

Joseph M. Belth
5125 North Starnes Road
Bloomington, IN 47404

May 22, 2018

Keith Gillies
Wealth Solutions LLC
610 Belle Terre Blvd.
La Place, LA 70068

Re: John Newton Russell Memorial Award

Dear Keith:

For many years I have been troubled that eligibility for the John Newton Russell Memorial Award is limited to living persons. My concern is that some highly deserving deceased persons are excluded from consideration for this prestigious award.

I have been reluctant to mention the issue because of my outsider status. However, now that I have been greatly honored to be among the recipients, I would like to request that the NAIFA board consider the matter.

The reason for my concern is that there are many deceased persons--some who died before the award was established, and some who died after the award was established--who are highly worthy of consideration. Two of the most prominent examples are Elizur Wright and Charles Evans Hughes. Without their efforts the life insurance business would be entirely different today, or might not even exist.

Keith Gillies
May 22, 2018
Page 2

Part of the impetus for this letter is my fear that many people in the life insurance business have never even heard of these two towering figures in the history of the business. With this letter I am enclosing a few of my thoughts on each of them.

Another example that occurred to me is Jacob Lyman Greene, who was the chief executive officer of Connecticut Mutual during the tontine wars. He took a strong, principled position against tontines, steadfastly refusing to go along with the crowd in the race for new business at any cost. As I was thinking about writing this letter, I realized that early JNR recipient Charlie Zimmerman would have known all about Greene. I even thought about touching base with my personal friend and JNR recipient Dennie Mullane, but when I tried to do so I learned that he died recently.

Finally, I am not suggesting that the award be significantly changed. One possibility would be to grant an award to a deceased person only once every five years. Another possibility would be to occasionally grant two awards in a single year--one to a living person and one to a deceased person. I might add that granting the award occasionally to a deceased person would serve the purpose of educating NAIFA members and others about the rich history of the life insurance business.

Thank you for your consideration of this matter.

Sincerely yours,



Joseph M. Belth

Enclosures (2)

ELIZUR WRIGHT (1804-1885)

As early as the 1830s, long before the Civil War, Elizur Wright of Boston was an outspoken critic of slavery and an ardent abolitionist. He was also a mathematician, and he was fascinated by the beginnings of life insurance in the U.S. In his later years, he had a greater impact on the development of the life insurance business in the U.S. than any other person. That is why he is called "the father of life insurance."

The Trip to England

In 1844 a newly organized American life insurance company commissioned Wright to travel to London, England to study and report back on the operation of the well-established life insurance business there. His experiences on that trip altered the course of his life, and his efforts revolutionized the U.S. life insurance business.

During his visit to London, Wright happened to attend a literary breakfast. When someone inquired about the purpose of his visit, he mentioned his keen interest in the life insurance business. At that point a prominent songwriter expressed dismay and called life insurance "the greatest humbug in Christendom." Wright said in his autobiography that he was "thunderstruck" by the comment, and said he would not have dared to make the dangerous ocean voyage if he had not purchased life insurance to protect his wife and five children who remained at home in Boston.

The songwriter told Wright to "Go to the Royal Exchange Thursday afternoon at three o'clock, and you will see what I mean." Wright did so, and saw policies on the lives of elderly policyholders auctioned off to

speculators "to be kept up by them by their paying annual premiums to the company till the decease." Each policy was a long-term, level-premium policy that did not provide for any payment to the policyholder upon discontinuation of the policy.

As Wright described the situation, elderly policyholders who needed or wanted money when they discontinued their policies were forced to sell their policies to speculators "because the companies made it a rule never to buy their own policies." Wright disliked that rule intensely. He had seen slave auctions at home, and he found similarly distasteful the sale of a life insurance policy at an auction such as he had witnessed. He said that if he should become old, "I would not like to have a policy on my life in the hands of a person with the slightest pecuniary motive to wish me dead."

Aside from the danger and indignity experienced by the insured in the type of auction Wright witnessed, he viewed the sale of a long-term, level-premium policy without provision for any payment upon discontinuation of the policy as inherently unfair to the policyholder. He knew that the level premiums paid in the early years of such a policy exceeded the death benefit in the early years, that the death benefit in the later years exceeded the level premiums paid in the later years, and that the premium overpayments in the early years therefore created an "equity." He thought it was morally wrong for an insurance company to force a "forfeiture" of that equity when the policyholder discontinued the policy.

The First Insurance Commissioner

When Wright returned from the trip, he lobbied for creation of an insurance regulatory agency. His efforts resulted in the establishment of

the Massachusetts insurance department, and he was appointed the first insurance commissioner. New York State followed suit, and state regulation of insurance in the U.S. was off and running.

Wright fought for enactment of a "nonforfeiture law" prohibiting the sale of long-term, level-premium life insurance policies without "nonforfeiture benefits." Nonforfeiture benefits initially were limited to paid-up life insurance, and later included cash values.

The cash values typically required under nonforfeiture laws are larger than what speculators would be willing to pay for the policies. The exceptions--where insureds have health problems--made viaticals and life settlements feasible. My longtime distaste for the secondary market for life insurance policies stems from the fact that I agree with Wright: "I would not like to have a policy on my life in the hands of a person with the slightest pecuniary motive to wish me dead."

CHARLES EVANS HUGHES (1862-1948)

Charles Evans Hughes served as counsel of the famous Armstrong investigation in New York in 1905. He so dominated the proceedings that some historians think it should be called the Hughes investigation. I call it the Hughes-Armstrong investigation. It did not arise from a single cause. Some historians believe that the investigation grew out of the confluence of four factors that created a "perfect storm."

First, the "Big Three"--Mutual Life Insurance Company of New York, Equitable Life Assurance Society of the United States, and New York Life Insurance Company--had been engaged for many years in a race for new business and had been heavily involved with "semi-tontine" (or "deferred-dividend") policies. Second, there was an intense struggle for control of Equitable, and the battle burst into public view early in 1905. Third, James Hazen Hyde, a 28-year-old Equitable vice president and son of Equitable founder Henry Baldwin Hyde, sponsored a lavish "Parisian Ball" early in 1905 that focused public attention on everything that seemed wrong about the life insurance business. Fourth, the early 20th century was part of the era of the muckrakers, who wrote extensively and effectively about problems stemming from the industrial revolution.

Deferred-Dividend Policies

The concept of the tontine drew its name from Lorenzo Tonti, who was finance minister of France during the reign of Louis XIV. Tonti developed a governmental fund raising scheme in which participants were divided into age classes. They bought shares in a fund from which the

payment of interest began many years later only to the survivors in each age class. The interest payments grew larger each time a member of the class died. After the death of the last survivor, who received all the interest attributable to the class as long as he or she survived in that role, the principal became part of the royal treasury.

The original version of the tontine policy (the "full-tontine" policy) sold in the U.S. paid the death benefit upon the death of the insured, but did not provide surrender values. Dividends were deferred, and were later paid only to those who survived and maintained their policies until the end of the tontine period (10, 15, or 20 years). Also, because of the lack of surrender values, the survivors benefited from further losses suffered by those whose policies lapsed during the tontine period.

The later and more widely used version of the tontine policy (the "deferred-dividend" or "semi-tontine" policy) had surrender values. Those who survived and persisted to the end of the tontine period benefited from deferred dividends at the expense of those whose policies lapsed during the tontine period. However, because of the surrender values, the losses suffered by those whose policies lapsed during the tontine period were not as large as in the case of the earlier full-tontine policies.

Attractive sales illustrations were based on the assumption that most policyholders would lapse their policies or die during the tontine period, and deferred-dividend policies appealed to the gambling instincts of the public. Parents and grandparents often speculated by buying deferred-dividend policies on the lives of their children and grandchildren.

Importantly, companies were not required to establish liabilities for

deferred dividends. Thus companies selling deferred-dividend policies were able to pay large commissions and incur other large expenses in the race for new business. The dividends eventually paid were substantially below those shown in sales illustrations not only because there were fewer lapses than assumed but also because of the extravagance of the companies.

The Big Three focused on selling deferred-dividend policies, and many other companies did so for what they perceived as business necessity. Elizur Wright, the Massachusetts insurance commissioner, opposed such policies. In 1882 he wrote: "Some day there will be a terrible crash in the Equitable. Its disruption is only a matter of a few years."

Struggle for Control of Equitable

There was a major struggle for control of Equitable. Henry Hyde founded the company in 1859. William C. Alexander, a Hyde family friend, became the first president. Henry Hyde, who became president in 1874, died in 1899. James W. Alexander, a vice president and nephew of the first president, became president. James Hyde was a vice president, and a major dispute arose over the controlling interest he had inherited from his father. There were also strong differences about whether Equitable should become a mutual company. The dispute erupted into a media furor early in 1905. Some historians believe that the messy battle for control of Equitable was the most important reason for the investigation.

The Parisian Ball

In New York in early 1905 James Hyde sponsored a "Parisian Ball" that was said to have cost a fortune. He had spent several years in France, apparently was addicted to Parisian styles, and seemed to have no

conception of how his ostentation would be viewed by the public. Some historians believe that, if there had been no ball, there would have been no investigation.

The Muckrakers

Among the many authors and news people of the muckraking era were Jack London, Lincoln Steffens, Upton Sinclair, Ida Tarbell, Joseph Pulitzer, and William Allen White. Books, articles, and other writings helped pave the way for the investigation, and developments during and after the investigation were widely circulated.

The Investigation

In April 1905 Equitable's board appointed a committee to explore charges of company mismanagement. The committee issued a critical report. Then New York's superintendent of insurance began an examination that also resulted in a critical report. Then New York's governor asked a special session of the legislature to appoint a joint committee to conduct an investigation of the life insurance industry, and the legislature adopted a resolution to that effect. State Senator William W. Armstrong chaired the joint committee, which consisted of two other state senators and five state assemblymen. The joint committee retained the 43-year-old Hughes to serve as its counsel.

The hearings began on September 6, 1905. There were 57 sessions, and the hearings ended on December 30, 1905. Hughes presented his report to the joint committee and the legislature on February 22, 1906. Remedial legislation was enacted on April 27, 1906.

The primary source of information about the investigation is the ten-

volume *Joint Committee of the Senate and Assembly of the State of New York Appointed to Investigate the Affairs of Life Insurance Companies*. The first nine volumes contain the transcript of the hearings, and the tenth volume contains the report and the index.

The report discusses 17 companies--the Big Three, 13 other New York companies, and one company--Prudential Insurance Company of America--based in New Jersey. The report also discusses the New York insurance department and contains 17 categories of proposed remedial legislation. In one of those categories was a recommendation that dividends be distributed annually, thereby prohibiting deferred-dividend policies.

Later Prominence for Hughes

The investigation propelled Hughes into prominence. He was elected governor of New York in 1906. He was named an Associate Justice of the U.S. Supreme Court in 1910. He left that lifetime position to run for President in 1916, narrowly losing to Woodrow Wilson in one of the closest Presidential elections in American history. He was named U.S. Secretary of State in 1921. He was named again to the U.S. Supreme Court in 1930--this time as Chief Justice. The 1952 Pulitzer Prize in biography went to Merlo J. Pusey for his two-volume biography of Hughes.