 from the funds of his company during eighteen years, in salaries and "extra compensation."*

In one great company it was testified at the same examination, "There were bonuses paid to the officers for a series of years, and put down as dividends to policy-holders."† The vice-president of that company testified as follows about them:

"*Q.* [Mr. Moak]. How much did the aggregate of the bonuses amount to?

"*A.* I have no recollection, sir.

"*Q.* Can't you give us within half a million?

"*A.* Hardly."‡

He adds that after continuing this practice two or three years, the officers of the company "discovered it gave rise to comments," and stopped the bonuses. The practice, one would say, might profitably "give rise to comments," both on the part of policy-holders and others. So also might the conduct of the president of the same company. The editor of the *Insurance Times* testified that this president's "son had a policy, and he allowed it to lapse, and at his death the policy was revived." In that company, out of 8595 policies terminated in 1878, 6300 were terminated by lapse and surrender. None of these policies were "revived." In 1879 it terminated 8615 risks, but only 1156 of these were terminated by death.

3. Miscellaneous extravagance. Under the head of "all other expenditures," the New York companies report an item, for 1877, of six and a half million dollars, leaving the public to guess how they spent the money. A part of it goes for the costly buildings which the insurance companies think it necessary to put up. The president of one New York company, after stating the amount of his salary to be $37,500 per annum, went on to say that his company had paid about four millions for their building in New York, and more than a million for their building in Boston:* for the two, more than half the estimated total cost of the Cologne Cathedral (40 million marks). The company's officers claim that their buildings are good investments, but whether they are or not is a hard question for an outsider. But another extravagance which I will mention is clearly not a good investment. A vice-president of a leading New York company testified in 1877 that the cost of "luncheons" given to 117 officers and clerks in the New York office was about $6000 per year; and he "could not say" that the cost of luncheons and wine dinners (the wine dinners were stopped in 1876) did not exceed $10,000 per year.†

4. Bad investments and speculation. Of course there is no absolute safeguard in any business against making bad investments. But as the insurance people have got the people's money simply by asking for it, and in vastly greater amount than is needed for fair and honest insurance, the result is that on the one hand the companies indulge in unnecessary and extravagant expenses of many kinds, while on the other they take risks wantonly, and many of them have been ruined in consequence. But I have not space to give details on this point, to which I may return another time; nor can I give more than a glance at the facts respecting the last way I will here mention in which the policy-holders' trust is scattered to the winds.

5. The wrecking of the companies. "The State," says a writer in the *International Review*, "has never saved a company. It has connived at the ruin of many, and has itself ruined some which needed only patience to be cured.... The State is like a physician who, finding a patient with symptoms of a grave disease, should kill him at once lest he die of the complaint hereafter." In the "transfers" of eight companies (1871 to 1877) to the Universal, the same writer estimates that nearly 26 millions' worth of policies disappeared, and that in the Universal 74 millions finally disappeared within that period of seven years.

IV.—REMEDIES.

1. The great majority of our policy-

* Testimony of H. B. Hyde. Assembly Documents, 1877, No. 93, p. 35.

† Testimony of Stephen English. Document 103, p. 246.

‡ Testimony of Richard A. McCurdy. Document 103, p. 98.

* Testimony of H. B. Hyde. Document 93, p. 46; 103, p. 218.

† This is the same vice-president who could not recollect within half a million dollars the amount of the bonuses given to officers in his company.

holders are in the grasp of the old system. What shall they do? Mr. Wright holds out this hope, and it is their principal hope. He says: "The present policy-holders are bound by contracts which they never would have made if they had fully understood the subject. If they will unite they can oblige the Supreme Court of the United States to decide whether their rights, under these contracts, are not as good as if they had been rebels." (In the seceding States policy-holders were allowed their reserve by just decision of the Supreme Court.) Without such a decision, the great majority of the policies now in force will in the future lapse, as they have lapsed in the past.

2. For the future, the individual may secure himself to a certain degree. "Insist upon having inserted in the policy how much *cash* the company will pay at the end of each and every policy year in case of surrender. There are at least twenty solvent companies in this country that will do it when this demand is loud enough and general enough." Remember that "whether a man will be able to pay in some future year is often as much a matter of uncertainty as whether he will die in that year."

3. Take an endowment policy for a long term. Never take a whole-life policy, to embarrass the declining and unproductive years of life. A life policy, if it is kept up, becomes "a trap which screws up tighter and tighter, till liberation comes by death." A friend of mine has already paid on a life policy for $10,000 the sum of $13,000 in premiums. Counting interest at the legal rates on the payments, he is already some $15,000 out of pocket; and though he is no longer young, he bids fair to be called upon to pay premiums for more than a few years to come. I will not call his case a common one, for very few policy-holders keep up their insurance as long as he has done. But for those who do, it is a losing investment, even where dividends have been paid; it is a game in which one can not win even by dying.

Our present system of life-insurance, in a word, needs radical reform, or it will perish. The public has intrusted to the companies a money interest that is far too great for the honesty, ability, and prudence that have been brought to its management. The public has intrusted this money to the companies in the absence of legal safeguards; these are, at last, slowly and painfully, and by an unequal struggle, being raised around this great trust. Never in history or mythology has such a rain of gold as this descended upon the heads of common men. The way in which they have misused it forms the strongest of comments upon the danger to our community, which thinks itself a free one, from the overmastering power of great moneyed corporations—the danger long ago pointed out by Tocqueville.

For the companies of the future a greatly decreased cost of insurance, a greatly decreased cost of management, and summary punishment of peculation must be the rules. The companies should be strictly mutual; there should be no baiting of traps with dividends; the companies must stick to life-insurance, and leave dividends to the banks. For the policy-holders the aid of wise legislation is to be sought. The hasty abandonment of policies chiefly benefits the companies. Mr. Elizur Wright, Mr. Homans, and other able and honest actuaries have their plans, which I can not now describe, for making insurance safer and cheaper; and the experiment of ready-money insurance (like that of the New York Stock Exchange) may be tried and elaborated according to need, the principle being that each person assured shall contribute a stipulated sum on the occurrence of a death in the society. Under this system (extended to include endowment policies) there are no accumulations to be squandered, and no great expenses of management. It is worth trying, until such time at least as the instituted life-insurance shall be radically reformed, and extend its promised and needed blessings to the country that hitherto it has plundered.

OUR NEAREST NEIGHBORS.

WE were just returning from the mountains—my father, my sister, and I—and it was while we were waiting at Riverview Station that a party of people came into the train whom we all opened our eyes sleepily to look at, partly because they were the only persons to be seen at that lonely little station, where the express stopped for wood and water. The afternoon was so hot that it would not have disgraced Fourth of July, and Eleanor and I had not even pretended to keep awake. As for papa, he made a strong pretense at going to sleep, but as he al-

LIFE-ASSURANCE DOES ASSURE.

RARE Ben Jonson used to say, "When I take the humor to a thing once, I am like your tailor's needle—I go through." As a policy-holder, who has taken "the humor" and has determined to "go through," I am impelled by recent strictures upon life-insurance to re-examine the reasons of my confidence. Does life-assurance assure? The question in debate is the trustworthiness and economy of the science and the system. The examination that I now make is in the interest of no company, and in controversy with no critic. "Facts, sir, facts," said old Gradgrind; all the attainable facts are the objects of my search.

WHAT LIFE-INSURANCE HAS DONE.

The life-insurance system has been for two centuries a positive force in the progress of modern civilization and the accumulation of national wealth. It has been an important educational factor of every community which it has influenced, in habits of economy, prudence, and providence. And it stands to-day side by side with the savings-bank and the trust company, sharing the confidence with which men who seek the welfare of their fellows crown all three.

Its special plea is a provision against the unequal risks of life, and its peculiar feature is an interest-bearing fund, to which its prospective participants contribute each his share. The voices of critical inquiry which it hears are the echoes of its own appeals to a selfish and spendthrift society. There is a rebound upon itself of its own counsel of economy. Grave may yet be its defects, but the public owe it none the less a debt.

More than twenty-one millions of dollars were divided, in sums averaging about twenty-five hundred dollars, among widows and orphans by the companies which reported to the New York Insurance Department in 1879. Nearly nine millions of dollars in addition were paid on the maturity of endowment policies. Above twelve millions of dollars were returned to twenty thousand persons who have voluntarily withdrawn.

In all forms more than fifty-six millions were thus distributed in 1879. Since January 1, 1859, nearly $760,000,000 have been distributed by this system among policy-holders for death claims, endowments, surrender values, and dividends, by the companies doing business in New York.

And yet, in the face of such facts, we are told that life-insurance has outlived its usefulness, and that a newer and better plan has been evolved from it.*

WHAT IS PROPOSED IN ITS PLACE.

I once heard the sentiment from a distinguished civilian that "there is no great working idea in history which does not carry its own caricature along with it." Innumerable illustrations of this truth will occur to every mind. The present one is not less pointed than the rest. The new system, which is really but the renewal of a discarded experience of the old, is assurance by assessments among survivors in a joint association. In many of the States the Insurance Commissioners† have already pronounced both

EDITOR'S NOTE.—The subject of life-insurance is one involving so largely the interests of the community that its discussion in a popular magazine is eminently proper. The insurance companies, chartered by the State, cannot properly complain of public criticism directed against their methods of conducting the business. But the critic is also responsible to the public; and when a popular magazine is the vehicle of criticism, it is bound to present as fairly as possible all the facts involved in the discussion. Dr. T. M. Coan's article, "Does Life-Insurance Insure?" in the January number of this Magazine, directed attention to what the writer considered the weak points of life-insurance. We present in this number a further consideration of the subject, by the Rev. Stephen H. Tyng, Jun., undertaken at our request. It must be understood that this Magazine is not committed to either of the widely different conclusions reached by these writers. Its only concern is that all the facts bearing upon the discussion shall be laid before the public. The present article includes what the former did not—the statistics of life-insurance for 1879. The article has been reduced one-third since it was prepared. The limits of our space compelled the omission of the writer's treatment of some branches of the topic. The whole essay will, we understand, be published separately by the writer himself.

* The New York Stock Exchange system is not really the exponent of the co-operative system of insurance, but is a gratuity fund. The assessments paid to the representatives of a deceased member are compulsory. Each seat (worth $30,000) is in pawn until the contribution is paid. The circumstances are in this case so exceptional that the plan can not be elsewhere reproduced.

† Notably Hon. O. Pillsbury in New Hampshire, Hon. John W. Stedman in Connecticut, Hon. Joseph W. Wright in Ohio, Hon. Julius L. Clarke in Massachusetts, Hon. Henry C. Kelsey in New Jersey, Hon. A. R. McGill in Minnesota, Hon. T. B. Needles in Illinois, Hon. O. S. Welch in Kansas, Hon. P. B. Spooner in Wisconsin, Hon. W. S. Relfe in Missouri, and others.

its fallaciousness and its doom. Such expert testimony, of men to whose impartiality great commonwealths have confided the oversight of all companies dealing in technical insurance, will have great weight with practical men.

Examination will show that such written policies do not profess to insure, but only promise that a contribution, not exceeding a certain sum, shall be solicited. As there is no contract for a definite amount, and no reserve fund from which the matured claim could be drawn, it follows that so far from developing prudence, this system tends to pauperize its associates. The payment of the assessment has been by the Circuit Court of the United States held to be purely optional, and incapable of enforcement by the company. Whatever is paid to the family of a deceased member of such a society must be credited to charity and supposed self-interest, not to justice.

That man is to be congratulated who, having been drawn into the net of this theory, has escaped; and after paying his contributions during a series of years, has allowed his policy to lapse, and counted his new wisdom a sufficient surrender value. There can be no security for any one in such a system. It is a scheme which not only does not but can not insure.

THE LIFE-INSURANCE BARGAIN.

In judging any company, the order of criticism should be, first, the character of the men managing its affairs; second, the safeguards of the system accepted by them; third, the fact that it is firmly established, having successfully surmounted the diseases incident to youth; and fourth, the relation of its resources to its liabilities. These are the facts with which life-insurance agents deal. They have a merchandise for sale. In this aspect of their dual office they are "drummers" for trade.* The policy is a contract enforceable by law, but dependent, perhaps more than any other into which we enter, upon the integrity of the men with whom we covenant. The bargain is fair if we make it. Dry-goods, food, and insurance are worth their market price to the purchaser. What avails it to tell the buyer that the seller is either making or losing money by the operation? If he want the fabric or provision, he must and he will pay the price. It is equally foreign to the argument to urge upon him, after he has paid his money, that the seller has paid large commissions to his drummers, clerks, porters, besides an enormous salary to himself, and that he has such facilities to loan money that he has been able to command a higher rate of interest than is ruling generally. In the face of all such counsels, purchasers and policy-holders will, year after year, return to the old stand, if they are satisfied with the commodity, until they come to be called *customers*. The law of supply and demand will control in this as in all other forms of barter or traffic.

THE SCIENTIFIC SECURITY OF THE SYSTEM.

The next question of interest to the buyer is the ability of the principal to deliver the goods sold by the agent. This is answered by the good repute of the house with which he deals, and the certified resources at its command. The examinations of the State, year after year, give him in assurance a more certain basis for his confidence than any mercantile agency can possibly furnish to the trade. He has not only a sworn certificate of the financial condition of the company with which he contracts, but the impartial testimony of experts deputed for the purpose of audit by the Insurance Department. What are the facts which the applicant in this year, 1881, may compare before he commits himself to this covenant? In all the companies reporting to the State in 1879, there were \$328,224,-

* In so widely diffused a population as ours, agents are an essential element of any successful system of commerce. The Equitable Company of London has never employed agents with their proper name, but it has district secretaries, with fixed salaries, instead of contingent commissions, to whom are intrusted local interests, and from whom is expected the increase of its business. To all intents they are the same as our solicitors. The real result of the policy of ignoring agents, and refusing to pay commissions, which has been adduced as the feature of this traditional champion and exponent of a wise economy, is easily shown. Originated in 1756, the company's funds had accumulated in 1839 to £10,689,932. But from that time the decadence and depletion have been rapid, without even a spasm of recovery. In 1849, the fund had fallen to £8,858,047; in 1859, to £6,564,671; in 1869, to £4,609,736; and in 1879, to £4,246,474. Meanwhile its policy issues have dropped to a minimum; for in 1879 the company issued only 136 policies, insuring £185,050, the new premium income of that year being but £6357, while the management expenses were £8307, of which directors' fees alone absorbed £2937, or 35½ per cent. So much for the vaunted value and economy of the non-agency, non-commission policy of the Equitable of England.

812 of re-insurance reserve. This is the amount necessary to cover all liabilities under contract. But besides this there were $65,277,721 75 of surplus as regards policy-holders. All this is the property of nearly six hundred thousand outstanding policies, or, besides security for the amount pledged to each, the companies hold as trustees an average sum of $110 for every policy at risk. The case is still stronger if the three largest New York companies are considered in their separate responsibility. The wider the scope of business, the better do the averages work, and the greater the security of the assured. These companies report $136,129,390 of re-insurance reserve, and $26,075,465 49 of surplus applicable on policies, or absolute security for all risks, and $137 84 held as an average additional property of each policy. The moral integrity of the managers being assumed, there can be no reasonable doubt of their financial ability to fulfill to the letter every maturing contract.

An additional and most impressive enforcement of both these factors of confidence is gained by a long look through the past. The figures make an argument for the reliability of the system which no rhetoric can overturn. From the New York life-insurance reports, since the organization of the department to its last report, as of December 31, 1879, I glean my statistical compend. The thirty-one companies of this and other States, whose figures appear in the tables of the twenty-first annual report, received from policy-holders in premiums, cash and note, during the twenty-one years, or such portions of that period as are covered by their reports, $898,376,032.

During the same term these companies paid to policy-holders, for death claims, matured endowments, annuities, for lapsed policies, surrendered and purchased policies, and for dividends, $603,073,118. The assets of the same companies on December 31, 1879, amounted to $401,515,793, less amount of capital stock, $4,306,900, or a net sum of $397,208,893. Let this be added to the amount distributed, and we have $1,000,282,011 as the total paid to, or now held in trust for, policy-holders. But if from this latter amount be deducted the receipts from policy-holders, there remains, as the past and prospective gain over the payments by policy-holders, $101,905,979.

This statement, which is incontrovertible, shows the positive side of security as no figures of speech could portray it. But to this let me add a similar comparison bearing upon the relative advantages of large or small companies to the policy-holder. The three largest New York companies, during the period covered by the reports from which I quote, received as premiums $363,538,414, and paid to policy-holders $241,126,401. Their assets, less capital, were $163,972,414, making the past and prospective net profits to policy-holders derived from interest, over and above premiums paid by them, $41,560,436—or more than *forty-one* per cent. of the gain to policy-holders of all the thirty-one companies. These enormous assets and gains make the contract of life-insurance "double sure," unless rogues are in the direction of the companies.

LIFE-INSURANCE FAILURES.

As a matter of history, I think it will be admitted by all critics that in no series of facts has "the law of the survival of the fittest" been more undeniably illustrated than in the record of life-insurance companies. During war times and in the after "boom," there were many abortive attempts on the part of adventurers to embark in this business, and by men who were ignorant of the principles of the science, and inexperienced in the details of the system, and who, moreover, had been unsuccessful in other fields. But competition with the old and sound companies compelled such moribund institutions to close their doors and books.* Not all of them were dishonest. Not a few volun-

* There were, in 1859, only fourteen life-insurance companies authorized to do business in this State, eight of them being New York companies. In 1871 this number had increased to forty-one New York companies, and thirty from other States—a total of seventy-one companies. Of these seventy-one companies, only thirty-one (twelve of which are New York companies) are now actively engaged in business in the State. Meanwhile fifty-one companies (thirty-three New York companies and eighteen other State companies) have lapsed by failure, withdrawal, amalgamation, or, as in the case of three companies, by the department's estoppel upon their taking new business. It is safe to say that, of more than one hundred and seventy life companies which have had a name to live all over the United States, only some forty-five survive. In fact, a standard insurance authority publishes the names of one hundred life companies which have retired during only the last twenty years. Nor do we know of more than one or two life companies organized since 1868 which have survived to this time.

tarily retired from business after making adequate provision for all their liabilities. The failure of so many life companies suggests another fact which sustains my argument for the strength of surviving companies. During the seventeen years of depreciated currency (1862–1878), when the mean average premium on gold was 30 per cent., the life companies doing business in New York received in cash for premiums $1,125,726,002, and expended $746,624,952. Excess of cash income over cash expenditure, $379,101,050, or an average of $22,300,000 per year. Upon this excess the companies had to bear the burden of a 30 per cent. depreciation, or $113,730,315 (equal to $6,690,000 per annum from 1862 to 1878), up to such time as resumption brought currency to par.

A careful examination has convinced me that, with hardly an exception, these failures have occurred in the life of companies which have not attained half the age of legal majority. Hardly one company of fifteen years' standing can be found in the black list. The marvel is not that so many companies have closed their doors, but that so large a surplus has been successfully carried over from a period of inflation by companies which all the assured recognize as firmly established.

The scrutiny of the public press, and the increased vigilance of the insurance departments, have put life-insurance companies to a test beyond that to which any other similar institutions have ever been subjected, and they have come out from the trial with a reputation that other financial corporations might well envy. Taught by experience, the public have become more discriminating in the selection of the company to whose fidelity they intrust the interests of their dependents. There may have been companies constructed for the purposes of fraud. But they have disappeared, and the fittest survive. "Things refuse to be mismanaged long. Though no checks to a new evil appear, the checks exist and will appear."*

It is grossly unfair to discriminate against insurance companies in the application of this law. Banks have failed. Railroad companies have collapsed. Merchants have become bankrupt. We have just emerged from an era of fraud. Who condemns the bank system, the railroad enterprises, and mercantile ventures, because dishonesty, taking advantage of inflation, has tainted their past?*

But taking all companies, good, bad, and indifferent, into account, it is claimed that "*less than one per cent.* of all the money ever invested in life-insurance in the United States has been lost through mismanagement, dishonesty, failure, or other cause."†

How is our conviction strengthened by the wise use made of the money which is the collateral of the contracts? Investments in buildings have been criticised. But the receipts for rent substantially offset the charge. Other applications of the assets come under the direct inspection of the department. In 1870, when seventy-one companies were contending in New York, at least 11 per cent. of the whole assets was reported as unproductive. The case is reversed in 1880. Every company now doing business in this State has not only all its reserve drawing interest, but all of them together have $44,600,000 in excess of their reserve productively invested. Of the gross assets, at least 93 per cent. is interest-bearing, the small balance being chiefly the moneys in course of transmission from agents, in process of investment, or in bank awaiting the payment of claims.

The last element of uncertainty in life-insurance is "the critical period of heaviest pressure." Have the companies that have survived the deluge of inflation made their way through this wilderness? The definition of such a period is a matter of pure speculation. It is, according to actuarial subtleties, not very far off for our oldest companies. But if it exist in fact, how are these companies prepared to meet

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* Emerson.

* According to a railroad journal, during 1880, thirty-one railroads, with a mileage of 3375, with $166,000,000 in stock, were sold under foreclosure. In five years, 228 roads, with a mileage of 20,000—nearly 23 per cent. of the present total mileage—and representing a nominal investment of $1,236,000,000, became bankrupt.

† "THE LOSSES BY FAILURES NOT ONE PER CENT.!—The life companies of this country have received, from the time the business was first commenced down to the present date, the enormous sum of $1,238,185,000. The losses by all the companies that have ever failed here will reach between ten and twelve millions, on a very liberal estimate. It is thus shown that 99 per cent. of all the money that has been intrusted to the life-insurance companies has been faithfully administered. There have been failures—large failures and scandalous ones—but the interest *as a whole* has been, and is to-day, as secure as any human institution the sun ever shone on."—*The Insurance Monitor.*

it? If they should cease business to-day, their assets, if administered as heretofore, would more than suffice to meet every liability as it may mature. This ought to be enough, for "sufficient unto the day," etc. But practically there is no such thing as "a critical period" in a well-ordered company, after it has passed its infancy. During the first five years of its existence, the demand for $150,000 annually in death claims might have tested its resources; whereas the payment by one of the largest companies of $7,000,000 in death and endowment claims during 1879 passed as a mere incident of the business.

THE RECOGNIZED DIFFICULTIES IN PROCESS OF SOLUTION.

As one of the assured, I find the system begirt by objections just now. So far as they are based on real evils, there seems to be, on the part of the companies, an honest determination to grapple with and if possible to overcome them. Some of the criticisms relate to features which have been already corrected, whilst others anticipate the crystallization of questions still in solution. Let us look at some of these from the point of view of the assured person.

IS IT A PLUTOCRACY?

There is really danger to the people in the creation of a plutocracy. The corporations of the land, and their vast accumulations of capital, are a standing menace to the personal and political rights of the community. The power that they are capable of wielding, and the monopolies of their franchise, may well excite anxiety. The opposition of the Grangers to our railroad system is the most prominent illustration of this popular unrest. Is life-insurance rightly placed in the same category? There are now only one or two strictly proprietary companies doing business in these States, and influential as they are, there is no reasonable ground to fear their oppressive growth. Others are formally constituted on the stock basis, but are practically mutual in their methods. Nor is the comparative business of all these combined a very large factor in the system. We have not as yet reached a basis for this allegation. But a chamber of life-insurance, made up of representatives from all the leading companies, may prove the dominating force. This would be possible if competition were not so commanding an element in the conduct of the business. As a matter of fact, the centrifugal far outmeasures the centripetal force of the system. The attempt to unite all companies in such a representative chamber was long since a demonstrated failure. We are brought down, then, to the system as a simple whole. Notwithstanding its distracting and diverse influences, making combination almost impossible, we are asked to believe that the mutual principle is the source of danger to our interests. This is the *reductio ad absurdum*. For the policy-holders are the constituents. They are voters, and have a standing in court. From them proceeds the authority of administration, and they have swift methods for vindicating their jeoparded interests. The people are the Pluto. They are asked to dread a spectre; but, like that of the Brocken, it is only the shadow of themselves cast upon a cloud. The mutual life-insurance system is a democracy. It can never become other than this without a *coup d'état*.

The facts bear out this theory.

Losses and claims paid in 1879	$29,973,134
Paid on lapsed, surrendered, and purchased policies	12,703,188
Paid dividends to policy-holders	13,330,824
Total paid policy-holders, 1879 ...	$56,007,146
But the receipts from premiums in 1879 were	52,721,720
Excess of payments over receipts by the companies	$3,285,426

From this table it appears that the assured have actually received $3,285,426 more than they contributed in the same year. This does not look like oppression.

The thing for which each assured person bargains is the assurance of his life. This he receives; and besides this, so long as his policy is in force, he secures as additional advantage certain dividends which the critic calls "profits." But the word "profits" is a misnomer, and misleading when applied to life-insurance. Strictly speaking, there are and can be no "profits" to either the company or the policy-holder. On the contrary, the whole business is based on the certainty of loss. This is its unique and anomalous position. The premium paid on a life policy is a loss of money, which the assured does not expect personally to recover. The dividends, so called, are, in marine insurance, named return premiums. At the end of the year the account with each life policy is balanced. Whatever amount of the premium is not needed for security is returned to the assured. This rebate can scarcely be called a profit. If death should intervene, and the policy be made good, its adjustment is a loss of life to the assured, and a loss of so much money to the other members of the society. Fire and marine insurance anticipate but little loss among the number of their risks.

The savings-banks are not thought to endanger the rights of the community, and yet they lack the mutual element of organization. They are administered by self-perpetuating boards. There is this fundamental difference in favor of life-insurance. But who fears that the millions of assets held by savings-banks will be made a power to grind the faces of their poor depositors? The only ground for such demagogism as that which decries the plutocracy of life-insurance is the practical disuse of the suffrage by the policy-holders. It is in the power of the assured in mutual life-insurance companies to dethrone Mammon, if he have seized the highest place, and call himself president. That they do not often do this is the best evidence of popular unbelief in this aspersion, and the best testimony that the society can give to their satisfaction with their trustees.

SURRENDER VALUES.

The next inequity which demands examination is the surrender value of policies whose holders wish to retire from their contracts. This is admitted on all sides to be a vexed question. But as in England, so here, competition will be its cure. When an assured person determines to discontinue his risk, he is liable to lose sight of the fact that he is one of a community, and has no right to press the equity of the one against that of all. He is tempted to look at the matter too selfishly, and is surprised that so small a percentage of his payments is found in the offered price for surrender. If he be troubled about his health, he will not think of withdrawal. If his chances for life be below the average, he thinks it no inequity to resort to any expedient which will keep his policy in force, and thus add to the risks of other persons assured with him. What right, then, has he, on the other hand, if his chances of life be far better than the average, to leave them with all their associated burdens, and withdraw the whole of his investments?

The position of the company is in this matter mediatorial. It must deal fairly with both sides. The amount that it pays must be reduced by the ratio of accumulated risk which the withdrawing person leaves to the remaining members of the association. Whilst in common law the retirant has no claim, his rights have been sufficiently guarded by the recent legislation of the State of New York. He has, in the policy which he has read and accepted, voluntarily waived all surrender values. The commonwealth have secured to him an amount of paid-up insurance represented by a certain proportion of his reserve, or a cash compensation to be determined by the relative interests of those with whom he is associated in the company. The equity must be determined by circumstances. The company in following equity must not forget justice. The comparison between the rights of one and all is the important element in its decision, for it is the interest of the society of the assured to have the payments continued to the end of all lives or terms. They can never consent to a premium upon breach of contract. The duty of a company to its faithful constituents often compels an appearance of close dealing with those who withdraw.

LAPSED POLICIES.

Cognate to the question of surrender values is the difficulty connected with the "lapsing of policies." A life-insurance policy is a contract to which there are two covenanting parties. On the one side there is a solemn agreement to pay periodically a certain sum, and on the other an engagement to pay a much larger sum on the death of the assured, or after a limited number of years. The ability of the company to fulfill its plighted agreement depends largely upon the faithful fulfillment of his promise by the assured. Here are all the conditions which are needful to bring the transaction under the law of contracts. So far, then, from clamoring for clemency, the assured who faults in his part of the agreement, or seeks release from his obligations, is liable to a claim for compensation from the company. His failure, in so far as he is able, strikes at the solvency of the company, entails actual loss upon it, and endangers the interests of all who share with him the advantages of the system. His breach of contract is a civil crime, which only desperate circumstances can condone. Moreover, there is an element of moral obliquity in it. He has expressly consented to certain conditions written in his policy, and now he falsifies the confidence which the company have placed in his promise. They have all this while held his "word to be as good as his bond"; but he evades his pledged obligation, and poses himself as a martyr, while in law, equity, and morals he is really a sinner.

Whatever may have been the history of fraudulent companies in the past, it is the generally accepted theory of educated and honest life-insurance men everywhere that lapses are a loss, and not a profit. Companies, in the interest of those who abide by their contracts, at the cost of much self-sacrifice and self-denial, have a just cause of complaint against persons who for trivial reasons thus forswear themselves. For whom are the officers running the companies?—the benefit of those who stay in, or of those who abandon their contracts and go out? Unquestionably for the former. Does not the outcry of policy-holders in fraudulent companies which have failed tell the story? If the company break its contract, "all the little dogs, Tray, Blanche, and Sweetheart, do bark" at it. No assured person, however many insurance agreements he may have shirked, is base enough to do it reverence. This is the other side to this matter, which intelligent and conscientious men should consider before they complain.

But such strictures against the number of lapsing policies are both disingenuous and untimely. The year 1871 has been chosen as the extreme illustration of this evil. I follow the objector in the path of examination indicated by his references. New York reports for that year show the termination of policies:

	By Surrender.	By Lapse.	By all Ways.
New York companies.....	15,732	53,658	104,760
Companies of other States.	10,774	35,048	74,717
Total..............	26,506	88,706	179,477

The ratio of policies terminated by lapse and surrender was in all reporting companies 66.14 per cent. of all policies terminated, and not 93 per cent., as charged. This is a difference which is not only considerable, but which carries with it other and important explanatory suggestions. In years when notes were protested by the basketful, when nearly two hundred railroads had made default in the payment of interest on their bonds, when banks closed their doors and suspended payment, when wages were at their lowest point, the percentage of failure in paying life-insurance premiums was about 67 per cent. of policies terminated in all ways. But now the tide has turned. The surviving institutions have been strengthened by the strain to which they have been subjected. Public confidence has been re-established in their integrity and resources. All industries are developing. Real estate is rising in value. Wages are at almost their highest mark. Of all this the diminution in the ratio of lapses in life-insurance is a significant exposition.

But even this admitted percentage is not net. For it is the common experience of all companies that a large number of lapsed policies are revived and restored, sometimes after years have intervened. And even the resulting number, after deducting such, should be lessened by the subtraction of those for which some pecuniary consideration has been paid after the lapse. Indeed, it is the fault of his own carelessness if any policy-holder suffer his premium-day to pass without securing, in either paid-up insurance or a cash surrender value, some equivalent for his policy. This reduces once more the ratio of absolute loss to the assured. Infant policies are more liable to lapse than those that have gained a stalwart life. The duration in the one case is the parallel of that in the other. More than half the terminations take place during the first or second years of the policy, as it is the nursery which is most often invaded by death. Indeed, a man can not fairly be said to have started on his insurance career, as far as his obligations are concerned, until he has proved his good faith by paying his second premium. An allowance should be made for this factor when calculating the average duration of all policies issued. The net number of policies terminated in 1879 was 60,503. The net number of policies lapsed, after deducting restorations, was 18,679.

The case is made much stronger if the amount in risk be the basis of ratio. For manifest reasons, the business of 1878–80 must form the elements of this computation. The amount lapsed, after deducting old policies revived, number of those entered as new risks, purchases, and extensions, is $50,074,487.

But the amount in force December 31, 1877, was		$1,556,105,323
Issued during 1878	$156,501,129	
Less amount not taken	19,597,563	136,903,566
Whole amount at risk		$1,693,008,889

A comparison of this total amount at risk and the amount lapsed will show that the latter is *less than three per cent.* (2.96) of the former. The magnitude of the business and the small number of policies that lapse are elements of consideration which emphasize the persistency of policy-holders, and their general contentment.

EXPENSES OF ADMINISTRATION.

The question of expense is relative. It is emphatically to the policy-holder's interest that such vigor and skill in the management shall be employed as to produce a profitable result. Such a policy is oftentimes expensive at the outset. A reduction of expenses is frequently the precursor of depletion. The vital question is what the policy-holder is to get in strength and profit for his money. Unless the percentage of cost be so great as to endanger the company's ability to meet its part of the contract made with him, he has naturally no desire to intrude either his curiosity or his counsel, provided he is satisfied that the company is skillfully conducted. Details he is willing to leave to the wisdom of managers, who, by the suffrages of policy-holders, have assumed full responsibility. Should he sometimes think that certain salaries are too high, he recalls the fact that in many other cases small salaries have not saved a company from insolvency. The skill and care required for the management of life-insurance companies, the judicious investment of their accumulating funds, the watchful oversight over contracts covering protracted periods of time—all these, and a multitude of minor matters, call for talent of the very highest order. A man's labor is worth all that he can get for it. Large responsibilities imply large compensations. The men are few in any community who can judiciously manage millions. Whether the fortune be public or private, they are entitled to a fair income for personal needs. In managing his own, a man has more license for expenditure than in a trusteeship. But the doctrine of proportion holds good, after all, as a law. A man who is a fair seaman or a superior skipper may safely sail his ship over the Atlantic while summer seas and skies outline his course. But the gales and hurricanes of winter can only be outridden by a stanch vessel, the skill and courage of whose commander are commensurate. Periods of peace in life-insurance may be and have been followed by crises most momentous. It is the reserve force of the man at the head of its affairs which alone can control the elements in such an emergency. His services for one such year of financial stress may be worth to the assured the gross amount of his salary during his entire connection with the company.

A life-insurance company is an organization which, in its subdivision of responsibility and office, has no parallel but that of the government of a State. It employs a large corps of agents, scattered over a widely extended territory; skillful medical examiners to discriminate between good and bad risks, lest the mortality rate be ruinously increased; cashiers, book-keepers, and clerks to receive and account for the premiums paid; scientific actuaries to guard against insufficiency of reserve, and to determine the proportion of surplus that may safely be returned; real estate experts to watch over its loans; a claim bureau to adjust without litigation the rightful demands made upon it; lawyers of wise counsel to examine the titles of property on which loans are made, and otherwise to represent the interests of its policy-holders; and men of executive ability in its chief offices, capable of guiding and conserving these manifold departments. How vast is the force needful for its continued success! The total amount paid by all the thirty-one companies reporting to New York in 1879, for the salaries, commissions, advertising, and all other expenditures of the business, including dividends to stockholders, was $10,893,197, while the total amount of money managed was over four hundred millions of dollars. What a difference to the policy-holders whether this vast sum was skillfully or unskillfully guarded!

Was this too much? Take for ratio the three largest New York companies, in which the princely salaries are paid. It will be found that the salaries, medical fees, and wages of other employés were less than three per cent. of income. The total expenses of these companies in reference to income were 12.74 per cent.; while those of all our active companies, young and old, great and small, during the same time and for the same purposes, have been only 14.3 per cent. of income. Let the ratio be either less than 13 or a little more than 14 per cent., will any practical business man say that this is excessive? Is either amount "an undue share of accruing profits"? These institutions compare more than favorably, as to economy, with any other organizations actively seeking outside patronage. It is almost impossible to collate the reports of the banks to the Comptroller of the Currency so as to discover their ratio of expenses to income. A prominent officer in one of our largest corporations gives me as a guess 40 per cent.* But the Insurance Report for 1879 gives us the statistics of companies dealing in other than life-insurance. The comparison in the following table is between fire and marine on the one hand and life-insurance companies on the other, as to assets and expenditures, and the percentage of the latter to the former:

	Assets.	Expenditure.	Per Cent.
Fire and marine insurance companies of N.Y. State	$54,112,023	$7,862,586	14.53
Life-insurance companies of N. Y. State..........	202,562,831	5,751,128	2.84

In both cases the expenses include commissions, and every charge except losses under policies and dividends. If the expenses of life-insurance companies bore the same ratio to assets as those of fire, etc., companies, the $5,751,128 cost of administration would be raised to $29,472,872. Lest some one should take exception to this ratio of assets, I add another table showing the ratio of expenses to income:

	Income.	Expenditure.	Per Cent.
Fire and marine....	$21,084,276	$7,862,586	37.29
Life-insurance companies of N. Y. State..........	41,162,409	5,751,128	13.97

The percentage of expense in relation to income in fire and marine insurance is nearly *three times* that of the life companies of this State.† Included in these amounts are the taxes throughout all the various States.

To the above statement I add that 188 insurance companies (other than life) in the State of New York received, during 1879, for premiums, $60,670,736; for interest, $7,919,924; making the gross income $68,590,660. Their expenses of management in the same year were $20,462,473. The ratio of expense to gross income was therefore 29.83 per cent. Whilst this is the average presented, it is true that in many cases the expenses of fire companies range between 50 and 60 per cent. Let the critics contrast these numerals with 14.3 per cent., being the average per cent. of expenses to income of all life-insurance companies.

But the answer made to all this is that life-insurance agents are overpaid. They are made the scapegoats. What are the facts? The commissions of life-insurance agents in all companies were, in 1879, $3,383,084.‡ The whole amount of cash premium receipts was $50,522,484 12. This is collected in average small amounts by agents from their patrons all over the United States. The average commission was therefore 6½ per cent. Is this an outrageous charge for the business of persuad-

* Since writing the above, I have received, by the courtesy of the Hon. John Jay Knox, the Comptroller of the Currency, the following table, prepared in his office:

LIST OF NATIONAL BANKS IN NEW YORK CITY AND BROOKLYN FOR THE SIX MONTHS ENDING SEPTEMBER 1, 1880:

Cities.	Number of Banks.	Capital.	Gross Earnings.	Taxes and Expenses.	Ratio of Expenses to Earnings.
New York city	47	$50,650,000	$8,268,056	$3,227,046	39.03
Brooklyn.....................	4	1,152,000	198,814	74,173	37.30
Total................	51	$51,802,000	$8,466,870	$3,301,219	38.98

From this it appears that the average ratio of expense in the national banks of this neighborhood is nearly 39 per cent. The average of the whole country, for very manifest reasons, must exceed 40 per cent.

† The mortality among insurance companies other than life has been overlooked in the attempt to sow distrust in the minds of life-insurance policy-holders. The New York *Daily Bulletin*, in June, 1880, published the names of three hundred fire-insurance companies, representing assets aggregating $87,000,000, whose active life ended by failure or voluntary retirement during the period from January 1, 1870, to December 31, 1879—only ten years.

‡ New York Insurance Report, 1880, p. xxi.

ing men to provide for themselves and those dependent upon them, and the other duties that pertain to this office? The agent who effects insurance on your clothes receives 15 per cent. year after year, and the average commission upon the assurance of your life is 6½ per cent. The wonder is that the payment of commissions can, by life companies, be so graded as to retain in their employ men of high capacity and character, and at the same time hold the average ratio so low.

But the final fact to be recognized in this connection is that the administration of existing life companies has not cost their policy-holders a single dollar. Not only have the thirty-six companies whose aggregate premiums and payments have been tabulated met all maturing claims, accumulated an adequate reserve, returned as dividends the excess of premiums paid, purchased many cancelled policies, and paid all expenses, but they have, over and above all this, saved as surplus more than $76,000,000, which they held on January 1, 1880, in trust for policy-holders. Their interest account shows this net excess after meeting all the cost of the business. By the use of money from which we might have derived no income had we retained it, these companies have not only accumulated a secure reserve for the payment of our policies when they fall due, but have covered every conceivable item of administrative expenditure. Let the fault-finder name any other business making even approximately as good a return for the investment of one thousand million dollars, being the amount of the premiums received since organization by all companies reporting to the State of New York.

PROTECTIVE LEGISLATION.

The appeal in ancient times, whenever supposed difficulties were encountered, was to Hercules. And State or national legislation is now, and among life-insurance critics, substituted for the god of force. The panacea of all the ills to which the life-insurance system is heir must be sought at Albany or Washington—so they in substance say. Three things within the scope of the law-making power would have satisfied all policy-holders. But many others have been added which work to their detriment. These three things are:

1. The fullest publicity in all the affairs of this system. This has been gained by the compulsory deposit of sworn annual statements, which are open for comparison, and form the legal evidence for complaint.

2. The authoritative examination of the assets of each company, that the certificate of the State may endorse the assertion of the filed reports. This has been most needful in the past, and is a shield for the future.

3. The retention, within the reach of the courts of the State where the company is organized, of sufficient securities to meet the judgments which from time to time may be levied by the courts against the company on resisted policies.

Every good measure which has been enforced by State authority was first suggested by the energy of some ambitious company. It was only hastening a natural progress to make it by law a compulsory part of the system. The vagaries of the Legislatures of Massachusetts and other States in taxing premiums of companies from outside their limits, and retaliating for disadvantages which their own companies suffer elsewhere, are bringing this whole system of a paternal government into contempt. Before that class of objectors who seek a national bureau can succeed in their wishes, the people must consent to a constitutional amendment for the purpose. The fathers reserved all such rights. Their children will some day learn that these rights are safer when left to the defense of fundamental laws of political economy than to the shifting will of political parties. In view of all this discussion, and for its "improvement," as the old divines used to say, I add

SOME FRIENDLY SUGGESTIONS TO POLICY-HOLDERS.

1. *Look before you leap.* Choose for your investment a life-insurance company that is vigorously and honestly conducted in all its departments, and in which the relation of surplus to liabilities justifies the expectation of stability and security.

2. *Do not overleap.* Take no more insurance than your desponding anticipations of income make it more than probable that you can maintain.

3. *Stick.* When you have gained your footing, stand firm. For your family's sake, for your character's sake, for society's sake, for truth's sake, do not break the contract. Let your motto be, "*The Policy—it must and shall be preserved.*"