UNITED STATES DEPARTMENT OF LABOR
Frances Perkins, *Secretary*

BUREAU OF LABOR STATISTICS
Isador Lubin, *Commissioner* (on leave)
A. F. Hinrichs, *Acting Commissioner*

✦

Operation of Savings-Bank Life Insurance in Massachusetts and New York

Revision of Bulletin No. 615:
The Massachusetts System of Savings-Bank Life Insurance,
by Edward Berman

✦

Bulletin No. 688

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UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, D. C., July 15, 1941.

The SECRETARY OF LABOR:

I have the honor to transmit herewith a report on The Operations of Savings-Bank Life Insurance in Massachusetts and New York. This report brings up to date Bulletin No. 615 entitled "The Massachusetts System of Savings-Bank Life Insurance," and also describes the operation of the New York system of savings-bank life insurance, which was established in 1939.

A. F. HINRICHS, *Acting Commissioner.*

Hon. FRANCES PERKINS,
Secretary of Labor.

PREFACE

A report dealing with the Massachusetts system of savings-bank life insurance was published by the Bureau of Labor Statistics in 1935 (Bulletin No. 615). It was the work of the late Edward Berman, then of the department of economics of the University of Illinois. The present report brings the earlier report on Massachusetts up to date and also describes the operations of the New York system of savings-bank life insurance, which was established in 1939. In 1941 Connecticut enacted legislation which will permit the establishment of a system similar to that of Massachusetts and New York, but sufficient time has not yet elapsed to determine what the developments in Connecticut will be.

As pointed out in the preface to the Bureau's earlier report on the Massachusetts system, although almost everyone has some familiarity with life insurance and is likely to possess or to have possessed some kind of insurance policy, this form of protection has seldom been related, in popular thinking, to the general problem of economic security such as is provided for in the Federal old-age retirement system and the various State systems of unemployment insurance.

The relationship, however, is quite close. Thus life insurance, in the form of endowment and annuity policies, is designed to provide an income during old age. Again, so-called industrial life insurance, purchased in great amounts by workers' families, is usually bought for the purpose of providing money to meet the expenses incurred in the last illness of the insured and in burying the deceased. To the extent that workers carry industrial insurance more than sufficient for these purpose, it is to enable the family to establish some security against further economic stress.

Until quite recently life insurance was entirely a matter of private enterprise. Now, that two very important industrial States have State-sponsored life-insurance systems in operation and a third State has authorized a similar system, the time seems appropriate for the report which is presented in this bulletin.

Bulletin No. 688 of the

United States Bureau of Labor Statistics

Operation of Savings-Bank Life Insurance in Massachusetts and New York

Introduction

The close relationship of the life-insurance business to the problem of economic security is such as to justify much greater concern on the part of those interested in social well-being than the subject has heretofore received. The companies authorized to carry on business in the single State of Massachusetts underwrite all but a very small proportion of the life insurance carried in the United States. On December 31, 1939, these companies had in force in all countries an amount of life insurance totaling $96,369,014,217. Of this sum, $66,527,582,332 was ordinary insurance, carried by 48 companies;[1] $16,694,321,948 was industrial insurance, carried by 7 companies; and $13,147,109,937 was group life insurance, carried by18 companies.[2] This amount of insurance was represented by 29,244,663 ordinary policies, 65,827,778 industrial policies, and 19,182 group policies representing as many industrial establishments. In the year 1939, there were issued 3,134,667 new ordinary policies, covering $5,459,-972,910 of insurance; 4,976,863 industrial policies, amounting to $1,643,409,509; and 1,591 group policies to the amount of $3,407,-875,157.[3] In the year 1939 these insurance companies (excluding the savings banks) received a total of $3,259,024,371 in premium income,[4] and possessed a combined surplus of $1,107,186,467.[5] The

[1] The mutual savings banks in Massachusetts are here counted as a single company.

[2] Ordinary insurance is that sold in amounts of $1,000 or above, on which the premiums are paid by the insured himself to the office of the insurance company at quarterly, semiannual, or annual intervals (in some instances, provision is made for monthly payments), the insurance usually being issued only after the applicant passes a medical examination. Industrial insurance, on the other hand, is issued generally in amounts of less than $500, is paid for in the form of weekly premiums of 5 cents or a multiple thereof, is collected at the homes of the insured by insurance agents, and is usually issued without medical examination. Some companies sell so-called "intermediate" insurance in amounts from $500 to $2,000. Group insurance is usually carried on the workers in a business establishment as a group. It is generally introduced at the initiative of the employer, paid for either by the employer, the workers, or both, and its gross premiums depend upon the ages of all the workers in the group. The premiums change accordingly from year to year depending upon the ages of the individuals comprising the working group.

[3] Annual Report of the Commissioner of Insurance of Massachusetts, for year ending Dec. 31, 1939, pt. 2, pp. 20-21.

[4] Annual Report of the Commissioner of Insurance of Massachusetts, for year ending Dec. 31, 1939, pt. 2, pp. 8, 9.

[5] Idem, pp. 6, 7.

importance of any business which, between the years 1930 and 1939, received from 6.7 to 11.6 percent of the total national income and which, even in 1932, the worst depression year to date, received a premium income of over $2,000,000,000 when the total national income produced was estimated to be $39,365,000,000,[6] is so obvious as to need no emphasizing.

It is not generally recognized that a considerable share of the industrial worker's income is spent for life insurance. One group of estimates shows a variation from about 1 percent of the wage earner's income for the decade 1910 to 1920 to about 6 percent in the depression year, 1932.[7] President Stanley King, of Amherst College, who was chairman of the Massachusetts Employment Stabilization Commission, states that data uncovered by the commission show that an amount equal to 7.4 percent of the weekly pay rolls in manufacturing industries in Massachusetts was paid out by workers in industrial-insurance premiums in the year 1929. The proportion rose, partly because of the abrupt decline in pay rolls, to 9.5 percent in 1930, and to 12.3 percent in 1931.[8]

At a time when the incomes of wage earners are very low and very precarious, the fact that an increasing proportion of their wages is being spent on life insurance is a matter of social importance. When one learns further that three authoritative studies disclose that the proportion of the amount of relief received by dependent families which was spent on insurance varied from 11.0 to 17.39 percent, the fact becomes even more significant in its implications.[9]

Basis of Life Insurance

Life insurance is based on the fact that it is possible to estimate, with some degree of accuracy, the number of deaths that will occur among a large group of individuals of the same age in a given period. Mortality tables, based upon recorded experience, show the ratios of the number of persons of a given age dying or surviving to the number attaining that age. From these data and from the rate of interest assumed to be earned on the invested assets, an estimate may be made of the annual cost of any desired insurance benefit. This estimate is called the "net premium." Net premiums include

[6] U. S. Congress (S. Doc. No. 124, 73d Cong., 2d sess.), National Income, 1929–32, Washington, 1934, p. 10; United States Temporary National Economic Committee, Hearings, pt. 4, Life Insurance, Washington, 1940, p. 1641.

[7] Taylor, Maurice. Social Cost of Industrial Insurance. New York, 1933, pp. 194, 195. The following are the proportions of workers' income spent on insurance as described in a series of important investigations: United States Bureau of Labor Statistics, Federal employees, 1929, 5.0 percent for incomes under $1,500 per year; Lynd, Middletown, 1929, 4 percent. For more complete data on these and other investigations, see Taylor, Maurice, Social Cost of Industrial Insurance, New York, 1933, pp. 395–414.

[8] Industry (a weekly publication of the Associated Industries of Massachusetts), Sept. 24, 1932, p. 4.

[9] Taylor, Maurice. Social Cost of Industrial Insurance. New York, 1933, pp. 249–253. See also U. S. Temporary National Economic Committee, Monograph No. 2: Families and Their Life Insurance, Washington, 1940; Hearings, pt. 12, Industrial Insurance, Washington, 1940.

allowance for current death losses and contributions to the insurance reserves. To the net premium is added a "loading charge" to cover the expenses of the business, and the resulting total, or "gross premium," is the amount charged the insured.

Since, in general, the probability of dying increases with age; since, on the average, a young man taking out a policy may be expected to pay a larger number of premiums than one who buys a policy at a more advanced age; and since, finally, the accumulated interest over the longer period will be greater—it follows that a young man is charged a much smaller annual premium than an old man. For example, the annual premium charged for $1,000 of straight life insurance in 1940 might be $16.72 for a person insuring at age 25, and $39.00 for one insuring at age 50.[10] Because life-insurance premiums for a given kind and amount of insurance usually vary in size with the age of the insured when the policy is taken out and remain unchanged throughout the premium-paying period, such insurance is often called "level-premium" insurance.

The charges set for ordinary insurance in the United States are for the most part based upon the American Experience Mortality Table, which was devised by Sheppard Homans in 1868.[11] Until recently industrial-insurance premiums were based on the Standard Industrial Mortality Table, calculated from the mortality experience of one company with respect to working-class insured persons for the years 1898–1906.[12] It is important to point out that since 1868, when the American table was calculated, and even since 1906, the last year of the period upon the experience of which the standard table was calculated, there has been a great advance in the conquest of certain diseases, especially those of childhood. To this advance the progress of medical science and public health have both contributed. As a consequence, the tables used in calculating the size of insurance premiums lead to premium charges higher than those which would be required if the mortality experience of very recent years were used as a basis. Since the improvement in the conquest of diseases has been much more marked among diseases of children than among those of grown-ups, it is to be expected that in the premiums charged for the insurance of minors there is an even greater excess over what would be required if premiums were based on present mortality experience than in those paid by adults.

The premiums charged for insurance do not, however, represent a net cost to the insured. Practically all mutual life insurance companies (and some stock companies on "participating" policies) turn back to the insured what are called "dividends" after a certain

[10] These were the premiums charged by the savings banks in Massachusetts in that year.

[11] Huebner, S. S. Principles of Life Insurance. New York, 1925, p. 149.

[12] Taylor, Maurice. Social Cost of Industrial Insurance. New York, 1933, pp. 161–162. In 1941, a new and more modern table for industrial insurance was made legal in the State of New York.

short period has elapsed. These dividends should not be confused with the dividends to stockholders in business corporations, which are in the nature of interest returned on investment and profit in business enterprise. Insurance dividends are the return to policyholders of the excess in premiums charged over what has proved necessary by the experience of the operation of the preceding period, minus a sum put into surplus to provide against unforeseen contingencies.

As stated above, insurance premiums are made up of allowance for current death losses and contributions to the insurance reserves, i. e., net premiums, and the estimated expenses of carrying on the business, i. e., loading on premiums. The amount returned to policyholders in the form of dividends generally consists of three items: (1) The interest in excess of what was calculated to be earned by the invested reserves; (2) the amounts by which "actual mortality losses" are less than "expected mortality losses"; and (3) the amount by which actual expenses of operation are less than those estimated in advance.[13]

The importance of the life-insurance business and of its relation to the problem of economic security justifies a study of any important phase of the insurance system. If a single State has on its statute books a law designed to reduce the costs of life insurance and to eliminate its principal shortcomings, such a law is worthy of careful scrutiny. Since 1907 the State of Massachusetts has permitted its mutual savings banks to write life insurance under conditions which are intended to reduce its cost. Although only a small proportion of the total amount of insurance in force in Massachusetts is carried by the savings banks, the system has grown very rapidly. In 1908, there was a total of $115,000 of life insurance in force in the banks. The amount had risen in 1913 to $3,151,000; in 1918, to $9,783,000; in 1923, to $25,678,000; in 1928, to $57,837,000; in 1933, to $93,187,000; and on May 1, 1941, the amount of insurance in force with the savings banks was in excess of $200,000,000.[14]

In March 1938, New York became the second State to establish a savings-bank life-insurance system modeled substantially upon the Massachusetts plan. The first policy was issued in January 1939, and on July 1, 1941, there were 18,914 policies representing $15,334,500 insurance in force.

Early in May 1941 the Connecticut Legislature passed a law permitting savings banks to establish life-insurance departments. The provisions of this law, which became operative July 1, are very similar to those of the New York system as described in part II of this bulletin.

[13] For extended discussion of the principles of life insurance see Huebner, S. S., The Principles of Life Insurance, New York, 1925; Ackerman, S. B., Industrial Life Insurance, New York, 1926; Taylor, Maurice, Social Cost of Industrial Insurance, New York, 1933; Maclean, J. B., Life Insurance, New York, 1939.

[14] Growth of Savings Bank Life Insurance (a leaflet published by the Division of Savings Bank Life Insurance in 1940) and information from the Division.

Part I

Savings-Bank Life Insurance in Massachusetts

Chapter 1

Origin and Growth of Savings-Bank Life Insurance

The idea of combining the functions of savings banking and life insurance was suggested in this country by Elizur Wright, an important actuary who became the first insurance commissioner of Massachusetts. Wright, in 1874, proposed the establishment of the "American family bank" as a stock company which should receive savings deposits and sell life insurance without employing insurance agents. Nothing, however, came of this proposal.

More than 30 years later the idea was again brought to public attention as a result of an investigation into the mismanagement of the life-insurance business. The waste of the funds of policyholders and the failure to protect their interests had become so great and so widespread by the turn of the century that the directors of the Equitable Life Assurance Society of New York considered it desirable, in April 1905, to appoint a committee to investigate the management and administration of the company. The situation in the Equitable and in other large insurance companies attracted so much attention that the Assembly of the State of New York appointed a committee, with Senator Armstrong as chairman, to investigate the affairs of the life-insurance companies operating in New York, and especially the operation of the "Big Three," i. e., the Equitable Life Assurance Society of New York, the Mutual Life Insurance Co. of New York, and the New York Life Insurance Co. The committee, which has come down in history as the Armstrong Committee, engaged Mr. Charles Evans Hughes, later Chief Justice of the United States Supreme Court, as its chief counsel. It began its hearings on September 5, 1905, concluded them on December 30, 1905, and 2 months later made a report to the assembly suggesting reforms designed to eliminate the evils which had grown up in the life-insurance business.[1]

During the same month in which the directors of the Equitable appointed their investigating committee, the New England policyholders of the company organized themselves into a "Policyholders

[1] New York State Assembly Document No. 41, 1906: Report of the "Armstrong Committee"; Graham, William, Romance of Life Insurance, Chicago, 1919; Noyes, Alexander H., Insurance Investigation, Forum, vol. 37, pp. 343–352, January 1906; Mason, Alpheus T., The Brandeis Way, Princeton, Princeton Press, 1938; Casady, Clyde S., A Study of Savings Bank Life Insurance in Massachusetts (an unpublished thesis submitted for the M. A. degree in economics in Tufts College), 1932, pp. 1–18, and Massachusetts Savings Bank Life Insurance, Boston, 1938. See also Wright, Elizur: Politics and Mysteries of Life Insurance, Boston, 1873, and Elements of Life Insurance for the Use of Family Banks, Boston, 1876.

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Protective Committee." The committee engaged as counsel Mr. Louis D. Brandeis, who began a study of the life-insurance business in general and that of the Equitable in particular. As a result of this study he called attention, in October 1905, to the abuses of life insurance, and suggested a series of remedies, many of which were similar to those offered later by the Armstrong Committee. In contrast to what he considered the wastefulness of the management of the insurance companies, he described the highly efficient and economical management of the mutual savings banks of Massachusetts.[2]

By the autumn of 1905 he had worked out tentative proposals for a system of life insurance to be sold by the mutual savings banks of Massachusetts. These proposals were submitted for criticism to an independent actuary, Mr. Walter C. Wright, who, interestingly enough, was the son of Elizur Wright. They were later incorporated in an article which was published under the title, "Wage Earner's Life Insurance," in Collier's Weekly of September 15, 1906. The philosophy behind the idea was expressed as follows:

> [The] sacrifice incident to the present industrial insurance system [could] be avoided only by providing an institution for insurance which [would] recognize that its function is not to induce working people to take insurance regardless of whether they really want it or can afford to carry it, but rather to supply insurance upon proper terms to those who do want it and can carry it—an institution which [would] recognize that the best method of increasing the demand for life insurance is not eloquent, persistent persuasion, but, as in the case of other necessaries of life, is to furnish a good article at a low price.

It was pointed out that "Massachusetts in its 189 savings banks and the other States with savings banks similarly conducted, have institutions which, with a slight enlargement of their powers, can at a minimum of expense fill the great need of life insurance for workingmen." [3]

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[2] See an address printed by the Policyholders Protective Committee entitled "Life Insurance: The Abuses and the Remedies." This also appeared in Brandeis, Louis D., Business—a Profession, Boston, 1914, 1932.

[3] The following reasons were given for the belief that savings banks could well perform the functions required:

"First. The insurance department of savings banks would be managed by experienced trustees and officers who had been trained to recognize that the business of investing the savings of persons of small means is a quasi-public trust which should be conducted as a beneficent and not as a selfish money-making institution.

"Second. The insurance department of savings banks would be managed by trustees and officers who in their administration of the savings of persons of small means had already been trained to the practice of the strictest economy.

"Third. The insurance business of the savings banks, although kept entirely distinct as a matter of investment and accounting, would be conducted with the same plant and the same officials, without any large increase of clerical force or incidental expense, except such as would be required if the bank's deposits were increased. Until the insurance business attained considerable dimensions, probably the addition of even a single clerk might not be necessary. The business of life insurance could thus be established as an adjunct of a savings bank without incurring that heavy expense which has ordinarily proved such a burden in the establishment of a new insurance company. * * *

"Fourth. The insurance department of savings banks would open with an extensive and potent good will, and with the most favorable conditions for teaching, at slight expense, the value of life insurance. The safety of the institution would be unquestioned. For instance, in Massachusetts the holders of the

Enactment of Savings-Bank Insurance Law [4]

A joint special committee on insurance was appointed by the Massachusetts Legislature in 1906 and the Brandeis proposals were presented to it in September of that year. The opinion of the committee was at first overwhelmingly against them. Realizing the need for educating the public and the legislature concerning the advantages of the proposed legislation, its supporters organized, on November 26, 1906, the Massachusetts Savings Insurance League, with former Gov. W. L. Douglas as president.[5]

The league's first purpose was to win public support to the idea of savings-bank life insurance. It carried on a very active publicity campaign, which was doubtless partly responsible for the fact that the legislative committee, in its report to the legislature on January 9, 1907, heartily endorsed the plan.[6] Six days earlier, Gov. Curtis Guild, Jr., in his address to the legislature, had urged the members to give the plan careful consideration.[7] From then until June a bill incorporating these proposals was strenuously opposed by representatives of the insurance companies as well as by a group of 34 treasurers of mutual savings banks. It was as strenuously supported by the

1,829,487 savings-bank accounts, a number equal to three-fifths of the whole population of the State, would at once become potential policyholders; and a small amount of advertising would soon suffice to secure a reasonably large business without solicitors.

"Fifth. With an insurance clientele composed largely of thrifty savings-bank depositors, house-to-house collection of premiums could be dispensed with. The more economical monthly payments of premiums could also probably be substituted for weekly payments.

"Sixth. A small initiation fee could be charged, as in assessment and fraternal associations, to cover necessary initial expenses of medical examination and issue of policy. This would serve both as a deterrent to the insured against allowing policies to lapse and a protection to persisting policyholders from unjust burdens which the lapse of policies casts upon them.

"Seventh. The safety of savings banks would, of course, be in no way imperilled by extending their functions to life insurance. Life insurance rests upon substantial certainty, differing in this respect radically from fire, accident, and other kinds of insurance. * * *

"The theoretical risk of a mortality loss in a single institution greater than that provided for in the insurance reserve could be absolutely guarded against, however, by providing a general guaranty fund, to which all savings-insurance banks within a State would make small pro rata contributions—a provision similar to that prevailing in other countries, where all banks of issue contribute to a common fund which guarantees all outstanding bank notes.

"Eighth. In other respects, also, cooperation between the several savings-insurance banks within a State would doubtless, under appropriate legislation, be adopted; for instance, by providing that each institution could act as an agent for the others to receive and forward premium payments.

"Ninth. The law authorizing the establishment of an insurance department in connection with savings banks should, obviously, be permissive merely. No savings bank should be required to extend its functions to industrial insurance until a majority of its trustees are convinced of the wisdom of so doing." (Brandeis, Louis D. Wage Earners' Life Insurance, in Collier's Weekly, September 15, 1906. Reprinted by the Massachusetts Savings Insurance League in a pamphlet entitled "Massachusetts Savings Bank Insurance and Pension System," 1910; also reprinted in Brandeis, Louis D., Business—a Profession, Boston, 1914, 1932.)

[4] For the complete story, based upon original Brandeis records, see Mason, Alpheus T., The Brandeis Way, Princeton, Princeton Press, 1938.

[5] Among the early officers of the league were former Gov. John L. Bates, Bishop William Lawrence, Judge F. C. Lowell, Archbishop W. H. O'Connell, James J. Storrow, and Prof. F. W. Taussig. The complete list is given in an article entitled, "The Massachusetts Scheme of Savings Bank Insurance," by Shelby M. Harrison, in the Survey, May 7, 1910.

[6] Massachusetts Legislature. House Document No. 1085: Report of the Joint Special Committee on Insurance, 1907.

[7] Idem, Senate Document No. 1, p. 14: Governor's address to the legislature, January 3, 1907.

league, by its author, and by many other well-known citizens and organizations, among whom were the presidents of the Massachusetts State Federation of Labor, the Boston Central Labor Union, and other labor organizations, and also the Boston Chamber of Commerce and the Massachusetts Civic League.[8] In May the bill received the approval of the house committees on insurance and on ways and means, and in June it passed both houses. On June 26, 1907, it received the signature of Governor Guild.

Growth of Savings-Bank Life Insurance

A month after the enactment of the law the governor appointed the board of seven unpaid trustees of the General Insurance Guaranty Fund, who were charged with the administration of the system.[9]

Although the law was on the statute books, there was much to be done before savings-bank life insurance was to become a reality. The savings banks, although now possessed of power to enter the life-insurance business, were very slow to take advantage of it. Due to the naturally conservative attitude of savings-bank trustees toward such an untried venture, and also perhaps to the influence of insurance agents and executives, often themselves members of the boards, it was fully a year before the pioneer institution, the small Whitman Savings Bank, opened its insurance department. The bank was enabled to do this because of the generosity of several important shoe manufacturers, with plants in Whitman, who advanced part of the guaranty funds necessary under the law before the bank could start selling insurance. In November 1908, with the aid of funds similarly advanced by ex-Governor Douglas, the People's Savings Bank of Brockton opened its insurance department. In August 1911 the Berkshire County Savings Bank of Pittsfield began operations as a savings-insurance bank and it was followed by the City Savings Bank of the same city in July 1912.[10]

The order in which the 29 banks now underwriting life insurance entered the system and the dates upon which they started insurance

[8] Harrison, Shelby M. The Massachusetts Scheme of Savings Bank Insurance, in the Survey, May 7, 1910.

[9] The president of the board was Judge Warren A. Reed, vice president of the People's Savings Bank of Brockton. The board appointed Mr. R. G. Hunter as the first State actuary. Dr. Horace D. Arnold was appointed the first State medical director.

[10] For further information regarding the enactment of the savings-bank insurance law and the early history of the system see Mason, Alpheus T., The Brandeis Way, Princeton, Princeton Press, 1938; Brandeis, Louis D., Business—a Profession (section on Successes of Savings Bank Insurance); Grady, Alice H., The Romance and Development of Savings Bank Life Insurance in Massachusetts, an address delivered on Nov. 29, 1932, published by the Savings Bank Life Insurance Division, Boston, and Savings Bank Life Insurance and Old Age Annuities, in Savings Banks and Savings Department Management, by W. G. Sutcliffe and L. A. Bond, New York, 1930; Massachusetts Savings Bank Life Insurance Division, Brief Survey of the Massachusetts System of Savings Bank Life Insurance and Old Age Annuities, Boston, 1939; Powers, James H., Massachusetts' Great Insurance War, in the New Republic, Jan. 8, 1930; Casady, Clyde S., A Study of Savings Bank Life Insurance in Massachusetts (an unpublished thesis submitted for M. A. degree in economics in Tufts College), 1932, ch. 1.

operations are given in table 1. References to the various banks hereafter in this report will usually be made by the numbers shown in the table.

TABLE 1.—*Order in which savings banks entered the insurance system and dates of beginning of operations*

No.	Name of bank	Location	Date
1	Whitman Savings Bank	Whitman	June 22, 1908
2	People's Savings Bank	Brockton	Nov. 2, 1908
3	Berkshire County Savings Bank	Pittsfield	Aug. 1, 1911
4	City Savings Bank	do	July 15, 1912
5	Lynn Five Cents Savings Bank	Lynn	Nov. 1, 1922
6	Lynn Institution for Savings	do	Do.
7	North Adams Savings Bank	North Adams	Feb. 29, 1924
8	Cambridgeport Savings Bank	Cambridge	Nov. 1, 1924
9	Massachusetts Savings Bank [1]	Boston	Nov. 1, 1925
10	Waltham Savings Bank	Waltham	Do.
11	Lowell Institution for Savings	Lowell	Nov. 1, 1929
12	Boston Five Cents Savings Bank	Boston	Do.
13	Grove Hall Savings Bank	do	Do.
14	Cambridge Savings Bank	Cambridge	Mar. 1, 1930
15	New Bedford Institution for Savings	New Bedford	July 15, 1930
16	Arlington Five Cents Savings Bank	Arlington	Nov. 1, 1930
17	Uxbridge Savings Bank	Uxbridge	Mar. 10, 1931
18	Beverly Savings Bank	Beverly	June 1, 1931
19	Wildey Savings Bank [2]	Boston	Apr. 14, 1931
20	Leominster Savings Bank	Leominster	June 1, 1931
21	Fall River Five Cents Savings Bank	Fall River	Nov. 1, 1931
22	Canton Institution for Savings	Canton	Nov. 1, 1934
23	Plymouth Five Cents Savings Bank	Plymouth	Do.
24	Newton Savings Bank	Newton	Mar. 1, 1937
25	Boston Penny Savings Bank	Boston	Nov. 1, 1938
26	Brockton Savings Bank	Brockton	Do.
27	Greenfield Savings Bank	Greenfield	Nov. 1, 1939
28	Institution for Savings in Roxbury	Boston	Do.
29	Somerville Savings Bank	Somerville	Nov. 1, 1940

[1] Called the North End Savings Bank until 1928.
[2] Although the Wildey Savings Bank commenced operations before the Beverly bank, they both established the departments at about the same time.

It will be observed that the first 4 banks entered the system between 1908 and 1912; that 6 more were added between the years 1922 and 1928; that from November 1, 1929, to November 1, 1931, 11 additional banks opened insurance departments; and that since November 1, 1934, 8 other banks joined the system.

During the early years, the amount of insurance sold by the banks grew very slowly, the total amount in force in 1918 being less than 10 million dollars. After that year the amount in force showed a marked increase, reaching the sum of approximately 20 million dollars in 1922 and over 67½ million dollars in 1929. During the years of depression following, the growth of insurance in force was particularly great, rising to more than 109 million dollars in 1935 and to over 173 million dollars by the end of 1939. (See table 2.) At the end of April 1941 savings-bank life insurance in force in Massachusetts amounted to more than $200,000,000.

TABLE 2.—*Growth of savings-bank life insurance, 1908 to 1940* [1]

Year	Number of banks	Premium income received	Number of policies in force	Amount of insurance in force	Matured endowments and death claims paid	Total paid to policyholders	Admitted assets
1908	1	$368.21	282	$114,953			$26,048.91
1909	2	25,377.29	2,521	992,761	$500.00	$878.06	82,137.17
1910	2	58,890.68	3,318	1,367,363	3,622.00	8,879.86	130,516.97
1911	3	76,348.92	5,063	1,956,038	3,638.00	12,149.74	223,130.83
1912	4	102,832.27	6,662	2,528,809	6,513.00	21,877.67	331,726.51
1913	4	124,205.08	8,054	3,150,806	10,679.00	28,796.99	430,428.89
1914	4	139,757.35	9,439	3,566,778	9,706.36	35,335.32	542,900.68
1915	4	164,058.96	10,892	4,341,205	12,477.01	56,790.27	666,750.00
1916	4	212,885.24	14,030	6,041,754	27,984.75	73,458.28	779,311.68
1917	4	261,562.27	17,680	8,139,269	24,385.65	72,870.00	990,844.55
1918	4	317,475.73	20,707	9,783,239	58,314.20	132,243.51	1,202,932.52
1919	4	352,104.12	28,148	12,373,090	97,100.91	176,331.81	1,418,530.52
1920	4	424,901.24	30,834	15,050,271	93,710.99	197,214.28	1,702,141.84
1921	4	463,792.59	31,705	16,670,103	57,712.00	212,635.56	2,000,393.19
1922	4	553,006.99	35,492	19,872,634	82,553.44	281,080.16	2,348,945.70
1923	6	714,773.56	41,283	25,677,730	112,385.40	347,569.98	2,834,089.67
1924	7	898,747.79	45,889	31,758,583	141,236.47	437,662.33	3,447,486.36
1925	8	1,148,267.07	50,953	38,105,250	167,672.85	523,062.98	4,246,820.39
1926	10	1,365,726.35	55,822	43,293,286	199,964.94	644,507.63	5,161,388.06
1927	10	1,583,746.25	61,543	49,171,745	238,213.40	770,873.45	6,221,049.09
1928	10	1,899,176.57	70,212	57,836,763	223,990.37	849,359.70	7,579,708.72
1929	10	2,369,176.34	81,440	67,588,398	495,977.98	1,304,982.34	9,074,805.35
1930	15	2,644,733.31	90,239	77,324,800	499,084.87	1,458,410.69	10,566,034.39
1931	20	3,095,271.43	101,002	90,960,522	626,426.75	1,756,711.49	12,313,623.34
1932	21	2,979,581.14	101,390	90,606,283	597,745.76	2,024,936.28	13,681,358.92
1933	21	3,256,410.37	103,763	93,186,980	608,277.85	2,057,691.77	15,171,273.58
1934	21	4,075,775.32	112,294	99,960,943	584,882.55	2,042,616.29	17,634,808.89
1935	23	4,300,823.47	122,725	109,645,965	671,031.80	2,296,888.40	20,181,423.34
1936	23	4,686,718.51	137,345	122,374,772	736,945.38	2,438,858.91	23,096,679.30
1937	24	5,013,694.44	156,093	139,706,498	718,862.71	2,546,982.61	26,123,367.12
1938	24	4,787,123.50	172,004	154,788,376	753,972.90	2,674,570.49	28,870,867.24
1939	26	5,150,026.46	192,817	173,123,657	883,491.57	2,801,277.96	31,822,824.94
1940	28	5,408,512.95	211,370	191,539,618	950,025.39	2,898,261.95	34,928,996.57

[1] From a leaflet entitled "Growth of Savings Bank Life Insurance," published by the Division of Savings Bank Life Insurance in 1941.

The average number of policies in force for each year in the period 1933 to 1937 was more than 16 times as great as the average for the first 10 years of the system's history. The amount of insurance increased to more than 35 times as much. By the year 1940 the increase over the average year of the first 10-year period was about 27 times the number of policies outstanding and about 59 times the amount of insurance in force. (See table 3.)

TABLE 3.—*Growth in number of policies and amount of insurance, 1908 to 1940*

Period	Number of policies in force		Amount of insurance in force	
	Average number each year	Index	Average amount each year	Index
1908–17	7,810	100	$3,222,161	100
1918–22	29,460	377	14,785,003	459
1923–27	51,099	654	37,601,579	1167
1928–32	88,857	1138	76,863,353	2385
1933–37	126,443	1619	112,975,032	3506
1938	172,004	2202	154,788,376	4804
1939	192,817	2469	173,123,657	5373
1940	211,370	2706	191,539,618	5944

It is only in recent years, however, that savings-bank insurance has represented an important share of all the life insurance in force in the State of Massachusetts. Table 4 shows the amounts of ordinary savings-bank insurance, of ordinary company insurance, and of industrial insurance in force in the State in recent years.[11]

TABLE 4.—*Amount of ordinary savings-bank insurance, ordinary company insurance, and industrial insurance in force in Massachusetts, 1926 to 1939*

[Amounts in thousands]

Year	Savings-bank ordinary insurance	Ordinary insurance, excluding savings-bank insurance	Industrial insurance	Year	Savings-bank ordinary insurance	Ordinary insurance, excluding savings-bank insurance	Industrial insurance
1926	$32,594	$2,392,794	$943,111	1933	$83,017	$3,038,566	$1,091,128
1927	38,243	2,587,804	1,012,500	1934	89,567	3,013,316	1,098,353
1928	46,308	2,789,615	1,063,085	1935	98,097	3,024,201	1,114,496
1929	55,228	3,999,360	1,136,174	1936	109,984	3,073,575	1,155,496
1930	64,940	3,143,245	1,153,724	1937	125,674	3,133,704	1,190,481
1931	75,354	3,230,105	1,171,951	1938	141,703	3,152,737	1,188,338
1932	80,173	3,142,200	1,109,754	1939	162,253	3,213,953	1,168,828

The increasing importance of savings-bank life insurance is evident from the fact that whereas it ranked twenty-second in amount of insurance in force in Massachusetts among the 31 organizations selling life insurance in Massachusetts in 1923, it was sixth among 48 organizations in 1940.

The data for ordinary insurance issued and terminated in the State for 1940 show clearly how savings-bank insurance has grown in relative importance. The banks wrote only 7.8 percent of the total new issues ($22,253,726 out of $283,534,798), but they accounted for 25.1 percent of the total net increase in insurance in force ($17,733,880 out of $70,615,406). Twelve out of 48 of the private companies operating in Massachusetts actually had more business terminated than they wrote in that year. Only 3 of the 48 companies (the so-called "industrial" companies) wrote more than the savings banks did, but only one gained as much net.

Although the banks had in force at the end of October 1940 a total of all kinds of insurance equal to about $191,539,618, only $179,850,218 was ordinary insurance. Nearly all of the remainder, or over $11,689,000, was group insurance.[12]

The chart on page 15 shows at a glance the relative increase in the number of policies, the amount of all kinds of insurance in force, the

[11] The table does not include group insurance. Fraternal insurance, with which this report is not concerned, is also omitted.

[12] See appendix A for a table showing the amounts of group insurance in force with the banks and the companies. Appendix K contains data on endowment insurance. Information for all years up to 1940 comes from the Annual Reports of the Massachusetts Commissioner of Insurance, part 2, table 1. It should be noted that while the fiscal year of the savings banks ends Oct. 31, that of the insurance companies ends Dec. 31. Official published data for the companies are not yet available for the year 1940.

premium income, and the total ledger assets of savings-bank insurance over a period of 32 years. It will be noted that while, especially in the later years, the last three items appear to increase in about the same proportions, the rate of increase in the number of policies in force is not so great, indicating that the average size of each policy has risen during the period.

The rise in the average amount of each policy, which is secured by dividing the amount of insurance in force for each year by the number of policies, and the index numbers showing the proportionate increase in the size of each policy, using the first year as a base, are shown in table 5. Beginning with the year 1916, when the amount of insurance obtainable from each bank was increased from $500 to $1,000, there was a fairly steady increase until 1931, since which time the average size of each policy has remained about constant.

TABLE 5.—*Average amount of insurance per policy, 1908 to 1940*

Year	Average amount of insurance per policy	Index	Year	Average amount of insurance per policy	Index
1908	$408	100	1925	$748	183
1909	394	97	1926	776	190
1910	412	101	1927	799	196
1911	386	95	1928	824	202
1912	380	93	1929	830	203
1913	391	96	1930	857	210
1914	378	93	1931	901	221
1915	399	98	1932	894	219
1916	431	106	1933	898	220
1917	457	112	1934	890	218
1918	469	115	1935	893	219
1919	440	108	1936	891	218
1920	488	120	1937	895	219
1921	526	129	1938	900	221
1922	561	137	1939	898	220
1923	622	152	1940	906	222
1924	692	170			

During the first 32 years of its existence the savings-bank life insurance system received in premiums from policyholders over 58 million dollars. Its total income for the period was about 69 million dollars. It paid out over 35 millions, more than 31 millions of which went to policyholders in the form of payments to settle claims, endowments, annuities, cash surrender values, and dividends, and about 4 millions were paid out for the expenses of operating the system.

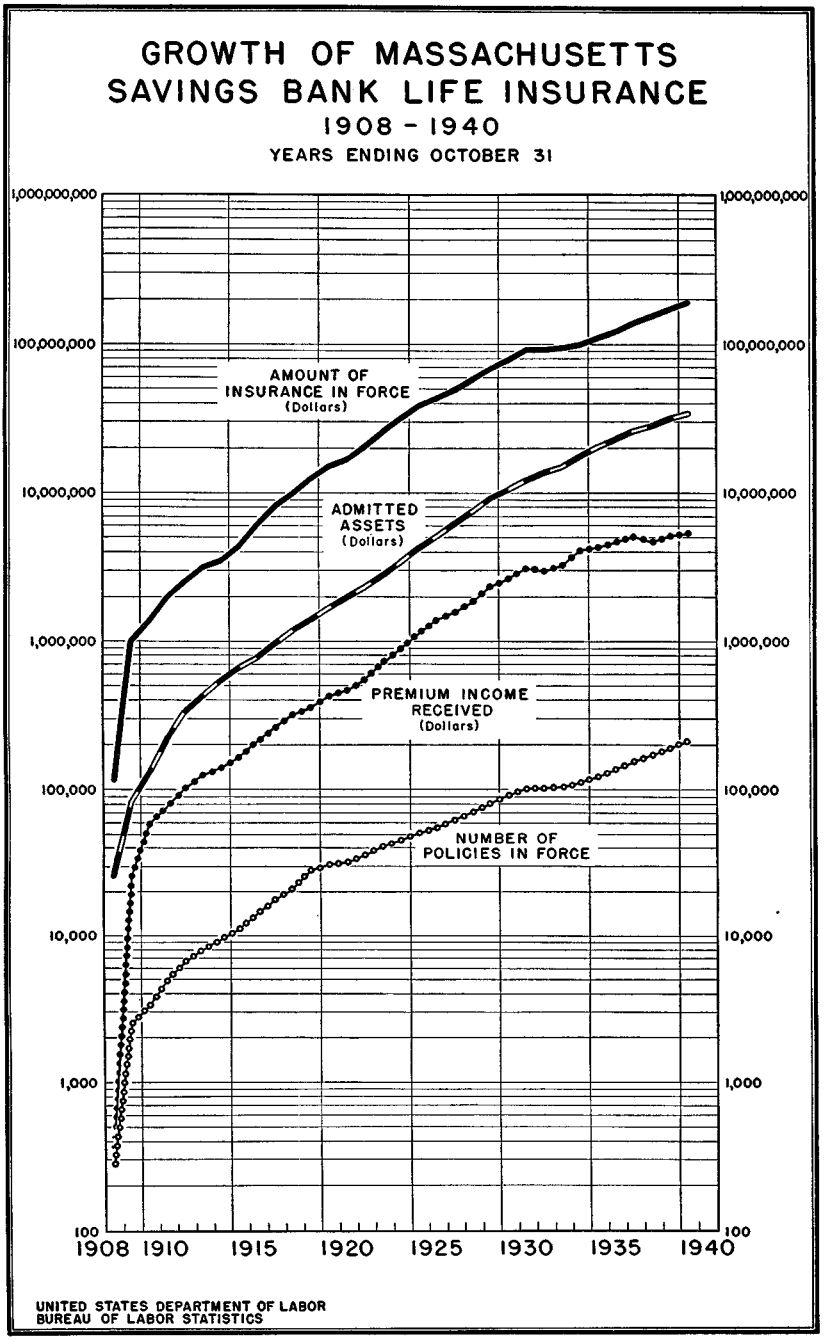

TABLE 6.—*Income and disbursements of the savings-bank life-insurance system, 1908 to 1940*

[Statement to Oct. 31, 1940]

Item	Amount	Item	Amount
Income		*Expenses*	
Premiums from policyholders	$58, 655, 851. 77	Salaries	$1, 577, 090. 29
Net income from investments	10, 502, 934. 18	Advertising, postage, printing, telephone, and express	499, 697. 06
Special guaranty funds	220, 000. 00	Medical fees	412, 886. 21
Total income	69, 378, 785. 95	Taxes	416, 683. 81
Disbursements during 31 years		Collection fees	362, 113. 58
Death and disability claims	7, 332, 657. 82	Rent	276, 864. 10
Matured endowments	2, 093, 116. 35	Reimbursement to State	505, 755. 65
Payments to annuitants	4, 770, 575. 68	Other expenses	235, 061. 20
Cash surrender values	4, 741, 034. 78	Total expenses (7.31 percent of premium income)	4, 286, 151. 90
Dividends to policyholders	12, 248, 382. 13		
Total paid policyholders	31, 185, 766. 76		
Special guaranty funds retired	200, 000. 00		
Expenses (see details)	4, 286, 151. 90		
Total disbursements	35, 671, 918. 66		
Income over disbursements	33, 706, 867. 29		

Chapter 2

Administration of the System

Savings-bank life insurance may be purchased by residents of Massachusetts or by persons who are regularly employed in the State.[1] The amount of insurance available to any individual from any one bank is $1,000. Thus, since there are now 29 issuing banks, it would be legally possible to issue $29,000, but in 1938 the system adopted an arbitrary maximum of $25,000.[2] The statutory limit on the annual amount which may be paid by any one bank on an annuity contract is $200. For the past several years, however, the amount of annuity income which may be purchased by a lump sum has been arbitrarily limited to $50 monthly, and in 1941 the amount of deferred annuity income purchased by installments was limited to $100 monthly. The banks do not sell industrial insurance as such, although the majority of their policies are issued to a similar class of buyers.

Policies Available and Their Terms

The savings-bank insurance law provides for the following types of policies: Whole (or "straight") life, limited-payment life, renewable term, and endowment policies; annuity contracts; a combination of life insurance policies and deferred annuity contracts; "and such others as may from time to time in the opinion of the commissioner of insurance, be desirable." [3] Group insurance is also written.

Whole life policies provide for the payment of premiums until the death of the insured, when the beneficiary receives the face value of the policy.

Policies for limited-payment life insurance protect the insured throughout his life, but the premiums are set at such a rate that after a certain period, for example, 20 years, no further premiums need be paid. Whether death occurs before or after the expiration of this period, the beneficiary is entitled to the face value of the policy.

Insurance may also be purchased on a 5-year term basis renewable up to age 65. Such insurance has no cash or loan value, and the premiums increase every 5 years. The renewable-term policies

[1] If policyholders leave the State permanently they may continue to carry their insurance in the savings banks, but not to buy additional insurance.

[2] Acts of 1915, ch. 32; Mass. Gen. Laws, ch. 178, sec. 10. Prior to 1915 the limit available to a single person in any one bank was $500 of insurance and a $100 annuity.

[3] Mass. Gen. Laws, ch. 178, sec. 15.

issued by the savings banks permit conversion at any time without medical examination to any form of insurance, except term, at the rate for the insured's then attained age.

Recently an automatically decreasing term insurance policy especially designed to cover the lives of home owners who are amortizing their mortgages has been introduced.

The banks sell endowment policies. A $1,000 20-year endowment policy is one on which premiums are payable for 20 years, and which entitles the beneficiary to $1,000 in case the insured dies during the 20-year period, or entitles the insured to $1,000 in cash if he survives the 20 years.

Children 6 months of age or over may be insured under any of the regular forms of insurance. Such policies are payable at face value only if death occurs at age 6 or later. If death occurs under age 6, the amount of insurance paid is on a graded scale, the amount depending upon the age at which the policy was taken out and the length of time it has been in force.

The banks also sell group insurance, which does not require medical examinations. Such insurance is available only to groups of workers in plants inspected by the State medical director. Premiums are payable monthly by the employer, or by the employer and employees jointly. The size of the premium varies in accordance with the ages of the employees. The insurance is for a 1-year term only, being renewable each year at premiums determined on the basis of the ages of the workers. The bank issues a separate certificate of insurance for delivery to each employee by the employer. If in any case employment is terminated, the worker affected is entitled, without medical examination and upon payment of premiums for his then attained age, to a life or endowment insurance policy of the type he desires and for an amount equal to that for which he was insured under the group policy. If he desires an amount of insurance in excess of his original policy he must undergo a medical examination.

The insurance banks sell three kinds of annuity contracts. Single-premium immediate annuity contracts provide an income for life, payable annually or at more frequent intervals, in return for a single lump-sum payment at the time the contract is made. These are intended especially for persons 50 years of age and over, though available to younger persons. The contracts provide that the payments of income cease in case of death of the annuitant.

A second type of contract provides for a single-premium joint and survivorship annuity. This may be bought by two persons—man and wife, for example—by the payment of a single premium. The annuity, which is payable so long as both or either of the two survive, may become payable immediately or at a specified future date. The income ceases with the death of the last survivor.

The third and probably the most common type of annuity purchased is the annual premium deferred annuity. This may be paid for regularly, until the designated age at which an annuity for life commences; for example, age 65. If the purchaser dies or surrenders his contract before the annuity begins, a guaranteed cash surrender value is paid.

Premium payments on all policies and contracts may be made monthly, quarterly, semiannually, or annually, as the applicant may prefer, except in the case of group insurance.

A number of plans combining a life-insurance policy and a savings-bank account have proven quite popular. Under these plans, the policyholder arranges for his premiums to be deducted from his savings deposits as they fall due. Such balance as is left in his account remains at interest, subject to withdrawal at will by the insured.

Policyholders may elect to have annual dividends due them paid in cash on the anniversary date of their policies, to use them to reduce premiums due or to purchase additional paid-up insurance, or to leave them with the insurance department of the bank at a guaranteed minimum rate of interest.

On all savings-bank life-insurance policies (except term and group insurance) the insured is entitled to borrow money on his policy at 5 percent interest after premiums have been paid for 1 year. He is also entitled to a cash surrender value equal to the full American experience legal reserve on his policy at the end of 6 months or before if the reserve exceeds $2 per $1,000 insurance. Instead of taking the cash surrender value, the insured may take a paid-up policy for an amount less than the original face value, the amount depending upon the net value of his policy, minus loans, if any; or he may take a policy for the full original face value for whatever term the net value of his policy would purchase (i. e., "paid-up term insurance").[4] If the insured, having failed to pay premiums and having been notified by the bank, does not exercise his option respecting cash surrender, term insurance, or paid-up insurance, under the present policies issued by the savings banks, he automatically receives extended term insurance. (Policies issued prior to December 15, 1939, provided for automatic paid-up insurance.)

The policyholder has a right to choose the method to be used in paying the insurance to his beneficiary. Among the options available are a single payment; payments of a given amount at regular intervals as long as the beneficiary lives; payments for 10 years or for 20 years to the beneficiary or the contingent beneficiary if the former should die; and payments to the beneficiary or the contingent beneficiary

[4] Mass. Gen. Laws, ch. 178, sec. 11.

spread over a chosen number of years. Any other mode of settlement desired by the insured can usually be arranged.

The premiums charged by all the insurance banks are required by law to be uniform.[5] The dividends differ according to the experience of the various banks.

In accordance with the insurance laws of the State, policies contain a statement of the amount which may be borrowed, of the cash values, of the amount of paid-up insurance, and of the duration of extended term insurance, which become available at the end of stated periods after the policies have come into force. They also contain a statement of the options respecting payments to beneficiaries.[6]

Administrative Organization

Ultimate responsibility for the administration of savings-bank life insurance is lodged in an incorporated body known as the General Insurance Guaranty Fund. This body consists of seven trustees, one of whom is appointed each year for a term of 7 years by the Governor of the State, acting with the advice and consent of the Governor's Council. The trustees must serve without compensation and must be chosen from persons who are trustees of mutual savings banks. The Governor designates one of the trustees of the General Insurance Guaranty Fund as the commissioner of savings-bank life insurance for the length of his term as trustee. His appointment as commissioner (in which capacity he serves without pay) carries with it the duty of acting as president of the board of trustees, and of generally supervising and controlling the work of the Division of Savings Bank Life Insurance.[7] The division is one of three sections of the Massachusetts Department of Banking and Insurance, the other two being the Division of Banks and the Division of Insurance.

The administration of the Division of Savings Bank Life Insurance is more immediately in charge of the deputy commissioner, a salaried official appointed by the trustees of the General Insurance Guaranty Fund, subject to the approval of the Governor and his council. Although the law does not specifically extend jurisdiction of the division over the insurance departments of the banks, the latter operate along with the Division of Savings Bank Life Insurance and the General Insurance Guaranty Fund as a unified insurance system,

[5] Mass. Gen. Laws, ch. 178, sec. 15.

[6] Information respecting the nature of policies was obtained from leaflets published by the State Division of Savings Bank Life Insurance.

[7] Mass. Gen. Laws, ch. 178, sec. 14; Acts of 1919, ch. 26, sec. 9, 10. The trustees are authorized to elect, from among their number, a vice president of the board, a treasurer, and a clerk, for terms of 1 year.

and the deputy commissioner of savings-bank life insurance may properly be said to exercise actual supervision over this system.[8]

The trustees of the guaranty fund are authorized to appoint, with the approval of the Governor and council, a State actuary. Such clerks and assistants to the State actuary as may be required are also appointed, under civil-service rules.[9]

A State medical director, appointed by the trustees of the General Insurance Guaranty Fund with the consent of the Governor and council, is charged, subject to the supervision and control of the commissioner of insurance, with the duty of prescribing the rules relating to the "health or acceptability of the applicant for insurance." He acts as the supervising and advising physician of the savings-bank insurance system. The medical director is empowered to appoint such assistants as may be required.[10]

Every application for savings-bank life insurance goes to the office of the State medical director, where it is scrutinized by him or by the physician who assists him. In March 1941 there were 374 physicians, all graduates of class A medical schools, empowered by the State medical director to make the medical examination required of

[8] The administration of the division was under the direction of Judge Warren A. Reed, of Brockton, who was appointed president of the guaranty fund by Governor Guild in July 1907, for a period of 13 years. Thereafter, Mr. George L. Barnes, of South Weymouth, was appointed president. He served in that capacity and as commissioner up to December 1934, when he resigned as commissioner, but continued as a trustee. Another trustee of the fund, Mr. Richard Bullock of Fitchburg, was then designated as commissioner. Miss Alice H. Grady, who had served as financial secretary of the Massachusetts Savings Insurance League since its origin, was appointed deputy commissioner in 1920 and acted in that capacity until her death on Apr. 17, 1934. Mr. Judd Dewey, who had acted without pay as counsel for the division for many years, was appointed to succeed her on Apr. 25, 1934. (Brief Survey of the Massachusetts System of Savings Bank Insurance and Old Age Annuities, 1940, pp. 3, 4. See an article on Miss Grady by Elizabeth Glendower Evans, one of a series entitled, "Interesting People I have Known," in Boston Jewish Advocate, June 15, 1934.)

[9] The present State actuary is Eugene F. Caldwell. His duties may be summarized as follows: (1) To prepare standard forms of life-insurance policies and life-annuity contracts, which "shall be used as the uniform and exclusive forms of policies by all savings and insurance banks" (the term "savings and insurance banks" is the official designation of the banks authorized to underwrite insurance); (2) to prepare the forms or blanks for application for life-insurance policies and life-annuity contracts, for proof of loss, "and all other forms necessary for the efficient prosecution of the business, also books of record and of account, and all schedules and all reports, not otherwise provided for, required in the conduct of the business, all such forms to be used uniformly and exclusively by the savings and insurance banks"; (3) to furnish all blanks prepared by him to the banks and the General Insurance Guaranty Fund; (4) to determine and prepare, consistently with the law governing domestic legal reserve life-insurance companies, the table of premium rates for all kinds of life-insurance policies, the membership fees, the purchase rate for annuities, the surrender value and any proof of death charges, "and the premium rates for reinsurance, all such rates, fees, and charges to be uniformly and exclusively used in the system"; (5) to determine and prepare tables showing the amounts which may be loaned on insurance policies, and the guaranty charges to be made by the General Insurance Guaranty Fund; (6) to prepare or procure tables for computing the legal reserve to be held under insurance and annuity contracts; (7) to direct an annual valuation of all the policies of the banks, and of the condition of the General Insurance Guaranty Fund; (8) to determine for each year the ratio of actual to expected mortality claims for all the savings-insurance banks combined and for each one separately; (9) to determine how much each bank shall pay to or shall be paid from the General Insurance Guaranty Fund as the amounts due to or from it on account of the unification of mortality. (Acts of 1919, ch. 26, sec. 11; Mass. Gen. Laws, ch. 178, sec. 15.)

[10] Acts of 1919, ch. 26, sec. 12; Mass. Gen. Laws, ch. 178, sec. 16. The present State medical director is Dr. Joseph H. Burnett.

applicants for savings-bank life insurance. The office of the State medical director must approve every death claim before it is paid.[11]

Although the law requires that the savings banks may not employ insurance "solicitors," the legislature in 1915 appropriated funds to enable the trustees of the General Insurance Guaranty Fund to make known "to those in need of industrial insurance, the advantages offered by the life-insurance departments of savings banks." As a consequence the Division of Savings Bank Life Insurance engaged two "instructors," whose efforts were directed to the purpose of educating workers in the State as to the advantages of savings-bank life insurance.[12] They confine their activities to visiting industrial establishments for the purpose of encouraging employees to buy savings-bank life insurance. They are salaried, civil-service employees trained to advise and not to sell. It is important to note that these instructors are employed by and are responsible to the Division of Savings Bank Life Insurance, and that they have no direct connection with any of the savings-insurance banks.[13]

Operation of Insurance Banks and Their Agencies

Any mutual savings bank, upon complying with the provisions of the savings-bank life-insurance law, may establish an insurance department if two-thirds of its board of trustees and a majority of its incorporators so decide. It must first secure, however, the approval of the commissioner of insurance and of the commissioner of banks. These officials are empowered to issue a joint certificate declaring an insurance department established when they are satisfied that a special expense guaranty fund and a special insurance guaranty fund, or a guaranty contract, have been provided.[14]

The special expense guaranty fund consists of not less than $5,000 in cash, advanced to and placed at the risk of a bank's insurance department and earning interest, if profits are sufficient, at the rate paid depositors, for the purpose of meeting such expenses as the department may not be able to meet from its income in the early years. The original amount of the expense guaranty fund is fixed by the trustees of the bank, with the approval of the State actuary.[15]

[11] Interview with Dr. Joseph H. Burnett, March 1, 1941.

[12] Acts of 1915, ch. 168.

[13] In addition to the persons already mentioned, the office of the Division of Savings Bank Life Insurance in the Statehouse employed in March 1941, 2 principal actuarial clerks, 3 senior actuarial clerks, 1 senior clerk, 4 senior clerks and stenographers, and 3 junior clerks and stenographers. In the office of the State medical director there are employed an assistant medical director, 1 senior clerk and stenographer, and 3 junior clerks and stenographers.

[14] Mass. Gen. Laws, ch. 178, secs. 2, 3.

[15] Mass. Gen. Laws, ch. 178, sec. 4. In exchange for the amounts advanced to the expense guaranty fund the lenders (generally the bank's trustees) receive certificates with a par value of $100 each. The fund is retired when the net profits permit and when, in the opinion of the commissioner of banks and the commissioner of insurance, it is no longer needed. Interest on the advances is paid when and if the condition of the insurance department permits. By 1919 the first 4 banks entering the system had retired their expense

In order that a bank newly entering the insurance system may be able to meet any death losses which may arise before it has had time to accumulate sufficient reserves, a special insurance guaranty fund is required. This consists of not less than $20,000 in cash, "advanced to and placed at the risk of the insurance department, which [is] applicable to the payment and satisfaction of all losses or other obligations arising out of policies or annuity contracts if and whenever the liabilities of said department, including the insurance reserve, are in excess of its assets." The original amount of this fund is fixed by the trustees of the bank, with the approval of the State actuary.[16] The advances to the special insurance guaranty fund are exchanged for certificates of the par value of $100, which, if profits are sufficient, yield interest at a rate equal to that paid the savings bank's depositors. The repayment of these advances may not be made until (1) the special expense guaranty fund has been retired; (2) the insurance department has accumulated a surplus in excess of all its liabilities equal to the amount of the special insurance guaranty fund; (3) the balance of the latter fund, including unpaid interest and surplus on hand, is not less than the amount of the original insurance guaranty fund; and (4) the commissioner of insurance approves the retirement.

In addition to this obligation, every insurance department in the system may be required to pay monthly to the General Insurance Guaranty Fund an amount equal to 4 percent of all premiums and deposits for annuities received in the preceding month. These sums are held as a guaranty for the combined insurance and annuity obligations of all the banks. In the event that losses incurred by the insurance department of any bank are in excess of the reserve available for the purpose, such a bank may receive from the fund the amount necessary to meet its obligations. Amounts so received, with interest at 5 percent, must be repaid by the bank to the fund out of its insurance surplus as soon and so far as an adequate surplus exists. The trustees of the fund must invest it in the same classes of securities and in the same manner as the savings deposits of the banks are invested, but they may deposit in any savings bank whatever funds they cannot otherwise invest.[17]

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guaranty funds. The 6 banks entering between 1922 and 1925 had retired theirs by 1929. Nine of the 11 banks entering the system between 1929 and 1931 had retired their expense funds by 1933. The 2 banks established in 1931 retired their expense funds during the fiscal year 1934. The 2 banks whose insurance departments were established on November 1, 1934, retired their funds the latter part of 1937, and the bank whose insurance department was established on March 1, 1937, retired its fund on its second anniversary, February 28, 1939. All the banks have paid interest regularly to those advancing the funds up to the time of retirement. (Reports of Commissioner of Insurance and Commissioner of Banks Relating to the Savings and Insurance Banks and General Insurance Guaranty Fund, 1914 to 1940.)

[16] Mass. Gen. Laws, ch. 178, sec. 5.

[17] The special guaranty funds are not to be considered liabilities in determining solvency. See appendix B for a further discussion of the insurance guaranty funds. Appendix C is devoted to a discussion of insurance reserves and surplus.

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For the purpose of sharing, among the banks as a whole, the especially favorable or unfavorable mortality losses of a particular bank, the law provides for the equalization of the ratio of mortality claims among all the banks. Thus the high death losses of a single insurance department, caused by the temporary fluctuations of chance, would not impose a heavy burden and a possible consequent discontinuance of dividend payments to the policyholders of that department.[18]

Under the system of "unification of mortality" in use, the heavy losses of one bank are distributed proportionately among all the banks. Those banks with mortality experience more favorable than the average experience of all the banks pay to the General Insurance Guaranty Fund sums which, in the aggregate, are then distributed among those banks which have had less favorable mortality experience than the average. Under the law unification is not extended to matters other than mortality experience, because the other items are within the control of a particular bank, while the mortality experience is not.[19]

The law requires that the savings departments and the insurance departments of the savings and insurance banks shall be operated separately. The assets of one department of the bank are not liable for or applicable to the payment and satisfaction of the liabilities, obligations, and expenses of the other. The two departments must also keep their accounts and their investments separate. The law declares: "Expenses pertaining to the conduct of both the savings department and the insurance department, such as office rent and the salaries of general officers, shall be apportioned by the trustees equitably between the two departments." [20]

Though only 29 savings and insurance banks have the power to underwrite insurance at present, the law authorizes the establishment of agencies and means for the receipt of applications for insurance and of premium payments upon such terms as the commissioner of banks and the commissioner of insurance may approve. Any savings bank in the State may be authorized to receive payments due on

[18] Sec. 15 of the act provides that the State actuary shall "for each year ending Oct. 31 determine the ratio of actual to expected mortality claims for all of the savings and insurance banks combined, and shall determine a similar ratio for each of the savings and insurance banks separately. Both calculations shall be based upon the mortality tables and the rate of interest used by the banks in the calculation of the premiums or upon such other bases as shall be approved by the commissioner of insurance. If the calculation of the ratio pertaining to any savings and insurance bank shows that the actual mortality experience is less than the mortality expected to be experienced by all of the banks combined, the State actuary shall send to such bank a certificate setting forth the amount of such difference, and thereupon such bank shall send to the General Insurance Guaranty Fund in cash the amount of such certificate. The State actuary shall also furnish to the trustees of the General Insurance Guaranty Fund a certificate in respect to any savings and insurance bank in which the ratio of the actual to the expected mortality has exceeded the ratio of the actual to the expected mortality for all of the banks combined, and thereupon the trustees of the General Insurance Guaranty Fund shall pay to such bank the amount of such excess as evidenced by such certificate." For an explanation of the ratio of actual to expected mortality claims (or losses) see the latter part of ch. 1.

[19] See appendix D for an extended discussion of mortality ratios and the unification of mortality.

[20] Mass. Gen. Laws, ch. 178, sec. 8. The controversy as to the proper allocation of expenses between the 2 departments is dealt with in full in ch. 7.

policies and annuity contracts, and savings and insurance banks may act as agents for each other.[21] All except employers' agencies are permitted to deduct a collection fee of 3 percent from the premiums which they forward to the underwriting banks.

In June 1939, there were 517 agencies from which insurance could be secured. Of these, 267 were employers' agencies, which dealt primarily with the workers employed in their particular establishments. Fifty were agencies operated by credit unions for the benefit of their members. The remaining 200 dealt with the general public. These agencies were widely scattered throughout the State.

Table 7 shows the number of each kind of agency and the counties in which they were located.

TABLE 7.—*Number and types of establishments at which applications for savings-bank life insurance might be made in June 1939*

County	Total in each county	Issuing banks or their branches	Agency banks or their branches	Public agencies [1]	Employers' agencies	Credit unions
Berkshire	29	3	2		24	
Franklin	11		4		7	
Hampshire	13		8		5	
Hampden	48		12		25	11
Worcester	71	3	12		49	7
Middlesex	125	8	48	1	61	7
Norfolk	36	1	20		12	3
Plymouth	33	4	9		17	3
Bristol	23	5	2	1	9	6
Essex	50	5	16	1	25	3
Suffolk	72	7	20	2	33	10
Barnstable	6		6			
Duke's						
Nantucket						
Total	517	36	159	5	267	50

[1] The so-called "public agencies" include settlement houses, boys' clubs, schools, and private individuals

A person applying for insurance at an underwriting bank is generally sold a policy carried by the bank in question. In case he wishes more insurance than the bank is permitted to sell him, he is asked to name the bank or banks from which he wishes to buy the additional amounts. If he has no preference, the bank official with whom he talks is likely to make suggestions. When application is made through other agencies and no preference as to bank is shown, the common practice is to refer the applicant to the nearest issuing bank. Since dividends have been fairly uniform over a period of years, suggestions to applicants might often be made for reasons of policy. Among such reasons might be the desire to build up a newly established insurance department, or to favor a bank with which the agency has some connection. The important fact, however, is that every applicant has the right to choose his insurance bank.

[21] Mass. Gen. Laws, ch. 178, sec. 13.

Publicity and Promotion Features of the System

At the present time, the general advertising program for savings-bank life insurance is carried on by the Savings Bank Life Insurance Council—an association of the 29 issuing banks formed in 1938. In addition to the publication of numerous pamphlets and leaflets for distribution by banks, credit unions, and employer agencies in Massachusetts, it sponsors a limited amount of advertising over certain radio stations and in numerous newspapers throughout the State. The extent of this advertising has increased with the growth of the system.

Until 1938 the Division of Savings Bank Life Insurance carried on an active publicity program along the above lines. It still carries on an active correspondence with persons who write in for information about the system, publishes and distributes some pamphlets, and sends speakers to organizations when invited. It employs two "instructors" whose purpose it is to promote the sale of savings-bank insurance among industrial workers. The fact that its correspondence is written on stationery bearing the name of the State and of a department of the State government, and that there is general knowledge that its offices are in the Statehouse on Beacon Hill, has helped to advance the growth of savings-bank insurance.

The savings and insurance banks carry on various activities to promote the sale of insurance. As a rule they employ one or more clerks to whom a person seeking information is referred. Some of them have set up tables in the lobbies of the banks, at which attendants are ready to furnish such information. The banks make considerable use of material published by the Savings Bank Life Insurance Council and by the Division of Savings Bank Life Insurance. In some cases one bank or a group of banks has published pamphlets dealing with insurance. Placards are displayed frequently in prominent places. On occasion one bank or several acting together have published advertisements in the newspapers to promote the sale of insurance. The various agencies described above have used similar methods in promoting the sale of savings-bank insurance.

The activities of the Massachusetts Savings Bank Life Insurance League and of the Associated Industries, as they relate to savings-bank insurance, are discussed fully in chapter 6. It is sufficient to say, at this point, that the league has been active since 1907; that in recent years it has published and distributed a number of pamphlets and leaflets; and that since 1930 the Associated Industries has employed a full-time secretary whose activities are devoted exclusively to promoting the sale of savings-bank insurance in the industrial establishments of the State.

Regulation

Savings-bank life insurance is subject to supervision by the commissioner of banks and the commissioner of insurance. The latter has authority to enforce the insurance laws of the State. This involves the enforcement of such laws, as they apply to the insurance departments of the savings banks. If, in his opinion, the insurance departments are violating those sections of the insurance laws which apply to them, he has authority to report the facts to the law enforcement officers of the Commonwealth. He is authorized to require the books and records to be kept in such a way that the annual statements may be verified and so that it may be ascertained whether there is compliance with the laws. He is authorized to investigate charges that unwarranted and misleading statements and promises are being made with respect to insurance, and he may also investigate any complaint of a policyholder with respect to any claim under an insurance or annuity contract.[22]

The commissioner of insurance also has certain regulatory duties imposed upon him by the savings-bank insurance law:

1. He issues licenses to write policies and make annuity contracts which are required before an insurance department may begin operations, and these licenses may be revoked by him at his discretion under certain conditions.
2. He must approve the retirement of the special insurance guaranty fund.
3. He has authority to ask the State actuary to prepare new forms of insurance policies and annuity contracts.
4. He is authorized to enforce the insurance laws with respect to the rates charged for insurance and annuities, etc.
5. He must approve the use by the State actuary of tables of mortality which may be thought more suitable than the American Experience Table for the business of the insurance departments of the banks.
6. He has authority to supervise and control the operation of the rules in use by the State medical director regarding the health and acceptability of the applicants.

The commissioner of banks, through his power to supervise and regulate the affairs of the savings banks, comes in contact with the insurance departments of those banks. He may take steps to have bank officers removed if they persist in carrying on improper practices. He may prescribe the manner and form in which the books and accounts shall be kept, the extent to which they shall be audited, and the manner of safeguarding their money and securities. He has power to take control of a savings bank which is conducting its business in an unsafe and unauthorized manner.[23]

[22] Mass. Gen. Laws, ch. 175, secs. 3A, 4.
[23] Mass. Gen. Laws, ch. 167, secs. 5, 6, 22.

Further regulatory duties are imposed jointly upon both the commissioner of insurance and the commissioner of banks:

1. The decision of the trustees of a savings bank to establish an insurance department must be filed with both commissioners, and if they find the decision to be in conformity with law and are of the opinion that the special expense guaranty fund and either the special insurance guaranty fund or the guaranty contract has been provided, they may issue a joint certificate declaring the insurance department established.

2. The expense guaranty fund may not be retired without the approval of both commissioners.

3. They enforce the laws regulating the nature and the extent of the investments of the insurance departments.

4. They must approve the reinsurance of all outstanding policies and annuity contracts of such banks if the reinsurance is effected with any private life-insurance company.

5. They must examine, either personally or through their agents, the insurance department of each bank and the General Insurance Guaranty Fund, at least once every 3 years.

6. Reports of the financial condition of the insurance departments and of the General Insurance Guaranty Fund must be made annually to both commissioners. Other reports also may be required whenever the commissioners think it desirable.

7. The commissioners themselves are required to prepare annually a joint report on the condition of the insurance departments and the General Insurance Guaranty Fund and to submit this report to the General Court of Massachusetts (i. e., the legislature).

8. A vote to discontinue the insurance department of a bank must be filed with them.

9. If they believe the insurance department of a bank to be insolvent or if they think its continuance in business hazardous to the public or the policyholders, they may apply jointly to the Supreme Judicial Court of Massachusetts for an injunction to prevent the department from carrying on business.[24]

[24] Mass. Gen. Laws, ch. 178.

Chapter 3

Financial Operations of the System

The financial operations of the savings-bank life-insurance system differ in some essential characteristics from those of private life insurance companies. Thus the dividends distributed depend partly upon the experience of the entire system and partly upon that of the insurance departments of the individual bank. Similarly, the expenses of operation of the system involve not only the expenses of the banks themselves but also those of the Division of Savings Bank Life Insurance and of the Savings Bank Life Insurance Council. Furthermore, between 1908 and 1939 the insurance departments of the banks were taxed on a different basis than the insurance companies. And, finally, the control over the investments of the insurance departments, instead of being the same as that over insurance-company investments, is similar to the control exercised over the investment of the deposits of the savings banks.

Dividends

After contributions to surplus have been set aside by the insurance departments of the banks, the balance of net profits which remains must be distributed equitably each year among the holders of policies and annuity contracts. The sums so distributed are called "dividends" and their size, as has been pointed out, is determined in general by four factors: (1) Ratio of actual to anticipated expenses (or "loading"); (2) ratio of actual to expected mortality losses; (3) the excess of actual over required earnings on funds invested; and (4) gains or losses from investments. For example, in 1940 there were available total gains of $1,201,576.86, which arose from the following sources: The anticipated ratio of expense to premium income, that is, the ratio of "loading," was 11.2 percent, while the ratio of actual expense to premium income was only 9.35 percent. This gave rise to a gain of $97,398. The fact that the actual mortality losses of the system were only 33.67 percent of the expected losses resulted in a gain of $1,244,513.44. The funds earned 3.36 percent in interest, resulting in a gain of $36,698.13 above the amount required to maintain reserves. Of the total gain of $1,201,576.86, part was put aside to surplus, and $958,792 was apportioned for dividends. The 1939 experience was as follows: Gain from loading, $135,884; gain from mortality,

$1,127,512; gain from interest, $77,165; total gains, $1,272,354; apportioned for dividends, $1,062,109.[1]

Organizations selling insurance do not generally make frequent changes in their scale of dividends. It is customary to construct dividend scales, as stable as possible, upon a consideration of past experience with respect to mortality ratios, rates earned on invested assets, and expense ratios. The dividend scale thus arrived at by the State actuary for savings-bank life insurance is called "the basic scale." If the particular experience of any single insurance department is such that it can afford to pay dividends on this scale, it is said to be paying 100 percent of the basic scale. If its experience is not sufficiently favorable, it may be compelled to reduce its dividends to less than 100 percent of the scale.

Mortality experience, as has been shown, is shared by all the banks through the operation of the system of unification of mortality. The principle underlying this sharing is that, since the acceptance of applicants for insurance is the responsibility of the State medical director in the Division of Savings Bank Life Insurance and not of any particular insurance department, the latter should not bear the entire burden of a heavy mortality loss among its own policyholders. Each bank, however, does have control within broad limits over its investments and expenses, and its efficiency of operation. When a particular bank is unable to pay dividends at the 100-percent level, it is clear that its experience with investments and expenses of operation alone, and not with mortality, is the cause. The mortality experience of the system as a whole, however, enters into the establishment of the basic scale when it is formulated by the State actuary in the Division of Savings Bank Life Insurance.[2]

Expenses

The expenses of operating the savings-bank life-insurance system may be considered under two heads: (1) The expenses of operating the State Division of Savings Bank Life Insurance and (2) the expenses of operating the insurance departments of the various banks.

From the beginning, in 1907, through the year 1926, the expenses of operating the State division were met from appropriations made annually by the legislature. In 1907 the sum of $1,202 was spent for this purpose. From 1910 on, the expenses increased with considerable regularity until, in 1926, the operation of the division cost the State $31,112. In 1927, the legislature, acting on the recommendation of the governing officials of the division, passed a measure providing that the insurance banks should reimburse the State for the

[1] Annual Report of the Commissioner of Insurance of Massachusetts, 1939, pt. 2, table M. Data for 1940 were obtained from the Division of Savings Bank Life Insurance.

[2] For further discussion of the basic dividend scale see ch. 7 and appendix E.

costs of the stationery furnished the banks by the division.[3] In 1927 the State spent a total of $32,818.50 on operating expenses of the division and, under the new law, $2,313 of that amount was reimbursed to the State by the banks.

Again at the request of the governing officials of the division, the legislature, in 1929, passed a measure providing for progressive reimbursement, year by year, until by 1934 all operating expenses of the division would be met by the banks. The law required that 25 percent of the State's expenditures should be reimbursed in 1929, 40 percent in 1930, 55 percent in 1931, 70 percent in 1932, 85 percent in 1933, and 100 percent in each year thereafter.[4]

Table 8 shows the actual expenditures of the Division of Savings Bank Life Insurance from 1907 to 1933 inclusive, the reimbursements to the State, and the net expenditures met by the State. Since 1934 the entire expenditures have been reimbursed by the banks to the State.

TABLE 8.—*Disbursements of Division of Savings Bank Life Insurance, 1907 to 1933*

Year	Actual expenditures	Reimbursement to State	Net expenditures of State	Year	Actual expenditures	Reimbursement to State	Net expenditures of State
1907	$1,202.13		$1,202.13	1922	$28,082.42		$28,082.42
1908	7,132.53		7,132.53	1923	32,128.89		32,128.89
1909	15,733.40		15,733.40	1924	32,615.97		32,615.97
1910	11,438.09		11,438.09	1925	32,475.24		32,475.24
1911	14,222.57		14,222.57	1926	31,111.93		31,111.93
1912	14,997.33		14,997.33	1927	32,818.50	$2,312.80	30,505.70
1913	15,805.33		15,805.33	1928	35,122.61	3,722.32	31,400.29
1914	16,873.35		16,873.35	1929	37,359.98	9,339.54	28,020.44
1915	19,153.92		19,153.92	1930	38,290.41	15,279.94	23,010.47
1916	18,335.98		18,335.98	1931	42,316.98	23,317.75	18,999.23
1917	20,366.45		20,366.45	1932	41,189.69	28,412.20	12,777.49
1918	19,271.35		19,271.35	1933	40,740.39	36,717.66	4,022.73
1919	21,640.32		21,640.32				
1920	23,295.55		23,295.55	Total	670,248.43	119,102.21	551,146.22
1921	26,527.12		26,527.12				

The total expenses of $670,248 of the division for the period 1907–33 is 2.66 percent of the total premium income of $25,233,177 for the period. The actual cost of $551,146 to the State was 2.18 percent of the total premium income.[5] In the year 1940 the division expended approximately $61,000, all of which was paid by the banks.

Under a law passed by the 1939 legislature, beginning July 1, 1939, the banks now advance the appropriation for the expenses of the State division rather than repaying the actual expenditures at the end of the year as was formerly the case.

[3] Acts of 1927, ch. 188.

[4] See sec. 17 of the savings-bank insurance law.

[5] The measure providing for gradual reimbursement to the State prohibits the levying upon any insurance department of its share of the total reimbursement until the department shall have amassed a surplus of not less than $20,000, or until it has been established 5 years, whichever event takes place first. Until such time the share of the exempted bank is to be paid to the State by the trustees of the General Insurance Guaranty Fund from interest income on the fund. In 1940, only 5 of the 28 banks were paying nothing in reimbursement. None of them were as much as 5 years old and at the end of the preceding year none of them had acquired a surplus of $20,000 or more. (Annual Reports of the Commissioner of Insurance and Commissioner of Banks, pt. 2, table M.)

The expenses common to the operation of both departments of the insurance and savings banks, as has been pointed out, must be apportioned equitably between the two departments. So much discussion has arisen as to whether such an equitable allocation has in fact been made that the matter will be dealt with fully in chapter 7.[6]

Taxation

Prior to November 1, 1939, the savings-bank life-insurance funds and the General Insurance Guaranty Fund were taxed at the same rate, in the same manner, and to the same extent as were deposits in the savings banks. From November 1, 1939, the funds of the insurance departments of the savings banks have been subject to the same State taxes as the funds of the life-insurance companies.

The savings departments of the banks are required to pay an annual tax of one-half of 1 percent of their average deposits, the tax to be levied twice a year in such a way that the banks pay one-fourth of 1 percent on their average deposits of the preceding 6 months.[7] Not all of the deposits of the savings banks, however, are subject to taxation by the State.[8] Mutual savings banks are exempt from taxation under the Federal income-tax laws and this exemption extends also to their insurance departments.

Investments

The funds of the insurance departments of the banks must be "invested in the same classes of securities and in the same manner in which the deposits of the savings departments are required by law to be invested, except that [they] may make loans upon any policy of insurance or annuity contract issued by [them]." Such investments are restricted to the following: (1) Mortgages of real estate in Massachusetts not exceeding 70 percent of its value and, if the real estate is unimproved or unproductive, 40 percent of its value; (2) the public bonds of the United States, or of any State in the Union which has not defaulted for the preceding 20 years in the payment of

[6] Expenses of operation are also discussed in ch. 5.

[7] General Laws Relating to Taxation, ch. 63, sec. 11.

[8] Sec. 12 of ch. 63, General Laws, exempts from taxes such deposits as are invested in (1) real estate used for banking purposes; (2) loans secured by mortgage of real estate taxable in Massachusetts; (3) real estate on which the title has been acquired by foreclosure, for 5 years after the title thereof is vested in the bank; (4) bonds or certificates of indebtedness of the United States; (5) bonds or certificates of indebtedness of Massachusetts issued after Jan. 1, 1906; (6) bonds, notes, or certificates of indebtedness of any governmental unit in Massachusetts issued on or after May 1, 1908, and stating on their face that they are exempt from taxation in the State; (7) shares of stock of trust companies organized under the laws of Massachusetts; (8) (under ch. 362 of the Acts of 1934) bonds and certificates of indebtedness of the Home Owners' Loan Corporation if acquired in exchange for real estate under (3) above, or such bonds or certificates obtained through conversion of the securities so acquired pursuant to the Home Owners' Loan Corporation Act passed by Congress in 1933. Prior to Nov. 1, 1939, similar exceptions applied to the investment of the assets of the insurance departments of the banks. The question as to whether savings-bank life insurance has borne a smaller burden of taxation than life-insurance companies is dealt with in ch. 5.

either the principal or interest of its legal debt, the bonds or notes of a county, city, or town in Massachusetts, the bonds or notes of an incorporated district of the State whose net indebtedness does not exceed 5 percent of the value of the property therein, or the bonds or notes of any city in other States of the Union, under certain conditions; (3) certain kinds of railway bonds; (4) certain kinds of street-railway bonds; (5) certain kinds of bonds of telephone companies and other public utilities; (6) bank stocks and bank deposits; (7) bankers' acceptances; (8) personal notes secured by the endorsement of three citizens of the State or by proper collateral, and the notes of certain corporations, public utilities, and railroads; (9) farm loan bonds issued by the Federal Land Banks; (10) bank buildings; (11) real estate acquired by foreclosure; (12) securities acquired in settlement of an indebtedness, provided they be sold within 5 years after acquisition. The law also requires that no more than a certain proportion of the deposits of the savings banks shall be invested in some of the classes of securities specified above.

The ratio of the amounts invested in certain classes of property to the total admitted assets of the insurance departments in the year 1940 was as follows: (1) Mortgages, 23.32 percent; (2) bonds, 53.07 percent; (3) collateral loans, 0.4 percent; (4) stocks, 1.51 percent; and (5) real estate, 2.18 percent. In addition to these investments the insurance departments of the banks had advanced, in the form of loans on policies, an amount equal to 9.66 percent of their total admitted assets. Table 9 shows the proportion of investments of each type to the assets of the system as a whole.[9]

TABLE 9.—*Percentage of total admitted assets of the system invested in certain kinds of property, 1931 to 1940*

Year	Mortgages	Bonds	Policy loans	Collateral loans	Stocks	Real estate	All others [1]
1931	52.66	22.81	9.01	4.21	3.67	0.12	7.52
1932	49.82	26.08	10.60	2.10	3.28	.36	7.76
1933	47.03	28.16	10.74	2.33	2.12	1.49	8.13
1934	42.20	33.77	10.30	2.11	1.20	1.61	8.81
1935	36.81	38.77	9.99	1.41	1.74	2.88	8.40
1936	33.65	44.57	9.43	1.08	1.81	2.55	6.91
1937	29.29	48.77	9.30	.88	1.72	2.59	7.45
1938	27.53	50.69	9.74	.79	1.65	2.30	7.30
1939	25.37	51.29	9.66	.62	1.86	2.24	8.96
1940	23.32	53.07	9.66	.40	1.51	2.18	9.86

[1] "All others" includes cash in office and banks, interest and rents due and accrued, deferred and uncollected premiums, and several minor miscellaneous items.

[9] Annual Reports of the Commissioner of Insurance, pt. 2, table D. The ratio of investments in stocks is calculated on the basis of market values. The ratio as to bonds is calculated on the basis of the amortized value. The ratios given above take into consideration the investments and assets of the General Insurance Guaranty Fund.

Chapter 4

Savings-Bank Insurance and Company Insurance: Selling Methods, Policy Terms, and Policy Maintenance

Until recent years savings-bank insurance has represented only a small part of the total amount of insurance in force in Massachusetts. Its importance, however, is to be found in its characteristics, its potentialities, and in its recent rapid growth, rather than in its absolute size.

Administrative Organization

The administration of savings-bank insurance differs markedly from that of the private insurance companies. The executive direction of insurance companies is generally centered in a home office, which handles financial, actuarial, and other activities for the company as a whole. Fully as important as the work of the home office, however, is the work of the agents in the field, whose task it is to sell life insurance, and to collect premiums, especially in the case of industrial insurance. The field work of the companies may be organized in two ways—(1) under the general-agent plan, and (2) under the branch-office plan.

Ordinary insurance is usually sold under the general-agent plan. General agents are given charge of writing insurance policies within fairly large districts. They themselves engage subagents, with whom they make agreements as to commissions and similar matters. The subagents are responsible directly to the general agent, who in turn is responsible for the business of his district to the home office.

Under the branch-office plan districts are set up, at the head of each of which is a district manager or superintendent. Under him is a corps of assistant managers or "assistants" responsible to him. Each assistant is in turn responsible for the work of a number of agents. The salary arrangements under which the field force works under this plan are determined by the home office. Each agent is responsible to an assistant, each assistant to the superintendent or manager of the district, and the latter is responsible to the superintendent of agencies at the home office.

Industrial insurance is usually administered under the branch-office plan. There is very close supervision of the work from top to bottom. As a rule an assistant manager has under him as many as 8 or 9 agents. Each industrial agent is assigned a so-called "debit," which usually includes from 500 to 1,500 policies in a given closely

restricted area. One agent may not cross area lines to do business in the territory assigned to another agent. Whereas in the case of ordinary insurance the principal work of an agent consists in selling insurance, industrial insurance agents must not only sell insurance but collect weekly premiums as well.[1]

Payment of Insurance Agents

It has already been made clear that insurance solicitors and agents are not employed by the savings banks, although two persons are regularly employed on a salary basis by the Division of Savings Bank Life Insurance for the purpose of instructing industrial workers, upon request of their employers, respecting the advantages of this form of insurance. Except to the extent that the work of these instructors results in the buying of savings-bank insurance by industrial workers, the banks sell insurance across the counter or in response to applications by mail, without the solicitation of prospective policyholders by agents.[2] Much of the insurance ultimately purchased even by industrial workers is likely to be bought directly when they go to the savings banks for the purpose.

The only payment connected with savings-bank insurance which in any sense may be regarded as compensation for sales efforts is the 3 percent of premiums which in the past authorized agencies have been permitted to receive for collecting premiums and servicing policies for the underwriting banks. No compensation is ever paid individuals. Employer agencies are no longer permitted to collect this fee, but even when they had this privilege many of them did not take advantage of it. Collection fees paid in 1940 were only 1.6 percent of premium income.

Private insurance companies generally pay commissions to their agents for selling ordinary straight life insurance. These commissions average about 50 percent of the first year's premium and 5 percent of the annual premium for each of the next 9 years. In other words, the ordinary-insurance agent receives in commissions, during the first 10 years of the life of the policy, a sum equal to at least 95 percent of one annual premium. In addition to this, the general agent, under whom the agent works, usually receives what is called an "overriding" commission of 15 percent of the first year's premium, 10 percent of the second year's premium, and 2½ percent of all annual premiums thereafter. Thus in a period of 10 years the commissions of general agent and agent are likely to be equal to 140 percent of

[1] For a description of some of the problems characteristic of this system, see parts 10 and 12 of the Hearings before the Temporary National Economic Committee, and Monograph No. 28 (pp. 248–305): A Study of Legal Reserve Life Insurance Companies, submitted to the Temporary National Economic Committee by the Securities and Exchange Commission, Washington, 1940.

[2] See ch. 7, p. 82, for arguments pro and con regarding activities of these instructors.

one annual premium (95 percent to the agent plus 15 percent plus 10 percent plus 8 times 2½ percent).

The compensation of agents selling industrial insurance for the private companies is divided into two parts—that received for selling new insurance and that received for collecting premiums. Since 1938 most agents' contracts also provide for extra compensation for favorable conservation of policies in force. As a rule, there is a minimum collecting salary, which increases as the collections rise. The commission for writing new business varies with the different companies. In addition to commission and collection payments, the income of the assistant managers depends in part upon the business done by their agents, and that of the managers depends upon the business which comes through their offices. According to a study submitted by the Superintendent of Insurance in New York to a joint legislative committee on October 24, 1938, the average weekly compensation earned by managers, their assistants, and agents, of the largest company selling industrial insurance during the year 1936 was: Managers $187.87; assistant managers $69.61; agents $49.65.

If an ordinary-insurance policy is lapsed, the incomes of the general agent and agent suffer only to the extent that they receive no further commissions. In the case of industrial insurance, however, the situation is very different. Prior to 1938, the agent was held entirely responsible for all policy lapses. He received, for example, a commission of 24 weeks' premiums when he wrote a new policy, but if any policy lapsed on his debit the company charged him a sum equal to 24 weeks' premiums. Similarly, the managers and the assistant managers were also penalized when a policy lapsed.

When growth is constant, as was the case before 1929, the field staff benefits by the receipt of commissions and by the increase in premium collections, and the lapses are not sufficient to offset the gains made. On the other hand, when the amount of insurance lapsed exceeds the amount of new insurance written, payments to agents for new insurance are offset by the lapses. This gives rise to debts owed to the companies by the agents. Moreover, since the salary of the agent varies with the amount collected in premiums, he suffers a further loss of income. At such a time the pressure upon the field staff becomes enormous. Agents, on finding their incomes falling off and their indebtedness to the companies increasing, are tempted to resort to "high pressure" methods to maintain insurance in force and to write new insurance. Frequently they pay premiums out of their own pockets, though company rules forbid it, rather than suffer the burden of the debt of 24 weeks' premiums which a lapsed policy would cause.[3] The assistant manager, with his own income

[3] It should be noted that the company pays an agent a minimum salary so long as he is employed despite the amount of his debt on account of lapse penalties.

rapidly decreasing, finds himself similarly tempted and brings pressure upon the agents under him, for not only does his income suffer at such times, but he himself is the recipient of pressure from his manager. The latter, though his guaranteed minimum salary might be regarded as high, nevertheless is judged at the home office by his ability to "produce," and his own income is affected considerably by lapses in his district. The serious consequences of this situation was recognized as one of the major problems of industrial insurance and in 1938, New York, Massachusetts, and other States passed laws prohibiting companies from charging any sum against the compensation of an agent because of lapses if the policy had been in force 3 years or longer. At the same time the companies revised their entire basis for compensating agents and managers.[4] From all such problems the savings-bank insurance system appears to have been spared by the very nature of its method of operation.

Comparison of Policy Provisions

The provisions of savings-bank insurance policies are in some respects more advantageous to the policyholders than are those of ordinary policies issued by the insurance companies. Ordinary policies, whether sold by the banks or the companies, usually contain provisions respecting regular payment of dividends, obtaining of loans, automatic loans for the payment of premiums, cash surrender values, and other nonforfeiture privileges. In all of these matters the provisions of savings-bank ordinary policies are more liberal than those offered by the companies. Both the banks and the companies permit the assignment of ordinary policies for payment of debt and provide for the payment of insurance to the designated beneficiary or his heirs. In all of these respects the holders of industrial policies are at a disadvantage.

Industrial policyholders, however, have an advantage over the holders of ordinary policies issued by private companies in that provisions permitting the waiver of premiums in case of disability, clauses providing for benefit in case of disability, and those granting double indemnity in the event of accidental death are included without additional premium. The ordinary policies issued by the savings banks contain none of these provisions.

Dividends.—In view of the fact that the cost of insurance to the policyholder depends not only upon the amount he pays in premiums,

[4] For an exhaustive study of these problems see U. S. Temporary National Economic Committee, Hearings, pt. 12, Industrial Insurance, Washington, 1940; and Monograph No. 28: A Study of Legal Reserve Life Insurance Companies, submitted by the Securities and Exchange Commission to the Temporary National Economic Committee (pp. 192–305), Washington, 1940. Information concerning the administration of the insurance business and the method of paying commissions and salaries to agents for ordinary and industrial insurance, may be found in any good treatise on life insurance. Taylor, Maurice, The Social Cost of Industrial Insurance, New York, 1933, and Maclean, Joseph B., Life Insurance, New York, 1939, are recent and useful treatises.

but also upon what he receives in the form of dividends, those provisions in insurance policies which have to do with the payment of dividends are of importance. The holders of savings-bank policies and of ordinary participating policies issued by the insurance companies are entitled to annual payment of dividends, if earnings permit. Dividends are payable to policyholders of the banks after the insurance has been in force for 1 year. The companies usually pay their ordinary policyholders dividends after the policies have been in force for 1 or 2 years, though some of them require, as a condition to receiving these dividends, the payment of premiums for the second or third year.

In the case of industrial insurance, dividends are not payable until after 4 years. Even then they are rarely paid in cash. Only one industrial company provides for cash payment of dividends to industrial policyholders. A second company applies dividends to the reduction of premium payments, and this is the usual practice of the first company as well. A third company pays dividends neither in the form of cash nor as premium deductions, but credits the industrial policyholder with paid-up insurance purchasable by the dividends due him.

Loans.—The ability to borrow money on an insurance policy is often a valuable privilege. Savings-bank policyholders may obtain loans after their insurance premiums have been paid for 1 year. The holders of ordinary policies issued by the companies do not usually have this privilege until after 2 or 3 years. Industrial policies do not provide for the making of loans at any time.

Automatic premium loans.—A policyholder frequently finds himself in the position of having permitted his policy to terminate without intending to do so, merely because he has forgotten or has temporarily been unable to pay premiums. The savings banks provide against such a contingency by making loans on policies in order to credit the insured with the payment of premiums when these are not received from the policyholders. Such loans are made by the banks after the policy has been in force 1 year, provided the insured has so authorized, either at the time of application or later. In such cases the loans are made automatically, without waiting for directions from the insured. The holders of ordinary policies issued by the companies do not, as a rule, receive the privilege of automatic premium loans. None of the companies selling industrial insurance permit automatic premium loans to their industrial policyholders.

Cash surrender.—The privilege of receiving cash for a policy instead of maintaining the insurance in force by the payment of premiums is also of great value to the policyholder. Holders of savings-bank policies may obtain a cash value if they do not desire or are unable to continue their insurance at any time after it has been in force for 6

months. The holders of ordinary policies issued by the private companies usually do not receive any cash for their policies unless they have been in force for 2 years, though some companies pay a small cash value after 1 year. Industrial policyholders do not receive cash values until their policies have been in force 3 years or more.[5]

Since April 1931, the three largest industrial insurance companies have made exceptions to this practice. As a result of distress among numerous policyholders and in response to a general demand from public and private welfare agencies concerned with the burden of industrial insurance among families receiving relief benefits, the companies established a life insurance adjustment bureau in New York. The bureau was authorized to adjust the amounts and types of insurance carried by clients of welfare agencies throughout the country, and to give cash surrender values in worthy cases before the end of the period usually required.[6]

Paid-up and extended term insurance.—If the holder of an insurance policy discontinues the payment of premiums and does not desire to surrender the policy for its cash value, he is entitled to receive a paid-up insurance policy for a reduced amount of insurance, or a policy providing for the original benefit for a certain limited (i. e., extended) term. Savings-bank policyholders are entitled to these privileges, which, together with that of obtaining cash surrender values, are called "nonforfeiture privileges," after premiums have been paid for 6 months. Holders of ordinary policies with the private companies are entitled to them, for the most part, only after the insurance has been in force 3 years, though in some cases they are available after 1 or 2 years. Industrial policyholders are not entitled to paid-up insurance until after 3 years. Industrial policies issued within the last few years provide for extended term insurance after premiums have been paid 26 weeks or more.

Assignment for debt.—The holder of a savings-bank policy, or of an ordinary policy carried with the insurance companies, has the privilege of assigning the proceeds of his policy as security for or in payment of a debt. No such privilege is available to the holder of an industrial policy.

Payment of benefits to named beneficiaries.—Holders of bank policies and of ordinary policies of the insurance companies are protected by a

[5] The amount of cash obtainable when a company policy is surrendered is equal to its full reserve value, plus accrued dividends, and minus a surrender charge, which is limited by law to 2½ percent of the face value of the policy. Surrender charges are not made if the policy has been in force for a certain period, the length of which varies among the companies. The surrender charge made by the savings banks is limited to 1 percent of the face value of the policy. The banks pay cash value before 6 months have expired if the reserve on the policy exceeds $2 per $1,000 of insurance. In such a case the entire reserve in excess of this amount is paid. There is no surrender charge after 6 months.

[6] For a description of the activities of this bureau, see U. S., Temporary National Economic Committee, Hearings, pt. 12, Industrial Insurance, Washington, 1940, pp. 5783–5799, and Monograph No. 28, A Study of Legal Reserve Life Insurance, submitted by the Securities and Exchange Commission to the Temporary National Economic Committee, Washington, 1940, pp. 295–303.

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provision that settlement of the insurance on maturity shall be according to the terms contracted for in the policies. Payments are to be made only to named beneficiaries, or, in case of death of the latter, to the heirs of the insured, unless otherwise provided in the policy. It is quite different, however, as regards industrial insurance. Although present industrial policies permit the insured to name a beneficiary or beneficiaries to whom the proceeds will be paid at death, provision is made that if the beneficiary so named does not submit claims within a certain period (30 or 60 days) after the policyholder's death, the company may make payment at its discretion to the executor or administrator of the insured's estate, or to a named beneficiary, or to any relative by blood or connection by marriage who appears to be equitably entitled to such payment. While this may seem to give the companies considerable discretion, it is much more liberal than the "facility of payment" clause contained in policies issued prior to 1937, which read substantially as follows:

> The company may make any payment or grant any nonforfeiture privilege provided herein to the insured, husband or wife, or any relative by blood or connection by marriage of the insured, or to any other person appearing to said company to be equitably entitled to the same by reason of having incurred expense on behalf of the insured, or for his or her burial; and the production of a receipt signed by either of said persons, or of other proof of such payment or grant of such privilege to either of them, shall be conclusive evidence that all such claims under this policy have been satisfied.

The opportunities for abuses which arose because of this provision constituted a major shortcoming of industrial insurance. It gave rise to instances of payments to persons who should not have received the benefit of insurance payments. It assumed that though the beneficiary of an ordinary policy is entitled to the protection which the rigorous terms of the contract provide for him, the beneficiary of an industrial policy has his interests amply safeguarded if the company uses its own judgment as to who is entitled to receive benefits.[7]

Disability.—In recent years life-insurance policies containing so-called "disability" clauses have assumed importance. In 1896 one American company provided in its policies that in case the insured was totally disabled further payment of premiums was to be waived, and on maturity the beneficiary would be paid as though premium payments had been met continuously. By the year 1910 such a provision had become general in ordinary policies sold by the insurance companies. Thereafter, especially in the 1920's, in order to compete with those who had initiated a different disability provision, companies generally began to pay to the insured, in case of total and

[7] See Taylor, Maurice, The Social Cost of Industrial Insurance, New York, 1933, pp. 80–84, for a well-considered treatment of this problem, and for a statement of the companies' position on the matter. See also U. S. Temporary National Economic Committee, Hearings, pt. 12, Industrial Insurance, Washington, 1940, and Monograph No. 28, A Study of Legal Reserve Life Insurance Companies, Washington, 1940, p. 293.

permanent disability, an income of $10 a month for each $1,000 of insurance. The waiver of premium payments was also included in the disability clause. The disability income provisions became increasingly burdensome to the companies, and in 1932, as a result of an agreement, 10 of the largest insurance companies, including the most important in the country, discontinued the issuance of policies containing provisions for the payment of disability incomes and confined their disability clauses to the waiver of premium payments. The companies generally charge a small extra premium for this privilege.

The usual industrial insurance policy contains a disability clause which provides for the waiver of premiums under certain limited conditions, without requiring extra premiums. Income payments at regular intervals to totally disabled persons are not made. Some companies not only waive further premiums when the insured becomes totally and permanently disabled, but pay one-half or all of the face value of the policy at once. The companies, despite this previous payment, usually pay the whole face value on maturity.[8]

The savings-bank insurance policies contain no disability clauses of any kind.

More precise details as to the terms of ordinary policies sold by the banks and by seven of the most important mutual companies, and of the industrial policies sold by the three most important industrial companies, are presented in table 10.

[8] Maclean, J. B., Life Insurance, New York, 1939, p. 354; Taylor, Maurice, The Social Cost of Industrial Insurance, New York, 1933, pp. 206–209. See also U. S. Temporary National Economic Committee, Hearings, pts. 10A and 12, Washington, 1940, and Monograph No. 28, Washington, 1940, pp. 336–341.

TABLE 10.—*Terms of policies issued by the savings banks, 7 of the insurance companies, and 3 industrial-insurance companies*[1]

Companies	Dividends[2]	Cash surrender	Surrender charge	Loans	Paid-up insurance	Extended-term insurance	Disability	Double indemnity for accidental death
Savings banks	First year (nc.)	After 6 months	To 6 months	After first year (automatic premium loan on request).	After 6 months	Automatic after 6 months.	None	None.
Ordinary companies:								
Company 1	Second year (nc.)	After second year	To twentieth year.	After second year.	After second year.	Automatic after second year.	Premium waiver (extra premium).	Extra premium.
Company 2	Generally third year (nc.).	do	To tenth year.	do	do	do	do	Do.
Company 3	First year (c.) (nc. thereafter).	After first year	To second year.	After first year	After first year	Automatic after first year.	Premium waiver ($10 per $1,000 per month for men, $5 per $1,000 per month for women) (extra premium).	None.
Company 4	do	After second year	do	After second year.	After second year.	Automatic after second year.	Premium waiver (extra premium).	Extra premium.
Company 5	Second year (nc.)	After third year on straight life; after second year on endowment.	To twentieth year.	After third year on straight life; after second year on endowment.	After third year on straight life; after second year on endowment.	Automatic after third year on straight life; automatic after second year on endowment.	do	Do.
Company 6	First year (c.) (nc. thereafter).	After second year	To ninth year.	After second year.	After second year.	Automatic after second year.	do	None.
Company 7	Second year (nc.)	After second or third year.	do	After second or third year.	After second or third year.	Automatic after second or third year.	Premium waiver (no extra premium).	Extra premium.
Industrial companies:								
Company 1	After 4 years (deductions from premiums only).	After 3 years		None	After third year	Automatic after 26 weeks.	Premium waiver (payment of half face value of policy and payment of full face value on death).	Paid, no extra premium required.
Company 2	After 5 years (paid-up additional insurance only).	do		None	do	Automatic after 2 weeks on endowments, or 3 weeks on life policies.	Premium waiver (payment of face value for half disability, payment of full face value for full disability, and payment of full face value at death).	Do.

Company 3	After 5 years (cash or deduction from premiums).	do		None	do	Automatic after 26 weeks.	Premium waiver (payment half face value and payment full face value at death).	Do.

[1] The ordinary companies covered in this table include 6 important mutual insurance companies doing business in Massachusetts and a seventh company of very long standing chartered by the State. Details as to policy terms for the ordinary-insurance companies have been taken from the 1939 editions of the Flitcraft Compend and of the Spectator Co.'s "Handy Guide to Standard and Special Contracts."

[2] "c.," that is, "conditioned," indicates that dividends are paid only after renewal premiums are paid; "nc.," that is, "nonconditioned," indicates that dividends are paid whether or not renewal premiums are paid.

Maintenance of Insurance by Policyholder

The fundamental purpose of buying an insurance policy is to secure protection. It is commonplace, however, that not all insurance is maintained in force by the policyholder until it is terminated by death, maturity, or expiry. Policies may lapse—that is, they may be terminated by the failure to pay premiums—and the insured receives in return for what he has paid in the past only the insurance protection which was his while the policy was in force. Policies may be surrendered for cash, and the insured gets in return for his past premiums the insurance protection received while the policy was in force and a sum in cash, in addition. It is clear that a policy which is terminated by death, or maturity, fulfills completely the purpose for which it was bought, that a surrendered policy does so to a lesser extent, and that a policy which is lapsed serves the policyholder or his beneficiary least of all.

It might naturally be expected that if a policyholder is entitled to receive cash surrender value on his policy or to obtain a loan on it at a comparatively early date, he is unlikely to permit it to lapse. The amount he may receive as a loan is about as much as he may obtain in cash surrender value, except that in the first instance interest is deducted in advance from the reserve to which he is entitled, while in the second instance the surrender charge is deducted and the policy is canceled. If his insurance has been in force 1 year and he is unable to continue his premium payments, the fact that he may borrow on his policy or that he is entitled to surrender it for cash would have the effect of preventing a lapse. If he has to wait 3 years for these privileges, the probability of lapse would be greater.

The savings-bank policies may be surrendered for cash after 6 months, and often even earlier. Loans may be obtained on the policies after a year. These terms are more favorable than those offered by the insurance companies. It would be reasonable to expect, therefore, that the banks would have a smaller proportion of lapses. The data show this to be the case. The proportion of lapsed insurance to new insurance written for 27 ordinary companies, 4 industrial companies, and the savings banks, all operating in Massachusetts since 1908, at 4-year intervals from 1911 to 1931, is shown in table 11. The data are given separately for savings-bank ordinary, company ordinary, and industrial insurance.[9]

[9] The 27 ordinary insurance companies and the 4 industrial insurance companies here covered include all of the companies in the State which carried on business continuously in the period from 1908 to 1931. The data for these companies have been borrowed from an unpublished thesis by D. Bradford Damon, entitled "The Economic Value of Savings Bank Life Insurance" (Boston, 1933), p. 51. This thesis is available at the library of Northeastern University.

TABLE 11.—*Proportion of lapsed insurance to new insurance written, at 4-year intervals, 1911 to 1931*

Year	Savings-bank ordinary	Company ordinary	Industrial	Year	Savings-bank ordinary	Company ordinary	Industrial
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
1911	14.4	15.4	57.5	1923	1.9	18.3	34.8
1915	4.1	16.8	56.4	1927	.9	24.3	57.5
1919	2.6	9.7	39.6	1931	1.2	33.3	61.8

The table shows that the highest lapse ratio for the savings banks in the years represented was reached in 1911, when it stood at 14.4 percent. The lowest lapse ratio was that of 1927, when it was 0.9 percent. The highest ratio for ordinary insurance sold by the companies during the years covered was reached in 1931, when the figure was 33.3 percent. The lowest ratio was that of 1919, when it stood at 9.7 percent. The highest ratio for industrial insurance was that of 1931, when the figure was 61.8 percent, while the lowest ratio for the years covered in the table was 34.8 percent, reached in the year 1923. If one averages the experiences of all years during the entire period from 1908 to 1931, for the companies included in the table above and for the banks, the average proportion of lapsed insurance to new insurance written each year was 2.6 percent for savings-bank insurance, 21.0 percent for ordinary insurance, and 54.5 percent for industrial insurance.

If the experience of all the insurance organizations operating in Massachusetts is considered, it is found that the proportions of insurance lapsed to new insurance written were 1.54 percent for the savings banks, 30.33 percent for all company ordinary insurance, and 28.90 percent for industrial insurance in the year 1938, and 1.44, 27.61 and 16.62 percent, respectively, in the year 1939.[10] An analysis of the proportion of insurance lapsed to all insurance in force is likewise greatly to the advantage of the banks. Thus the rate of lapses in 1938 to insurance in force at the beginning of the year was 0.23 percent for the banks, 2.45 percent for ordinary insurance, and 3.66 percent for industrial insurance.

A comparison of the proportion of the number of policies lapsed, rather than of the amount of insurance lapsed, to new policies issued

[10] If the analysis is based not on the proportion of new insurance written in each year but on the amount of insurance terminated, the experience of the years 1908 to 1931 indicates that on the average the proportion of insurance lapsed to the face value of all insurance terminated (by death, maturity, expiry, surrender, and lapse combined) was 38.3 percent for ordinary, 73.5 percent for industrial, and 12.9 percent for savings-bank insurance. (Damon, D. Bradford. The Economic Value of Savings-Bank Life Insurance. Boston, Northeastern University, 1933 (unpublished thesis), p. 51.)

shows similar results. Table 12 shows the proportions for all insurance organizations for the years 1931 to 1939, inclusive.[11]

TABLE 12.—*Ratio between number of policies lapsed and number of new policies written, 1931 to 1939*

Year	Savings-bank ordinary	Company ordinary	Industrial	Year	Savings-bank ordinary	Company ordinary	Industrial
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
1931	1.2	35.7	76.2	1936	1.3	29.9	34.5
1932	2.6	45.6	107.5	1937	1.4	26.3	30.8
1933	2.6	40.9	88.9	1938	1.7	30.4	27.6
1934	2.3	32.8	69.8	1939	1.4	18.4	16.6
1935	2.3	32.4	45.3				

It should be pointed out that in recent years the industrial companies have been granting extended term insurance values in event premiums are discontinued after 26 weeks' payments have been made. Thus, the lapse ratio is less, but the number of "expires" has soared since a large percentage of industrial policies issued are never carried as long as 3 years.

There are several reasons for this favorable lapse experience of the savings banks. One is to be found in the provisions of their policies as described above. Of particular importance is the fact that insurance carried with the banks can be surrendered for cash after it has been in force only 6 months and even earlier, as contrasted with the usual 2- or 3-year period on ordinary policies carried with the companies and with the 3-to-5-year period on industrial policies. Further factors are the nonforfeiture privileges, which are available after 6 months on savings-bank policies, as compared with 2 or 3 years on company policies, and the fact that loans are available at the end of 1 year in contrast to the usual 2- or 3-year limit on ordinary insurance and the absence of loan provisions in industrial policies. It is possible also that the rapid growth of the system has some effect which might be eliminated when the rate of growth declines. A final factor is that savings-bank insurance is not likely to be oversold, and is accordingly less likely to be given up by the policyholder.

The unusually small number of lapses of savings-bank policies might appear to be due to the fact that policyholders terminate their insurance by surrendering their policies for cash. The banks' experience with respect to cash surrender does not, however, disclose a very large proportion of surrendered insurance. Table 13 presents the proportion of cash surrender to new insurance written by the organizations

[11] Information concerning the ratio between the amount of insurance lapsed and the sum of the amount of new insurance plus the amount of old insurance revived, yields similar results to that in the foregoing tables. The proportion of lapses for 1924 on this basis was 20.7 percent for company ordinary. The lapse ratio had risen to 46.6 percent by 1932. The lapse ratio for industrial insurance on this basis was 42.2 percent in 1924. By 1932 it had mounted to 79.8 percent. On the other hand, the lapse ratio for the banks was 3.1 percent in 1924. By 1932 it had fallen to 2.6 percent. (Annual Reports of the Commissioner of Insurance of Massachusetts, tables G and H.)

operating in Massachusetts since 1908, at 4-year intervals from 1911 to 1931, for savings-bank ordinary, company ordinary, and industrial insurance, together with the figures for all companies operating in Massachusetts in 1935 and 1938.[12]

TABLE 13.—*Proportion of cash surrender to new insurance written, at 4-year intervals, 1911 to 1938*

Year	Savings-bank ordinary	Company ordinary	Industrial	Year	Savings-bank ordinary	Company ordinary	Industrial
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
1911	16.6	13.3	2.9	1927	12.8	12.9	8.6
1915	17.9	15.4	5.0	1931	13.2	28.0	23.1
1919	16.7	6.1	3.8	1935	19.4	34.1	42.7
1923	5.0	12.2	3.9	1938	13.8	27.4	45.5

Savings-bank ordinary insurance experienced its lowest cash surrender ratio in the 4 years covered by the table in 1923, when the proportion of cash surrender values to new insurance written was 5 percent. The highest ratio was that of 1935, when it stood at 19.4 percent. Company ordinary insurance experienced the lowest ratio in 1919, when it stood at 6.1 percent. The highest ratio was that of 1935, when the proportion was 34.1 percent. The lowest proportion for industrial insurance in the years covered by the table was 2.9 percent in the year 1911, and the highest, 45.5 percent, in the year 1938.

During the years 1932 and 1933 the savings banks, in common with the insurance companies, experienced a large increase in cash surrender ratios. In 1932 the ratios were 33 percent for savings-bank ordinary insurance, 57.1 percent for the ordinary insurance of all companies operating in the State, and 34.9 percent for all industrial insurance. In 1933 the ratios had risen still further to 45.6, 68.4, and 48 percent, respectively.[13]

A policyholder who is under financial pressure but who desires to maintain insurance in force, rather than to surrender his policy for cash, may prefer to borrow on it. He can thus pay premiums from the proceeds of his loan and at the same time get financial relief. The savings banks extend policy loans after the insurance has been in force for 1 year. The insurance companies, on the other hand, do not as a rule lend on ordinary policies until after 2 or 3 years. They do not lend at all on industrial policies. Despite the fact that the savings-bank experience with cash surrender shows that fewer policy-

[12] The companies included for the years 1911 to 1931 are the same as those covered in table 11 on p. 45. All companies operating in Massachusetts are included for 1935 and 1938.

[13] The data for ordinary-insurance surrender ratios prior to 1932 refer to the experiences of 27 ordinary companies and 4 industrial companies, and come from Damon, D. Bradford, The Economic Value of Savings Bank Life Insurance, Boston, Northeastern University, 1933 (unpublished thesis). Information upon which the percentages of cash surrender values to new insurance in 1932 and 1933 are based is for all companies and comes from the Annual Reports of the Commissioner of Insurance of Massachusetts, pt. 2, tables G and H.

holders resort to it than do those of the companies, and despite the fact that the banks make loans on policies at an earlier date, savings-bank policyholders make less use of their borrowing privilege than company policyholders. Table 14 shows the percentage of all assets invested in policy loans by all insurance organizations doing business in Massachusetts and by the savings banks considered separately.[14]

TABLE 14.—*Percentage of assets invested in policy loans, 1928 to 1939*

Year	All insurance, including savings-bank insurance	Savings-bank insurance	Year	All insurance, including savings-bank insurance	Savings-bank insurance
	Percent	*Percent*		*Percent*	*Percent*
1928	11.5	7.1	1934	15.4	10.3
1929	12.6	7.2	1935	13.9	10.0
1930	13.7	7.9	1936	12.5	9.4
1931	15.4	9.0	1937	11.8	9.3
1932	17.0	10.6	1938	11.2	9.7
1933	16.6	10.7	1939	10.0	9.7

During this 12-year period the lowest percentage of assets invested in policy loans by all insurance organizations considered as a whole was reached in 1939, when it stood at 10.0. The highest percentage was reached in 1932, when the figure was 17. In the case of savings-bank insurance, the lowest proportion of assets invested in policy loans was that of 1928, when the ratio was 7.1 percent. The proportion rose with some degree of regularity until it reached its highest level of 10.7 percent in 1933.

Attention should be given to the fact that loans on insurance policies are to a large extent not repaid. Consequently, if the loan plus the accumulated interest exceeds the surrender value of the policy, the insurance is in effect canceled. The final result of borrowing on a policy may thus be the same as that of surrendering it for cash, and the proportion of assets invested in loans has a direct bearing upon the problem of maintaining insurance in force.

It is evident from the data on lapses, cash surrender, and policy loans that savings-bank policies are more likely to be kept in force than are those issued by the insurance companies. The terms of the savings-bank policies themselves, which facilitate cash surrender and borrowing, serve to explain in part why lapse ratios are unusually low. The relatively small amount of surrendered insurance and policy loans cannot, however, be explained to any great extent by the favorable terms of the policies. It is probable, however, that an important explanation of the relatively large number of surrendered policies and policy loans experienced by the insurance companies is

[14] Data on amounts and proportions invested in policy loans are contained in the Annual Reports of the Commissioner of Insurance of Massachusetts, pt. 2, table D.

the fact that the latter have outstanding a larger proportion of old policies than the banks have. As a consequence, the reserves on the company policies are likely to be larger, and the surrender and loan values being likewise greater, the policyholder is tempted to take advantage of them to a greater extent than he would be if the policy were relatively new and the amounts available small. How important this factor is can only be surmised. Though it is probably of some consequence, its importance will obviously diminish as the savings-bank insurance system grows older and its proportion of old policies increases.

The fact that savings-bank policies are more likely to be maintained in force than those of the insurance companies has another important explanation, however. In the absence of a system of agents' commissions, savings-bank insurance is not so often oversold and the persons who buy it are more likely to purchase only what they believe they can afford. They are thus not so likely to permit their policies to lapse, to surrender them, or to borrow on them as are persons who have been sold more insurance than they can afford to carry.[15]

[15] See appendix F for a comparison of the surpluses of the companies and of the insurance departments of the banks.

The reserves required by law are the same for the insurance companies and the insurance departments of the banks, though the interest rate assumed is not always the same. The banks and many of the insurance companies assume that reserve funds on their ordinary insurance will earn interest at the rate of 3 percent, and use the American Experience Table in calculating reserves. The industrial-insurance reserves of the companies have been based on the Standard Industrial Mortality Table and an assumed interest rate of 3½ percent.

Chapter 5

Savings-Bank Insurance and Company Insurance: Costs to Policyholder

We have seen that in general the terms of savings-bank life-insurance policies are more advantageous to the policyholders than are those of policies issued by the insurance companies, and that savings-bank insurance is more likely to be kept in force. These are matters of much importance to policyholders, but they are probably of no greater consequence than is the cost of carrying the insurance. Does it cost more or less to buy savings-bank insurance than it does to buy life insurance from the companies? If there is a considerable difference in cost, what is the reason?

Cost to the Policyholder

The most effective and the fairest method of comparing the costs of the insurance sold by different insurance organizations is to determine what a policyholder of a given age, carrying a given type of protection, would have actually paid out on the average for each year if he had carried his policy during a certain period and then surrendered it for cash. This amount would be made up of the premiums paid each year, the size of which would depend upon his age on becoming insured as well as upon the amount and kind of insurance carried. The size of the annual premium would of course not change from year to year. At the end of each year the policyholder would usually receive a dividend, which would tend to be greater with each succeeding year as the reserves on his policy grew in size. If one adds the total premiums paid during a given number of years and subtracts from that sum the total amount received in dividends, the result is the net amount he has paid to keep the insurance in force during the period. If, however, a person surrenders his policy at the end of a given period, he gets a cash value. In order to find what it has cost to be protected during the period prior to surrendering the policy, it is necessary to deduct from the net amount paid what is received in cash surrender value. The result is the net cost for the period, and dividing it by the number of years in the period gives the average yearly net cost. (The net cost as thus computed does not take into account the interest earned on premiums.)

A simple example will make the method clearer. Suppose that the annual premium is $25 per year and that the policy is maintained for 10 years. The sum of the 10 years' premiums is $250. Assume that in 10 years dividends to the amount of $50 have been returned to the policyholder. The net payments for 10 years are therefore $200. Suppose, further, that when the policy is surrendered for cash the insured receives the sum of $140. The net cost of carrying his insurance for the 10-year period is thus $200 minus $140, or $60. Dividing this by 10 gives the average yearly net cost, or $6.

In the comparisons of net cost that follow it is assumed that the insurance policy has a face value of $1,000; that it was taken out in 1930; that the policyholder was then 35 years old; that the premiums were paid annually; that the dividends entering into the computation were those actually paid over the period 1931 to 1941; and that the policy was carried for 10 years and then surrendered for cash.[1] The policies to be considered are an ordinary straight life policy, an ordinary 20-payment life policy, and an ordinary 20-year endowment policy. The policies compared are those issued by 9 of the most important life-insurance companies in the country, and by the 15 savings banks operating in 1930 considered as a whole.

Table 15 compares the net costs of an ordinary straight life policy.

TABLE 15.—*Annual net costs of a $1,000 straight life policy issued in 1930, at age 35, based on actual dividends paid during following 10 years, and assuming policy was surrendered in 1940*

Company	Average yearly net cost	Bank	Average yearly net cost
Company:		Bank:	
No. 1	$8.01	No. 1	$2.22
No. 2	6.49	No. 2	2.85
No. 3	7.20	No. 3	3.69
No. 4	[1] 4.41 [2] 6.40	No. 4	3.69
		No. 5	2.22
No. 5	7.26	No. 6	2.22
No. 6	6.36	No. 7	2.89
No. 7	5.66	No. 8	2.52
No. 8	6.84	No. 9	2.60
No. 9	4.79	No. 10	3.42
		No. 11	2.66
Average, 9 companies	6.34	No. 12	2.40
		No. 13	2.40
		No. 14	2.40
		No. 15	2.59
		Average, 15 banks [3]	2.72

[1] Company No. 4 issues a straight life policy only in amounts of $5,000 or more, but its costs are shown for comparative purposes on a $1,000 basis.
[2] Company No. 4 issues this policy in amounts of less than $5,000 in the form of endowment at age 85.
[3] 15 banks are here covered because only that number were operating in 1930.

As shown above, the annual net cost of policies issued by the companies averaged $6.34, or 233 percent, more than the average annual

[1] Tables presenting the data entering into the comparisons here made in more complete form may be found in appendix G, on comparative costs of insurance to the policyholders. The appendix also includes tables of comparative costs based on the assumption that dividends paid in 1940 would continue to be paid during the 10 years following.

net costs of policies issued by the banks. The average annual cost of the policy with the banks was $5.29 less than the cost of the policy written by the company with the highest cost, and $1.69 below that of the company with the lowest cost.[2]

The comparative average yearly net costs of a $1,000 20-payment life policy issued at age 35 are shown in table 16.

TABLE 16.—*Annual net costs of a $1,000 ordinary 20-payment life policy issued in 1930, at age 35, based on actual dividends during following 10 years, and assuming policy was surrendered in 1940*

Company	Average yearly net cost	Bank	Average yearly net cost
Company:		Bank:	
No. 1	$6.75	No. 1	$0.54
No. 2	4.97	No. 2	1.29
No. 3	5.68	No. 3	2.27
No. 4	5.26	No. 4	2.27
No. 5	5.36	No. 5	.54
No. 6	4.78	No. 6	.54
No. 7	3.87	No. 7	1.34
No. 8	5.05	No. 8	.90
No. 9	2.95	No. 9	.99
		No. 10	1.96
Average cost, 9 companies	4.96	No. 11	1.06
		No. 12	.75
		No. 13	.75
		No. 14	.75
		No. 15	.97
		Average, 15 banks [1]	1.13

[1] 15 banks are here covered because only that number were operating in 1930.

In the case of 20-payment life-insurance policies, the annual net cost of those policies issued by the 9 companies averaged $3.83 higher than the net costs charged on the average by the savings banks. The banks charged $5.62 less than the company with the highest cost and $1.82 less than that with the lowest cost. The bank with the highest cost was still 23 percent less than the company with the lowest cost.

The final comparison for ordinary insurance concerns the costs of a $1,000 20-year endowment policy issued at age 35.

The annual net cost of the 9 companies for this type of policy was $2.44 cents, while all the banks, considered as a whole, returned to the policyholders an average annual net gain of $2.33. The net gains of the 15 banks varied from $1.35 to $2.88. Thus all the banks not only furnished the protection, but returned to the policyholders a sum in dividends and cash surrender values which was greater than all the premiums paid.[3]

[2] It should be noted that the amounts recorded in the tables in this section and in appendix G do not take into account the factor of compound interest. If costs recorded took this factor into account the results would be different in actual amounts, but the costs with the banks would still be lower.

[3] The data on premiums, dividends, and cash surrender values for the companies upon which the foregoing tables are based come from the Flitcraft Compend for 1940. Data for the savings banks were obtained from the Division of Savings Bank Life Insurance, Statehouse, Boston.

TABLE 17.—*Annual net costs of a $1,000 ordinary 20-year endowment policy issued in 1930, at age 35, based on actual dividends during following 10 years, and assuming policy was surrendered in 1940*

Company	Average yearly net cost	Bank	Average yearly net gain [1]
Company:		Bank:	
No. 1	$4.07	No. 1	$2.88
No. 2	2.71	No. 2	2.13
No. 3	3.02	No. 3	1.35
No. 4	2.97	No. 4	1.35
No. 5	2.52	No. 5	2.88
No. 6	2.60	No. 6	2.88
No. 7	1.30	No. 7	2.14
No. 8	2.37	No. 8	2.53
No. 9	.43	No. 9	2.44
		No. 10	1.52
		No. 11	2.38
Average cost, 9 companies	2.44	No. 12	2.68
		No. 13	2.68
		No. 14	2.68
		No. 15	2.47
		Average gain, 15 banks [2]	2.33

[1] All of the 15 banks actually returned a net gain to the policyholder. None of the companies did.
[2] 15 banks are here covered because only that number were operating in 1930.

The comparative costs which are shown in the foregoing tables represent only what it would have actually cost to carry the policies in question with the different insurance organizations under the conditions assumed. If other conditions had been assumed, the actual costs to the policyholders would have been different. If a period of 5 or of 15 years, instead of a 10-year period, had been assumed, or if the assumed age had been other than 35, or if the dividends entering into the computation had been assumed throughout to be those paid in the year 1940, or if the policies were assumed to have been issued in 1931 instead of 1930, and the dividends payable in 1941 were therefore substituted for those paid in 1930, the results of the comparisons would also have differed. In general, however, the comparisons, whatever the basis upon which they might have been made, would have shown similar results, namely, that the cost of savings-bank ordinary insurance to the policyholders is in general considerably below the cost of ordinary insurance sold by the companies.[4]

A comparison of the cost of savings-bank insurance and of industrial insurance sold by the insurance companies is even more to the advantage of the banks. Before presenting such a comparison it should be pointed out, however, that savings-bank insurance and industrial insurance are not strictly comparable. Premiums on industrial insurance are collected weekly by insurance agents, while premiums on savings-bank insurance cannot be paid more frequently than once a month. The cost of collecting premiums every week is obviously greater than the cost of receiving them at the banks every month.

[4] Appendix G, on comparative costs to the policyholders, presents tables based on other assumptions than those used in the text.

Furthermore, industrial straight life policies are regarded as paid up at ages varying from 70 to 75, whereas straight life policies issued by the banks provide for regular payment of premiums until the policy is terminated. Finally, industrial policies of the straight life and endowment variety include provisions for disability payments and for double indemnity in case of accidental death which may prove to be especially valuable. No extra premiums are charged for these privileges. The banks do not include such provisions in their individual policies at all.

Two of the three important industrial insurance companies charge premiums of 20 cents per week ($10.40 over a year's period) for an industrial straight life policy issued at age 35, with a face value of $276.[5] For the same amount of straight life insurance the savings banks would charge a monthly premium of 55 cents, or $6.60 for a year. Table 18 shows the net costs of carrying these policies for 10 years and surrendering them at the end of the period.

TABLE 18.—*Net costs of $276 of straight life insurance policies issued in form of industrial policy by 2 companies, and in form of ordinary policy by savings banks, based on dividends paid in 1940*

Company or banks	10 years' premiums	10 years' dividends	10 years' payments	Cash value	10 years' net cost	Average annual net cost
Company No. 1	$104.00	$11.40	$92.60	$35.88	$56.72	$5.67
Company No. 2	104.00	10.40	93.60	35.88	57.72	5.77
Average of 26 banks [1]	66.00	12.99	53.01	40.30	12.71	1.27

[1] In 1930, 28 banks were operating but only 26 were paying dividends, as 2 banks had not completed their first year, as compared with 15 in 1930. Since the dividends assumed were those paid in 1940, 26 banks are included.

The average annual net costs are thus $1.27 for the banks, as compared with $5.67 and $5.77, respectively, for the two private companies covered.

In view of the fact that prior to 1938 a large proportion of industrial insurance was sold in the form of endowment policies, a comparison of their relative cost is pertinent. The two industrial companies compared above charged weekly premiums of 25 cents ($13 over a year's period) for a 20-year endowment policy for $200 issued at age 35. For an ordinary policy of a similar character the savings banks charge a monthly premium of 80 cents ($9.60 for 12 months). The comparison of net costs is presented in table 19.

[5] The third important industrial company does not sell precisely the same amount of insurance for a weekly premium of 20 cents and for that reason is not included.

TABLE 19.—*Net costs of $200 of 20-year endowment insurance issued at age 35 in form of industrial policy by 2 companies, and in form of ordinary policy by savings banks, based on dividends paid in 1940*

Company or bank	10 years' premiums	10 years' dividends	10 years' net payments	Cash value	10 years' net cost	Average annual net cost
Company No. 1	$130.00	$14.25	$115.75	$72.75	$43.00	$4.30
Company No. 2	130.00	13.00	117.00	72.75	44.25	4.43
Average of 26 banks	96.00	11.05	84.95	78.89	6.06	.61

Whereas the banks' policy had an average cost of 61 cents per year, assuming the policy was surrendered in 10 years, the companies charged net costs of $4.30 and $4.43.[6]

If the policies considered were to be surrendered before the expiration of the 10-year period, the comparison of net costs would be still more favorable to the savings bank. Cash surrender values may not be obtained on most industrial policies before 3 years or more. The savings banks, as has been pointed out, pay cash surrender values after 6 months, and even earlier. A cost comparison with most industrial policies based upon periods of less than 10 years would accordingly be to the greater advantage of the banks.[7]

The reasons for these relatively low costs must be sought in the experience of the companies and of the insurance departments of the savings banks with respect to expenses, the nature of the return on their invested assets, and mortality losses.

Expenses of Operation

The expenses of the savings-bank insurance system are much lower than those of the private companies.[8] The proportion of expenses to gross premiums for all the organizations operating in Massachusetts, and for the savings-insurance banks alone, for the years from 1927 to 1938, is shown in table 20.

Although the expense ratios for both ordinary and industrial insurance show a decrease in recent years, the expense ratio for ordinary insurance is still substantially higher than that of the savings banks, and the industrial-insurance ratio, despite the high original premiums for this insurance, is double that of ordinary insurance and three times as high as savings-bank life insurance.[9]

[6] Data in the tables are from the 1939 edition of the Handy Guide to Standard and Special Contracts, Best's Illustrations, 1940, and from the Division of Savings Bank Life Insurance.

[7] Cost comparisons of other types of policies than those considered in this section show somewhat similar results.

[8] The question as to whether the savings-bank policyholder pays all the costs of his insurance is dealt with in ch. 7.

[9] Annual Reports of the Commissioner of Insurance of Massachusetts, pt. 2, tables M and N.

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TABLE 20.—*Percentage total expenses are of premium income in savings-bank insurance, ordinary insurance, and industrial insurance, 1927 to 1938*

Year	Savings-bank ordinary insurance	All ordinary insurance	Industrial insurance	Year	Savings-bank ordinary insurance	All ordinary insurance	Industrial insurance
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
1927	4.55	18.82	27.64	1933	5.00	14.14	22.77
1928	4.53	18.13	26.30	1934	4.84	13.95	23.90
1929	4.63	18.32	26.34	1935	5.02	13.67	24.74
1930	4.73	17.96	24.45	1936	[1] 6.29	13.71	25.53
1931	4.97	16.19	22.92	1937	[1] 7.16	14.13	25.32
1932	5.18	15.44	22.02	1938	[1] 8.33	13.77	25.45

[1] On Nov. 1, 1935, gross premiums were substantially reduced on all ordinary policies issued on and after that date. Thus, the ratio of expenses to gross premiums received should be expected to increase over previous years when higher premiums were charged, and also in comparison with companies whose gross premiums are considerably higher.

Figures in the above table refer to the ratio of insurance expenses to premium income. The reduction in the loading charges, and the resulting lower premiums adopted by the savings-insurance banks on November 1, 1935, would provide an increasing ratio of expenses to premiums even though the actual expenses remained constant. A comparative analysis made by the actuary of the Division of Savings Bank Life Insurance of all the insurance expenses (excluding investment expenses) shows that the actual expense per $1,000 insurance in force for all banks was $2.58 in 1937; $2.59 in 1938; $2.66 in 1939; and $2.64 in 1940.

It has frequently been asserted that the actual expenses of the insurance departments of the banks prior to 1934 were larger than those represented in the published reports of the insurance commissioner, since the latter have not taken into account the expenditures by the State in maintaining the Division of Savings Bank Life Insurance. In a preceding chapter it has been explained that prior to 1927 all the expenses of the division were paid by the State, but that beginning in that year the insurance banks have each year reimbursed the State for an increasing proportion of the expenses of the division, until, in 1934, all the expenses of the division were being met by the banks. To the extent, however, that the State has in the past incurred unreimbursed expenditures in maintaining the division, it is true that the reported ratios of expenses to premiums of the banks in that period have not taken all insurance expenses into account. During the earlier years of the system, the premium income of the banks was much lower and the expenditures of the State were proportionately greater than they have been in the past decade. It is, therefore, true that the expense ratios for the earlier years would, if the State's expenditures were taken into consideration, be in greater excess of the published ratios than they have been in the past decade.

Table 21 shows the expense ratios of the savings-bank insurance system as a whole, taking into account the unreimbursed expenditures

of the State, for alternate years from 1923 to 1940. It shows the insurance expenses of the banks, the expenditures not reimbursed to the State, the total expenses of the system, and the ratio of total expense to premium income.

TABLE 21.—*Savings-bank insurance expenses and ratios to premium income, including net expenditures by State, 1925 to 1940*

[Amounts in thousands of dollars]

Year	Banks' expenditures	Net State expenditures	Total	Ratio of total to premium income
				Percent
1925	$51.1	$32.5	$83.6	7.28
1927	72.2	30.5	102.7	6.49
1929	109.5	28.0	137.5	5.85
1931	153.5	19.0	172.5	5.57
1933	162.8	4.0	166.8	5.12
1935	215.8	0	215.8	5.02
1937	358.7	0	358.7	[1] 7.16
1939	460.9	0	460.9	[1] 8.96
1940	505.4	0	505.4	[1] 9.35

[1] On Nov. 1, 1935, gross premiums on policies issued on and after that date were substantially reduced. Thus, the ratio of expenses to premiums received should be expected to be higher.

Even if the unreimbursed expenditures of the State are taken into consideration in formulating the expense ratios of recent years, the expenses of the savings-bank insurance system are still proportionately much smaller than those of the private companies.

Probably the most important factors explaining the higher expense ratios of the companies are their method of paying commissions for writing insurance and the cost of collecting premiums. The proportion of premium income paid by four mutual companies selling both ordinary and industrial insurance [10] in salaries and commissions, and by the savings banks in salaries, for each of the years from 1929 to 1939 is shown in table 22.

TABLE 22.—*Ratio of salaries and commissions to premium income of 4 insurance companies selling both ordinary and industrial insurance, compared with ratio of salaries to premium income of savings banks, 1929 to 1939*

Year	Savings-bank ordinary insurance	Company ordinary insurance	Industrial insurance	Year	Savings-bank ordinary insurance	Company ordinary insurance	Industrial insurance
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
1929	2.91	14.52	22.81	1935	2.73	11.47	21.42
1930	2.95	14.19	21.24	1936	[1] 3.06	10.67	22.01
1931	2.79	13.71	19.56	1937	[1] 3.36	11.01	21.61
1932	2.80	12.50	18.65	1938	[1] 3.97	10.41	21.31
1933	2.60	12.29	19.44	1939	[1] 4.24	9.38	19.87
1934	2.47	12.12	20.44	Average	3.08	12.02	20.76

[1] Gross premiums on policies issued on and after Nov. 1, 1935, reduced. Thus, ratio of salaries to premiums received should be expected to increase.

[10] These were the only four companies selling both kinds of insurance in the State during the entire period.

The table shows that the highest ratio of salaries to total incomes experienced by the insurance departments of the banks during the period 1929 to 1939 was that for the year 1939, when the figure was 4.24 percent. The lowest ratio for the period was attained in 1934, when it stood at 2.47 percent. The highest ratio of salaries and commissions to total income of the ordinary departments of the four companies during the period was that for the year 1929, when the figure was 14.52 percent. The lowest ratio, 9.38 percent, was reached in 1939. In the case of the industrial departments of the four companies, the highest ratio for the period was that for the year 1929, when the figure was 22.81 percent, and the lowest that of 1932, when it stood at 18.65 percent.

The average ratio of salaries to premium income of the insurance departments of the banks during the 11-year period 1929 to 1939, was 3.08 percent. The average ratio of the ordinary-insurance departments of the four companies for the same period was 12.02 percent. For their industrial departments it was, during the same period, 20.76 percent. Thus the ratio of salaries and commissions to total income over the period considered was on the average almost four times as high for ordinary insurance and almost seven times as high for industrial insurance as the ratio of salaries to total income of the insurance banks.

It has been pointed out that no commissions are paid in connection with savings-bank insurance. The salaries which are included in the above calculations are confined to those incurred directly by the insurance banks themselves, and, prior to 1934, do not include all of the salaries paid to the staff of the Division of Savings Bank Life Insurance.[11] The annual salaries paid to the whole staff in 1939 amounted to $48,160,[12] all of which was repaid.

Over the period from 1908, when the system first came into existence, to 1940, the total amount paid by the insurance departments of the banks in salaries was $1,577,090. This was 2.69 percent of the total premium income received.[13]

Taxation

The proportionately high expenses of operation of the insurance companies as compared with those of the banks may be explained to a slight extent by the fact that the companies have borne a somewhat

[11] It should be emphasized, however, that, beginning in 1929 an increasing proportion was absorbed, until by 1934 all the expenses of the division, including the salaries, were reimbursed to the State by the banks.

[12] This amount included the salary of the deputy commissioner, the State medical director and his assistant, the State actuary and 4 actuarial clerks, 16 clerks and stenographers, and 2 field workers.

[13] Data on expense ratios may be found in the Annual Reports of the Commissioner of Insurance, pt. 2, tables M and N. Data on income, on which these ratios are based, are contained in table B. Salaries of principal officers of the companies are contained in table N of the report for each year. Statistics of amounts paid in salaries are to be found in table C of the reports. Information with respect to total salaries and total premium income of the insurance departments of the banks may be found in the annual joint reports of the commissioner of banks and the commissioner of insurance on the condition of the savings-bank insurance system.

heavier burden of taxation. The basis upon which the savings-bank insurance system is taxed has been explained in chapter 3. The banks, it will be remembered, pay no Federal income taxes and no fees to the insurance department of the State.

The Commonwealth levies upon the insurance companies, and since November 1, 1939, upon the insurance departments of the banks, an annual excise tax of one-quarter of 1 percent of the net value of all policies in force on citizens of Massachusetts at the end of the preceding year. "Net value" is defined as being equal to the combined aggregate of the mean reserves of each policy or group of policies.[14]

The insurance companies are also required to pay Federal income taxes. Under the Federal Revenue Acts of 1932 and 1934, covering the income years 1932 to 1935, American insurance companies paid a tax of 13¾ percent of their net income. Foreign companies paid a like tax on their net income from American sources. The taxable net income of the insurance companies is defined as their "gross income," which includes all income received from interest, dividends, and rent, minus certain items.[15] Federal income tax rates for Ameri-

[14] The State also taxes foreign companies (i. e., those not incorporated in the State) on the same basis, except that if the jurisdictions in which those companies reside levy taxes on a higher basis than those levied by Massachusetts, the foreign companies must pay in addition a retaliatory tax which would bring their tax up to the level which Massachusetts companies would have to pay in the foreign jurisdictions. Massachusetts also taxes foreign companies 2 percent of the gross premiums collected on Massachusetts business minus the dividends returned to policyholders, or enough more to raise the total to the amount which domestic companies are taxed in the home jurisdictions of foreign companies operating in Massachusetts. The courts have interpreted the provisions of the law taxing premiums in such a way that it is levied only to the extent necessary to bring the tax paid up to the level of the tax on net value of policies. If the gross premium tax on foreign companies results in a higher tax than would be levied on the net value basis, the foreign companies pay the former. In addition to the taxes already described, which are levied on insurance business proper, insurance companies are taxed at the rate of 1 percent of the premium income on annuity contracts, except where such taxes are already paid by the companies to other jurisdictions. (Mass. Gen. Laws Relating to Taxation, ch. 63, secs. 18, 20, 21, and 22.)

[15] The exempted items include: (1) Interest received from obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions, from Federal Farm Loan securities, and from obligations of the United States and its instrumentalities other than Federal Farm Loan securities; (2) an amount equal to 4 percent of the legal insurance reserves, or, if the rate assumed in setting up such reserves is less than 4 percent, an amount equal to 3¾ percent of the reserves; (3) dividends received from corporations themselves subject to Federal income taxation for 1936 and subsequent years—dividends on stock of domestic corporations themselves subject to income taxation are not deductible from gross income, but 85 percent of such dividends is deductible in computing taxable net income; (4) 2 percent of the sum held as reserve for deferred dividends to policyholders; (5) investment expenses, provided that if such expenses are included in the general expenses the total deduction under this head should not exceed one-quarter of 1 percent of the book value of the mean invested assets; (6) taxes and other expenses paid on the real estate held by the companies, not including special assessments and expenditures for new buildings or permanent improvements; (7) a reasonable allowance for depreciation of property; and (8) interest paid or accrued on the companies' own debts. (United States Revenue Acts of 1932, 1934, 1936, and 1938, and Internal Revenue Code, secs. 201, 202, 203, 22b; U. S. Treasury Department, Bureau of Internal Revenue, Regulation 77, Income Tax Revenue Act of 1932, Washington, 1933, pp. 270–276.)

It should be noted that whereas, prior to November 1, 1939, there were a great variety of deductions permitted by the State laws taxing savings banks and their insurance departments when assets were invested in certain kinds of securities, the State taxes on insurance companies, being levied on net value of policies or on premium income, permitted no deductions from the tax base in computing the tax. Since November 1, 1939, the insurance departments have been taxed on the same basis as the companies. As regards the Federal income tax, however, the range of exemptions, as is clear from the foregoing discussion, is extensive. The only important difference in the exemptions permitted the savings banks by the State laws and those permitted the insurance companies under the Federal income tax law appears to be that, whereas income from mortgages held by the banks is deducted from the tax base, such exemption is not permitted the insurance companies by the Federal law.

can life insurance companies for the income years 1936 and 1937 were 15 percent of the "normal-tax net income," as defined in the act of 1936. For the income years 1938 and 1939 such tax rates were 16½ percent of the "special class net income" as defined in the act of 1938 and the Internal Revenue Code. Foreign companies having no United States insurance business were taxable for the income years 1936 to 1939 as other foreign corporations.

In addition to the taxes described, the insurance companies are required to pay to the State department of insurance a wide variety of fees.[16]

It is possible, fortunately, to measure the difference in the burdens of taxes borne by the insurance companies and by the insurance departments of the banks with a considerable degree of accuracy. The reports of the Commissioner of Insurance of Massachusetts give data on the amounts paid annually by the insurance departments of the banks and by the insurance companies in the form of taxes and fees. In the case of the companies these data include all amounts so paid, whether to the State of Massachusetts, to other States, or to the Federal Government. The data for the years 1930 to 1939 are given in table 23.[17] It shows the amounts paid in taxes and fees in each year and the premium income in the case of the savings-bank insurance system, the Massachusetts companies, and all insurance companies.

TABLE 23.—*Total taxes and fees, and premium income, of savings-bank insurance system, Massachusetts companies, and all companies, each year 1930 to 1939*

Year	Savings-bank life insurance		Massachusetts companies		All companies	
	Taxes	Premium income	Taxes and fees	Premium income	Taxes and fees	Premium income
1930	$15,162	$2,644,733	$4,762,571	$259,334,881	$60,383,185	$2,997,508,775
1931	15,996	3,095,236	4,935,366	276,548,841	61,828,340	3,152,099,471
1932	17,217	2,979,423	5,330,247	268,129,665	62,725,045	3,027,024,051
1933	22,214	3,256,373	4,984,617	271,820,213	59,689,889	2,917,270,242
1934	26,170	4,075,775	4,188,419	282,994,638	53,473,795	3,077,829,604
1935	27,628	4,300,824	4,428,313	311,304,405	54,841,523	3,211,187,825
1936	31,771	4,686,767	5,897,136	307,283,665	62,517,769	3,191,725,539
1937	40,429	5,013,693	5,869,714	313,191,294	67,408,937	3,253,162,306
1938	49,845	4,787,124	6,251,436	328,389,129	70,686,692	3,269,846,645
1939	55,685	5,408,513	6,791,237	319,197,432	73,602,342	3,259,024,371
Total	302,117	40,248,461	53,939,056	2,938,194,163	627,157,517	31,356,678,829

[16] Among others, these fees include the following: (1) $50 for an examination prior to the granting of a license or certificate to do business in the State; (2) 2½ mills for each $1,000 of insurance for the service of valuing the life policies of the domestic insurance companies; (3) $20 required from each foreign company for filing the original financial statement necessary before it may do business in the State, and for each financial statement which must be filed annually thereafter; (4) $2 annually, paid by the companies for the license of each insurance agent employed by them; and (5) $2 for each certificate of the valuation of a company's policies, or of the examination, statement of the condition, or statement of the qualification of the companies. (Mass. Gen. Laws, ch. 175, sec. 14.)

[17] Annual Reports of the Commissioner of Insurance of Massachusetts, pt. 2, table C.

A comparison of the ratios of taxes and fees to premium income shows that during the entire period 1930 to 1939 the savings-bank insurance system paid 0.75 percent, the Massachusetts companies 1.82 percent, and all companies taken together 2.0 percent of premium income for the purpose. Over the whole period 1909 to 1940, the insurance departments of the banks paid in taxes a sum equal to 0.71 percent of their total premium income for the period.[18]

During the 5 years 1935 to 1939 the proportion of premium income paid to the State as taxes by the companies on their Massachusetts business was 2.03 percent, or about 2⅓ the ratio paid by the banks, which was 0.85 percent. The banks' ratio, which for their whole history was 0.71 percent, rose from 0.57 percent in 1930 to 1.03 percent in 1939. The insurance companies' ratio rose slightly during the same period from 2.01 percent to 2.26 percent.[19]

In view of the fact that the mutual savings banks pay no Federal income taxes it is interesting to observe what is paid in this form by the insurance companies. The amounts paid as Federal income taxes by the Massachusetts life insurance companies to the United States Bureau of Internal Revenue are shown in table 24. The table also shows the premium income of these companies, and the proportion of premium income paid to the Federal Government.

TABLE 24.—*Federal income taxes paid by Massachusetts life-insurance companies, their premium income, and ratio of Federal income taxes to premium income, 1933 to 1938*

Year	Amount of tax	Premium income	Ratio
			Percent
1933	$118, 267	$271, 731, 067	0. 0435
1934	5, 074	282, 906, 354	. 0018
1935	1, 658	311, 219, 061	. 0005
1936	89, 206	307, 147, 325	. 0290
1937	13, 590	313, 126, 599	. 0043
1938	29, 437	328, 182, 835	. 0090
Total	257, 232	1, 814, 313, 241	. 0142

It will be observed that for the period 1933 to 1938 the Massachusetts companies paid 0.0142 percent of their premium income in the form of Federal income taxes.[20]

The results of this analysis may be summarized as follows: (1) Over the whole period of their existence up to 1940 the savings-insurance banks paid 0.71 percent of their premium income in taxes; (2) this was also approximately the proportion they paid during the years

[18] See appendix H.

[19] Appendix H presents a table showing the amounts paid in taxes to the Commonwealth by the insurance departments of the banks and by the companies, and their premium income during the period 1930 to 1939. The data on taxes paid to the State are from the Annual Reports of the Massachusetts Commissioner of Corporations and Taxation, 1930–39, obtained from the records in the commissioner's office.

[20] Data on Federal income taxes were obtained from the U. S. Bureau of Internal Revenue.

1930 to 1934, although during the years 1935 to 1939 the proportion rose to 0.85 percent; (3) the private companies chartered in Massachusetts paid to all the jurisdictions taxing them or requiring the payment of fees during the period 1930 to 1939 an amount equal to 1.82 percent of their premium incomes; (4) the amount paid by all insurance companies operating within the State was 2.0 percent of premium income; (5) the Massachusetts companies paid 0.0142 percent of their premium incomes during the period 1933 to 1938 in the form of Federal income taxes. It is not unreasonable to suppose that approximately the same proportion was paid to the Federal Government by all the insurance companies.

It may be concluded that the insurance companies have paid roughly about 2 percent of their premium income in taxes and fees, as compared with about two-thirds of 1 percent, and in recent years somewhat more, paid by the insurance departments of the banks. The difference in tax burden is thus approximately 1⅓ percent of premium income. It cannot, therefore, be held responsible in any significant degree for the difference in the cost of insurance to the policyholders.

Since November 1, 1939, the insurance departments of the banks have been subject to the same State excise tax as other life-insurance companies domiciled in Massachusetts.

Earnings on Invested Assets

The relatively low cost of savings-bank insurance is partly due to the fact that the insurance departments of the banks have in the past earned a higher rate of return on their invested assets than have the insurance companies. The net rate of income earned by the savings-bank life-insurance system and by all insurance organizations during the period 1927 to 1938 is shown in table 25.

TABLE 25.—*Net rate of income earned on investments by banks and by all insurance organizations including banks, 1927 to 1938*

Year	Savings-bank insurance departments	All insurance organizations, including banks	Year	Savings-bank insurance departments	All insurance organizations, including banks
	Percent	*Percent*		*Percent*	*Percent*
1927	5.25	5.02	1933	4.67	4.25
1928	5.18	5.04	1934	4.47	3.89
1929	5.39	5.02	1935	3.90	3.66
1930	5.14	5.02	1936	3.91	3.73
1931	5.12	4.91	1937	3.93	3.68
1932	5.02	4.65	1938	3.84	3.56

The more favorable earnings of the banks in the past may be credited in part to the difference in the types of investments which may be made by the companies and by the savings-bank insurance departments. As has been shown in chapter 3, investment of all the

assets of the insurance departments of the banks is closely restricted. The insurance laws of Massachusetts and of some other States require that 100 percent of the paid-in capital of the companies and at least 75 percent of their reserve funds must be invested in the restricted range of securities open to the savings banks. The exceptions to this statement are as follows: (1) The companies may invest in the securities of any political jurisdiction in the Dominion of Canada, whereas the savings banks may not do this; (2) the companies may invest in real estate and mortgages on property anywhere in the United States, whereas the banks may invest only in such items within the State of Massachusetts; (3) the companies may not invest in bank stock, as the savings banks are permitted to do. All of the funds of insurance companies, except the 75 percent of reserves and the capital, may be invested in the securities open to the companies as stated above, and also in bank and trust-company stock, shares of cooperative banks, and deposits of savings banks and savings departments of trust companies in the State.

Whether the banks will continue to average higher earnings on their invested assets is of course problematical. In recent years, they have grown relatively faster than the life-insurance companies and therefore have been investing a higher percentage of their relative assets at current low yields. Offsetting this lower yield may be the facts that the quality of new investments made is higher than some of the older bonds bearing higher coupons and that recent real estate loans based on values in a depressed market with provisions for amortization are sounder than older mortgages placed in times of inflated property values, without provision for adequate amortization.

The fact that the banks may invest only in mortgages on real estate in Massachusetts, while insurance-company mortgages may represent property all over the country, is probably responsible in part for the better investment experience of the banks in recent years. Most of the bank mortgages are for small amounts and represent property in the community in which the bank operates. In the case of the mortgage investments of the insurance companies considerable funds have been invested in large buildings, and in western and southern farm lands, which have had an unfortunate earning experience in recent years.[21]

[21] Data on the net rate of income earned on investments may be found in the Annual Reports of the Commissioner of Insurance, pt. 2, tables M and N. The restrictions imposed by law on the insurance companies' investments are contained in the General Laws of Massachusetts, ch. 175, secs. 63–68. For percentage distribution of savings-bank insurance investments see ch. 3, table 9. Hearings before the Temporary National Economic Committee, pt. 10A and T. N. E. C. Monograph No. 28 (c. 20), give a comprehensive analysis of the operating results and investments of the 26 largest life-insurance companies.

Mortality Experience

A further reason for the low costs of savings-bank life insurance is to be found in the comparatively low ratios of actual to expected mortality losses experienced by the banks. These ratios for the banks, for all ordinary insurance, and for industrial insurance, during the years from 1917 to 1938, are shown in table 26. The table indicates that mortality ratios are generally lowest in the case of savings-bank insurance.[22]

The lowest ratio during the period for savings-bank insurance was that of 1921, when the figure was 32.12 percent. The highest ratio was that of 1918, the year of the influenza epidemic, when it reached 77.90 percent. Ordinary insurance experienced its lowest ratio in 1925, when the figure was 51.51 percent, and its highest ratio in the epidemic year, 1918, when it stood at 96.69 percent. The highest ratio for industrial insurance, 142.78 percent, was experienced in the same year, while the best year was 1938, when the industrial mortality ratio was 43.76 percent. It should be noted that the mortality ratios for savings-bank life insurance were lower than those for all ordinary insurance and for industrial insurance in every year, and that in all but the last 9 years of the period the mortality ratios for ordinary insurance were lower than those for industrial insurance. It should also be observed that the mortality ratios of savings-bank life insurance have been lower during the last 4-year period as a whole than in any of the preceding 4-year periods shown. The ratios for ordinary insurance showed a fairly steady decline until 1925. They rose between 1926 and 1933, and have since receded. On the other hand, the mortality ratios for industrial insurance have shown a remarkable decline throughout the period.[23]

TABLE 26.—*Ratios of actual to expected mortality losses for savings-bank, all ordinary, and industrial insurance, 1917 to 1938*

Year	Savings-bank insurance	All ordinary insurance including savings-bank life insurance	Industrial insurance	Year	Savings-bank insurance	All ordinary insurance including savings-bank life insurance	Industrial insurance
	Percent	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*
1917	30.19	63.05	93.96	1928	36.22	57.91	64.23
1918	77.90	96.69	142.78	1929	46.85	60.89	66.37
1919	63.57	66.40	83.25	1930	41.55	61.80	60.04
1920	57.90	60.29	76.13	1931	39.43	63.48	59.50
1921	32.12	51.88	63.52	1932	39.85	63.10	55.72
1922	45.36	53.68	65.42	1933	36.77	63.31	56.25
1923	51.97	55.10	66.69	1934	41.22	61.73	53.64
1924	45.57	53.09	65.21	1935	40.06	60.49	50.98
1925	44.98	51.51	66.02	1936	33.51	61.05	50.05
1926	43.24	53.59	68.07	1937	35.89	58.95	47.52
1927	43.74	53.78	63.88	1938	34.20	56.95	43.76

[22] It should be noted that whereas savings-bank and, as a rule, ordinary-insurance ratios are based on the American Experience Table, industrial-insurance ratios are based on the Standard Industrial Mortality Table, which assumes greater risks of mortality. If all ratios were based on the same table, the industrial ratios would, of course, be relatively greater than those shown in the table.

[23] Mortality ratios are published in the Annual Reports of the Commissioner of Insurance, pt. 2, tables M and N.

The ratio of actual to the expected mortality for the savings-bank life-insurance system was 34.41 percent in 1939 and 33.67 percent in 1940. The reports of the Commissioner of Insurance showing the experience of the companies for 1939 and 1940 were not available when this was prepared.

In general, actual industrial mortality has been considerably above that for ordinary insurance, although there has been remarkable improvement among industrial risks in recent years. There is, in general, a greater burden of mortality among wage earners than among the rest of the population. This should not, however, cause industrial-insurance ratios to be higher, since the industrial companies base their calculations of expected mortality losses upon the Standard Industrial Mortality Table, which takes into account the higher mortality among wage earners. Even though this higher mortality does not affect the ratios of actual to expected mortality losses, it would account in part for relatively high industrial premiums, since larger reserves would be necessary to meet the greater likelihood of paying insurance benefits.

Generalizations based on mortality ratios must be used with great care, and are especially unsafe when they result in comparisons between different insurance organizations.[24] Though at first glance they appear to demonstrate that the mortality ratios of the banks are lower than those of the companies, they by no means prove conclusively that this is so for all ages and all types of insurance. To do this it would be necessary to examine the ratios of the banks and of the companies at given ages and for similar policies. Official data on this point are not available in the published reports. To procure them from a sufficient number of companies has not seemed feasible. Under the circumstances, therefore, it seems desirable to consider savings-bank mortality ratios by making an analysis of the factors which are relevant to the question, and to refrain as much as possible from relying on data concerning average mortality ratios. It is pertinent to point out, however, that there is general agreement that savings-bank mortality ratios are relatively low.

Undoubtedly one important reason for the relatively high industrial mortality ratios is that no medical examinations are required of applicants for industrial insurance, as they usually are in ordinary insurance issued by the companies and in savings-bank insurance. Some of the ordinary companies sell group insurance, the mortality ratios for which, largely because medical examinations are not usually required, are much higher than for straight life insurance. These

[24] On the dangers involved in making such comparisons see a paper by Edward W. Marshall entitled "The Interpretation of Mortality Statistics," printed in vol. 33 of the Transactions of the Actuarial Society of America, 1932 (pp. 74–91); and a memorandum by C. R. Fitzgerald, actuary of the State Mutual Life Assurance Society of Worcester, Mass., prepared in 1931.

group-insurance ratios are included in the data for ordinary insurance. The savings-bank mortality ratios also include losses due to group insurance. Since the proportions between group insurance and ordinary insurance carried by the banks and all the companies are similar, the difference in ratios between the banks and the ordinary companies cannot be explained on this ground.[25]

It has been commonly declared that since savings-bank insurance is relatively new it would naturally experience a lower mortality ratio than that of insurance companies which have operated over a long period of years. This statement is based on the fact that since a new insurance system is not so likely to have as many old people among its policyholders as an old system, the great improvement which has been made in the elimination of disease among younger persons and their consequent increase in longevity since the time when the American Experience Table was constructed result in a mortality ratio favorable to the insurance system with the greater proportion of young policyholders.[26] Another item operating in favor of a new insurance system is the fact that it is likely to have among its policyholders a greater proportion of very recent entrants, in whose case the effect of the preliminary medical examination has not yet been dissipated.[27] Since, as compared with long-established insurance companies, the insurance departments of the savings banks probably have a smaller proportion of aged policyholders, and since it is true that the system has grown very rapidly of late, the fact that savings-bank insurance is relatively new may properly be given some of the credit for the favorable mortality ratio which it enjoys. Proponents of savings-bank life insurance answer that the savings in actual mortality at the younger ages, in comparison with that expected by using the American Experience Table, is adjusted in loading and dividend formulas, and that the extra savings resulting during the "select" period is used for acquisition costs and to build up immediate surplus funds. Furthermore, an analysis of the actual ultimate mortality experience for the years 1926 to 1940, with all lives examined within 4 years excluded, made by the State actuary for the Division of Savings Bank Life Insurance, showed substantially lower mortality at practically all ages in comparison with the model table Z compiled from the ultimate experience of 14 large companies.

Another factor which appears to be pertinent arises from the method of selling insurance. In border-line cases, where the medical examiner is in doubt as to what his decision should be, the influence and persuasion of the insurance agent may occasionally be the determining factor in the approval of the applicant. In this connection it is

[25] See Annual Reports of the Commissioner of Insurance of Massachusetts, pt. 2, table G.

[26] See p. 68 for a discussion bearing on this matter.

[27] The medical examination tends to eliminate bad risks. After 3 or 4 years, however, the insured may develop new ailments, and the effect of the examination may thus be said to have "worn off."

important to note that the compensation of no individual is directly increased or decreased if a physician approves or fails to approve an application for savings-bank insurance. As in the case of the private companies the medical examiner's fee is the same whether or not the applicant is approved; but whereas, in the case of the companies, rejection by a physician will affect the income of the agent and his immediate superiors, in the case of savings-bank insurance there is no commission or other income lost to anyone if a doubtful applicant is rejected. The only possible exception to this statement is that agencies collecting premiums for the banks are entitled to receive 3 percent of these collections as fees. It should be pointed out, however, that the possibility of persuasion or influence being brought to bear upon the medical examiners by collection agencies is exceedingly small, as is obvious from the fact that in 1940 only 1.6 percent of premium income was actually paid in collection fees.

Another factor which probably operates in favor of the savings banks is the relatively small amount of insurance carried by the average policyholder in the system. As will be shown in chapter 7, the great majority of savings-bank policyholders are persons whose incomes are not high. Experience indicates that persons who hold policies of many thousands of dollars are poorer risks than are small policyholders. Since some risks are always likely to prove unsound in the end, a large risk falling in this category would occasion a heavier mortality loss than a small one. In other words, the death of a person carrying a $100,000 policy would result in mortality losses equal to those due to the death of 100 persons of the same age, each carrying a $1,000 policy of the same type. Furthermore, wealthy persons are more likely to engage in irregular living, if for no other reason than that they can afford it better than people with small or moderate incomes. That insurance companies believe these facts of importance is obvious, since they go over applications for large insurance policies much more carefully than they examine those for small policies. They usually make an examination, with the aid of a credit agency using under-cover investigators, to find out whether the applicant for a large policy is a man of good habits, and they often reject such applications on grounds which, though not usually stated to the applicant, are as a rule not even considered worth investigating in the case of applicants for small policies. Despite such investigations, however, risks are often accepted which in the end turn out to have been unsound. Though the savings-bank insurance system also inquires carefully into the living habits of large applicants and is likely to accept small applicants merely if the latter are sound in health, the fact that such a small proportion of their policyholders are well to do probably operates in favor of a lower mortality ratio than that experienced by the companies.

In later years large amounts of savings-bank insurance have been sold, with the encouragement of employers, to workers in factories throughout the State. Such establishments have usually been of the modern type. Sanitary and safety conditions have been of a high order. As a result the employees of such plants are likely to prove good insurance risks. This also may account to some extent for the lower mortality ratios of the banks.

Perhaps another contributing factor to the lower savings-bank life-insurance mortality is that living and health standards in general are higher in New England than in some other sections of the United States, and that since savings-bank life-insurance policyholders are largely concentrated in Massachusetts, the resulting mortality experience should be lower than for the companies whose risks are scattered throughout the country.

To what extent may the admittedly low ratio of the banks be expected to continue? As the system becomes older the proportion of aged persons insured in it will become greater. This appears to be the only important factor which might operate in the future in the direction of a higher ratio but, as was previously pointed out, the actual ultimate mortality experience of the banks, with recently examined lives excluded, over a 15-year period was lower at practically every age when compared with the combined experience of the companies. Operating in favor of maintaining the existing favorable experience are the following factors: (1) The system has attained a momentum which promises to bring in large numbers of new policyholders every year, with the consequence that the part played by the effect of recent medical examinations in promoting a low ratio may actually become more important than it is; (2) the very nature of the system, with its elimination of agents' commissions and the part they play in encouraging the acceptance of bad risks, will be effective in maintaining a lowered mortality ratio; (3) savings-bank life insurance is not likely to experience to any considerable extent reduction in the proportion of small policyholders. There is every reason, therefore, to suppose that savings-bank insurance will continue to enjoy a relatively low mortality ratio, both immediate and ultimate.

It should be observed in conclusion that it is not possible to account with finality for the mortality ratio of the savings-bank life-insurance system by assigning definite and exact credit to any of the factors discussed. Much of the discussion is admittedly based on a priori reasoning. To the extent that such reasoning is sound the ratio may be regarded as explained, at least in part. That some of the factors above described actually do affect the mortality ratio does not seem open to question. Others have been stated conjecturally and con-

ditionally. Complete accuracy and finality do not seem possible of attainment in the solution of the problem.[28]

In the final analysis, however, the mortality ratios of the savings-bank insurance system are lower than those of the private companies taken as a whole. This factor, together with relative expenses and earnings on assets, plays an important part in accounting for the lower cost of savings-bank life insurance.

[28] Suggestions with respect to an explanation for the low ratio of the insurance departments of the banks were obtained in numerous interviews. Those with Dr. Burnett, the State medical director, and with Mr. Richard Harding of the Associated Industries, were especially valuable in this respect. A memorandum by Mr. Harding, entitled "The low mortality of savings-bank life insurance," is particularly suggestive as is the statistical analysis of the savings-bank life-insurance mortality experience for the years 1926–40, made by Mr. Eugene Caldwell, State actuary of the Division of Savings Bank Life Insurance.

Chapter 6

Factors Affecting Growth of Savings-Bank Life Insurance

An important factor affecting the growth of savings-bank life insurance is its advantage to the policyholders as compared with the insurance bought from insurance companies, whether of an industrial or ordinary type. Its favorable cash surrender privileges, the greater availability of loans on policies, the various other types of nonforfeiture privileges, the fact that, because of paying no commissions to agents and having a relatively favorable mortality experience, savings-bank insurance may be obtained at comparatively low cost—all these advantages make it a desirable type of insurance for the ordinary person. Its rapid growth in recent years indicates that its advantages are becoming more widely known among the citizens of Massachusetts.

Perhaps a contributing factor to the growth of savings-bank life insurance has been the widespread criticism and unfavorable publicity about industrial insurance during the past decade, culminating in an investigation by a committee of the New York Legislature, and by the Temporary National Economic Committee.[1]

Public Support

As in any important movement, the character of its leadership has had much to do with the growth of the system. From the beginning of the campaign to enact the savings-bank insurance law until the present moment, the system has been fortunate in the type of leaders who have promoted its interests. Throughout its history it has had among its advocates some of the leading business men, labor leaders, and educators of the State.[2] It has also had the advantage of the active support and aid of the Massachusetts Savings Bank Insurance League. The league was formed on November 26, 1906, with former

[1] See Hearings on Insurance before the Temporary National Economic Committee, pts. 10 and 12, Washington, 1940; also, T. N. E. C. Monograph No. 28, ch. 16, Washington, 1940.

[2] At the beginning of its career such important persons as Governors Bates and Douglas, and President Eliot, of Harvard University, were its advocates, and it benefited from the unpaid services of Gen. S. H. Wolfe, one of the leading independent insurance actuaries in the country, who served as consulting actuary. In recent years it has had the active support of former Gov. David I. Walsh, now United States Senator, of Mr. Lincoln Filene, of Mr. B. Preston Clark of the Plymouth Cordage Co., of almost every Governor of the Commonwealth and of the officials of the State Federation of Labor. For many years it has been greatly aided by Mr. Judd Dewey, now deputy commissioner of the Division of Savings Bank Life Insurance, who served it as unpaid counsel. The system of savings-bank life insurance benefited especially from the leadership of Miss Alice H. Grady. She became the financial secretary of the Savings Bank Insurance League when it was founded in 1906, and retained that position until January 1, 1934, when she

Gov. W. L. Douglas, a leading industrialist, as president, and an influential group of persons as its other officers. Its original name was The Massachusetts Savings Insurance League. On February 3, 1930, the organization incorporated under the title of "The Massachusetts Savings Bank Insurance League." [3]

The earliest task of the league was to promote public support for the enactment of the original bill. As soon as the bill became law the league devoted its attention toward interesting the savings banks in setting up insurance departments, an effort in which it was not successful until 1908, when both the Whitman Savings Bank and the People's Savings Bank of Brockton came into the system. During its entire history the league has carried on active publicity work to promote savings-bank insurance.[4] It has cooperated closely with the work of the State Division of Savings Bank Life Insurance at all times in fulfilling its aim, "to acquaint the people of Massachusetts with the opportunities offered by the savings banks for securing life insurance and old-age annuities at cost." [5]

Numerous other organizations have joined with the league in promoting savings-bank insurance and in defending it against attacks. From the beginning the movement has had the support of many of the trade-unions of the State. The Massachusetts State Federation of Labor, the Boston Central Labor Union, and the American Federation of Labor have taken a position in favor of savings-bank insurance. The Boston Chamber of Commerce, in early years the Massachusetts Civic League, and in recent years the Credit Union League of Massachusetts and the Associated Industries of Massachusetts, have been among its supporters.[6]

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resigned because of ill health. On September 10, 1917, she was elected clerk and secretary of the General Insurance Guaranty Fund, and served as such until her death on April 19, 1934. The trustees of the fund appointed her executive secretary of savings-bank life insurance on June 12, 1919. When the law creating the position of deputy commissioner of Division of Savings Bank Life Insurance was passed on May 28, 1920, the trustees appointed her to this position and she remained deputy commissioner until her death. Both the friends and the opponents of the savings-bank insurance system testify to Miss Grady's loyalty and aggressiveness as the actual head of the system. She seems to have been a redoubtable protagonist and to have defended savings-bank insurance with great effectiveness.

[3] See pt. 1, ch. 1.

[4] The league has published various pamphlets, solicited speaking engagements, arranged for community projects, and actively defended the system against legislative attempts to restrict its scope.

[5] The activities of the league have been supported by contributions from a considerable number of persons. Prominent among them have been Mr. Charles H. Jones, president of the Commonwealth Shoe & Leather Co. and holder of the first policy issued under the law (policy No. 1 of the Whitman Bank), Mr. Lincoln Filene, Mr. B. Preston Clark, Mr. Louis Kirstein, Mr. H. P. Kendall, Mr. J. E. McElwain, Mr. E. J. Bliss of the Regal Shoe Co., Mr. Alfred H. Avery, and Mr. James L. Richards of the Boston Consolidated Gas Co. The present officers of the league include Mr. Lincoln Filene, chairman of the board of directors, Mr. Alfred H. Avery, president, Mr. Judd Dewey, first vice president, United States Senator David I. Walsh, second vice president, and Mr. Charles W. Rehor, third vice president. Its treasurer is Mr. J. William Fellows, and its executive secretary, Mr. J. Warren Lusk.

[6] It is significant that since 1934, whenever legislation has been introduced which the officials of the Division of Savings Bank Life Insurance regarded as prejudicial to its interests, representatives of both the State Federation of Labor and the Associated Industries of Massachusetts, two groups frequently in opposition to one another, have joined in defending savings-bank life insurance against what each organization regarded as an unwarranted attack upon it.

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Activities of Employers and of Associated Industries of Massachusetts

Savings-bank life insurance has at all times received the active support of many employers. The savings-bank insurance law, by permitting the setting up of agencies empowered to receive applications for insurance and to accept premiums as agents for the issuing banks, makes possible the establishment of an employer's agency by any employer who wishes to promote the sale of the insurance among his workers. When a worker buys savings-bank life insurance through an agency set up by his employer, he frequently authorizes the agency to make weekly or biweekly deductions from his wages and directs that these deductions be deposited in some savings bank until such time as a sum sufficient to pay the premium has been accumulated to his credit. At that time the savings bank turns the premium over to its own insurance department, or if it is not an issuing bank, to the insurance department of the bank which issued the policy. The function of the employer who acts as agent is not only to make wage deductions and transfer them to the savings banks, but to do what he can to educate his employees concerning the advantages of savings-bank insurance. The fact that the Division of Savings Bank Life Insurance employs instructors whose function it is to carry on this education is of importance in this connection.

For years numerous personnel managers in the State have urged their workers to buy their insurance from the savings banks. As a result of their efforts and those of a number of important employers in the State, the Associated Industries of Massachusetts, the most important organization of manufacturers in the Commonwealth, became interested in savings-bank life insurance. A secretary who devotes his time exclusively to the promotion of savings-bank insurance is employed by the organization.[7] He has made numerous surveys with the aim of giving employers an idea of the savings which their workers would make if they carried savings-bank policies instead of industrial policies. These surveys have usually succeeded in convincing employers of the advantages of savings-bank life insurance.[8]

Attitude of the Savings Banks

Throughout the history of the system savings banks have hesitated to enter the ranks of the issuing banks. In 1912 only 4 banks were

[7] Mr. Richard B. Harding has held this post since its creation in 1930. The Associated Industries in that year also established a subcommittee on savings-bank life insurance.

[8] It should be understood that neither the Associated Industries nor the employers who set up agencies before that organization became interested in savings-bank life insurance are in this connection interested in the sale of group insurance. Their concern is with the sale of ordinary life insurance among employees as a substitute for the industrial insurance held so extensively by workers and their families. The material upon which this section is based was obtained from interviews, in June and July 1934, with the following persons: Mr. Richard B. Harding; Mr. B. Preston Clark; Mr. Royal Parkinson, personnel manager of the American Optical Co.; Mr. A. M. Porton, personnel manager of Crompton & Knowles; Mr. H. Smith, cost accountant of the Uxbridge-Worcester Co.; and Mr. Paul W. Viets, employment manager of the Plymouth Cordage Co.

issuing policies and it took more than 10 years before other banks joined them. Six banks joined the system between 1923 and 1925. The greatest number came in from 1929 to 1931, when 11 new banks began to issue policies. At present, in addition to the 29 issuing banks themselves, other savings banks and their branches, to the number of 159, act as agencies receiving applications and premiums for savings-bank insurance. Despite the relatively rapid growth of the system in recent years, its slow acceptance by savings banks as a whole requires consideration.

Why have not more of the 191 mutual savings banks operating in the State in 1941 become issuing banks? Undoubtedly the conservatism of the trustees and officers of the banks is a factor of importance. Their long tradition of carefulness and circumspection in the management of their institutions was largely responsible in the early years for their refusal to venture into the field of insurance. It is not unlikely that the same factor still operates, in numerous instances, to keep the banks exclusively in the savings-bank business. Another hindrance to the establishment of insurance departments may be the fact that officers of insurance companies and insurance agents are often on the boards of trustees of the savings banks, and they are not likely to encourage the establishment of insurance departments. A further factor which operates to retard the entrance of banks into the system is the fact that, though savings-bank insurance has been sold for many years, many trustees of banks are still unacquainted with its advantages and the nature of the system itself. Many of the savings banks, too, are very small, with limited personnel and equipment.

Despite these factors, the number of banks acting as underwriters and the much greater number serving in the capacity of agencies indicate that the system offers certain advantages to those banks which are associated with it. One of these advantages has been suggested by an opponent of the savings-bank insurance system as at present operated. Wesley E. Monk, general counsel of the Massachusetts Mutual Life Insurance Co. and a former insurance commissioner of Massachusetts, described one motive of savings banks which sell insurance as follows:

> Savings banks and their trustees, as such, in my judgment, are not interested in engaging in the life-insurance business except for one reason, and that reason is a perfectly sound one, so far as the savings banks are concerned, if they desire to complicate their business to that extent. That reason is based upon the thought and belief that in obtaining policyholders in their life-insurance departments, they thereby encourage people to become depositors in the savings departments of the savings banks. This thought is similar to that which exists in connection with Christmas clubs, school deposits, and other means of inducing people to open accounts, and the same reasoning applies to those savings banks

which have no savings-bank insurance departments, but who are acting as agents for the collection of premiums.[9]

Undoubtedly, this is a fair statement of one of the motives of the savings banks in associating themselves with the system. The officers of the banks are convinced that such an association actually does increase the number of their depositors. They point out that when an employer is directed to make deductions from the wages of his workers for the payment of premiums, he deposits the amounts so deducted with the savings banks, where they remain on deposit until such time as an amount sufficient to pay the regular premium has accrued. Not only does this result in an increase in the deposits of the banks, but it also increases the number of regular depositors. Furthermore, these depositors are likely to become regular customers of the savings banks. The savings departments may also benefit in those instances where policyholders pay premiums directly to the banks. Such persons are brought into regular contact with the banks. If they have not been depositors before, they are more likely to become depositors as a result of such contacts. Furthermore, the fact that the banks encourage the deposit of small sums regularly and the payment of insurance premiums from such deposits at quarterly, semiannual, or annual intervals, is likely to lead to an increase both in deposits and in the number of regular deposits. It should be remembered also that agency banks collect a transmission fee equal to 3 percent of the premiums they receive and that this may often amount to more than the cost of collection. Furthermore, the banks which are connected with the system come into possession of funds which are available, to a considerable extent, for investment in the communities which they serve. Their prestige and importance are thereby enhanced and their part in the business life of the community assumes greater proportions.

It is significant that the Savings Bank Association of Massachusetts, which represents the mutual savings banks of the State, and which was indifferent to savings-bank life insurance over a period of many years, has appeared on several occasions before committees of the legislature and opposed the passage of legislation which might be conceived as being directed against the system.[10]

In 1938, the issuing banks formed a permanent association called the Savings Bank Life Insurance Council, its object, as defined by its bylaws, being "the general welfare of the savings banks in this Common-

[9] Monk, Wesley E. Observations Relative to Savings Bank Life Insurance. Testimony before the joint legislative committee on insurance, Feb. 12, 1930, p. 3.

[10] The information upon which this section is based was obtained from interviews with officials of the Division of Savings Bank Life Insurance; with Charles J. Bateman, Jr., former director of the division of savings banks in the department of banking; with G. Arthur Small, treasurer of the Uxbridge Savings Bank; and from a number of mimeographed letters issued under the signatures of officers of various savings banks.

wealth, their agencies and policyholders." [11] All advertising for the system is now handled through this office, as well as the compilation of statistics and information of interest to the banks, the instruction and supervision of agencies, and other coordinating activities. The creation of this office is an indication of the growing importance of savings-bank life insurance to the savings banks, and the increased interest therein on the part of their executive officers.

[11] Clyde S. Casady, a member of the staff of the State Division of Savings Bank Life Insurance from 1932 to 1938, was appointed full-time executive secretary of the Council when it was formed.

Chapter 7

Criticism of Savings-Bank Life Insurance

The savings-bank life-insurance system has been subject to criticism for many years. Its opponents have not asserted that the system is unsound from an actuarial point of view. Their position has been well expressed by an important life-insurance official as follows: "No objection can be made to savings-bank life insurance as insurance. It is sound insurance actuarially. It can be bought at a low net cost. Some of the methods used in the promoting and conduct of the business, however, are objectionable." [1] The purpose of the present chapter is to describe the objections which have been commonly made to the operation of the savings-bank life-insurance system, and to attempt, where feasible, to evaluate them.

The significant criticisms of the system may be considered under the following heads: (1) That savings-bank insurance is at present not fulfilling the purposes for which it was originally intended; (2) that savings-bank insurance does not give the service available to the policyholder of the insurance companies; (3) that savings-bank insurance can be sold at a low cost to the policyholder only because part of its actual cost, at least in past years, has been met by subsidies from private sources and from the depositors of the banks.[2]

[1] Monk, Wesley, E. Observations Relative to Savings Bank Life Insurance. Testimony before the joint legislative committee on insurance, Feb. 12, 1930, p. 1.

[2] Another criticism is concerned with the fact that the insurance companies have been compelled to pay a higher tax than have the insurance departments of the banks. This matter is discussed in ch. 5, in which it is shown that whereas the insurance departments of the banks have paid about two-thirds of 1 percent of their premium income in taxes, the insurance companies have paid a proportion about three times as great. On November 1, 1939, the basis of taxing savings-bank insurance was changed to the same as the companies.

Two other frequently reiterated criticisms are not considered in the text, since they appear not to be pertinent to the merits of the Massachusetts system of savings-bank life insurance as an insurance organization. The first has to do with the fact that the savings-bank insurance enjoys certain advantages not available to private companies. These consist of the location of the Division of Savings Bank Life Insurance in the statehouse, the use of the State seal on stationery used by officials of the division, and the activities of employees of the State division to promote the sale of insurance competing with that sold by the companies. It is contended that these things create an impression among the citizens of the State that the Commonwealth of Massachusetts itself guarantees the safety of savings-bank insurance, and that for the State to promote actively the sale of such insurance and to permit false ideas as to the existence of a State guaranty to continue, constitute a species of unfair competition with the companies. The objection has been expressed in the following terms:

"It is carried on under the false belief, and practical misrepresentation to the public, that it is State insurance. As a matter of law and as a matter of fact, it is not State insurance. Not one dollar of value of the property of the Commonwealth is back of it, and not one obligation of the State guarantees it, and yet purchasers of this insurance believe that if perchance contracts are in danger of not being carried out, the Commonwealth in some way or other is a guarantor of their fulfillment.

"It is a fact that this general belief that the Commonwealth is back of this insurance is encouraged, if not by direct expression, certainly by the implication which arises when representatives of the Savings Bank Insurance Division of the State request an entree to business concerns and request assistance from the heads of business houses to instruct, educate, and solicit this insurance for the savings banks. It needs no proof that a representative of the State of Massachusetts, appearing with his credentials, will receive more attention and will obtain privileges and preferences that the representatives of a private concern will not receive.

The Original Purpose

It has been asserted frequently that the intention of the savings-bank insurance law when passed was to meet the evils of industrial

This results in unfair competition * * *" (Monk, Wesley E. Observations Relative to Savings Bank Life Insurance. Testimony before the joint legislative committee on insurance, Feb. 12, 1930, p. 1.)

Another critic asks, "Could there have been found any group of 12 men financially equipped who would not have been willing to pay actually in cash into the State $1,000,000 or even twice that sum for such an exclusive charter, for the use of the statehouse as a home office, and for the right to use the State seal with which to create and broadcast the impression that the State is guaranteeing a life insurance company so constituted?" (De Groat, Floyd E. Mutual Savings Banks and Mutual Life Insurance. Reprinted from article in the Spectator (issues of Mar. 19 and 26 and Apr. 2, 1931), p. 4.)

Critics of the system have suggested that as a means of eliminating these objections, all connection between the savings-bank insurance system and the State be severed. It is proposed that the banks themselves engage actuaries and medical directors, and operate their insurance departments without the aid or supervision of the Division of Savings Bank Life Insurance and of the General Insurance Guaranty Fund, the officers and members of which are government appointees or employees of the State. In 1930 and in 1939 these proposals were embodied in bills considered by legislative committees but were not approved. (See minority report of Representative Philip A. Sherman, member of the special recess commission appointed to study proposed limitations of savings-bank insurance. House No. 2124, 1939.)

The advocates of the savings-bank life insurance do not, of course, deny the fact that the system is benefited by the State's connection with it. They point out, however, that the officials of the division and the banks make every effort to explain that there is no State guaranty of savings-bank life insurance. They assert that the State, in fostering the system, is doing something socially desirable, since the system has the effect of offering insurance to the citizens of the State under conditions which are to their great advantage. They believe that in order to promote socially desirable ends, the State is justified in following such a course.

A second criticism which appears to have no relation to the merits of savings-bank insurance is to the effect that the savings banks should not be in the insurance business. In the pamphlet already quoted, Mr. Wesley E. Monk says that "The savings banks should not be in the insurance business any more than insurance companies should be in the savings-bank business. It is just as logical to permit mutual insurance companies to be in the savings-bank business as a motive by which more insurance could be sold, as it is to permit savings banks to be in the insurance business in order to induce more savings accounts." (Monk, Wesley E. Observations Relative to Savings Bank Life Insurance. Testimony before the joint legislative committee on insurance, Feb. 12, 1930, p. 5.)

Mr. F. E. De Groat puts the matter as follows:

"Should mutual life insurance companies enter the savings-bank field? It is possibly one of the greatest safeguards with which mutual life insurance is surrounded that either by charter provision or by choice, it has confined itself to the making of contracts which involve the life risk. The charter of one of the most famous life-insurance companies in America expressly provides the following: 'No part of the funds of said corporation shall be used for banking purposes.'

"Mutual savings banks have naught to do with the making of contracts, nor of interest guaranties; they are depositories only. The departure of mutual savings banks from the performance exclusively of those functions which have made them what they are, may prove unwise; adding to their functions by making contracts involving the life risk, is deplored by many persons of unquestioned financial acumen, including some of those prominently identified as directors of the greatest savings institutions in America." (De-Groat, Floyd E. Mutual Savings Banks and Mutual Life Insurance. Reprint from article in the Spectator (issues of Mar. 19 and 26, and Apr. 2, 1931), pp. 13–14.)

Against this position the advocates of the savings-bank insurance system urge that if the banks are in the insurance business when they operate a distinct insurance department within their establishments, the insurance companies are no less in the banking business when they sell endowment insurance, which is a combination of insurance protection and savings, and when they sell annuities, which is a form of savings. They point out that endowment insurance has constituted, over the last few decades, an increasingly important form of insurance sold by the private companies.

This attitude is expressed clearly in an open letter written by Mr. Elmer A. MacGowan, treasurer of the New Bedford Institution for Savings, to a person who complained that the savings banks had no business to enter the insurance field. The letter declares: "As a matter of fact, the life-insurance companies have entered the banking field. That is to say, they are soliciting and receiving savings as such. You know * * * that only a fraction of the premium on endowment policies represents or is claimed to represent the insurance feature, and at the younger ages more than half of the premium is intended to enable the company to pay the policy off at a stated time. A considerable part of the 3 billion dollars of assets of [a certain company] is made up of moneys which it has received in this way, not as cost of life insurance and not for the purpose of meeting any death claims, but for the purpose of repayment to the policyholders in the form of accumulated savings under endowment policies. If that is not engaging, to all intents and purposes, in the banking business, then I don't know what is. Certainly you are doing in that connection an important part of the banking business. That is, you are collecting and receiving savings for investment as such." (Elmer A. MacGowan, in an open letter to Mr. D. Howard Nolan of New Bedford, June 7, 1930, obtainable from the Division of Savings Bank Life Insurance.)

insurance, that the law was sought because it was regarded as necessary in order to enable workers to buy insurance at low cost and under reasonable conditions, and that at present, with the maximum amount which may be purchased in any one bank equal to $1,000 and the possibility of buying savings-bank insurance in amounts as great as $25,000, the system has departed from its original purpose and has become a system of ordinary life insurance, catering to the needs of persons in the higher income groups. One critic expresses this position in the following words:

> At the time the savings-bank life insurance came into being, the chief reason back of it was that it provided a method by which the man of small means could procure insurance cheaply. It was not admitted, and would have been disputed and denied, that it was made for bank directors or others of equal means.[3]

Another puts the matter as follows:

> It came into being as an instrumentality for the benefit of the working class. In other words, it would furnish industrial insurance at a cost below that in regular industrial companies. The limit of insurance on a single life was to be $500, and in the beginning only four banks availed themselves of the permissive law to enter into life-insurance transactions. The industrial field in due course was abandoned for the reason that the plans were totally inadequate for the job in hand. It embraced life insurance of the ordinary type, and makes today its principal appeal to the well-to-do, so that, while originally set up by the State for a charitable purpose—an insurance breadline, so to speak, for the poor and needy—the line remains, but those who stand in it are more often the rich and greedy.[4]

The critics have proposed that in order to put the system once more upon the course which it was intended to run, the maximum which may be carried by any one person should be limited to $3,000 or perhaps $5,000, regardless of the number of banks authorized to write insurance.

The proponents of savings-bank insurance admit, in answer to the foregoing objections, that one of the principal purposes in the mind of the framers of the law was to eliminate the evils of industrial insurance by proposing a sound substitute for such insurance. They point out, however, that there were other purposes which the law was intended to fulfill. The bill in its original form, and as finally enacted in June 1907, permitted each insurance department to write policies up to the maximum of $500 on a single life and placed no limit upon the number of banks which might establish insurance departments. When the bill was enacted there were 189 mutual savings banks operating in the State. Thus it would have been possible at the time, if all the banks had chosen to enter the system, for a single person to carry policies totaling $94,500. The possibility of this was

[3] Monk, Wesley E. Observations Relative to Savings Bank Life Insurance. Testimony before the joint legislative committee on insurance, Feb. 12, 1930, p. 6.

[4] De Groat, Floyd E. Mutual Savings Banks and Mutual Life Insurance. Reprint from article in the Spectator (issues of Mar. 19 and 26, and Apr. 2, 1931), p. 4.

present for all to read in the bill itself. Mr. Alfred A. Aikin, then the treasurer of one of the large savings banks in Worcester and later the president of the New York Life Insurance Co., speaking before the legislative committee in opposition to the enactment of the savings-bank life-insurance bill on April 4, 1907, implied this was a possibility if the bill were passed.[5]

The advocates of savings-bank insurance also point out that at the time the law was enacted there was in effect a limit of $1,000 upon the amount which anyone might have on deposit in a single savings bank. A limit on the amount of insurance seemed equally desirable. Whereas the limit on deposits in a bank has since been increased to $4,000, the insurance maximum has only been doubled.

They assert further that the increase in the permissible maximum of insurance sold to one person by a single bank was not put into effect clandestinely. It was the result of the passage of a law by the State legislature, and, as in all such cases, the measure was subject to examination which might have resulted in its rejection if it was regarded as undesirable by the legislators. Finally, they assert, if savings-bank insurance is found to be a desirable type of insurance for persons with larger incomes than those of the workers, and at the same time is attractive to workers, there is no good reason why the former should be denied the advantages which may accrue to them by buying insurance from the banks.

In 1938, the Massachusetts Life Underwriters Association introduced a bill into the legislature seeking to limit the total amount of savings-bank life insurance which the banks might issue to any individual to $3,000.[6] State-wide interest was aroused and after spirited legislative debates, the proposal was referred to a Special Recess Commission for further study. The report of this commission, filed March 1, 1939, is a comprehensive review of the entire controversy and, beside the proposed limitation, it deals with 11 additional considerations.[7]

In an effort to answer the charge that savings-bank life insurance was being bought by the higher income groups, the Division of Savings Bank Life Insurance engaged the Recording and Statistical Corporation of New York to make an independent tabulation of the actual amount of insurance owned by individual policyholders. A summary of their findings as of August 31, 1938, is shown below.

[5] Wilmot R. Evans, president of the Boston Five Cents Savings Bank, in an open letter to Mr. Guy Cox, June 4, 1930, a copy of which is on file in the Division of Savings Bank Life Insurance.

[6] A limit of $3,000 was adopted in New York at the time the law was passed.

[7] Commonwealth of Massachusetts House Report No. 2124. In the words of the commission's report, "It became apparent, as the hearings progressed, that there were issues underlying the controversy which did not appear and would not have been brought out had the commission confined the testimony offered solely to the question of limitation. * * * The commission considered it its duty, therefore, to examine carefully into the charges and countercharges of unfair practices and set forth its conclusions with relation thereto."

TABLE 27.—*Amount of savings-bank life insurance held by individual policyholders, August 31, 1938*

Total savings-bank insurance held	Persons holding insurance			
	Number	Percentage of total	Cumulative number	Cumulative percentage
Less than $1,000	22,026	26.79	22,026	26.79
$1,000	40,797	49.62	62,823	76.41
$1,001–$2,000	7,806	9.50	70,629	85.91
$2,001–$3,000	3,874	4.71	74,503	90.62
$3,001–$5,000	4,030	4.91	78,533	95.53
$5,001–$10,000	2,693	3.28	81,226	98.81
$10,001–$15,000	516	.64	81,742	99.45
$15,001–$20,000	259	.29	82,001	99.74
$20,001–$24,000	220	.26	82,221	100.00

As is apparent, 26.8 percent of all persons holding savings-bank life-insurance policies on August 31, 1938, were insured for less than $1,000; 76.4 percent for $1,000 or less; 95.5 percent for $5,000 or less; and 98.8 percent for $10,000 or less. Only 1.2 percent had bought insurance for more than $10,000, even though it has been possible to buy $20,000 or more since 1930.

These statistics are interesting in the light of the classification of occupations of all applicants for savings-bank life insurance during the period November 1, 1927, to June 30, 1934, at the time this study was originally made. For purposes of simplicity, applicants were grouped under the heads of wage earners, clerical workers and farmers, professional men, business men and executives, homemakers and students, and doubtful cases. The greatest difficulty was experienced in deciding whether a particular person should be classed as a professional worker or business man, or as a wage earner or clerical worker. For example, if an applicant gave his occupation as an engineer, was he really a civil engineer or a mechanical engineer, in which case he should be classed as a professional, or was he a locomotive engineer or a stationary engineer, in which case he should be classed as a wage earner? If his occupation was recorded as an accountant, was he really a professional accountant, perhaps possessed of the certificate of a certified public accountant, or was he a bookkeeper in a small establishment? In every case in which it seemed impossible to say that an applicant belonged to a definite group, he was put under the heading of "doubtful." [8]

The table indicates that about 50 percent of all applicants belonged under the head of clerical and other workers and farmers, that about 12 percent were definitely classifiable as professional and business men and women, about 25 percent as homemakers and students, and about 13 percent as in the doubtful group. The implications of the data go beyond the foregoing statement, however. It seems not unreasonable to assume that a large number of those classified as homemakers or

[8] See appendix J for complete analysis.

TABLE 28.—*Number of applicants for savings-bank life insurance in certain groups and their proportion to all applicants, November 1, 1927, to June 30, 1934*

Period	Wage earners, clerical workers and farmers		Professional, business, and executive		Homemakers and students		Doubtful		Total	
	Number	Percentage of total	Number	Percentage of total	Number	Percentage of total	Number	Percentage of total	Number	Percent
Nov. 1, 1927–Oct. 31, 1928	2,169	55.46	511	13.07	601	15.37	630	16.11	3,911	100.00
Nov. 1, 1928–Oct. 31, 1929	1,276	58.32	249	11.38	330	15.08	333	15.22	2,188	100.00
Nov. 1, 1929–Oct. 31, 1930	2,412	49.03	685	13.93	1,018	20.70	804	16.34	4,919	100.00
Nov. 1, 1930–Oct. 31, 1931	2,827	48.27	687	11.73	1,592	27.18	751	12.82	5,857	100.00
Nov. 1, 1931–Oct. 31, 1932	2,006	45.55	579	13.15	1,305	29.63	514	11.67	4,404	100.00
Nov. 1, 1932–Oct. 31, 1933	1,986	45.82	516	11.91	1,435	33.11	397	9.16	4,334	100.00
Nov. 1, 1933–June 30, 1934	2,119	50.89	357	8.57	1,252	30.07	436	10.47	4,164	100.00
Total	14,795	49.69	3,584	12.04	7,533	25.30	3,865	12.98	29,777	100.00

students come from the low-income groups, and that the same is true of those classified as doubtful. On the basis of these assumptions it appears that well over half of all the applicants come from low-income groups.[9]

From the foregoing, it is quite obvious that, whatever may have been in the minds of the framers of the law, or of the legislature which enacted it, persons with low incomes and purchasers of relatively small amounts of insurance generally constitute the system's policyholders.

In disposing of the question of limitation, the Special Legislative Recess Commission concluded: [10]

The commission carefully considered all of the arguments presented in favor of and against the proposal for a statutory limitation, particularly with respect to the assertion that savings-bank life insurance has either failed in its purpose or outgrown its scope as originally intended. In order to secure all the information possible as to what might have been the original intent in establishing savings-bank life insurance the commission requested an interview with Mr. Justice Brandeis at Washington, which he very graciously granted. During this interview he explained to the commission the situation as it existed at the time the law was passed, and reviewed various conditions then existing. He also indicated to the commission that the underlying purpose and intent of the original sponsors of this legislation was to benefit residents of the Commonwealth who were willing to avail themselves of it and who exercised habits of thrift; furthermore, that it would tend to create a control of local capital by citizens of Massachusetts, and afford to them the opportunity of managing the investment thereof.

After giving very careful consideration to the arguments presented and the information obtained, the commission is of the opinion that the Commonwealth

[9] Appendix J indicates the way in which applicants were grouped under the various heads in the above table. The classification of farmers along with wage earners has no significance, even if the farmers are prosperous ones, for in the year ending Oct. 31, 1928, only 14 persons out of a total of 2,169 in the wage-earning and farming group were recorded as farmers, and some of these may have been agricultural wage earners. In 1929, the numbers were 4 and 1,276, respectively; in 1930, 16 and 2,412; in 1931, 12 and 2,827; in 1932, 20 and 2,006; and in 1933, 10 and 1,986. Furthermore, it must be remembered that school teachers, whose incomes generally are not large, are classed among the professional and business men and women. In 1928 there were 132 teachers among the applicants out of a total in the group of 511; in 1929 there were 46 out of 249; in 1930, 154 out of 685; in 1931, 152 out of 687; in 1932, 158 out of 579; and in 1933, 141 out of 516.

[10] Commonwealth of Massachusetts House Report No. 2124, p. 13.

should not by legislative enactment deprive any of its citizens possessed of initiative and thrift of such benefits as savings-bank life insurance may afford. Therefore the commission does not recommend that a limitation be placed upon the amount of savings-bank life insurance which any individual may purchase.

Critics of savings-bank life insurance declare that the system as at present operated departs from the original intention of the law in a second respect. According to them the idea of selling insurance across the counter without the use of solicitors was partially abandoned when the law was amended in 1915 to permit the employment of two instructors by the State Division.[11]

It is clear that, regardless of the manner in which the instructors are employed, they do work which is done for private insurance companies by insurance agents. To the extent that the instructors' work leads to the making of applications for savings-bank insurance, their function is similar to that of life-insurance agents. The advocates of the savings-bank life insurance point out, however, that the idea of selling insurance across the counter was not abandoned when instructors were employed. In their view, the essential difference between the employment of savings-bank insurance instructors and of solicitors by the private insurance companies rests in the fact that whereas the income of the latter closely depends upon the amount of insurance they sell, the income of the instructors employed by the Division of Savings Bank Life Insurance, who are on a straight salary basis, does not vary directly with their success in getting prospects to apply for insurance with the banks. The purpose of prohibiting the employment of solicitors by the banks was to prevent the development of a system of agencies with its high costs in the way of agents' commissions and "high-pressure" methods of insurance salesmanship.

The Special Recess Commission, after considering the pros and cons of this subject, concluded that "* * * as there are now three of these field workers in the employ of the Commonwealth, this number should be sufficient to carry out the intent and purposes for which their positions were created, and their work should be confined and restricted solely to the required effort (of presenting and bringing before the general public the advantages of savings-bank life insurance and instructing the people how and where to make application for it)." In any event, it seems fair to state that the amount of savings-bank insurance resulting from the instructors' efforts is a small percentage of the total bought over the counter and by mail from the banks, employer agencies, and credit unions throughout the State.

[11] These instructors were added in 1915 after the then Gov. David I. Walsh, in a message to the legislature, urged employers "to bring the advantages of savings-bank life insurance to the attention of their employees," and recommended "an increase in the appropriation for the Savings Bank Life Insurance Division, in order that a thorough and systematic campaign of education shall be extended to every man, woman, and child in the Commonwealth. Hundreds of thousands of our people do not know of the existence of this splendid institution. We ought to advertise its existence. A government does not do its duty by merely enacting beneficial laws—it must see that the knowledge of these laws is brought to the people."

Services to Policyholders

Critics of savings-bank life insurance have frequently declared that the banks do not give their policyholders as much service as do the companies. The latter are said to give superior service with respect to (1) certain policy provisions, (2) persuading people to buy insurance protection, (3) advice to policyholders, and (4) the collection of premiums.[12]

It was pointed out in chapter 4 that insurance policies may be bought from the private companies which contain provisions for premium waiver (and in industrial policies for the payment of benefits in case of disability), and for double indemnity in case of accidental death. It is often asserted that the savings banks, since they sell no policies containing such provisions, are therefore unable to give as much service to policyholders as the companies. The assertion is, of course, justifiable. In view of the fact that savings-bank policies are held so largely by workingmen who are not likely to buy special disability insurance, it might be desirable for the banks to sell insurance providing at least for the waiver of premiums in case of disability, if the insured desires to pay the small extra cost which the companies usually charge ordinary policyholders for such a provision.

It is also said that persons must be sold insurance or they will not buy it, and that, though the banks get most of their insurance business without the intervention of solicitors, their failure to employ salesmen results in the restriction of the sale of savings-bank insurance. Insurance companies, it is claimed, serve the individuals to whom they sell policies when they persuade them to protect themselves and their families by buying insurance. Advocates of savings-bank insurance generally admit that more of it could be sold if agents and solicitors were generally employed to sell it. To engage a large staff of agents for such purpose, however, would bring back the very agency system which it was the intention of the law to eliminate. They assert that the fact that over $200,000,000 of insurance was in force with the savings banks in April 1941 shows that an increasing number of thrifty people will buy insurance without being urged to do so by insurance agents.[13]

[12] The arguments in answer thereto are contained in a published booklet, The Manning Letter, being the reply of Judd Dewey, Deputy Commissioner of the Division of Savings Bank Life Insurance, to certain questions propounded in writing by Mr. Earl G. Manning, a general agent for one of the larger mutual life insurance companies. See also, Open Letter to Philadelphia Savings Banks, by Clyde S. Casady, executive secretary Massachusetts Savings Bank Life Insurance Council, May 1941.

[13] A Nation-wide survey sponsored by the Life Insurance Presidents Association in 1938 to determine the public's attitude toward the business of life insurance disclosed the startling information that life-insurance salesmen are a rather sore point with many people. Twenty-two percent of those interviewed wanted to do away with salesmen altogether. While some believed that this would reduce the cost of life insurance, the major indictment against the salesman, by those interviewed, rested upon the belief that he was a nuisance and often indulged in misrepresentation. In addition to the 22 percent who would do away with salesmen altogether, another 18 percent indicated that they resented the salesmen's methods. (See address entitled "Facing the Facts" by Dwight L. Clarke, executive vice president, Occidental Life Insurance Co. of California, reported in Life Insurance Courant, October 1939.)

The report of the Special Legislative Recess Commission referred to previously commented (p. 8):

> There are fundamental differences in the set-up and methods of operation between the savings-bank ("over-the-counter") insurance and commercial life insurance companies employing soliciting agents. * * *
>
> * * * it is recognized that life insurance is a necessity of life which most of our citizens need, but of which many will not avail themselves unless urged or solicited so to do through the medium of agents. It must be borne in mind that life-insurance companies render a most valuable and needed service, and whereas there are a great number of persons who will voluntarily and without the intervention of an agent purchase life insurance, the Commission believes that it is in the public interest that both methods should be preserved.

It is often declared that insurance agents perform valuable services by acting as insurance advisers for people who cannot afford the luxury of engaging an independent insurance counselor. Furthermore, the agents are often looked to by the holders of industrial insurance for advice on matters not relating to insurance and are frequently regarded as family friends and advisers. That insurance agents act in these capacities cannot be denied. It is possible, however, that as an insurance adviser an agent employed by a particular company is not always the best person to give impartial advice as to the most desirable form of insurance to buy.[14]

It is said, finally, that the collection of weekly premiums by industrial insurance agents saves the insured time and trouble and helps him to keep the insurance in operation. The answer made to this point is that the costs of the agency system are much higher than are justified by the services of collecting premiums and keeping insurance in force.[15] Those who support savings-bank life insurance declare further that the relatively low rate of lapse and the relatively high proportion of insurance which is carried to maturity in the savings-bank insurance system prove that an agency system like that of the insurance companies is not necessary either to secure regular payment of premiums or to maintain insurance in force.

"Subsidies"

In recent years critics of savings-bank insurance have emphasized their belief that the policyholders of the savings banks have not themselves borne the entire cost of their insurance. The policyholders are said to be able to obtain insurance at a relatively low cost because part of the expense of operating the system has been paid by the taxpayers,

[14] In the survey referred to in footnote 13, only 6 percent of the persons interviewed said they looked upon life-insurance salesmen as needed in explaining life insurance to the public or helpful in the guidance of their life-insurance plans.

[15] See U. S., Temporary National Economic Committee, Hearings, pt. 12, Industrial Insurance, and Monograph No. 28, ch. 15, Washington, 1940. According to a Special Study of Industrial Insurance made and published by the New York Department of Insurance (1938), approximately 28 percent of the industrial policyholders of the largest company selling this form of insurance pay their premiums over the counter at district offices in order to receive a refund of 10 percent of premiums paid if they continue such payments for a year.

by private persons who contribute to its support, and especially by the depositors of the savings banks. It has been shown already that in previous years the entire expense of operating the office of the Division of Savings Bank Life Insurance was borne by the taxpayer, that beginning in 1927 the insurance departments began to assume an increasing part of this expense, and that since 1934 the taxpayer has paid nothing to maintain the State Division of Savings-Bank Life Insurance, the entire operating expenses having been reimbursed to the State by the banks. It has been shown also that though in earlier years the expenses of the Division were borne entirely by the State, and that this meant that the policyholder paid less than he might otherwise have had to pay, in later years the expenditure of the State constituted only a small fraction of the total expenses of operation.[16] It seems reasonable to say that the State's expense in connection with the savings-bank insurance system has at no time been an important factor in the low cost of savings-bank insurance to policyholders.

As to subsidies from private agencies, it has been frequently asserted that large contributions, made through the Massachusetts Savings Bank Insurance League, to the cause of savings-bank insurance, have been used to promote its sale. The league has published pamphlets and advertisements which have proved useful to the savings-banks' insurance business. The costs of this publicity, which in the case of the insurance companies would have to be borne entirely by the policyholders, have in the case of the banks been borne by philanthropists interested in advancing the sale of savings-bank insurance. Some critics believe that the total amount of these contributions has been so large as to play an important part in explaining the low costs of savings-bank insurance.

An investigation was made of the books of the league from the year 1908 to the year 1939. During this entire period meticulous accounts were kept of every contribution received and of every expenditure made by it. As a result of an examination of these accounts it is possible to say that over the period as a whole contributions to the work of the league have not amounted to as much as 1 percent of the combined premium income of the savings-bank insurance system. In recent years it has been considerably less.

Subsidies from savings-bank depositors, it has been stated, have taken the form of the insurance departments of certain banks paying inadequate amounts as rents and salaries. It is obvious that even a new department uses clerks and requires the supervision of savings-bank officers. It is obvious also that even a new and small insurance department requires space. When the department pays little or nothing for salaries and rent it is assumed that such expenses are

[16] See chs. 3 and 5, sections on expenses of operation.

borne by the savings department of the bank and that the insurance department is not bearing its proper share of the joint expenses. The insurance policyholder, it is claimed, is therefore being subsidized by the savings-bank depositor, who, because the savings department pays more than its fair share of the bank's expenses, must receive in interest on his deposit account a smaller return than that which he might otherwise get. Not only is this conclusion said to be deducible from the undoubted records of the insurance departments of the banks themselves, showing as they do that numerous banks in the early years paid no rent or salaries or paid very small amounts for these purposes, but it is said to follow also from the fact that insurance dividends of the banks are based on a higher rate of interest than is actually paid savings depositors. For example, in 1940 the dividend formula used for savings-bank life-insurance dividends assumed 3.75 percent interest, whereas the savings depositors of the same savings banks received only 2 to 3 percent interest on their deposits.

The advocates of the savings-bank insurance system make the following answer to this criticism. They assert that after an insurance department gets started it should be expected to and generally does pay all of its direct expenses and a fair share of the joint expenses of the bank, and that it frequently pays more than its fair share. They maintain, however, that it is just for a bank not to charge its insurance department with rents and salaries until the latter gets reasonably well started in the performance of its business. They point out that generally a new insurance department requires no additional space and no additional clerical help. The savings bank is thus at first put to no additional expenditure for space and labor as a result of establishing a new insurance department. Even if it could be shown that in its early years an insurance department does not pay its proportionate share of the joint expenses of the bank, the fact that the deposits of the bank increase because of the new insurance business justifies the bank in not charging the department with larger amounts for rent and salaries.[17]

[17] The practice of the Massachusetts banks in allocating expenses between the savings and insurance departments was described in detail by Clyde S. Casady, executive secretary of the Massachusetts Savings Bank Life Insurance Council in a letter to C. B. Plantz, assistant vice president, New York Savings Bank, under date of June 12, 1939:

Our bank trustees and officers have tried to apply common sense to the problem of allocating expenses. Most of the trustees are business men used to installing new departments, adding new machines, and hiring new personnel. While in the long run it is expected that a new department or a new machine or a new clerk will contribute enough to the organization to pay its own way and share in the overhead, no practical man expects it to do so immediately. Time must be allowed to permit it to get going. For that reason, the trustees of our banks have considered it reasonable, wise, and fair to charge newly-established insurance departments with the cost of additional clerks hired, additional space added, and for additional expenses which the savings bank proper would not have had. During the first few months, any new department in any organization requires extra supervision and extra time spent on it until the system is installed and the clerks become familiar with the routine required. Good management dictates that any new department or service added, which promises long-run benefits, be put on its feet. It's like a bank renovating a foreclosed apartment building. No accountant or bank officer or examiner would expect to get the additional outlay back the first year, or even to get a high return on the investment, but certainly it is hoped and expected that over a period of years the additional time and money spent will be justified.

At the present time, our banks with established insurance departments are paying all direct expenses from insurance funds, including salaries of all persons working on insurance, rent, usually based upon the relative space used, all supplies, postage, advertising, etc., and are contributing to the general administrative expenses usually in proportion to their ledger assets.

As for the claim that the case against the insurance department is proved by indicating the difference between the return going to the policyholders and to the depositors, the protagonists of the savings-bank insurance system assert that this is ignoring a fundamental difference between the ways expenses are provided for in the two departments. All savings-bank life-insurance premiums contain a special "loading" for expenses, as was explained on p. 3. In the savings departments, on the other hand, expenses must be paid out of investment income, and in addition losses must be taken and certain amounts set aside for guaranty funds and surplus. In the insurance department there are three sources of net profits available for these purposes; namely, large savings from the use of an obsolete mortality table, gain from loading, and gain from investments. Thus, with expenses taken care of by the loading and with the profits accruing from several sources, it is fair and proper that approximately the net rate of interest earned be used in the calculation of dividends—which is merely a return of profits or "overcharges" to policyholders.

A comparison of the actual net interest earned in the savings and insurance departments of the banks indicates a surprisingly close average. Between 1929 and 1938, the average gross rate of interest earned by the savings departments of the 10 banks with insurance departments in 1929 was 5.08 percent, whereas the average rate earned by the insurance departments of these same banks was 5.06 percent.

It is also pointed out that over a period of time, a savings department, since it may at any time be asked to pay its depositors on demand, must have on hand a larger share of its funds than is the case with the insurance department, which is thus able to invest a much greater proportion of its assets at more favorable rates.

The implication that the assumption of a 3.75-percent rate of interest has any necessary connection with a rate of interest earned on invested assets is also denied. Officials of the State Division of Savings Bank Insurance state that the assumed interest rate of 3.75 percent was used only as the interest factor in the basic dividend formula. Other factors, such as expense and mortality, also enter into the basic dividend formula. The formula is used for the purpose of determining the manner in which the amounts set aside each year for the payment of dividends shall be distributed among the various classes of policyholders. If the interest factor assumed in the formula is relatively high, those policyholders with large reserves to their credit will be paid

In Massachusetts, most of our banks have buildings more than adequate for their present needs in view of the plateau in growth during the past 10 years. The rapidly growing insurance departments not only help share in the general overhead of the building, but are helping materially by contributing to the salaries of those officers who spend a part of their time supervising the insurance departments. In addition, the insurance departments have provided opportunities for jobs and more rapid promotion to many young people. Besides, savings-bank life insurance is the one service not offered by competitors which is definitely bringing in new customers, particularly young people and wage earners. Those are tangible benefits to our savings departments after the insurance departments are once established.

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a greater share of the total sum paid out as dividends, and those policyholders with small reserves will receive a lesser share. On the other hand, if the interest factor in the formula is lowered from 4 to 3.75 percent, as it was in 1938, the dividends paid to the policyholders with large reserves to their credit would decrease more than those paid to policyholders with smaller reserves.

The fundamental issue raised by the controversy is whether or not the depositors of the savings banks pay a substantial part of the expenses of the insurance carried by the bank's policyholders. This issue is so important and its implications so vital to the operation of the savings-bank insurance system that it deserves the most thoroughgoing examination possible. For if it be true that the depositors subsidize the policyholders, there exists an obvious injustice not only to the depositors but also to the insurance companies. Before proceeding with an investigation of the matter, it should be pointed out that only the items of rents and salaries appear among those which the insurance departments are said not to bear in proper proportion. The expenses for such items as the fees of medical examiners, taxes of the insurance departments, advertising, printing, and postage give rise to no controversy, since they are in practically all cases directly incurred by the insurance departments, definitely allocable to them, and usually directly paid by them. If attention is confined to the problem of rents and salaries, the issue as to the equitable distribution of joint expenses between the two departments may be regarded as covered.

It should be pointed out further that the critics of the system are not inaccurate in pointing to the fact that numerous insurance departments paid neither salaries nor rents in their early years. Thus, in the year 1932 only 1 of the 11 banks which came into existence during the period from 1929 to 1931 paid anything either as salaries or as rent. In 1933, 6 of these banks paid no salaries and 8 paid no rents. In 1934, 1 bank paid neither salaries nor rent and 6 others paid no rents. By 1940, however, all of these banks were paying substantial sums in the form of salaries and rents as will be shown in table 29.

In considering the allocation of expenses two assumptions should be stated: (1) Each department should share equitably in the joint expenses of the savings banks, as required by law. (2) If a building, or an officer or worker of any kind, is exclusively used by the insurance department, that department should bear the entire cost incurred by such use.

Obviously thorough investigation into the affairs of each savings-insurance bank, in order to determine to what extent a building is used only by the insurance department and the extent to which officers and workers are employed exclusively in that department,

was not feasible. Our intensive effort was made to find quantitive criteria applicable to both the savings and the insurance departments which are available in the records and which are sufficiently comparable to furnish a reasonable basis upon which the distribution of joint expenses might be made.

The sets of criteria which suggested themselves were as follows: (1) The amount of deposits in the savings department may be compared with the amount of insurance in force in the insurance department; (2) the deposits received in a given year by the savings department may be compared with the premium income received by the insurance department; (3) the ledger assets of the savings department may be compared with the ledger assets of the insurance department. Other possibilities, such as total income, receipts and payments, and the number of deposit accounts and of policies, were considered, but in each case they were discarded as less satisfactory than any of those mentioned. Each of the above criteria was considered and tested carefully. The results were neither satisfactory nor conclusive.

Amount of deposits and amount of insurance in force—the first set of criteria—are obviously not comparable. All the deposits of a savings department are liabilities to the depositors, which they may demand at any time. In contrast, the total amount of insurance in force is not a liability to the policyholders. Only that portion of the amount of insurance in force is a liability to the policyholders which equals what the insurance departments have set aside as reserves, plus accrued dividends, premiums paid in advance, undivided profits, and surplus. Furthermore, neither the amount of insurance in force nor the amount of deposit liability is an adequate measure of the work which may be required of each department.

The second set of criteria, the amount of deposits received and the premium income, is hardly more satisfactory than the first. The premium income of an insurance department may possibly be, in some respects, a fair measure of the day-by-day work which must be done, as well as a rough indication of the amount of space which might be required. Deposits received, however, are a poor indication of the amount of work in the savings department, for there is about as much work required when a person withdraws a deposit as when he makes one. The net deposit income of a given year might be almost a negligible quantity, though the activity required because of large-deposit income received and large deposits paid back to depositors might be very considerable. Furthermore, neither the first nor the second set of criteria properly takes into account the amount of work required of each department in keeping records of business first done before the current year. Such business requires the keeping of accounts and the necessity of managing the investment of funds no less than does current business. The premium income and the deposit income of a

bank in a given year might be small, but the work done in the current period as a result of deposits made and premiums paid in previous years might be great.

The most satisfactory set of criteria available to serve as a basis for the allocation of joint expenses seemed to be the ledger assets of both departments. In the first place, both the insurance and the savings departments of the banks have ledger assets, and they are thus more strictly comparable in this respect than the other criteria. Second, ledger assets take into account to some extent the volume of present business as well as that of past business. Third, ledger assets represent more adequately than the other criteria the tasks involved in keeping accounts, filling out forms, and similar work, and also the work of managing the investment of assets.

Ledger assets are not a perfect measure, however. Large assets are not likely to require much more care and work in investing than smaller ones. Certain kinds of insurance, such as group insurance, and that on which premiums are paid frequently, require more work to handle than others. It is clear, furthermore, that ledger assets are by no means a good measure of current business activity in each department, for while savings accounts may be in a state of flux and require much activity at a given time, ledger assets may show little indication of this fact; and while a given year's insurance business may be relatively slight and therefore require less current work, ledger assets are not directly indicative of the situation.

Using the ledger assets of each department alone as the criteria for determining the proper basis for the distribution of salaries and rents is not a valid measure. For example, on this basis in 1939 the ratio of total salaries and rents paid to ledger assets of the insurance departments averaged 0.91 percent, whereas the ratio of total salaries and rents paid to ledger assets of the savings departments was only 0.29 percent. Every one of the 24 insurance departments in operation more than 1 year paid a higher ratio of salaries and rents to ledger assets than did the savings departments of the same banks. Ledger assets do seem to be the best available means of distributing the joint expenses of the bank after each department has paid all direct expenses applicable to its business.

The following table shows the ratios of salaries and rents to premium income for each insurance department since its establishment, and during the year 1940.

TABLE 29.—*Premium income received, and salaries and rents paid, by insurance departments of savings banks from their establishment to and during 1940*

Bank	From establishment to 1940			1940		
	Total premium income	Total salaries and rent	Ratio to premium income of salaries and rent	Premium income	Salaries and rent	Ratio to premium income of salaries and rent
			Percent			*Percent*
No. 1	$9,893,969	$298,457	3.02	$576,060	$19,731	3.43
No. 2	6,968,387	236,092	3.39	382,509	13,346	3.49
No. 3	5,692,948	215,012	3.78	298,506	14,210	4.76
No. 4	4,659,945	234,422	5.03	271,295	16,188	5.97
Total, Nos. 1–4	27,215,249	983,983	3.62	1,528,370	63,475	4.15
No. 5	4,166,356	101,377	2.43	372,092	11,994	3.22
No. 6	4,232,450	125,093	2.97	354,384	15,646	4.41
No. 7	1,465,419	56,398	3.85	132,537	6,585	4.97
No. 8	3,622,946	96,287	2.66	357,675	13,627	3.81
No. 9	2,709,874	100,469	3.71	259,449	13,932	5.37
No. 10	2,129,560	69,402	3.26	187,414	8,073	4.31
Total, Nos. 5–10	18,326,605	549,026	3.00	1,663,551	69,857	4.20
No. 11	822,272	16,302	1.98	99,829	2,761	2.77
No. 12	3,713,370	110,857	2.99	554,901	25,274	4.56
No. 13	762,795	19,804	2.60	114,853	3,487	3.04
No. 14	1,446,750	17,906	1.24	184,621	5,371	2.91
No. 15	972,922	25,501	2.62	117,662	4,174	3.55
No. 16	781,994	16,953	2.17	139,465	5,135	3.68
No. 17	456,749	12,485	2.73	91,286	2,808	3.08
No. 18	812,411	21,519	2.65	137,425	5,861	4.26
No. 19	1,375,213	28,417	2.07	239,352	8,308	3.47
No. 20	467,367	16,380	3.51	88,410	3,859	4.37
No. 21	513,906	11,274	2.19	109,334	3,495	3.20
Total, Nos. 11–21	12,125,749	297,398	2.45	1,877,138	70,533	3.76
No. 22	193,812	5,421	2.80	42,520	1,627	2.61
No. 23	312,484	3,989	1.28	78,729	1,823	2.32
No. 24	351,552	9,787	2.78	129,569	5,688	4.39
No. 25	45,881	1,122	2.45	28,631	722	2.52
No. 26	55,263	653	1.18	32,141	428	1.33
Total, Nos. 22–26	958,992	20,972	2.19	311,590	10,288	3.30
Grand total	58,626,595	1,851,379	3.16	5,380,649	214,153	3.98

Certain facts are apparent: (1) Those banks in operation 25 years or more (Nos. 1–4) have paid an average of 3.62 percent of their premium income for salaries and rents; banks in operation between 10 and 18 years (Nos. 5–10) paid 3.0 percent; banks in operation between 8 and 11 years (Nos. 11–21) paid 2.45 percent; banks in operation 1 to 6 years (Nos. 22–26) paid 2.19 percent. It may be recalled that during its first 5 years a new insurance department is exempt from any share in the operating expenses of the State Division of Savings Bank Life Insurance. As a department grows it assumes all direct expenses, an increasing share of the joint expenses of the bank, and its share of the expenses of the State Division of Savings Bank Life Insurance. (2) There is a wide variation in the expenses of the various banks, which may be due to any one or several of the following factors: Relative proportion of group and ordinary insurance

in force; relative amount of annuity premiums received; location of bank (obviously an insurance department located in downtown Boston must pay higher rents and salaries than a department of equal size in a country or suburban town); over-the-counter activity in new sales and as a collecting agency for other banks; size, age, and relative proportion of State expenses; judgment of trustees as to proper allocation of expenses; and efficiency of management. (3) Every insurance department paid a larger proportion of its premium income for salaries and rents in 1940 than the average paid since its establishment. Several reasons for this suggest themselves. The reduction in gross premiums on November 1, 1935, means that expenses will be a higher proportion of the reduced premiums on policies issued since that date than would the same expenses on the old higher premium basis. Banks Nos. 11 to 26, inclusive, have recently assumed a larger share of the expenses of the State Division of Savings Bank Life Insurance. And finally, it may be that the increasing difficulty of certain savings departments in earning sufficient interest to pay dividends equal to those of competing institutions, as contrasted with the substantial profits in the insurance departments each year, may influence the officers and trustees to allocate a generous proportion of the bank's expenses to the insurance department.

On the basis of the foregoing analysis, the following conclusions seem reasonable: (1) The growing insurance departments are paying their direct expenses and absorbing an increasing proportion of the joint expenses and overhead of the savings-insurance banks. (2) Taking the savings-insurance system as a whole, the officers and trustees of the savings-insurance banks appear to be allocating an equitable share of the joint expenses of the banks to the insurance departments. (3) The cost of savings-bank life insurance to policyholders is lower for reasons other than that the depositors of savings banks are paying part of such costs.

Chapter 8

Summary and Conclusions

The Massachusetts system of savings-bank life insurance was designed to provide dependable life insurance and annuities at low cost.

Under the system, mutual savings banks in Massachusetts may establish insurance departments. These are operated independently of the savings departments of the banks, but generally under the same executive direction. All insurance departments are under the direction and guidance of the Division of Savings Bank Life Insurance, a branch of the State government. They are subject to supervision by the commissioner of insurance and the commissioner of banks of the Commonwealth. (See ch. 2.)

The law establishing the system of savings-bank life insurance was enacted in June 1907. The Whitman Savings Bank, in June 1908, established the first insurance department. There are at present 29 issuing banks in the system. Four joined between 1908 and 1912, 6 between 1923 and 1925, 11 between 1929 and 1931, and 8 since 1934. Including the savings banks which write insurance, there were, in June 1939, 517 agencies of various kinds scattered throughout the State at which application for savings-bank insurance might be made. (See chs. 1 and 2.)

The banks sell all the usual types of ordinary insurance policies and annuity contracts, life insurance, endowment insurance, term insurance, and group insurance. Industrial insurance of the usual type is not sold. A person may buy a maximum of $1,000 of insurance and $200 annuity income from any one insurance bank. However, the maximum obtainable from all banks in the system is $25,000 insurance, $1,200 annuity income purchased by installment premiums, or $600 annuity income bought by a single premium. (See ch. 2.)

In 1923, there was $25,678,000 of insurance in force. It had risen to $57,837,000 in 1928, to $93,187,000 in 1933, and to over $200,000,000 in April 1941. At the end of October 1940 there was over $11,000,000 of group insurance in force with the banks. (See ch. 1.)

Savings-bank life insurance is held to a great extent by workers and others receiving low incomes. On August 31, 1938, 76.4 percent of the persons insured held insurance for $1,000 or less; 90.6 percent for $3,000 or less; and 95.5 percent for $5,000 or less; and only 1.2 percent held policies for more than $10,000, even though it is possible to buy amounts

up to $25,000. (See ch. 7.) No agents are employed by the banks to sell insurance, and no commissions are paid for its sale. (See ch. 2.)

Premiums may be paid monthly, quarterly, semiannually, or annually. It is a common practice for a policyholder to make regular deposits with a savings bank and to authorize it to turn over an amount equal to the regular premiums due from him to the insurance department of the same bank or another bank as they become payable. (See ch. 2.)

The cost of ordinary life insurance sold by the savings banks is lower than that of ordinary insurance sold by the private companies. Ordinary insurance in general costs much less than industrial insurance. (See ch. 5.)

One important reason for this difference in cost is that the expenses of operation of the savings-bank insurance system are relatively low. The ratios of expense to premium income in the years 1928, 1933, and 1938 were, respectively 18.13, 14.14, and 13.77 percent for private ordinary insurance; 26.3, 22.77, and 25.45 percent for private industrial insurance; and 4.53, 5.0, and 8.33 percent for savings-bank ordinary insurance. This is due principally to the fact that savings-bank insurance is sold without the use of agents employed on a commission basis. (See ch. 5.)

A second reason for the lower cost is that the savings-bank insurance system has enjoyed a more favorable mortality experience than that of the private insurance companies. The mortality ratios for the years 1928, 1933, and 1938 were, respectively, 57.91, 63.31, and 56.95 percent for private ordinary insurance; 64.23, 56.25, and 43.76 percent for private industrial insurance; and 36.22, 36.77, and 34.2 percent for savings-bank life insurance. (See ch. 5.)

Still another reason for the lower cost of savings-bank insurance is the fact that it has generally received a higher rate of return on its invested assets than have all insurance organizations as a whole. This rate of return in the years 1928, 1933, and 1938 was, respectively, 5.04, 4.25, and 3.56 percent for all insurance organizations, and 5.18, 4.67, and 3.84 percent for the insurance departments of the banks. (See ch. 5.)

The low cost of savings-bank insurance has sometimes been credited to the existence of so-called "subsidies" which enable the policyholders to escape the full cost. One of these is said to be paid by the taxpayers, who for many years paid the expenses of the State Division of Savings Bank Life Insurance. Since 1927 these expenses have been borne increasingly by the insurance departments of the banks, and since 1934 the taxpayers have paid nothing for the support of the division, its entire expenditures being borne by the banks themselves. (See ch. 3.)

Another subsidy has consisted of the expenditures by the Massachusetts Savings Bank Insurance League to promote the sale of savings-bank insurance. During the period from 1908 to 1939 the expenditures of the league in behalf of savings-bank insurance have not equaled as much as 1 percent of the premium income of the savings-bank insurance system. (See ch. 7.)

The depositors of the savings banks have often been said to subsidize the bank's policyholders by paying a share of the salaries and rents of the insurance departments. Investigation shows, however, that the tendency is for the insurance departments of the banks as a whole to bear all their direct expenses and at least an equitable share of the joint expenses of the bank. (See ch. 7.)

Lower costs are also attributed in part to the fact that the insurance companies, which pay both State and Federal taxes, have borne a larger burden of taxes than have insurance departments of the savings banks, which pay no Federal income tax. In recent years the companies have paid approximately 2 percent of their premium income in taxes and fees. The savings-bank insurance system has paid approximately two-thirds of 1 percent in taxes to the State throughout its existence, though in recent years it has paid about eight-tenths of 1 percent. Since November 1, 1939, the insurance departments of the savings banks have paid taxes on the same basis as the insurance companies. (See ch. 5.)

The terms of the savings-bank insurance policies are in general more favorable to the policyholders than are those of the insurance companies. Cash surrender values are available in 6 months, and loans on policies may be obtained at the end of 1 year. Other nonforfeiture privileges, such as extended term insurance and paid-up life insurance, are obtainable at the end of 6 months if cash premium payments are discontinued. On the other hand, most of the companies include provisions in their policies permitting the waiver of premiums in case of total and permanent disability, a small extra premium being charged for this privilege. The policies of the savings banks do not have such provisions. (See ch. 4.)

The lapse ratios of savings-bank insurance are unusually low. During 1938 the average ratio of insurance lapsed to new insurance written was 28.90 percent in the case of private industrial insurance, 30.33 percent in the case of private ordinary insurance, and 1.54 percent in the case of savings-bank insurance. (See ch. 4.)

Part II

Savings-Bank Life Insurance in New York

Chapter 1

Savings-Bank Life Insurance in New York

In 1938, 31 years after the establishment of savings-bank life insurance in Massachusetts, the New York State Legislature, upon the strong insistence of Gov. Herbert C. Lehman, passed a similar law enabling the savings banks in New York to establish life-insurance departments. The act, which went into operation on January 1, 1939, as originally passed followed the provisions and wording of the Massachusetts law with several important differences. In March 1940, the New York law was further changed. The major differences between the savings-bank life-insurance laws in the two States are as follows:

1. *Limitation of insurance.*—In both States an individual bank is limited to the issuance of a $1,000 policy. In New York, however, it is provided by statute that the maximum amount of insurance issued on any one life be limited to $3,000. In Massachusetts it is possible by statute to obtain as many thousands of dollars of insurance as there are issuing banks. At the present time, however, a voluntary limit of $25,000 has been adopted by the Massachusetts banks.

2. *Administration of the system.*—In Massachusetts, the savings-bank life-insurance law creates a State Division of Savings Bank Life Insurance, in which is set up the machinery for the operation of the system. The trustees of the General Insurance Guaranty Fund are given administrative powers over this Division of Savings Bank Life Insurance, which is entirely separate from the insurance and banking divisions. In New York the original law provided for a Division of Savings Bank Life Insurance within the insurance department, with administrative powers given to the superintendent of insurance. In 1940, the New York law in this connection was drastically changed. All administrative powers were transferred from the superintendent of insurance to the trustees of the Savings Banks Life Insurance Fund (formerly called the General Insurance Guaranty Fund). The Savings Banks Life Insurance Fund under the amended law is a body corporate in the banking department.

In Massachusetts, the trustees of the General Insurance Guaranty Fund appoint, and may remove, an administrative officer (the deputy commissioner), the State actuary, and the State medical director—both of the latter having specific duties and powers enumerated in the

law. Their clerks and assistants are appointed from State civil-service lists. The operating expenses of the Division are advanced to the State by the issuing banks, but are paid through regular State channels.

Under the amended New York law, the trustees of the Savings Banks Life Insurance Fund [1] are directly responsible for the administration of savings-bank life insurance, and they may appoint such employees as they deem necessary to carry out their duties. All administrative expenses are paid by the Fund trustees. Each bank pays its own operating expenses.

3. *Special expense and guaranty funds.*—Under the Massachusetts law, and the New York law as originally passed, banks establishing life-insurance departments were required to provide at least a $5,000 special expense guaranty fund and a $20,000 special insurance guaranty fund by individual subscription. Whenever the funds in the General Insurance Guaranty Fund in Massachusetts reach $100,000 or more and are deemed sufficient by the commissioners of insurance and banking, the trustees of the fund are permitted to provide the $20,000 guaranty fund for new banks entering the system.

This point was reached in 1921, since which time the General Insurance Guaranty Fund has provided the special guaranty fund for the 25 banks which have subsequently established insurance departments. On July 1, 1940, the New York law was changed so that the individual insurance guaranty funds have been consolidated into a central Savings Banks Life Insurance Fund, which, in addition to the legal reserve and surplus funds of the individual banks, will guarantee the risks of the various insurance departments. The new law provides that in order to establish an insurance department not less than $20,000 must be invested in the Savings Banks Life Insurance Fund and an initial surplus of not less than $20,000 established in the life-insurance departments of the individual banks. Investments in certificates of the Savings Banks Life Insurance Fund of the surplus funds of life insurance departments are now legal investments for New York savings banks, although both funds may be provided by private subscriptions.

4. *Contributions of funds.*—Under the Massachusetts law, the insurance departments were required to contribute 4 percent of their premium income to the General Insurance Guaranty Fund until the fund reached $100,000 or 5 percent of the reserves, at which time the trustees could reduce or discontinue the contributions. This point was reached and contributions were discontinued in 1921.

[1] Trustees, appointed July 1, 1940, are Judge Edward A. Richards, president East New York Savings Bank; Henry W. Proffitt, trustee Empire City Savings Bank; Albert E. Cluett, Executive vice president Troy Savings Bank; Richard A. Brennan, president Brevoort Savings Bank; Oliver W. Roosevelt, executive vice president Dry Dock Savings Institution; George D. Whedon, president Monroe County Savings Bank; Henry R. Kinsey, president Williamsburgh Savings Bank.

The New York law, as amended in 1940, provides for contributions of not less than 2 nor more than 4 percent of the premium income to the Savings Banks Life Insurance Fund until investments in the fund are retired, and thereafter not to exceed 1 percent except with the approval of the superintendent of banks. At such time as the fund exceeds $500,000 or, in conjunction with the surpluses of the individual insurance departments, 10 percent of the aggregate reserves, contributions are no longer required except at the direction of the super intendent of banks. The trustees of the fund, with the approval of the superintendent of banks, may discontinue the contributions of the banks whenever the fund reaches $200,000.

The Connecticut savings-bank life-insurance law, enacted in 1941, follows the amended New York plan in practically all respects.

Participation of Banks

On July 1, 1941, 26 savings banks in the State had been authorized to provide savings-bank life insurance either as issuing or agency banks. The total insurance in force as of that time was $15,334,500, representing 18,914 policies.

The names of the banks, their locations, and the dates their insurance departments were established, are as follows:

ISSUING BANKS

East New York Savings Bank, Brooklyn	Jan. 6, 1939
Lincoln Savings Bank, Brooklyn	Do.
New York Savings Bank, Manhattan	Do.
Mechanics Savings Bank, Rochester	Jan. 24, 1939
Troy Savings Bank, Troy	Apr. 6, 1939
Empire City Savings Bank, Manhattan	Apr. 18, 1939
Bushwick Savings Bank, Brooklyn	Nov. 1, 1939
Syracuse Savings Bank, Syracuse	Oct. 7, 1940
Greater New York Savings Bank, Manhattan	Apr. 28, 1941
Rochester Savings Bank, Rochester	May 6, 1941
Dry Dock Savings Institution, Manhattan	June 9, 1941
North River Savings Bank, Manhattan	May 15, 1941
Dollar Savings Bank, Manhattan	June 1, 1941
Harlem Savings Bank, Manhattan	July 1, 1941

AGENCY BANKS

Citizens Savings Bank, Manhattan	Oswego County Savings Bank, Oswego
Oneida County Savings Bank, Rome	Peekskill Savings Bank, Peekskill
Oswego City Savings Bank, Oswego	Rome Savings Bank, Rome
Irving Savings Bank, Manhattan	Schenectady Savings Bank, Schenectady
Bank for Savings, Ossining	Ithaca Savings Bank, Ithaca
Flushing Savings Bank, Flushing	Seneca Falls Savings Bank, Seneca

Although the New York savings banks have shown far more interest in savings-bank life insurance than did the Massachusetts savings banks in the early days in that State, the same causes which held back

participation in Massachusetts are evident in New York. These are the pressure of other banking problems; a natural reluctance to engage in what seems to be new business; influence of insurance agents and companies on bank officers and trustees; and a desire to wait and see how the system works with those banks that have engaged in the business.

The amendments to the law which were adopted early in 1940 are an outgrowth of the studies of a committee of the Savings Banks Association of New York. According to a news bulletin of that association on March 22, 1940, the adoption of these amendments "promises to result in a considerable extension of the service of savings-bank life insurance," and the participation of additional banks is expected. The recent entrance of several large New York City banks into the system seems to substantiate this prediction.

Cost of Insurance

No conclusions as to the eventual cost of insurance in the New York savings banks can be reached at this time, as only second-year figures are available. Premium rates are somewhat higher than those of the Massachusetts banks, due to the necessity of building up the Savings Banks Life Insurance Fund from contributions of premium income (2 percent at the present time). In order to cover this contribution, the premium loading in the New York system is substantially higher than that of Massachusetts.

A comparison of gross premiums is shown in table 30.

TABLE 30.—*Gross premiums on $1,000 policy in Massachusetts and New York*

Age	Straight life		20-payment life		Endowment at age 65	
	Massachusetts	New York	Massachusetts	New York	Massachusetts	New York
10 years	$12.15	$13.73	$21.29	$23.04	$13.93	$15.55
15 years	13.36	14.97	22.73	24.51	15.63	17.28
20 years	14.85	16.49	24.44	26.26	17.81	19.50
25 years	16.72	18.39	26.48	28.33	20.65	22.39
30 years	19.11	20.82	28.91	30.80	24.42	26.23
35 years	22.19	23.96	31.84	33.78	29.61	31.52
40 years	26.23	28.07	35.45	37.47	37.06	39.10
45 years	31.64	33.58	40.09	42.18	48.39	50.64
50 years	30.00	41.07	46.25	48.45	67.33	69.92
55 years	49.09	51.35	54.73	57.09	104.64	107.91
60 years	63.10	65.61	66.78	69.36	----------	----------
65 years	82.72	85.59	84.45	87.35	----------	----------

No complete comparison of dividends is possible as only the second-year dividend figures for the New York system are available. First- and second-year dividends for both systems are shown in table 31.

As is evident from these figures, savings-bank life insurance in New York is somewhat higher in cost at the present time than it is in Massachusetts, due apparently to the following factors:

TABLE 31.—*First- and second-year dividends on $1,000 policy in Massachusetts and New York*

[1941 New York scale and Massachusetts basic scale]

Age	Straight life				20-payment life				Endowment at age 65			
	Massachusetts		New York		Massachusetts		New York		Massachusetts		New York	
	First year	Second year	First year	Second year	First year	Second year	First year	Second year	First year	Second year	First year	Second year
10 years	$1.61	$2.60	$1.70	$2.70	$1.64	$2.68	$2.21	$3.21	$1.62	$2.62	$1.80	$2.80
15 years	1.62	2.62	1.77	2.77	1.66	2.70	2.29	3.29	1.63	2.64	1.89	2.89
20 years	1.63	2.63	1.87	2.87	1.67	2.73	2.40	3.40	1.64	2.67	2.04	3.04
25 years	1.65	2.67	2.00	3.00	1.69	2.77	2.55	3.55	1.66	2.70	2.22	3.22
30 years	1.66	2.70	2.17	3.18	1.70	2.79	2.73	3.72	1.68	2.75	2.47	3.47
35 years	1.69	2.76	2.39	3.40	1.73	2.86	2.94	3.94	1.73	2.84	2.82	3.82
40 years	1.73	2.84	2.71	3.72	1.76	2.92	3.23	4.23	1.77	2.94	3.32	4.33
45 years	1.79	2.96	3.16	4.18	1.82	3.04	3.63	4.65	1.86	3.12	4.10	5.11
50 years	1.90	3.18	3.84	4.89	1.92	3.22	4.24	5.28	2.01	3.40	5.42	6.44
55 years	2.05	3.47	4.89	5.98	2.08	3.52	5.21	6.28	2.28	3.88	7.96	8.94
60 years	2.31	3.95	6.51	7.64	2.33	3.98	6.71	7.83	------	------	------	------
65 years	2.74	4.72	8.96	10.16	2.74	4.71	9.05	10.23	------	------	------	------

1. Contribution in New York of 2 percent of premium income to Savings Banks Life Insurance Fund. (Like contributions were originally made in Massachusetts to the General Insurance Guaranty Fund but are now no longer required.)

2. The New York figures are based entirely on first- and second-year business, including acquisition costs on first-year policies.

3. A relatively small amount of insurance in force in New York as compared to Massachusetts over which to spread "fixed" expenses.

All of the above factors which contribute to the higher cost of insurance in New York appear to be temporary in nature. Contributions to the Savings Banks Life Insurance Fund may be reduced or discontinued as the fund increases. A few years of operation will provide a broader base of insurance against which fixed costs of operation may be charged. It may be reasonably assumed that an increased volume of insurance may be handled without expenses being increased in the same ratio; also, the percentage of first-year business with its acquisition costs will become less and less with each year of operation.

In considering the question of relative costs of the two systems, it is significant that in the early days of the Massachusetts system the cost of insurance was higher than costs in New York at the present time. It seems probable that over a period of years, differences in costs, if any, between the two systems will be negligible.

Two Years' Experience

Although it is possible to obtain a maximum of $3,000 insurance in the New York system, the average application has been for about

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$1,000. The average policy is for approximately $800. A cross section of the policyholders by occupation is given in the following analysis.

OCCUPATIONS OF APPLICANTS	*Percent*
Students	19. 0
Mechanics	14. 9
Housewives	14. 7
Clerks	11. 3
Children under school age	9. 5
Professional persons	7. 4
Salesmen	3. 3
Domestics	3. 1
Civil servants	2. 7
Miscellaneous	14. 1
	100. 0

Most of the applicants for savings-bank life insurance in New York have been persons of limited incomes. A sampling of personal data furnished by applicants for insurance reflects the following distribution of wage groups:

WAGE GROUPS OF APPLICANTS *Weekly income*	*Percent*
Less than $15	6. 0
$15 to $20	10. 9
$20 to $30	38. 0
$30 to $50	36. 6
Over $50	8. 5
	100. 0

The following table shows the amount of insurance outstanding on December 31, 1940, classified by the banks of issue:

TABLE 32.—*Amount of savings-bank life insurance outstanding December 31, 1940 (paid-for basis)*

Name of bank	Number of policies	Amount
East New York Savings Bank	2, 629	$2, 201, 666
Lincoln Savings Bank of Brooklyn	3, 044	2, 454, 728
New York Savings Bank	5, 120	4, 063, 403
Mechanics Savings Bank of Rochester	524	474, 513
Empire City Savings Bank	2, 284	1, 729, 385
Troy Savings Bank	384	350, 301
Bushwick Savings Bank	401	354, 869
Syracuse Savings Bank	22	21, 000
Total	14, 408	11, 649, 865

The above figures compare with 7,949 policies for the amount of $6,605,900 on a paid-for basis outstanding on December 31, 1939, the end of the first year of operation of the life-insurance departments.

At the end of the second year in New York, the system in that State had more insurance in force than the Massachusetts system had after 10 years of operation. Although there is no other means of measuring the public response to savings-bank life insurance in New York, it is obvious that there are many factors which make such a comparison inconclusive. For example: (1) The eight banks in New York which established insurance departments during the first 2 years have more depositors than the total number of depositors of all 29 savings-insurance banks in Massachusetts at the present time. (2) In Massachusetts in 1908 savings-bank life insurance was a "social experiment." In 1939 New York adopted a proven system of life insurance. (3) More people in recent years have come to look upon life insurance "as a necessity of life" to be purchased as means permit. Many no longer need to be sold. These people have been voluntary buyers of savings-bank life insurance in New York.

Conclusions

Certain conclusions may be reached from the operation of savings-bank life insurance in New York, limited as it has been.

1. There is a demand for savings-bank life insurance in New York, as evidenced by applications in 2½ years for more than $15,000,000 of insurance.

2. Buyers of savings-bank life insurance have been largely people of limited income. More than 40 percent of the applicants have had no insurance at the time they applied, and 25 percent held only small industrial policies. Over one-half of the applicants have incomes of $30 per week or less.

3. It is evident that the banks which provide savings-bank life insurance are enthusiastic about its benefits to the community and to the banks. They have found that it is a valuable source of goodwill and that it attracts substantial numbers of new customers to the bank. (More than 50 percent of the applicants for savings-bank life insurance in New York have not been savings-bank depositors.)

4. Present indications point to a substantial expansion in the number of New York savings banks providing this service, with aggressive promotional activities in publicizing this new thrift service.

From the history of savings-bank life insurance in Massachusetts, it is evident that there is an inherent vitality in the "over the counter" life-insurance idea. It is this quality which kept the Massachusetts system operating during the years from 1912 to 1922, in which no new banks came into the system, and the volume of insurance written by the banks which at that time had insurance departments was very small as measured by the figures of recent years. It is highly significant that after 30 years of operation of savings-bank life insurance in Massachusetts, the State of New York adopted the same means of

providing low-cost life insurance. Connecticut followed suit in 1941, and bills were considered but not enacted by the legislatures of Pennsylvania, Maine, Maryland, Rhode Island, and New Jersey. To what extent the "over the counter" life-insurance idea will ultimately spread to other States, no one can foretell. It seems certain, however, that the successful operation of savings-bank life insurance in New York will do much to stimulate interest in this form of insurance elsewhere.

Part III

Appendixes

Appendix A

Group Insurance in Force in Massachusetts

TABLE 1.—*Amounts of group insurance in force in Massachusetts with insurance companies and with savings banks, 1929 to 1938* [1]

Year	All companies, excluding savings banks	Savings banks	Year	All companies, excluding savings banks	Savings banks
1929	$288, 224, 000	$12, 361, 000	1934	$303, 779, 000	$10, 394, 000
1930	316, 465, 000	12, 385, 000	1935	310, 970, 000	11, 549, 000
1931	323, 036, 000	15, 607, 000	1936	341, 711, 000	12, 390, 000
1932	298, 933, 000	10, 433, 000	1937	394, 389, 000	14, 033, 000
1933	290, 375, 000	10, 170, 000	1938	400, 644, 092	13, 085, 000

[1] Data from Annual Reports of Commissioner of Insurance, Massachusetts, pt. 2, table 1.

Appendix B

Insurance Guaranty Funds

The savings-bank-insurance law in Massachusetts provides that the trustees of the General Insurance Guaranty Fund may reduce the percentage of premiums payable to the fund by the banks, or may discontinue such payments altogether, whenever the net assets of the fund are in excess of $100,000 over all liabilities or whenever the net assets exceed 5 percent of the aggregate outstanding insurance reserve of all the savings banks, whichever is the greater. The trustees may, however, require further payments at any time.[1]

By October 31, 1921, the net assets had reached $116,224, which was 7.4 percent of $1,568,840, the amount of the aggregate insurance reserves. Thereafter, under the law, the trustees of the fund, with the approval of the commissioner of insurance, could waive payments by the banks, since the net assets of the fund were well above both the $100,000 minimum and 5 percent of the reserves. Contributions ceased in June 1921 and have not since been made. The net assets of the fund, which were $122,159 in 1922, or 6.6 percent of the insurance reserves, increased to $181,719 in 1933 and to $197,014 in 1939. By 1924 the proportion of assets of the fund to reserves had fallen to 4.9 percent and by 1933 was down to 1.4 percent. On October 31, 1940, it was 0.66 percent. It might be argued that section 23 of the savings-bank-insurance law might have been interpreted so that the trustees of the fund would have regarded themselves as bound to require further payments from the banks as soon as the proportion of net assets to reserves fell below 5 percent, as it had by October 31, 1924, but this was not the interpretation adopted. The section in question is as follows:

> SEC. 23. *Reduction of contribution to General Insurance Guaranty Fund.*—Whenever the net assets of the General Insurance Guaranty Fund over all liabilities exceed $100,000 or 5 percent of the aggregate outstanding insurance reserve of all savings and insurance banks, whichever is the greater, the trustees of said fund may, with the approval of the commissioner of insurance, reduce the percentage of premiums on insurance and annuities so payable to it or altogether discontinue the same; but said trustees may require at any time thereafter said contribution to be made at a rate not exceeding that provided for in section 18.

The final clause seems to justify the interpretation of the trustees, since it is reasonable to suppose that if they "may require at any time

[1] Mass. Gen. Laws, ch. 178, secs. 18, 19, 20, 23.

thereafter said contribution to be made," they have the right to decide that it need not be made. It is significant, in this connection, that at no time since the system came into existence has it been necessary to use any part of the General Insurance Guaranty Fund. Furthermore, other sections of the law have been amended to permit the banks to maintain substantially larger individual surplus funds. (See appendix C.)

The trustees of the General Insurance Guaranty Fund have authority to waive the requirement that a new insurance bank must first establish a special insurance guaranty fund before it may operate, whenever in the opinion of the commissioner of insurance and the commissioner of banks the funds of the General Insurance Guaranty Fund are sufficient, and on condition that the bank enter into a contract with the General Insurance Guaranty Fund whereby the latter guarantees all risks of the bank until such time as the bank shall have a surplus of not less than $20,000 nor less than 10 percent of the aggregate insurance reserve.[2]

The first 4 banks to open insurance departments set up special insurance guaranty funds as required by section 5 of the law. They paid interest on the advances made to them for the fund until they were able to retire the amounts advanced. The Whitman Bank retired its special guaranty fund of $20,000 in 1916, the People's Savings Bank of Brockton in the same year, and the Berkshire County Savings Bank of Pittsfield in 1921. The City Savings Bank of Pittsfield retired $5,000 of its fund in 1920 and the remaining $15,000 in 1922. The other 25 banks which have come into the system, beginning with November 1922, have not been required to establish special insurance guaranty funds.[3]

[2] Mass. Gen. Laws, ch. 178, sec. 19.

[3] The information in this appendix, apart from the provisions of the law, has been obtained from the annual joint reports made to the legislature by the commissioner of insurance and the commissioner of banks on the savings and insurance banks.

Appendix C

Insurance Reserves and Surplus

In Massachusetts one of the duties of the State actuary is to prepare and procure tables computing the legal reserve to be held under insurance and annuity contracts.[4] The reserves set aside on the level-premium life-insurance policies and on group-insurance policies now issued by the insurance banks are based on the American Experience Table, calculated at an interest rate of 3 percent (policies issued prior to November 1, 1935, were based upon 3½ percent interest). The reserves set aside to meet annuities issued since August 1938 are based upon the new (1937) Standard Annuitants Table. On October 31, 1937, the aggregate insurance and annuity reserves of the savings and insurance banks were $22,612,796 against $139,706,498 of insurance in force. A year later the analogous amounts were $25,069,137 and $154,788,376, and in October 1939 they were $27,627,578 and $173,-123,657.[5]

Every insurance bank is required by section 21 of the savings-bank-insurance law to set apart annually, as a surplus from net profits,[6] not less than 20 percent nor more than 75 percent of its profits until such surplus equals 10 percent of its net insurance reserve or the amount of its special insurance guaranty fund, whichever is greater. Thereafter, it may add no more than 15 percent of the annual net profits to surplus, nor shall the surplus at any time exceed 10 percent of the insurance department's reserve except with the approval of the State actuary. This surplus is maintained in order to meet, as far as necessary, the losses of the insurance department arising from an unexpectedly great mortality, depreciation in its securities, or other losses, and for the maintenance of a stable dividend scale.

Since none of the banks which have entered the system since 1922 have been required to set up a special insurance-guaranty fund, only the limit of 10 percent of the insurance reserve of those banks has served as the maximum which its surplus might be permitted to attain. On October 31, 1922, more than 10 years after the first four banks had entered the system, their aggregate surplus was $125,239, which was 6.7 percent of their combined insurance reserves of $1,856,911.

[4] Mass. Gen Laws, ch. 178, sec. 15. See pp. 2–4 for a discussion of the principle of insurance reserves.

[5] Annual Report of the Commissioner of Insurance, report of commissioner of insurance and commissioner of banks on savings and insurance banks and the General Insurance Guaranty Fund for 1938, 1939, and 1940.

[6] Net profits consist of gains on earnings, expenses, and mortality, accruing because premiums were set higher than the year's experience proved necessary.

In 1940 the net profits of the 28 insurance departments were $1,201,577. Of this, $242,785, or 20.2 percent, was added to surplus. The aggregate surplus in that year was $2,536,381, which was 8.35 percent of the aggregate reserves of $30,386,667 and 1.3 percent of the total of $191,539,618 insurance in force.

Table 2 gives the names of the banks and the approximate proportion of surplus to reserves in each in 1939 and 1940.[7]

TABLE 2.—*Proportion of surplus to reserves in each insurance bank in Massachusetts, 1939 and 1940*

Bank	1939	1940	Bank	1939	1940
	Percent	*Percent*		*Percent*	*Percent*
Whitman	10.2	10.3	New Bedford	6.4	6.1
People's	7.4	7.7	Arlington	7.4	7.0
Berkshire County	8.2	9.5	Uxbridge	7.4	7.7
City	7.6	8.4	Beverly	7.4	5.2
Lynn Five Cents	7.8	7.7	Wildey	5.3	6.1
Lynn Institution	8.7	8.7	Leominster	8.0	9.2
North Adams	7.8	7.2	Fall River	5.9	6.3
Cambridgeport	10.0	10.6	Canton	6.1	6.8
Massachusetts	5.7	4.3	Plymouth Five Cents	7.6	8.4
Waltham	6.1	6.4	Newton	6.6	8.0
Lowell	5.1	4.6	Boston Penny	3.3	9.0
Boston Five Cents	3.7	3.7	Brockton	2.5	8.5
Grove Hall	8.2	8.9			
Cambridge	5.2	4.5	Average [1]	8.30	8.35

[1] Includes the General Insurance Guaranty Fund.

It should be pointed out that the ratio of surplus to reserves is affected not only by net profits and efficiency of operation, but also by the relative proportion of insurance and annuity reserves, of group insurance in force, and of new issues to old insurance in force. Where the annuity reserve is relatively high, the ratio of surplus to reserves will tend to be relatively low. Where there is considerable group insurance in force, the ratio of surplus to reserve will tend to be proportionately high. During the early policy years, special provision is made in the dividend formula for extra contributions to surplus, so that a bank with a high proportion of new issues should have a relatively high ratio of surplus to reserves.

[7] Data in this section are taken from the annual reports of the commissioner of insurance and commissioner of banks to the legislature on the savings and insurance banks and the General Insurance Guaranty Fund. The figures for aggregate amounts of insurance are given in pt. I, ch. 1, table 2.

Appendix D

Mortality Ratios and Unification of Mortality

The calculations involved in the unification of mortality in Massachusetts are based not upon the tables used in arriving at net insurance premiums and reserves, but upon a modification of these tables to bring them more nearly in line with the experiences of the banks. Thus the mortality ratio according to the tables used in calculating unification of mortality was 77.56994 percent in 1939, whereas according to the American Experience Table the system's ratio of actual to expected mortality in the same year was 34.41 percent.[8]

Table 3, which is reproduced as prepared by the State actuary, shows the result of unification of mortality for the year ending October 31, 1939. It will be noted that a total of $34,162.62 was paid into and paid out by the General Insurance Guaranty Fund. The largest amount was received by the People's Savings Bank of Brockton (No. 2), and the largest amount was paid by the Massachusetts Savings ank (No. 9).

The savings-bank life-insurance system has had an interesting mortality experience during its existence; the highest ratio of actual to expected mortality, according to the American Experience Table, having been reached in 1918 at the time of the influenza epidemic, when the ratio was 77.9 percent. After that year the lowest ratio was 32.12 percent, attained in 1921. In 1939 the ratio was 34.41 percent and in 1940 it was 33.67 percent. The ratios are lower if group insurance, under which risks are accepted without examination, is excluded. Thus the ratios for ordinary insurance alone were 32.64 percent in 1939 and 32.2 percent in 1940. Table 4 gives the ratios

[8] The mathematical process of obtaining the sums (unification amounts) due to or from each bank is as follows:

$$1.\ \frac{\text{Total actual mortality losses (all banks)}}{\text{Total expected adjusted mortality losses (all banks)}} = \frac{X}{\text{Expected mortality losses of individual bank}}$$

$$2.\ X - (\text{Actual mortality losses of individual bank}) = -(\text{Unification amount of individual bank})$$

The adjusted losses in the denominator of the first fraction in equation 1, for ordinary level-premium insurance policies, are obtained by multiplying the expected losses under the American Experience Table by 0.85 and subtracting $5 for each $1,000 of risk. This is the method of adjustment applied only to policies 4 or more years old. Further adjustment is made for younger policies to take into account the fact that the effect of the original medical examination as yet has not generally "worn off." The adjustment is not rigid, but is changed from time to time as experience suggests.

The unification for annuities, group insurance, and other forms of policies is computed in a similar manner. The several items then are added together and the bank pays or receives the net total unification for all classes of business.

of actual to expected mortality losses for ordinary insurance, for group insurance, and for ordinary and group insurance combined, for each year from 1917 to 1940.[9]

TABLE 3.—*Ordinary insurance—unification of mortality—Massachusetts savings-bank life insurance, 1939* [1]

Bank [2]	Expected mortality [3]	Actual mortality	Unified mortality	Unification	
				Receive	Pay
No. 1	$94,269	$70,512.09	$73,124.41		$2,612.32
No. 2	60,008	51,427.48	46,548.17	$4,879.31	
No. 3	47,899	44,665.70	37,155.22	7,510.48	
No. 4	40,012	32,939.40	31,037.28	1,902.12	
No. 5	50,869	44,739.34	39,459.05	5,280.29	
No. 6	51,088	45,178.97	39,628.93	5,550.04	
No. 7	18,173	19,263.03	14,096.78	5,166.25	
No. 8	40,281	32,086.01	31,245.95	840.06	
No. 9	31,909	18,342.59	24,751.79		6,409.20
No. 10	25,178	17,888.84	19,530.56		1,641.72
No. 11	11,731	6,684.46	9,099.73		2,415.27
No. 12	47,421	36,408.58	36,784.44		375.86
No. 13	10,406	7,225.26	8,071.93		846.67
No. 14	14,508	9,031.24	11,253.85		2,222.61
No. 15	11,677	6,395.34	9,057.84		2,662.50
No. 16	11,374	5,852.84	8,822.80		2,969.96
No. 17	8,227	4,065.09	6,381.68		2,316.59
No. 18	11,095	8,069.83	8,606.38		536.55
No. 19	17,845	8,643.33	13,842.35		5,199.02
No. 20	7,574	6,057.57	5,875.15	182.42	
No. 21	7,208	6,865.95	5,591.24	1,274.71	
No. 22	3,071	982.05	2,382.17		1,400.12
No. 23	3,738	3,978.87	2,899.56	1,079.31	
No. 24	6,953	3,351.95	5,393.44		2,041.49
No. 25	661		512.74		512.74
No. 26	613	973.13	475.50	497.63	
Total	633,788	491,628.94	491,628.94	34,162.62	34,162.62

[1] Ratio of actual to expected losses = 77.56994 percent.
[2] See pt. I, ch. 1, table 1, for key to bank members.
[3] "Expected mortality" here is adjusted as explained in footnote 8.

TABLE 4.—*Mortality ratios, Massachusetts savings-bank life insurance, 1917 to 1940*

Year	Ordinary insurance	Group insurance	Ordinary and group combined	Year	Ordinary insurance	Group insurance	Ordinary and group combined
1917	29.76	28.44	30.19	1929	39.28	67.70	46.85
1918	71.34	81.87	77.90	1930	34.55	61.47	41.55
1919	52.50	75.78	63.57	1931	33.68	57.30	39.43
1920	33.79	75.00	57.90	1932	35.99	55.91	39.85
1921	20.35	42.51	32.12	1933	30.77	66.76	36.77
1922	25.84	55.64	45.36	1934	36.34	66.50	41.22
1923	25.03	73.38	51.97	1935	37.63	56.45	40.06
1924	34.72	51.35	45.57	1936	28.46	57.30	33.51
1925	29.48	65.59	44.98	1937	32.62	54.21	35.89
1926	31.98	65.72	43.24	1938	28.85	66.82	34.20
1927	36.88	60.00	43.74	1939	32.64	51.43	34 41
1928	27.43	59.72	36.22	1940	32.20	45.98	33.67

[9] Data for ordinary and group insurance for the whole period separately, and for ordinary and group insurance combined for the year 1940, are from the records in the State actuary's office. The ratios for all losses combined may be found in pt. 2 of the annual reports of the commissioner of insurance for the years 1917 to 1938.

Appendix E

Basic Dividend Scale

A basic dividend scale is used by numerous insurance organizations as a method of apportioning dividends among various classes of policyholders. As explained in chapter 3 of part I, such a scale is drawn up with a view of giving some degree of stability to the dividends paid from year to year on policies of a given type in force for a given number of years. In calculating the basic scale the insurance organization must take into account the factors of expense, mortality, and earnings on assets. The scale is as a rule drawn up on the basis of past experience with these three items.

The amount of profits on hand at the end of the fiscal year is a given sum. An analysis of its origin discloses that it comes from four major sources: (1) Savings on expenses; (2) gains on mortality; (3) interest earnings in excess of the amount required to maintain reserves; and (4) gains or losses from investments. An equitable distribution among the policyholders of what remains of these profits after a portion has been set aside to surplus requires that each one receive substantially that portion which is fairly attributable to his policy from each of the three sources. In order to achieve this equitable distribution the actuaries make up a dividend formula containing a factor for each of the three elements. The expense factor is fairly constant but is somewhat higher in the earlier years of the policy than in the later, since it is assumed that the expense of medical examination and the making of initial records in connection with the policy will be incurred in the earlier years. The mortality factor is usually considered constant at any given attained age of the policyholder.

The interest factor now used in the dividend formula for the savings-bank life-insurance system in Massachusetts is 3.75 percent. It is apparent that this interest factor is increasingly important as the amount of assets earning interest in connection with any given policy increases. In general, reserves would be larger in the case of an endowment policy and a limited-payment policy than in the case of a straight life policy. They would also be larger in the case of policies which have been in force for long periods of time.

It should be borne in mind, however, that irrespective of the assumed rate of earnings on assets, the amount of dividend that can be paid to policyholders is in the last analysis determined by the actual profits on hand after insurance reserves and the legal minimum to surplus have been put aside and expenses of operation have been paid.

Appendix F

Comparison of Surpluses of Insurance Companies and of Insurance Departments of Banks

The savings-bank insurance departments in Massachusetts, as has been shown in chapter 2 of part I, are required to set aside to surplus an annual sum of no less than 20 percent nor more than 75 percent of their net profits, until such time as the surplus equals 10 percent of the insurance reserve or the sum of $20,000, whichever is the greater. Thereafter no more than 15 percent of the net profits may be put to surplus in any one year, and the total surplus may at no time exceed 10 percent of the reserves (except with the approval of the State actuary). In contrast, the laws of Massachusetts permit the insurance companies to establish surpluses or "safety funds," but the companies may not add to surplus if the latter exceeds 12 percent of the insurance reserve. They are required by the commissioner of insurance to maintain "adequate reserves" at all times.[10] The amounts of surplus and reserves, and the proportions of the former to the latter for the years 1930 to 1939 in the savings-bank insurance departments and in the insurance companies, are shown in table 5.[11] The table indicates that for the 10-year period covered, the proportion of surplus to reserves was 8.9 percent in the case of the savings-bank insurance system and 5.9 percent in the case of the companies.

TABLE 5.—*Surplus and reserves, and proportion of surplus to reserves, in savings-bank insurance system and in insurance companies, 1930 to 1939*

Year	Savings-bank life insurance			All companies		
	Surplus	Reserve	Ratio (percent)	Surplus and capital	Reserve	Ratio (percent)
1930	$830, 695	$8, 733, 358	9. 5	$935, 940, 248	$13, 534, 219, 439	6. 9
1931	948, 467	10, 255, 924	9. 3	998, 942, 646	14, 403, 457, 876	6. 9
1932	1, 071, 507	11, 399, 856	9. 4	925, 608, 703	14, 687, 086, 729	6. 3
1933	1, 198, 479	12, 738, 632	9. 4	888, 534, 135	14, 934, 837, 622	5. 9
1934	1, 300, 658	14, 960, 948	8. 7	858, 289, 070	15, 606, 326, 099	5. 5
1935	1, 566, 357	17, 214, 146	9. 1	925, 203, 890	16, 588, 383, 737	5. 6
1936	1, 869, 993	19, 791, 785	9. 4	1, 027, 650, 363	17, 653, 571, 442	5. 8
1937	2, 001, 407	22, 613, 189	8. 9	1, 029, 027, 061	18, 850, 597, 028	5. 5
1938	2, 083, 351	25, 069, 137	8. 3	1, 097, 304, 809	19, 871, 828, 781	5. 5
1939	2, 293, 596	27, 627, 578	8. 3	1, 161, 032, 097	20, 848, 098, 668	5. 6
Total	15, 164, 510	170, 404, 553	8. 9	9, 847, 533, 022	166, 978, 407, 421	5. 9

[10] Mass. Gen. Laws, ch. 175, sec. 141.

[11] The General Insurance Guaranty Fund is included in the savings-bank data on surplus. (Annual Reports of the Commissioner of Insurance, Massachusetts, pt. 2, table E.)

Appendix G

Costs to Policyholder

This appendix contains a table showing comparative costs of savings-bank ordinary insurance and company ordinary insurance in Massachusetts in greater detail than do the tables in chapter 5 of part I and two additional tables showing comparative costs calculated on different bases than the base used in the text.

The tables are presented in the following order:

1. Straight life policies, 20-payment life policies, and 20-year endowment policies, issued at age 35 in 1930, based on actual dividend history.

2. Straight life policies, 20-payment life policies, and 20-year endowment policies, issued at age 35, based on dividends payable in 1940.

TABLE 6.—*Comparative net costs in Massachusetts of a $1,000 policy issued in 1930, at age 35, based on actual dividend history during following 10 years*

STRAIGHT LIFE POLICY

Company or bank	Annual premium	10 years' premium	10 years' dividends	10 years' net payments	Cash value at end of 10 years	10 years' net cost if surrendered
Company:						
No. 1	$24.89	$248.90	$43.79	$205.11	$125.00	$80.11
No. 2	28.11	281.10	70.23	210.87	146.00	64.87
No. 3 [1]	26.00	260.00	51.04	208.96	137.00	71.96
No. 4 [1]	24.00	240.00	38.96	201.04	137.00	64.04
No. 5	28.11	281.10	62.52	218.58	146.01	72.57
No. 6	26.35	263.50	53.89	209.61	146.01	63.60
No. 7	27.00	270.00	67.41	202.59	146.01	56.58
No. 8	28.11	281.10	66.73	214.37	146.00	68.37
No. 9	26.88	268.80	74.92	193.88	146.01	47.87
No. 10 [1]	23.24	232.40	31.39	201.01	137.00	64.01
Average of 10 companies	26.27	262.70	56.09	206.60	141.20	65.40
Bank:						
No. 1	23.90	239.00	81.06	157.94	135.76	22.18
No. 2	23.90	239.00	74.77	164.23	135.76	28.47
No. 3	23.90	239.00	66.30	172.70	135.76	36.94
No. 4	23.90	239.00	66.30	172.70	135.76	36.94
No. 5	23.90	239.00	81.06	157.94	135.76	22.18
No. 6	23.90	239.00	81.06	157.94	135.76	22.18
No. 7	23.90	239.00	74.30	164.70	135.76	28.94
No. 8	23.90	239.00	78.05	160.95	135.76	25.18
No. 9	23.90	239.00	77.25	161.75	135.76	25.99
No. 10	23.90	239.00	69.08	169.92	135.76	34.16
No. 11	23.90	239.00	76.61	162.39	135.76	26.63
No. 12	23.90	239.00	79.24	159.76	135.76	24.00
No. 13	23.90	239.00	79.24	159.76	135.76	24.00
No. 14	23.90	239.00	79.24	159.76	135.76	24.00
No. 15	23.90	239.00	77.38	161.62	135.76	25.86
Average of 15 banks	23.90	239.00	76.06	162.94	135.76	27.18

[1] Endowment at age 85.

TABLE 6.—*Comparative net costs in Massachusetts of a $1,000 policy issued in 1930, at age 35, based on actual dividend history during following 10 years*—Continued

20-PAYMENT LIFE POLICY

Company or bank	Annual premium	10 years' premium	10 years' dividends	10 years' net payments	Cash value at end of 10 years	10 years' net cost if surrendered
Company:						
No. 1	$33.32	$333.20	$46.68	$286.52	$219.00	$67.52
No. 2	38.34	383.40	78.73	304.67	255.00	49.67
No. 3	34.87	348.70	59.95	288.75	232.00	56.75
No. 4	32.13	321.30	36.67	284.63	232.00	52.63
No. 5	38.34	383.40	73.99	309.41	255.78	53.63
No. 6	36.22	362.20	58.60	303.60	255.78	47.82
No. 7	36.70	367.00	72.51	294.49	255.78	38.71
No. 8	38.34	383.40	77.90	305.50	255.00	50.50
No. 9	36.85	368.50	83.18	285.32	255.78	29.54
No. 10	31.51	315.10	36.35	278.75	232.00	46.75
Average of 10 companies	35.66	356.62	62.46	294.16	244.81	49.35
Bank:						
No. 1	33.20	332.00	94.41	237.59	232.19	5.40
No. 2	33.20	332.00	86.91	245.09	232.19	12.90
No. 3	33.20	332.00	77.09	254.91	232.19	22.72
No. 4	33.20	332.00	77.09	254.91	232.19	22.72
No. 5	33.20	332.00	94.41	237.59	232.19	5.40
No. 6	33.20	332.00	94.41	237.59	232.19	5.40
No. 7	33.20	332.00	86.38	245.62	232.19	13.43
No. 8	33.20	332.00	90.85	241.15	232.19	8.96
No. 9	33.20	332.00	89.90	242.10	232.19	9.91
No. 10	33.20	332.00	80.19	251.81	232.19	19.62
No. 11	33.20	332.00	89.19	242.81	232.19	10.62
No. 12	33.20	332.00	92.31	239.69	232.19	7.50
No. 13	33.20	332.00	92.31	239.69	232.19	7.50
No. 14	33.20	332.00	92.31	239.69	232.19	7.50
No. 15	33.20	332.00	90.12	241.88	232.19	9.69
Average of 15 banks	33.20	332.00	88.52	243.47	232.19	11.28

20-YEAR ENDOWMENT POLICY

Company:						
No. 1	$47.63	$476.30	$51.62	$424.68	$384.00	$40.68
No. 2	51.91	519.10	85.00	434.10	407.00	27.10
No. 3	50.14	501.40	75.25	426.15	396.00	30.15
No. 4	46.12	461.20	35.46	425.74	396.00	29.74
No. 5	51.47	514.70	82.09	432.61	407.45	25.16
No. 6	49.85	498.50	65.04	433.46	407.45	26.01
No. 7	50.00	500.00	79.54	420.46	407.45	13.01
No. 8	51.91	519.10	88.40	430.70	407.00	23.70
No. 9	50.64	506.40	94.68	411.72	407.45	4.27
No. 10	45.43	454.30	41.78	412.52	396.00	16.52
Average of 10 companies	49.51	495.10	69.89	425.21	401.58	23.63
Bank:						
No. 1	44.72	447.20	79.97	367.23	395.99	+28.76
No. 2	44.72	447.20	72.47	374.73	395.99	+21.26
No. 3	44.72	447.20	64.66	382.54	395.99	+13.45
No. 4	44.72	447.20	64.66	382.54	395.99	+13.45
No. 5	44.72	447.20	79.97	367.23	395.99	+28.76
No. 6	44.72	447.20	79.97	367.23	395.99	+28.76
No. 7	44.72	447.20	72.62	374.58	395.99	+21.41
No. 8	44.72	447.20	76.52	370.68	395.99	+25.31
No. 9	44.72	447.20	75.56	371.64	395.99	+24.35
No. 10	44.72	447.20	66.40	380.80	395.99	+15.19
No. 11	44.72	447.20	74.98	372.22	395.99	+23.77
No. 12	44.72	447.20	78.00	369.20	395.99	+26.79
No. 13	44.72	447.20	78.00	369.20	395.99	+26.79
No. 14	44.72	447.20	78.00	369.20	395.99	+26.79
No. 15	44.72	447.20	75.90	371.30	395.99	+24.69
Average of 15 banks	44.72	447.20	74.51	372.69	395.99	+23.30

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Table 6 gives in detail the material covered in text tables 15, 16, and 17. Data for insurance companies are taken from Flitcraft Compend, 1940 edition; data for the 15 banks which have been in operation 10 years or more were obtained from the Division of Savings Bank Life Insurance, Statehouse, Boston.

TABLE 7.—*Comparative net costs in Massachusetts of a $1,000 policy issued at age 35, based on dividends payable in 1940*

Company or bank	Annual premium	10 years' premium	10 years' dividends	10 years' net payments	Cash value at end of 10 years	10 years' net cost if surrendered
STRAIGHT LIFE POLICY						
Company:						
No. 1	$26.57	$265.70	$48.68	$217.02	$131.00	$86.02
No. 2	28.11	281.10	73.80	207.30	131.00	76.30
No. 3	26.06	260.60	40.95	219.65	148.00	71.65
No. 4 [1]	22.56	225.60	36.94	188.66	131.00	57.66
	25.35	253.50	41.74	211.76	132.00	79.76
No. 5	28.11	281.10	57.87	223.23	131.41	91.82
No. 6	26.35	263.50	49.23	214.27	146.01	68.26
No. 7	27.00	270.00	54.98	215.02	146.01	69.01
No. 8	28.11	281.10	63.62	217.48	131.00	86.48
No. 9	26.88	268.80	70.84	197.96	146.01	51.95
No. 10 [2]	26.09	260.90	42.26	218.64	142.00	76.64
Average of 10 companies	26.47	264.72	52.81	211.91	137.77	74.14
Average of all banks	22.19	221.90	46.99	174.91	146.01	28.90
20-PAYMENT LIFE POLICY						
Company:						
No. 1	$36.44	$364.40	$52.01	$312.39	$231.00	$81.39
No. 2	38.34	383.40	80.69	302.71	231.00	71.71
No. 3	35.84	358.40	47.86	310.54	256.00	54.54
No. 4	34.95	349.50	42.91	306.59	231.00	75.59
No. 5	38.34	383.40	56.20	327.20	230.78	96.42
No. 6	36.22	362.20	52.16	310.04	255.78	54.26
No. 7	36.70	367.00	60.25	306.75	255.78	50.97
No. 8	38.34	383.40	74.28	309.12	231.00	78.12
No. 9	36.85	368.50	77.94	290.56	255.78	34.78
No. 10 [2]	35.23	352.30	53.02	299.28	229.00	70.28
Average of 10 companies	36.73	367.25	59.73	307.52	240.71	66.81
Average of all banks	31.84	318.40	50.44	267.96	255.78	12.18
20-YEAR ENDOWMENT POLICY						
Company:						
No. 1	$50.08	$500.80	$56.67	$444.13	$383.00	$61.13
No. 2	51.91	519.10	84.87	434.23	383.00	51.23
No. 3	49.53	495.30	57.52	437.78	407.00	30.78
No. 4	48.28	482.80	45.01	437.79	383.00	54.79
No. 5	51.47	514.70	61.00	453.70	382.45	71.25
No. 6	49.85	498.50	56.20	442.30	407.45	34.85
No. 7	50.00	500.00	67.62	432.38	407.45	24.93
No. 8	51.91	519.10	81.98	437.12	383.00	54.12
No. 9	50.64	506.40	87.94	418.46	407.45	11.01
No. 10 [2]	49.39	493.80	62.07	431.73	388.00	43.73
Average of 10 companies	50.31	503.05	66.09	436.96	393.18	43.78
Average of all banks	45.17	451.70	55.26	396.44	407.45	[3]+11.01

[1] Company 4 issues a straight life ordinary policy only in amounts of $5,000 or more, but its cost is here shown for comparative purposes on the $1,000 basis (first line of figures); this company issues insurance for less than $5,000 on an endowment at age 85 policy (second line of figures). Companies 3 and 10 likewise issue policies for endowment at age 85, and the data in the table for these companies refer to such policies.

[2] Company 10's premiums cover disability benefits, which include the waiver of premiums and the payment of proceeds in installments with interest over a period of 10 years.

[3] The cash-surrender value of all of the banks was $11.01 in excess of the average total 10 years' net premiums, resulting in an annual net surplus of $1.10.

The companies in table 7 are the same as those considered in chapter 5 of part I. Data for companies in this table were taken from the Flitcraft Compend for 1940; data for the banks were secured from the Division of Savings Bank Life Insurance.

The companies in table 8 are the same as those considered in chapter 5 of part I. Data for the companies are from Best's Illustrations Revised (1940); data for the banks come from the Division of Savings Bank Life Insurance (1940).

TABLE 8.—*Comparative net costs in Massachusetts of a $1,000 straight life policy, based on dividends payable in 1940*

Company or bank	Annual premium	10 years' premium	10 years' dividends	10 years' net payments	Cash value at end of 10 years	10 years' cost if surrendered
POLICY ISSUED AT AGE 25						
Company:						
No. 1	$20.48	$204.80	$42.60	$162.20	$89.00	$73.20
No. 2	21.49	214.90	66.88	148.02	88.00	60.02
No. 3 [1]	19.89	198.90	37.28	161.62	100.00	61.62
No. 4 [2]	19.04	190.40	34.42	155.98	89.00	66.98
No. 5 [2]	21.51	215.10	43.61	171.49	89.23	82.26
No. 6	20.14	201.40	44.64	156.76	98.94	57.82
No. 7	20.70	207.00	42.19	164.81	98.94	65.87
No. 8	21.49	214.90	57.66	157.24	88.00	69.24
No. 9	20.55	205.50	65.68	139.82	98.94	40.88
No. 10 [2]	19.59	195.90	30.97	164.93	91.00	73.93
Average of 10 companies	20.49	204.88	46.59	158.29	93.11	65.18
Average of all banks	16.72	167.20	33.99	133.21	98.94	34.27
POLICY ISSUED AT AGE 35						
Company:						
No. 1	26.57	265.70	48.68	217.02	131.00	86.02
No. 2	28.11	281.10	73.91	207.19	131.00	76.19
No. 3 [1]	26.06	260.60	40.95	219.65	148.00	71.65
No. 4 [2]	25.35	253.50	41.71	211.79	132.00	79.79
No. 5 [2]	28.17	281.70	45.65	236.05	131.98	104.07
No. 6	26.35	263.50	49.23	214.27	146.01	68.26
No. 7	27.00	270.00	47.70	222.30	146.01	76.29
No. 8	28.11	281.10	64.62	216.48	131.00	85.48
No. 9	26.88	268.80	76.61	192.19	146.01	46.18
No. 10 [2]	25.98	259.80	36.24	223.56	141.00	82.56
Average of 10 companies	26.86	268.58	52.53	216.05	138.40	77.65
Average of all banks	22.19	221.90	35.70	186.20	146.01	40.19
POLICY ISSUED AT AGE 45						
Company:						
No. 1	37.10	371.10	58.95	312.05	191.00	121.05
No. 2	39.55	395.50	74.75	320.75	191.00	129.75
No. 3 [1]	36.77	367.70	47.01	320.69	216.00	104.69
No. 4 [2]	36.33	363.30	51.82	311.48	193.00	118.48
No. 5 [2]	39.70	397.00	49.42	347.58	192.79	154.79
No. 6	37.08	370.80	55.62	315.18	212.62	102.56
No. 7	38.00	380.00	55.09	324.91	212.62	112.29
No. 8	39.55	395.50	75.05	320.45	191.00	129.45
No. 9	37.82	378.20	86.92	291.28	212.62	78.66
No. 10 [2]	37.27	372.70	48.34	324.36	199.00	125.36
Average of 10 companies	37.92	379.17	60.30	318.87	201.17	117.71
Average of all banks	31.64	316.40	39.35	277.05	212.62	64.43

[1] Endowment at age 85.
[2] Life paid up at age 85.

Appendix H

Comparison of Taxes Paid to State by Insurance Companies and Savings-Bank Life-Insurance System

Table 9 shows the amounts paid in taxes to the State of Massachusetts by the savings-bank insurance system and the insurance companies, their premium income, and the ratios of such taxes to premium income, during the years 1930 to 1939.

TABLE 9.—*Taxes on Massachusetts business paid to the State by insurance departments of banks and by insurance companies, 1930 to 1939*

Year	Savings-bank life insurance			Companies		
	Taxes	Premium income	Ratio (percent)	Taxes	Premium income	Ratio (percent)
1930	$15,162	$2,644,733	0.57	$1,848,825	$162,900,074	1.13
1931	15,996	3,095,236	.52	1,967,510	170,324,096	1.16
1932	17,217	2,979,423	.58	2,089,421	169,003,016	1.24
1933	22,214	3,256,373	.68	2,111,938	170,377,383	1.24
1934	26,170	4,075,775	.64	2,163,610	175,288,999	1.23
1935	27,628	4,300,824	.64	2,225,044	179,819,979	1.24
1936	31,771	4,686,767	.68	2,453,537	176,463,437	1.39
1937	40,429	5,013,693	.81	2,553,599	173,291,911	1.47
1938	49,845	4,787,124	1.04	2,600,251	183,085,547	1.42
1939	55,685	5,408,573	1.03	2,723,730	193,000,000	1.41
Total	302,117	40,248,461	.75	22,737,465	1,753,554,442	1.30

During these years, the banks paid 0.75 percent in taxes to the State, while the insurance companies paid 1.3 percent of their premium income, almost twice as much proportionately.[12]

[12] The data on State taxes paid by the companies are obtained from the Annual Reports of the Massachusetts Commissioner of Corporations and Taxation, 1930–39, obtained from the records of the commissioner's office. The figures for the banks are those reported in the annual reports of the commissioner of insurance.

Appendix I

Amount of Insurance Held by Individual Policyholders

Table 10 shows the amount of savings-bank life insurance held by individual policyholders in Massachusetts on August 31, 1938.

TABLE 10.—*Number of individuals insured by savings banks in Massachusetts for stated amounts, as of August 31, 1938*

Amount	Number of persons	Percentage of total	Cumulative percentage	Amount	Number of persons	Percentage of total	Cumulative percentage
Less than $1,000	22,026	26.79	26.79	$13,000	94	0.12	99.12
$1,000	40,797	49.62	76.41	$14,000	68	.09	99.21
$1,500	1,221	1.49	77.90	$14,500	3	.00	99.21
$2,000	6,585	8.01	85.91	$15,000	198	.24	99.45
$2,500	532	.65	86.56	$15,500	2	.00	99.45
$3,000	3,342	4.06	90.62	$16,000	50	.06	99.51
$3,500	89	.11	90.73	$16,500	4	.00	99.51
$4,000	1,162	1.41	92.14	$17,000	27	.03	99.54
$4,500	61	.08	92.22	$17,500	1	.00	99.54
$5,000	2,718	3.31	95.53	$18,000	20	.02	99.56
$5,500	29	.04	95.57	$18,500	1	.00	99.56
$6,000	587	.71	96.28	$19,000	10	.01	99.57
$6,500	14	.02	96.30	$19,500	1	.00	99.57
$7,000	299	.36	96.66	$20,000	143	.17	99.74
$7,500	45	.06	96.72	$20,500	1	.00	99.74
$8,000	265	.32	97.04	$21,000	66	.08	99.82
$8,500	11	.01	97.05	$21,500	2	.00	99.82
$9,000	116	.14	97.19	$22,000	10	.01	99.83
$9,500	6	.01	97.20	$22,500	3	.00	99.83
$10,000	1,321	1.61	98.81	$23,000	64	.08	99.91
$10,500	5	.01	98.82	$23,500	1	.00	99.91
$11,000	56	.07	98.89	$24,000	73	.09	100.00
$11,500	4	.00	98.89				
$12,000	82	.10	98.99	Total	82,221		
$12,500	6	.01	99.00				

Appendix J

Illustration of Method of Classifying Applicants for Savings-Bank Life Insurance

The method by which applicants for savings-bank life insurance were separated into the classes "Wage earners, clerical workers, and farmers," "Business and professional people," and "Doubtful cases," is shown below and illustrates, for the month of June 1934, the method of classification which was used to reach the results described in chapter 7 of part I under the subject "The original purpose."

Wage earners, clerical workers, and farmers

Assembler
Auto mechanic
Beamer
Axminster setter
Bellboy
Bench worker
Blanking operator
Bobbin boy
Bookkeeper
Boxer
Braider
Buffer
Bus operator
Cabinetmaker
Carpenter
Case packer
Cashier
C. C. C. worker
Chauffeur
Clerk
Compositor
Comptometer operator
Construction worker
Crane operator
Custodian
Domestic
Drawer-in
Dye hand
Electrical inspector
Electrician
Errand boy
Factory worker
Feeder
Finisher
Fireman
Fruit grower
Greenskeeper
Hairdresser
Housemaid
Janitor
Journeyman
Laborer
Leather cutter
Leatherworker
Letter carrier
Loomfixer
Machine operator
Machinist
Mail carrier
Meat cutter
Mechanic
Messenger
Meter reader
Moving-picture operator
Molder
Nurse
Oil refining
Opening-room man
Overseer
Painter
Paper finisher
Patrolman
Patternmaker
Paymaster
Plater
Plumber
Polker
Preparation-room worker
Pressman
Printer
Radio operator
Radio service
Repairman
Rope maker
Rubber winder
Sailmaker
Saleslady
Secretary
Sewing
Shearer
Shipper
Shoemaker
Shoeworker
Speeder tender
Spinner
Station employee
Stenographer
Stereotyper
Steward
Stock clerk
Stock chaser
Storekeeper
Tanner
Telephone operator
Tester
Textalite operator
Timekeeper
Tool maker
Typesetter
Typist
Watchmaker
Watchman
Water inspector
Weaver
Well driller
Wire drawer
Wire inspector
Wrapper

Professional and business people

Advertising writer	Deputy assessor	Professor
Architect	Executive	Research director
Army officer	Lawyer	Sales manager
Assistant manager	Manager	Shoe dealer
Auditor	Physician	Social worker
Candy manufacturer	Physicist	Statistician
Civil engineer	Physiologist	Superintendent
Clergyman	Pilot	Teacher
Dentist	Prison officer	Treasurer

Doubtful

Accountant	Collector	Milk dealer
Artist	Druggist	Newspaper
Assistant foreman	Engineer	Pharmacist
Assistant overseer	Estimator	Purchasing agent
Assistant purchasing agent	Field representative	Sales promotion
	Foreman	Supervisor
Banking	Inspector	Tube manufacturing
Chemist	Jeweler	Unemployed

Appendix K

Comparison of Amounts of Endowment Insurance in Force With Insurance Companies and With the Banks

The savings banks encourage the purchase of whole-life instead of endowment insurance. The data on the relative amounts of both kinds of insurance carried with the banks and with the insurance companies are informative on this point. The amounts of whole-life and endowment insurance carried in the seven largest companies selling ordinary insurance which operate in Massachusetts are given in table 11. The data cover all such insurance in force among the companies both in and out of the State in the year 1938.

TABLE 11.—*Amounts and percentages of whole-life and ordinary endowment insurance in force in Massachusetts with the 7 largest insurance companies in 1939*

Company	Amount in thousands		Percentage of total		
	Whole life	Endowment	Whole life	Endowment	Other
No. 1	$4, 133, 481	$339, 335	88. 26	7. 25	4. 49
No. 2	7, 395, 001	3, 937, 664	62. 25	33. 15	4. 60
No. 3	3, 056, 655	384, 467	83. 94	10. 56	5. 50
No. 4	5, 465, 709	1, 155, 603	80. 39	17. 00	2. 61
No. 5	3, 246, 497	397, 496	84. 88	10. 39	4. 73
No. 6	6, 368, 670	2, 279, 865	70. 20	25. 13	4. 67
No 7	1, 876, 117	138, 405	92. 23	6. 80	. 97
Total	31, 542, 130	8, 632, 835	75. 22	20. 59	4. 19

The amount of endowment insurance for all the seven companies in 1939 was 27.4 percent of the amount of whole-life insurance in force. Whole-life insurance constituted 75.22 percent and endowment insurance 20.59 percent of all the ordinary insurance in force with the companies. It should be noted that company No. 2 and company No. 6 issue many endowment policies maturing at age 85 instead of whole-life policies, which these policies resemble, and that their amount of endowment insurance is accordingly much larger than it would otherwise be. If one excludes data for companies No. 2 and No. 6, it is found that the amount of endowment insurance with the remaining five companies was 13.8 percent of the amount of whole-life insurance in force. Among the five companies whole-life constituted 83.49 percent and endowment 11.51 percent of all the ordinary insurance in force.

In the year 1939 whole-life insurance constituted 86.3 percent and endowment insurance 4.9 percent of all ordinary insurance in force with the savings banks.

The proportions of whole-life insurance and endowment insurance of an industrial nature to all industrial insurance in force with the three largest industrial companies, and the proportions of whole-life and endowment insurance to all ordinary insurance in force with the savings banks, are shown in table 12.

TABLE 12.—*Proportions of whole-life and endowment insurance to all insurance in force in Massachusetts with 3 largest industrial companies and with savings banks, 1908 to 1939*

Year	Industrial insurance		Savings-bank ordinary insurance	
	Whole-life	Endowment	Whole-life	Endowment
	Percent	*Percent*	*Percent*	*Percent*
1908	67.9	31.4	14.0	78.7
1912	73.3	25.1	27.2	68.3
1916	73.7	23.6	44.3	52.6
1920	70.9	25.9	52.2	44.9
1924	59.3	36.4	74.6	23.1
1928	50.2	43.7	82.8	13.1
1932	47.4	40.3	86.0	7.3
1936	54.5	35.5	86.7	5.6
1938	55.7	34.3	86.7	5.1
1939	58.8	31.4	86.3	4.9

The significance of the relative amounts of whole-life and of endowment insurance is of less importance if the policies are carried many years, especially in view of the fact that any whole-life policy may be matured as an endowment at an advanced age by leaving the dividends with the insurance organization. Many policies, however, are lapsed after a relatively short period, and a relatively large amount of endowment insurance is, therefore, not so likely to be desirable from the policyholders' point of view, since premiums for such insurance are higher than they are for whole-life insurance.[13]

[13] Data on amounts of the various types of insurance in force are from the Annual Reports of the Commissioner of Insurance of Massachusetts, pt. 2, table G.

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