LIFE INSURANCE: ITS ECONOMIC AND SOCIAL RELATIONS

WILLS, TRUSTS AND ESTATES

JAMES L. MADDEN

LIFE INSURANCE: ITS ECONOMIC AND SOCIAL RELATIONS
EDITED BY
SOLOMON S. HUEBNER

WILLS, TRUSTS AND ESTATES

LIFE INSURANCE: ITS ECONOMIC AND SOCIAL RELATIONS

Edited by Solomon S. Huebner

THE ECONOMICS OF LIFE INSURANCE
by Solomon S. Huebner

WILLS, TRUSTS AND ESTATES
by James L. Madden

TAXATION
by Harry J. Loman

SAVING, CREDIT AND INVESTMENT
by Solomon S. Huebner and James L. Madden

THE LAW OF SALESMANSHIP
by E. Paul Huttinger

EDUCATION AND PHILANTHROPY
by John Alford Stevenson

THE SOCIOLOGY OF LIFE INSURANCE
by Edward A. Woods

LIFE INSURANCE: ITS ECONOMIC AND SOCIAL RELATIONS

WILLS, TRUSTS AND ESTATES

BY

JAMES L. MADDEN, M.A., J.D.

THIRD VICE PRESIDENT, METROPOLITAN LIFE INSURANCE COMPANY; FORMERLY MANAGER, INSURANCE DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES; MEMBER OF THE BAR OF THE UNITED STATES SUPREME COURT; MEMBER OF THE NEW YORK STATE BAR

D. APPLETON AND COMPANY

NEW YORK LONDON

1927

PRINTED IN THE UNITED STATES OF AMERICA

EDITOR'S PREFACE

This volume on *Wills, Trusts and Estates* is one of a series entitled "Life Insurance: Its Economic and Social Relations," which also includes volumes on *The Economics of Life Insurance, The Sociology of Life Insurance, Taxation, Education and Philanthropy, Saving, Investment and Credit,* and *The Law of Salesmanship.* The purpose of the series is to provide a specialized life insurance literature, in textbook form, in the interest of (1) making available to many business and professional groups one or more books of large practical usefulness; (2) giving to teachers of the social sciences a special literature identifying life insurance with their subjects of specialization; (3) furnishing an opportunity for further systematic study to those who are pursuing the subject of life insurance in universities and colleges; and (4) offering a similar opportunity to those already engaged in the life insurance field.

Life insurance involves not only the creation of insurance estates but also their conservation. The latter phase is highly important if the original purposes of the insured are to be realized, and it constitutes the main subject matter of this volume. Proper protection of dependents involves the careful naming of beneficiaries, the correct choice of a settlement plan, and in many instances the effecting of a proper trust arrangement. These and numerous allied subjects are treated comprehensively in the present volume. Those engaged in the life insurance calling should, in the interest of their clients, be thoroughly conversant with this important phase of life insurance service. From the same standpoint the volume should also commend itself to bankers, trustees, legal advisors, and other advisory groups.

S. S. Huebner

PREFACE

The creation of estates through life insurance is most commendable. Such action usually represents the desire of policyholders to protect their beneficiaries. It does not follow necessarily though that the beneficiaries will receive the maximum amount of protection possible from the payment of life insurance money as this will depend largely upon the efficiency with which they care for this money. Very often this added responsibility is imposed upon policyholders at a time when they are least able to assume it. Insurance companies offer special services designed to help beneficiaries, to safeguard life insurance estates, if policyholders elect to use them. The trust companies too are prepared to assist beneficiaries.

A lifetime may be spent in building an insurance estate which may consist of several substantial life insurance contracts. Yet the average policyholder gives little thought to the manner in which his insurance estate might be distributed most helpfully, and the beneficiary is frequently only too willing to let the future take care of itself. Just how this distribution may be most intelligently made is a question which every policyholder might well consider if he wants to be reasonably certain that the beneficiary will receive, after his death, the maximum amount of protection possible from the total value of his estate. The policyholder holds the key to the answer because he knows of the ability and habits of the beneficiary, the financial demands which will have to be met, as well as his hopes and ambitions for his dependents and the probable amount of money required to make them possible.

There are indications that an increasing number of policyholders are beginning to understand and appreciate the need of a definite program for the care of their estates. This should reflect their judgment as to the methods to be followed in administering the estates, as well as the manner in which payments are to be made from them. The little time required to prepare such a program will be more than offset by the future comfort and welfare of beneficiaries. It is hoped this volume may be of some assistance to policyholders, beneficiaries or their advisors by helping them to have a better understanding of what may be accomplished through careful and systematic planning for the future disposition of life insurance money.

The laws of the various states differ materially on some of the matters referred to in the following chapters, while the service practices of trust companies and insurance companies likewise vary. A real effort has been made in this book to set forth in a simple, non-technical manner for the layman the fundamental principles upon which there appears to be substantial agreement. In doing this the author has had no desire to be dogmatic because men whose judgment must be respected often hold opposite views. To illustrate, in investigating the legal aspects of optional settlement agreements, which are the contractual forms by which insurance companies assist beneficiaries, the author reached the conclusion that they are not legal trusts. Guy B. Horton, Attorney for the National Life Insurance Company of Vermont, who was good enough to review critically some of the material contained in this volume, disagrees with this position. He has set forth his views in an able way in an interesting book. Because of existing variations in state laws and company practices, as well as changes which may be made from time to time in the future, it is most important that any insurance estate program should be submitted for advice to the legal department of an insurance company, to a trust company attorney, or to one's own attorney according to which form of administration the policyholder elects.

Each of the chapters has been reviewed by men whose experience has made them particularly competent to test the accuracy of the statements contained therein. In some cases they have been good enough to go much further and suggest additional material. The author is indebted to these men for their many contributions and wishes to express his particular appreciation to the following: Harry C. Bates, Assistant General Counsel, Metropolitan Life Insurance Company; T. W. Blackburn, formerly General Manager and Counsellor for the American Life Convention; Allan E. Brosmith, Attorney, the Travelers Insurance Company; Melvin J. Cassidy, Cody Trust Company, Chicago; Samuel Davis, Associate Counsel, John Hancock Mutual Life Insurance Company; Percy H. Evans, Actuary, Northwestern Mutual Life Insurance Company; Franklin W. Ganse, insurance, taxation and estate specialist, Boston; Elliot H. Goodwin, Washington; E. M. Grossman, General Counsel, Central States Life Insurance Company; Guy B. Horton, Attorney, National Life Insurance Company; E. D. Jones, Secretary, Northwestern Mutual Life Insurance Company; Edward M. Keyes, Metropolitan Life Insurance Company; John A. Reynolds, Union Trust Company, Detroit; Lelia E. Thompson, Attorney, Connecticut Mutual Life Insurance Company; W. D. Van Dyke, President, Northwestern Mutual Life Insurance Company; Emil Weitzner, Attorney, New York; George B. Young, General Counsel, National Life Insurance Company.

The figures appearing in Chapter II under the title of "The Use of the Premium Dollar" were prepared by Walton L. Crocker, President of the John Hancock Mutual Life Insurance Company, for an interesting article which he wrote for *Nation's Business*. James D. Craig, Actuary of the Metropolitan Life Insurance Company, contributed several of the tables printed, and the late Jacob Chadeayne, formerly Assistant Secretary and Manager of the Ordinary Department of the Metropolitan Life Insurance Company, is responsible for some of the material appearing in the Chapter on "Assignments." H. B. Lemon, one of my former associates in the Insurance Department of the United States Chamber of Commerce, has also been of very real assistance, particularly in reading the proof and checking the accuracy of statistics.

Those who are interested in wills, trusts and estates, as they relate to life insurance, will find the Proceedings and Reports of the Association of Life Insurance Counsel, One Madison Avenue, New York, very much worth while. They were of great value to me.

J. L. M.

CONTENTS

WILLS, TRUSTS AND ESTATES

CHAPTER I

THE INSTITUTION OF LIFE INSURANCE

There is generally a greater appreciation of the value of conserving estates abroad than in America. As a nation we are more inclined to emphasize production of individual wealth. This is not surprising as our country is still comparatively young, but as time goes on the importance of conserving our accumulated wealth within reasonable limits will become more generally recognized. One of the foremost agencies in the production and conservation of estates has been the Institution of Life Insurance.

Economic and Social Status

With the growth of our national income until at present it is estimated to be above $85,000,000,000 while our national wealth has increased until it is beyond $320,000,000,000, life has taken on a more and more complex character. In place of the old artisan we now have mass production; instead of the family unit being primarily self-sustaining, each of us is dependent upon others for the very necessities of life; while conveniences now looked upon as necessities were luxuries 40 years ago. That the automobile and the telephone have become definite factors is evident when one realizes there are about 20,000,000 of the former and 15,000,000 of the latter in operation in the United States. Electricity for lighting and power is common and makes possible many labor and time-saving devices in the homes, such as washing machines, vacuum cleaners, and oil burners. These and many others have played an important part in our standards of living which are materially higher than ever before. In view of these changes, it is not surprising to find savings accounts at a peak, our colleges and universities taxed to their capacity to take care of the constantly increasing number of students, and our mortality on a decreasing basis. All of these results are dependent upon the margin, existing between actual income and outgo, which makes possible the improved standards of living accompanied with many of the niceties and luxuries of life.

Function of Life Insurance

As our economic and social structure has become more complex, the importance of protecting the home against the consequences of death has been more generally recognized. Business has been gradually awakening to the fact that it, too, has an insurable interest in the lives of key men. More and more we find the protecting hand of life insurance spreading over private enterprise.

The problem of projecting into the future one's hopes and ambitions as well as earning capacity for the benefit of dependents is a difficult one for the vast majority of people. If a man were sure that he was going to live until he was able to build up the necessary reserves, his problem would be materially simplified, for then his only anxiety would be to invest the accumulated money properly. But he has no right to assume this, as the beneficiaries in 1925 of 133,349 ordinary policies will testify. These beneficiaries received the face value of policies, of insurance estates, totaling $343,579,761.[1] In these cases the institution of life insurance was able to do something for the beneficiaries which comparatively few of the policyholders could have done individually.

Life insurance is fundamentally a form of collective action, with the insurance company acting the rôle of the stimulating, coördinating, and servicing agency. Life insurance brings together into a common fund the contributions of millions of policyholders. Individually the contributions are so small they could accomplish but little in the way of protecting the home or business; collectively it is possible for these contributions, in the hands of skillful management, to do much. This massing of small units of capital, each representing savings, is one of the distinctive services of life insurance. These funds are promptly put to work and become an integral part in the operation and upbuilding of our economic and social structure for the benefit of policyholders and their estates.

Growth of Life Insurance

The American people have confidence in the institution of life insurance. To-day there are about $80,000,-

[1] New York Insurance Department Reports.

000,000 of life insurance in force including industrial, group, and ordinary life insurance. This corresponds to a little less than one year's national income. In 1900, there were 3,071,253 ordinary policies in force, whereas in 1925 the number amounted to 18,600,092.[2]

According to the Bureau of Internal Revenue, the average net income of Federal taxpayers during 1924, without deductions, was $4,013.55. The average amount of ordinary life insurance in force per policyholder has been estimated to be about $2,600, and as the average cost per thousand of the different kinds of ordinary insurance reported to the New York State Insurance Department is about $32.44, it entails a cost of $84.34 per policyholder. Assuming that the average income of taxpayers is the same as that of policyholders, they are contributing 2.1 per cent of their incomes for life insurance. However, in an address before the Association of Life Insurance Presidents, M. Albert Linton, Vice-President of the Provident Mutual Life Insurance Company of Philadelphia, stated that $3.10 out of every $100 of national income is invested by the American people in life insurance. His percentage includes all forms of such insurance, whereas the former relates only to ordinary life insurance.

The Federal Government informs us that 1.80 per cent of the total amount of income reported by taxpayers was spent for contributions, charity, etc. Such expenditures are most laudable and should be encouraged, but it is significant to note that at present pol-

---

[2] *Ibid.*

icyholders are spending for ordinary insurance only slightly over 14 per cent more for the protection of themselves and their families than they are contributing to charity. It is reasonable to suppose that ultimately this percentage will become greater as they realize that the larger the life insurance estate, the less will be the probability that their beneficiaries may have to depend upon charity.

Who Receives Benefits

Too often life insurance is looked upon as death insurance. This is not the correct view of it, because the average policyholder will live up to his expectancy of life. If the policyholder is reasonably well insured and lives, he invariably has the necessary funds to take care of himself in old age. Thus life insurance not only protects the family unit during the life of the policyholder when his responsibilities are heaviest, but subsequently it enables him to be self-supporting at a time when his earning capacity is materially reduced. It is not generally appreciated that life insurance companies are paying more money to policyholders than to beneficiaries. The table on page 6, based upon the New York State Insurance Department reports, bears out this statement.

There are usually four types of worry which bother men with dependents. These are, what would happen in the event of poverty, incapacity due to sickness or accident, old age, or death. Life insurance can relieve a policyholder of all of these worries through its saving or protection features. Life insurance enables the policyholder to create promptly an estate which would take most individuals many years to build. This potential estate is effective upon the acceptance of the application by the insurance company and the contribution of a small sum, often less than 3 per cent of the face value of the policy. Expressing this another way, the policyholder buys a bond which is callable at death. Instead of paying the principal and receiving the interest in the interim, he pays only the interest and receives the protection while he is living and the guaranty of the payment of the principal to his designated beneficiary at death.

WHO RECEIVES LIFE INSURANCE BENEFITS *

(In Millions of Dollars)

Year	Beneficiaries		Policyholders		Total
	Amount	Per Cent of Total	Amount	Per Cent of Total	
1925	$422	39	$673	61	$1,095
1924	388	36	684	64	1,072
1923	365	37	633	63	998
1922	323	36	585	64	908
1921	296	39	458	61	754
1920	305	44	386	56	691
1915	218	43	289	57	507
1910	167	46	197	54	364
1905	145	56	113	44	258
1900	99	60	67	40	166
1900-25 ...	5,712	44	7,278	56	12,990

* Companies reporting to New York Insurance Department, *Insurance Year Book*, 1926, p. A-302.

Too little emphasis is placed upon the benefits of life insurance to the policyholder. He is freed of any concern over the welfare of his family in the event of death; he is building a savings account which will be helpful when he reaches the age of retirement; he has the benefit, after a certain limited period, of borrowing from the insurance company at a reasonable rate of interest. Properly used, this feature can be of material assistance in times of sickness or distress.

The money paid to each beneficiary by an insurance company represents an insurance estate. In the aggregate the companies have contributed toward the maintenance of family units or our business welfare during 1900-1925 the tremendous sum of $5,712,000,000.[3] Each dollar of this amount represents capital and human effort which have been conserved and multiplied through careful management and investments of life insurance companies. Each dollar has been regularly and systematically contributed by the policyholder for the protection of his dependents. This money enables the beneficiary to carry out the obligations and ambitions of the policyholder either in whole or in part.

Permanent and Total Disability

With the increasing appreciation of the value of life insurance as a means of providing for the future welfare of beneficiaries, there have been developed many services by insurance companies which make for more complete protection of the home and of business. One of the most important is the permanent and total disability benefit, which preserves the insurance estate in the event the policyholder becomes permanently and totally disabled. A man in this condition, from an economic viewpoint, usually can be of no assistance to

[3] *Ibid.*

his family or business, and in fact is sometimes a burden. His disability entails continuous expense and care. In numerous cases, the life insurance contract would be lapsed because of financial strain if the cash surrender value was insufficient to keep the insurance in force during the disability. The importance placed upon this service by policyholders is evident from the large amount of life insurance, estimated to be about $25,000,000,000, protected by it.

The waiver of premium service of life insurance guarantees the payment of premiums during permanent and total disability of the policyholder. Upon his death the full face value of the policy is paid to the designated beneficiary, less any outstanding loans. All of the recognized leaders in life insurance, with one exception, offer this service to policyholders. The additional expense for this waiver of premium service is extremely small and well worth while because it insures the continuity of premium payments during this contingency and thereby makes the insurance estate a greater certainty.

A further service can be secured which will provide the policyholder during permanent and total disability with a monthly income, during the duration of such disability, often $10 a month per $1,000 of life insurance in force. This in no way affects the face value of the policy. It is not surprising to learn from actuaries of the number of policyholders who recover from their disabilities. The removal of financial worry is often a potent factor in the recovery of a policyholder. With the return of health there is the opportunity to develop the insurance estate further.

Physical Depreciation

A business enterprise which is properly conducted regularly charges off depreciation and obsolescence upon property owned, for instance a factory building. At the end of a carefully fixed period of time the firm has built a sufficient fund to offset the decrease in value. This safety fund takes care of the future housing of their business. As the sum necessary to accomplish this is usually so large, it is built on the installment plan because it takes a considerable period of time to accumulate.

A man in the prime of life is usually at his peak from the standpoint of earning capacity. He pays the rent, gas, electricity, food, and other bills, including amusements and education, and then he usually thinks he has saved the remainder. There is one expense he has overlooked, the depreciation and obsolescence of his body which, like the factory building previously referred to, gradually loses its productive value. When the time comes that the body cannot earn enough to be self-supporting, who will take care of the excess of expenses over income? Obviously a fund should have been accumulated during productive years for this purpose. Each month when the bills were paid a certain additional amount should have been set aside to pay similar bills when the body would be no longer self-supporting. Then whatever is left would be savings. Here too it is the exceptional case when the declining years can be provided for on any basis other than the installment plan. No person is free of debt because he has paid all bills submitted, unless he has also paid an installment to the fund which will insure his independence and freedom when his economic value is on the decline. If this is not done, then the man is relying upon the future earnings of some one else to support him, or he will pass his remaining days as a ward of the state.

Mortgaging Future Income

But there is another way of living on the installment plan. This involves the mortgaging of future income for present needs, comforts, or luxuries. This system has been vigorously opposed and as vigorously supported by business leaders. For years, homes and furniture have been purchased on this basis. With the development of the automobile, radio, washing machine, vacuum cleaner, and other means of providing pleasure or relief, there has been a huge increase in the amount of installment buying. The effect of such tremendous mortgages on future earnings has caused concern among some, while others point to the added development in the home, community, and commercial life as the result of a broader distribution and use of the commodities purchased.

In 1925, the American public paid to service stations and automobile repair shops the sum of $4,430,000,000, while the wholesale value of the pleasure cars manufactured was $2,523,642,558. As the latter figure is the wholesale value, it is a fair assumption that the American people are spending at least three times as much for automobiles as they are for life insurance. From the standpoint of estate building, it is well to remember every commodity purchased on the installment basis is a debt for which the estate will be liable. Some definite provision should be made to take care of this. Life insurance can do this.

Life insurance will protect the estate in the event of either physical depreciation or mortgaging future income. It is so flexible that a policyholder can arrange to create the necessary estate in a way convenient to his financial circumstances. Regular contributions, called premiums, may be made toward the building of the insurance estate from current income. As they are relatively small in comparison with the purchase price of many common conveniences, they are seldom missed. These contributions are made at definite intervals, usually annually, semiannually, or quarterly, which enable a policyholder to carry the maximum amount of protection. From the foregoing it is evident that just as a purchaser of some luxury or convenience buys on the installment plan, so he may provide for a future estate. It is well to keep in mind that under the former his interest is depreciating, while in life insurance the longer it is in effect, the more valuable it is. Of course in the event of his death the potential estate equivalent to the face value of the policy becomes an actual estate.

A man who buys a commodity or service for cash usually pays less than his neighbor who purchases upon the installment plan. This is to be expected, because in the case of installment buying the capital of the distributor is tied up and overhead expenses are greater. The same thing is true in life insurance. A policyholder who can pay a single premium for an insurance contract is entitled to benefits not shared by those purchasing on the installment basis.

Time Factor in Estate Building

The earlier in life the estate is founded the smaller is the danger that it will never be created because of physical impairment. Companies selling group life insurance, which requires no medical examination and where fifty or more employees of a common employer are protected under a blanket policy, claim 18 per cent of the employees covered under that form of insurance could not receive life insurance protection otherwise, because of their physical condition. The Life Insurance Sales Research Bureau reports that, using 1923 life insurance business as a basis, an amount equivalent to almost 10 per cent of the life insurance applied for was rejected. The average amount applied for was one-third larger than the average face value of the policies issued. It is reasonable to assume that many of the rejected applicants had their doubts as to their ability to pass the medical examination and applied for more insurance than they normally would have. There is no need of this loss of approximately three-quarters of a billion dollars of life insurance to future estates. A very substantial number of them would have been created if the insurance had been applied for while the applicant was younger or if he had taken, in a coöperative spirit, regular medical examinations to discover physical impairments while they were in a corrective stage.

Several years ago President Coolidge referred to life insurance in part as follows:

Insurance is the modern method by which men make the uncertain certain, and the unequal equal. It is the means by which success is almost guaranteed. It is part charity and part business, but all common sense. . . . Every insurance policy is a declaration of independence, a charter of economic freedom. He who holds it has overcome adversity.

The principle upon which this proceeds is all very plain. It has its foundation in thrift. Every one knows that it is not what is earned, but what is saved which measures the difference between success and failure. This is a difference so slight from day to day as to seem unimportant and of no consequence, but in the aggregate of even a few years it amounts to a sum of great importance. The ability to save is based entirely upon self-control. The possession of that capacity is the main element of character. It passes over at once on to the realm of good citizenship.

CHAPTER II

SECURITY OF LIFE INSURANCE

State Supervision

Every safeguard should be thrown around the life insurance contract to preserve its sanctity and secure its purpose. The states have enacted legislation for the protection of policyholders and the fundamental structure of the institution of life insurance is largely controlled by these laws. The states have special officials, known usually as the insurance commissioners, charged with the responsibility of administering these laws. The supervision and regulation of insurance is designed to secure the solvency of insurance companies as well as fair and reasonable forms of contracts and practices. Furthermore, it aims to prevent unfair discriminations. Among the numerous duties of the commissioners administering the laws tending toward these objectives are the reviews of the annual statements of insurance companies and the supervision of examinations of the companies by actuaries and auditors at regular intervals. In the course of these examinations the companies' accounts are audited and the conduct of their affairs carefully scrutinized to determine whether the insurance laws are being fully complied with and the interests of policyholders properly safeguarded.

Legal Reserve Life Insurance

At one time a large amount of life insurance was written on an assessment basis. At the younger ages the premium was small, but as the policyholder grew older the premium was increased year by year. As the policyholder's earning capacity began to decline because of advancing years, the premium continued to mount until frequently he was unable to pay it. As a result he found himself without insurance at a period in life when this protection would be very helpful. Furthermore, he had no equity in the policy after paying premiums for many years. Sometimes the methods for computing reserves were erroneous and as the amount of reserves maintained by these assessment companies was inadequate, it was not surprising to find that beneficiaries often did not receive the face value of their policies.

Legal reserve life insurance is built on such scientific principles that a policyholder is sure the necessary funds will be available when a claim is made. He is also certain of a level rather than "step-up" premium, because legal reserve life insurance is a one-price contract. The policyholder is guaranteed that the price will never change as long as the policy is in effect. Market fluctuations, epidemics, or other catastrophes do not affect the premium. A legal reserve insurance estate is a form of investment for which an investor makes one decision and thereafter throughout the life of the contract contributes annually an equal small percentage of the face value of the contract. There is no renewing or reviewing of market conditions to think about. Legal reserve life insurance, being based upon level premiums, is truly a lifetime, fixed-price, guaranteed contract.

The purpose of the level premium is to collect more than necessary for insurance at younger ages in order to accumulate a surplus which will be mathematically sufficient to pay the heavier premiums necessarily charged at the older ages. This surplus is known as the legal reserve, because the law specifies how it shall be determined. The reserve is the balance wheel which makes level-premium insurance possible. Whether or not a life insurance company operating on a legal reserve basis continues in business is immaterial as far as the security underlying policyholders' contracts is concerned. A company can retire from business and its legal reserves will enable another company to fulfill properly all obligations to policyholders. At all times the legal reserve is kept at work through skillful investments.

Contingency Reserves

Legal reserves represent the savings element in life insurance. The contingency reserves are the sums put aside to take care of unforeseen contingencies which may affect these savings, such as adverse mortality experience or the fluctuations in security values. These reserves insure the payment of claims regardless of the effect of epidemics or financial panics upon the regularly set-aside legal reserves required by law. They are a safety fund, resorted to only when necessary.

The law often states what the maximum contingency reserve shall be. About 20 years ago this was fixed by statute in New York at 5 per cent of the reserve. Later it was realized this was not sufficient and the percentage was increased to 7½ per cent and then to 10 per cent. While some states have a similar limitation upon the percentage of contingency reserves which may be maintained, there are others with different requirements. Taking the life insurance companies doing business in New York State in 1925, we find that their total admitted assets amounted to $10,016,629,308.77 while their surplus and special funds amounted to $682,618,449.15. As the capital of the stock companies doing business in this state is in effect a guaranty fund, $18,000,000 more might quite properly be added to this sum.

Investments

The life insurance companies must properly invest the reserves to have a sufficient sum to pay claims when presented. The various states regulate and restrict the investments of life insurance companies by legislation. The intent of such legislation is to surround the investment policy of life insurance companies with certain safeguards so that policyholders and their beneficiaries may be protected from unwise or speculative action. This purpose has been accomplished through two general types of legislation, the first concerned with the types of investment proper for life insurance companies, and the second prohibiting certain practices inimical to the best interests of policyholders.

Generally speaking, the laws of the first type limit the investments of life insurance companies to the following:

1. Securities of the United States, the District of Columbia, or any state of the United States; and of Canada and its corresponding political subdivisions. Securities of all cities, towns, and other municipalities with certain restrictions as to size and strength.

2. Bonds or notes of certain railroad or street railway corporations, including notes of equipment trusts of such railroads.

3. Loans secured by mortgage of real estate, not to exceed 50 per cent of appraised value, although some states permit 60 per cent.

4. Real property necessary for the convenient accommodation of the company's business.

5. Bonds of public utilities, such as telephone companies, light and power companies.

6. Certain bankers' acceptances and bills of exchange.

7. Policy loans and premium notes.

8. Loans secured by collateral consisting of any of the above classes.

Two of the more common legislative provisions in the second type of investment legislation are: (1) Investments must be in the corporate name and be properly authorized, as by a board of directors, finance committee, or executive committee; (2) officials of insurance companies are prohibited from receiving any fee or private profit in connection with any company investment. An additional provision is found in the laws of Connecticut, West Virginia, and Pennsylvania, making officers or directors of life insurance companies who consent to illegal investments personally liable for any loss sustained by the company.

Simplicity of Claim Payments

The procedure followed by a beneficiary in submitting a claim is extremely simple. A certificate from the physician attending the deceased and a brief statement by the beneficiary are all that is required. The services of an attorney are not necessary to complete these forms or to secure the prompt payment of claims. Insurance company officials are quite properly jealous of their records for prompt settlement of claims; the quicker they can get the money to the beneficiaries, the more satisfied they are. They realize in the vast majority of cases that the money is vitally necessary to meet the unusual expenses incidental to the last illness and burial of the deceased. In addition, they are fulfilling their contractual obligations made with the policyholder which specify that the money should be paid upon proof of death. It is interesting to go into the claim departments of life insurance companies and note the speed and efficiency with which the claims are reviewed and paid, for it is the exceptional case when the death claim check is not promptly mailed when adequate information has been sent to the company.

Contested Claims

The insurance companies must report contested claims annually to insurance commissioners. The item is of particular importance to policyholders because they want to be certain that, after contributions have been made to build an insurance estate, the beneficiary will be promptly paid without litigation. By reference to the reports of insurance companies made to the Insurance Commissioner of the State of New York (which companies are estimated to do about 90 per cent of the total amount of life insurance written in the United States), we find the companies paid $1,094,525,702 in claims to beneficiaries and policyholders during 1925. During the same year the face value of the contested claims amounted to $3,741,295.30. From these figures it is evident an unusually small percentage of the total amount of money paid in claims is contested.

Because of the fundamental nature of life insurance the insurance company has to safeguard the money held for the fulfillment of obligations to policyholders. If fraudulent or illegal claims are paid, money rightfully belonging to others would have to be taken. The companies appreciate this responsibility and exercise the greatest care possible. The claims contested by one of the larger insurance companies will give an idea of how reliable companies exercise this responsibility. Although this company has over $3,000,000,000 of life insurance in force and paid during 1925 over $71,000,000 in claims, there were just 13 contested claims at the time of investigation and these amounted to a negligible percentage of the total amount paid. Most of these were disappearance cases in which the company took the position that if the estate would produce some evidence that the policyholder was dead, they would honor the claim, while in the absence of such proof they could not legally pay it. One of these cases related to a policyholder who boarded a boat at one of the Great Lakes cities. He was never heard from again. There was absolutely no evidence which would indicate what happened to him. To pay this claim would have been unfair to other policyholders, because there was no evidence of death; yet the beneficiary under the policy persisted in her demand and the contested claim was the result.

Incontestability

A life insurance policy is incontestable after a specified length of time has elapsed, usually one or two years, the exact period of time being prescribed by statute. This assures policyholders that payment of the claim will not be avoided or denied on technical grounds. The incontestable clause gives the company a reasonable period within which investigations may be made of cases when they have reason to believe the contract has been secured by fraud or misrepresentation. While this provision is primarily a safeguard to policyholders, it is evident from the negligible amount of claims contested by the companies they are not looking for loopholes to evade their obligations. Assuming good faith on the part of policyholders, the company must carry out the terms of the contract as long as the policyholder pays his premiums when due. It cannot change its mind, vary the terms, or withdraw, once the contract is made.

Competition

One of the surest safeguards for policyholders is competition among life insurance companies. It is largely responsible for many of the improved services offered by companies. One which lags behind the demands of progress does not get the business, while a company which does not play fair cannot succeed. In commenting upon the benefits of competition, *The Saturday Evening Post,* in its issue of January 15, 1926, said:

Thirty years ago unimaginative life insurance men supposed that their business had reached the highest stage of its development.

Brighter minds perceived that insurance, like savings banking, was as unbending as a broomstick. Under the spur of competition they opened up new avenues of service. Some of their inventions were mere talking points. Others conferred real benefits upon the insured or his family. Gradually, with the passage of years, a body of service which had been as stiff as a board became as flexible as a silk sash. Fool-proof policies of many varieties were devised, under which a widow is paid not only what she is entitled to but receives her payments in such a manner that she gets the fullest benefit of them and is safeguarded from the blandishments of crooks who specialize in fleecing unprotected women. There are ingenious devices without number whereby business concerns may be compensated for the loss of services of key members, children may be educated, inheritance taxes provided for, and so on. The resourcefulness of progressive insurance companies in meeting dozens of special business and domestic requirements will be amazing to those whose ideas of the possibilities of life insurance were formed twenty or thirty years ago. If during that period the industry has thrived mightily, it is largely because its increased service has merited the success it has won.

Use of Premium Dollar

Policyholders building an insurance estate may well be interested in where their premium dollar goes. The laws of the various states contain rigid provisions which directly affect the cost of life insurance. There are three factors in every life insurance premium, the mortality table, the interest table, and the expenses. As a rule the states designate the mortality and interest tables which are to be used and some states even indicate the limits within which sales expense must be kept. As indicated previously, it is the duty of the insurance commissioner to administer these provisions of the law.

Competition tends to keep life insurance premiums at a minimum. The company with able management operates on an efficient and economical basis. The effect of management is reflected in the administrative costs which are included in the insurance premium. As the experience of different companies will vary, a review of the expenses of a number of companies writing ordinary life insurance will give an approximate idea of what becomes of the policyholder's dollar. Eighty-one cents is paid to beneficiaries and policyholders, or credited to the account of the latter. Of this sum 29 cents goes to maintain legal or special reserves and the remaining 52 cents is paid to policyholders or their beneficiaries.

Ten cents of the policyholder's dollar is paid for the maintenance of field work. This plays a most important part in adjusting the various forms of available protection to the known and probable needs of the future estate of the policyholder. In addition, the field forces collect the contributions for the building of the insurance estate, assist the beneficiary with advice as to the proper care of insurance funds, carry on the necessary missionary work for bringing into the life insurance fold many who have never seriously considered what would happen to their dependents in the event all income was discontinued as a result of death. The continual contact which these missionaries have with policyholders is responsible for many an insurance estate being maintained intact which, to the detriment of the beneficiary, otherwise would have lapsed.

Office expenses, such as printing, rents, office equipment, and other administrative charges, are responsible for 4 cents of the policyholder's dollar. The salaries of office employees and executives require about 2 cents. As an illustration of the number of men and women required to care for the insurance estates of policyholders, one life insurance company with 25,000 employees maintains a home office staff of 11,000. They take care of proper underwriting, investment of reserves, payment of claims, and other necessary work.

The smallest item of general administrative expense goes for medical and welfare service. Only 1 cent is required for this. Although some companies are doing a limited amount of business without a medical examination, thus reducing the amount of this expense, the vast majority of insurance policies are issued only after the applicant has passed a satisfactory medical examination. This accounts for part of the cent. The welfare service, which takes the remainder, varies materially with the different companies. Some take the position it is not their function to impose upon the policyholder suggestions affecting his health, while others believe if there is anything they can do to assist their policyholders to live longer, they should do it. At present there are about 50 companies which offer their policyholders a free annual medical examination by a disinterested organization of experts who will not disclose the results to any one but the policyholder. The thought is, this will help the policyholder to learn of physical impairments in time to have them remedied. Some companies have their experts prepare pamphlets for circulation among policyholders on matters affecting their health. This material brings to policyholders the prevailing opinion of health experts on matters of personal hygiene and health as well as current and timely suggestions in the event of epidemics. While it is difficult to trace the results of this work in terms of dollars and cents, there can be no doubt that in many cases it has been responsible for the postponement of the time of death.

The state takes 2 cents out of every dollar paid by policyholders. Seldom do policyholders realize this. The original purpose of this tax was to support the state insurance departments; yet out of all this money collected indirectly from policyholders, less than 4 per cent during 1925 went to these departments. The general coffers of the state received the remainder. The life insurance companies have vigorously protested for a number of years against this injustice to policyholders. The National Convention of Insurance Commissioners, composed of the state insurance officials, has at various times gone on record against this evil which if cured would provide potential insurance estates equivalent to $20,000 of ordinary life insurance for 1 year for each of 100,000 men at age 35. Instead, this money went for purposes for which policyholders had already been taxed as citizens, such as the maintenance of roads, police, courts, and other state functions. The cost of collecting these taxes is necessarily high, because the state compels the highly organized insurance companies to do this. When the cost of collection is added to the special indirect tax, the amount paid by the policyholder as a result of the discrimination against him by the state is substantially increased. The actual cost of collection has been estimated to be around 10 per cent of the tax.

As the state budgets mount and the demand for additional revenue follows, "painless" taxation of this nature is becoming more popular with certain types of legislators. As the policyholders do not know they are paying this money, there is no opposition from them. If a proposal were made to increase property taxes or some other form of direct taxation to take care of additional appropriations, the citizens would become very much interested before permitting the increase to be made effective. The downward revisions of the Federal income tax are good illustrations of the influence of public opinion when the citizens know they are being taxed. With the proper readjustment by the states of indirect special insurance taxes, the value of insurance estates could be increased.

CHAPTER III

BASIS FOR INSURANCE ESTATE

In building an insurance estate the circumstances and responsibilities of the policyholder are controlling factors. Just as the standards of living and the domestic requirements of policyholders are different, so should the details of insurance estates vary. In the course of determining the financial needs of the beneficiaries to be protected by the insurance estate, the life value of the policyholder must be appraised.

The types of policies vary, hence some are designed to provide for certain conditions while others render a different kind of service. It is important that the right type of policy be selected so the foundation of the insurance estate may be on the best basis. This done, it is a question of how much insurance the policyholder can afford or is willing to purchase. To be properly insured the life value of the policyholder should be fully protected.

After the policy becomes a claim, the investment service of life insurance is of primary importance in cases where the beneficiary is not to be paid in a lump sum. This service is responsible for the proper investment of the corpus of the estate. The beneficiary is dependent upon the income being paid regularly and the principal sum preserved in accordance with the wishes of the policyholder.

Basis for Life Insurance

A simple illustration may be used to explain the general basis upon which all life insurance is issued. Let us assume that the lives of 100,000 men age 35 are each insured for $1,000 for a period of one year. The American Experience Table of Mortality indicates that of 100,000 men of this age, 894 will die within one year. Since each individual is insured for $1,000, it will be necessary to collect from all of the persons insured a sum of money large enough to permit the payment of $894,000 to the beneficiaries of the deceased. In addition to the amount which it is necessary for each individual to contribute to cover his share of the death claims paid, it will be necessary to collect from each his proportionate share of the company's expenses incidental to carrying on the service.

As the money collected to meet death claims need not be paid out at one time, since the deaths will be distributed throughout the year, the insurance company can place a portion of it at interest. Since interest can be earned, the full amount required to cover losses and expenses is not collected from those who are insured. Insurance companies generally estimate that 3 or 3½ per cent interest can be earned on their investments, although the investment returns are actually greater. This form of income plays a very important part in life insurance calculations.

This illustration indicates in a simple manner the way in which an insurance rate would be derived if we were simply taking a certain group of individuals and insuring each one for a year. However for that group, the cost for the following year would be just a little greater since the death rate would be higher. If continued for many years, the cost would finally be prohibitive. An illustration, familiar to many, is the plan adopted by the government in its war risk insurance on soldiers and sailors. Those carrying such insurance know that the rate is gradually advanced. The government recognizes this disadvantage and offers various forms of permanent protection into which the term insurance must be converted.

Forms of Policies

The regular forms of life insurance are generally classified as ordinary life, limited payment life, endowment, and term insurance. Each has certain peculiarities which make it more adaptable towards the building of some insurance estates than to others. More ordinary life insurance policies are issued than any other kind, so it is perhaps the best known form of life protection.

Ordinary Insurance

The same premium is charged each year on the ordinary life policy of a given individual. This premium must be fixed at a rate higher than necessary to cover the mortality costs during the early years of the policy in order that a fund may be created to take care of the increased mortality costs during the later years, when the premium alone is insufficient. As required by law, this excess amount must be held as a reserve. Since the insured pays a premium larger than necessary to cover the cost of his protection, he is entitled to a return of this reserve, with certain limitations, in case he should lapse his policy. We can consequently conceive of ordinary life policies as consisting of two elements, namely, protection and savings.

The insurance company will receive premiums on an ordinary life policy throughout the insured's life and the face value of the policy will be payable only in event of death or, in case of survival, at age ninety-six. It follows that the premiums will be smaller than if they were received only for a limited period and the policy paid during the life of the insured. The reserve, or savings element, gradually increases until, according to the American Experience Table of Mortality and a given rate of interest, it equals the face value of the policy at age ninety-six. Because of these facts, it is true that the savings on the ordinary life policy will not be so large or increase so rapidly as on limited payment life or endowment policies. Some of the uses to which ordinary life insurance is adaptable are:

Uses

1. Permanent insurance protection for family or business can be obtained for the smallest annual outlay of money.

2. A young man, with limited means, requiring protection for a long term of years, thirty or thirty-five for instance, may use ordinary life insurance. At the

expiration of this period, the insurance may be continued regardless of his physical condition. In case the need has passed, he has the privilege of exercising one of the options granted under the policy.

3. A man in active business often finds it necessary to borrow money for varying periods of time to use as working capital. Ordinary life insurance may be used to safeguard these loans. It thus avoids financial embarrassment which might be caused to the business by the necessity of meeting these loans after the death of the man essential to the success of the organization. Furthermore, it strengthens the business man's credit with the banker. If provision is to be made for repayment of a loan of permanent capital through life insurance, some other form would probably be more advisable.

4. Those in immediate need of money may use the reserve on their policies in several ways. It may be borrowed to meet demands of creditors, to pay premiums necessary to prevent the lapsing of the policy, or for other purposes.

5. The policyholder needing permanent protection primarily, and not particularly interested in accumulating a large amount of savings through insurance, will find the ordinary life policy desirable.

Where Not Applicable

Although some circumstances have been indicated under which the policyholder will find the ordinary life policy advantageous to him, it does not necessarily follow that this type of protection is always just what he needs. Ordinary insurance is designed to meet certain requirements and when applied to cases outside of these requirements, it will not be suitable. Some conditions under which some other form of policy is more applicable follow:

1. The income of the average policyholder is negligible after he reaches a certain age. This being the case, he may prefer to have insurance on which he can finish paying premiums before that time. As stated above, premiums on ordinary life insurance are continuous throughout life. The payment of these may be very difficult for a policyholder who has reached an advanced age and is no longer able to work.

2. Insurance constitutes the principal means of savings for some individuals. They feel compelled to pay insurance premiums although they would not feel the same compulsion to place their money in a savings bank. This is due in part to the fact that insurance premiums are frequently viewed as expenses which must be met. The ordinary life policy is not intended to meet this need for saving. There are other types of insurance designed for that purpose.

Limited Payment Life

Ordinary life insurance affords permanent protection at the lowest possible cost, but premiums must be paid as long as the insured lives. Some policyholders find it more convenient to finish paying for their insurance within a given length of time. The limited payment contracts have been devised to meet their needs. Premiums are paid for a stipulated number of years such as fifteen, twenty, or thirty, at the end of which period the policy becomes paid up, and no further premiums are required. While differing in the methods of paying premiums, it is similar to the ordinary policy in that the face value is paid only at death, or at age ninety-six if the policyholder survives. Owing to the somewhat larger premium which will be necessary to make the policy paid up at the end of the specified premium-paying period, the reserve element is greater and consequently the values available to the policyholder will be larger and, until the policy is paid up, will increase more rapidly during this premium-paying period.

Endowment Insurance

The face value of all forms of life insurance other than endowment insurance is payable to the beneficiary upon death of the insured. In consideration of a larger premium, the face value of an endowment contract is payable to the insured at the expiration of a given period of time. In the event the insured dies before that time, the face value is paid on his death to his beneficiary. The endowment insurance contract is designed for the person who desires to build up a savings fund of a definite amount in addition to protecting his beneficiary.

The endowment insurance contract may be divided into two elements, the first, savings or reserve, and the second, protection. The premium must be sufficiently large to cover the cost of protection and contribute to the reserve or savings fund at a given rate, so the face value of the policy may be payable whether the policyholder lives or dies. As the policy grows older, the amount of savings credited to the individual policy increases while the amount of actual protection decreases. The sum of the two will always equal the face value of the policy.

There are a number of forms of endowment contracts. Some are written to be payable at the end of five, ten, twenty, twenty-five years, or longer, while others mature at a certain age such as sixty, sixty-two, or sixty-five. The limited payment endowment contract provides for payment of premiums during a period shorter than the endowment term. For example, a forty-year endowment policy may be paid in twenty annual premiums. The face value becomes payable at the end of forty years or at death. As the rate at which the savings will accumulate varies for these different contracts, each will meet certain needs. The policyholder should have the one which best fits his particular circumstances.

Corporation and Partnership Uses

1. A corporation or partnership may desire to make provision for repayment of a loan of fixed capital by the use of endowment insurance. This loan may be in the nature of a bond issue, mortgage, or other long-term obligation. If a business can maintain its organization intact, adequate provision may be made for redeeming obligations by setting aside a sinking fund from earnings. But the hazard of death is ever existent. In case the master minds are lost prematurely, the whole organization may be disrupted. Bradstreet's

Statistics show that most business failures are due to the human and not the material factor. Through the use of endowment insurance, a sinking fund may be accumulated to meet long-term obligations at their maturity. In event of death prior to the end of the endowment period, the necessary provision has been made to retire them immediately, if they are callable. If non-callable, a portion of the insurance proceeds may be set aside which, with interest, will equal the amount of these obligations at their maturity.

2. Comparatively few business failures are due to lack of intention to pay. Unusual circumstances over which the business man has no control may prevent him from being able to protect his creditors, the endorsers of his notes, and his bankers. Endowment insurance is one means by which a reserve can be built for use in case of emergency, such as a panic or business depression, to safeguard the credit standing and reputation of the business.

3. Endowment insurance will provide a fund for acquiring the interest of a retiring or deceased partner. It is also used to acquire the interest of a person owning a large part of a company's securities.

Individual Uses

1. To provide for old age. The average man must make provision for his own old age as well as for his dependents. Many individuals plan a regular program of saving. The effort to save a fixed sum in a certain period is subject to the contingencies that the insured may be unable to continue his plan or may expend his savings injudiciously. The proceeds of a

long-term endowment payable at age of retirement may be used to purchase an annuity which will provide for the late years of life when the individual can no longer engage in active work.

2. To underwrite a college education. Business men desiring to provide the means to give their children a college education may use endowment insurance, and thus distribute the financial strain over a period of years. Besides building up a fund, the policyholder also receives extra insurance protection while the children are young. Provision may be made for payments to the beneficiary in monthly or quarterly installments. Some companies write a "child endowment" policy on the child itself, rather than on the parent.

3. To liquidate mortgage on home. Many people are unable to buy their homes outright, and are compelled to place a mortgage upon them. By the use of endowment insurance, the funds necessary to clear the home of debt may be provided, whether the policyholder lives or dies.

4. To accumulate a fund for a philanthropic purpose. Endowment insurance may be used by individuals who desire to make bequests to colleges, churches, hospitals, or communities, but wish to distribute the payments over a period of years. A donor can by this means make a bequest of considerable size at a relatively slight inconvenience. The premiums paid on insurance for such purposes are exempt from income tax if they, together with all other charitable contributions, do not exceed 15 per cent of the insured's income.

Where Not Applicable

1. The policyholder carrying insurance solely for protection and not interested in the savings element will find other forms of insurance more suitable to his needs.

2. When the insured is in need of a maximum amount of protection and has only a limited amount of money to pay for it, some other kind of insurance is desirable. For instance, the young business or professional man with a limited income and dependents may not be in a position to provide adequate insurance protection if he obtains it on the endowment plan.

Term Insurance

Term insurance has been devised for the policyholder who is interested solely in temporary protection for a limited time. It is generally written for a five-, ten-, fifteen-, or twenty-year period. As term insurance has no savings feature, the policyholder has no cash surrender value accumulating.

When term insurance expires, the policyholder may find he needs further insurance; or even prior to expiring, he may want a more permanent form of protection. To take care of these possibilities, a renewable or a convertible provision may be incorporated into the term contract. The renewable feature permits the policyholder to renew at the expiration of the term by paying the higher premium rate corresponding to his then attained age, while the convertible clause gives him the option of converting his term policy to one of the other forms within a certain stipulated time usually less than the original term. The renewable feature is generally limited as to the number of times a policy may be renewed. There are some contracts, however, which are automatically converted to another form of insurance at the end of the term period.

CHAPTER IV

INVESTMENT SERVICE FOR POLICYHOLDERS

The total assets of the institution of life insurance are estimated to amount to about $12,850,000,000. This sum is sufficient to pay the total allied debt to America. The proper handling of such an amount of money requires a corps of skillful investment experts. Insurance financing, designed to contribute toward the creation of estates, differs in some material respects from other types of finance. Insurance experts are more concerned with the selection of sound long-term investments than with quick turnovers of money which would require frequent reinvestment.

After reviewing insurance finance, we are impressed with the wide diversification of investments, both as to type and geographical location. It is evident that the millions of policyholders working through their insurance companies are able to secure more varied and practical investments for the welfare of their families than the vast majority of individual investors. The investment side of insurance is not generally appreciated. Yet it is one of the fundamental services which make it possible for a man to create an insurance estate.

Diversification

The fundamental factor in any investment program is proper diversification. While this does not make for the highest possible return, it does insure a reasonable return and safety of principal, which are two factors imperative in any estate program. There are two types of diversification, geographical and distribution by types of investment, such as mortgages, government securities, etc. With this in mind let us see how the insurance companies have diversified their investments.

Geographical Distribution

When North Dakota is having trouble because the wheat crop has been poor or economic conditions are such that the price of it is low, the potato farmers of Maine may be reaping a harvest because of favorable prices and market conditions. When the mill towns of New England are losing textile industries to the South or shoe industries to the Middle West, the value of mortgage investments in the respective areas may be affected, in one case adversely and in the other favorably. An individual investor, relying on returns from mortgages in the former as a source of revenue for an estate, may be disappointed because of slowness or default in the payment of interest or principal due to changing conditions.

The law of supply and demand applies to the investment of money just as it does to commodities. Accordingly, insurance money flows to those sections of the country where it is most needed. For a time there was a great demand for funds to help build structures in the cities. After the War there were urgent calls for funds from the farms, particularly in the Northwest, so that for a while more insurance money was being invested in farm mortgages than in city mortgages. At the end of 1926, there was estimated to be $5,083,000,000 of insurance assets invested in mortgages located in every state throughout the United States. This represents 42.8 per cent of the total assets of the insurance companies. Of this sum about 16.5 per cent was in farm and 26.3 per cent in city mortgages. Some insurance companies have a larger percentage of their assets in farm or city mortgages, while others have less. The policyholders' interests are protected by state laws which generally require that no loan shall be granted for more than a certain percentage of the appraised value, frequently 50 per cent.

The investment service of the insurance companies has a decided advantage over the individual investor in mortgages. Not only has this service national facilities for information, but it also has the field organization for the selection of desirable applications for loans. Again the companies are able to use the income from high interest territories to offset the low interest from other sections. Delinquencies in payment are so small that they have relatively little effect upon the interest earnings from mortgage loans generally. This makes for uniformity in interest returns.

Distribution of Types

Railroads

A cross section of insurance investments indicates that practically all of our economic and community processes are either directly or indirectly helping policyholders to create insurance estates; for instance, let us consider railroads. Certainly under present-day conditions we cannot live without transportation. In the olden days there were few necessities of living which originated outside of the immediate family. In our present complex social and economic structure, each worker specializes and contributes some one function toward our national life while depending upon others to contribute the rest. Because of increasing earning capacity, the worker enjoys many things which he has come to look upon as necessities that were considered luxuries in the past. The change is due to the higher standards of living maintained to-day. It is doubtful if these standards could have been attained without the service of railroads.

The funds contributed by policyholders for the ultimate protection of their dependents, which have been invested in railroads, represent approximately 10 per cent of the present-day valuation of the railroads. The $2,435,000,000, or 20.5 per cent of life insurance assets estimated to be invested in the securities of railroads at the end of 1926, would probably be sufficient to construct 3 transcontinental railroad systems, each double tracked, with upwards of 5,000 locomotives, 20,000 freight cars, and other necessary equipment. The faith which insurance investment experts have in the future of railroads is evident when one realizes that over one-fifth of the total life insurance reserves of the country are helping the railroads to render present-day service and prepare for the future growth.

There are good and bad railroads from an investor's standpoint. The selection of the former requires the ability to analyze existing needs and the proper development of the country through which the railroads pass, to interpret the balance sheet properly, to understand the condition of the road bed, rolling stock, and a multitude of other factors which an expert uses as a measuring stick in determining the value of railroad investments. Then there is also the earning capacity and the character of management of the road to be considered prior to selection of railroad bonds.

Imagine the difficulties of the average investor undertaking a real scientific investigation prior to placing his surplus earnings into a railroad security. First, he must get the facts, then decide the probable future earnings of the railroad, and finally make up his mind as to the security of the investment. In order to do this properly much research work and an intimate knowledge of the problems of railroading are required. The insurance investment experts have been trained in this field so that, generally speaking, they are in a far better position to select a railroad security and protect the interest of policyholders than the average investor is to protect himself. Their problem is to recommend the purchase of sound and safe securities and to reduce to a minimum the possibility of unfavorable investments.

Security if Difficulties Arise.—Occasionally some investment made by an insurance company does not turn out well. A good example is the Chicago, Milwaukee, and St. Paul Railroad. Here is a system which serves an important part of the country. Many of those who live in that territory depend on this line for the necessities of life. Part of the rest of the country is dependent upon this road to bring the products of the territory reached by it to connecting railroads. The bonds of this road were a good investment, but times changed. A program of expansion was undertaken. Some of the tonnage originally hauled by this road went by ship through the Panama Canal cheaper than the railroad could haul it, and the result was that the system lost a substantial source of revenue. Then financial difficulties came, requiring a receivership and a reorganization. Five trustees were voted complete authority to rehabilitate the system. Two of the five were life insurance officials, preëminent for their knowledge of investments made in the interests of policyholders, Frederick Ecker, Vice-President of the Metropolitan Life Insurance Company, and W. D. Van Dyke, President of the Northwestern Mutual Life Insurance Company.

Imagine the difficulties of the average investor in this case. Unless he had unusual facilities for getting exact and current information, which as a rule few investors have, he would more or less blindly approve one of the plans drawn up by large security holders for the protection of investors. The word blindly is used because the average investor has not the training, the time, nor the money to weigh properly such a situation prior to making a decision. The insurance company has all three, plus a fourth advantage. As the investors in a railroad in financial difficulties sometimes must take some losses on their holdings, the average investor must bear this loss alone. As a result his financial status may be materially affected and this condition will be reflected in the value of his estate. When the losses sustained by the insurance companies in the same venture are spread over the huge sums invested, the effect is negligible; in fact the loss is so small that it does not affect the insurance estate of any policyholder.

Governmental Securities

From a community standpoint, citizens are contributing through direct or indirect taxes, for Federal, state, and local bonds, the interest and ultimately the principal of bonds worth approximately $831,000,000,[1] which represents 7 per cent of the total assets of life insurance. About a third of this sum was borrowed to help win the World War, while the remainder has been silently at work providing our children with schools, assisting in the development of healthy cities, supplying good roads and numerous other factors which make for increased efficiency, good health, and happiness.

Few perhaps realize the dangers of buying bonds of local governments without expert advice. Cases have been reported of 20-year road bonds being offered for the construction of a road which could not possibly last more than 10 years. Similar illustrations might be given about the construction of school buildings. The effect is to pass on to the coming generation the payment for facilities which the present generation has enjoyed. Then there are local governments issuing bonds when these governments have no budgetary

[1] Investment figures from reports of Association of Life Insurance Presidents for 1926.

system and really do not know whether or not they are solvent. Sometimes measured by any reasonable standard, they are not. Of course, these are types of bonds which should be avoided, yet only the expert is able to do this. The insurance companies have the experts who selected the state, municipal, and county bonds in which about $344,000,000 is invested. This represents 2.9 per cent of the total insurance assets.

Public Utilities

Street-car systems, telephone, gas, and electric light companies are typical public utility investments. They play an important part in the living standards of the community; in fact they are necessities to-day. About 6.9 per cent of the assets of the companies are invested in public utilities, and as time goes on it will not be surprising to see this percentage increase. The value of these investments at the end of 1926 was thought to be about $819,000,000. In the past, public utilities were harassed with the specter of government ownership. Although some of them are operated on this basis, most are not. Because of the intimate effect of public utilities upon the daily life in communities, utilities are usually dependent upon public commissions for adequate rates. There is a growing recognition by these commissions that the investor is entitled to a fair return on his investment.

Before selecting a public utility security, one must know the attitude of the commission supervising it, the commission's view toward reasonable rates, as well as the value of the equipment, the probable earnings, the trends of the business, in addition to many details involving the character and efficiency of the management. There is another question equally important. There might be one, two, or even more bonds which have preference over the particular one being offered. Under certain conditions the latter will be a good investment, while under others it will not. It should be known who has the controlling interest in the utility and whether or not they are interested in the communities in which the service is being rendered. All of these factors are measured by specialists. For example, one insurance company was offered certain bonds which were carefully reviewed by their expert. Before deciding definitely to recommend this purchase, he deemed it necessary to go over their whole system. Obviously such a service would cost an individual investor a considerable sum of money, and as most investments are for small amounts, it is usually impossible. Yet the policyholders receive this service.

Policy Loans and Premium Notes

As soon as a policy has a cash surrender value, a policyholder may borrow on it. There is no complex system necessary and no questions are asked. The policyholder signs a simple form. The money is advanced at an interest rate of 6 per cent and in some cases less, while the loan is secured by the cash surrender value of the policy. At the end of 1926 policyholders had borrowed very close to $1,437,000,000 on their policies. This is equivalent to 12.1 per cent of the total assets of the companies. From the standpoint of creating insurance estates this is a bad practice, because a relatively small percentage of these loans is ever repaid. The result is the policy is very often allowed to lapse, or in the event of a death claim prior to repayment, the face value is reduced by the amount of the loan. In any event, the estate suffers.

It is pathetic to see widows occasionally presenting lapsed contracts, hoping there may be some money available. Sometimes the widow is made happy because the cash surrender value has not been completely exhausted, but this is seldom the case. As a rule the widow is sadly disappointed. The insurance companies do what they can to carry out the spirit as well as the letter of their contracts. Here is an example: A man lapsed his contract and died several months after. The widow presented the contract and learned the premium had not been paid and the cash surrender value was completely exhausted. The company was able to establish that shortly before the time of lapse the man was actually permanently and totally disabled. As the contract had a permanent and total disability clause, the company paid the widow the monthly benefits promised during permanent and total disability as well as the full face value of the contract. Obviously in this case and in others like it the companies must have something concrete to work upon; otherwise they would be acting in a way detrimental to the interests of other policyholders.

When a man borrows on his life insurance policy, he is actually borrowing from his beneficiary in the event he dies before the loan is repaid. The extent to which this happens is regrettable. This borrowing privilege is used much more in the United States than in England. According to a news letter of the Foreign Department of the Bankers Trust Company of New York, only 8.7 per cent of the assets of British insurance companies are invested in loans to policyholders or call loans. This may be due in part to the keener appreciation abroad of the value of conserving estates.

There can be no question as to the legal right of policyholders borrowing on their policies. Having in mind, however, one of the fundamental purposes of life insurance, insurance estate building, there is a question as to the propriety of exercising this right in a large number of cases. Policy loans fulfill a valuable service in many cases, such as when a man has not the means to pay his annual premium or when he is in such straitened conditions that his family must suffer for the need of money. Obviously in these cases the loan should be made because it furthers the purpose of life insurance estate building by helping those who usually would be protected by the insurance estate. Compare these cases then with the cashier of a country bank who borrowed on his policy to speculate. He knew he would have to pay the insurance company 6 per cent for the loan, whereas his bank would have charged him 7 per cent. Then there are the numerous cases where the money is borrowed to purchase luxuries of life which have no relation to the object for which life insurance has been taken out. Measured in terms of insurance estates and the ultimate care of dependents, there are proper and improper requests for the cash surrender value of insurance contracts, but many believe that most fall in the latter class.

One of the main services of banks is the loaning of money. Their resources are tremendous and their service prompt. They charge the current rates of interest in their communities. It is from this source of income that the necessary revenue is largely received to furnish the various free services which depositors receive, as well as to pay dividends to the stockholders of the bank. The banks have a definite reason for wanting to make loans. The loaning of money is a banking and not an insurance function. It is possible some form of coöperation between banks and insurance companies might be arranged so that borrowing on policies for purposes other than actual necessity might be reduced to a minimum. The banker is not going to lend money unless he is satisfied the request is reasonable. If policyholders discussed contemplated loans with their bankers before borrowing from their beneficiaries, many unwise purchases or investments would be avoided.

As to security for banking loans, the cash surrender value of the policy can be used as collateral. Although the life insurance companies receive their interest on these loans and adequately protect the interests of other policyholders, they have a real interest in wanting to see this abuse corrected. Accordingly they have given much time and attention to minimizing the number and amount of policy loans, but they have only been partly successful. If the banker's advice was sought and the loan made through him, it would be surprising if a much larger percentage of the policy loans were not repaid.

It is proper that the insurance companies should continually strive to devise sound methods for increasing cash surrender values, for this is part of the service they are rendering their policyholders. With the growing importance of cash surrender values, we find a prospect often is sold life insurance by means of cash surrender value arguments. If a prospect buys insurance on this basis, he is purchasing primarily a banking service and secondarily life insurance. In these cases it is to be expected the policy loan privilege will be used. As the percentage of loans which will be repaid is extremely small, the result is detrimental to the estate.

Since 1915, the amount of loans outstanding has doubled. This means the potential estates of these borrowing policyholders have been reduced just that much. If an agent believes the cash surrender value is of importance in closing a case, then his client should know that he will lose money if he borrows and lapses his policy. In the event a policyholder finds it necessary to make a loan, the estate should be protected by the purchase of sufficient additional insurance to offset the borrowed cash surrender value in case of death before repayment.

Miscellaneous Investments

The balance of the assets of insurance companies are represented primarily by cash, home office buildings, and collateral loans. All the miscellaneous investments compose a small portion of the total assets.

Stability of Investment

From the foregoing description of insurance investment service rendered to potential insurance estates, it is clear that insurance companies are not concerned over day-by-day fluctuations of stock markets. The average investor is. Furthermore, the individual investor frequently is not able to protect his interests in the event of depreciated values in the market. In the event of declines, the insurance companies are able to carry securities until the price increases again and there is a favorable opportunity to sell. They realize the stock market fluctuations are not always a real index of the intrinsic value of a security. If the inherent soundness of an investment is affected, the companies have the facilities for properly looking after policyholders' interests.

The insurance companies are interested in short-term securities only as a means of enabling them to invest funds temporarily. Some of the companies, knowing of the usual demand for farm mortgages in the spring of the year, invest in short-term securities during the winter so funds may be working for their policyholders until needed by the farmers in the spring. The companies are interested primarily in long-term investments. If an investment is sound—and they have the facilities for determining this—they want to leave their money in it. The expense of handling these investments is less, and this means a higher net yield. Because life insurance companies are able to purchase investments on a large scale, it is not surprising they can buy to better advantage than most individuals.

The state laws in regard to the general types of investments which life insurance companies make are rigid. They have been formulated to protect the interests of the policyholders. These laws are administered by the state insurance commissioners. Contrast this state supervision and company investment service designed to help build estates with the investment facilities of the average investor!

CHAPTER V

LIFE VALUES

Increasing Life Values

A given industrial property may yield a certain income to a corporation. Let us assume that as time goes on the yield becomes higher year by year until it is double what it was originally. In the beginning the corporation would be careful to insure the property against loss so that if anything happened it would be indemnified. As the property becomes more valuable, the insurance would be increased correspondingly. The extent to which this is done is evident from the fact that about one-third of our national wealth is protected by fire insurance.

Now let us make a comparison with human life. When comparatively inexperienced and with a small income, one may carry a little insurance. As the particular life becomes more mature and measured in terms of income more valuable, more life insurance may be added to the insurance estate. However, in most cases, there is no definite increase in insurance unless a life insurance agent canvasses the policyholder and is successful in convincing him about the importance of further insuring the value of his life. Looking upon the life value of the American people as a whole, we find they have a little less life insurance than one year's income.

In the event of a total loss of the assured property due to fire, the stockholders will be reimbursed for the actual value of the property at the time of the loss. The loss of property is only a possibility, whereas loss of life through death is a certainty. Upon such total loss of the life, the beneficiary or dependents who have the primary interest in the life may receive only a fractional part of its value. The owners of the property can carry on after their loss because of insurance, but the principal stockholders in the life may receive just enough to pay the immediate bills. Then a complete readjustment must take place and a new start be made, often with the handicap of children unable to pay their way. The missing element in cases of this kind is the projection of the value of the deceased life into the future through a proper insurance estate to the end that the policyholder's responsibilities to his family may be properly discharged. If this were done, after he is gone his life would still have a value which renders a constructive influence in his family.

Few men receiving a salary realize their working capital consists of health and brains. A salary of $5,000 a year represents 6 per cent on $83,333.33. Many men receiving this salary will insure their homes, which may not exceed twice their annual income, and yet not be willing to buy adequate insurance to protect the producing power of the lives which made possible the homes and the standards of living necessary for proper maintenance. Proper appraisal of the value of the life of these men and reasonable coöperation by them with their life insurance advisers will assure the continuance of their families in the homes they provided without worry.

Community and National Aspect

Then there is the community aspect of adequate insurance of life values. The community has an interest in developing citizens who are intelligent and healthy. Part of the success of a particular life probably was due to the educational training and physical exercises received in the schools and playgrounds. The community also maintained a health department and other services to protect that life, so it might be constructive. In time it became valuable from the standpoint of earnings as well as from contributions as a citizen. Then when the life passes away and leaves a very small estate, the community has nothing to show for its investment, excepting in so far as the individual might have contributed to its welfare during his lifetime. It may have definite responsibilities to help his children find work, children who should have had thorough educations to arm them for their life endeavors but who are starting with handicaps. Of course, the nation has a definite interest too, in the life values of citizens. The Statistical Division of the Metropolitan Life Insurance Company believes that our national life values exceed five times our national property wealth.

Determination of Life Values

The determination of the value of a given life is something to which leading life insurance underwriters have been giving serious consideration. The present income is frequently taken as the starting point. This should be divided into earned and unearned income. Upon the death of the policyholder the unearned income, such as interest on bonds and mortgages, may continue; whereas the earned income from personal service is absolutely gone. Therefore, the initial emphasis should be to insure the projection into the future of the earned income. As this usually comprises the bulk of income, it correspondingly contributes the major portion of actual living expenses for the family, hence the need of assuring its continuance. The United States Internal Revenue Service of the Treasury Department has compiled some interesting statistics on earned and unearned income. This follows:

Sources of Income Compiled by United States Treasury Department *	Amount	Per Cent
Personal industry (earned income):		
Salaries, wages, commission, bonuses, directors' fees, etc.	$12,617,662,626	46.04
Business, trade, commerce, partnerships, farming and profits from incidental sales of real estate, bonds, and other property	8,079,210,923	27.31
Total	$21,696,873,549	73.35
Property (unearned income):		
Rents and royalties	2,009,716,478	6.80
Interest on bonds, notes, etc., including fiduciary income	2,621,492,594	8.86
Dividends	3,250,913,954	10.99
Total	$ 7,882,123,026	26.65
TOTAL INCOME	$29,578,996,575	100.00

* Based upon individual tax returns for 1924 incomes.

Present earnings are not necessarily an indication of life values, as a young business or professional man laying a foundation for his career may have a modest earned income, but with the exercise of reasonable ability and diligence, his probable earning capacity in the future should be much greater. Insurance agents or trust officers advising with men of this type generally have means for obtaining some idea of the income of successful men in the respective business or profession. A sum of life insurance sufficient to produce an income comparable to that of these men might well be set up as an objective to be worked toward as the insurance estate, for as the prospect's income increases the amount of insurance will be increased until the objective is reached.

The condition is just the reverse in considering the life value of a man of forty-eight who has two sons at college. Here the problem is to have sufficient money for the boys to complete their college courses, to assure a reasonable sum based on their standards of living so they may have a proper start in life, and to take care of the old age of the father and mother. In this insurance program, it is important to determine just when the tapering off process for premium payments should begin and at what rate the declining premium demands should decrease until there are none. Some insurance companies issue a type of policy which has a decreasing premium after a certain period of time elapses. While such a contract is helpful in cases of this kind, combinations of regular policy forms can be made to accomplish the same result.

A man who is permanently and totally disabled has little if any value from an economic standpoint while he is in that condition. As a man approaches old age, his economic value becomes less. From this it is evident that economic values and life values are intimately interconnected. The underlying thought in using life values as a means of determining the face value of the insurance estate is to provide a principal sum which will be sufficient to take care of the definitely known and probable future needs of the estate in accordance with the standard of living maintained by the policyholder. The annual contributions or premiums to make this possible are collected during the producing years so that, in the event the policyholder lives, he himself is assured independence in old age. To make this possible the amount of premiums should gradually increase as the life value increases and then correspondingly decrease as the life value becomes less. Of course, this is subject to variation in accordance with the means of the policyholder. A young man of wealth might well consider paying for a guaranteed estate and life income for himself through a single premium contract; an elderly man with a large income will be able to continue a high annual contribution for the maintenance of his insurance estate, because his own personal needs are being taken care of from a part of his current income.

Corpus of Investments Guaranteed

The proportion of the income reported to the Federal Government in the lower brackets which comes from property is not generally recognized. Over 22 per cent of the total income of taxpayers in the $3,000–$5,000 class is unearned income, because it comes from property as contrasted with earned income from personal industry. The following table is of interest because it indicates the source of 1924 net income of taxpayers reporting to the Federal Government for the incomes included within the various brackets:

Income Classes	Per Cent of Income from Personal Industry	Per Cent of Income from Property
Under $1,000	65.03	34.97
$ 1,000–$ 2,000	84.23	15.77
2,000– 3,000	83.39	16.61
3,000– 5,000	77.48	22.52
5,000– 10,000	76.59	23.41
10,000– 25,000	63.97	36.03
25,000– 50,000	54.28	45.72
50,000– 100,000	47.27	52.73
100,000– 150,000	44.63	55.37
150,000– 300,000	45.02	54.98
300,000– 500,000	43.46	56.54
500,000– 1,000,000	43.49	56.51
1,000,000 and over	36.37	63.63
Total	73.35	26.65

The need of guaranteeing the corpus of the investments which produces the unearned income is readily apparent to one interested in constructing an insurance estate. Those who provide life insurance for this purpose are in effect insuring the payment of interest and principal of investments after they are no longer able to look after the welfare of their dependents. If anything happens to the investments because of one of the numerous possibilities which occur continually, such as a complete change in management whereby in-efficient interests come into control, changed styles or customs such as the substitution of the automobile for the old buggy, the depression of the hairpin industry because of bobbed hair, or new inventions, the testator need have no worry about the stability of income for his estate. In fact, business men generally appreciate the effect management has upon the value of a security and many can testify to the declines in the value of gilt-edge securities when the guiding spirits have passed on and relatives or others have undertaken the task of guiding the destinies of the enterprise.

Standards of living are such to-day that expenditures are high and few life values are properly insured. When it is possible to insure properly, or when one can work towards it with a reasonable expectation of accomplishment, the responsibilities of the life will be taken care of in the event of death. Where it is not possible, the responsibilities might be segregated and provision made for those which the policyholder thinks most important.

Prudent business men frequently amortize their obligations by setting up sinking funds which are added to regularly so that at a given time there is a sufficient sum of money on hand to discharge the obligation. Insurance of the life value of a prospect is a fulfillment of his direct obligations to his family. As there is a normal period in the average life when the earning power is greatest, an effort should be made by the life insurance agent to amortize this obligation over this period of time, so that in the latter years when the income has decreased, there is not any undue strain upon it because of insurance premiums. Such a plan also assures the policyholder a constantly increasing amount of savings, known as the cash surrender value, which is available for emergencies.

Spread of Life Values

That life values are not confined to a limited number of citizens, such as those who are classified as millionaires (it is estimated there are eleven thousand in the United States), is evident from the distribution of our national income. The table on page 63 compiled by the United States Internal Revenue Service shows this by the number of tax returns made by people with incomes in the lower brackets. Take for example those receiving less than $5,000 a year. In 1924 there were 6,672,650 out of a total of 7,369,788. Out of a total income of $29,578,996,575 reported for all taxpayers, those reporting less than $5,000 a year of income received $18,168,235,757.

Life Values and Old Age

Where there is a proper computation made of the life value of a policyholder and adequate protection is taken to insure this value, there need be no apprehension over poverty in old age. There are not many men who want either their wives or themselves to be dependent in their declining years upon their children. Even though the children are willing, the dependency of parents imposes a heavy burden upon them. Frequently this comes at a time when the children can least afford it. Regardless of the financial ability of the children, there is embarrassment to the parents who are compelled to accept charity even from their

Number of Individual Returns by Income Classes

(Based upon individual tax returns for 1924 incomes)

Income Classes	1919	1920	1921	1922	1923	1924
Under $1,000	....	....	401,849	402,076	368,502	344,876
$ 1,000–$ 2,000	1,924,872	2,671,950	2,440,544	2,471,181	2,515,324	2,413,881
2,000– 3,000	1,569,741	2,569,316	2,222,031	2,129,898	2,470,970	2,112,993
3,000– 4,000	742,334	894,559	702,991	785,267	1,125,462	1,181,156
4,000– 5,000	438,154	442,557	369,155	404,818	592,166	619,744
5,000– 10,000	438,851	455,442	353,247	391,373	397,630	437,330
10,000– 15,000	97,852	103,570	80,014	90,278	102,506	113,496
15,000– 20,000	42,028	44,531	34,230	39,605	44,948	49,878
20,000– 25,000	22,605	23,729	18,100	21,446	24,347	27,842
25,000– 30,000	13,769	14,471	10,848	13,225	14,919	17,432
30,000– 40,000	15,410	15,808	12,047	14,283	16,441	19,464
40,000– 50,000	8,298	8,269	6,051	7,970	8,472	10,165
50,000– 100,000	13,320	12,093	8,717	12,000	12,452	15,816
100,000– 150,000	2,983	2,191	1,367	2,171	2,339	3,065
150,000– 200,000	1,092	590	450	763	750	1,084
200,000– 250,000	522	307	205	350	348	542
250,000– 300,000	250	166	84	210	203	250
300,000– 400,000	285	169	98	205	216	320
400,000– 500,000	140	70	64	104	111	137
500,000– 1,000,000	189	123	63	161	141	242
1,000,000 and over	65	33	21	67	74	75
Total	5,332,760	7,259,944	6,662,176	6,787,481	7,698,321	7,369,788

own children. The Boston News Bureau carried an item which stated the late Thomas W. Lawson, who at one time was alleged to be worth $20,000,000, died without anything. It indicated he had been dependent upon a daughter for his main support for a year or two prior to his death.

Life Values in Business

Those dependent upon the life of a man, regardless of whether or not they are members of his family or business associates, have a definite financial interest in him. Just what this interest will be depends upon the demands which can reasonably be made upon him. We have been taught that life insurance is not indemnity. Where a life insurance program is built upon the life-value idea, we are approaching the indemnity theory. A business dependent upon the peculiar experience or training of the president is obviously going to suffer a definite material loss upon his death and possibly an irreparable one. It is only proper that the theory of life values should be applied to the life of this executive in an endeavor to determine accurately the proper amount of insurance protection which should be carried in the interest of the business.

CHAPTER VI

LUMP-SUM SETTLEMENTS

Factors

There are three factors which must be considered by policyholders in any program which they develop for the future care of beneficiaries. First, the estate must be created. The institution of life insurance can do this. Second, the corpus of the estate must be maintained, that is, properly invested, conserved, and distributed. The institution of life insurance can do this, too. There is a third factor, however, and that is the proper use of the income or installments. This is not an insurance function. Having these factors in mind, let us apply them to the death claims paid by insurance companies.

Promptly after the decease of the policyholder, the beneficiary receives the insurance estate in a lump sum unless the policyholder has specified otherwise. Usually she has known for years she would be a beneficiary in the event of the death of the policyholder. As death always seemed so far off, she has done nothing to prepare herself for this contingency. While she is in an unhappy and unsettled state of mind she is called upon to care for the corpus of the insurance estate. This may require a highly technical training, which can be secured only by years of experience. The solution of her problem requires sound judgment in making expenditures and the wise investment of unexpended funds not needed for current expenses.

Judgment in Expenditures

It is nobody's business, excepting the beneficiary's, whether the policyholder has left any insurance. If the beneficiary realized this she would frequently save herself much trouble and make her task of conserving the insurance estate easier. The fees or bills of those whose services have been necessary in caring for the former policyholder may be gauged by those submitting them in accordance with the amount of insurance left. Unfortunately, the widow is often in such a mental condition she is unable to exercise good judgment and as a result expenses incidental to the care of the former policyholder often exceed an amount which the estate justifies. These expenses, although naturally surrounded with sentiment, might be more efficiently met by the beneficiary if the policyholder had definitely specified in advance a certain sum to be used for these purposes.

As a man's income increases, his standards of living usually increase too; but in the event of business reverses these standards must be lowered in accordance with the new scale of income. This change is difficult, but economic pressure forces it. The situation is somewhat the same with the widow. During the lifetime of her husband she has become accustomed to certain standards that include many of the niceties of life not usually classed as necessities. With the departure of her husband, she has received a lump sum of money out of which the expenses referred to in the preceding paragraph must be met. As long as the remainder of the corpus of the insurance estate lasts, there is no economic pressure upon her. In the meantime she is living on capital rather than income, and the principal is diminishing steadily. Unless the beneficiary realizes a day of reckoning will come and she voluntarily reduces the standards of living she enjoyed during her husband's lifetime, the insurance estate will gradually disappear and the readjustment in standards will then be forced. This is not easy and sometimes brings real hardships with it. Cases of this kind are particularly pitiable because the widow and children are so often thrown into the business world to earn a livelihood without any training to enable them to earn more than enough for a mere existence. Although careful planning for the future by the policyholder would often have avoided these cases, still the beneficiary through judicious expenditures can frequently reduce this possibility to a minimum.

In cases where the widow is her own enemy, she usually has been in the habit of receiving definite sums of money at regular intervals; and as she thinks only in terms of income, the amount of insurance seems so large she indulges herself in some of the luxuries she has always wanted. This habit accounts for an actual case where a woman spent a very substantial portion of her insurance money in replacing all of the furniture in her house. It also explains in part the reason for the purchase of expensive wearing apparel and other commodities or services which are not absolutely necessary for livelihood, or in keeping with the income possible from the face value of the insurance.

There are numerous cases in which the insurance estate is dissipated through the foibles of human nature, but in spite of the wastage in these estates payable in a lump sum, the vast majority of them are sanely used. As the earned income of a policyholder decreases, we find the wife playing a more and more important part in the expenditure of it, particularly where the income is small. She knows how far a dollar will go in purchasing actual necessities of life. She has been the family treasurer, as a large percentage of the total income passes through her hands. When her husband dies, she is in a better position to conserve whatever insurance estate is left than the wife who has never lacked money and therefore is not prepared to make the most of the insurance funds left to her.

Much has been said about insurance estates being dissipated within a period of seven years as an argument against lump-sum settlements. The origin of this statement has been traced to a progressive trust company which originally used it in an advertisement. The trust officer saw a statement issued by a life insurance company relative to the percentage of life insurance estates paid in a lump sum which are dissipated. He telephoned to several insurance agents in his city, then concluded that 90 per cent of all insurance estates are dissipated within seven years and used this statement in advertisements for insurance trusts. The accuracy of it then was challenged by some who were associated with the institution of life insurance. Upon further investigation this trust officer discovered they were right and has since used his influence to prevent further reference to this error in advertising literature by other trust companies. Considering the average income in the United States and the average amount of insurance, it is obvious that the average life insurance estate could not possibly last seven years.

Dangers Confronting Beneficiaries

Give most policyholders, other than those who make investments their business, $10,000 of insurance money to invest and they would do a lot of thinking before reaching a decision. Their problem would be made all the more difficult because speculative and semispeculative securities should be eliminated from consideration, as the money which they would have to invest forms estates. Yet it is a safe wager that a substantial portion of the money would be put into securities which either were unfitted or unsafe for an estate. If this is so for men who look after the financial affairs of families, it is not surprising to find that wives, who have seldom had any training whatsoever in investment matters, do not know what is the wise thing to do.

As most insurance estates are not adequate to maintain the standards formerly enjoyed, the widow is often susceptible to the wiles of cunning salesmen of fraudulent stocks or other securities. The allurement of high interest returns or material increase in capital in a short period of time means so much when measured in terms of daily necessities or comforts that it is not surprising many insurance estates are seriously impaired or destroyed. The average widow is at a distinct disadvantage in dealing with those who make their living by defrauding others. Only her innate common sense to beware of strangers and to remember that one cannot get something for nothing will protect her.

Various methods are used by those who prey upon widows, as better business bureaus and chambers of commerce will testify. The sentimental appeal is frequently used to pave the way for the fraudulent transaction. Cases of this nature have been reported in which the leads have been secured from the obituary columns. Shortly thereafter the widow may receive a letter or a visit from one of her husband's alleged old friends, who of course appears shocked to learn of the husband's death and submits his condolences. Sooner or later the real object of the renewance of the acquaintanceship is stated. Sometimes in consideration of some great favor years before, the old friend had sought the husband to give him a chance to become prosperous by purchasing stock in a business, which in many cases does not exist.

In the May 20, 1922, issue of *The Saturday Evening Post* the following was printed:

A WARNING TO WIDOWS

The ease with which the average widow without business training and with no banker to advise her can be wheedled into putting her husband's life insurance money into wildcat stocks by the first salesman who approaches her is proverbial. Any lawyer or banker can cite a dozen cases in which the entire savings of a thrifty man's lifetime, amassed by years of sacrifice and self-denial, were swept away simply because a widow or orphan trusted one of the slick crooks who rob women for a livelihood.

Sometimes the real danger to the insurance estate comes from relatives. As soon as it is known a widow has insurance funds, their demands begin. They are varied in nature and only too often are just as detrimental to the conservation of the estate as the efforts of dishonest strangers. The beneficiary's sister may have a son who needs just a few thousand dollars to get his business on a proper basis, after which the money will be returned. The young man may not have been able to get the money from a bank, either because he did not have the necessary personal qualifications to make good or on account of insufficient capital for the type of enterprise in which he was engaged. In either event the chances are against his success, and conservative investors would realize that such a loan would be of a highly speculative nature, certainly not one for an estate. If the widow lends the money because she knows what a nice boy her nephew is—and frequently this is the only consideration—it is not surprising in the course of time to learn the insurance estate is just that much less in size.

Necessity of Lump-Sum Payments

Unless a policyholder has had a death in his family, he does not generally appreciate the need which the beneficiary usually has for ready cash immediately following death. The usual bills are the cost of the last illness of the policyholder, funeral expenses, purchase of a lot in the cemetery or mausoleum, income, estate, or inheritance taxes, executor's fees, attorney's fees, fees for guardians if any, filing fees, premiums on bonds for executor, and many others where unusual or complicating conditions exist. These are augmented frequently by others of which the beneficiary had no knowledge, as well as some which the beneficiary feels morally obligated to pay. In addition, the financial strain upon the regular household budget is usually greater.

Many testators carry mortgages upon their homes. These mortgages are debts which have to be met. If the beneficiary is unable to do this, in due time she will have to find more modest quarters. This may mean a forced sale of the house. Some policyholders take out a special insurance contract to protect the beneficiary against this contingency. This assures the policyholder that the beneficiary and his children will have a place, free and clear, to live in after his decease. In the former case the decedent is passing on to his heirs a heavy debt which is a distinct liability, whereas in the latter he is passing on an asset.

Lump-sum settlements should be made in whole or in part in almost every case, with only the percentage of the face value of the contract to be payable in this manner varying. A sum for the payment of the immediate expenses incidental to the death of the policyholder should be available in all cases. Debts and taxes have to be paid as well as expenses incidental to the period of adjustment. Where the face value of the contract is small, these expenses will take all the insurance money. In case the amount of insurance is large enough to provide for these expenses and still have a sum left, the question of how the residue shall be most efficiently paid to the beneficiary must be settled. The answer depends upon the amount of insurance and the facts in each case.

There is too much condemnation of lump-sum settlements without a full realization of the facts. The bills incidental to the death of the policyholder are payable in lump sums. When the average amount of insurance in force is considered, there is usually not much left to tide the family over the period of adjustment. There is, therefore, little danger, in the vast majority of cases, of unwise investments, borrowing by relatives, or opportunity for fraudulent stock salesmen, when the face value of the policy is only sufficient to pay expenses for an extremely limited period of time, say a year or so. A lump-sum settlement in most cases accomplishes just what the policyholder wanted because immediate funds are provided the beneficiary for expenses.

The waste in insurance estates is more likely to be in cases where the amount of insurance is sufficient to provide a residue, which in the eyes of the beneficiary seems large, after the payment of necessary expenses incidental to the death of the policyholder. In these cases the waste is due in part to our conception of financial success. Too often we are inclined to think how much capital has the policyholder, rather than what is his income. The policyholder who has acquired the capital after years of work has had the pleasure of financial growth, but he has put part of his life into it. The beneficiary sometimes has no idea of the value of money or the cost, measured in terms of human effort, of accumulating it. It is not surprising to find some beneficiaries more concerned over the pleasures to be secured from the insurance estate than how it may be properly conserved. In these cases policyholders can make provisions to safeguard the estate in the interest of the beneficiary in various ways. That this is being better appreciated is evident from a survey which has been made of the trend of lump-sum settlements.

The experience of insurance companies with about $20,000,000,000 of life insurance in force in 1920 indicates that approximately 97.2 per cent of all policies written that year were to be paid on a lump-sum basis. The policies written during 1925 indicated that in 92.63 per cent of the cases the lump-sum method was to be used. This drop of about 5 per cent is significant in view of the efforts of insurance companies to assist policyholders properly to plan and conserve their insurance estates. It indicates progress is being made.

CHAPTER VII

MAINTENANCE OF INSURANCE ESTATES

History

Probably the first move in the direction of safeguarding the insurance estate in the interest of the beneficiary was taken in 1879. Up to that time all insurance contracts maturing by death were payable in a lump sum. The alternative method proposed the payment of the face value of the contract in 10 annual installments. Applying this to a $10,000 policy, the beneficiary would receive $1,000 the first year, $1,000 plus interest on the remaining $9,000 the second year, $1,000 plus interest on the remaining $8,000 the third year, and so on until the principal sum was gone. This plan apparently did not meet with popular favor. About 1885, the installment method of optional settlement, which permits the face value to be paid in a number of annual installments, as we know it to-day, was adopted by an insurance company. Another company, about 1891, recognizing that this method did not provide for those beneficiaries who needed a definite income for life, adopted the life-income form of settlement with guaranteed payments for a certain number of years. Under the insurance law of New York, approved May 18, 1892, and amended in 1906, a policyholder could elect to leave the face value of the policy with the insurance company at interest until the death of the payee; to have the policy paid in an equal number of installments for a definite period of years; or to provide life income for so many years certain and for as long thereafter as the beneficiary lived. While some companies incorporated these provisions in their policies about 1900, they were not generally adopted by companies until about 1907. This enlarged service on the part of the insurance companies was evidence of their desire to do more for policyholders and their beneficiaries than merely pay death claims. Only during the last five years have these services begun to receive the recognition from policyholders which they deserve.

Income Settlements

The value of payment of incomes to beneficiaries, where the amount of insurance is sufficient, rather than giving them lump sums is beginning to be more generally recognized by men of means. Andrew Carnegie is reported to have bequeathed incomes to all whom he named in his will. The late Senator William B. McKinley, of Illinois, left a very substantial portion of his estate for the creation of income payments to relatives and friends. This method of providing for beneficiaries is sound, because the policyholder is sure the principal is kept intact and properly conserved so that his intentions will be carried out and the beneficiary really benefited.

It has been said that when the estate of the late J. P. Morgan was being settled several million dollars of worthless securities were found. While it is true that

Morgan was one of our outstanding financiers in his time and as such was eminently successful, his experience indicates that the best of investors from time to time acquire bad securities. The income plan of paying beneficiaries takes this possibility away from them and places it upon the shoulders of those who have been trained in keeping the amount of unwise investments at a minimum. That the value of incomes to beneficiaries is becoming more and more realized by policyholders is evident from the increasing amounts of income insurance which are purchased by them. The income policies consist of the regular forms of ordinary life insurance, such as whole life, limited payment life, or endowment plans payable on an income basis. The policyholder decides the amount of income desired and how long the income shall be paid.

While it is not definitely known how much income insurance has been sold, some companies have a substantial amount in force. One large eastern company has made a particular effort to stress the importance of income insurance and as a result wrote two and a half times more income policies during the year of the campaign than it did the preceding year. Some underwriters find that where life income policies are purchased, the amount of insurance is much larger than policies payable in lump sums; in fact one company has found these income policies have a face value of 50 per cent more than the average ordinary life insurance policy. This is not at all surprising, because gradually there is a growing appreciation that it is not the face value of life insurance which is of primary importance, but rather the income possible from it. Ten thousand dollars of life insurance represents a large amount of money to most people. Comparatively few policyholders have ever had this sum in their possession at one time. It is perfectly natural they should look at this contract of protection from the standpoint of volume rather than its earning capacity.

Optional Settlement Provisions

Let us review the forms of optional settlements usually offered policyholders to-day by insurance companies. The following typical provisions are selected from the standard policy forms of two of the leading companies:

1. *Interest Payments.*—The payment of interest on the amount left with the company at the rate which the company may each year declare on such funds (but at no less rate than three per centum per annum), payable at the end of each year for a specified number of years or during the lifetime of the payee, and at the end of the specified period, or upon the death of the payee, by the payment of the amount retained, together with any accrued interest for the year then current, to the person designated in said notice, or, if there be no person so designated, to the executors, administrators or assigns of the payee.

2. *Limited Installments.*—To have the whole or any designated part of the net proceeds paid in a specified number of limited monthly installments as per the Limited Installment Table, which shall apply pro rata per $1,000 of the amount to be so paid, the first installment being payable immediately.

Limited Installment Table

On Basis of $1,000 Interest 3 Per Cent

Number of Monthly Installments	*Amount of Each*
12	$84.50
24	42.87
36	29.00
48	22.07
60	17.91
72	15.14
84	13.17
96	11.69
108	10.54
120	9.62
132	8.86
144	8.24
156	7.71
168	7.26
180	6.87
192	6.53
204	6.23
216	5.96
228	5.73
240	5.51
252	5.32
264	5.15
276	4.99
288	4.84
300	4.71
360	4.18

3. Continuous Installments.—To have the whole or any designated part of the net proceeds paid in either 120, 180 or 240 stipulated monthly installments of an amount corresponding in the Continuous Installment Table to the sex and the age of the beneficiary on the date of payment of the first of such installments, provided that if the beneficiary

LIFE INCOME OR
CONTINUOUS INSTALLMENT TABLE

Age of Beneficiary	Number of Monthly Installments Stipulated					
	120		180		240	
	Male	Female	Male	Female	Male	Female
10*	$3.81	$3.75	$3.72	$3.67	$3.62	$3.58
11	3.82	3.77	3.74	3.68	3.64	3.59
12	3.84	3.78	3.75	3.70	3.65	3.60
13	3.86	3.80	3.77	3.71	3.67	3.61
14	3.88	3.81	3.79	3.73	3.68	3.63
15	3.90	3.83	3.80	3.74	3.70	3.64
16	3.92	3.85	3.82	3.76	3.72	3.66
17	3.94	3.87	3.84	3.78	3.73	3.67
18	3.96	3.89	3.86	3.79	3.75	3.69
19	3.99	3.91	3.89	3.81	3.77	3.71
20	4.01	3.93	3.91	3.83	3.79	3.72
21	4.04	3.95	3.93	3.85	3.82	3.74
22	4.06	3.97	3.96	3.87	3.84	3.76
23	4.09	4.00	3.98	3.90	3.86	3.78
24	4.12	4.02	4.01	3.92	3.88	3.80
25	4.15	4.05	4.04	3.94	3.91	3.82
26	4.18	4.07	4.07	3.97	3.94	3.84
27	4.22	4.10	4.10	3.99	3.96	3.87
28	4.25	4.13	4.13	4.02	3.99	3.89
29	4.29	4.16	4.16	4.05	4.02	3.92
30	4.33	4.20	4.20	4.08	4.05	3.94
31	4.37	4.23	4.23	4.11	4.08	3.97
32	4.41	4.27	4.27	4.14	4.11	4.00
33	4.46	4.30	4.31	4.18	4.14	4.03
34	4.50	4.34	4.35	4.21	4.18	4.06
35	4.55	4.38	4.39	4.25	4.21	4.09
36	4.60	4.43	4.44	4.28	4.25	4.12
37	4.65	4.47	4.48	4.32	4.28	4.15
38	4.71	4.52	4.53	4.36	4.32	4.19
39	4.76	4.56	4.58	4.40	4.36	4.22
40	4.82	4.62	4.63	4.45	4.40	4.26
41	4.89	4.67	4.68	4.50	4.44	4.29
42	4.95	4.72	4.73	4.54	4.48	4.33
43	5.02	4.78	4.79	4.59	4.52	4.37
44	5.09	4.84	4.85	4.64	4.57	4.41
45	5.17	4.91	4.91	4.69	4.61	4.45

* 10 years and under.

shall survive to receive the number of installments selected, similar installments shall be continued during the lifetime of the beneficiary. The table shall apply pro rata per $1,000 of the amount to be so paid, the first installment

Life Income or Continuous Installment Table

Age of Beneficiary	Number of Monthly Installments Stipulated					
	120		180		240	
	Male	Female	Male	Female	Male	Female
46	$5.24	$4.97	$4.97	$4.75	$4.66	$4.49
47	5.32	5.04	5.03	4.80	4.70	4.54
48	5.41	5.11	5.10	4.86	4.74	4.58
49	5.50	5.19	5.16	4.92	4.79	4.62
50	5.59	5.27	5.23	4.98	4.84	4.67
51	5.68	5.35	5.30	5.05	4.88	4.71
52	5.78	5.43	5.37	5.11	4.92	4.76
53	5.88	5.52	5.44	5.18	4.97	4.80
54	5.99	5.61	5.52	5.25	5.01	4.85
55	6.10	5.71	5.59	5.32	5.06	4.89
56	6.21	5.81	5.66	5.39	5.10	4.94
57	6.33	5.91	5.74	5.46	5.14	4.98
58	6.45	6.02	5.81	5.53	5.18	5.02
59	6.58	6.13	5.89	5.61	5.21	5.07
60	6.70	6.24	5.96	5.68	5.25	5.11
61	6.83	6.37	6.03	5.76	5.28	5.15
62	6.97	6.51	6.10	5.84	5.31	5.18
63	7.10	6.65	6.17	5.92	5.34	5.22
64	7.24	6.80	6.24	5.99	5.36	5.26
65	7.38	6.94	6.31	6.06	5.39	5.29
66	7.52	7.08	6.37	6.12	5.41	5.32
67	7.66	7.22	6.43	6.19	5.43	5.35
68	7.80	7.35	6.48	6.26	5.44	5.37
69	7.94	7.48	6.53	6.32	5.46	5.39
70	8.08	7.60	6.58	6.38	5.47	5.41
71	8.22	7.72	6.62	6.44	5.48	5.43
72	8.35	7.84	6.66	6.50	5.49	5.45
73	8.48	7.98	6.70	6.55	5.50	5.46
74	8.60	8.12	6.73	6.59	5.50	5.47
75	8.72	8.25	6.76	6.64	5.50	5.48
76	8.83	8.38	6.78	6.67	5.51	5.49
77	8.93	8.51	6.80	6.71	5.51	5.50
78	9.03	8.63	6.82	6.74	5.51	5.50
79	9.12	8.75	6.83	6.76	5.51	5.50
80†	9.20	8.86	6.84	6.79	5.51	5.51

† 81 years and over same as 80.

being payable immediately. If there be two or more beneficiaries the amount payable, unless otherwise directed by the designator, shall be divided into a corresponding number of equal parts and the installments to each beneficiary similarly determined according to age and sex by the Continuous Installment Table.

The development of the service of conserving insurance estates by the insurance companies involved many new questions. The first was assurance that this service was legal. Second, limitations had to be prepared in order to avoid settlements which were not properly thought out or were so involved it was reasonably certain the insurance company would not be able to execute them. With these matters out of the way, the extent of the conservation service became clear and the problem was then one of education of policyholders.

Legal Aspect

Legally the conservation of a life insurance estate by an insurance company is not a trust agreement but is a matter of contract. The relationship between the beneficiary and the insurance company is that of creditor and debtor. The optional settlement is a promise to pay and not a *cestui que* trust arrangement. Optional settlement agreements lack the essential elements of a legal trust and do not affect the original status between the insurance company and the policyholder. Although optional settlements are frequently called insurance trusts, this is not usually accurate, because few of the charters of life insurance companies contain trust functions. If the companies wanted to render trust service, many would be compelled to have their charters amended and in some cases the state laws would have to be changed. With possibly one exception, no life insurance company of any size is now transacting a trust business. At one time more insurance companies were doing this, for example the Provident Mutual Life and Trust Company of Philadelphia. Within the last few years this company has been divided into two corporations, one to function on life insurance and the other on trust company service.

There are some who maintain the administration of insurance estates by life insurance companies is legally either a trust or quasi-trust function. This view does not, however, seem to represent the prevailing opinion. From a purely moral viewpoint, the funds composing the insurance estate to be managed by the company are in fact just as real trust funds as any administered by a trust company. The Honorable Charles E. Hughes, in his address before the Association of Life Insurance Presidents, said: "While the insurance company is not technically a trustee, it is practically the highest form of trusteeship."

As optional settlements are contractual relationships, the insurance company must make and interpret all decisions arising out of the contract, such as the payment of money to proper beneficiaries at times agreed upon, without the advice or protection of the courts. As a result, questions arise occasionally which are difficult to answer. In cases of this nature, a trustee would have the benefit of court advice, because trustees are technically agents of the court and can be compelled to give an accounting to a court of equity at any time. Furthermore their action is subject to review of the court. Courts of equity are very careful to see that terms of trust agreements are actually carried out. If the settlement option was legally a trust function, the insurance company would be in a similar situation as a trustee. That the companies are fully carrying out their legal contractual obligations is evident from the fact that investigation has not disclosed the case of one company being brought into court in order to compel it to carry out its duty to a beneficiary.

Assuming that optional settlements are construed as legal trusts, there is little question as to the right of an insurance company to care for funds which it has helped create in the interest of the policyholders, unless expressly forbidden by law. Various authorities can be cited to support the service of conservation by insurance companies. Justice Story, for example, stated in part of his opinion in the case of Vidal *et al.* *vs.* Girard (Ex2 How. 188, 190) as follows: "But if the purpose of the trust be germane to the objects of the incorporation, if they relate to matters which will promote and aid and perfect these objects . . . where is the law to be found which prohibits the corporation from taking the devise upon such trusts in a state where the statutes of mortmain do not exist?"

Limitations

The care of an insurance estate requires highly specialized training. The vast majority of estates can be properly conserved by the simple options offered by the life insurance companies. There are cases where the settlement is necessarily involved and consists of complicated contingencies and discretionary action. Cases have been reported where the proposed agreements involved between three and four hundred different contingencies when they were plotted out. The insurance companies are not equipped to take care of settlements of this nature. In order to avoid litigation and judgments against them which may result from court action, they invariably limit their service to the three forms, interest, installment, and life income. Some companies will accept special forms of settlement.

The optional settlement plans are simple and definite. They do not permit of obligations which involve the exercise of judgment in reference to the desirability of uses of the funds after they have been given to the beneficiary. The companies will not deviate in any way, regardless how meritorious the cause, from the terms of the settlement agreement with the policyholder as to how the funds will be paid. The general agreement among life insurance companies that they will not assume or exercise discretionary power in the administration of an insurance estate is the result of much consideration by company officials. The simpler the terms of the agreement, the better it is for the policyholder, beneficiary, and company.

Separate and distinct from purely legal considerations, there are some types of agreements which the insurance companies could not accept because of the nature of their existing organizations. The success of the life insurance company depends largely upon a highly centralized administration with an efficient field force. As complicated settlements frequently involve acquaintanceship or personal contact with the beneficiary by the one administering the estate, the insurance company, under existing operating conditions, would many times be unable satisfactorily to take care of settlements of this nature. It would be compelled to rely somewhat upon correspondence which cannot possibly take the place of the intimate knowledge of local conditions so necessary at times in order to make intelligent decisions upon requests by beneficiaries. The life in the community, the histories of the individual and his family, unusual conditions, neighborhoods, and various other factors of a local nature would necessarily be involved in decisions upon certain requests. Contingencies involving survivorships, marriages, and unborn children are difficult to handle by correspondence. It is true that where agents of the company are located in the beneficiaries' community these problems would be simplified materially, but even then the official making a decision might be hundreds of miles away.

It is not advisable for the insurance companies to assume obligations which would mean they had to make expenditures of any kind directly or indirectly out of the corpus of the insurance estate either for or in behalf of the beneficiary. Many requests for optional settlements relate to the provision of an income to a child or children during college age. The insurance companies will hold the proceeds of the face value of the contract after the death of the policyholder until an agreed-upon time or times, but when the time arrives, the stated payments will be made to the child or guardian. Sometimes policyholders want the companies to agree to pay installments or the face value of an insurance contract to a son or daughter only in the event he or she goes to college and continues his or her course. Many companies will not do this because they have not the organization to investigate just what the young man or woman is actually doing. Some of the leading companies will pay installments contingent upon proof that the beneficiary entered college. The function of the insurance company must end after the money is paid in accordance with the contractual obligations and in no way can the companies supervise the application or use of funds after they are given to the beneficiary.

The natural wishes of practically all policyholders can be met by proper application of optional settlements offered by insurance companies. Combinations of these optional settlements permit even wider service by the companies and afford an opportunity for flexibility which is not generally recognized. With the exception of those relatively few cases where discretion is really necessary, optional settlements or combinations thereof will meet the needs of the beneficiary.

Some of the so-called discretionary cases can be rearranged so as to be specific and definite without in any way affecting the interests of the beneficiary adversely. The legal departments of the insurance companies have been doing much work in assisting policyholders to make their settlement agreements as simple and effective as possible. To illustrate, a prospective policyholder wanted to take out an insurance contract for $150,000 with the understanding that the insurance company would pay the interest on the face value in the event of his death to his widow while she remained single. Upon her remarriage the corpus of the insurance estate was to be paid to his two children. There is involved in this case an element of discretion as the insurance company would have to follow up the widow continually to make sure she had not remarried; otherwise it might be paying her money contrary to the wishes of the policyholder. The legal department of one of our prominent insurance companies suggested that the contract be accepted if the prospective policyholder was willing to distinctly specify that the company should pay interest to the widow until notified of her remarriage by the contingent beneficiaries. As this was agreeable to the policyholder, the contract became effective. This is a form of policyholders' service by one of the existing divisions in insurance companies which is growing, if the reports from some company officials are representative. For example, the legal division of one of the leading life insurance companies is assisting in the preparation of from sixty to eighty optional settlement agreements each month. This company indicates this service has been rapidly growing and regards it as an opportunity to place at the disposal of their policyholders their broad experience, to the end that the beneficiaries may be more adequately provided for.

The importance of coöperating with the legal divisions of the life insurance companies cannot be overemphasized. These legal experts can be trusted to do everything possible to place at the disposal of policyholders the experience of their companies in conserving insurance estates. Where the terms of the proposed settlement agreement cannot be properly or efficiently executed by the insurance company, they will say so. In cases of this nature, which should be very exceptional, the excellent facilities of the trust company should be considered.

Investment Service for Beneficiaries

The problem of the proper investments is a source of much thought and worry to most policyholders when they are alive. After their death it is only reasonable to expect that the investment of the corpus of the estate should be an ordeal for the beneficiary. The insurance company offers the same investment machinery and management to the beneficiary to maintain the estate as it offered to the policyholder while he was alive. Of course, where the policyholder has prepared an optional settlement agreement with the company, the beneficiary will receive just the agreed-upon sums in accordance with the policyholder's wishes. In cases where the policyholder has left his insurance estate to be paid to the beneficiary in a lump sum, she usually has the same privilege under the same conditions as the policyholder of making a settlement agreement for the care of the insurance fund by the insurance company.

The funds comprising insurance estates which are to be administered by the insurance company become part of the general funds of the company. As they lose their individual identity, the insurance company invests them along with the rest of its funds. As a result, it is possible to get a much wider distribution of investments under this method than would be possible through the individual investment of the funds. This distribution is twofold, geographic and by type of security. Carefully selected investments of these kinds, within the limits required of insurance companies by law, make for safety, which is one of the fundamental principles most rigidly adhered to by the investment departments of the companies. The annual income will not be as high as that possible from a high-grade stock in a given year, but this is to be expected. This stock may properly be classed as speculative or semispeculative, both of which would be prohibited by insurance investment experts as not being suitable for the policyholders or beneficiaries protected by their companies. There are many who believe that over a span of years the conservative investments of insurance companies will compare most favorably with the rate secured by those dealing in other types of securities. In making this comparison it is only fair that the latter class of investors figure in their capital losses as well as loss from interest.

Income to Beneficiaries

A guaranteed minimum yield on invested funds is necessary to enable the policyholder to know how much insurance he must buy. Without this knowledge he cannot intelligently arrive at a figure which will provide an adequate income sufficient to maintain his beneficiaries. The participating legal reserve life insurance companies guarantee 3 or 3½ per cent as the minimum rate of interest, but the beneficiary shares in excess earnings of the company as declared by the board of directors. Anything more than the minimum interest is not guaranteed because of the natural fluctuations over a period of years of investment income of insurance companies. The nonparticipating companies guarantee a fixed rate of interest higher than the minimum rate of the participating companies, and at least one stock company guarantees 4½ per cent on the face value of life insurance estates left with it.

In order to determine just what rate of interest has been earned on the mean invested funds of life insurance companies during the past twenty years, a table has been prepared.

The table on page 92 indicates a steady improvement in interest earnings of life insurance companies during the last twenty years. Although we are going into a lower interest period, it is well to bear in mind that the average interest earned for a twenty-year period was about 5 per cent. This included so-called good times as well as bad. The possibility of lower interest earnings must be kept constantly in mind so the face value of the total amount of insurance will be high enough to produce a living income to the beneficiary. Our foremost financiers would refuse to hazard a guess as to business conditions ten years hence. A mistake based upon faulty reasoning in reference to the probable rate of interest earned on any estate whether it be insurance or otherwise may be paid for by the beneficiary at times when she is in need of money.

Policyholders, who are not satisfied with the guaranteed rate of interest offered by either the participating or nonparticipating companies, can be assured, by the payment of a slightly higher premium, that the beneficiaries will receive a higher guaranteed income rate. Under this plan of service a beneficiary can receive an absolute guaranty of 5 or 6 per cent of the face value of the insurance estate annually. Special certificates will be issued by the insurance companies to this effect. In cases where policyholders request this service, it is well to remember that in participating contracts the excess earnings will further increase the annual income payable. To illustrate, a policyholder may purchase a participating contract which will guarantee his beneficiary a 5 per cent income return annually on the face value of the contract. Assuming the excess interest declared by the company, which is applicable to funds left with it, to be 1¼ per cent, the beneficiary would receive 6¼ per cent annually of the face value of the funds left with the company.

RATE OF INTEREST EARNED ON MEAN INVESTED FUNDS

Company	1906-10	1911-15	1916-20	1921-25	1925
A	4.82	4.96	5.08	5.47	5.47
B	4.67	4.80	4.77	5.28	5.28
C	4.50	4.56	4.59	4.89	5.09
D	4.48	4.54	4.71	4.99	5.11
E	4.96	5.09	5.07	5.41	5.33
F	4.77	4.66	4.67	5.00	4.90
G	4.79	4.94	5.02	5.28	5.19
H	7.71	5.14	5.22	5.43	5.04
I	4.82	5.16	5.15	5.42	5.37
J	4.93	4.98	4.97	5.24	5.18
Average of 95 companies	4.79	4.82	4.90	5.34	5.34

Stability of Income

It is interesting to review the earnings of the insurance companies during the past twenty years. The relatively small area in which the variations move is particularly noteworthy for those considering insurance company service for protecting their insurance estate. Stability of income is most important to the beneficiary of an estate. Peaks and valleys mean that some years the beneficiary may have plenty while in others she may have little. As the expenses of living go on just the same during good and bad financial times, stability and security of income are advisable even if it seems that occasionally a higher rate of interest might be earned. In the long run the beneficiary will be better off under the system followed by the insurance companies.

One factor which makes for stability of income of insurance estates is the ability of the insurance company to keep the corpus of the estate working continually. This means there is no part of the corpus which is not earning interest. To appreciate this advantage properly let us take a case where the face value of the contract is to be paid in twenty annual installments. If this arrangement were to be carried out by some other agency, it would be necessary to invest the corpus of the estate so the due date of maturities would be staggered, the object being to provide the beneficiary with part of the principal each year. In the course of this process, interest is frequently lost for a period of time upon the money to be paid during a given year because of the difficulty in selecting proper investments which either mature or can be sold to advantage on the date when the payment is due to the beneficiary. If the interest is not lost, there is frequently a wide variation in the amount of interest paid annually because short-term, low-interest-bearing securities have been purchased to meet the early annual payments. Neither of these types of losses occurs when the insurance company administers the estate.

Security of Estate

The payment of principal and interest of insurance estates is guaranteed by the insurance company when estates are left with it for administration. The total assets of the company assure the payment of both at par. As indicated previously, various safeguards are thrown around the investment services of life insurance, such as the development of contingency reserves, one of the purposes of which is to absorb losses from investments which do not develop as anticipated. The policyholder, therefore, has every assurance his beneficiary will receive the payments promised in the settlement agreement.

Time of Payments and Fees

There is a wide latitude offered by insurance companies as to the time when payments may be made under the terms of optional settlement agreements. These are usually made monthly, quarterly, semiannually, or annually. Generally the company will make the payments on specified dates subsequent to the death of the policyholder if this is requested. Sometimes the policyholder will want to have the payments made just before Christmas or on the anniversary of some particular event of a sentimental nature. The insurance companies will usually do this, making the necessary adjustments for interest if this date is before the anniversary of the death of the policyholder. No fees are charged to the beneficiary for the service of the insurance company in keeping the insurance estate properly managed and invested.

CHAPTER VIII

OPTIONAL SETTLEMENTS

Interest-Settlement Option

In the development of any settlement plan a thorough review of the needs of the beneficiary is of primary importance. The instruments for meeting the policyholder's wishes are the optional settlement plans, and the proper application of these plans in the vast majority of cases will result in a constructive insurance-estate program designed for the welfare of the beneficiary. Usually the problem is somewhat complicated because most policyholders are underinsured. In these cases it is a question of making the insurance money do the greatest amount of good.

Under the interest option the policyholder can specify that the insurance estate will be left with the insurance company either for a definite period of time or throughout the life of the beneficiary. The interest can be paid to the beneficiary, the effect of this being to keep the corpus at work earning a substantial amount of interest and to maintain the principal intact. It meets with favorable consideration from many policyholders where the income from the face value of the contract is of primary consideration.

Like any other form of conservation of estates, this type of optional settlement has its proper uses. A review of some of these might serve to indicate its field of service. It is not unusual for a policyholder to want to suspend the time before title to the corpus of the estate shall pass. This is particularly true where the amount of insurance is substantial and the policyholder wants his wife as beneficiary to receive the income from the estate and upon her death, the estate itself to be divided among the children. This method assures the independence of the mother and avoids the possibility of making her dependent either in whole or in part upon her children. Furthermore, by the time the children receive the corpus of the estate they are more likely to appreciate the value of this money. Obviously this method should never be used in cases where the insurance income is not sufficient to defray a substantial part if not the entire living expenses of the beneficiary, unless there is sufficient income from other sources.

A common objection raised against optional settlements is that the money is so tied up the beneficiary cannot utilize it in the event of emergency such as sickness. The interest settlement will take care of this objection. Unless the policyholder has specific reasons for wanting to tie up the whole insurance estate, it is worth while to consider the possibility of leaving a certain portion of the estate with the insurance company at interest. Then in the event of unexpected needs, the beneficiary can withdraw sufficient funds to meet the emergency. Such withdrawals can usually be made by mail. Of course, in these cases the policyholder must definitely state that the money is to be left at interest at the option of the beneficiary. The companies usually do not object to withdrawals under agreements of this kind. The beneficiary will lose the interest for the preceding year if the money is withdrawn before the time when annual interest is declared, although some companies will allow interest up to the date of withdrawal.

The value of the interest payment as a means of building estates under certain conditions is not recognized. Recently a young man asked advice about a $10,000 endowment insurance policy which his father had taken out for him and which would mature within the next year. He said he did not know what to do with the money. After an analysis of his situation it was evident that he should take out more insurance. Accordingly it was suggested that he leave the face value of the maturing endowment with the insurance company at interest. The income would be sufficient to purchase at his age $25,000 of ordinary life insurance. In the event of his death, his estate would amount to at least $35,000. If conditions should arise which make it imperative that he use any part or all of the $10,000 left with the insurance company, he could do so.

The interest option permits of many variations. An estate might be divided into three different interest options. In one case the money might be left at interest to be withdrawn at the option of the beneficiary; in the second the interest might be payable for a period of five years and then the principal sum paid to the beneficiary; and in the third the interest might be paid or accumulated for ten years, when the principal sum will be paid either to the primary beneficiary or secondary beneficiary. Some states have laws preventing the accumulation of interest at least beyond the time when the beneficiary reaches his or her majority. The legal limitations upon accumulations of interest are briefly discussed in the chapter entitled "Limitations."

That the interest option is applicable to smaller estates as well as larger ones is evident from the experience of one large company which indicates that this option is usually exercised in estates of less than $3,000. The reason commonly advanced in these cases is that the money is safe with the insurance company and it can be procured upon request. This company also finds that, on the average, insurance estates left at interest remain with it two or three years.

Installment Settlement Option

When the insurance is only sufficient to maintain the beneficiary or dependents for a limited period of time, the installment option can be used to advantage. The policyholder knows the standards of living to which they are accustomed and should be able to fix the minimum amount necessary for their maintenance. In cases of this nature the payments are made as long as the principal sum lasts. In the course of these payments the unused money is drawing interest. While this service is applicable to estates of all sizes, it is particularly helpful in the smaller ones which are only sufficient to provide an income for short periods, such as one, two, or three years.

Another method of using the installment option is to have the amount of the policy paid in equal installments over a definite period of years. Where the amount of insurance is substantial, this is particularly valuable in tiding beneficiaries over periods of time within which responsibilities are heaviest, for it insures a continuity and stability of uniform payments. The following table will indicate how many annual equal payments can be made over a period of years, using a $1,000 insurance policy as a basis.

OPTION 2 INSTALLMENT PAYMENTS

(On Basis of $1,000, Interest 3 1/2 Per Cent)

Number of Years Specified	Amount of Each Annual Installment	Amount of Each Semi-Annual Installment	Number of Years Specified	Amount of Each Annual Installment	Amount of Each Semi-Annual Installment
1	$1,000.00	$504.34	16	$79.88	$40.38
2	508.60	256.54	17	76.38	38.60
3	344.86	173.98	18	73.26	37.02
4	263.04	132.72	19	70.48	35.62
5	214.00	107.98	20	67.98	34.38
6	181.32	91.52	21	65.74	33.24
7	158.02	79.76	22	63.70	32.22
8	140.56	70.96	23	61.86	31.28
9	127.00	64.12	24	60.16	30.44
10	116.18	58.66	25	58.62	29.66
11	107.34	54.22	26	57.20	28.94
12	99.98	50.50	27	55.90	28.28
13	93.78	47.38	28	54.68	27.68
14	88.48	44.70	29	53.56	27.12
15	83.90	42.40	30	52.54	26.60

When the installment option is used to provide a living income as long as the principal sum lasts, and excess interest is paid by the company, these amounts will be increased. If left with the company, the additional interest can be used to extend the period of time during which the agreed-upon payments will be made. In cases where an equal amount is to be paid over a definite period of time, say twenty years, and the excess interest is left with the company, the period of time within which payments will be made will be materially extended. In these twenty-year cases, assuming the company is guaranteeing a minimum rate of 3 per cent and is earning only 1 per cent excess interest each year, the beneficiary will receive payments for twenty-two years, eight months, and not quite two weeks. Obviously the higher the excess interest earning, the longer will be the duration of the periods, as just the addition of $3/10$ of 1 per cent adds almost thirteen monthly payments to an original plan which called for monthly installments during twenty years. In the event of a monthly installment agreement for twenty years, the excess interest earnings to be paid annually will decrease each year. This is because the principal sum is becoming less year by year.

This form of settlement enables the small policyholder to use it as a basis for building an insurance estate program. Let us take the case of a young man who is making a salary of $200 a month. He is married and has two children. He, like other young men with no means of support but their salary, can necessarily carry only a limited amount of insurance. In the event of his death the immediate problem of his widow would be to pay the bills and then have sufficient funds to go through the period of adjustment which always follows the decease of a breadwinner, using this period as a means of preparing plans for the future. The practical thing to do in this case, having in mind the installment settlement, is for the young father and husband to buy as much insurance as he can carry with the idea of continuing his monthly salary for a short period of time. Let us assume he can afford to take enough insurance to insure the continuance of his monthly salary for twelve months after his decease. This will serve as a base for the future development of his program. Thereafter his insurance estate will be increased as his finances permit, so the number of months during which the beneficiary will receive his salary will be increased. When the policyholder is satisfied with the period for which arrangements have been made to continue his monthly salary, other forms of settlement service might be arranged.

Irrespective of the face value of the contract, after a sufficient sum has been deducted for the payment of expenses incidental to the death of the policyholder, the residue may be paid in installments to the beneficiary. Of course the insurance company could not afford to make a payment involving less than a minimum sum, say ten dollars a month. This settlement option is particularly helpful in small insurance estates, because it gives a beneficiary an income upon which she and her children can live for a period of time. The wife is in the habit of receiving her income in weekly or monthly installments so that this method is just a continuation of the practice to which she is accustomed. It is far better to give her a livable income for a short period of time than to offer a much smaller income for an extended period of time. This plan will give her the money when she needs it most, because it enables her to keep the family together as long as possible. Then, too, the mother can prepare the children for life and give them the best foundation possible under the circumstances. Of course, the longer the period of time during which the living requirements can be met by monthly payments, the better will be the start for the children. As they reach the age when they can contribute to the maintenance of the family, pressure upon the beneficiary will be reduced.

In order to avoid unreasonable periods of time over which the installments or interest upon the installments might be paid, insurance companies necessarily have to establish an outside limit. Usually the period within which the installment option must be completed is thirty years. If a limitation of this nature were not insisted upon, it is possible that legal complications might develop which would affect not only the company, but also the beneficiary. This limitation, therefore, tends toward simplifying settlement agreements and insures the fulfillment of such agreements made.

When installment options are used as the basis for the insurance estate, it is generally well to provide that the first payment will be greater than the succeeding ones. The reason for this is to provide the beneficiary with necessary funds to meet bills and expenses incidental to the policyholder's decease. This can be accomplished by having the policyholder provide for part of the face value of the contract to be paid in a lump sum and the rest to be paid in accordance with the installment option agreement. In the event such an arrangement is not made, the beneficiary without other income may be in an embarrassing situation because of lack of funds.

Various combinations of installment options may be made. In addition to those suggested in the foregoing discussion, sliding-scale payments can be made; for example, let us assume a case of a man who wants to give his six-year-old daughter a college education. In the event he lives he is reasonably certain he can do this; therefore the problem is to assure his daughter of this training in the event of his death. The settlement agreement, after providing for the payment of a lump sum for necessary expenses, can be divided into two sections. The first will provide an income for the maintenance of the daughter until she reaches college age; the second would be effective at that time and be sufficient to pay for the necessary expenses of a college training. The monthly benefits under the second section would naturally be much more than under the first.

Life-Income Option

This mode of settlement is designed to assure the beneficiary of a regular income of equal payments as long as she lives. It guarantees a certain income for a definite number of years and as long thereafter as the beneficiary lives. The life-income option is made up of two factors, the first providing the income for the term certain or fixed period and the other an annuity which becomes effective immediately after the expiration of the term certain. It is important to understand this distinction, because the dividends are paid only during the term certain. This term usually runs for a period of five, ten, fifteen, or twenty years, although some companies write it for twenty-five years. In the event the beneficiary dies before the term certain has expired, the unpaid installments will be paid to her estate during the balance of the term certain unless otherwise directed by the policyholder in the settlement agreement. In case the beneficiary lives beyond the term certain, her estate or the contingent beneficiary will receive nothing from the life insurance contract. As indicated previously, her income beyond the term certain was from an annuity.

In any mode of settlement intended to supply the beneficiary with a life income, the exact amount to be paid per $1,000 of insurance will depend upon the age of the beneficiary at the time of the death of the insured. The reason for this is the older the beneficiary at the time of the death of the policyholder, the shorter is the period of time during which the beneficiary will probably live and, therefore, the greater will be the amount of the life-income installments. As the beneficiary approaches the period at which she is unable to pay living expenses, the greater is the need for more substantial life-income payments. Once these are started, it is important they be continued until death. The life-income option does this, hence this form of settlement is well worth considering in cases where the beneficiary has no children or other contingent beneficiaries, or a life income is desirable. The table on page 107 will be helpful in determining the amount of life income possible per $1,000 of life insurance at various ages of beneficiaries at the time of the death of the policyholder.

A benefit incidental to the application of the life-income plan of optional settlement, for a beneficiary who has children, is that in the event of the death of the beneficiary shortly after that of the policyholder, the children will get a very substantial part of the insurance estate at a time when they need it most. When the children are young, their ability to earn a living is least; therefore the need for the greatest amount of the insurance estate possible. As the children's economic ability grows, the imperative need for the insurance estate decreases until the children are able to take care of themselves. Some companies, upon the death of the beneficiary who had been receiving the life-income payments, permit the children to decide, through their guardian, how the remaining money is to be paid. In the event the policyholder dies as the beneficiary is approaching fifty years of age, the probability is that a substantial portion of the parent's responsibility will be over. It is a comfortable feeling then for the beneficiary to know that as a result of the larger regular income, she will not be so likely to hamper, or be a burden upon her children while they are getting started in life.

Policyholders desiring to provide for the future of their daughters will find the life-income mode of settlement deserving of consideration. In the event the daughter, after the policyholder's decease, decides to earn her own livelihood, a steady income will enable her to select a type of work or the opportunity which is most pleasing or suitable to her. Economic pressure

OPTION 3 LIFE INCOME

(On Basis of $1,000)

Age of Payee When Policy Becomes Payable	Amount of Each Installment		Age of Payee When Policy Becomes Payable	Amount of Each Installment	
	Fixed Period of 20 Years	Fixed Period of 10 Years		Fixed Period of 20 Years	Fixed Period of 10 Years
10 and under ..	$43.24	$44.46	44	$55.56	$59.54
11	43.40	44.64	45	56.20	60.52
12	43.58	44.82	46	56.86	61.56
13	43.76	45.02	47	57.54	62.64
14	43.94	45.22	48	58.20	63.78
15	44.14	45.44	49	58.88	64.98
16	44.34	45.66	50	59.56	66.24
17	44.54	45.90	51	60.24	67.56
18	44.78	46.14	52	60.92	68.96
19	45.00	46.40	53	61.58	70.42
20	45.24	46.68	54	62.22	71.94
21	45.50	46.96	55	62.84	73.52
22	45.76	47.26	56	63.44	75.18
23	46.04	47.56	57	64.00	76.88
24	46.32	47.90	58	64.54	78.66
25	46.64	48.24	59	65.04	80.50
26	46.94	48.60	60	65.50	82.38
27	47.28	48.96	61	65.92	84.30
28	47.62	49.36	62	66.30	86.28
29	47.98	49.78	63	66.64	88.28
30	48.36	50.22	64	66.94	90.30
31	48.76	50.68	65	67.20	92.32
32	49.16	51.16	66	67.40	94.34
33	49.60	51.68	67	67.50	96.36
34	50.04	52.22	68	67.50	98.34
35	50.52	52.78	69	67.50	100.28
36	51.00	53.38	70	67.50	102.18
37	51.50	54.02	71	67.50	104.00
38	52.02	54.68	72	67.50	105.74
39	52.58	55.38	73	67.50	107.38
40	53.14	56.14	74	67.50	108.92
41	53.72	56.92	75	67.50	110.32
42	54.32	57.74	76	67.50	111.60
43	54.92	58.62	77	67.50	112.74

will not then be a factor in forcing her into some field of endeavor which she otherwise would not enter. Then, too, regardless of the vicissitudes of business, a continuous income for life is an anchor to the windward.

In spite of the efforts of prudent parents, it is possible a daughter may marry a man who is not deserving of her. In this event, the continuance of regular payments gives her an independence which is so desirable in cases of this kind. If the daughter is getting along in years when her marital relations become unsatisfactory, a life income is a blessing. Looking at life incomes for daughters from the viewpoint of success and happiness, they can be very nicely used to provide the little luxuries for the present or in planning for the future. They enable a parent, long after he is gone, to safeguard his daughter's financial future.

As an illustration invariably drives home more forcibly the value of any principle, an actual case may serve to emphasize the importance of the foregoing statement. A prosperous business man took out a considerable amount of life insurance and arranged for part of it to be paid on a life-income basis to his small daughter in the event of his death. Subsequently his wife died. Under the influence of his second wife, he willed his entire estate to her shortly before his death, expecting her to take care of the daughter. Later the second wife remarried and took absolutely no interest in the daughter. Unfortunately the daughter married a man whom she had to leave ultimately. While the income from her father's insurance was not quite sufficient to support her, it enabled her to be independent. With the aid of it in addition to her own efforts, she has been able to start a small business which is prospering.

Percy H. Evans, Actuary of the Northwestern Mutual Life Insurance Company, wrote an interesting article several years ago about life incomes. He told of a case of a manufacturer who bought $90,000 worth of life insurance in his company. This was on the life-income basis with payment guaranteed for 25 years certain and thereafter as long as the beneficiary lived. About 3 years after the policy was issued the manufacturer died. In the interim he paid in premiums the sum of $15,769.47. The settlement option provided that the corpus should be divided into three equal divisions, one for the widow and one for each of two daughters. The reversionary interest in each of these divisions in the event of death of that particular beneficiary before 25 years certain elapsed was placed in the two living as joint contingent beneficiaries. In the event of the death of two, the reversionary interest of their divisions became vested in the remaining survivor. In reviewing the insurance company's experience with this particular case, Mr. Evans indicated that during the first 10 years, the total time which had elapsed since the death of the policyholder, the average monthly payment, including dividends, to the mother was $155.13, to one daughter $131.12, and to the younger daughter $127.97. The average annual income to the mother and daughters was $4,970.64. While Mr. Evans figures this as 5.52 per cent of the $90,000 of life insurance, it is interesting to note this annual income is more than 33 per cent of the investment which the policyholder actually made.

In applying the life-income mode of settlement to a particular case, the needs of the beneficiary are paramount. While some experts take the position that the life-income settlement should not be used unless there is at least $10,000 of life insurance, there are many cases where the use of this form of settlement in insurance estates of less than this amount would be justified. In taking a fixed amount as a dividing line, the assumption is that the income from a lesser sum will not meet the bare necessities of life. In cases where there is no other estate and the face value of the insurance is not sufficient to give a living life income, some other form of settlement should be taken. Where there are other assets, it might at times be advisable to round out the regular income of the beneficiary by a life income from the insurance estate.

CHAPTER IX

COMBINATIONS AND TREND

The various modes of settlement present simple but effective methods which, if properly handled, will meet the estate needs of the vast majority of policyholders. Extreme flexibility is possible through combinations of various kinds, and as most settlement plans are made to protect a wife and children, this flexibility is important. In arranging these combinations it is usually necessary to have a lump sum payable to the beneficiary to take care of expenses incidental to the death of the policyholder. The optional settlements should be applied to the remaining sum. Combinations can be made within the same form of settlement or between all the various forms of settlement.

A man having $15,000 of insurance to dispose of after setting aside a reasonable amount for funeral and other expenses, might wish his beneficiary to receive $2,000 a year for the first 5 years after his death and $1,000 a year for the next 5 years.[1] In order to accomplish this, the principal sum should be divided into two parts, both of which would be governed by provisions of the installment settlement plan. The first provision would call for the payment of $10,000 of the principal sum upon the basis

[1] Annual interest will increase these sums.

of $1,000 a year, beginning with this death, for 10 years, while the second provision would require the payment of the remaining $5,000 in $1,000 installments beginning with policyholder's decease. The reason for making the two provisions is that some insurance companies will only pay under a single installment provision equal installments, whereas this policyholder contemplated that for a period of time his beneficiary would receive twice as much money during the period of adjustment following his death than she would be paid thereafter.

Combinations of interest, installment, or life-income options are rather common. Cases where the policyholder wants to assure the education of his children, such as the one referred to under the section dealing with installment options, frequently require a combination of interest and installment modes of settlement. As it is estimated to cost $5,000 to pay the expenses of a boy to go through college, arrangements may be made to have this paid to him at proper intervals. Provision might be made to take part of this sum to provide a monthly income for the four years the young man is in college. A separate sum sufficient to pay tuition, books, and fixed charges of the college which are payable each term may be set aside. This will be paid semiannually in equal installments during the four college years. The unused portions will bear interest.

Another illustration is that of a policyholder who wanted to leave his primary beneficiary an income of $100 a month for 10 years, and a contingent beneficiary a lump sum of $10,000 at the end of 10 years with the interest in the meantime going to the primary beneficiary. A face value of $20,228 is necessary to accomplish the policyholder's purpose. By using the installment option, the beneficiary will receive $100 a month for 10 years from the sum of $10,228 which has been set aside for this purpose. In addition, $350 would be paid each year for 10 years making the beneficiaries' total annual income $1,550. Each of the annual additions represents the guaranteed interest by a company writing on a 3½ per cent basis. There will be an additional interest payment based upon the excess earnings of the company.

To illustrate the possible combination of life income with installment options, after an inital lump-sum payment has been made, let us take the case of a policyholder who dies and leaves a widow, aged 40, with two children who are 14 and 16 years old respectively. We will assume that he has $21,000 left for distribution. This may be divided into two sums with separate provisions of the optional settlement plan describing just how each is to be paid. Fifteen thousand dollars will provide a life income, with payments guaranteed for 20 years certain, for the beneficiary. This will amount to $797.10 annually, which is on the assumption the insurance company has guaranteed 3½ per cent per annum, but this sum will be further increased by excess interest earnings. The remaining $6,000 will be paid under the installment option plan on the basis of $1,000 a year. This will be increased by the guaranteed rate of interest and excess interest earnings upon the unpaid annual installments. During the period when the beneficiary will have the greatest need for income because of responsibilities, she will receive as a minimum income $1,797.10 and thereafter the life income referred to previously.

A combination of settlement agreements which is not uncommon is to give the wife interest from the insurance estate during her life and designate the son and daughter as contingent beneficiaries. Upon the death of the mother the son will be paid the interest on his share of the estate for a definite period and the daughter given a life income. The reason for the different treatment of the son and daughter is based upon the rôles which men and women play in life. The man, unless he is a spendthrift or for some reason not to be trusted with money, usually has need for funds to get started in business or, if he is a professional man, to tide over the period when he is developing a reputation. In these cases, the policyholder specifies that the principal sum should be paid to the son when he has reached a definite age. Of course, none of this applies in cases where the policyholder is wealthy and has taken the insurance out as an added safeguard for the welfare of his children.

In the foregoing case, the policyholder may have specified that when the daughter became twenty-one part of the insurance estate would be taken to purchase the life income for her, and when the son reached thirty another portion of the insurance estate would be taken and given to him in a lump sum. In the event he did not want to take this, he could have the insurance company pay him this money in installments or on a life-income basis. This would have left the wife, the primary beneficiary, with only a portion of the original corpus of the insurance estate. She might leave this at interest and draw a certain amount each year, purchase a life income or have the residue paid in installments. If the policyholder had elected, he could have limited the amount which the beneficiary could withdraw during any one year.

The value of combinations of options is evident from the records of companies which are developing the insurance estate service for the benefit of policyholders and beneficiaries. An analysis of the record of one of the larger companies which has been effectively safeguarding beneficiaries' interests through insurance estates indicates a very real field of service for combinations of optional settlements. In 1924, about 40 per cent of the requests for optional settlement agreements called for combinations, while in 1925, these requests had grown to 55 per cent of the total.

Trend

Optional Settlements

An effort has been made to establish figures which will definitely indicate the extent to which optional settlements are utilized by policyholders. Through the courtesy of life insurance companies with about $20,000,000,000 of ordinary life insurance in force, much information has been obtained, but it has been difficult to get accurate figures upon which to base a trend or growth of the use of the insurance companies' service because as recently as five years ago such a small number of policyholders availed themselves of optional settlement privileges. As their requests were received they were filed with the policies and properly executed after the death of the policyholder. It would require considerable work to go through each policy for the necessary information. Since there is general agreement as to the increased interest in insurance estates since then, many of the companies have begun to keep separate records for the purpose of more accurately watching the growth of this service, which in effect puts the beneficiary on the pay roll of the insurance company. The information used to develop trends is based upon actual statistics kept by some companies and estimates made by officials of others.

Percentage of Policies

Of all the policies issued during 1920, only 2.8 per cent were on an optional-settlement basis. The minimum percentage reported by any company was .23 per cent, while the maximum percentage was 11.41 per cent. Turning to the policies written in 1925, we find a material change. Of all the policies written during that year 7.37 per cent carried optional settlements of one type or another. The range was from 1.56 per cent in one company to 23.79 per cent in another. Every company reported substantial increases in the number of requests for optional settlements on policies written during 1925. That old policyholders are gradually appreciating the importance of these forms of settlement is evident from the requests being received by companies who educate their policyholders about insurance estate service. One of these companies had 3,900 requests during 1925 from old policyholders relative to arranging optional settlements on contracts written prior to that year. The same company had 4,759 requests for optional settlements upon policies written during that year.

Value of Policies

In 1920, the value of the policies with optional settlements amounted to 6.28 per cent of the total insurance written that year. In 1925, the value of the insurance policies on this basis amounted to about 12 per cent. There has been a slight decrease in the face value of the average settlement policy written during 1925 in comparison with 1920. In 1925, the average life insurance contract with optional settlement service was not quite twice the value of the average ordinary life insurance policy, whereas in 1920 the value of optional settlement policies was nearly three times that of those without this feature.

Uses

Investigation discloses that more policyholders select the installment option than either of the others. The interest option ranks second in popularity, with the life-income option third, and miscellaneous agreements fourth. A comparative study for 1920 and 1925 is set forth on page 118.

Combinations

The company which reported the largest number of optional settlements requested in 1925 on new and old business, indicates that out of 17,908 policies endorsed for optional settlements, 9,829 were for combinations

Settlements Selected by Policyholders

Form of Optional Settlements	Percentage in 1920	Percentage in 1925
a. Number of policyholders requesting equal installments or other forms of installment option	46	47
b. Number of policyholders requesting interest-payable option	27	30
c. Number of policyholders requesting guaranteed life income for certain number of years	17	19
d. Miscellaneous agreements	10	4

of settlements. Combinations of the interest option plus installment option were endorsed on 2,058 policies. Combinations of the interest option and life-income option were installed on 3,747 policies. Combinations of interest, installment, and life-income were endorsed on 4,024 policies.

Periodical Review

Looking back twenty-five years, thoughtful policyholders may wonder how far the incomes possible from the face values of their life insurance contracts will serve to provide the needs of beneficiaries in the future. At that time a pair of shoes could be purchased for $3, while to-day the corresponding shoes sell for $9 or $10. Then a boy could go to college for about $300 a year, whereas to-day it costs this much to send a child to the first grade in some good private school as a day student. Foodstuffs, clothing, and rents are appreciably higher to-day than they were even fifteen years ago.

The value of the dollar is intertwined with national prosperity. Efforts have been made to equalize more or less the wide swings between boom times and panics; for example, the Federal Reserve System has made material contributions toward this end, and many business men producing commodities of a seasonable nature have rearranged their sales and production processes so as to operate continually throughout the year. Substantial reserves have been built during the period of high prices which are available for tiding over the interval between the two extremes of the economic cycle. These consist primarily of life insurance, savings accounts, investments in sound securities, and property ownership.

The value of these reserves is dependent upon the price level existing at the time they must be used. Based on fluctuations in the purchasing power of the dollar in the past, radical changes in price trends seldom happen overnight. As these trends are invariably and plainly evident at intervals of every few years, it is important for policyholders to review from time to time the amounts of insurance which they have allocated in their insurance estate to accomplish certain specific purposes. In order to take care of upward variations in price levels after the death of the policyholder, it is well to urge that a portion of the insurance estate be left at interest, subject to the will of the beneficiary or trustee, to take care of this contingency. In the event the variations should be downward, the purchasing value of the insurance dollar would increase and it would not be necessary for the policyholder to take this money. In preparing provisions of this nature for inclusion in the optional settlement agreement or insurance trust, the state law in reference to accumulations must not be violated.

Use of Dividends

Policyholders should not overlook in the optional settlement agreement additional life insurance which has been purchased with dividends. Definite provisions should be made for the care of this additional insurance as well as any additional funds which might be paid under a double-indemnity clause. In the event provision is not made, the extra insurance will be paid in a lump sum upon the death of the policyholder. One method of using these additional funds is to specify that they shall be applied toward increasing the installments, for example, in the case of the application of the double-indemnity benefit, that the income specified shall be doubled.

Some provision should also be made to take care of loans which may have been made against the policy. Obviously if the policyholder dies before they are repaid, the insurance estate is just that much less and the installments or benefits requested in the settlement agreement will be correspondingly affected. Therefore, when there is a loan placed against a policy upon which a settlement agreement has been made, it is well to specify whether the terms of the settlement are to be carried out by reducing the period within which certain installments are to be paid or by reducing the amount of installments and thereby continuing them throughout the period which the policyholder has in mind.

Termination of Agreements

This will be accomplished by the fulfillment of the promises of the insurance company, by the death of the beneficiary before the policyholder, by written revocation to the home office of the company by the policyholder, by changing either the beneficiary or the method of payment of the benefits, by surrendering the policy for cash surrender value, or by assignment.

Program

There is no uniform way of preparing an optional settlement agreement. All a policyholder has to do is to specify what money he wants his beneficiaries to receive from the insurance company and upon what basis these payments are to be made. Adequate provision should be made for a lump sum to take care of expenses incidental to the death of the policyholder. The policyholder might then list his dependents as well as his immediate and future responsibilities to them. Opposite each dependent he can place the amount of insurance necessary to carry out his responsibilities or ambitions as well as how he wants the insurance company to pay the funds to accomplish his purpose. One of the insurance companies suggests to its policyholders that it is much easier to prepare the basis of their optional settlement agreements if they will set down in letter form to their beneficiaries just how they want the proceeds of the insurance estate used. Of course, the letter is never mailed. In the preparation of any optional settlement agreement it is well to remember that the legal staffs of the insurance companies are experts in this field and are at the service of the policyholders.

CHAPTER X

DESIGNATION OF BENEFICIARIES

The proper identification of a beneficiary is an extremely simple matter and takes very little time. It is only necessary for the policyholder clearly to identify those persons who are to benefit from the insurance estate. In the event the policyholder does not designate the beneficiary, the face value of the policy will be paid to his executors, administrators, or assigns upon his death. The effect usually is to distribute the insurance estate in accordance with the laws of distribution of the state in which the policyholder dies. Under such circumstances, it is conceivable that some may share in the estate whom the policyholder would not wish to benefit.

Insurable Interest

It is contrary to public policy to permit life insurance contracts to be made when not based upon an insurable interest. This is generally the rule in the United States; for if the prevailing opinion were otherwise, life insurance contracts would be purely wagers. Wager policies are invalid, while interest policies are valid. By an interest policy is meant a contract where the beneficiary has an insurable interest in the insured life.

Frequently the question arises, what are insurable interests in life insurance? An insured is said to have an interest in his own life because he will not appoint a beneficiary or designate an assignee inimical to himself. The beneficiary has an interest in the life of any other person upon whom he or she is dependent for a livelihood. Then, too, an insurable interest may be had in the life of a debtor by a creditor, or in cases where a partnership or corporation would suffer a financial loss as a result of death. It is only necessary for the insurable interest to exist at the time the contract is taken out.

In cases where policyholders take out the life insurance contract, they can designate any one they want as beneficiary, even though the one designated has no insurable interest in their lives, except in Indiana where the choice is restricted to certain blood relatives or persons having an insurable interest in the insured life. Likewise, a life insurance contract can be assigned to any one without an insurable interest, providing the assignment is really made in good faith and not as a means of hiding some wagering or gambling contract on the life involved.

Some states have legislation to the effect that beneficiaries must have an insurable interest in the life of the policyholder. In these states, it is impossible for the insurance company to pay the face value of the policy to those who do not have an insurable interest. Proper coöperation with the insurance company will enable policyholders to know just what states make this requirement. If there is the slightest doubt in the mind of the policyholder about the law of his state, he should make an inquiry when submitting his optional settlement proposal to the insurance company. He may be reasonably certain that as a result of advice from the company an illegal designation of a beneficiary will be avoided, because the legal staffs of the life insurance companies are well acquainted with legislative and judicial rulings of this nature.

Coöperation of Beneficiary

Many years ago life insurance was looked upon by some as being sacrilegious, because it involved death, an act of God. Since then the institution of life insurance has assumed its proper position in the public estimation. In the main, beneficiaries appreciate how helpful life insurance is. There are still some who argue against the purchase of life insurance or frown upon an increase in existing life insurance. This view point is hard sometimes for life insurance specialists to understand, for they so regularly see the benefit to the wife and home. The reasoning of the wife is undoubtedly due in many cases to economic reasons.

It seems to some beneficiaries of this class, that every time there is surplus money in the family treasury, some much-looked-for luxury or addition to the household furniture must again be given up in order to pay insurance premiums. Wives of this class are often responsible for the failure of their husbands to carry more life insurance. When the husbands are in the frame of mind to provide additional protection, these wives think in terms of immediate enjoyment and console themselves with the feeling that after all death is a long way off. After the husbands have passed on and the immediate need of money becomes apparent, beneficiaries of this type realize they are partly responsible for their own situation.

Because the beneficiary plays such an important part in determining the size of many insurance estates and sometimes has discretion in determining just how the funds provided by these estates are to be used, efforts might well be made to have them understand more about the service of life insurance. The more of these educational efforts during the life of the policyholder, the less should be the need after his death.

Frequently a policyholder will designate a beneficiary and not elect to use any of the optional settlement plans. In these cases the beneficiary after the policyholder's death may request the insurance company to care for the insurance estate, indicating which of the optional settlement plans she desires the insurance company to follow. The experience of one of the larger insurance companies indicates that beneficiaries seldom use this privilege. As the tendency among policyholders is greater to-day than five years ago to ask the insurance company to administer their insurance estates, it is fair to assume that with proper educational efforts beneficiaries of the class referred to will likewise avail themselves of this service as they acquire a better understanding of its value.

While the policyholder invariably designates the mode of settlement, it is possible that the beneficiary may jointly prepare the form of settlement agreement. This seems worthwhile, and might well be generally adopted excepting in cases where such action is neither desirable nor feasible. Consultation with the beneficiary prior to the final drafting of the provisions of the optional settlement agreement will often result in more thoroughly thought-out terms. Then, too, a beneficiary would be made to think in terms of the future, the effect in the case of a wife being to make her appreciate more thoroughly the value of life insurance to her and her children. Furthermore, in cases where the beneficiary receives the corpus of the insurance estate in a lump sum, he or she is in a better position to make an intelligent decision as to the extent to which the insurance company's services will be used.

Who Are Beneficiaries

John K. Gore, Vice-President and Actuary of the Prudential Life Insurance Company, investigated 4,000 cases in order to determine the type of beneficiaries selected. He found that wives were named in 2,108 cases, or 52.7 per cent; parents in 1,000 cases, or 25 per cent; husbands in 247 cases, or 6.2 per cent; children in 172 instances, or 4.3 per cent; brothers and sisters in 136 cases, or 3.4 per cent; corporations in 20, or ½ of 1 per cent; partners in 12, or $3/10$ of 1 per cent; grandparents in 5 cases; aunts and uncles in 14; nieces and nephews, 9; guardians, fiancées, or friends, 13; banks or other trustee, 9; creditors, 8; and grandchildren, 1. In the remaining 246 cases the insured designated his estate as the beneficiary. Edward A. Woods, General Agent of the Equitable Life Assurance Society in Pittsburgh, estimates that 92 per cent of all life insurance in force is payable to named beneficiaries, generally wives or children of the policyholders.

Identification of Beneficiary

Before a policyholder can decide who is to be the beneficiary under his life insurance policy, he should give very careful consideration to what he wants his insurance estate to accomplish. It is then an easy matter for him to definitely describe and name the beneficiary. If there is any doubt in his mind, he should consult with the representative of the insurance company. Ambiguous designations lead to trouble. As the insurance companies are not judicial tribunals, cases of this nature frequently lead to controversy and finally have to be settled in court. Acts of omission on the part of those who have passed on, have often resulted in bitter feelings among contestants and a nonfulfillment of the policyholder's intention.

The name and relationship of the beneficiary should be clearly set forth in the application for the policy. Where the beneficiary resides at an address different than that of the policyholder, it might well be stated. Imagine the difficulty which may arise in cases where the beneficiaries are referred to as "the children, heirs, issue, children then surviving, or wife and children." Any of these designations might be confusing under certain conditions because they are not specific and definite. From the standpoint of the law, the meaning might vary in accordance with court decisions.

While some companies do not object to beneficiaries being identified as a class, it is well to recognize there is a conflict of legal decisions on the definition of "children." In order to avoid such results, the policyholder should specifically refer to the children indicating just what part of the insurance estate he wants each to have. The same suggestion holds true for other types of beneficiaries who have been identified as a class.

When a policyholder is in debt, he sometimes is inclined to use as a means of designating his beneficiary the words, "to creditor as interest may appear and balance to my wife." The first question which occurs is, who is going to determine how much the creditor is to get out of the insurance estate? If the creditor requests more than the wife thinks reasonable, the probabilities are that the courts will have to settle the question. Such cases can be avoided by definitely indicating the extent of the debt and the amount of the insurance estate to be paid to the creditor. This should be done when the policy is taken out, the beneficiary is changed, or an assignment made. Indefinite descriptions of rights such as this are not in the interest of either the policyholder or the beneficiary.

A policyholder having a rather substantial life insurance policy sometimes writes opposite the names of those whom he wants to share in his insurance estate, the specific amount to be paid to each. This is perfectly all right in the event the face value of the policy is intact at the time of the policyholder's death. Where this has been impaired because of a loan, the question arises how much money will be paid by the insurance company to the designated beneficiaries. There are various ways of meeting this situation.

A policyholder borrowing on his contract can take an amount of insurance equivalent to his loan so the face value of his estate will not be depleted if he should die before repaying the loan, or he may indicate that each of the main beneficiaries will receive a fixed percentage of the value of his insurance estate at the time of his death, such as "Pay to the —— Bank one-third of the proceeds and balance to my wife, Mary Smith." A further provision should be made which will indicate just what the wishes of the policyholder are in reference to the share of designated beneficiaries who might die before him.

Contingent Beneficiaries

There are various reasons why contingent beneficiaries should be specified. In the event of the death of the beneficiary before the policyholder, the insurance estate upon the death of the latter will promptly pass to the contingent beneficiary. There is no delay. Executor's fees are avoided and the Federal estate tax, provided that not more than $40,000 of life insurance is involved, does not have to be paid. As there are so many disputes over estates, this possibility is eliminated because the face value of the policy is never part of the estate unless directly payable thereto. For the same reason, creditors of the policyholder cannot attach the face value of the policy after his death.

In installment options it is well to designate not only a contingent beneficiary who will succeed to the interest of the beneficiary in the event of his or her death, but also a second contingent beneficiary who will receive the remainder of any unpaid installments upon the death of the alternative beneficiary. In cases where such an arrangement is not made, it is customary to commute the remaining installments and pay the commuted value to the assigns, administrators, or executors of the estate. Of course the commuted sum is reduced to present values, some companies doing this at the rate of 3 per cent and others at $3\frac{1}{2}$.

When the optional settlement plan calls for lump-sum payments or payments under the interest option, care should be taken to see there is a contingent beneficiary named in cases where the primary beneficiary will not under the terms of the settlement agreement receive the total income and principal. The only exception to this would be in cases where the policyholder wants his estate to be the contingent beneficiary. Legal complications may arise if this is not the case and a contingent beneficiary has not been designated. Unless the estate of the policyholder is contested, it will be settled and closed within a reasonable time after the policyholder's death. After the death of the primary beneficiary, the dead policyholder's estate would have to be reopened in order to take care of the unpaid installments or the remaining values of the insurance estate. When it is realized that many years may elapse between the death of the policyholder and that of his beneficiary, the trouble incidental to cases of this nature is evident.

When contingent beneficiaries are specified, the order in which the insurance estate or parts thereof should follow in precedence from one successive beneficiary to another should be clear. Sometimes a policyholder is inclined to name a primary and several secondary beneficiaries, the interest of each to depend upon certain contingencies. Then a number of contingencies are referred to. Such proposals necessarily make for complex settlement agreements. As a rule these should be discouraged, because the simpler the agreement the more assured is the policyholder that there will be no legal complications.

When a policyholder designates a beneficiary, numerous contingencies may arise which will affect the interest of the beneficiary before the policyholder's death. One of them is the death of the beneficiary, which will result in the insurance being paid to the estate of the policyholder unless he designates another beneficiary prior to his death. The same principle applies to the case of the policyholder who has named three beneficiaries and one of them dies before him. The decedent's contingent interest would be paid to the estate of the policyholder, whereas the other two beneficiaries would share in the insurance policy to the extent specified by the policyholder.

Children as Beneficiaries

Due care should be taken in selecting or charging a beneficiary with the responsibility of carrying out some wish of the policyholder for which he has made provision with part of his insurance estate. A man may be very anxious to have his children receive a college education. Assuming that his wife outlived him, it is reasonable to suppose that she too would share her husband's ambition. In the event the wife is a stepmother, the policyholder might consider whether or not he wants her to be entrusted with insurance funds, realizing that the insurance company is not in a position to see that the funds are used as originally desired, although she would be legally liable for the proper use of the funds if payable to her as guardian and the use was specified in a will or described in the optional settlement agreement. If the money is to be paid to a guardian, the policyholder has a similar problem, because he would quite properly make inquiries to find out if the guardian was sympathetic towards a college education for children and next determine whether he was the type to inspire and encourage by aid and advice rather than discourage them through lack of coöperation or interest. Then, too, the effect of the guardian's personality upon the children might be carefully considered.

When there are children there are many advantages to designating the wife as beneficiary and the children as contingent beneficiaries. Numerous changes can take place before the children reach their majority. To arbitrarily fix a certain sum of money which should be paid for the expenses of each would not ordinarily be a wise thing. In the optional settlement agreement, provision might be made for part of the insurance estate to be left at interest as long as the beneficiary thinks advisable and before the children become adults. This will enable the wife to have extra funds available in case of fluctuations in expenses of raising the children. In the event the children were named beneficiaries the wife in many states would have to be legally appointed their guardian to take care of their property.

When the installment option is resorted to and the beneficiary has children, some consider it to be good practice to provide that in the event of the death of the beneficiary whatever sum is left should be paid to the children jointly or to the survivor or survivors. Where this is not desired, the definite amount to be paid to each child can be specified. In the case of the former, if all the children die, the money still to be paid would be commuted at either 3 or 3½ per cent per annum and go to the estate of the last child to die. In the latter case as each child died, his or her estate would receive any unpaid money.

Contingency of Remarriage

Frequently a policyholder will want to limit the payments to his wife from his insurance estate under the terms of the optional settlement agreement until her remarriage. Some years ago the insurance companies would not accept provisions of this nature in mode of settlement agreements because of the possibility of paying the beneficiary installments after remarriage. A considerable period might elapse before the company discovered the overpayment; then the problem would be to collect. The alternative to this danger would be to investigate before each payment, which would involve much time and expense, neither of which could be afforded by the company. While very many companies still take this viewpoint, others do not hesitate to accept settlement agreements of this nature. Life insurance attorneys believe that in these cases the insurance companies should be safeguarded by an agreement with the policyholder to be freed from liability in the event of overpayments due to remarriage. It is to the policyholder's interest to safeguard the company by incorporating some such provision as is set forth on p. 87. This avoids delays and insures prompt payment to contingent beneficiaries or guardians. They, having a financial interest, may be relied upon to let the company know promptly about the remarriage.

Trustees as Beneficiaries

It is usually wise in cases where the policyholder wants to designate a trustee as beneficiary to give complete information to the insurance company and also file a copy of the trust, although most insurance companies do not require the deed of trust to be so filed. This will enable the insurance company often to avoid difficulties which arise from the simple designation of the beneficiary as "trustee." Most companies will not accept a recommendation that a trustee be named as beneficiary without having some designation or indication of the terms of the trust. The designation of a trustee as beneficiary used by one insurance company reads in substance: "To the Riverside Trust Company as trustee under a deed of trust dated January 2, 1927. If for any reason the trust shall be revoked or become null and void the proceeds shall be payable to the executors or administrators of the insured."

Frequently those companies which do allow trustees to be designated as beneficiaries without any indication of the terms of the trust, incorporate in their policies a clause to the effect that the company will not be responsible for the service of the trustee. The exact phraseology used by one of the leading companies is: "The —— Life Insurance Company shall not be responsible for the application or disposition of the proceeds of said insurance by said trustee, and the receipt of said trustee shall be full discharge of the liability of said company hereunder."

The only function of the insurance company is to deliver the proceeds of the policy to the trustee. When the policyholder designates a trustee as beneficiary and does not give the trust company the necessary detailed information, he is taking a chance that his intentions will not be carried out by the trustee. In numerous cases of this kind a trustee has no obligations other than to see that the face value of the contract is paid to the *cestui que* trusts. The problem of deciding who the *cestui que* trust is and where he or she may be located must be settled by the trustee. At times this is a difficult matter. The trustee may be perfectly ready and willing to do everything possible to locate the *cestui que* trust, but have an impossible task. The result may be that the trust cannot be carried out. The degree of effort which the trustee shall put forth to locate the *cestui que* trust depends only upon himself, as his only real responsibility is to see that the proper *cestui que* trusts are paid.

Some policyholders would never prepare the necessary trust in such a way as to set forth their ideas and wishes clearly if some of the insurance companies did not require definite information about the trust. When a policyholder appoints as beneficiary a trustee in a carefully prepared trust document, he also enables a court to determine just what he had in mind in the event of difficulties arising during the administration of the trust by the trustee subsequent to his death. A beneficiary should not be designated as trustee unless there is an actual and properly drafted deed of trust.

It is not unusual for policyholders to use a trustee form of beneficiary in cases where they want the trustee to apply the fund to specific purposes, such as the payment of debts or taxes. If the purpose of the trust becomes obsolete, it should be revoked and a new designation of beneficiary made.

CHAPTER XI

THE RIGHT TO CHANGE THE BENEFICIARY

Every applicant for a life insurance policy is asked in his application whether or not he wishes to reserve the right to change the beneficiary. The full significance of this simple question is not generally understood. The wrong answer may work material hardships upon the policyholder as well as others whom he may want at a later date to share in his insurance estate. Under common law, the beneficiary has a vested interest once she or he has been designated properly by the policyholder. The effect of this is the creation of an irrevocable trust. The applications of some companies are so phrased that in the absence of a negative answer to the question whether the right to change is reserved, the policyholder is understood to retain this right.

Canadian and American Definitions

Three types of beneficiaries are prescribed by Canadian statutes: preferred beneficiaries, beneficiaries for value, and ordinary beneficiaries. Those in the first class are the wife, children, husband, grandparents, and grandchildren of policyholders. With certain limitations and exceptions, once a policyholder designates a member of this group as his beneficiary, he has created an irrevocable trust. Creditors of the policyholder can attach the cash value of the insurance contract even though they are preferred beneficiaries; likewise, in the Canadian provinces with one exception, they can attach the contract either before or after payment by the insurance companies for beneficiaries' debts. Beneficiaries for value are those who have a vested interest in the policy because of assignment or some financial interest. The policyholder cannot change or affect these interests. Ordinary beneficiaries are those who do not fall into the classes referred to as either preferred beneficiaries or beneficiaries for value.

The situation in the United States is entirely different from that in Canada. We have no uniform statutory definition of beneficiary. Beneficiaries may be divided into two classes: those with an interest in policies where the right to change the beneficiary has not been reserved by the policyholder, and others with an interest in policies where the policyholder has reserved this right.

Not Reserving the Right to Change

At one time practically all policies were written without the policyholders reserving the right to change the beneficiary. When a policyholder does not reserve this right, the beneficiary really has a vested interest in the policy, because the policyholder has no right whatsoever to affect her interest without her consent. Neither can the policyholder borrow or assign the contract without the beneficiary's consent. Unless the policy is of the type which is payable during the policyholder's lifetime, he has no rights in the contract excepting to pay premiums or let the contract lapse unless specifically given other rights by the policy. This is upon the assumption that the beneficiary would not agree to the wish of the policyholder either to borrow on the contract or to assign it. Then too, in cases where the policyholder has not reserved the right to change the beneficiary, the beneficiary should join with the policyholder in any optional settlement agreement which is proposed to the insurance company.

While there are various reasons given for a policyholder not reserving the right to change the beneficiary, the principal one is his desire to protect the beneficiary in the event he meets with financial reverses and his creditors endeavor to attach his equity in the policy. In cases where the beneficiary is paying the premium, it is only fair and just that the beneficiary's interest should be protected by not allowing to the policyholder the right to change the beneficiary. Sometimes the policyholder really wants his beneficiary to act with him in the care of the policy, while in other cases his action is just due to lack of knowledge. An illustration of the latter is a case where the policyholder designates his minor children as beneficiaries without reserving the right to change them. As indicated previously, when he does this, he gives up certain rights which he would otherwise have. It might be imperative at some time during the minority of the children to borrow upon the policy for some purpose of material interest to the children. Before he could do this, it may be necessary first to secure the approval in writing of a guardian who would have to be appointed. This delay and expense could be avoided by reserving the right to change the beneficiary.

It has been estimated that a fractional part of 1 per cent of the value of surrendered policies has been paid by the insurance companies to trustees in bankruptcy. Generally when a policyholder needs money, he secures the approval of the beneficiary in cases where he has not reserved the right to change the beneficiary and borrows upon the cash surrender value of his contract in order to meet the more urgent demands of creditors. It is unusual for a policyholder to become bankrupt without warning, as he usually knows for some time in advance that he is in financial difficulties. The result is that by the time he appears before a bankruptcy court, there is little if any value to his contract. Many insurance executives believe that the policyholder, refusing to retain the right to change the beneficiary in a desire to protect his beneficiary from the dangers of bankruptcy, usually secures a theoretical rather than a practical advantage, as the beneficiary is deprived in most cases of the original protection anyhow.

The foregoing statement deals with policies which are old enough to have substantial cash surrender values. Let us examine a young policy for a moment. Generally life insurance contracts have no cash surrender value for a period of time, usually two or three years. If a bankrupt policyholder had his contract in force less than this time when the petition in bankruptcy is filed in court, the trustee under the Federal bankruptcy act will get nothing. The reason is, this act allows the trustee only the net cash value of the policy at the date of the petition.

Now let us look at some cases where the policyholder really wants his beneficiary to act with him in the care of the policy. He may fear that if he reserves the right to change the beneficiary he may spend the cash surrender value or use it for purposes other than the protection of the beneficiary. When a man realizes he cannot save money, then the refusal of the right to change the beneficiary is well worth consideration by him. Before making such a decision he must realize conditions change materially with time. Once he so elects, he can do nothing thereafter to affect the policy without the approval of the beneficiary.

If his wife should secure a divorce, the policyholder may have difficulty in getting her approval for a loan or assignment. Such cases are not unknown. Then as his children grow up and he notices their abilities and tendencies, he may realize the need of changing provisions in his insurance estate program for each. Here again he must secure the approval of the primary beneficiary. New York now has a statute which allows, after divorce, an application to a court for a decree ordering the insurance company to substitute a new beneficiary for the one against whom the divorce was granted. In a few other states, a divorced beneficiary loses her interest or the insured is permitted to change the beneficiary.

The time element is also a factor which works in favor of reserving the right of revocation of beneficiaries. In these cases when a policyholder deems it advisable to take certain action, he can promptly do so. He does not have to correspond with a person who may be some distance away or go to court to have a guardian appointed for a beneficiary who may have become insane, in order that a decision may be reached relative to some change he wants to make in the distribution of his insurance estate. If he wanted to borrow on his policy and time was of the essence, this delay might be costly.

Legislation for Protection of Beneficiary

Years ago a number of states enacted laws for the protection of the wife and children of policyholders who had designated them as beneficiaries. These statutes applied in cases where creditors or trustees in bankruptcy endeavored to acquire the equity of the policyholder in his life insurance contract. It is to be remembered that at one time practically all life insurance policies were written without the policyholder reserving the right to change the beneficiary. Since then, the Federal Government has enacted a new bankruptcy act and Federal courts have made decisions in light of existing state laws and the tendency away from the old custom of not reserving the right to change the beneficiary. The effect of these decisions is to allow the creditor or trustee in bankruptcy to attach the equity of the policyholder in life insurance contracts where the policyholder has an interest, such as the ability to borrow or assign, which he can exercise without securing the approval of the beneficiary.

The Federal Bankruptcy Act recognizes the exemption of property permitted by state exemption statutes. Consequently the right of a trustee in bankruptcy to the equity of the bankrupt's insurance policy is limited by the exemption granted by the state statute as interpreted by the state courts.

Very many states provide some exemption for beneficiaries when they are the wife or the children of the insured. Some experts on insurance law believe the Federal courts having exclusive charge of bankruptcies have misinterpreted both the state exemption statutes and the effect of a right to change the beneficiary provision in the policy. The leading case in the United States Supreme Court, Cohen *vs.* Samuels, decided in 1917 that the right to change the beneficiary was equivalent to having the policy made payable to the estate of the insured and, therefore, gave the trustee in bankruptcy a right to the cash surrender value. The case did not involve a beneficiary protected by the exemption statute of the State of New York. Until a case is presented to the United States Supreme Court directly involving a beneficiary protected by an exemption statute of some state we are left in doubt as to the ultimate result.

Based upon the prevailing opinion of the courts, those who wish to safeguard their beneficiaries against the results of the demands of creditors or trustees in bankruptcy can generally do so by not reserving the right to change the beneficiary in policies which are taken out prior to bankruptcy. Almost all of the states attempt to protect the beneficiary, but the difficulty has arisen from the administration of the Federal Bankruptcy Act by the United States courts.

Partnership or Corporation as Beneficiary

The value of protecting the lives of important men in business is becoming more and more appreciated. We find life insurance policies being issued for the benefit of individual business concerns, or partnerships and corporations. In these cases, the object is always to protect the business in the event of the untimely death of the executive or officer. In order that this service may be rendered properly, the title to the insurance policy must be safeguarded, otherwise it may not fulfill its purpose. It is hard to conceive of any business enterprise purchasing a piece of property without being assured the title is clear. Yet there are cases where the title to an insurance policy is beclouded as the result of lack of ordinary foresight.

Let us take the case of a partnership which has taken insurance on the life of the partner who is really the brains of the business. Whoever pays the premiums should have absolute title and control over the insurance policy and all the rights incidental thereto. Definite arrangements should be made as to just how the insurance estate payable to the partnership is to be used in the event of a claim being paid. Particular attention should be given to the change of beneficiary clause. If the policyholder, the important partner, is given the privilege of changing the beneficiary or borrowing on the policy, there may be little or nothing to be paid to the partnership in the event of his death. As the partnership is paying the premium for this policy, it should see the policyholder does not have the right to change the beneficiary. Then the policyholder could not make a loan or obtain the cash surrender value of the insurance contract without the express approval of the beneficiary, which is the partnership.

Protection by Assignment

The same protection for title can be secured for business enterprises through assignments as by not permitting the policyholder to change the beneficiary. When a policy is being taken out, an assignment will meet the needs and requirements of good title, whereas under an existing contract when the policyholder has the right to change the beneficiary, an assignment can be made to protect the business.

When a partnership arranges for insurance upon the lives of the members of it, the joint life commercial form is used by some insurance companies. This states that all the partners must agree to any change in beneficiary and some companies include, upon request, a condition to the effect that the policy may be kept in force in the event the partnership or corporation ceases to exist. The policyholder who is to benefit from this arrangement is specified, and of course, the consideration for this privilege is agreed upon. If the policyholder severs his relationship, the beneficiary can continue paying the premiums and maintain the policy in force, or release or assign all of its interest in the policy to the policyholder in exchange for a consideration. This is simply accomplished in partnership by the partners agreeing to the assignment. In cases where the corporation is the beneficiary, the assignment, according to a court decision, must be specifically approved by the board of directors.

The mortality of corporations is large. In the event a corporation or partnership ceases to do business, the question frequently arises, what is to be done with a life insurance policy taken for the benefit of the business? There are several courses of action possible. Where business insurance is purchased by a corporation in its own favor on the life of one of its officers, it is customary for an absolute assignment to be used in which the corporation is the assignee. The corporation can then obtain the cash surrender value of the contract without the insured's consent and divide the funds as it sees fit.

In case the right to change the beneficiary is not allowed to the policyholder, he can join with the beneficiary and draw the cash surrender value for the benefit of the business. In the event the policyholder wishes to continue the contract himself, then he and the beneficiary must agree to a change in beneficiary. He could pay the defunct corporation the cash surrender value. From the standpoint of the policyholder, this would be a profitable arrangement, because the longer the policy has been in force, the more valuable it is. After the first few years the expense of putting the business upon the books of the insurance company has been to a great extent paid for.

Trend

Remembering that at one time it was the custom for most policyholders not to reserve the right to change the beneficiary, it is interesting to note that the experience of the life insurance companies to-day indicates a relatively small percentage of all contracts are issued on this basis. Chandler Bullock, President of the State Mutual Life Insurance Company of Massachusetts, made a test in order to determine the use of beneficiary clauses which policyholders make. Taking 1,000 applications he found 32 called for businesses as beneficiaries. The right to change the beneficiary was reserved in 912 of the remaining 968 cases. In 54 cases, the policyholder did not reserve the right to change the beneficiary. In the remaining 2 cases, the policyholder did not reserve the right to change the primary beneficiary, but did reserve this right in reference to contingent beneficiaries. Translating his findings in terms of percentages, we find in 94 per cent of the cases the right to change the beneficiary was reserved and in only 6 per cent of the cases was the interest of the beneficiary made absolute so that not even the policyholder could change it.

From the foregoing discussion, it is plain there are cases where it is advisable to have the insurance policy issued without giving the policyholder the right to change the beneficiary. Ordinarily it is preferable for the policyholder to reserve the right to change the beneficiary, because it enables him to use the various services offered by the policy more flexibly. Where a business is the beneficiary and is paying the premiums on a life insurance policy, it is important that actual title to the policy be in the business. In new policies this can be arranged by refusing the policyholder the right to change the beneficiary. In old policies the same result can be secured by assignment.

Reserving the Right to Change the Beneficiary

As conditions change, the demands upon the policyholder may vary. The reservation of the right to change the beneficiary enables the policyholder to make necessary readjustments more rapidly. In exercising this right, he is not obligated to consult with or secure the approval of any one else. Frequently life insurance policies are purchased while the policyholder is single. The beneficiary usually designated is one or both of the parents or some relative. By reserving the right to change the beneficiary, the policyholder is able upon his marriage to name his wife instead of the beneficiary formerly designated. If the often-quoted statistics about divorces are even approximately correct, a number of policyholders can use the same rights to redesignate the formerly named beneficiaries instead of the ex-wife.

Then in cases where a policy is made out to definitely designated children, and the policyholder later has additional children, he can change the beneficiaries to include all the children. Another case is where the children have grown up and are all doing well with the exception of one who is an invalid. Here the policyholder can, if he so desires, change the beneficiaries and make the face value of the life insurance contract payable, in a lump sum or in accordance with the terms of an optional settlement agreement, to the invalid. The flexibility possible, as a result of reserving the right to change the beneficiary, is one of the paramount reasons why such a big percentage of the contracts issued contain this reservation.

Nature of Interest of Beneficiary

There is a difference of opinion as to what effect reserving the right to change the beneficiary has upon the interest of the beneficiary. It is generally agreed that where the policyholder has retained this right, the beneficiary only has a mere expectancy in the policy and does not possess a vested interest in it.

Procedure for Changing Beneficiary

The policyholder must procure and properly fill out the simple form required by the life insurance company. The change of beneficiary is then effective when recorded upon the company's books. It is only in exceptional cases when any question is raised by the insurance company. Practically all requests from policyholders are promptly recorded unless they are illegal, the contract has been assigned, or the policyholder has endeavored to give one of the proposed beneficiaries an interest which he does not actually possess because of the equity, if any, which he has in his contract due to borrowing.

It is evident that the procedure for changing beneficiaries is extremely simple. Frequently policyholders who want to change their beneficiaries neglect to do so. Information after the death of the policyholder intended to effect a change of beneficiary is occasionally received by life insurance companies. Sometimes the alleged new beneficiary claims the face value of the policy. When there is any doubt in the mind of the insurance company officials as to whom the face value should be paid, they resort to what is technically known as "filling a bill of interpleader" with the court. The effect of this is to permit the companies to deposit the amount of the policy with the court and ask it to give the money to the proper claimant.

Necessity of Prompt Action

Litigation of this nature can be avoided by prompt action on the part of the policyholders when they really want to change the beneficiary. There are various court decisions which emphasize the importance of such action. One decision frequently referred to is that of the United States Court of Appeals in Reid *vs.* Durboraw, 272 Fed. Rep. 99. Durboraw while unmarried purchased a life insurance policy and made his sister the beneficiary. Subsequently he married and sent a letter relative to changing his beneficiary to the agent who sold him the contract. This contained the following statement: "I put this in this way so that if I should go before the change is recorded, this letter will be evidence of my desire in that matter." The intent of the policyholder was clear. He wanted to change the beneficiary from his sister to his wife.

The general agent in due course sent to the policyholder the change of beneficiary form and told him to fill it out properly and send it back with the policy. As the policyholder and his wife were preparing to go for a vacation prior to entering an eastern university, the change of beneficiary form with the policy was packed in error in a trunk which was sent to storage. Durboraw upon learning this wrote to the general agent and said he hoped the delay incidental to this would be of no particular significance. After he and his wife had entered the university, the change-of-beneficiary form was properly filled out. About a month elapsed during which time the form was not sent to the insurance company. The policyholder then became sick and died. Shortly thereafter the form was sent to the company. As the sister claimed the face value of the contract, and the widow knew it was her husband's intent she herself should receive this, the matter was taken to court.

In deciding who was the beneficiary in this case, the United States Circuit Court of Appeals ruled as follows:

> The power to change the beneficiary is a power of appointment and the terms of its exercise are fixed by the contract between the insurer and the insured; not alone for the protection of the insurer but of the insured as well. The court has no power to change that contract by changing the conditions upon which the exercise of the power of appointment is limited. The utmost to which the courts have ever gone is to effectuate the intention of the insured when he has done all that he could to comply with the conditions and has been prevented by circumstances beyond his control from meeting the requirements. If the policy has been lost, if it is in the possession of another who refuses to surrender it, or is otherwise inaccessible, if it has been sent to the home office of the insurer with the requisite request, and the insured dies before the endorsement is made, if the insurer has weighed the conditions, the change will be considered made without actual return of the policy or endorsement of the change. . . .
>
> Regrettable as it may be, we see no escape either on principle or authority, from holding that no reasonable effort was made to exercise the power of changing the bene-

ficiary in the methods contracted for and that the original appointment of the sister as beneficiary must stand.

The import of this decision is evident. Letters or other means of expression of the desire of the policyholder to change the beneficiary are not effective unless the terms dealing with the change of beneficiary in the insurance policy are actually carried out. This means the change of beneficiary form must be properly filled out and forwarded with the policy to the home office for the necessary endorsement upon it. As the court indicates, there have been exceptions made to this, but they are so exceptional that policyholders should not rely upon them in the hope of the court ruling in favor of some one as beneficiary whose name has not been properly recorded and endorsed upon the policy by the insurance company.

When Beneficiary's Interest Passes

The beneficiary has a contingent interest which can be taken away or changed only if the policyholder exercises his right to change the beneficiary in the manner specified in the policy. Courts of equity have made exceptions to this rule in such cases as where a deceased policyholder has done everything possible to make the change of beneficiary effective in accordance with the provisions of the policy but the insurance company had not sufficient time to go through the clerical operation of actually making the endorsement upon the policy; or in case it is absolutely impossible for the policyholder fully to carry out the change of beneficiary provision in his contract after he has gone as far as he could in accordance with this provision and made every effort to meet it, courts of equity have decided the change was made. The interest of the beneficiary, in cases where the policyholder has reserved the right to change the beneficiary, continues until such a time as the policyholder revokes the contingent interest of the beneficiary in a proper way.

CHAPTER XII

ASSIGNMENTS AND COMMUTATION

There is no question from a legal standpoint about the right of the policyholder to borrow upon his contract, regardless of who is the beneficiary, providing he has reserved the right to change the beneficiary. In these cases the policyholder may assign his insurance contract. As any assignment may affect the value of an insurance estate, beneficiaries naturally have an interest in the effect of such action upon them.

There are exceptions to the legal right of the policyholder to assign. He cannot avail himself of this right if he has not reserved the right to change the beneficiary, has borrowed the full amount of the cash value of the insurance contract, or has assigned his full equity in it. Some states will not recognize an assignment unless the assignee has an insurable interest in the policyholder's life.

Change of Beneficiary vs. *Assignment*

There is a fundamental difference between the right to change the beneficiary and an assignment. The ability to assign is a legal right which every one has who possesses in whole or in part any equity in property. The power to change the beneficiary arises out of the life insurance contract and is referred to by the courts as being a power of appointment.

In the case of Mutual Benefit Life Insurance Company *vs.* Swett, *et al.*, 222 Fed. 200, United States Circuit Court of Appeals for the Sixth Circuit, ruled in part: "The assignment of a policy and a change of beneficiary are not the same but different things. An assignment is a transfer by one of his rights or interest in property to another. It rests upon contract, and generally speaking, the delivery of the thing assigned is necessary for its validity. The power to change the beneficiary is the power to appoint. The power of appointment must be exercised in the manner agreed upon in the contract of insurance."

Rights of Beneficiary under Assignments

There appear to be several schools of judicial thought in reference to the effect of an assignment upon the interest of a beneficiary in cases where the policyholder has reserved the right to change the beneficiary. Some courts have ruled that an assignment is a change of beneficiary, while others decided the assignment transfers to the assignee all rights under the contract. This includes the right to change the designated beneficiary. In the latter case the assignee must actually change the beneficiary; otherwise it is assumed the originally designated beneficiary still remains. Then in the event of the death of the policyholder, she or he will be the beneficiary. Still other courts maintain the assignee acquires the right which the policyholder would have if the beneficiary should die before him. In the meantime, that is, during the period prior to the beneficiary's death, her rights as a beneficiary would be in existence.

The preponderance of legal opinions favors the view that the rights of the beneficiary, under a policy in which the right to change the beneficiary has been reserved by the policyholder, are not modified or otherwise affected by an assignment. In this case the assignee acquires only such interest, known as reversionary interest, which will belong to the policyholder if the beneficiary dies before him. Those contemplating assigning insurance contracts might well ask the insurance company for advice as to which of these three decisions prevails in their respective states. This information is necessary in order that they may properly protect their interests or those of their beneficiary or assignee.

An interesting case in New York is indicative of the majority thought. A policyholder, arranging for a contract, named his sister who resided abroad as beneficiary. Subsequently the policyholder, prior to his marriage, and as a consideration therefor, assigned the contract to his fiancée. The premiums thereafter were paid by her. After the policyholder's death, his wife asked for the insurance. Because the records still showed the policyholder's sister was beneficiary, and the company had no record of any assignment, it did not pay the wife's claim. She took the matter into the courts.

The Court of Appeals in 234 N. Y. 24, 136 N. E. 227, decided in part as follows:

The defendant insurance company undoubtedly has the right . . . to insist that the provisions of each policy for a change of beneficiary shall be complied with and that it shall not be liable to one who is in fact a stranger through failure to comply with such provisions. Under the special provision of the policy, a mere assignment of it to the plaintiff, even though for value, did not give her a right to succeed in this action. The insured had a well defined interest in the policy, which consisted in the right to have the amount of the policy paid to him in case he outlives the designated beneficiary. His assignment covered this interest and was in no sense a compliance with the provisions relating to change of beneficiary. . . . It seems quite apparent . . . that whatever the transaction . . . as an inducement to marriage, it rested upon the idea that she would secure the benefit of the policy by an assignment thereof, and that the necessity for a change in designation of beneficiary was not appreciated. While the misconception may result in an unfortunate miscarriage of purpose, we do not see how it can be corrected.

Procedure

Regular forms for assignment have been prepared by most insurance companies and may be secured by the policyholder from his agent or the home office. There are two types of assignment forms generally used by insurance companies, absolute and collateral, although some companies use a conditional form of assignment which reads in substance: "I hereby assign, transfer, and set over unto —— all my right, title, and interest in and to contract No. —— issued by the —— Company upon the life of —— provided ——, the assignee shall be —— at my death." In the space following the words "shall be" is inserted the word "partner" in the case of a copartnership or "living" when assigned to a wife.

One insurance company has found it to be beneficial in partnership cases to add to the conditional assignment these words: "Dissolution of the partnership shall automatically release this assignment and it shall thereafter be null and void." Why? Because it happens that partners sometimes quarrel, dissolve, and one will attempt to obtain the cash surrender value of his contract; whereupon the company will insist upon getting a release of the assignment from the former partner and he will refuse. The reason for obtaining a release is that it is possible these men may reconcile their differences and again form a partnership sometime before the death of the insured. To avoid this contingency the company must, to protect itself, get a release of the assignment.

Companies which do not use collateral-assignment forms usually accept them when submitted if the assignments in other ways conform to their rules and conditions of the policy to be used as collateral. Copies of the forms used by two companies are set forth in the Appendix. These indicate the simplicity of the forms.

Usually the assignment forms are made out in duplicate and sworn to before a notary public or commissioner of deeds. The certificate of authority and seal of the acting officer must be placed on the assignment. The beneficiary must join with the policyholder in the assignment. The forms are then sent to the insurance company for recording. One is kept by the company and the other returned to the policyholder. Although this procedure is extremely simple, there is some misunderstanding in reference to it.

After the loan is paid, a release of assignment form is made out in duplicate and acknowledged by a notary public. This should be sent in duplicate to the home office which retains one copy and returns the other to the policyholder. After being recorded upon the company's books, the interest acquired by the assignee or bank is released and returned to the assignors or policyholders. This restores the *status quo* at the time of the assignment. The beneficiary or beneficiaries who have joined in the assignment have returned the interest which they had prior thereto.

As assignments deal with the interest of policyholders, the insurance companies are not responsible in any way for them. The policyholder negotiates the assignment directly with others. The insurance company comes into the picture when a contract becomes a claim. If the assignment has been incomplete, complex, or involved, there may be delay in the payment of the claim unless the policyholder has coöperated with the company in giving full information regarding who really has title to the value of the contract.

When the assignment procedure is understood, there should be no unreasonable time or trouble involved in the making of assignments to banks or other assignees who grant loans secured by the cash surrender value of life insurance policies. It is simply a question of securing the proper assignment forms, having them completed and promptly sent to the home office of the company for recording. Similar action is taken in the matter of release forms.

In many cases, the insurance company will honor requests for assignment forms not only by policyholders but also by banks. In either event, it is well to request information from the insurance company as to who should join in the assignment, whether or not there are any previous liens on the policy in the nature of policy loans advanced to the policyholder on the security of the policy, or any record of previous assignments which have not been released. The company's records may also show any notices of bankruptcy, court orders, or other legal processes which might affect the ability of the bank to get good title under an assignment. Then, too, there may be minors, incompetent or other persons suffering under legal disability whose interest in the policy is irrevocable. Obviously in these cases the bank as assignee could not secure good title.

Loans

Assignments are assuming more and more importance as life insurance policies are being used more often as security for loans. Assuming a loan has been negotiated with a bank, the policyholder usually signs a note and puts the life insurance contract up as collateral. In addition, he assigns his interest in the policy to the bank, the understanding being that if the loan is not repaid in accordance with the terms of the agreement, the bank will exercise the rights of the policyholder and usually takes the cash surrender value. There was a case in the Middle West where the bank, realizing that the policyholder was getting along in years, decided to continue to pay the premiums instead of taking the cash surrender value. Such activities on the part of banks are predicated upon a supposition that the policyholder in the assignment form gave the bank absolute power of attorney.

Some companies experienced considerable difficulty with what was commonly known as the collateral form of assignment which assigned to the assignee only the proceeds. When this form was used and the contract assigned to a bank as collateral, it frequently happened that the debtor would default on the repayment of the loan and vanish. Consequently the bank was unable to obtain the cash surrender value without his written consent, because the assignment did not give it that right. Whereupon the bank was in the awkward dilemma of either permitting the contract to lapse and go on extended term insurance, if it had any, or continue paying the premiums, not knowing where the insured was and consequently having no way of telling when and where he would die. As a result, some authorities are of the opinion that the collateral form should not be used unless the bank is fully apprised of what it is getting under collateral assignment, and the absolute assignment is ordinarily the proper form to use in bank loan cases.

The mere putting up of an insurance policy with an assignee or bank as collateral for a loan is not sufficient to protect the assignee. The assignment form should be properly and promptly filled out and recorded upon the books of the insurance company. Without this, the insurance company may make a settlement of the policy in good faith because it did not know of the assignment; besides in the event of default, unnecessary delays or difficulties are avoided. In case the policyholder has changed his place of employment or residence, it may be hard to locate him in order to secure his signature to the assignment form. If he has not reserved the right to change the beneficiary, as time elapses and the pressure for money has become less, the latter may not be willing to sign the necessary papers with him. From every standpoint, it is preferable to execute necessary assignment forms promptly.

Commutation

Policyholders who wish the beneficiary to have the right to draw, in whole or in part, the insurance estate through surrender or commutation must distinctly specify so in the settlement agreement. In the event this is not done, the insurance company cannot honor any requests from beneficiaries for this purpose. In cases where the policyholder wants the beneficiary to have this right in interest-option cases, she will receive the principal sum remaining with the company in addition to any due but unpaid interest; where the installment or life-income option has been used, the present value discounted at the guaranteed rate of interest will be given by the company. As indicated in a preceding chapter, the income received by the beneficiary after the expiration of the term certain in the life-income option is an annuity, and beneficiaries who have received the guaranteed payments during the term certain will receive no commuted or surrender value.

The argument in favor of this provision is that the beneficiary knowing of a condition which the policyholder could not have foreseen, will be able to use the insurance estate in a more efficient manner. There are various arguments against this though. If the beneficiary can select the form of settlement in which the benefits are to be paid, then under our Federal taxation system, the payments are taxable. Wherever the policyholder specifically and definitely states how the beneficiary shall be paid and withholds from the beneficiary any right to change or modify the terms of the settlement agreement, then the payments to the beneficiary are not taxable.

The main reason why beneficiaries are not given the right to commute like policyholders is to protect them against the danger of losing the insurance estate, in whole or in part, as the result of unwise disbursements, efforts of dishonest people, and numerous other causes which experience has indicated may result in the dissipation of the insurance estate. There are cases on record where the beneficiary, having the right to change or modify the terms of the insurance estate, was prevented from placing the whole insurance estate in unwise investments only after much discussion. While the beneficiaries who have this right do not usually disclose their reasons for requesting commutation, there have been a sufficient number of beneficiaries who have indicated the reasons for commutation to enable the companies to know of the dangers incidental to this privilege. Accordingly it is not surprising to find insurance experts hesitant about recommending that this privilege be offered to beneficiaries.

There is another way of safeguarding the beneficiary by permitting commutation if advisable. The policyholder will give the beneficiary the right to commute the payments, with the proviso that some trust company, which he nominates in the settlement agreement or insurance trust, shall consent in writing. Obviously the trust company will not agree without good and sufficient reason.

Protection against Creditors

Unless the beneficiary has been given the right to change or alter the terms of the optional settlement agreement, she cannot impair the value of the insurance estate through assignments or any other method after the death of the policyholder. The insurance companies may hold the face values of matured contracts only under such limitations and conditions as the law allows. Some states, such as New York, Massachusetts, Pennsylvania, and Connecticut, have specific statutes authorizing life insurance proceeds under proper policy provisions to be held against the claims of the beneficiaries' creditors prior to the receipt by the beneficiary of the stipulated income; but such a provision will not hold in the states which do not recognize the validity of spendthrift trusts or which have not enacted statutes permitting insurance proceeds to be held against the claims of creditors. The New York State Law, for example, set forth in Chapter 327 of the Laws of New York, 1911, relating to trust funds, states in substance that when an insurance estate is left with the company for administration under a trust or optional settlement, the benefits to the beneficiary shall not be transferable, nor subject to commutation or encumbrance, nor to legal processes except in an action to recover for necessaries.

The protection against creditors applies only where the optional settlement plan is created for the benefit of some one other than the donor himself, and the protection applies only before the payments are made to the beneficiary. There have been no reported cases on spendthrift trusts incorporated in life insurance policies. While many legal experts believe a properly drafted spendthrift trust in a life insurance policy will be upheld, there are others who hold the opposite opinion.

CHAPTER XIII

LIMITATIONS

Rule against Perpetuities

In drafting provisions for an optional settlement agreement there must be constant care to prevent too remote contingencies. From time to time insurance companies have drafts submitted which contain provisions of this nature. The rule against perpetuities is promptly applied and, if the provision is illegal, the policyholder is soon advised. Some companies will not go even this far. They will agree to include as beneficiaries the immediate issue of persons in being, but will not consent to make payments or promise to make payments to the issue of persons not in being. When a policyholder requests the company to pay after his death the face value of the policy in accordance with the terms of a settlement agreement, these payments are necessarily to be made in the future. Because of this, insurance advisers should be careful to see that the proposed settlement agreement does not contain provisions which would be in conflict with the limitations of the law known as the rule against perpetuities.

Professor J. C. Gray states the rule of perpetuities as follows: "No interest is good unless it must vest, if at all, not later than twenty-one years after some life in being at the creation of the interest." This provision applies to both legal and equitable interests and relates to real as well as personal property. Professor Gray tells us that this rule should have been called the rule against "remoteness." It has to do only with future interests and does not relate to vested or present interests.

It is in the public interest that title should vest within a reasonable period of time; otherwise title might in some cases be suspended indefinitely. The rule against perpetuities is intended to prevent the transfer of rights at too remote a period. This rule springs from the common law, which fixes the limit beyond which future interests cannot be created, or conversely, it limits the time within which future estates can be created. At one time the common law imposed restrictions of various types upon the creation of estates. By degrees these disappeared until the rule against perpetuities or remoteness and limitations as to accumulations are about the only restrictions.

The rule against perpetuities is generally found in states where the fundamental law is based upon the common law. There are exceptions to this, such as New York, where statutes have changed the rule of perpetuities. Part of the New York law reads: "The absolute power of alienation shall not be suspended by any limitation or condition whatever for a longer period than during the continuance of not more than two lives in being at the creation of the estate. . . ." As a result of this change in the common law rule of perpetuities, much litigation has taken place.

Under the rule of perpetuities, the interest must vest within a definite limited time. This time necessarily varies in accordance with the provisions of the settlement agreement requested by the policyholder. The length of the life or lives in being at the creation of the insurance estate will have a very real effect upon the period within which title must vest. From a legal standpoint the estate becomes effective at the instant the policyholder dies. In the event two or more lives are provided for in the terms of the settlement agreement, then absolute title must vest within twenty-one years after the death of the survivor of the lives referred to in the settlement agreement and in being at the time of the death of the policyholder.

In view of the foregoing statements, it is important to be familiar with the law of the state in which the insurance contract is executed, as it relates to the outside limits within which absolute title in the insurance estate must vest. This will enable the policyholder to draft properly the settlement agreement in a legal way. In the event this is not done and a benefit is suggested which, under the law of perpetuities, would vest at too remote a time, the intent of the policyholder may not be carried out. The result may be litigation and expense, because it might be necessary to have the court act upon the settlement agreement. On this point Professor Gray states:

If future interests created by any instrument are avoided by the rule against perpetuities, the prior interests become what they would have been had the limitation of the future estate been omitted from the instrument. Thus, if an estate is given to A, for life, remainder to his children and their heirs, but if the children all die under 25, then to B for his heirs, the limitation to B is too remote and the children of A take an indefeasible fee simple. The cases illustrating this are innumerable.

Court decisions indicate there is no limit to the number of lives in being which may have a contingency interest in an insurance estate, "provided they are not more than will admit of making out, by reasonable evidence, at what time the survivor ceases to exist." By survivor is meant the person who lives the longest after the death of the policyholder. In order that this might be properly determined, policyholders should carefully designate those referred to in the terms of the settlement agreement. Such a procedure will avoid confusion and make it possible to determine more promptly and with less expense who the survivor was.

Various cases might be given of the difficulties which arise in applying this rule. In New York State we find that absolute ownership of personal property cannot be suspended for a longer period than two lives in being at the date of the instrument containing the proposed limitation or condition. It does not allow any interval of time of suspension not measured by lives. In some states following the common law of perpetuities, in addition to the fundamental definition as to the period of time within which absolute title must vest, the lives must be in being at the death of the testator rather than at the time of the issuance of the policy. The foregoing is upon the assumption that the optional settlement agreement is in the form of a rider or endorsement upon the policy. Some companies which issue a separate contract with the terms of the optional settlement agreement upon the maturity of the policy consider that the period of limitation begins in New York at the death of the insured and there is no suspension as to insurance proceeds payable upon death of insured until such death occurs. We do not find that the New York courts have passed upon this question.

It is evident from the foregoing that policyholders located in common law states, with the exception of New York, may be affected by the rule against perpetuities unless they are properly advised on the terms of their settlement agreements. As one of the salient features in the service of insurance companies to beneficiaries is the lack of legal complications, it is well for those advising policyholders to be extremely careful in reference to the period within which absolute title of the insurance must be absolutely vested. A mistake on the part of the adviser may not become known until long after the death of the adviser, but it can absolutely prevent the intent of the policyholder being carried out. Unless the terms of a settlement agreement are so clear that there can be no question on account of this rule, advice should be sought from the legal department of the insurance company which is to assume the responsibility for administering the insurance estate. In thus seeking advice from the legal departments of responsible insurance companies, complications that are unnecessary and annoying are easily forestalled or avoided entirely.

Illustrations

1. Based on the New York law, let us assume the case of a man who wants to make provision for his wife and daughter. He has selected an installment option which will provide a monthly income for twenty years. In the settlement agreement he states that if the wife dies before him or before all the payments have been made, the unpaid installments shall go to the daughter as they become due. Having in mind that the New York law reads that absolute interest must vest within two lives in being at the creation of the instrument, the policyholder could not have further designated that, if the daughter died also before all the payments, a third beneficiary in being should receive the remaining payments as they become due. The question will arise, what becomes of the money? This will be paid in a single sum usually to the executors or administrators of the last surviving beneficiary, who was the daughter.

In the event there had been a son and daughter in this case, the question would arise as to how the policyholder might provide for the two children equally if his wife died before the payments for the twenty years had been completed, because of the limitations of the New York statute. This is a rather common situation. Two settlement agreements should be prepared for equal amounts. One will be made out with the wife as the primary beneficiary and the daughter as the secondary beneficiary, whereas the other will name the wife as primary beneficiary and the son as secondary beneficiary. As long as the wife lives, she will receive income from both settlement agreements. Upon her death before the twenty years expire, the son and daughter will each receive half of the actual value of the remaining insurance. If the son should die before the insurance company has made the promised payments, the remaining installments will be commuted into one sum as in the preceding case to be paid usually to the estate of the boy.

2. In common law states, assuming that the common law rule of perpetuities is in effect, in the first illustration indicated above, the unpaid installments could be made to the third beneficiary. In the second of the preceding cases the policyholder would have to make only one settlement agreement, and designate the wife as the primary beneficiary and the two children, sharing equally, as secondary beneficiaries. It could also specify that in the event of the death of one of the children the other would receive unpaid installments. It is evident how much simpler the application of this rule is in states where the common law rule against perpetuities is applied.

Accumulations

The common law rule required that the accumulation of income should be made during the lives in being when the deed of trust became effective plus twenty-one years thereafter. The states of Illinois and Pennsylvania have imposed restrictions which are much more severe, while a few states require the accumulation can only be made during the minority of a child. Alabama follows the same rule as the latter states, but, in cases where a child is not the beneficiary of the accumulation, as required in these states, permits such accumulation during a period not exceeding ten years.

New York is one of the states which forbid in effect the accumulation of the income from a trust of personal property otherwise than during the minority of a minor beneficiary. Because of this provision, New York attorneys have raised the question as to whether an illegal accumulation is not effected by a funded insurance trust when the income or part of it was applied to payment of premiums on policies included in the trust, with the possible effect of increasing the principle of the trust through the increase in cash surrender value by reason of these premium payments.

The question was discussed at some length by Dean Bogert of the Cornell Law School in an address before the Bar Association of the City of New York which was published in the *Cornell Law Quarterly* of February, 1924. It was his view that the question was one of such doubt that it could not be resolved except by authoritative court decision in the absence of supplementary legislation. There has since been one decision by Surrogate O'Brien in New York County, indicating that in his view an illegal accumulation was not created by such a trust. That particular case has not apparently been carried to the higher court.

The New York legislature has recently enacted an amendment to the Personal Property Law to remove any question as to the legality in that state of the so-called funded insurance trust. This amendment reads as follows:

Provided that a deed or other instrument which creates or declares a trust in property consisting of or including a policy or policies of life, health, accident or disability insurance, and directs that the income of such trust shall be applied in whole or in part to the payment of premiums upon such policy or policies shall not be considered as effecting an accumulation either of the income so used for the payment of premiums or of the dividends on such policy or policies.

Suggestions by Association of Life Insurance Counsel

The legal staffs of life insurance companies are regularly considering questions affecting the interests of beneficiaries in insurance estates. Because of the intimate knowledge of the lawyers composing these staffs of problems affecting beneficiaries' interests, their views are of particular importance. Many of these lawyers form the Association of Life Insurance Counsel. On two occasions this association has appointed committees to investigate and make a report on modes of settlement. In their investigations they had the sympathetic coöperation of the Legal Division of the American Life Convention. The first report was made on December 13, 1916, and the last on December 5, 1923. The experience of both of these committees, as developed from their own observations as well as from consultation with other members, was summarized in recommendations which are of particular importance in properly arranging for the interests of beneficiaries in the optional settlement agreement. The principles recommended by the last special committee are:

LIMITS BEYOND WHICH MODES OF SETTLEMENT SHOULD NOT BE CARRIED

I. Principal at Interest

Retention at interest should not continue beyond primary and secondary beneficiaries except in the case of individual beneficiaries designated by name and, in such case, the interest payments after those made to the secondary beneficiary should not extend beyond thirty years from the death of the insurer.

Either or both the primary and secondary beneficiary may be an individual or consist of children, parents, or brothers and sisters, named or designated as a class, in being at death of the insured. Provision may be made for adding the interest of a deceased member of a class to that of the survivors, but, if the primary beneficiary is a class, the interest payments to such secondary beneficiaries designated as a class should not extend beyond thirty years from the death of the insured.

If the primary beneficiary is a child of the insured, the secondary beneficiaries may be children of such primary beneficiary and need not be in being at the death of the insured, in which case interest payments may continue until such children respectively attain age 21 years even though beyond thirty years from the death of the insured.

Where there is a secondary beneficiary to receive interest, there may be two alternate beneficiaries to receive the principal, one of whom may consist of one of the following classes: children, parents, brothers and sisters, or the survivors thereof.

Where there is a primary beneficiary only to receive interest, there may be four alternate beneficiaries to receive the principal, two of whom may consist of any of the classes stated.

II. Settlement by Installments for a Period Certain

Not over fifty years' installments to be payable.

Four successive lives may receive installments if living on the due date; *e.g.*, each installment may be payable to A if living on the due date of the installment; otherwise to B if living on the due date of the installment; otherwise to C if living on the due date of the installment; otherwise to D if living on the due date of the installment. In all other cases the commuted value of any unpaid installments should be to some designated person, or estate, or to children, parents, or brothers and sisters, as a class.

If the successive installment beneficiaries are less than four, the possible alternate beneficiaries of the commuted value may be increased correspondingly, it being the intent to provide not more than five successive persons to receive the proceeds.

If the number of years' installments is not over thirty, any two of the first three beneficiaries may consist of one of the following classes: children, parents, brothers and sisters, or the survivors thereof.

III. Life Income with any Number of Years' Payment Certain

In case of the death of the primary beneficiary, before receiving all of the guaranteed installments, the remaining installments certain may be paid to a first, second or third contingent beneficiary if living on the due date. The first or second contingent beneficiary, or both, may consist of one of the following classes: children, parents, brothers and sisters, or the survivors thereof.

After the death of the last installment beneficiary, the commuted value of any unpaid installments may be paid to some designated person or estate, or to children, parents, or brothers and sisters, as a class.

If the successive installment beneficiaries are less than four, the possible alternate beneficiaries of the commuted value may be increased correspondingly, it being the intent to provide not more than five successive persons to receive the proceeds.

General

Settlement by either No. II or No. III may follow No. I when the installments under No. II or No. III begin not later than the end of the first life or the attaining of a specified age by the first contingent beneficiary who is to receive the installments. If No. II or No. III begin not later than the end of the first life, there may be three contingent beneficiaries to receive the installments. If No. II or No. III begin on the attaining of a specified age by the first contingent beneficiary, there may be a second and third contingent beneficiary to receive the installments.

The proceeds of a policy may be divided and the shares treated separately under I, II, or III.

The term "children" as used in this report means "descendants in the first degree only." The term "children" may refer to children of the insured or of a child of the insured.

CHAPTER XIV

INSURANCE TRUSTS

Definition

Trusts are defined by George Gleason Bogert, Professor of Law at Cornell University, as follows:

A trust is a relationship in which one person is the holder of the title to property, subject to an equitable obligation to keep or use the property for the benefit of another.

The settlor of a trust is the person who intentionally causes the trust to come into existence.

The trustee is the person who holds the title for the benefit of another.

The trust property is the thing, real or personal, the title to which the trustee holds, subject to the rights of another.

The *cestui que* trust is the person for whose benefit the trust property is held or used by the trustee.

Insurance Trusts

The insurance trust is a document prepared in writing in the form of a deed of trust. This indicates who the trustee is, the name or names of the *cestui que* trusts, and just how the settlor or policyholder wants the insurance money cared for and expended. The insurance policies which form the corpus of the trust are deposited with the trust company. These are fully described in the trust. So the trust company may not spend money for the care of lapsed policies, some insist that receipts for paid premiums be filed with them.

There is no uniformity among trust companies as to the type of forms for an insurance trust agreement. Many companies have their own forms to which they adhere as closely as possible. In these cases all the policyholder has to do is to indicate just how he wants both the income and principal distributed, although in the larger trusts it is frequently necessary to deviate somewhat from the form to take care of the complications incidental to the insurance estate. Ordinarily it is well for policyholders to consult their attorneys as well as the trust officers prior to preparing their insurance trusts.

The policyholder should clearly identify the beneficiaries, and set forth in simple terms the provisions which he wants fulfilled. With this as a basis, and after further consideration, the trust officer will prepare a simple form known as a deed of trust. In deciding just how the corpus of the trust is to be spent, the policyholder should have in mind the same fundamental principles as when dealing with the maintenance of insurance estates and also with beneficiaries. A definite lump sum should be specified for the immediate needs of the beneficiary. Usually it is advisable to pay the residue upon an installment or income basis. There is reproduced in the appendix a resumé of an actual insurance trust.

In estates where there are to be numerous complex provisions, the opportunity for difficulties correspondingly increases. So that the intent of the policyholder may be properly carried out, it is well in these cases to put the whole insurance estate in the hands of some one trust company. This company, understanding the conditions as well as the peculiarities and possible trouble which may arise from the complex contingencies, will be more able to see that the policyholder's wishes are fulfilled. In the event conditions arise which differ from those which existed at the time of the policyholder's life, the trust company can make adjustment in the interest of the beneficiary, providing sufficient discretionary powers are given it. Such adjustment should make for facility of administration and economical operation as well as for a minimum of legal expense and court fees.

Revocable and Irrevocable Trusts

Trusts may be revocable or irrevocable. The policyholder must elect one of these forms. In the event he selects a revocable trust he will have complete control over the policy in so far as he can change or cancel the trust agreement at any time. Furthermore, he can borrow upon the policy. Under the terms of irrevocable trusts the policyholder cannot cancel or change the terms set forth therein. He surrenders his right to borrow on the policy.

Just as the experience of life insurance has proved the desirability of reserving the right to change the beneficiary, so it would seem that policyholders creating insurance trusts would lean toward the revocable form. Many of the same reasons in favor of reserving the right to change the beneficiary apply with equal force to revocable trusts. Generally speaking, it seems that revocable trusts are preferable to irrevocable trusts in the vast majority of cases. The donor has no means of knowing just what the future has for him or what changes may take place which will necessitate rearranging or omitting various provisions in the trust. If this deed was irrevocable, the donor might have undue and unfair hardships imposed upon him.

It is not surprising to find some trust companies which will not accept revocable trusts. When the time and effort necessary to prepare and coöperate with a donor is properly considered, the revocation of a trust may involve a loss of money to the trust company.

Funded and Unfunded Trusts

Policyholders availing themselves of funded insurance trusts deposit securities with the trustee, the income from which is used to pay the premiums upon the policies which are held in trust. The disposition of the securities as well as the insurance money is provided for in case of death. Generally this form of a trust cannot be attached by a creditor and it is usually irrevocable. It is also desirable from an insurance viewpoint, because the insurance will not be lapsed if the deposited securities are sound.

One benefit of the plan is that the premiums are automatically paid out of unearned income, which is the income from securities or other investments that have been accumulated but frequently under any other plan would have been dissipated or used for niceties of life. By putting it with the trust company the policyholder may be sure it will go toward constructive ends, namely, the paying of life insurance premiums and the accumulation of his estate. This is particularly serviceable to those who have a number of insurance policies. The trust company takes from the policyholder all worries about whether or not he has paid the premium on this or that contract; furthermore, it sees that the money is always available for each premium as it comes due, whereas only in exceptional cases do policyholders set aside funds in advance for the payment of premiums.

Experience seems to indicate that many men accumulate ample sums of money during their productive years to take care of their declining years in a comfortable way, if they have been successful in saving their earnings in excess of necessary expenses. The funded insurance trust plan enables a policyholder to be reasonably certain that when the age of retirement is reached, his insurance estate will be intact and that the securities from which the premiums will be paid have been intelligently handled. The trust company having possession of these securities is a safeguard against hasty or unwise action on the policyholder's part. The officers or their associates have been constantly watching the securities from the standpoint of the intrinsic value, placing their experience at the disposal of the policyholder to the end that the securities which underlie their insurance policies may be continued in only sound and profitable enterprises. The value of this personal service substitutes the collective judgment of the officials of a trust company and their experts for that of the individual who so often is actually incompetent or lacks the time and opportunity to safeguard his own investments. Upon the death of the policyholder, the securities and the face value of the life insurance are combined.

Most life insurance trusts are of the unfunded type. This means that the policyholder deposits his insurance contract with the trust company at the time his life insurance trust is executed. Usually the unfunded trusts are revocable. There are various reasons why this form is more popular than the funded trust. Most people pay insurance premiums out of earned income and this necessarily prevents them from delivering to the trust company securities sufficient to yield an annual return adequate for the payment of premiums. Then there are other people who have the securities but who want to retain physical possession of them, so they may promptly dispose of them without going to a trust company.

Legal Aspects

In re Darlington's Estate, 245 Pa. 212, 218; 91 Atl. 486, it is stated: "A trustee is not an insurer of trust funds against the possibility of loss, and all that is required of him is good faith and reasonable diligence." The trustee is responsible for the acts of any one selected by him to carry out in whole or in part sections of the trust unless he has been reasonably careful in choosing the party and has subsequently supervised his activities. The trustee is liable for any wrongful or negligent acts which result in loss to the *cestui que* trust. Where an insurance trust has been made with a trust company, the capital and surplus represent an insurance fund which guarantees that any such liabilities will be paid.

When a trust is created, legal title passes to the trustee, which is held in accordance with the terms of the trust drawn by the policyholder for the benefit of the beneficiary or beneficiaries. Courts of equity carefully protect the interest of beneficiaries under trust agreements and if the beneficiary is not satisfied at any time, he can appeal to one of these courts. A trust company acting as trustee of an insurance estate is in effect an agency of the court. Likewise, if questions arise upon which the trust company desires information or advice, it can go to the courts.

If a trust company makes investments in securities other than those specified by law for trust funds without specific permission from the settlor in the insurance trust, it is liable for any losses which may occur. In addition, it is held for reasonable administration of the trust fund in compliance with the laws of the state.

As indicated in the discussion of optional settlement plans, policyholders must be careful in preparing the trust not to violate the law against perpetuities which exists in many American states. When the common law prevails the effect of these is to make it mandatory that interest usually must vest at some time within lives in being when the deed of trust becomes effective plus twenty-one years. Likewise, any rule against accumulations must be observed. In general, an exceedingly careful attention to the requirements of law is imperative if transactions are to be carried on with the utmost efficiency.

Spendthrift Trusts

Some experts believe most states in America will uphold spendthrift trusts. A settlor or policyholder creating such trusts may be sure in these states that the *cestui que* trust or beneficiary will not be allowed to transfer or otherwise impair the corpus of the estate or installments payable therefrom in advance of actual payment to him. Furthermore, neither the corpus nor the installments will be liable to be attached by the creditors of the beneficiary until he or she actually receives the payments from the trustee. Some of the states permitting spendthrift trusts place certain limitations or restrictions upon them, while a few states will not permit spendthrift trusts at all.

The following citation, from the opinion of Justice Miller, in Nichols *vs.* Eaton, 91 U. S. 716–725, will be of interest as setting forth the basis of legal opinion in favor of spendthrift trusts in states which permit these trusts:

We concede that there are limitations which public policy or general statutes impose upon all dispositions of property such as those designed to prevent perpetuities and accumulations of real estate in corporations and ecclesiastical bodies. We also admit that there is a just and sound policy peculiarly appropriate to the jurisdiction of courts of equity to protect creditors against frauds upon their rights, whether they be actual frauds or constructive frauds. But the doctrine that the owner of property, in the free exercise of his will in disposing of it cannot so dispose of it, but that the object of his bounty, who parts with nothing in return, must hold it subject to the debts due his creditors, though that may soon deprive him of all the benefits sought to be conferred by the testator's affection or generosity, is one which we are not prepared to announce as the doctrine of this court. . . .

Nor do we see any reason, in the recognized nature and tenure of property and its transfer by will, why a testator who gives without any pecuniary return, who gets nothing of property value from the donee, may not attach to that gift the incident of continued use, or uninterrupted benefit of the gift, during the lifetime of the donee. Why a parent or one who loves another, and wishes to use his own property in securing the object of his affection, as far as property can do it, from the ills of the life, the vicissitudes of fortune and even his own improvidence or incapacity for self-protection, should not be permitted to do so is not readily perceived. These views are well supported by adjudged cases in the State courts of the highest character.

Samuel Davis, Associate Counsel of the John Hancock Mutual Life Insurance Company, Boston, Mass., has prepared an interesting paper entitled "Spendthrift Trusts in Life Policies" (5 University Law Review 91, 95). He believes that although there are no reported decisions upon spendthrift trusts incorporated in a life insurance policy, such a trust if properly drafted will be upheld.

Change of Beneficiary

When a policyholder decides to arrange for the service of a trust company upon policies already issued, and upon which beneficiaries have already been designated, he has to change the latter and designate the trust company as beneficiary. The same principles apply to the selection of a trust company as beneficiary as to any other beneficiary; therefore, a policyholder will usually want to retain the right to change the trust company as beneficiary. As indicated previously, this entitles him to borrow or assign the life insurance contract and, of course, he receives any dividends which may be declared annually.

It is generally agreed to be good practice to have the beneficiary changed and the trust company designated as beneficiary to serve as trustee. This has certain advantages over the assigning of the policy to the trust company, as will be evident from reflection upon the contents of the material presented in previous chapters.

Size and Amount in Force

Many trust companies are endeavoring to build a large volume of insurance trusts by concentrating on large life insurance trusts, but out of the large number of policies issued these are in the vast minority. One company which has been very successful has sought the business of the smaller trusts. While their books indicate that the majority are over $15,000, there are a number below that figure and some as low as $1,000. The smaller ones are invariably made for a single purpose such as paying a small mortgage or some other debt. The average amount of insurance trusts held by this company is in the neighborhood of $40,000, some go as high as $150,000, and several exceed $1,000,000. This company has been writing these trusts at the rate of about $1,000,000 a month. While it is true that some trust companies will not take trusts below $10,000, the vast majority of them will.

There is an added advantage in seeking insurance trusts from young men. It is true that the amount of insurance involved is likely to be small, but the young men, having confidence in the trust company, may bring their other business needs to the company and use other services of the trust company. In other words, life insurance trusts act as a feeder of new business, and the client, getting started while young, will form the habit of going to the trust company. Then too, as the young men grow older and some of them become successful, their life insurance trusts will increase in value as additional contracts are taken out.

CHAPTER XV

USE OF INSURANCE TRUSTS

Discretion

As indicated in a preceding chapter, the institution of life insurance, through the optional settlement agreements, offers a plan which is flexible enough for the vast majority of insurance estates. Corresponding flexibility can be secured in the remaining types of insurance estates, namely those in which discretion is involved or the use of the funds is to be applied specifically to a given purpose or in extremely complicated cases, through trust company service. By flexibility is meant the ability to adjust the service of the trust company to the needs of the beneficiary or to accomplish a specific purpose in accordance with the policyholder's wishes. The insurance companies cannot take care of insurance trusts where discretion is necessary, but trust companies can.

Knowing the importance of elasticity in the administration of an estate, the testator should distinctly specify whether he wants the trust company to have any discretionary power in administering the estate or in carrying out and applying the various provisions thereof. It is easy to conceive of many types of contingencies which may arise wherein the executor should be able to readjust temporarily or make larger or smaller payments to designated beneficiaries. A policyholder may want to make provision for his daughter, dependent upon whether her marriage turns out satisfactorily. For example, he might set aside a sum of money which is to be used for the purchase of a house, the understanding being that the title will be in the trust company's name until it is satisfied that the husband has established himself in a business way.

It is good practice to allow the trustee discretion to authorize the expenditure of parts of the corpus of the insurance estate for emergencies such as operations and unusual medical bills. This may supplement the privilege to the beneficiary to use her discretion as to how much she may take each year from the principal, providing the total amount does not exceed the sum specified in the trust agreement by the settlor or policyholder. Of course the settlor has to give her this specific right; otherwise she cannot use it. In the event the income from the trust is not sufficient to pay the educational expenses of the son or daughter, the policyholder may give the trust company discretion as to the amount of the principal which may be taken to fulfill this purpose adequately. Discretion is the very essence of many trusts such as in cases when the income may be increased or reduced in accordance with the happening of certain contingencies, or when funds may be withheld pending the desired action.

Trust companies can also be of service in cases where a policyholder specifies in his optional settlement plan that he wants his wife to receive the interest on the corpus of the insurance estate from the insurance company until her remarriage and upon this event to minor children. In a case of this kind matters can be materially simplified if a combination of an optional settlement plan administered by a life insurance company and a life insurance trust plan with a trust company as secondary beneficiary is arranged. The trust company will notify the insurance company of the remarriage of the former wife and then assume charge of the corpus of the estate in accordance with the definite terms set forth in the life insurance trust for the interest of the minors. This avoids court procedure together with the legal and the other expenses which would come out of the estate if it were necessary to go to the courts to provide guardians to receive the shares for the children from the insurance company.

In dealing with children, the policyholder can ask the trust company to pay for only the actual expenses which in the opinion of the trust company are necessary in order to accomplish the specific wishes of the policyholder in regard to their standard of living. The policyholder can go so far as to leave to the trust company decisions upon educational matters. Furthermore, he can make arrangements so that when, in the discretion of the trustee, the children become responsible and appreciate the value of money, their share in the corpus of the estate may be paid to them. In the case of educational trust agreements, the benefit to the boy or girl who obtains an appreciation of the value of a dollar through contact with trust company officials is worthy of consideration.

Provisions can be made for unborn children to share in the estate on the same basis as the children alive at the time of the execution of the deed of trust. A general provision may also be made that unborn children will be paid the amount of their interest when they reach their majority. Pending that time, the trustee should provide for expenses the same as he is authorized to do for other children.

Another illustration of the value of the service of the trust company is in those cases in which the income is left to the mother during her life and thereafter to the children until their majority. The trust agreement may provide, upon the death of the mother, for payments to be made directly to the children or to such people as may have them in their custody, without the necessity of any guardian being appointed. The expense of a guardianship may then be avoided.

Sometimes a policyholder will wish to make provision for his children dependent upon various contingencies. In the event the boy marries, he may wish to have a certain sum payable to him. It is always difficult for a parent to know at what age his son will have a proper opportunity in the business world and will need a sum of money, which is subject to much variation. By setting aside a definite sum of money and giving the trust company discretion as to its use, so that at the proper time or times, the trust company will advance such sums in whole or in part as may seem advisable for the business welfare of the son, he can be sure that he is doing the next best thing to supervising this matter himself. Then in the case of the daughter there is no way of foretelling just when she will marry or what the circumstances will be. Her financial needs at one time may be slight, while at another time they may be considerable. A father, therefore, might wish to set aside a sum of money to be administered by a trust company for the general welfare of his daughter. The trust company can be given discretion as to the amount of money which is to be given to the daughter as an aid in procuring those things which the daughter may think necessary.

Here is another actual illustration from the Middle West. A young man whose father left his estate in charge of a trust company wrote to the company for advice about joining a certain fraternity. The trust officer made inquiries and found that not only was the fraternity all right but the son of one of the directors was a member. The result was that the director had his son make the acquaintance of this young man and give him more information, finally assisting him to become a fraternity brother. Numerous other illustrations could be given, but the effect of all would be to indicate that the properly selected trust officer, when given adequate authority, can render those many thoughtful and personal services of a nature which the policyholder would have wanted the beneficiary to receive.

Use of Funds

The use of life insurance money for a specified purpose may be of particular importance. It is to be remembered that a beneficiary receiving funds from a life insurance company cannot be followed up by the company to see how the funds are actually used, because the company will not assume this responsibility. One reason is the company has not the type of organization necessary for this service. It is not unusual for a policyholder to take a life insurance contract to pay the taxes, the estimated costs of administering his estate, or funeral debts. When the funds necessary for these purposes are paid to the beneficiary, they could be used in any way the beneficiary saw fit and might not go for the purpose which the policyholder had in mind. If an insurance trust was prepared and provision was made for certain policies or parts thereof to be applied to these purposes, the trust company would see that the policyholder's intention was carried out.

In applying life insurance funds to the exact purposes or uses for which they have been specified by the policyholder, the trust company is frequently able to render additional service for the benefit of the *cestui que* trust which cannot be measured in a financial way. This opportunity arises in many different types of insurance trusts. In cases where the policyholder has an aged or sickly mother or father or an invalid daughter, the trust company can see that the best medical attention is given to them and that every convenience and comfort is provided in their remaining days.

In reviewing the trusts on the books of a very progressive trust company, it was interesting to note that in some cases the policyholder wanted the money used to pay off a mortagage, or purchase a tombstone, to apply the life insurance to the purchase of partnership interest or bonds, or to spend a certain amount each year for a certain charity as long as it was worthy and met certain requirements such as the treatment of all poor people irrespective of race or color. The trust companies have the machinery for carrying out purposes of this nature.

Many people like to leave sums of money to favorite charities. Sometimes these charities get in the hands of incompetent people and the money bequeathed is lost or does not accomplish the purposes which the testator had in mind. In cases of this kind it is well to consider the appointment of trust companies to administer charitable funds created through life insurance. By a clear definition of just what the testator has in mind as to the functions of the charity he wants to favor, he may be sure his funds will only be spent for this purpose. In the event the designated charity fails to live up to this, then his money can be devoted to other productive charitable channels in accordance with his wishes.

There is a growing appreciation of the opportunity to provide for one's religion by donations of life insurance. It may be inconvenient to give a church a sizable contribution during a lifetime, but through the payment of a nominal amount each year it is possible after death to have one's wishes carried out. In cases where the policyholder wishes either all or part of this insurance to be spent for particular religious services, an insurance trust will be helpful. Numerous contingencies might arise which would change the character of the religious service and thereby make the continuance of the contributions inadvisable. For example, a policyholder may be contributing money regularly to a certain foreign mission. Conditions might so change in the foreign field that further missionary efforts would be unnecessary or inadvisable. A trust company would then see that these funds were diverted to some other cause specified by the policyholder.

Sometimes a parent may not know along what lines his children's abilities should be encouraged; therefore, in preparing the provisions of his insurance trust he is unable to decide upon the type of education they should receive. Obviously it is going to cost less to send a child through a regular college course than it is to train him or her in the various fields of music and art, the training being completed by the necessary traveling. In cases of this type, the parent can set up a trust fund and leave the disposition of it to a trust company, indicating that he wants his child educated in the field for which the child appears to have ability. Another advantage is the trust company will pay out the money only as needed.

Business Trusts

It is estimated that 150,000 partnerships fail or dissolve each year in the United States. There is a comparatively small percentage of the total business firms in this country which have been in business over 25 years. As the death of a partner dissolves a partnership under existing law, the remaining partner then must adjust himself to new conditions arising from his loss. During the process of adjustment he must come to an agreement with the estate of his former partner.

If necessary to dispose of the partnership assets, the work of transferring property, settling accounts, and numerous other matters may be very difficult. The trust company has the organization and facilities for rendering this service promptly and satisfactorily. To illustrate: A rather small closed corporation which practically has a monopoly on a certain type of business carried $400,000 of life insurance upon the president who had 65 per cent of the stock and whose wife had 15 per cent. An agreement was made with a trust company that in the event of his death the family would be paid the insurance. Subsequently the value of all of the stock, which was placed in the possession of the trust company, was to be appraised by a board of arbitration to be selected by the trust company and corporation. The minority interest would then buy the majority at the price fixed by the board less the value of the life insurance payments. In the event it did not, then the trust company would dispose of the business to best advantage.

Any policyholder whose business interests are in a partnership or a closed corporation might well consider trust company service as a means of safeguarding these interests. Unless some definite provision is made whereby insurance money is used to pay his estate for their interest in the former partnership, his partner may be faced with the responsibility of taking in some relative of the deceased policyholder who is incompetent. The result may be that both the partner and the policyholder's beneficiaries will suffer. In simple cases of this nature the insurance company can pay the death claim directly to the beneficiary and there is no need of an insurance trust. When the amount of life insurance is not sufficient to compensate the beneficiaries for their interest in the former partnership, numerous conditions might arise which demand the attention of some competent impartial organization. In cases of this kind the trust company is able to render a very real service. In addition to protecting the beneficiaries' interests properly, it might also assist the surviving partner to locate a competent associate. Then, too, the business will have the benefit of the expert financial advice of the trust company during the period of adjustment in which this type of advice is generally so helpful and necessary. In partnership agreements making the trust company beneficiary, there can be no claim of partiality or unfairness, an assurance particularly desired by the surviving partner.

The business of any successful man usually represents the best efforts of his life's work, but frequently death takes him away before he has made his full contribution to it. In the event the decedent has not left a sufficient amount of assets, it is probable that the business may have to be sold. If life insurance has been taken out, it is possible that the business may continue to grow. This is on the assumption that the life insurance would meet the needs of an immediate nature of the decedent's family and thereby would not make it necessary to put the business on the market. In this case, if the trust company is designated as trustee and assuming that the business is a one-man concern, it will be more able as a rule to carry out successfully and develop the business further than the inexperienced beneficiary.

Centralized Control

Those who wish to centralize their insurance estates in trust companies may do so with the assurance that one organization will apply uniform principles to the administration of the estate as a whole. When an insurance estate is made up of a number of securities and policies, the value of centralization must not be overlooked, especially if some of the provisions of the trust are complicated. Furthermore, it is well to remember that the laws of the states differ in many important respects relative to ordinary questions arising in the conduct and administration of estates. By centralizing all in one trust company, the policyholder may be certain that the trust laws of only one state will apply. With this in mind he can more intelligently draw up the provisions of the trust fund. Then, too, uniform control may make for more efficiency and decreased costs of administration. Another argument in favor of insurance trusts is that by paying the life insurance in whole or in part to the trust company, it is enabled to conserve the other assets of the estate. Forced sales of securities are not then necessary. Debts may be promptly paid, when there is an adequate amount of insurance.

With the development of intelligent programming of estates and the growing appreciation by life underwriters of the importance of this service, settlors should indicate to their agents just what they want each policy to accomplish. They may be sure that each of the insurance companies will see the payments are made in accordance with the terms of the optional-settlement agreement. In cases where the purpose to be fulfilled by any one or more of the number of policies can be more efficiently carried out by a trust company than by the life insurance company, then these should be administered under the terms of an insurance trust rather than under an optional-settlement agreement. The remaining policies can then be administered by the life insurance company.

Much is said about the need of policyholders, who have a number of contracts, for trust company service through an insurance trust. The basis of some of this discussion is the alleged multiplicity and variation of practices and forms of the life insurance companies. There is no more reason why a life insurance trust should be created when there are a number of policies involved than where there are only a few, unless the conditions proposed for inclusion in the optional-settlement plan are complicated or necessitate discretion or the specific application of funds to definite uses. Satisfactory arrangements can be readily made to have the optional-settlement agreements conform to the needs of the policyholder. All he has to do is to draw up a regular insurance estate program and then decide which insurance companies will make the payments necessary to carry out each of the policyholder's wishes.

Combination Service

Combinations of insurance company administration and trust company administration may be made in many cases. The effect would be to have the benefit of the facilities of each institution. When the draft of the optional-settlement agreement is made, those provisions for beneficiaries which can be best administered by trust companies should be eliminated and form the basis of the separate insurance trust. Likewise, in cases where policyholders want the income from their insurance estate applied for definite purposes, the corpus of the insurance estate can be left with the insurance company and the payments as due be made to the trust company. Under this arrangement the policyholder would have the benefit of the investment service of the insurance company and also the personal service of the trust company.

Coöperation in the Public Interest

The limitations upon the administration of insurance estates by life insurance companies center around the inability of the company to use discretion in administering an estate or actually to see that the funds are used in specific ways; the services of the trust company are available for cases of this kind. Just as the trust companies are able to render a superior service in such cases, so are the life insurance companies better able to serve other types of insurance estates. One institution, therefore, supplements the other.

It is not advisable nor is it in the public interest that one should endeavor to carry out the functions of the other. Just as it is not advisable for the insurance company to undertake cases involving discretion or the application or use of funds, so the trust company should not assume the administration of cases where the insurance company can properly serve the beneficiary without expense. This requires team play between the two institutions. Already the life insurance companies can definitely point to a trend in favor of the greater use of their services for the administration of insurance estates. It is interesting to note that during the same period of time, namely since 1920, trust companies have noticed a marked increase in the number of life insurance trusts filed with them.

The more the service of the insurance company form of administration is sold to policyholders, the greater will be the number of the latter who will want trust company service. The life insurance underwriters can serve their clients by selling them the service of the institution which can best execute their wishes. In recommending trust company service, underwriters should emphasize that these companies are in effect personal counselors to the beneficiaries as well as trustees under the policyholder's deed of trust.

CHAPTER XVI

TRUST COMPANIES

Originally when a testator wanted to designate a trustee, he usually selected a friend or some one in whom he had confidence. Frequently the trustee was not an investment expert, nor did he have the necessary training or experience to advise the *cestui que* trust properly, while in the event of his death, complications might arise and the courts would have to appoint a successor. These situations gave rise to trust companies, which are investment experts and which do understand the problems incidental to conservative management of estates. Their lives are indefinite because of their charters. In the event of the death of an individual trustee, additional expense is imposed upon the estate because the administrator appointed by the court must be paid and, of course, the deceased trustee has already been paid.

Trust companies are specialists skilled in the building and maintenance of estates and they receive the power to act for the policyholder or settlor under the insurance trust. The various states have laws which set forth the requirements which must be met before they may be incorporated. These specify the limits within which the trust company must confine its efforts, the amount of capital necessary, the nature of the services, and other details entering into the operation and conduct of trust company service. The state banking department is charged with the responsibility of supervising trust companies in accordance with the law. This supervision makes for confidence on the part of the public in the trust company system because it provides assurance that the various laws will be carried out.

The business of trust companies is to conserve property. In large banks the trust division usually functions as a separate entity within the bank itself with various safeguards thrown around the corpus of the trust to be administered. It is interesting to note that there are over 4,700 trust companies or banks with trust departments in the United States, with assets of over $18,000,000,000. These tremendous assets guarantee the fulfillment of the faithful performance of the responsibilities which these companies assume under insurance trusts.

The human resources of the trust company are not usually appreciated. Most trust companies are able to bring to bear upon any given trust the broad experience and minds of different types of successful business men and executives. On the board of directors of the average trust company, you will find many of the representative and successful business men of the town or city. The officers, too, have had a broad experience in dealing with estates of various kinds and are familiar with the problems likely to be met as well as the practical and economical ways of dealing with them.

Trust companies are corporations dependent upon personal service for success. When a policyholder who has entrusted his insurance estate to a trust company dies, the officers of the trust company carefully review the terms of the deed of trust. The beneficiaries are then usually asked to meet with the trust officers in order to discuss their situation. This is of particular importance in cases where the trust company is given discretion over the size of the payments to be given to the beneficiary. General market conditions are reviewed to determine just what type of securities in which it will be best to invest the corpus of the trust fund at that time. In the meantime, first payments can be made to the beneficiaries in accordance with the terms of the trust. When the policyholder has some special mission which he wants accomplished with part of his insurance estate, the trust company will be able to carry out his desires.

In the larger trust companies we find various expert services at the service of each estate. Taxation questions invariably have to be dealt with, and because of the multiplicity of these taxes which are imposed upon estates, experts are necessary so the estate may pay just what the law intends and no more. Then there are the real estate and investment specialists as well as those who are familiar with what the final disposition of the policyholder should cost. These men and others are ready to help carry out the insurance trust and the wishes of the policyholder as set forth therein.

At the time of the decease of the policyholder, conditions in his home will probably be in a confused state. Because of the bereavement of the beneficiary, expenses for funerals may be out of all proportion to the value of the estate. Frequently the beneficiary is inclined to be moved entirely by sentiment and disregards the cost, forgetting that she and the children have to live. Even in cases where the beneficiary does try to settle the expenses in a businesslike way, she is often handicapped by not knowing just what is or is not reasonable in the way of costs. Trust companies meet so many questions of this nature that they have facts. Furthermore, as this is a business proposition with them their judgment is not guided by sentiment, the result being beneficial for the maintenance of the estate. Policyholders therefore may be sure that a reasonable sum will be spent to care for them but seldom more.

Stability of Trust Companies

Trust companies as units of a national system play a very important part in our national life. A committee of the American Bankers Association some years ago made an investigation of the stability of trust companies and found that none had failed with a loss to an estate. This is not surprising when one realizes the scrutiny to which trust companies are submitted by the state banking departments, the legislation enacted for their guidance, and the generally high caliber of the men governing their functions. On the other hand, this must not be taken as meaning that no trust funds have ever depreciated in value.

The beneficiary frequently does not think of the possibility of the estate shrinking. He often regards it as fixed in value. The trust company may render excellent service, but yet the corpus of the estate may depreciate in value. This might come about in several ways. In the event the corpus of the trust is left in money, or property which is to be transferred into money, the trustee reinvests the funds which are not necessary for immediate requirements. As indicated previously, as long as the trustee exercises the care legally required in the selection of the new securities, he has performed his function. In the event the value decreases, the estate has to bear the loss. Conversely though, any increase in the value of the estate is credited to it.

Value of Location

Most trusts are local in character, that is, they are to be administered in a given locality, although occasionally the terms thereof extend to people in a number of localities. Usually the trust is administered in the community in which the will is probated, and as a rule the beneficiaries live in the same place. They are known and if the trust officer is not familiar with their habits, standards of living, or needs, he can readily learn about them. Because of the location of his office, it is likely that he will see them from time to time. He is, therefore, not only in position to administer trust funds in accordance with their actual needs, but he is also able to advise them personally on many other matters. This personal service on the part of trust companies is very important, yet it cannot always be measured in terms of dollars and cents as investment returns can. The advantage of the trust company from the standpoint of its location is evident.

Many people prefer to have those with whom they have done business during their lives, such as the trust companies, administer their affairs. One of the strongest arguments in favor of the trust company is that it is local and is in position to measure the needs of the beneficiary in light of known local conditions. With discretionary power granted, the company can administer the trust in accordance with the wishes of the testator and the future needs of the beneficiary. To illustrate: A beneficiary was taken sick and, after consultation, medical experts concluded an immediate operation was necessary. Before deciding upon the hospital, the beneficiary had the physician telephone the trust company about the situation and estimate the probable amount of funds which would be necessary. The company promptly agreed to advance the money from the estate. If this had been a trust which did not permit discretion by the trustee and the beneficiary was to receive a fixed income at definite intervals, the company could not have advanced the funds even in a case of need as this one was.

In cases where an insurance trust involves the care of beneficiaries located in various cities, the trust company may have to make arrangements with other trust companies to carry out the terms of the trust as applicable to the beneficiaries located within their cities. The reason for this is that most trust companies are chartered only to function within their states. From the standpoint of the policyholder or settlor, the trust company whom he charged with carrying out the terms of the insurance trust is responsible. In those cases where it is a mere process of mailing checks to the beneficiaries in the other cities, a life insurance company can perform this service under an optional settlement agreement just as well as a trust company, which usually sends the check directly to those beneficiaries located in other cities.

The convenience of the trust company to a policyholder who has made an insurance trust is conducive to occasional conferences when new conditions arise which may affect the provisions of the trust. In these cases the policyholder is not dependent upon his own judgment alone, but he can without cost visit the trust company and discuss the new developments. The effect is twofold: first, the consideration by experts should on the average lead to sound decisions on the questions involved and next, the trust officer becomes more and more familiar as a result of these conferences with the peculiarities and needs of the estate so that he is more competent to administer the estate after the death of the policyholder. The value of this personal service cannot be overestimated.

Segregation of Assets

When trust funds are delivered to a trust company as trustee of an insurance estate, they are invested at the earliest opportunity. As the securities are purchased they are set aside from the assets or securities of the bank or trust company. They are the absolute property of the estate. In the event anything happens to the trust company, these securities will not be affected. This is referred to as segregation of assets of the estate. It differs materially from what takes place in insurance estates administered by the insurance company when the corpus of the insurance estate becomes a part of the funds of the company. In one case the estate owns outright certain definite securities, whereas in the other the estate has an interest in the assets of the insurance company. In the former case investments are usually limited to a small number of securities, whereas in the latter there is an interest in a very wide diversification of securities.

Investments

Safeguards are thrown around trusts by the law which specifies what shall be legal investments for trust companies. These usually consist of mortgages, government securities, and other investments of a non-speculative and sound character. The usual income from such investments does not ordinarily amount to that which trust companies can frequently earn if they are given the right to use their discretion in the type of investment. Of course, in these cases the trust company officers use care to invest the funds wisely; but necessarily, in order to get the higher rate of interest, they must go outside the type of investments permitted under the law for ordinary trusts.

As the market fluctuates, there is usually a variation in the relative values of bonds, preferred or common stock. Sometimes one is high and another is low. The industrial securities may be selling below actual value, while preferred stocks and foreign bonds are bringing excessively high values. These fluctuations give skillful investors, who make a business of investing money, an opportunity to increase the value of estates. It must be recognized that the policyholders who avail themselves of this privilege must be prepared to have their estates at times suffer losses from the corpus of the insurance estate. Just as no man can foresee the future for an extended period of time, no investment expert can always tell how an investment is going to turn out. The result is that from time to time the best of experts suffer losses.

Edward A. Woods, one of the leading life underwriters in our country, made a test some time ago to see just what hazards a widow might be confronted with in making an investment of $10,000 left to her. He put an advertisement in a Pittsburgh paper and said in substance that suggestions for investment would be welcomed. He tells us that 94 per cent of the numerous replies were of such a nature as to be either unsuitable for estate purposes or fraudulent. A widow, protected under the terms of an insurance trust, would not be troubled with the responsibilities of weeding out any of these undesirable proposals.

Income

Trust companes do not guarantee the payment of principal or any definite rate of interest upon funds left with them. It is estimated that the average trust yields between 5 and 6 per cent. Some time ago a committee of the American Bankers Association found the average yield earned upon estates administered at one time by trust companies was 5.512 per cent. These estates, according to the report, were based upon voluntary trusts.

Much has been said about the difference in interest returns paid by trust companies and insurance companies. In order to make a fair comparison, the interest rates paid by both types of institutions should be studied over a period of years. When the trust companies have made investments in accordance with legal requirements as differentiated from investments made in accordance with the testator's wishes, certain allowances should be made in reaching the net yield to the policyholder. Deductions should be made for taxes and necessary fees as well as adjustments for appreciation or depreciation in the value of securities. When a comparison is made upon this basis, it is doubtful if there is little or any difference between the net returns to beneficiaries by trust companies or insurance companies.

Fees

When a policyholder elects to create a funded insurance trust and delivers securities to a trust company to pay the premiums upon life insurance policies and to add the securities to his estate upon his death, trust companies invariably charge him a fee for this service. While in some cases the amount of this fee depends upon agreement with the policyholder, in other cases it amounts to 5 per cent of the income, which is the percentage frequently charged for the collection and distribution of the sum involved in voluntary trusts. As a means of protecting themselves against revocation, they usually charge a fee. Some companies request this fee when the trust is prepared while others do not.

The fees charged by trust companies after the decease of the policyholder for carrying out the terms of the insurance trust vary. In cases where state laws regulate this, they do not receive more than the legal amount and it is claimed they receive no more than an individual executor would be paid. Some companies charge 5 per cent of the gross annual income for their services, and various percentages of the corpus of the estate upon distribution. Frequently these percentages are under 5 per cent of the corpus. When the purpose of the trust is to pay taxes or accomplish some other specific purpose and to pay the residue within a short time to a certain designated beneficiary, a smaller fee is charged. This is usually fixed as a result of negotiation and sometimes does not exceed 2 per cent.

One trust company which has had very fine results with life insurance trusts charges a fee of not over 1 per cent annually of the money invested in real estate mortgages. This fee is higher when other types of investment are purchased. In the latter cases, it charges an additional 1 per cent every time it invests or reinvests, but it is understood this charge will not be made more than once in every five years. Some trust companies make a flat charge of 2 per cent of the sums of money actually distributed, and when the amount distributed reaches certain figures, this percentage is reduced. Many companies charge a fee of 1 per cent of the corpus of the estate when it is distributed after the death of the testator and thereafter a fee of 5 per cent of the gross income.

While it seems that most trust companies do not charge a fee for assisting in the preparation of the life insurance trust agreement, the few who do usually limit this to twenty-five dollars. There is a service charge of the same amount made by some trust companies to reimburse them for expenses incurred in the preparation and care of the insurance trust upon revocation.

It is evident there is no uniformity as to the amount charged. This is not surprising, because conditions and state laws vary throughout the country. A consideration of the difficulties and importance of the terms of the trust shows that it is only fair the trust company should be paid a sum which will be sufficient to reimburse it for actual expenses and provide a sufficient margin to permit a reasonable profit.

More Adequate Coverage

Frequently trust companies find that settlors or policyholders are inadequately insured. They realize only too well the need of ready cash for immediate expenses caused by the death of the policyholder, for they know from their experience in handling estates that they often have to advance their own funds to take care of taxes and other expenses. Adequate insurance is necessary therefore as a means of properly protecting the estate of the policyholder as well as his beneficiary. In addition, it makes it unnecessary for the trust company to advance its own funds.

One large trust company finds that a conservative estimate of the increase in life insurance as a result of its advice is from 7 to 10 per cent, based upon its own experience with life insurance trusts. It also claims that 100 insurance men in its city have increased their personal production from 100 to 700 per cent through the inclusion of life insurance trusts in their service. The Union Trust Company of Detroit, a very successful pioneer in the field, coöperates closely with life insurance underwriters, because it recognizes their ability to fit life insurance to the needs of policyholders properly and will not accept a trust unless approved or recommended by an agent.

The number of insurance trusts in force is difficult to estimate nationally with even a reasonable degree of accuracy. Based upon the reports made in cities where trust companies have been particularly active in urging the advantages of trust companies, it would seem that only a very small percentage of the total insurance assets are receiving the benefit of trust company administration. It is estimated that much less than ½ of 1 per cent of the total insurance in force in the city of Detroit is in the form of insurance trusts. The president of a middle western insurance company announced at a dinner that his company had placed $24,000,000 of insurance trusts with Detroit trust companies during the first three months of 1927.

CHAPTER XVII

THE UNNAMED BENEFICIARY

Relatively few testators would know, if their estates were settled to-day, what amounts would be received by beneficiaries named in their wills. After the current expenses and debts have been met, their unnamed beneficiary, the state or Federal government, will take a share before the balance can be divided. The amount will vary with the taxing locality in which they and their property are situated. It may also vary with the type of security or other property which constitutes the estate.

To know the amount of tax is not enough. Since the tax is in effect a lien upon the estate which is enforced at the decedent's death, the important problem which confronts the individual is that of making provision for its payment in the same manner as any other debt. To convert a large proportion of an estate into ready cash may mean the forced sale of securities or other property at unusually low prices. Making provision for the lien imposed by inheritance taxes amounts, in fact, to segregating the state or national government's share so that when it is taken, the remainder of the estate is left intact for the heirs.

Besides the Federal government, forty-five states of the Union have placed estate or inheritance tax laws upon their statute books. This form of taxation has gained great headway and has been gradually extended during recent years as legislators have realized its effectiveness and as the need for revenue has grown. There are two forms of taxation, one payable out of the estate to be distributed and the other by the beneficiary. The first is called an estate tax. This is in effect a transfer tax, because it is made on the right to transfer property. The other type of taxation is known as inheritance taxation. Most states have this form. It is a tax on the right to receive bequests or inheritances. Some states impose both forms.

How Payable

Taxes must be paid in cash. They cannot be paid in kind. Where there is not a sufficient amount of cash available at the time of the decedent's death, it is necessary to sell the most salable securities, which are usually the best. This is often the case not only to meet expenses incidental to death, but also to comply with the various laws which have definite time limits within which inheritance or estate taxes must be paid.

Regardless of economic conditions, the Federal and state governments insist upon payment within definite time limits. As we have generally had favorable economic conditions during the last twelve years, estates forced to dispose of good securities to pay inheritance or estate taxes and due but unpaid income taxes have not been as severely affected as they would have been if business conditions were generally unfavorable.

Life insurance helps beneficiaries to meet promptly the need for immediate cash for taxes. Furthermore, it helps them save money, because a number of states follow the policy of many business concerns which discount bills paid in advance of a certain definite period of time. These discounts vary from 3 to 5 per cent. The saving for immediate payment in Ohio amounts to 12%.

State Legislation

No uniformity exists among the various state laws. Not only the tax rates but the classification of beneficiaries, exemptions, property subject to tax, and other provisions are also quite dissimilar. Space does not permit the printing of the laws of each individual state, but a brief consideration of their principal features may be of interest.

Classification of Beneficiaries

Beneficiaries are usually classified according to their relationship to the decedent. Generally, provision is made for from three to five classes with the object of taxing more severely distant relatives, or persons not related, than direct heirs or philanthropic institutions to which bequests have been made. The New York method of grouping will serve as an illustration. Class A embraces parents, husband or wife, child, and lineal descendants. Class B includes brother, sister, son-in-law, daughter-in-law, and mutually acknowledged child. Class C embraces all others except those mentioned in Class D. Class D includes charitable, religious, educational, and other institutions of a similar character.

Exemptions

Estates under a certain size may not be subject to an inheritance tax. There is no uniformity in the amount of this exemption; it is quite small in some states and large in others. In many states the exemption also varies with the class of beneficiary, being large for direct heirs but small for heirs more distantly removed.

Rates of Tax

The rates usually vary with the class of beneficiary and are graduated according to the size of the estate. Maryland is an exception in this respect, as the tax there is 5 per cent on all legacies except those to direct heirs and charitable institutions. Rates in the other jurisdictions vary from a minimum of less than 1 per cent on small estates to direct heirs, to a maximum ranging between 10 and 30 per cent, as in Missouri and California, for large estates to certain collateral heirs. There are some instances of even higher rates.

Taxable Property

The policyholder should know the inheritance tax liability attaching to the different types of property. The tax levied by the state in which the deceased resided may not be the only one to which his property will be subject. Thus, in addition to the state of residence, the state in which the securities are deposited at the death of the deceased, the state in which the insuring corporation is located, and other states may levy an inheritance tax upon them. One case is recorded where a certain issue of railroad stock was taxed under five different laws to an aggregate of 52 per cent of its face value.

Life Insurance

The form in which the beneficiary is designated in a life insurance policy may have a distinct bearing upon the amount of inheritance tax for which the estate of the deceased is liable. Proceeds of a life policy may be payable to the estate or executor, or to a named beneficiary either with or without the policy-holder's reserving the right to change. If he has not reserved this right, the beneficiary is regarded legally as having a vested interest in the life insurance and it is not usually subject to inheritance taxes.

Federal Estate Tax

The Federal estate tax is not a true inheritance tax, because it applies to the transfer of the estate and is levied without any reference to the relationship of the decedent to the beneficiaries. This tax is payable directly from the estate. In computing the value of the estate subject to tax, all property, real or personal, tangible or intangible, must be included, regardless of its location. From this may be deducted certain expenses, debts, losses, and bequests to governmental, municipal, charitable, religious, and similar organizations. Under the 1926 Revenue Act, a deduction may also be made for state inheritance or estate taxes paid up to an amount not exceeding 80 per cent of the Federal estate tax. The tax is due and payable within one year after the decedent's death. It will be noted that an exemption of $100,000 is allowed in the case of residents. No exemption is allowed persons not residing in this country. The following table indicates approximately the amount of the Federal taxes:

Value of Taxable Estate	Rate of Tax, in Per Cent	Tax on Separate Amounts in First Column	Tax on Total of Amounts in First Column
First $ 100,000	....*	......	......
Next 50,000	1	$ 500	$ 500
Next 50,000	2	1,000	1,500
Next 100,000	3	3,000	4,500
Next 200,000	4	8,000	12,500
Next 200,000	5	10,000	22,500
Next 200,000	6	12,000	34,500
Next 200,000	7	14,000	48,500
Next 500,000	8	40,000	88,500
Next 500,000	9	45,000	133,500
Next 500,000	10	50,000	183,500
Next 500,000	11	55,000	238,500
Next 500,000	12	60,000	298,500
Next 500,000	13	65,000	363,500
Next 1,000,000	14	140,000	503,500
Next 1,000,000	15	150,000	653,500
Next 1,000,000	16	160,000	813,500
Next 1,000,000	17	170,000	983,500
Next 1,000,000	18	180,000	1,163,500
Next 1,000,000	19	190,000	1,353,500
In excess of $10,000,000	20	......	......

* First $100,000 exempt to residents of the United States.

Life Insurance

Forty thousand dollars of the amount of life insurance carried by the decedent upon his own life is not subject to tax if payable to named beneficiaries, whether or not the right to change has been reserved. If payable to the estate, it will be taxed like any other type of property. Life insurance not actually taken out or paid for by the decedent, as business insurance carried by a corporation or partnership for its own benefit, is not taxable as part of the decedent's estate. In the Frick case the Federal courts (298 Fed. Rep. 803; 4 Am. Fed. Tax Rep. 4382) held life insurance taken out before February 24, 1919, was exempt from the provisions of the Federal estate tax if the beneficiary was named and the policyholder died before June 5, 1924.

Federal Income Tax

Trusts

When a policyholder designates a trustee as beneficiary, he enjoys the benefits of exemption just the same as he would if he designated any other beneficiary. Under Section 219 of the Federal Revenue Act we find paragraphs *g* and *h* apply to life insurance trusts. The effect of these paragraphs is to tax income from such trusts. These taxes are imposed upon the creator of the revocable insurance trust.

Premiums

"To what extent am I entitled to deductions because of premiums paid for life insurance and to what extent are the dividends or proceeds taxable income?" are questions which naturally arise in the mind of the policyholder. In considering the Federal Revenue Act of 1926 and its interpretation as applied to life insurance, it is impossible to make any general statements which will cover every particular case. Section 215 of the Revenue Act states that in computing net income no deduction shall be allowed in respect of "personal, living or family expenses." It has been held in the regulations that premiums which are paid for life insurance carried for personal or family uses are not deductible. The problem as to when life insurance premiums are deductible is confined, therefore, to cases in which the life insurance is designed for business or charitable purposes.

Business Purposes

The section of the act above cited also provides that no deduction shall be allowed for "premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy." This section has been construed to mean that in order for life insurance premiums to be deductible, it must be evident, first, that they are an ordinary and necessary business expense and, second, that the taxpayer is not directly or indirectly the beneficiary. The application of these principles to some of the cases which frequently arise may be summarized briefly.

1. Many employers carry group insurance on the lives of their employees. The latest rulings of the Treasury Department hold that premiums on this type of coverage are a necessary business expense and de-

ductible by the employer since he "is in no sense a beneficiary under such a policy, except as he may derive benefit from the increased efficiency of the officer or employee." Furthermore, they are not construed to be an additional income to the employee.

2. A creditor may be obliged to pay premiums for insurance policies on the life of his debtor, which have been assigned to him as protection for a loan. In this event, he may deduct such premiums paid in the tax year as a necessary business expense.

3. Insurance on the lives of men engaged in commerce or industry, the proceeds of which are applied to business uses, is commonly known as "business insurance." Its general object is to provide protection against monetary loss which may result from the decease of men financially valuable to a business. This form of life insurance directly benefits the taxpayer, and, consequently, taxpayers are not allowed to consider premiums for "business insurance" as an expense that can be subtracted.

4. An individual with excellent character and abilities may have the utmost confidence of his banker. Knowing that any loans extended to him will be repaid if he lives, the banker may be willing to accept a life insurance contract as collateral on his note, since it assures payment in the event of death. Premiums paid by the policyholder on life insurance carried for such a purpose are not construed to be an expense deductible in the computation of his income tax. This is because the note would be paid from the proceeds in the event of the policyholder's death which would, in effect, make him the beneficiary.

Charitable Purposes

Some persons use life insurance as a method of accumulating a fund to be used for religious, educational, or charitable purposes. By a ruling of the Treasury Department, premiums paid on policies which are carried for the benefit of a corporation organized for such purposes are exempt from tax, providing the policyholder does not reserve the right to change the beneficiary. When life insurance is used for this purpose, the premiums plus all other charitable donations which are allowable cannot exceed 15 per cent of the taxpayer's net income.

Dividends

The term dividends as applied to life insurance is used in a somewhat different sense than when applied to the stock of a corporation. Life insurance dividends are mainly a return of premiums rather than profits. When received in cash or as a reduction in premiums on policies not yet paid up, they are not considered to be taxable income and need not be included in making up the tax return. Dividends on paid-up policies are treated in a different manner. They are viewed in the same light as dividends on corporate stock and are held to be taxable in exactly the same way, that is, they are subject to the surtax only.

Proceeds

Section 213*b*-1, 2 of the 1926 Federal Revenue Act deals with life insurance policy proceeds payable to beneficiaries. It reads in part as follows:

(*b*) The term "gross income" does not include the following items, which shall be exempt from taxation under this title:

(1) Amounts received under a life insurance contract paid by reason of the death of the insured, whether in a single sum or in installments (but if such amounts are held by the insurer under an agreement to pay interest thereon, the interest payments shall be included in gross income);

(2) Amounts received (other than amounts paid by reason of the death of the insured and interest payments on such amounts) under a life insurance, endowment, or annuity contract, but if such amounts (when added to amounts received before the taxable year under such contract) exceed the aggregate premiums or consideration paid (whether or not paid during the taxable year) then the excess shall be included in gross income. In the case of a transfer for a valuable consideration, by assignment or otherwise, of a life insurance, endowment, or annuity contract, or any interest thereon, only the actual value of such consideration and the amount of the premiums and other sums subsequently paid by the transferee shall be exempt from taxation under paragraph (1) or this paragraph. . . .

Section 213 *b*-6 provides for the exemption from taxation of amounts received under workmen's compensation acts or accident and health insurance.

The amount received by the insured as a return of premium or premium paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or under surrender of the contract is exempted from taxation under the provisions of the Federal law. In accordance with these provisions, when the proceeds of an endowment or the cash surrender value of a life insurance policy received by the policyholder exceed the premiums paid, the difference is subject to tax. The tax upon the proceeds of an annuity will not be levied until the sum of all payments to the annuitant exceeds the amount paid for the annuity, and then for the excess only.

CHAPTER XVIII

WILLS

Definition

When the policyholder has property other than life insurance, a will is necessary for the property. This will tend to preserve the life insurance estate for the accomplishment of the purposes for which it was created and thereby safeguard the interests of the beneficiaries of the life insurance. Too often beneficiaries are compelled to use life insurance assets for purposes which are properly chargeable to the assets of the estate. Any well-prepared will should clearly set forth the policyholder's assets, designate a competent executor to maintain their value, and specify what distribution of assets the policyholder wishes. In cases where the life insurance policy is payable to an estate, policyholders should make a will and distinctly describe how the insurance is to be used.

Gardner defines a will as an "expression, in the manner required by law, and operative for no purpose until death, of that which one may lawfully require to be done after his death. The terms 'will,' 'testament,' and 'last will and testament,' are at the present day practically synonymous."

Form

A will should be in writing, properly signed, and the signature of the testator witnessed by the prescribed number of witnesses. There is no prescribed form which must be followed. In order to emphasize this, a professor in one of our big law schools told his students that a valid will could be written on a barn door, if the other legal requirements were met. In some states the statute requires two witnesses while in others three are necessary. The scope of the estate and how the testator wants it disposed of should be properly set forth. Decedents who make valid wills are said to die testate while those who make no wills die intestate.

In the preparation of a will the testator should refer to his possessions. Some attorneys advise that this reference should not be in too detailed a manner. When it is, there is always danger that the testator may sell some of the property and acquire other property. In the event he does and dies before a revision of the will, one piece of property will be referred to and another will not. The complication which might arise from this is evident when it is assumed that the sold piece of property was to have been given to a certain beneficiary. Testators who have property might better consider the advisability of indicating in their wills the share of the estate or the income which they want each beneficiary to have. When property is not given outright, care should be taken to see that the reversionary interest becomes vested within the legal requirements of the state in which the testator died.

It is important that wills be kept up to date; otherwise, the testator may die and because of changed conditions some who ought to share in the estate may not.

In the preparation or revision of a will, testators should be urged to have the benefit of the advice of counsel.

Dying Testate vs. *Intestate*

It is natural for a testator to want to pass on to his wife and children the results of his life's labor. Every worth-while parent has desires and ambitions for his family. When he has accumulated property, he should specify in his will just how the corpus and income of the estate are to be used to accomplish these ambitions, after actual necessities are provided for. Then too, a will may be the means of protecting the beneficiary in other ways. It also will permit the testator to reward those who have been faithful or helpful to him in life, and provide for charities and educational institutions in which he is interested. Assuming that a competent executor has been designated, the testator may be certain that every reasonable effort will be made to carry out the terms of his will. A will enables the testator to select the corporation or individual who is to be the executor. This is important because the testator has the opportunity to confer with the executor from time to time in reference to the property and its proper management.

Various estimates have been made of the number of people who die intestate. It seems to be generally agreed that well over 70 per cent of the decedents leave no wills. When a policyholder has not made a valid will, his estate will be distributed in accordance with the law and without any regard to what he may have wished. The intestate laws of the states vary; but in the District of Columbia, assuming that the decedent left a widow and children, the widow would receive one-third of the personal property and a life interest in one-third of the realty. Whatever is left would be divided in equal parts among the children. There may be good reasons why one of the children should not share in the estate, yet he or she will receive his full share because of the failure of the decedent to make a will.

When a man dies intestate and leaves property other than life insurance, he imposes a responsibility upon his wife and children at a time when they are least competent to assume it. That responsibility is the proper management of his estate. This may be further complicated by the appointment of some one by the court as administrator who has radically different ideas than those upon which the decedent built his estate. The result may be reflected in the value of the estate upon which his family will be dependent for income.

An actual case indicates the importance of always making a will in order to safeguard those intended to benefit from the estate. A man well known in business in the East lost his wife, who left an estate. Prior to her death nothing had been said about a will, although it was understood that all was to go to the husband. As the woman had no immediate relatives, there was no question in either her mind or that of her husband about her wish being carried out. After her death, distant relatives appeared and claimed various interests in her estate. The result of the court action was that the husband had a life interest in only part of the estate and relatives who never came near the deceased during her lifetime received the bulk of the estate and a reversionary interest in some of the rest. Cases of this kind do not arise in life insurance. The face value of the contract is absolutely paid to the beneficiary designated by the policyholder.

Contests

Experts have repeatedly said that most wills can be shown to have some defect. If this is so, it means there is a possibility that many wills may be successfully contested in the courts by those who are not satisfied with the provisions made by the testator. Such contests not only entail expense but sometimes even result in the corpus of the estate going to some who do not deserve it, as is evident from the preceding illustration. While the litigation over a will is going on, the estate is tied up. If the beneficiaries are dependent for actual living expenses upon the income from the estate, the embarrassment of this legal procedure is evident. Policyholders need have no concern over the possibility of their policies being contested.

Gardner on wills in describing the importance of an attestation clause states: "When the signatures of the witnesses are accompanied by an attestation clause setting forth compliance with the statutory requirements regarding execution, such clause is, on proof of the signatures of testator and subscribing witnesses, prima facie evidence of the facts stated therein." An attestation clause makes it more difficult to successfully contest a will on the basis of mental incapacity. The form of attestation clause used by some attorneys reads in part: "and at the time of the execution of this instrument, the testator appeared to us to be of sound and disposing mind and memory and under no restraint."

Executors

The selection of the proper executor is extremely important. At one time it was customary to select a close friend or relative as the executor without regard to his particular qualifications. To-day individual executors are often selected on this old basis. In choosing an executor a trust company or an attorney, specializing in the care of estates, should be designated. The fees for the corporate or individual executor are the same. They are fixed by the law, by the courts, or by mutual agreement according to law or custom in the various states. No executor is necessary for a life insurance estate, because the insurance company pays the beneficiary directly. There is no fee for this service. In cases where the insurance is paid to the estate, an executor is necessary.

The need for corporate executors has led to a wide estate service by trust companies. Being corporate bodies they have an indeterminate length of life. As a result of the ability of the trust company to provide cash promptly if necessary at the time of the decedent's death, it is often able to conserve the real value of the estate and not throw upon the market securities or property at a time when values are low.

The trust company is more likely to administer an estate in an impartial way than a relative or a close friend who may be designated as executor. Family prejudices may interfere and becloud the individual executor's ordinarily sound judgment, when he is a friend or relative. As the trust companies have no family ties with the beneficiaries, they are actuated only by a desire to carry out the intention of the decedent.

The collective ability of the officers of a trust company for proper investment is superior to that of the vast majority of individuals. This is important in considering whether to designate an individual or a trust company as executor. If an individual executor makes a mistake through negligence, the question of his financial responsibility may well arise, especially if the decedent has specifically specified that he does not have to file a bond. In the case of a trust company its capital and surplus guarantee not only honesty but that reasonable care will be given to the trust funds.

Recognizing that property is only as valuable as human life makes it, when the owner and developer of a given piece of property dies, the value of the property is often affected. The policyholder's death takes away from the property one of its most valuable assets, namely, the life which managed it. The problem of the beneficiaries is to maintain the property as close as possible to the value which it held during the life of the decedent. Well organized trust companies have the facilities for insuring the proper maintenance and operation of business properties.

Trust companies know the problems incidental to the care of estates. They realize the difficulties which must be met, particularly the importance of ready cash available at the death of the decedent. Many of them recommend that special policies be taken out to care for what is commonly referred to as a clean-up fund. This will take care of the expenses incidental to death, as well as outstanding debts incurred during the lifetime of the policyholder in addition to the various inheritance or estate taxes. The effect is to insure the corpus of the estate and to help carry out the purposes which the testator had in mind when making his will.

Co-executors

Sometimes an individual is thoroughly familiar with the details of the family life of the testator, his ambitions and hopes, and, is therefore regarded by the testator as the logical one to endeavor to put these into effect after his departure. In cases of this kind, it is not unusual to make the trust company executor and the person or friend having the confidence of the testator a co-executor. The same thing may be done in those cases when a testator wants to safeguard himself against the change in control of the trust company, due to change in ownership of stock, the death of the trust officer or those in authority in whose personality and integrity the testator had confidence.

Trust Companies, a magazine devoted to the interests of fiduciary institutions, stated in its August, 1926, issue that "a recent compilation from probate court records showed that eighty-five per cent of Americans who died leaving wills, named the widow as executrix. Those who named trustees in a large number of instances also included provisions for the widow as co-executrix and co-trustee." There are some who believe it is a mistake to designate either the widow or friend as co-executor and co-trustee with a trust company. They believe this leads to complications in cases, which make it harder to administer the trust properly. They emphasize that a widow not, as a rule, having had any experience in investments may have radically different ideas from the trust company which is trained in investments. Furthermore we are informed that the widow is the beneficiary and has not the disinterested viewpoint which is often so necessary and so valuable on the part of a trustee. With divided responsibility, not only may disagreement arise, but at times the trust company may be unable to take necessary prompt action upon some matter either because of the time necessary to convert the beneficiary, who is acting as co-executor and co-trustee, to its way of thinking on elementary essentials or because of the temporary disability or absence of the beneficiary from town.

If a co-executor and co-trustee is to be designated, it is worth while considering the appointment of a lawyer who is thoroughly conversant with the administration of estates. If the attorney has drafted the will and is familiar with the background underlying the various provisions of the will, he can be very helpful.

Wills vs. *Trusts*

In a life insurance trust the interest of the *cestui que* trust takes effect upon the execution and delivery of the deed of trust to the trust company. In cases where the insurance trust is written with the right of revocation, the *cestui que* trust interest may be defeated at any time by the settlor. Where there is an absolute bequest in a will, the right of the legatee takes effect at the instant of the testator's death.

Probation

After a decedent's death the procedure usually followed is for the executor or, if the decedent dies intestate, the administrator appointed by the court to file the will and request authority from the court to execute the will. This is conveyed by what are known as letters testamentary or of administration after the court is satisfied that the will conforms to the statutory requirements of the state and notice has been given of the proposed probation so that any who want to contest may have an opportunity to do so. The object of probation is to insure that the estate will be distributed in accordance with the law which is designed to respect the decedent's wishes as far as consistent with public policy and protect those who have a legitimate interest in the estate.

Shrinkage of Estates

An analysis of the fees and expenses incurred in the settlement of estates may be of very real interest to testators or policyholders. From reports of estates of resident decedents filed during 1925 with the Bureau of Internal Revenue much interesting information can be secured. In addition to indicating the amount incidental to the shrinkage of estates, by which is meant the difference between the gross estate and the sum available for distribution after all fees and expenses are paid, it is possible to determine the sums devoted to charitable, public, and similar bequests. The important part which life insurance plays in most of the estates is particularly interesting. Life insurance composes from over 3 to about 9 per cent of 13,316 gross estates. The smaller the estate reported, the greater is the percentage of life insurance.

ANALYSIS OF ESTATES

REPORTED DURING 1925 TO UNITED STATES TREASURY DEPARTMENT WHICH PAID NO FEDERAL ESTATE TAXES

(Based upon Annual Report of Bureau of Internal Revenue)

	Size of Estates	
	Gross Estate Under $50,000	Gross Estate Over $50,000
Number of Returns (1)	851	2,520
Total Gross Estate (2)	$37,356,412	$231,031,956
Insurance (3)	$ 3,267,185	$ 18,414,598
Per Cent $\frac{(3)}{(2)}$	8.75	7.97
Funeral and Administrative Expenses (4)	$ 2,334,108	$ 11,734,148
Per Cent $\frac{(4)}{(2)}$	6.25	5.08
Charitable, Public and Similar Bequests (5)	$ 260,687	$ 21,906,061
Per Cent $\frac{(5)}{(2)}$	0.70	9.48
Per Cent of Insurance to Funeral and Administrative Expenses	140.0	156.9

Edward A. Woods estimates the shrinkage in estates amounting to $2,500 to be equivalent to 38.7 per cent, estates worth $5,000 to be 37.5 per cent, estates valued at $10,000 to be 33.5 per cent, and estates amounting to $30,000 to be 19 per cent. As a result of investiga-

ANALYSIS OF ESTATES

REPORTED DURING 1925 TO UNITED STATES TREASURY DEPARTMENT

WHICH PAID FEDERAL ESTATE TAXES

(Based upon Annual Report of Bureau of Internal Revenue)

Size of Estate	Number of Returns (1)	Total Gross Estate (2)	Insurance (3)	Per Cent (3)/(2)	Funeral and Administrative Expenses (4)	Per Cent (4)/(2)	Charitable, Public, and Similar Bequests (5)	Per Cent (5)/(2)	Total Tax	Per Cent	Per Cent of Insurance to Funeral and Administrative Expenses and Taxes
Under $50,000	5,688	$ 523,696,393	$28,165,941	5.38	$ 21,805,511	4.16	$12,766,240	2.44	$ 1,146,785	0.22	122.7
$ 50,000-$ 100,000 ..	1,867	291,529,956	11,611,828	3.98	12,239,152	4.20	9,304,555	3.19	1,812,916	.62	82.6
100,000- 150,000 ..	852	195,202,994	7,336,286	3.76	8,064,850	4.13	10,117,821	5.18	1,668,729	.85	75.4
150,000- 250,000 ..	908	279,489,014	8,575,345	3.07	11,257,787	4.03	6,668,406	2.39	3,418,779	1.22	58.4
250,000- 450,000 ..	630	301,796,096	9,999,978	3.31	12,645,906	4.19	14,064,295	4.66	8,785,022	2.91	46.7
450,000- 750,000 ..	340	267,678,964	4,858,936	1.82	10,312,631	3.85	18,239,958	6.81	6,962,889	2.60	28.1
750,000- 1,000,000 ..	113	126,228,059	1,854,658	1.47	5,786,732	4.58	3,862,495	3.06	4,539,492	3.60	18.0
1,000,000- 1,500,000 ..	123	187,126,501	2,504,972	1.34	7,634,439	4.08	4,937,598	2.64	9,023,624	4.82	15.0
1,500,000- 2,000,000 ..	45	93,791,317	830,887	0.89	3,385,752	3.61	5,319,746	5.67	5,538,594	5.91	9.31
2,000,000- 3,000,000 ..	44	125,704,415	1,015,785	.81	5,189,287	4.13	4,914,380	3.91	9,565,977	7.61	6.90
3,000,000- 4,000,000 ..	11	44,972,313	90,032	.20	2,321,099	5.16	250,100	0.56	4,173,532	9.28	1.39
4,000,000- 5,000,000 ..	5	30,058,423	151,501	.50	872,173	2.90	746,831	2.48	2,908,094	9.67	4.01
5,000,000- 8,000,000 ..	5	34,514,125	52,319	.15	1,914,862	5.55	150,000	0.43	4,567,380	13.23	0.807
8,000,000- 10,000,000 ..	5	53,019,204	189,754	.36	3,364,096	6.35	2,137,992	5.03	7,088,904	13.37	1.82
10,000,000 and over	6	135,164,602	10,000	0.01	7,798,298	5.77	712,422	0.53	25,729,434	19.04	0.03
Total	10,642	$2,689,972,376	$77,248,222	2.87	$114,592,575	4.26	$94,192,839	3.61	$96,930,151	3.60	36.5

tion, he finds that estates of from $1,000 to $5,000 expend from about 11 to 14 per cent for funeral expenses, those from $5,000 to $10,000 from about 4 per cent to almost 6, and from $10,000 to $30,000 from about 2 per cent to a little over 3½.

Expenses incidental to the shrinkage of estates require cash or assets readily liquidated, without loss of capital. In the preparation of any will, provisions should be made to have the shrinkage promptly paid from assets definitely set aside for this purpose. The testator may then feel assured his beneficiaries will be able to receive the full benefits he has provided for them.

Life insurance has all the attributes necessary to give the testator the assurance his gross estate will be safeguarded against shrinkage. When life insurance is used for the protection of beneficiaries' allotments in the estate, no provision in the will need be made to provide for the certain shrinkage of the estate. Without life insurance, it is not uncommon for beneficiaries to sell securities to meet debts incidental to the testator's death or borrow upon securities as collateral. As the rate of interest charged is usually about 6 per cent of the amount borrowed and the cost of life insurance averages around 3 per cent of the face value of the policy, the policyholder can make money for his estate by taking out life insurance. When the policyholder borrows, the interest of 6 per cent passes out of his hands; when he purchases life insurance, the premium of 3 per cent is performing the highly useful service of building up an insurance estate.

Life Insurance

Life insurance has many advantages over other forms of property. Technically the value of the life insurance contract never becomes a part of the estate unless the estate has been specifically designated as beneficiary. When a policyholder has designated the beneficiary of his insurance estate, there is no need of a will. The policyholder may be certain the beneficiary will receive the face value of the policy in a lump sum or in such ways as may have been set forth in the optional settlement agreement. A life insurance policy does not have to be probated nor is there any expense incidental to bringing about the payment of it. One of the most important factors in favor of life insurance is that litigation so often incidental to wills is lacking. Life insurance, properly arranged, can absorb the shrinkage in the estate and thereby assure the distribution of the gross estate to the beneficiaries.

APPENDIX

RÉSUMÉ OF AN ACTUAL INSURANCE TRUST

BENEFICIARIES, *Wife, Infant Son, and Mother and Father*
TRUSTEE, *Middle West Trust Company*

1. Wife to be paid $1,000 immediately, and as long as she lives and remains unmarried to receive as much of the income as with the income from a testamentary trust created by the Settlor for her benefit will give her a total monthly income of $150. Should wife remarry this is to be reduced to $100, and should she again become a widow or be divorced and be in need of funds for her proper support she is again to receive $150 per month as long as single and $100 per month if again married.

2. The Settlor's father and mother or the survivor to receive $150 per month for life.

3. Trustee given discretion to increase payments to wife and to father and mother if necessary in its discretion to meet emergencies.

4. Trustee authorized to purchase any encumbrances which may exist against the homestead of the Settlor's father and mother and also the Settlor's homestead property.

5. The Settlor's particular concern in this trust is for his infant son who was about one year old at the date of the Agreement, January, 1925, and he recites as follows: "It is the Settlor's desire to make reasonable and proper provision for the maintenance, support and education of his son, John, born June 8, 1924, but he directs that at no time shall any such amount of money be paid to or used for him from this or any other trust fund created by the Settlor for his son's benefit as would tend to stifle his ambition or to make him indifferent to such efforts as he should make

to contribute to the best of his ability toward his own maintenance, support and education."

He then goes on to provide for his son's education after high school: *First:* That he shall attend Culver Military Academy or some other similar military school; *Second:* That he shall attend University of Michigan or some other University of like standing; *Third:* That he shall attend Johns Hopkins or some other school of medicine of recognized high standing and secure therefrom his degree of Doctor of Medicine; and he "earnestly recommends that his son pursue the plan above outlined for his education."

In pursuance of this plan Trustee may use income or principal at its discretion for son until he becomes 20, but after he becomes 20 he is to receive $1,800 per year and no more, except in case of emergencies. When son becomes 32 if he shall have qualified to practice medicine and if Settlor's wife, father and mother are dead, he is to receive the entire trust fund, but if the others are still living sufficient of the fund is to be set aside to provide for them during their life expectancy and the remainder to be distributed to the son.

If when 32 the son is not qualified to practice medicine he is to receive only 1/5 of the fund then available for distribution; at 35 if, in the discretion of the Trustee, he has made proper use of the amount distributed to him at 32, he is to receive 1/4 of the principal then available for distribution, and at 38 if he has made proper use of the previous sums, he is to receive 1/3 of the amount then available; and at 40 if, in the sole discretion of the Trustee, he shall have made proper use of the sums previously distributed and is "competent to handle the trust fund without likelihood of waste or dissipation of the same" he is to receive the remainder free from the trust.

If in the exercise of Trustee's discretion the fund is not distributed to son at 40, trust then continues during son's lifetime or until such time after 40 as Trustee deems it advisable to terminate the trust.

6. If son dies leaving issue, shares for issue to be held in trust until they become 32, provision being made, of course, to terminate their trusts not later than 21 years after death of lives in being at death of the Settlor.

7. When this client first came to the Trust Company he had $55,000 insurance and after disclosing what he wanted to accomplish with the fund he was advised that he did not have nearly enough insurance. He immediately bought $25,000 additional insurance from the Company who had sold him his last policy, making it $80,000. One month later he added another $20,000 making a total of $100,000.

ABSOLUTE ASSIGNMENT OF POLICY

For Value Received,........do hereby assign, transfer, and set over, absolutely, unto..
....
of.......................in the State of..................
all.........................right, title and interest in and to the Policy of Life Assurance issued by the..................
.................., upon the life of........................
.... of ....
in the State of....................for the sum of...........
Thousand.....................Hundred Dollars, and numbered ....,with absolutely all privilege, benefit and advantage secured thereby, or to be had or derived therefrom, and subject to all the conditions therein contained; hereby giving the said..
....
....
full power and authority to collect the proceeds thereof at maturity or to surrender the same for its cash value; and to give ....receipt therefor, which receipt.........expressly agree shall be binding upon.................heirs, executors, administrators, and assigns. It is understood and agreed, however, that any distribution of surplus may be applied to any payment of

premiums on this policy, and that the said Company shall be discharged from any further liability to either the insured, or assignee, for surplus so applied.

This assignment is made subject to all liens, if any, which the said..............Company may hold against the Policy.

It is hereby declared that no proceedings in bankruptcy are pending against the maker or makers of this assignment.

If it should appear that this assignment is made upon any trust, the Company shall not be liable to see to the application of any payment hereunder, and may rely upon the sole signature of the assignee to any receipt, release or waiver, or to any transfer or other instrument to whomsoever made purporting to effect this assignment or any rights thereunder.

In Witness Whereof........hereunto set.......hand and seal , this..............day of ....A. D. 19

WITNESS:

.... L. S.
.... L. S.
.... L. S.

State of....................County of................ss.

On this..............day of....................A. D. 19 ,
before me personally came.................................
to me known, and known to me to be the individual described in, and who executed the foregoing assignment, and acknowledged the same to be......free act and deed and made oath to........ full age.

............................*Notary Public.*

[NOTARIAL SEAL] *Received and duplicate filed at the Home Office of the Company at*..................
.............., *assuming no responsibility, however, as to its validity.*

....

By.........................*Asst. Secretary*

NOTICE:—The rules of the Company require that assignments of policies issued by it shall be made in duplicate; that both copies shall be sent to the Home Office, the duplicate to be there retained and the original returned.

The interest of a minor cannot be assigned except by a duly appointed guardian, and a certificate showing appointment must be filed with the Company.

ASSIGNMENT OF POLICY

BEFORE EXECUTION OF THIS ASSIGNMENT THE INSTRUCTIONS ON THE REVERSE SIDE SHOULD BE CAREFULLY READ (Page 249).

For Value Received,........*hereby assign Policy No.* ...., *issued by the*................*of*......., *on the Life of*..........................*with all the proceeds thereof and all sums of money, interest, benefit and advantages whatsoever accrued and to accrue there-under unto*....................*address:*..............

Number.

....

Street. City. State.

........................*and to*.........*executors, ad-*

Relationship to Insured.

ministrators, successors or assigns. This assignment is subject to any existing indebtedness to the.........................*under this Policy.*

Dated at..............................

this......*day of*.............*192*.......

IF CORPORATION PLACE CORPORATE SEAL HERE

....[SEAL]

Witness. Signature.

....[SEAL]

Witness. Signature.

....[SEAL]

Witness. Signature.

NOTARIAL ACKNOWLEDGMENT FOR INDIVIDUALS

State of.......}
County of....} ss.:

On this....day of............ 192.. before me personally came ....to me known to be the individual ....described in and who executed the foregoing instrument, and.....acknowledged that.....executed the same.

....

NOTARIAL ACKNOWLEDGMENT FOR CORPORATIONS

State of...... }
County of.... } ss.:

On this.....day of..........192.. before me personally came.................... of................ and........................ of.................... to me known, who, being by me duly sworn, did jointly and severally depose and say that they are respectively the...................... and..................... of the.. ...., the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation; that the seal affixed to this instrument is said corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they have signed their names thereto by like authority.

....

Recorded and Filed at the Home Office of the....... ....

The Company assumes no obligation as to the validity and sufficiency of this assignment, and does not pass upon its legality; but reserves the right to demand proof of interest in case of claim by assignee.

This assignment shall not be binding upon the Company unless it be filed with the Company at its Home Office.

..........192.. ....*Secretary*

FOR HOME OFFICE USE

Checked by........Duplicate sent to........Date.....

Form [over]

(over)

INSTRUCTIONS

ASSIGNMENTS must be made in DUPLICATE and ACKNOWLEDGED BEFORE A NOTARY PUBLIC or COMMISSIONER of DEEDS, whose Certificate of Authority and Seal must be affixed.

Beneficiary or beneficiaries (if any) must join with the Insured in execution and acknowledgment, before Notary Public, of assignment.

IF ASSIGNMENT IS MADE BY:

1. AN INDIVIDUAL or INDIVIDUALS	the full name or names must be signed and—Notarial Acknowledgment for Individuals executed.
2. A FIRM	the full name of the Firm must be signed with signatures of co-partners authorized to execute and—Notarial Acknowledgment for Individuals executed.
3. A COMPANY NOT INCORPORATED and OWNED BY ONE INDIVIDUAL	the full name of Company must be signed with the full signature of Individual with the word OWNER following and—Notarial Acknowledgment for Individuals executed.
4. A CORPORATION	the full name of Corporation must be signed with the signatures of two officers authorized to execute. Corporate Seal must be imprinted in the space provided and—Notarial Acknowledgment for Corporations executed.

After execution, both assignments should be sent AT ONCE to the ....to be recorded. One will be retained, and the other returned to be attached to the Policy.

INDEX

LIFE INSURANCE: ITS ECONOMIC AND SOCIAL RELATIONS

Comprehensive and specialized studies of life insurance in its various aspects. Under the editorship of Solomon S. Huebner, Ph.D., Professor of Insurance and Commerce, Wharton School of Finance and Commerce, University of Pennsylvania, and Dean of the American College of Life Underwriters. $2.50 *each*

THE ECONOMICS OF LIFE INSURANCE

By Solomon S. Huebner

The initial and fundamental volume in the series, developing a new conception of the economic function of life insurance.

LIFE INSURANCE IN RELATION TO WILLS, TRUSTS AND ESTATES

By James L. Madden, Manager of the Insurance Department, Chamber of Commerce of the United States

A discussion of the fundamental principles that apply to the building of a sound insurance estate.

LIFE INSURANCE IN RELATION TO TAXATION

By Harry J. Loman, Professor of Insurance in the University of Pennsylvania

An analysis of the connection between life insurance and taxation, particularly for insurance salesmen, tax attorneys, and tax accountants.

THE LAW OF LIFE INSURANCE SALESMANSHIP

By E. Paul Huttinger, of the Legal Department of the Penn Mutual Life Insurance Company

On the legal aspects of a salesman's responsibility both to his company and to his client.

In Preparation

LIFE INSURANCE IN RELATION TO SAVING, CREDIT AND INVESTMENT

By Solomon S. Huebner and James L. Madden

LIFE INSURANCE IN RELATION TO EDUCATION AND PHILANTHROPY

By John Alford Stevenson, Second Vice-President of the Equitable Life Assurance Society

THE SOCIOLOGY OF LIFE INSURANCE

By Edward A. Woods, President of the Edward A. Woods Company, Pittsburgh