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The Huebner Lecture on Protecting Family Estates

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The Heubner Lecture on Protecting Family Estates

The members of the Department of the American Home of the New York City Federation of Women's Clubs, who were present at the meeting held Thursday afternoon, at the Hotel Astor, October 29, and heard the address especially prepared for them by Dr. S. S. Heubner, Professor of Insurance and Commerce of the Wharton School of Finance, University of Pennsylvania, may account themselves fortunate.

Dr. Heubner was in good form, his delivery was deliberate and well enunciated and he had reduced out of the technical to our common tongue, easily understandable by all, the story not only of the great beneficence of life insurance but of its necessity in properly solving some of the most difficult problems of family life.

Decidedly attractive and utilitarian were the analogies he instituted. He described the partnerships of men in business and the methods they adopted to preserve their common interests, even against death. To this he likened the partnership entered into by a man and a woman in the creation of a family estate. In most cases it starts with nothing except the industry, creative ability and good will of both. The potential liabilities should be disturbing. Pretty nearly all that the man has is the value of his life. That is worth tens of thousands. If he is among those who live out the productive period, he is fortunate. But death is omnipresent. Each day may be his last.

How is that value to be conserved for the use of his wife and their children? Men have successfully figured out the correct answer to that problem, and there is but one: life insurance. Dr. Heubner said that the refusal or failure of a man to perpetuate the existence of that value is little short of a crime. And so it is. If everything of a tangible nature which that man and woman possess—their house, its contents, their car, their liability to neighbors and the public, should be, and are, insured against loss or damage, why not the estate, the existence of which hangs on the slender thread of continued life?

Coming to the subject of family budgets, which he believes to be a plain duty, Dr. Heubner referred to the small amount devoted to life insurance, when it appeared in the account at all. He criticised the bracketing of life insurance with savings. He showed that the former is a combination of protection and savings. They should be so treated in the vast majority of instances. In 98 per cent of the families, he thought life insurance should be the only method of saving, particularly during the formative years. The heads are working to create out of themselves and their efforts an estate equalling in value all they can achieve and the side issue of savings for investments (which may and in most instances do, go wrong) operates to defeat their plans. In life insurance, the protective side preserves them against the event of death and if they live the accumulated equities are there for such use as the future demands.

Dr. Heubner took the position that a well ordered family budget should recognize the sinking fund principle with respect to future financial obligations, the discharge of which were dependent on the continued life of of its head. Most of the big obligations fall due in the future and the present systematic accumulation of current income is as essential to the family as it is in business.

Consider that very important one: the proper training and education of the children. Death of the head of the family will send that obligation to prompt protest unless it is provided against through adequate life insurance. Right here we wish to add a word of our own.

There are few men of family now who do not carry some amount of life insurance and when they are approached by representatives of companies they use it as an excuse. They say they are carrying it; that they don't need any more; that their families would get on quite satisfactorily through it if they died prematurely. But the plain, naked truth is that they are, the majority of them, most woefully underinsured. If we will work out a simple example in arithmetic, it can be abundantly proved. Divide the total of life insurance carried by the number of people who do carry it and the answer will be that the average is but little over $2,000 apiece.

Perhaps, by the end of this year the total of reserve life insurance in force in this nation of, say, 110,000,000 people, will be $85,000,000,000. Divide the 85,000,000,000 by 110,000,000 and what amount is there per capita? It is only $772.72 each.

The potential value of the life work of a man of average good education, proficient in his occupation should be not less than $40,000. That sum at five per cent interest, would yield his family of, say, wife and three children, $2,000 a year. But most men have less than $5,000 of life insurance and they think they have enough.

Dr. Heubner mentioned unemployment, the serious illness of the family head during the productive period of his life; the misfortunes incident to an unproductive old age. All these are obligations to be met in the future. And life insurance provides the only guaranteed way in which they can be met. All other kinds of savings are open to dispersion. The family has an estate—real money—in life insurance, whether the owner lives or dies and there is no other method of savings which possesses those advantages.

Even They Sense the Coming Change

Now that the record of the National Association of Insurance Agents is made and become extant through the newspapers, a reader of it gets the impression that even though the leaders were engaged in openly piloting several issues through, they were seriously preoccupied with one: the future of the agency system.

They have been busy preaching its possible destruction for three or four years. They have asserted that unless underwriters agencies are abolished they will destroy them. The same fate awaits it unless bank agencies are checked; the identical doom if automobile companies are not prohibited from issuing fire and theft cover on financed cars; ruin impends if agents' qualification laws are not enacted.

It is a tough old institution, that agency system, and exceedingly hard to kill off. When it dies, if ever it does, the cause will not be bank or underwriters agencies, nor unqualified agents, nor first year's insurance through car manufacturers.

Old Evolution will be the master hand that works the miracle. If that is true, some years will be occupied in the transformation. The value of the agency system is being questioned. Company executives do not regard it as sacrosanct. Progress has revealed to their eyes flaws in it. Some of them find it too confining. They have outgrown its size and it cramps their activities. They think they know of a roomier system.

Now, if they are right, then it is but a matter of time when the era of the agency system will close. Nobody will be to blame. Nobody is at work deliberately trying to destroy it or bring on the era of branch offices;but it would be foolish to misread the signs, for the evidences of the coming of branch offices, peep above the horizon.

A Credit Stabilizer

Sharp & Strong have built up a large business in the hardware line. Their annual sales run over a million and, necessarily, they need extensive accommodations from their banks and those who sell goods to them. In his way, each member of the firm is an invaluable factor to its continued success. The death of either would be a blow to it. As a matter of fact, if one or the other died at a critical time in its affairs, the consequences might be bad beyond retrieving.

Suppose Sharp & Strong realized the possibilities. Would they think $4,000 a year a high price to pay their banks if they would guarantee to furnish the firm with $100,000 in cash in the event either member died? It is probable that their debit balances at the banks would aggregate that much frequently. Would they think they had made a fine bargain if on the death of either, that debit balance against them would be written off

No bank would do it. That makes it all the more attractive to them if somebody can be found who will. And that "somebody" is at hand in the shape of life insurance companies.

Discussing this subject recently, Edward S. Andrews, supervisor of Field Instruction of the Prudential, observing that not one bank in a hundred would decline to lend a customer, if necessary, the premium on an amount of business life insurance equal to the average business loans outstanding, added:

"Members of bank discount boards have been known to pass some hectic moments upon learning of the suddenly impaired health or approaching death of an officer or member of a firm whose paper is being carried by the bank with little security other than that of the business ability of the borrower. The head of a large bank in a Southern state told the writer recently that he would readily lend additional funds for life insurance premiums to a half dozen of the bank's borrowers whose paper they were then carrying and which was backed by ware-house receipts for a certain staple commodity. It was the possibility of the death of any of these borrowers before the price of the commodity came back that worried the bank and not the temporary fall in the market."

It should be obvious to all the Sharps & Strongs in the country that their credit would be immensely improved if their banks and other creditors knew that behind their collateral and their own business ability stood the bulwark of ample business life insurance. Unless they are both pretty well along in years, it wont cost four per cent—it will cost them from 2½ to 4 per cent—and nothing near that rate if they keep it long enough.