the LINCOLN LIBRARY *of essential information*

to cover expenses of opera-
thus giving the so-called
is is the premium that is
licyholder.

be found to be too large,
ble death rate than was in-
v table, or because expenses
earnings larger than antici-
ly have agreed to return to
portion of such gains in the
When this is done, the in-
'participating." When the
ticipating," the premium
ler is usually considerably
the fact that the company,
the policyholder, remains
which may accrue.

ay be increased from year to
ured increases, this is seldom
shown that life insurance, in
must be based on a uniform
the premium-paying period.
e company, during the early
harge a premium more than
rrent cost of insurance. The
annual premiums are thus
, known as the "reserve."
upon in later years when,
ng hazard connected with
niform annual premium be-
eet the current cost.

arge number of policies, the
or unearned premium) may
ting that "sum which, to-
iums paid by policyholders,
ompany to meet its claims
lity table in use." Accumu-
fund is fundamental to any
urance. Its absence in the
of failure of many insurance
lay, it is the one great dis-
ween the sound and the un-
ason that all regular life in-
required by law to operate on
erve basis."

ed. Unlike the various kinds
life insurance has not been
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red. It is well settled in the
possesses an insurable interest
limited extent. Likewise, the
life insurance payable to his
beneficiary he may choose to

e ruling, it is necessary for
o protect themselves against
which are either substandard
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n the earning capacity of the
ection needed is secured in
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ired in the case of individual
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s equal in the quality of the
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, nationality, stature, weight,
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se. It is now felt that sub-
be given the benefits of life

insurance, although at premiums sufficiently increased to meet the additional hazard associated with the substandard character of the applicant.

Who May Be a Beneficiary. As already noted the insured has an insurable interest in his own life to any extent. Further, in the absence of policy conditions to the contrary, he may name his own estate, or any individual he chooses, as beneficiary. But what is the situation when the insurance is taken out by a person other than the one insured?

Here we unfortunately meet with a great variety of judicial decisions. With respect to ties of affection, blood, or marriage, the courts have generally held that certain of such ties create an insurable interest even though the element of financial dependence is not present. The weight of authority holds that a parent has an insurable interest in the life of a child. Husband and wife are conclusively presumed to have an insurable interest in each other's life.

As regards all other relations, however, the courts have generally taken the position that the interest of the beneficiary, when taking out the insurance, must be based upon a reasonable expectation of deriving pecuniary benefit from the continuance of the insured's life. The weight of legal opinion is to the effect that the insurable interest of a beneficiary taking out insurance "must exist at the time the contract is made and that a policy valid at its inception will not, therefore, be voided if it should happen that the interest ceases before the maturity of the contract, unless the provisions of the policy are such as to bring about that result."

A creditor has an insurable interest in the life of a debtor. This interest has been held even to survive a discharge of a debtor in bankruptcy. The only question about which there is variance relates to the amount of insurance, as compared with the amount of the debt, which the creditor may obtain on the life of the debtor.

Three important lines of judicial decisions relate to this matter. One (exemplified by Pennsylvania) limits the creditor's right to insure the life of the debtor to "an amount equal to the debt plus all premiums payable during the life expectancy of the insured according to the Carlyle Table, together with interest on the debt and premiums." Another (adopted by the United States Supreme Court and by New York) indefinitely limits the insurable interest of the creditor by providing that "the relationship between the amount of insurance and the amount of the debt must not be so disproportionate as to make the policy take on the appearance of a wagering contract as distinguished from its legitimate purpose."

Still another line of decision (exemplified by Texas) allows the creditor to secure all the insurance he may wish to take on the debtor's life, but limits his recovery, in case of the debtor's death, "to the amount of the debt and the premiums plus interest thereon, the balance, if any, passing to the debtor."

What Type of Policy to Select. When considering the leading types of policies—term, ordinary life, limited-payment life, and endowment—the average applicant unfortunately gives too little thought to the importance of making the proper selection. No one type of contract serves all persons equally well. In every case the applicant's special circumstances should be considered by the salesman, and the insurance recommended should be such as will meet the needs of the prospect.

The size of the premium varies greatly with the kind of policy, depending mainly on the extent to which a savings fund is provided for in addition to the current cost of protection. When a term policy grants protection only, and contains no savings fund accumulation, the premium outlay is small. The company's promise is limited to $1000 in the event of death during the term, nothing being paid in case of survival. The whole life policy, on the contrary, promises, not only $1000 upon death at any time, but also the same amount upon survival at age 96. As compared with short term policies, it represents a gradually increasing savings fund, thus requiring a higher premium to be paid throughout life.

The limited-payment whole life policy resembles the ordinary whole-life contract in every respect, except that premium payments are limited to a term of years, like 20 years, instead of being continued throughout life. Since the liability is the same under the two contracts, the insurance company must collect the same amount, considering an assumed rate of interest. If all payments are, therefore, completed within 20 years, as under a 20-payment life policy, the premium rate must necessarily be higher than when the payments continue indefinitely for life. As distinguished from the above, endowment insurance—using a 20-year endowment for illustrative purposes—promises $1000 upon death during the 20-year term as well as an equal amount upon survival at the end of the term. Since this policy involves, in addition to the term insurance, a rapidly increasing savings fund (amounting to $1000 in 20 years), the premium must be correspondingly large. The difference in cost between the aforementioned types of policies may be illustrated at age 25 with the following rates charged by a certain company per $1000 of insurance: 10-year term, $11.34; whole-life, $19.00; 20-payment life, $24.16; and 20-year endowment, $44.82.

Owing to the low premium, term insurance gives the largest protection for the smallest possible outlay. It, therefore, meets the insurance needs of the young man with a small income and with a family on his hands. Here no surplus earnings exist to pay for the accumulating savings fund under other types of policies. Even where there is some small surplus, it may probably be used to better advantage in the profession or business, as yet in the formative stage. Moreover, in the average man's family there is a peculiarly hazardous period, the child-raising period, when the death of the income producer proves a calamity. Accordingly, many who carry a substantial line of higher premium insurance supplement the same with additional 10- or 20-year term insurance to cover the period mentioned. The total insurance is thus substantially increased without undue strain.

The essential purpose of term insurance is to protect a *known temporary hazard*, under conditions when no other form of policy can be purchased in adequate amount. Its great disadvantage lies in the fact that the temporary nature of the hazard may be misjudged. At the expiration of the term policy, insurance protection may still be needed, and yet be unobtainable because of inability to meet the medical standard. For this reason term policies usually contain a convertible privilege, allowing the policy to be converted into a higher premium form within a designated number of years. Holders of term policies should make every effort to thus

LIFE INSURANCE IN CANADA

Millions of Canadian Dollars

	1948	1949	1950
Insurance in Force:			
Ordinary	$ 9,847	$10,770	$11,625
Group	1,814	2,150	2,583
Industrial	1,444	1,489	1,538
Total	$13,105	$14,409	$15,746
Benefit Payments:			
Death Benefits	$ 76	$ 82	$ 85
Matured Endowments .	32	34	34
Disability Payments .	4	4	4
Annuity Payments . .	6	7	7
Surrender Values . . .	43	48	60
Policy Dividends . . .	35	38	41
Total	$ 196	$ 213	$ 231
Income:			
Premium Income . . .	$ 373	$ 402	$ 429

LIFE INSURANCE IN THE UNITED STATES

Insurance in Force, 1900-1950 (000 Omitted)

Year	Ordinary		Industrial		Total**	
	Number of Policies	Amount	Number of Policies	Amount	Number of Policies*	Amount
1900	3,176	$ 7,093,212	11,219	$1,468,928	14,395	$ 8,562,140
1910	6,964	13,227,213	23,034	3,177,048	29,998	16,404,261
1920	16,700	33,454,814	49,805	7,189,852	68,205	42,281,391
1930	32,739	79,774,841	89,436	18,287,408	128,132	107,948,278
1935	33,374	71,963,295	83,971	18,297,543	123,924	100,730,415
1940	38,436	81,069,215	87,332	21,343,634	136,772	117,794,384
1942	42,159	87,125,338	91,977	33,345,412	147,362	130,332,848
1943	44,425	91,776,904	96,224	25,571,118	154,616	140,308,683
1944	47,134	97,577,462	100,365	27,047,643	161,849	149,071,406
1945	50,172	104,456,034	104,098	28,496,958	167,338	155,722,778
1946	54,849	116,109,948	107,737	30,246,934	178,129	174,553,352
1947	58,586	126,205,585	109,506	31,493,252	187,064	191,263,881
1948	62,166	135,669,442	107,811	31,816,150	191,489	206,715,301
1949	65,316	144,457,931	110,249	32,982,432	199,866	220,515,545
1950	68,485	155,037,699	110,938	34,373,000	210,170	241,980,929

*Includes Certificates. Sources: Spectator Year Book and Institute of Life Insurance.
**Totals from 1920 include Group Insurance, which increased from 11,004,000 policies amounting to $15,381,535,000 in 1940, to 30,747,000 policies amounting to $52,570,230,000 in 1950.

Income, Payments, Assets, Liabilities, and Surplus, 1900–1950 (000 Omitted)

Year	Total Income †	Total Payments to Policyholders	Assets	Liabilities	Surplus††
1900	$ 400,603	$ 168,688	$ 1,742,414	$ 1,493,379	$ 249,035
1910	781,011	387,302	3,875,877	3,665,436	210,441
1920	1,764,213	744,649	7,319,997	6,989,309	330,688
1930	4,593,973	2,246,776	18,879,611	17,862,142	1,017,469
1935	5,072,095	2,535,113	23,216,496	22,219,729	996,767
1940	5,657,842	2,680,665	30,802,155	29,404,610	1,397,545
1944	7,010,715	2,527,928	41,053,974	38,318,020	2,735,954
1945	7,673,987	2,718,796	44,797,041	41,555,657	3,241,384
1946	8,067,772	2,848,256	48,190,796	44,885,131	3,305,665
1947	9,113,815	3,279,894	51,742,987	48,306,683	3,436,304
1948	9,751,215	3,602,100	55,511,882	51,802,925	3,708,957
1949	10,376,074	3,865,527	59,629,541	55,471,987	4,157,554
1950	11,250,000	4,150,000	63,984,000	N.A.	N.A.

N.A. — Not available. †Before 1947 the business of accident and health departments of life companies was not included. ††Special surplus funds, unassigned funds and capital funds. Sources: Spectator Year Book and Institute of Life Insurance.

convert their contracts within the indicated time. Moreover, term policies, since they contain no savings feature, do not inculcate the habit of systematic thrift. In the overwhelming number of cases, holders of such policies manifest great displeasure at not receiving something when the contract matures.

The shortcomings just noted with respect to term insurance are obviated by the whole-life policy. This represents *permanent* protection at a very moderate cost. It also combines protection with reasonable saving. Whenever possible, this type of insurance should be preferred to the term plan. Many who take term insurance could, through a little additional effort, pay the extra premium on an equal amount of whole-life insurance. Very many argue that they prefer to place the difference in premium in building and loan association accounts, or some other type of investment. Yet this seems inadvisable, even assuming the resolution is carried out, owing to the absolute security of the life insurance investment and the approximate return of 5 to 5½ per cent.

When the prospect's income permits, and when there is a temptation not to save or to lose the savings through foolish investment, limited-payment and endowment policies may be recommended. They represent compulsory saving with a vengeance, absolutely safe and at a fair return. Moreover, the limited-payment principle often enables the policyholder to meet his premium payments during the years of greatest income producing capacity. Even should a 20-year endowment policy not appeal, emphasis should be given to long term endowments, maturing at about age 65, or the age of retirement. This type of policy will mature for its full face value at that time, thus yielding a substantial sum for old age support. It may be questioned if the same amount would have been realized otherwise, owing to the general habit of human beings not to save systematically and to lose that which they may have succeeded in saving.

Methods of Paying the Proceeds at Maturity of the Policy. The proceeds of life policies may be paid either in a lump sum or in installments. In the latter case, commonly known as life income insurance, monthly installments are usually paid for ten or twenty years, irrespective of the life of the beneficiary and, therefore, as much longer as the beneficiary may survive the 10- or 20-year period.

The lump sum payment plan has little to commend it where the purpose of the insurance is to give an income to dependents. The fairness of giving 20 or 50 thousand dollars in one lump sum to a widow may well be questioned in these days of stock-selling ventures and the vast army of gold-brick specialists. The underlying purpose of life insurance is to *assure an income* to dependents *as long as needed*. This the lump sum payment method does not guarantee. The life income plan, on the contrary, "insures the insurance," and is just as necessary a form of protection to the beneficiary as the original insurance itself. It is insurance against foolish investment and reckless expenditure.

Under the life income plan the policy proceeds constitute an "insurance estate" administered by the insurance company. It relieves the beneficiary of all expenses of reinvestment, and of all exercise of judgment in the placing of investments and of their supervision thereafter. Administration of the insurance estate by the insurance company also compares very favorably with the administration of an estate through other channels. There are no legal contests between heirs, no legal expenses of administration, no income taxation, and no fluctuation in either the value of or the income obtained