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INSURANCE AND COMMON GRACE

by Gary North

I devoted the May/June, 1982 issue of *Tentmakers*, to the subject of health insurance.¹ I discussed the problem facing all covenantally obligated churches, namely, the threat of a catastrophically expensive illness or injury which strikes a member of the church who is not covered by medical insurance. The church has obligations to care for that person, yet a single catastrophic illness could wipe out a church treasury. In fact, the bill for one month's hospitalization in an intensive care ward in a major city could wipe out most church treasuries. (Frankly, I think a week's visit would do it.) What should a church do to reduce the potential financial obligations of such an event? (I also argued that few churches have even discussed such a possibility.)

I listed several options. First, older people should be encouraged not to retire from working if they are covered on the job by a group medical care policy. Second, the church should set up a voluntary reserve fund for insuring such events, asking older people, their relatives, and others in the church to donate to it regularly. Third, to make sure that all self-employed people in the church are covered by some sort of medical insurance. Then I offered several suggestions about what kinds of private health insurance coverage there are.

The policies available to people who "walk in off the street" are not very good, or are very expensive. Why? Because those who walk in off the street tend to be those who are sick. As one insurance professional told me, when group policies used to be offered to churches, only the sick would sign up. This, of course, forces premiums through the roof. The basis of all insurance — one of the marvelous inventions of the modern world — is that the "law of large numbers" makes possible **statistical predictions of certain kinds of events within a randomly selected "class" of people.** Scientific investigation of events, coupled with the "miraculous" (and scientifically unexplainable) correlation between mathematics and the external world of human action,² allows companies to predict with reasonable accuracy approximately how many homes will burn down each year, and how many people will die within a certain age group, and how many people will get sick. But to keep premiums low enough to be marketable, the companies must make sure that the "large number" of insured people is randomly distributed, and not filled with those who are more likely to be hit with the particular crisis. Insurance buyers demand this by demanding low premiums. **There has to be a large, randomly selected class of people who will co-insure against the crisis in question.**

One response to my essay in *Tentmakers* came from W.S. Hyland, who sent me a copy of *The Journal of Pastoral Practice*, Vol. V., No. 1 (1981), in which he had an essay, "Return of the Diaconate." He thinks we should not become dependent on private insurance programs. I prefer to call this the pietistic view, in contrast to the State compulsion view (pro-tax-supported government insurance programs).

The author takes the view of the Amish, some Mennonites, and other historically pietistic Anabaptist groups: no profit-seeking, non-church insurance of any kind is biblically valid. He writes about "a major enticement the world offers and sells to believers — INSURANCE" (p. 7). The word "enticement" was chosen to convey a sense of the danger, the implicit evil, of the "world's" offer. You can almost see some insurance salesman in an alley, enticing passing Christians with "feelthy contracts."

Term Insurance

Mr. Hyland is straightforward: "... insurance in no way benefits the church" (p. 7). He is absolutely serious. He is speaking of "term insurance." Fair enough; he goes right to the heart of the matter: life insurance policies that pay the named beneficiaries upon the death of the insured individual — policies, in short, without a built-in "savings program" (whole life, ordinary life, etc.)

Sadly, the author does not understand his subject. I do not mean simply that he holds incorrect opinions. I mean that **he does not have his facts straight.** This always raises a question in the reader's mind about an author's competence to make critical judgments. He writes of term life insurance as follows: "An insurance company will sell a \$100,000 policy to Mr. Smith, promising to pay his chosen beneficiary this amount at the time of his qualified death, provided he pays the premiums when due. These premiums remain constant for the life of the policy (until he reaches age 65)" (p. 8). Maybe the company will **try** to sell such a policy — "There's a sucker born every minute" — but no company in the world will be able to sell a significant number of such term insurance policies. This sort of policy would be a so-called "level term" policy, one which overcharges the policyholders during their early years, in order to give a "fixed" premium throughout the life of the insured. It is dangerously misleading to use "level term" insurance as an example of true insurance coverage.

An **annual renewable** term insurance policy is the archetypal insurance policy: it insures named heirs against the loss of income that results from the death of a person who is a member of a specific age (and sex) group. **As we grow older, the risk of our death rises. This risk must be paid for by the policyholder. Therefore, life insurance premiums must rise annually.** Each year, if the face value of the policy remains constant, then the premiums must rise to compensate the company's other policy-holders for the increased risk. On

1 Copy available free of charge from ICE, Box 8000, Tyler, TX 75711

2 See the essay by the Nobel Prize-winning physicist, Eugene Wigner "The Unreasonable Effectiveness of Mathematics in the Natural Sciences," *Communications on Pure and Applied Mathematics*, XIII (1960), pp 1-14

the other hand, if the premiums remain constant, then the coverage drops. This is called "decreasing term" insurance. (Mortgage insurance is a form of decreasing term insurance: if the husband dies, the company pays off the home's mortgage; but each year the remaining debt on the mortgage decreases.)

Statistically, it is not economically possible to sell a term insurance policy that offers both constant premiums and a constant pay-out, unless the firm is **overcharging** people in the early years. Market competition does not permit a company to make these early premium overcharges, **unless buyers are extremely uninformed**, and they never learn about low-cost annual renewable term insurance. Sales of "level term" policies are few and far between. Annual renewable term policies are competitively priced now and are getting steadily more competitive because of the "stagflation" of our era. Buyers want less expensive coverage. The vast majority of term insurance buyers today are buying annual renewable term policies, or at most, five-year renewable term policies, either with fixed premiums and declining pay-outs, or with fixed pay-outs and increasing premiums. (The so-called "deposit term" policies are not really annual renewable term policies either, and it is only **ignorance on the part of uninformed buyers** that enables companies to collect advance deposits and keep them for ten years — which the buyer forfeits if he allows his policy to lapse — in order to buy life insurance policies whose premiums are higher than some annual renewable term policies that require no deposit.)

Mr. Hyland has used "level term" insurance as his definition of term insurance. This is misleading. More than this; he has misunderstood the economics of insurance. This is why the article is so incredibly naive, and also potentially dangerous. **He does not understand insurance.**

Risk-Sharing

How does annual renewable term insurance work? If **two** men in a randomly selected group of a thousand men, age 35, can be statistically predicted to die this year, then the minimum premium assessed on every policy-holder will be close to **\$2** per \$1,000 of coverage. Why? The company collects \$2 from each of the 1,000 insured people. This totals \$2,000. Two men in the insured group then die. Their named beneficiaries receive \$1,000 each for every \$2 in premiums paid that year. Similarly, if **four** people in an older group are expected to die this year, then the premium will be **\$4** per \$1,000 of coverage. This simple program of risk-sharing undergirds all modern insurance concepts. It is the essence of the *insurance contract*. It involves a class of people whose crisis can be insured against because of the statistical law of large numbers. Mr. Hyland has offered advice to readers that is extremely dangerous, and he has failed to explain what insurance is, how it operates, and what term insurance (or any other kind of risk-sharing insurance) really is. **Let the non-buyer beware.**

He points to I Timothy 5. "In the context of the fifth chapter Paul focuses on the present (not the future) state of affairs of those 'who are really widows' (v. 3). . . . Thus with the emphasis on the **present** time Paul teaches that the living are to provide for their household's present needs, for those unfulfilled needs presently manifested. Negatively, then, we can paraphrase Paul's teaching as follows: the living are to provide for the present needs, but not for the non-present (future) needs" (p. 9). I rub my eyes in disbelief. He really wrote this. He says, in effect, that Paul adopted the actuarial (statistical) view of insurance that the Social Security Administration has adopted: **a "pay as you go" system**. But this system can only function if the insuring organization has a steady, predictable stream of income, day by day, to cover every contingency. It assumes that there is no need to study or apply the science of risk, or set up a reserve fund which is statistically adequate to meet at least the predictable crises. Just "**pass the hat**" every time there is a death, or a chronically ill church member. **You never know how much it will cost.** One month every member may have to mortgage his house to pay his share of

some sick man's hospital bills. (Intensive care for deep burns can cost literal fortunes. So can cancer therapy.) Next month, who knows?

Even his theological premise is incorrect. **The Bible is the most future-oriented document in man's history.** Men are told to plan ahead, to **count the costs**. Jesus said to His disciples, "For which of you intending to build a tower, sitteth not down first and counteth the cost, whether he have sufficient to finish it? Lest haply [it happen], after he hath laid the foundation and is not able to finish it, all that behold it begin to mock him, saying, This man began to build, and was not able to finish" (Lk. 14:28-30). The cost of medical care is a cost to be reckoned with. So is the cost of fire, and auto accidents, and someone else's injuries on your property, and a surviving spouse's living expenses.

God has given us — meaning mankind, not just Christians — statistical theory, one of the great gifts of all time. **We can partially protect ourselves against catastrophic events by pooling our resources.** An insurance company, in the pursuit of profit, produces a program to link thousands of us together in a **common contractual bond**. Each person or family pays a premium, and thousands of premiums are collected. This reserve can be used to reimburse the members of the group who are afflicted by the named disaster. If this isn't **covenantalism** in action, what is?

We know that disasters are coming, statistically. We do not know in advance just which individuals will suffer these crises. As individuals, we cannot lay up sufficient reserves fast enough to carry ourselves if some crisis hits us. **But we can partially protect ourselves by entering a covenant with others who share a similar concern for the future, and who are members of a statistically insurable class.** Then we can take more of our income and put it aside to meet the future costs of risks that are not statistically insurable, or that require policy premiums that are too high to be mass-marketable.

We should regard privately sold insurance policies as we regard the benefits of establishing a "neighborhood crime watch." We join together with people of many faiths and outlooks in order to reduce the risks of events that we all fear. A "neighborhood crime watch" program, in which everyone on the block keeps an eye on other people's homes when they are absent, is quite similar to the private insurance contracts that allow us to share risk. The "common curse" of crime can strike anyone. So can the common curses of illness, fire, and death. **God has offered common grace measures to reduce the financial impact of these common curses.** The "neighborhood crime watch" covenant is one such measure. Insurance covenants (contracts) are another form. Why should Christians refuse to participate in such covenants?

The Small Organization

How could a tiny church of a dozen members covenant together to pay for the living expenses of a widow, or the costs of a someone's catastrophic illness? It would be very hard. The members would be at extreme risk. In some cases, the church could be wiped out. Paul had to ask for support from all over Asia Minor to help the Jerusalem church (II Cor. 8). Only huge organizations can deal with such problems inexpensively, by apportioning risk to many members.

Insurance is a marvelous gift for the small, struggling church. It allows the members to covenant with others outside the church, and this drastically reduces the financial risks of a catastrophic illness or a death within the little local assembly. It averts personal and local church bankruptcy because members can pool risks.

Because of the "law of large numbers," and by apportioning risk, a \$2 premium (this side of death) is the equivalent of a \$1,000 benefit to the dead man's heirs for a 35-year-old man.

The tax collector recognizes this: the \$1,000 of income from dead man's life insurance policy is not considered taxable income for the beneficiary, for it is **statistically the same** as the \$2 of after-tax income that was paid as a premium when

he was alive. **Actuarially, the premium is the same amount of money as the benefit.** The policy owner gives up \$2 this side of the insured person's death, and collects an **actuarially equal amount** on the other side of the insured person's death. A wife who spends \$225 for a term insurance policy on her 35-year-old husband's life has, actuarially speaking, established a \$100,000 estate for herself in case he dies during the next twelve months.

Who Should Own the Policy?

Mr. Hyland writes: "... it is a steward's responsibility to provide solely for the present time — that is, while he lives" (p. 9). But the author of Proverbs wrote: "A good man leaveth an inheritance to his children's children: and the wealth of the sinner is laid up for the just" (Pr. 13:22). Which view is biblical? Proverbs.

If Mr. Hyland is so worried about a steward who looks beyond his death, then he can recommend what I have recommended in all my essays on life insurance for years: **have the wife purchase the policy on her husband's life.** If necessary, the husband can give her the yearly premium money. If a man divorces his first wife, and she is left unmarried and without protection if he dies and therefore stops making support payments, she collects. He cannot make his new wife the beneficiary. The first wife owns and controls the policy. Mr. Hyland never mentions this approach. Even if his thesis were correct — that stewards are responsible only for the present life — this approach to life insurance would negate his criticism of the "future-oriented" nature of the insurance contract. (An additional consideration: if the wife owns the policy, and makes all premium payments on her own, personal, non-joint-account checks, then the pay-out is not counted by the Internal Revenue Service as being part of her husband's estate. No part of the pay-out can therefore be used to increase the size of the late husband's taxable estate. This reduces estate taxes on large estates.)

Pastors should counsel church members with an eye to the evils and risks of the day. Yet what are they advised to do by Mr. Hyland? He advises them to tell their congregations to cancel their life insurance policies! Men are told to abandon term insurance by a counsellor who doesn't have the foggiest notion of what a term insurance policy is. **Let us pray that this article is instantly forgotten, for its recommendations would place young families at tremendous, needless risk.**

Inflation's Effects

Incredibly, he argues that inflation will eat up the future value of the policy, so it may not be enough to cover needs. True enough; but in making his calculations, he again ignores economics: with an annual renewable term policy, each succeeding year's premium is costing less, dollar for dollar, in terms of real income, than the last year's premium. The face value of the policy is declining in purchasing power, but **so is the cost of buying it.** If you think your heirs need more coverage as inflation takes its toll (and they probably do), then they can buy more. The fact remains: given the probability of your death, the premium they pay each year is the equivalent of the money the company will pay them if you die: \$2 per \$1,000, or \$4 per \$1,000, or whatever it is for your age group. **If the pay-out is in depreciating dollars, then so is the annual premium.**

Mr. Hyland asks: "What good is a \$10,000 term insurance policy if in ten years it will cost that amount just to operate a car for 12 months? Whatever seems appropriate now may turn out to be insufficient coverage — even though it is very difficult to afford now!" (p. 12). Fact: a 35-year-old man's wife can buy a \$100,000 policy on her husband's life for about \$225 per year, or under \$20 per month. Why criticize annual renewable term insurance as a concept because of low-coverage policies, when high-coverage policies are cheap? But more to the point. **How is the potential widow of a 35-year-old husband going to see to it that she gets all the money Mr. Hyland insists that she may need?** If \$10,000

will not suffice in ten years to operate her car, how will she get more than \$10,000 right now, to protect her? And more to the point, given the title of his essay, **where will the local diaconate get the funds to support her today, let alone in ten years, when it may cost \$10,000 to operate her car for a year?** There is only one way for most families: **annual renewable term insurance.**

He says the deacons must support widows: "Such concern for those within the Christian community who manifest physical, material need is offered and perpetuated by the visible church" (p. 14). Yet he rejects term insurance. **The whole idea of term insurance is to reduce the potential burden on the church, so that the church has more money to spend on "widows indeed."** Term insurance reduces the likelihood of a church becoming overloaded unnecessarily with "widows indeed."

There is something else which he fails to mention: "widows indeed" are defined by Paul as being at least 60 years old (I Tim. 5:9). What about younger women whose husbands die before they can build an estate? Mr. Hyland fails to say. Typically, women who are over 35 and who have children do not remarry, certainly not as frequently as 25-year-old widows do. How are they to be protected until age 60? Annual renewable term insurance is the least expensive way for a woman to build her future estate, should her husband die "before his time," actuarially speaking.

He wants the church rather than the State to care for widows and orphans (p. 13). So do I. But if the deacons fail to protect the church by insisting that all wives buy term insurance policies on their husband's lives, all of Mr. Hyland's protests will avail him nothing: **widowed women who do not remarry, and who have small children, will probably head for the State welfare agencies with their hands out.** They already are doing so. Think of what it will be like as the young men start dying, and their wives own no life insurance policies. It boggles the imagination.

Ecclesiastical Responsibilities

He wants the presbyteries (lots of luck, Baptists!) to become insurers, so that all members can cancel all their insurance policies and send the premiums instead to the presbyteries, so that they can administer the funds (p. 17). But without compulsion, you cannot make every member contribute, and you **must** have all members contribute for "the law of large numbers" to operate — a fact that he fails to mention in his article. **The program would require massive ecclesiastical compulsion.** No Presbyterian in his right mind would voluntarily cancel all his insurance — life, fire, auto, accident, liability, health, etc. — and send the premium money to the presbytery for managing.

His numbers do not add up. You need tens of thousands — hundreds of thousands — of policy-holders for insurance companies to take advantage of the law of large numbers. **The smaller the pool of policyholders, the greater the risk of the insurance firm's bankruptcy because of one or two catastrophic events.** He should know this, but he doesn't. I hope his pastoral readers do. If they don't, I hope their churches' members do. Anyway, I know that no sensible Presbyterian would put this much trust in his presbytery's actuarial and financial judgment. Actuaries are expensive mathematicians; few presbyteries could hire even one without eating up all the insurance premiums. The law of large numbers requires a lot more people than Reformed Presbyterians can pool together, even if every member joins the program, and nobody sensible will.

What will the presbyteries invest in? Mr. Hyland says they must not do as "worldly" insurance companies do, namely, invest "in the world" (p. 11). But most presbyteries put their funds in the worst versions of "worldly" investments, such as 6% passbook savings account in a local bank, not in a money-market fund that pays, say, 13%. He also argues that no one "insures the insurance company," but **who insures a presbytery which is run part-time by investment amateurs?** At least church members will normally buy insurance from

dozens of companies, so that if one goes bankrupt — and other insurance firms normally buy the assets, including obligations, of bankrupt companies — only one family may be hurt. But by putting all pooled funds in the hands of amateurs, church members would violate the basic premise of insurance: **diversification of risk.**

The article is naive beyond belief. I predict that it will not be taken seriously by any church, now or in the future. But this is not the main point. It was written in a journal edited by Jay Adams, and read by people who expect sensible counsel. Where is the church headed when this sort of thing can be put into print in a counselling journal? Is it any wonder we Christians are not taken seriously in the world outside the sanctuary? This kind of nonsense cannot even be taken seriously in the world **inside the sanctuary.**

Deacons need to assist all members in getting the best, cheapest coverage possible. **Spread the risk.** There are risks enough for hard-pressed diaconates to bear. There is no reason to increase the financial risks of life and death. **Planning in advance to become dependent on the State for welfare is morally wrong and economically foolhardy, for the State is steadily going bankrupt.** No one should plan his future on the assumption that he will accept State welfare payments. But becoming partially dependent on the law of large numbers is not wrong, for we are to some extent governed by that law anyway: we die, we get sick, and our homes and churches burn down, all according to reasonably predictable mathematical laws. Since we already live in terms of these laws, let us insure ourselves against financial disaster, voluntarily, in terms of them.

It would be wise too for men of means to purchase annual renewable term insurance policies with the local church named as the beneficiary. This can be structured to make the policy tax-deductible. If a rich man dies, the church collects. The income loss associated with a major donor is not cut off, leaving the church's programs half-completed. Churches should recommend such policies. It helps protect the continuing ministries of the local church.

Young men who have aging parents should be told to cover their obligations to their parents by having them named as beneficiaries in existing policies. Or parents can be given the premium money by sons, so that they can buy annual renewable policies on their sons' lives. In either case, the son sees to it that his parents are protected, should they outlive him. A man who is married to a woman who is a member of a daughters-only family should do the same for his in-laws. So should all his brothers-in-law.

In short, **insurance is an important aspect of any system of covenantal faithfulness.** To recommend that Christians cancel policies with profit-seeking insurance companies is a serious error. If anything, men should be encouraged to increase their coverage by means of annual renewable term insurance policies. Non-smokers should take advantage of the extra low premiums that companies offer them. They should shop carefully for the least expensive policies. Premiums vary considerably. Rates should be about \$2 per \$1,000 at age 35 for non-smokers, including the \$25 "policy fee," and rates should increase by about \$1 per month for each \$100,000 of insurance. Rates for men who are smokers should be about \$2.15 per thousand at age 35, plus the policy fee of \$25. If any wife in the congregation is paying more than this, she is paying too much.

An independent insurance agent should be encouraged by the diaconate to locate cheaper policies. Tell him what you want, and **never hesitate to switch if he or some other agent finds a cheaper policy.** Call several independent

agents; make them work for you. They are listed in the Yellow Pages of your phone book. Just make it clear that you are interested only in annual renewable term to age 65 (or more, if you think you can afford the premiums in the later years). One of my wife's policies insures my life to age 90. If anyone wants this kind of long-term coverage, she can buy it. However, term insurance is primarily a way for a potential widow to create a future estate when she is young; after a man reaches age 65, premiums are quite high, and the husband's estate should be reasonably large, given a lifetime of thrift and successful investing. There is far less need after age 65 for life insurance.

Men should purchase term insurance policies on their wives, especially if their wives are regular breadwinners in the family. Replacing a wife's economic services in the family can be extremely expensive. A \$25,000 policy would be the minimum. This might cost \$70 at age 25. Perhaps an inexpensive "rider" can be purchased on the policy owned by the wife on the husband's life.

Deacons should make the continual search for lower-cost insurance policies of all kinds as part of their regular program. They need to do more than ask an insurance-selling member what the best policies are. He may or may not know. His firm may or may not sell the lowest-cost policies (if he is not an independent agent). **The flock should not be overcharged because of the laziness of the deacons or the greed of some church member who sells expensive insurance policies.** If the deacons tell an independent agent that they are willing to recommend a policy to church members if it is the best they can find, the agent will work extra hard. This is why deacons should get involved. They can get better information. **They can negotiate from a position of strength.** This protects the flock. While it may be unwise to have all members insured by the same company, because of the distant threat of bankruptcy, several low-cost policies from different firms can be selected. Diaconates should know which policies are the best. If they don't, they ought to start finding out. The flock is depending on them.

Any denomination that does not provide information to diaconates concerning the various insurance policies available to church members is asleep at the wheel. The pooling of information is as important as the pooling of risk. If peddlers of high-cost insurance policies who are church members take offense at the information given to other members by the church, let them switch companies and sell a better product. No church should hesitate to make such information available to members just because some successful, tithing insurance salesman gets offended at the competition. The church must protect its members by making sure that the members have taken steps to protect themselves, and at the lowest possible cost, in order to get all members to buy policies.

Diaconates should be in communication with each other concerning what kinds of policies are being made available by companies. The market is very competitive; new policies are being offered daily. Very often, the existing policyholders are not informed by the companies that new, less expensive policies are available. It is probably time for most members to buy new policies and, once they are in effect, to cancel the older ones. Diaconates can pass along new information to presbyteries and the general assembly. The churches should "fill the information gap."

(For more information on life insurance, see the excellent book, *Life Insurance from the Buyer's Point of View*, published by the American Institute for Economic Research, Great Barrington, Massachusetts, 01230; \$2.)

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