Tontine insurance

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Tontine has been described as "an interesting mixture of group annuity, group life insurance and lottery". Tontine is described as "an annuity scheme wherein participants share certain benefits and on the death of any participant his or her benefits are redistributed among the remaining participants." It is also defined as a "system for raising capital in which individuals pay into a common pool of money and then receive a dividend based on their share and the performance of investments made with the pooled money."

The principal invested in the tontine is never paid back to the investor; rather the investor receives dividends until his or her death. If a shareholder dies, his or her shares are divided up among the surviving investors." It is a scheme where you will receive increasing payments until the day you die. It is a form of retirement and insurance scheme in one.

It was originally implemented as a fund-raising scheme by states. It was originated in 1652 by a Neopolitan (Italian) banker Lorenzo de Tonti when he proposed it to Cardinal Mazarin of France. In its original scheme, "Tonti proposed a form of a life contingent annuity with survivorship benefits, whereby subscribers, who were grouped into different age classes, would make a onetime payment of 300 livres to the government. Each year, the government would make a payment to each group equalling 5 percent of the total capital contribution by that group. These payments would be distributed among the surviving group members based upon each agent's share to total group contributions. The government's debt obligation would cease with the death of the last member of each group."

Tontine insurance was introduced in 1868 by the Equitable Life Assurance Society of the United States as a scheme to make insurance attractive. The premiums were allocated two ways, first for the ordinary insurance policy and, second, for an investment fund. This investment fund (or retirement fund or old-age savings plan) and its earnings will be divided proportionately among the entire active and surviving policyholders. This was also characterized as deferred dividend policies. By 1905, about two-thirds of all life-insurance policies in force in the US were tontines or deferred dividend plans. About 9 million tontine policies in all. The attraction was that as more and more people died, the retirement pay, which you will receive until you die, increases. In 1892 Equitable Life ran an advertisement which read: "The adaptation of the tontine principle to life insurance…has done more to place the society in its present position than all other causes." Tontine became a hit product. Equitable Life promoted their tontine policies as "safer and more profitable than a United States gold bond."

Eventually, after the Armstrong Investigations in New York, tontine was made illegal in 1906 in several states in the US. Today, it is no longer in use. Its concept was objectionable on the ground that a policyholder benefits from the death of other policyholders. With the arrival of corporate pension, social security and annuities, tontine insurance suffered a natural death. Tontine also became a battleground between rivals Equitable Life and Mutual Life in the US. Mutual Life strongly disagreed with the concept of tontine.

Nonetheless, Ransom and Sutch wrote in the Journal of Economic History in 1987: "Considered as a financial innovation, [the tontine] was very successful. Considered as insurance, it was actuarially sound. Considered as a gamble, it was a fair bet in as much as there was no percentage for the house beyond a charge to cover administrative costs. Considered as a lifecycle asset, it proved to be an excellent investment, earning a rate of return substantially in excess of that generally available on other assets."

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