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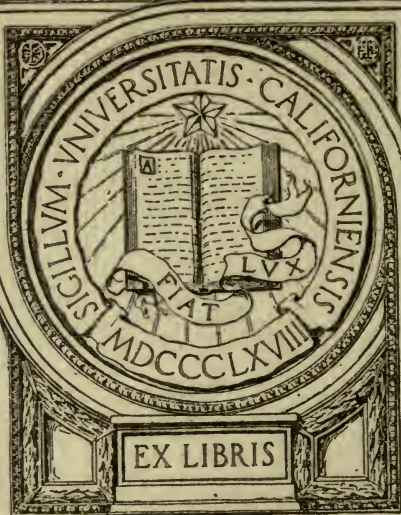
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GOVERNMENTAL
WAR INSURANCE
AND
WAR TAXATION



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Governmental
War Insurance
and
War Taxation

By

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President of the Home Life Insurance Company

An Address delivered at the
Eleventh Annual Convention
of the
Life Insurance Presidents' Association

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Governmental War Insurance and War Taxation

Our Nation is now involved in the Great War and it is our duty to dedicate all of our energy, all of our brains, all of our money and if need be all of our lives to the great cause for which we are fighting. Whether he works with his hands or with his brains, with the brawn and muscle which are the priceless treasures of youth or with the no less useful instruments of stored-up wealth which represent past achievement, every individual of every class must give his all to further the Nation's cause and must work incessantly and unselfishly for the World's salvation.

The experiences of the last few months have been entirely novel to us as a Nation and have opened up new situations in all lines of business. New problems of vital importance have arisen which demand intelligent solution, if the War is to be promptly won. Some of these problems affect Life Insurance in a vital way and their discussion is natural at this time. Such a discussion, in order to be effective for good, must be conducted with absolute frankness and these problems cannot be successfully met unless we approach them with an open mind, realizing as every intelligent person must that at such a juncture past precedents are bound to be shattered and new methods must be adopted to meet new prevailing conditions.

In viewing the war problems, one of the many questions which immediately arose was "How can the Nation intelligently care for the material future of the disabled fighting man and his dependents and how can provision best be made for the family of the man who is killed in the service?"

The history of our present Pension System, under which this question was left for determination after each war, has been so unsatisfactory that it was felt that some plan must be devised at once by which all these contingencies of injury and death should be provided for in advance and that this promise of protection should become a part of the contract of employment. The idea was sound and appealed to all. This suggestion became a subject of informal discussion in all centres in Washington and received attention in many of the Cabinet Bureaus, in the Council of National Defense, in the Chamber of Commerce of the United States and in other similar bodies. Action was finally crystallized when the Treasury Department took the matter in hand and called a meeting of insurance men in Washington to consider the question. Later, two committees of insurance experts were appointed by the Secretary of the Treasury; one to study and report upon the tentative plan submitted by the Treasury Department, the other to compute the probable cost. These two committees worked assiduously at their tasks and brought in reports which are now part of the public record.

The Bill, as finally passed, is in most particulars

identical in principle with the tentative Bill submitted by the Secretary of the Treasury. In one regard, however, it was at the last moment changed, doubtless for economy's sake, in such a way as to seriously affect its value. Throughout the whole discussion, the Insurance Committee maintained that the Compensation section of the Bill, based as it was upon our State Compensation Laws, was sound in principle and would forever act as a strong preventative of future pension legislation but the justice of that part of the Bill was greatly impaired by the change above alluded to, by which the grading of the amount of compensation upon a percentage of the wage received was eliminated and the compensation was made uniform for all, irrespective of rank. The fundamental principle of proper compensation was thereby abrogated and I greatly fear that the resulting injustices will encourage corrective pension legislation later on.

The Optional Life Insurance feature of the Bill offers no menace to the companies. The Insurance Committee believed it wrong in principle and also opposed it because of the discriminations which it was thought would result from it and because of the difficulty and expense involved in its administration. The Committee advocated increasing the compensation feature of the Bill by a grant on the part of the Government of a stated amount of life insurance to every fighting man without payment of any premium. This did not appeal to Congress, nor to the framers of the Bill.

The intention of the bill is of the best, and it is regrettable that more time and thought could not have been given to it before its passage, but the pressure for prompt action was imperative and as a result the measure is open to the criticism of being in some vital respects faulty in principle and in many respects loosely drawn. It must be remembered that the representatives of the Insurance Companies were not called in for advice until the measure had been carefully prepared by the many organizations and departments which had had the matter under advisement and until a complete draft of the Bill had been prepared. Constructive suggestion based on experience was not sought for from the Insurance Committees in the initial preparation of the Bill, and by the time they were appointed the framers of the measure were firmly wedded to the Bill which they had prepared and seemed to regard all suggestions from the Insurance Committees as hostile criticism of their work.

As soon as the President affixed his signature to this Bill, the Law at once became operative in certain respects and a Committee of the Actuarial Society of America has been recently appointed and has done most effective work in assisting the new Governmental bureau in the preparation of the forms of application, in the drafting of the policies and in other essential matters.

The practical administration of the law will involve details far beyond the expectations of its advocates. In the matter of Allotments and

Family Allowances and in the disbursements under Article III, in order to carry out the provisions of the Statute, it will be necessary that the new Bureau receive accurate and reliable knowledge of the dependents of each and every fighting man *month by month*. Changes by deaths, births, marriages, etc., among these dependents must be immediately known to the Bureau. The matter of payments must be made promptly and correctly. All this necessitates an organization perfect in every detail, enormous in its size and scope, and immensely expensive. In the administration of the Optional Insurance feature, Article IV, the same difficulty arises and in addition thereto the Bureau is burdened with the collection of premiums. The canvassing of the soldiers at present enlisted and the education of the soldiers, scattered as they are in all parts of this country, on the seas and in France, is a matter requiring the service of a band of men familiar with insurance matters and versed in the art of securing applications. I mention the above difficulties briefly, simply that they may be considered in forming a proper appreciation of the magnitude of this stupendous work.

As to the general plan, it is one that must appeal to every patriotic citizen. The purpose of devising some plan that will provide for every member of the fighting force a guarantee that his dependents will be taken care of properly in the event of any calamity arising to him from war service is an eminently praiseworthy one. Nothing can give

greater peace of mind to the soldier and nothing can do more to promote the morale of the members of our Army and Navy. The secondary object of the law has been already alluded to. It is of prime importance, namely, that this measure shall be so noble in its conception and so clear and fair in its operation that the danger of future pension legislation shall be eliminated.

Much of the criticism which has been directed by insurance experts against certain parts of the law has arisen simply from the feeling that there are in the measure certain discriminations and certain injustices which will not be discovered until the law has been in operation for some time and until the dependents begin to receive the benefits under the law and that when these injustices are appreciated the Nation may naturally turn for relief to renewed Pension Legislation. Much of this danger could be eliminated by a careful review and amendment of the law at an early date, and this may be possible when Congress has time for such study unless contracts are now made with the fighting force in such a way that no changes can be made in them at a later date without the consent of all the interested parties. During the progress of the framing of this law, much was said in the Press as to the danger to the Life Insurance Companies from what was termed "the entering of the Government into Life Insurance business." In the form in which the Bill was finally passed I see no such menace and I have felt that that menace was

greatly exaggerated during the preliminary debate and discussion. Even the Optional Insurance feature of the Bill is not like any ordinary Governmental insurance. It was simply intended, I believe, by its promoters to provide a plan by which the enlisted man should pay a nominal peace rate and receive war indemnity, the Government paying the difference, thus restoring to him what was termed his "insurability."

It is not probable that in the future in any analysis of expenses incurred by the Government under this law an accurate account will be made to the public of the actual cost of the measure; that is, all charges for office accommodation, for clerical service, for general overhead charges, for investigations of the status of dependents, etc., will probably be buried in the general expenses of the Government and not segregated and charged as specific expenses under this law. This will create the possibility of misapprehension on the part of the people, who will be apt to form an estimate of the total expense by simply reviewing the salaries paid to the heads of the Bureau and the actual amounts paid out for Allowances, Disabilities and Deaths. All danger that the operation of the so-called life insurance article may be used in the future as a basis for argument in favor of Governmental Insurance will in my opinion be eliminated, if the administration realizes the necessity of handling this new department on a basis of credit and debit similar to that which is compulsory in the management of private

corporations, charging the War Insurance Bureau with all expenses incurred.

On the other hand, no one can realize how much is going to be accomplished in an educational way when the dependents of our soldiers find themselves receiving the enormous benefits which must accrue under this Bill and when they begin to realize, as they must, that this colossal measure made necessary by our present war conditions is simply an endorsement of the value of the underlying principles of Life and Disability insurance. The Government has by this law given to our business an endorsement, not of a theoretical character but an endorsement backed up by a financial guarantee the magnitude of which no one can properly estimate.

The future problem before the private Life Insurance corporations is to demonstrate by results that which is firmly believed by insurance experts of experience, namely, that the insurance business can be handled most wisely and economically by private corporations managed by men who have made the subject a life study. For one I have no fear of competition by the Government, provided the same rules and restrictions apply to it as to the private corporations. If the Government conducts this business without administration or overhead charge, without taxation of any kind, without restriction as to investment and without departmental supervision, fair comparison is out of the question. One important fact will however be forced ultimately upon the

attention of all, namely that all administration and clerical expense, that all losses, in fact all outgo, not covered by actual income, must be borne in the last analysis by the Nation and that the individual taxpayer must foot the bill. Something cannot be created out of nothing even by the Government and financial camouflage will not long deceive the people.

The duty of the Insurance Fraternity is clear. We must do all in our power to support in a whole-hearted patriotic way every War Measure. The student of European affairs surely recognizes the great political changes which have taken place since the beginning of the War. It takes a mere superficial knowledge of the situation to discover the so-called socialistic tendencies of the times, and at our own capital even the occasional visitor cannot but be impressed with the same tendencies there.

Under our system, great economic questions affecting society are solved in the main by voluntary co-operation through private corporations. This naturally throws upon the management of those corporations a tremendous strain in times like these. It becomes our duty to prove that our national system is so elastic and so wisely managed that it can adapt itself to all conditions. The old-fashioned "stand patter" who becomes panic-stricken at every evidence of change has no place in the solution of present problems. As affecting our business, we must so act as to prove the merit of our Insurance system and the wisdom of the

individuals controlling the system. Results are the only argument to which the public will listen and there is no reason why they should listen to any other.

Take the matter of War Risks; most of the Life Insurance Companies of today are conducted upon a mutual basis. The managers of these companies are not handling the private funds of stockholders and they cannot experiment in the assumption of risks where there is no scientific basis upon which to calculate the probable future loss. The Government proposes to do that by the Optional Insurance plan. It is our duty and the duty of our representatives throughout the country to call the attention of the soldiers and sailors to the immense advantages to them of such a system and to show them that it is their duty to take as much of this insurance from the Government as they can possibly afford to take, up to the maximum amount allowed. Mr. James D. Craig in a recent address estimates that Twenty Billions of insurance will probably be taken out if the War lasts two years from last April. The magnitude of these figures is shown by the fact that the total life insurance now in force in this country is something like Twenty-five Billions. Of course, when we consider such a possibility, one sees at once that the estimates of probable cost submitted by the advocates of the Bill when the Bill was passed are ridiculously low, but the Government has committed the Nation to this plan and the soldier should take advantage of it.

In this Bill, immense power is given to certain officials in Washington. It is the patriotic duty of all Insurance experts to aid the Government in the future as they have in the past by all the advice and assistance which can be granted. Men of our profession can also be of great help to the Government in assisting it to obtain the services of men best fitted for the administration of this enormous bureau. This is most important in view of the vast powers which are delegated to its heads.

The possibilities of the future of this department are appalling. That is true of almost every department of war activity. The proper administration and solution of this one problem calls for courage, clear vision and patriotism of a disinterested and intelligent character. Technical knowledge and practical experience will be needed by this Bureau at every turn and I know that the members of our Association and of the Life Insurance profession at large are ready and eager to lend to the Government in its colossal task all the assistance in their power, as they have done in the past, freely and unselfishly.

The question of Taxation, as affecting Life Insurance Companies, is one which has in the past been a source of great vexation to insurance managers. The great proportion of taxes paid, up to the present time, has been the result of legislation by the various States. This taxation was in the main for the purpose of meeting State expenses of a general character as very little of the amount collected was needed for the administra-

tion of the various Insurance Departments in the various States. The tax was an easy one for the States to levy and collect and was, and is, very attractive to the States imposing the tax. I take the liberty of quoting an extract from an address on Dividends made before this Association ten years ago, in which I said:

“Is it proper to charge the total state taxes against the total premium receipts, thereby affecting the dividend distribution which the law says must be equitable?”

“If a certain State or locality imposes a tax upon the premium receipts of that locality, is it equitable and fair that that tax should be paid by the policyholders in general? Would it not be more fair and more equitable to allot and apportion the dividends without reference to the tax paid and then to deduct the tax in each instance from the dividend declared? By this method the policyholders of each State would pay the tax which their own representatives imposed and the burden would rest where it fairly belongs.

“The educational result of such a line of action in showing to policyholders that they themselves pay the taxes out of their dividends would be of incalculable benefit to the policyholders themselves, for, while during the present period of reform, economies are demanded all along the line, the only item of expense which shows an increase is the tax paid for the right of transacting business.”

The present War Insurance Tax is an entirely different matter. The idea of levying a National

Tax for war purposes from the Life Insurance Companies is sensible, practical, and the tax is easy of collection, but the fundamental principle must be kept clearly in mind, that this is a contribution from the individuals composing corporations and not a Governmental levy upon some intangible body, loosely described as a "corporation."

Had the companies ten years ago started in by unanimous consent to educate their policyholders as to the application of taxes, State Taxation by which each commonwealth has been trying to force these corporations to pay its local bills would by this time have been better understood and corrective measures would have doubtless been instituted. If the policyholders had been taught that ruthless attacks on railroads, on real estate, on all vested interests, were really attacks on the private property rights of every individual policyholder, then the millions of policyholders of this Country, most of whom are voters, would have been by this time in a position to present an impregnable barrier against unfair legislative attack and confiscation. In other words, each policyholder would have been taught to realize that it was his duty to oppose every legislative act which was unfair to his vested interests and these attacks could not have been successful, based as they were in many instances simply on the popular prejudice against corporations. I regret to say that rivalries between the Companies, selfish interests and lack of unity of action have prevented educational

action in the past and are responsible largely for the dense ignorance which has prevailed, and still prevails, as to what a "Mutual" Life Insurance Company really is, and who it is that ultimately pays every tax levied upon such a body. These attacks in the past have in many instances been unjust. The motive behind them has been bad and the source of many of them unrighteous.

At the present time the situation is altogether new. The Nation is now at war. Every individual must freely and willingly contribute his share to the general expense. Where it is impossible for the Nation to segregate the property of the individual and that property can only be found in groups, those groups must be taxed; that is, Mutual Life Insurance Companies, being an important group of thrifty individuals, their property so found by the Government must be taxed in bulk.

It is impossible, at this time, to analyze clearly even the salient features of the present War Revenue Law, as affecting Life Insurance Companies, but I am personally in favor of the general method adopted and I feel that our legislators have striven to enact a measure that is as fair as possible to the policyholders in the Country.

The question which affects us as Insurance Managers is "What disposition shall be made of this enormous expense which is now added to our budget?" I do not share in the opinion frequently expressed that the ordinary policyholder cannot be educated to understand this matter, nor do I share in the feeling expressed in some quarters,

that we should strain ourselves to maintain the former schedule of dividends while we are subject to this tremendous increase in expense. I do feel, however, that everything should be done by concerted and unanimous action among the Companies to show the policyholder that *he himself individually* is bearing a proportionate share of the Nation's expense and that this expense means a deduction from the dividend which would in ordinary circumstances be otherwise returned to him. It may be possible to carry on this plan of education by general statements and it may not be feasible, on account of the amount of detail involved, to change our system so as to show to each policyholder what share of the total tax will be borne by him, but it seems to me imperative that our wisest and most experienced men should give to this subject most careful attention and that whatever plan is adopted it should be carried out with unanimity by the various Companies.

Our agents do not wish to see a reduction in the present dividend schedule, fearing as they naturally do that such a reduction would lead to a decrease in their productiveness, and it may be that most of the Companies can safely go through the first year under this new Federal Tax without material retrenchment in the dividend schedule, but if the War is to continue and if this tax is to remain as it is, or increase in the future, sooner or later we must all fall back upon the manifest truth that a National War Tax is a necessary expense added to our ordinary expenses and that

this expense must not only be accepted cheerfully by Insurance Managers but that it must be thoroughly understood by all our members.

I fear there is great danger in this important matter that we may make the same mistake which we have made in regard to State Taxation. Preparedness must be made in advance. The evil of inadequate preparedness should be sufficiently impressed upon our minds. It is certainly unwise for us to hesitate at the present moment to approach this problem and we must solve it without considering our selfish individual interests, the particular individual strength of the Company which one may represent, without fear of popular misunderstanding and misapprehension at the start, but with the main point firmly impressed upon our minds that it is our duty not only to conduct our Companies on a broad patriotic spirit but at the same time to teach our policyholders that it is their duty as well as their privilege to contribute each his own share towards the accomplishing of the main result.

If the Companies are willing to invest their funds largely in Government War Loans at a rate of interest less than that which is offered on the bargain counters of our Nation today, if the Companies are to pay out in the aggregate these vast sums for taxes to meet the necessary war expenses, why should the Managers assume for themselves any particular credit for such patriotic action when it is really the individual policyholder, acting with his fellows, who is paying

the bills of the Government and making these sacrifices? The ordinary policyholder cannot be expected to appreciate these facts unless they are brought to his attention. Believing as I do in the manifest and unanimous patriotism of our people, especially those of the thrifty class who constitute our body of policyholders, I personally believe that such a course of education and enlightenment would not only be greatly appreciated by our members but would meet with a hearty response and approval from them which would surprise us all. I may be allowed to quote from my own personal experience which has indicated to me that such frankness of treatment is what the people of this country now expect and that the experiment is worth trying. I sincerely trust that this Association may give to some such movement its endorsement and approval, in the hope that by its example it may lead to its general adoption outside of its own membership.

As a Nation, we are passing through a period without precedent. The world at large is turning for relief to many new and untried social and political plans to solve its problems. The clash of class feeling rings out in every political contest. The fundamental cause of most of our unrest and of the world's unrest is lack of understanding between the classes. The Corporations have neglected the people and the people have not understood the Corporations. Skillful agitators have fomented these misunderstandings. The Life Companies have a tremendous opportunity for good in this

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crisis. It is our duty to educate our members to a realization that they are partners in their Companies, that they are the ones who are aiding the Nation in its righteous cause, whether it is by defending their own Companies against unjust attacks from selfish interests or by encouraging their managers in every patriotic effort. Reduced earnings we may have as a result of investment in Government securities, increased burdens we shall surely have as a result of Federal Taxation, but how can the Nation better distribute the burden? We must show our members that they are the ones who are making these sacrifices and that the Companies are merely collections of co-operating citizens. Now is the time for intelligent, educational work for the Nation. Will this Association undertake it and will the Life Insurance Companies of all kinds and all localities join in the common cause?

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