Mr. Eccles
February 17, 1947

To: Executive Committee

From: Thomas Lee Smith

Subject: Treasury Conference with Insurance Companies

Representatives of insurance companies met with Secretary Snyder and Treasury staff members this morning to discuss the financing program. Mr. Rouse and myself were present.

The insurance companies were unanimously in favor of another 2 1/2 per cent long-term bond issue of the same type as before, that is, bank ineligible but marketable. In addition, they desire that the Treasury announce a policy of placing on tap from time to time additional bonds as needed to maintain long-term rates. The insurance companies will prefer tap issues because this will permit them to invest their funds as soon as received. There is no interest in a new non-marketable issue, although a material increase in the purchase limit on G bonds would be welcomed. It is argued that this would not compete with insurance company funds now available for investment in marketable government bonds.

As the result of a recent survey of 25 insurance companies with over 80 per cent of total assets, it is estimated that at this time insurance companies have about one billion dollars available for investment in a new long-term issue, approximately 700 million from temporary investments of less than one year made in anticipation of a possible new issue, and 300 million from cash. Since the share in a new issue available to insurance companies would be only 50 per cent or less, the recommendation is for a new issue of about 2 - 2 1/2 billion. Insurance company funds available fluctuate considerably, being greater now than at the end of 1946 and less than a half year ago. No estimate was given of the amount available in future years.

It was repeatedly stressed that the interest of insurance companies is not in earnings from the 2 1/2 per cent coupon on the new long-term bond, but in the stabilizing effect of the new issue upon investment yields in general. As far as the coupon is concerned, insurance companies would prefer a higher rate, but realize that 2 1/2 per cent is all they can hope for now. The low rates on corporate bonds, induced by a low rate on Treasury bonds, has induced large amounts of corporate refinancing at low rates. As a result, the margin of investment earnings of insurance companies over their contractual interest requirements is and has been steadily decreasing. Probably in the last five years, the net return has diminished by one-half of 1 per cent to under 3 per cent. The opinion was expressed that the majority of small companies did not meet their interest requirements last year, and that special savings due to an exceptionally low mortality rate in the last few years was primarily responsible for insurance companies staying "in the black". A return to a more normal rate of mortality would seriously squeeze the insurance companies. While new policies are being issued at a lower rate of interest, this does not offset the strain created by present large commitments of many companies at about a 3.5 per cent rate.

One consequence of the accumulated deficiency in earnings has been that insurance companies are driven to placing their funds into risky investments such as preferred stock and equity financing or into mortgages at inflated values. This, it was argued, is not considered proper for the investment of what are essentially trust funds.

It was pointed out that 40 billion dollars of government bonds are callable in the next six years, commencing in October 1947. Should the Treasury desire to refund any of the maturing 1947 and 1948 bond and note issues into similar securities, it was urged to begin now inasmuch as insurance companies and other investors have to start their own refunding prior to the actual call dates. If a new issue is postponed until 1948, insurance companies will have to look in other directions.

It was argued that the benefit which the economy as a whole derives from a stable interest rate and investment yield far exceeds the additional interest cost to the Treasury which such a policy may involve. Mr. Snyder pointed out that an increase in the average interest rate on the public debt from 2.09 to 2.5 per cent would at present cost more than an additional 1 billion dollars but did not commit himself on the desirability of stabilizing either the average or the long-term rate at 2 1/2 per cent. He agreed that a longer run view must be taken.

The Treasury was congratulated on its policy of retiring bank-held debt out of its cash balance and emphasizing debt reduction rather than tax reduction.

Mr. Haas of the Treasury staff pointed out that a Treasury policy of issuing new long-term bonds to stabilize interest rates and investment yields would overlap the field of open market operations of the Federal Reserve System.

The insurance companies stated explicitly that they did not ask for special treatment and did not want special treatment. They believe that management of the 260 billion dollar debt so as to stabilize investment yields is in the interest of the economy as a whole. Over 170 billion dollars of life insurance is owned by roughly 70 million people, largely of medium incomes. The average policy value is less than $2,500. The savings or equity of these people in life insurance is about 44 billion dollars or 90 per cent of total assets of life insurance companies. The reduction of one-half of 1 per cent in interest return in the last five years resulted in a reduction in earnings of over 225 million per annum.

A list of the officials of insurance companies attending the meeting is attached.

Attachment

<u>List of Officials of Insurance Companies Attending Meeting</u>

John Sinclair
New York Life Insurance Co.
New York, New York

George Smith
New England Mutual Life Insurance Co.
Boston, Massachusetts

Col. Franklin D'Olier
Prudential Insurance Co.
Newark, New Jersey

Fred Echer, V. P.
Metropolitan Life Insurance Co.
New York, New York

Claris Adams
Ohio State Life Insurance Co.
Columbus, Ohio

Lawrence Lee
Occidental Life Insurance Co.
Raleigh, North Carolina

Frazier Wild
Connecticut General Life Insurance Co.
Hartford, Connecticut

Dwight Clark
Occidental Life Insurance Co.
Los Angeles, California

Frederick Habbell
Equitable Life Insurance Co.
Des Moines, Iowa

G. S. Nollen
Bankers Life Co.
Des Moines, Iowa

W. T. Grant
Business Men's Assurance Co.
of America
Kansas City, Missouri