

Tontines: a cousin of the thirty maidens

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The tontine, mentioned at the beginning of this chapter, is closely related to the Genevan schemes. In its classic form, each subscriber pays in a capital sum, and the subscribers are divided into classes according to age. Each class receives an annual sum, shared among the survivors. As members die, the share of each survivor increases, until the last one disappears, on whose death the issuer's obligation comes to an end. The French monarchy issued several tontines at the end of the seventeenth century and during the eighteenth century, before abandoning them.¹

The tontine combines a pooling of longevity risk with a form of wager on survival. Each member benefits from the death of the others, which has fed, in literature and in the popular imagination, plots built on the temptation to hasten the death of fellow tontine members. In the nineteenth century, American insurance companies marketed policies inspired by the tontine, which enjoyed great success before being prohibited or strictly regulated following investigations into their abuses.²

Researchers and practitioners have recently proposed rehabilitating certain tontine mechanisms for retirement provision. In a system of this kind, the members of a group share the longevity risk among themselves, without the guarantee of an insurer, which can reduce costs while exposing each member to variation in his benefits.³ These proposals show that the financial techniques of the eighteenth century can regain relevance, provided they are framed by rules of transparency and protection of participants.

Comparing tontines with the Genevan schemes sheds light on what was specific to the latter. The tontine pools the risk among the subscribers themselves, who are also the lives. The Genevan scheme pooled the risk among selected lives, distinct from the investors, and transferred it to the issuing state. In the first case, the risk remains internal to the group; in the second, it is shifted onto a third party whose pricing was defective. This

difference explains the exceptional profitability of the Genevan schemes, and their dependence on the debtor.

1 Notes

1. Wikipedia (en), “Tontine”: the first French state tontine in 1689 under Louis XIV (last survivor, Charlotte Barbier, died in 1726 aged 96); nine further government tontines up to 1759. ↩
2. Wikipedia (en), “Tontine”: tontine policies introduced in 1868 by Henry Baldwin Hyde (Equitable Life Assurance Society), approximately 9 million policies sold in forty years; the Armstrong investigation opened in 1905 in the State of New York, leading to the prohibition of abusive tontine clauses. ↩
3. Wikipedia (en), “Tontine”: contemporary proposals for pooled annuity funds and collective defined contribution schemes inspired by the tontine mechanism. ↩

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