(No. 694.)

# LIFE INSURANCE A[illegible] INVESTMENT.

# TONTINE-DIVIDEND

# LIFE ASSURANCE POLICIES.





## BETTS & REGISTER,

*General Agents Equitable Life Assurance Society of the U. S. for Pennsylvania, Lower New Jersey, Delaware, Maryland, District of Columbia and Virginia,*

No. 432 Chestnut Street,

PHILADELPHIA, PA.

# RECOMME[illegible]OF THE PLAN.



The following extrac[illegible] letter received February 2d, 1869, from the Hon. Wi[illegible] New [illegible] tendent of the Insurance Department of the S[illegible] to a request made to him by Mr. George W. Phillips, A[illegible] of [illegible] Equitable Life Assurance Society, that he would give his opinion on the [illegible]ntine Dividend System as recently introduced by that Society :

"The Scheme (the Tontine Dividend System) seems to be s[illegible]
"cable to certain classes of policy-holders that, like many importa[illegible]atural and appli-
"science and art, the wonder is how it could have so long remaine[illegible]t discoveries in
"undiscovered. Especial credit is due to the man, or men. who co[illegible]dormant and
"thought of collecting the Tontine tendencies of men and applying this [illegible]nceived the
"to the development and spreading of Life Assurance. * * * Your [illegible]mentum
"developed in the pamphlet, with, perhaps, some slight modifications, co[illegible]lan, as
"within itself the elements for the most successful application of the princi[illegible]tains
"any yet elaborated on either side of the Atlantic. * * * [illegible]al of
"Your new method of dividends, will, I think, prove to be popular with our
"people, as, while preserving the great end of Life Insurance, by securing a large
"amount in case of early death, it offers all the best results of Tontines, by secu-
"ring increased advantages to survivors, and a release from the payment of premiums during the advanced ages, when enterprise begins to flag and the resources and energies of youth and middle life begin to diminish."

We have read the opinion by the Hon. William Barnes, the able Superintendent of the Insurance Department for the State of New York, and heartily concur in the views therein expressed, and recommend the Tontine Dividend Policies as presenting important advantages not heretofore offered to the public. The endorsement of so distinguished an expert as Mr. Barnes is in itself sufficient evidence of the value of this discovery to the Insurance community.

New York, April 7th, 1869.

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J. M. MORRISON,
(Pres. Manhattan Co.)
HOWARD POTTER,
(Of Brown Bros. & Co.)
W. BUTLER DUNCAN,
(Of Duncan, Sherman & Co.)
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(Of William Tilden & Nephew,)
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GEO. TALBOT OLYPHANT,
(Pres. Delaware and Hudson Canal Co.)
HENRY G. MARQUAND,
(Banker and Vice Pres. St. Louis & Iron Mountain R. R. Co.)

# TONTINE-DIVIDEND POLICIES.

THE EQUITABLE LIFE ASSURANCE SOCIETY is prepared to insure lives upon a *method which has never before been practised by any life assurance company*, and which, it is thought by those who have given it the most study and reflection, *will render life assurance popular to a degree hitherto unknown.* Government bonds and bonds and mortgages on real estate are considered by many persons the safest kind of investment. They regard money paid for insurance of any kind rather as an expense than as an investment adding value to their estates. To obviate this in the fullest degree, the present method has been devised, which is now *for the first time presented to the public.* Objects of the System.

Tontine annuities, which were first made attractive by Lorenzo Tonti about the middle of the seventeenth century, have become exceedingly popular throughout Europe and in some parts of South America. A tontine is quite the reverse of life assurance, it being, in fact, a combination of persons who contribute to a common fund which shall be enjoyed by the survivors only; so that as years roll on and the numbers surviving diminish, the income is, of course, constantly increasing to those who live, until the last members of a class enjoy most extraordinary advantages from the system. In 1689 the last survivor of the tontine in France, a widow, just before her death, enjoyed an income equivalent to about $20,000 of our money for her original subscription of about $80. So popular has this system been in Europe, that governments have used it for the purpose of raising money for national support. Those who invest in tontines care little for leaving money to those who may come after them, (who—they may consider—have little or no claim upon them,) and prefer to enjoy, while living, a large annual income, which combined with entire safety, their money could not produce in the shape of interest, in any other way. Life assurance, as has already been observed, is quite the reverse of the tontine principle, and the arguments which induce persons to invest in securities

Origin of Tontines.

What is a Tontine.

Large profits from Tontines

Persons who use them.

Life Assurance.

of this character appeal to higher and more unselfish motives than those which influence investment in tontines. The apprehension arises in the minds of many persons who are asked to assure their lives, but who have not given life assurance much study, that in case of a long life the investment may prove a bad one; but a careful investigation will prove that this objection is not well founded. We have before us a policy in one of the leading mutual companies, issued more than twenty-five years ago, taken out originally for $5,000, on which when the policy became a death-claim, more than $10,000 was paid by the company, the excess over the original amount of the policy being more than seven per cent. interest on all the payments received by the company. It is proper to state that this result was due not only to the marvelous power of compound interest, but also to the fortunate increase in the value of investments, the large return of surplus premiums, and other gains incident to the business. The case cited is not an isolated one: the same thing has been often repeated and may again be repeated. At the same time, it must be acknowledged that the gain from investments in life policies is greater in the case of early death; and the popular mind seeks for some simple method by which an equalization of the benefits of life assurance can be secured, whether the assured die soon or late. The system now under consideration though differing from either tontine or life assurance, combines all the advantages of both, and has been brought out under the supervision of two well-known mathematicians, Mr. George W. Phillips, actuary of the Equitable Life Assurance Society of the United States, and Mr. Sheppard Homans, author of the Contribution Plan of Dividends. This system is known as the "Tontine-Dividend System," under which, by a skillful adjustment of the dividends, a recompense is given to those life assurants who live nearly up to or beyond the period known among actuaries as their "expectation" of life. If a person at the age of 35 insures his life in a company for $25,000, and pays a premium of $659 50, and dies during the year, while theoretically as much profit is made by the company from insuring his life as from insuring the lives of those who are long lived, because the tables are adjusted to meet this exigency, still, in a practical sense, certainly no money is realized from the individual transaction. It would appear exceedingly equitable *that the person who dies early*, and whose family receives the face of his policy, equal to a profit

Popular fallacy.

Increase of Policy.

Causes.

What is needed.

Tontine Dividends.

Equitable Division of Profits.

of 100, 500 or even 5,000 per cent. on the money he has invested, *should not receive a further sum in the shape of dividends* and that *those who continue to pay* their premiums through a long series of years should have the benefit of the accumulated dividends, in addition to the face of their policies respectively, *giving them a profit on their outlay somewhat approximating to that of those dying early*. The "Tontine-Dividend System" aims among other things to accomplish this equitable distribution of surplus. And it is thought by the Superintendent of Insurance of the State of New York, Hon. Wm. Barnes, and many of our most prominent business and financial men, that *itwill popularize life assurance to a degree hitherto unknown.*

**Opinion of Sup't Barnes.**

The plan as applied to a particular case is simply this. If a person at the age of 35 years insures his life for $25,000, and pays the annual premium of $659 50, interest on these annual premiums is to be theoretically compounded at the rate of 10 per cent. per annum, until such premiums, with interest as specified, amount to the face of the policy, which at the age mentioned, would be in 15.4–10 years. During the intervening period the company issuing the policy makes its annual dividends on this and all other tontine policies, keeping the profits on the same separate from the rest of its policies, and setting them apart as a fund belonging to the tontine class, but not payable in any case until the end of the specified period of 15.4–10 years, and then only on such policies as shall be actually in force, those policies terminating in the interval receiving no dividends. The person holding the tontine-dividend policy above-mentioned, will, at the end of the 15.4–10 years, begin to benefit by the dividends already declared; and further dividends will be made annually thereafter throughout the remainder of the term of the policy. These dividends will be payable in cash, thus reducing or canceling the annual premiums, and afterwards yielding a constantly increasing cash annuity as well. It has been calculated by the best actuaries that the dividend on such policies will be three or four times greater than have hitherto been declared by any Company. The same principle is applied to policies on lives at other ages; *the distinctive feature being that there is no participation in profits until the premiums paid, compounded at 10 per cent. interest, equal the face of the policy, and then the survivors receive the whole accumulation of profits.*

**Description of the Plan.** **Dividends to be reserved.** **When participation begins.** **Cash Dividends.** **Cash Annuity.** **Distinctive Feature.**

Persons dying during the non-divided period receive the amount secured by their policies respectively without profits.

**Deaths in the Interval.**

Lapses.

Persons discontinuing their policies prior to the dividend-period, receive no surrender values therefor.

Tables used.

Policies are to be issued at the rates charged in the "*Ordinary Life Table*," or in the "*Endowment Table*," (*with twenty years or more to run*,) payable in either case by premiums continuing during the whole term of the policy. These premiums may be paid annually, semi-annually or quarterly.

Unusual Grace allowed.

In the payment of premiums on all policies in the tontine classes, a grace will be allowed of as many months (not exceeding six,) as will correspond to the age of the policy in years; thus the payment of any premium for the first year of the policy may be deferred for one month, of any premium for the second year two months, and so on—provided that in all cases when this grace is availed of, a fine at the rate of ten (10) per cent. per annum will be exacted. Thus there need be no accidental forfeiture of a policy; and the greater the value of the policy, the longer is the grace allowed for the payment of premiums upon it.

A Fine.

Variations in the plan.

This plan will admit of a number of variations: for instance (1), the division of profits may begin at the end of an arbitrary period of ten, fifteen or twenty years; or (2), a separate class of policies may be issued on either of the foregoing plans, upon the surrender of which paid-up policies will be given for the value thereof, in case the same are allowed to lapse by non-payment of premium before the dividend begins, but on which no dividends will be paid in case of death before the dividend period. It is not to be expected, however, that the dividends will be as large as in the previous classes, because one of the material sources of profit is diminished.

Advantages.

Such is the proposed system of tontine-dividends. What are its advantages?

A 10 per cent. Investment.

*It will be seen that by this system, if an assurant dies at any time, even on the last day*, before the period is reached when participation in profits begins, *his representatives will receive more than ten* (10) *per cent. compound interest upon the money paid into the society for premiums.* If he dies within the first few years of his assurance his representatives will receive many times ten per cent.; if during the first year it may be 5,000 per cent. At the age of 35 on a life policy the dividend will commence in 15.4 years; an assurant therefore on this plan may secure in case of death during that time a ten per cent. investment at least. And afterwards it is probable that on such a policy the dividends will not merely pay the premiums in full, but secure a very comfortable annuity besides to the assurant during his life. Annuity.

Now, is not this just what many men in the community need—something to protect their families in case of sudden early death—an investment which is certain to pay ten (10) per cent. compound interest at least for, say 15 years, (at the average age of assurance;) then afterwards the requirement of no more premiums, the assurant receiving instead a considerable annuity, commencing just at the time *when age begins to impair the faculties?* The community's need.

Does not this plan do in effect what the policies payable in 10, 15, or other limited number of annual payments aim to do—the complete paying up of the premiums during the productive years of life, and the securing an income from the policy at middle life and in old age? And though the tontine-dividend policies receive no dividend for some ten or fifteen years, yet as the ordinary life premium at the average age is but half the ten-year premium, the result in actual outgo on a tontine-dividend policy will be more satisfactory than that on a ten-annual payment policy, at the same time that the lightening of the pressure of the payments required will be often very desirable during the first year or two of the policy, when the policy-holder, perhaps just starting in business, can spare with difficulty the amount required by the lowest tables. Better than a 10 payment policy.

Again, to compare the tontine-dividend system with the stock system without profits, is it not better to pay a somewhat higher mutual premium for, say fifteen years, with the expectation, that after that time not only will no premiums be required, but that *a very considerable income* will be received from the policy, rather than to pay up to the very end of a long life—as a penalty, it would seem, for superior vitality—a stock premium, somewhat lower indeed, *but without the least abatement in old age?* Better than the Stock System.

It would seem that this plan, while it gives the class who pass the dividend period all the advantages of the mutual plan, also gives them all the benefits of the stock plan as enjoyed by the holders of stock in companies of that kind; the class who pass the dividend period obtain their insurance at the net rate, *while the profits of those policy-holders who fail to pass the dividend period go to swell the annuity of the former, which same profit in a stock company would contribute to enlarge the dividends of the stockholders.* Combines benefits of stock and mutual plans.

How mortgaged property can be relieved.

It is claimed by the Equitable Society that the system of Tontine-dividends is adapted in a most remarkable manner to the *wants of those persons who have mortgages upon their real estate* which they may either *not care* or *not be able to pay off*. Their unwillingness may be owing to the fact that the money borrowed is more valuable to them in their business than the current rate of interest which they pay for its use; their inability to the fact that their necessary expenses make it difficult for them to save enough money to make very rapid progress in removing the mortgages. In either case the apprehension may weigh heavily upon their minds that in case of their sudden death the mortgages might prove unfortunate if not disastrous encumbrances at a time when all available moneys are needed in winding up their estates; as many a time a mortgage made during the lifetime of an owner proves, in case of his death, *the loss of the entire property to the family*. So great have been the changes produced during the last ten years in the prices of living and the general expenses of the man of family, that many persons have been anxious to buy homesteads rather than pay the large rents and suffer the inconveniences and uncertainties incidental to the rental of houses. This proceeding would in all cases probably prove a wise one provided the persons in question could be guaranteed a long life, but they have frequently been obliged heavily to mortgage these homesteads in order to carry out and fully perfect their plans. The reflection which is sure to come over their minds of the trouble that would result to their families in the event of their sudden death often causes *untold anxiety*; and the difficulty they experience in saving from their incomes a yearly sum sufficient to give promise of a liquidation of such mortgages within any reasonable time, fills them with *evil forebodings for the future.* Now it is proposed in a most easy and simple manner to obviate all this trouble. Let the person so situated insure his life on the Tontine-Dividend plan for the amount of his mortgage. While the sum as before mentioned which may be saved year by year is small as compared with the amount of the mortgage, it may still be enough and more than is necessary to pay the annual premium required to cover the entire *amount of the mortgage.* Having done so, the person may *dismiss this anxiety entirely from his mind*, and devote himself to his business with a heart free from care, for he then knows that in case of death at any time, even the very next day, *his policy would pay off his mortgage.* And as years roll

Inability or unwillingness to discharge mortgages.

Sad effects of mortgages.

Tendency to buy homesteads or mortgage the same.

Wearing reflections.

The trouble obviated.

on and he reaches the period when the dividends commence, his premium will be almost if not entirely extinguished, and the annual dividends thereafter will soon yield him a cash annuity at first almost and then entirely *sufficient to pay the interest on his mortgage.* So that the policy, which was first and during the producing years of his life an annual expenditure to him, may in the end, as fully as a government bond, produce a yearly revenue sufficient not only to pay the premium on the policy but interest on his mortgage and prevent the same from being any burden to him. If the person should be able to spare a slightly increased premium, it would be wise for him to take a "twenty year endowment policy" instead of an ordinary life policy. The same advantages would then be gained with the additional feature that the person would in twenty years, if then living, himself receive the amount of his policy and the mortgage could then be discharged, instead of waiting until the time of his death.

**Principal and Interest both paid.**

**An Endowment all the better.**

The same principle which has been thus described in regard to the owners of mortgaged premises applies with equal force to the case of those persons who may have incurred debts which they are at present unable to pay with convenience, but for the satisfaction of which they consider it both *their duty and pleasure to provide, if possible.*

**Relief for Insolvent Debtors.**

The arguments supporting the Tontine-Dividend system address themselves with peculiar force to many persons who are in the possession of large incomes. These may be divided into two classes: (1) those who are possessed of large assets, and who enjoy large incomes as well, and (2) those whose large expenses during their business life have prevented their accumulating much, but who are, nevertheless, earning large incomes by the exercise of their hands or brains.

**An opportunity for persons in receipt of large incomes.**

Let the first class remember that their estates, as a whole, *are worth much more to-day, if they are living, than to-morrow, if they are dead.* No one can settle an estate, and disentangle the meshes in which a man's business is oftentimes entwined, as well as the owner. It is well known to most business men that, in the majority of their investments, living they gain, dying their representatives lose. It is now proposed to such persons to cast a sheet-anchor to windward. Let them wisely hedge themselves in at least one of their investments. Now the characteristics of life assurance are, in some respects, directly the opposite of those we have described, as peculiar to most other investments. For the sake of the parallel, we will

**Advantages to Capitalists.**

assume (what nevertheless is untrue) that life assurance will prove a loss to the person who lives long; for no one will deny that in the event of his dying soon it will be a large gain; and it is a demonstrable fact that this gain may be as great as one hundred, one thousand, or even five thousand per cent. on the actual outlay. *Thus the business man who dying early will lose to his family a portion of his investments, may by the same stroke make a gain to them of a sum quite as large.* The Tontine-Dividend system brings this argument home to business men with greater force than it could be presented by the ordinary system of life assurance, from the fact that the profits upon the policies of this class, as specified above, will probably be three or four times as great as have hitherto been declared by any life assurance company; and, in the opinion of the most competent judges, *a policy of this kind will pay a remunerative rate of interest, in the end, upon the whole investment.*

Advantages to persons earning large incomes.

*To those having large incomes, but who have not accumulated sufficient to make them independent, policies of this class present strong attractions.* There are few men possessing the ability and industry to earn annually large sums of money, and having great and constantly increasing experience and knowledge in the pursuits to which they devote themselves, who do not feel a confidence (provided their lives are spared) that they will be able to maintain, and even enlarge, their power to produce the same results during the early and middle portion of their lives, if they can only keep their minds free from anxiety in regard to the future prospects for their families. Such, however, may be their love of luxury, and their determination to surround themselves and their families with present comforts, that they may not see any practicable way of rapidly providing an independent competency for those they leave behind them. But they can easily save a sufficient amount from their annual incomes to insure, as the case may be, for either 10,000, 25,000, 50,000, or 100,000 dollars, and, having done so, feel quite as great a certainty that their families will be provided for in the event of early death, as if they were possessed of an equal amount in United States Bonds, or other marketable securities. Such persons might hesitate before using the sum of money which would be required to pay the premiums, in any way which they might consider an expense, but it would seem a most wise and commendable thing for them to *invest* such money in a Tontine-Dividend Policy, which

Hard to accumulate.

Easy to pay preimums.

will be in the end an investment as profitable to them as a Government Bond could be, and which possesses the power, [to be found in no other kind of security,] of providing for the families the sum total *whenever they may die.* There is no kind of investment excepting Life Assurance, in which present payments of a trifling amount and the promise of future payments while the investor lives, are received in full satisfaction for the amount deemed necessary for the support of a family, which is paid down in cash, whether the death occurs early or late.

As good as a U. S. Bond.

Unlike any other security.

To those who may already have policies upon their lives, issued upon any of the plans hitherto practiced by Life Insurance Companies, it is thought that this Tontine-Dividend plan presents strong arguments for taking additional policies. The profits on such policies (which, upon any of the ordinary plans, would be enjoyed by the general mass of the policy-holders, and are on this plan given only to those who pass the period when the dividends begin,) are, by the power of the Tontine principle, augmented to such a remarkable extent, that while the taking of the additional policies is wise in itself as a new security, the annuity ultimately to be derived from the same may most opportunely aid in the payment of the premiums of the policies already in force, and thus "make assurance double sure."

To those already assured.

Periods when dividends begin.

| Ordinary Life. | | Twenty Year Endowment. | |
|---|---|---|---|
| AGE. | No. of Years required for the premiums at 10 per cent. Compound Interest to equal the amount assured. | AGE. | No. of Years required for the Premiums at 10 per cent. Compound Interest to equal the amount assured. |
| 25 | 17.8 | 25 | 10.9 |
| 30 | 16.7 | 30 | 10.7 |
| 35 | 15.4 | 35 | 10.5 |
| 40 | 14.0 | 40 | 10.3 |
| 45 | 12.5 | 45 | 9.9 |
| 50 | 10.9 | 50 | 9.2 |
| 55 | 9.3 | 55 | 8.4 |
| 60 | 7.7 | | |
| 65 | 6.1 | | |

As the dividend period on most policies will mature in the middle of a year, the dividend will not be applicable to the reduction of premiums and payment of annuities until the succeeding year; but due allowance will be made for the intervening time.

Adjustment of irregular periods.