TRANSACTIONS OF SOCIETY OF ACTUARIES
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Section 213

A. What has been the recent trend in and what is the future outlook for the margin ratios under Section 213 of the New York law? Have the pattern and level of expenses changed since the 1954 amendments so that the limits imposed are no longer consistent with expense requirements?
B. To what extent and how have individual companies provided for
   (i) additional compensation to general agents with less than five years service in accordance with subsection 8,
   (ii) training allowances for new agents in accordance with subsection 13?

MR. RICHARD A. LEGGETT: The Travelers' first year and total field margins as a percentage of the limits have decreased steadily since 1954, while the dollar amounts have remained almost level. The decrease in the first year field margin to 9% of the limit in 1960 is due to payment of renewal commissions in excess of limits under subsection 8, Section 213 of the New York law; increased field salary expense is largely the cause of holding the dollar total field margin to about $5 million. Since we have no plans to increase agents' commissions and other benefits, the first year margin should remain intact. As our field salary expense should level off in the future and result in a growth in our new business, the total field expense margin should widen.

Since many of the expenses which come under the total field limit are not directly related to new business, our margin could be eliminated if we had a serious decline of production for several years. I feel that with our high proportion of low premium plans our margins tend to be larger, because many limit factors are based on amounts while expenses are largely premium-related.

Section 213 may be hindering the growth of nonparticipating companies operating in New York by its limitations on commission levels, for the biggest increase in nonparticipating business seems to be in some non-New York companies. Nonparticipating may be at a competitive disadvantage with participating as the commission rates are the same while participating has a premium about 20% higher. This situation is more important today with the severe competitive situation.

MR. WILLIAM H. SCHMIDT: The recent trends and immediate future outlook of the margins in MONY for the first-year field and total field expenses seem at a satisfactory level. However, our margins for total expenses have not been as favorable. These margins, expressed as a percentage of the limit, in 1954, 1957 and 1960 were:

	Margins as Percentage of Limit		
	1954	1957	1960
First Year Field.........	12.7%	6.2%	11.2%
Total Field.............	13.7	6.2	7.4
Total Expenses.........	14.1	5.9	4.5

The drop in 1957 was occasioned by the introduction of a new series with an increase in the basic first-year commission from 50% to 55%. There are indications that presently the trend in MONY for the three margins is upward. We have projected these to 1963 and the figures show a continuance of the favorable trend.

Perhaps I should add that, common to some other companies in the industry, we have had a substantial increase in new business and total in force over this period. From 1954 to 1960 our new business has increased from $400 million to $1 billion and our in-force from $4⅓ to $6¼ billion. From the point of view of increase in new business and in-force, we have put the revised law to a rather stringent test and the resulting margins would seem at reasonably satisfactory levels.

MR. RICHARD M. SELLERS: Although Commonwealth Life is not licensed in New York, we have been comparing our expenses against Sections 213 and 213-a yardsticks. We have observed that first year field percentage margins for most larger companies have remained reasonably stationary during the last 5 years, but there has been a trend toward smaller total expense percentage margins; the total expense dollar margins are still substantial.

In the case of the Commonwealth we have been able thus far to avoid this trend toward lower total expense percentage margins. The ratio of our total expenses to 213 expense limits fell from 66.63% in 1959 to 64.20% in 1960.

Data for Section 213-a of the New York insurance law are not reported in Volume I of the *New York Insurance Report,* of course, but there seems reason to believe that here, too, there has been a gradual increase in the ratio of expenses to expense limits. Section 213-a, when applied to Commonwealth, includes an additional allowance for small companies and after giving weight to this allowance, the ratio of expenses to total expense limits has been as follows:

1957........	63.28%
1958........	66.41
1959........	69.97
1960........	68.55

MR. ABRAHAM HAZELCORN: At the Guardian additional compensation to new general agents takes the form of a fixed salary graded down to zero over the additional compensation period and a variable salary based on actual performance of the agency, which is determined as a percentage of our formula for expense reimbursement decreasing to zero over the same period. Neither the additional compensation nor the formula expenses is based on health insurance production. The maximum annual fixed salary is $4,800 for the first contract year in agencies with an anticipated first year production of $1 million or more.

In drafting general agency contracts the termination deduction, in other words the nonvested portion of overriding commissions, depends on what the additional compensation is, expressed as a cost per $1,000 of expected production. If it is less than $6 per $1,000 of life volume, the standard 1% termination deduction is used for life insurance and annuities in second and subsequent policy years; if it exceeds $9, the deduction in second and subsequent policy years is 3%. The termination deduction also depends upon the number of years of eligibility for additional compensation.

The new general agent in an existing agency can also be assisted by an expense reimbursement of 1% of renewal premiums on life insurance in force.