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DIGEST OF SMALLER COMPANY FORUM

ACTUARIAL STUDENT MANPOWER

A. What methods have proved to be the most successful in the recruiting of actuarial students?
   1. What are the primary sources of actuarial students for the smaller company?
   2. Are they very successful in recruiting students at the large actuarial schools?
   3. What selection methods best determine potential?

B. What type of training does the smaller company offer to an actuarial student?
   1. Are the training methods and examination assistance competitive with those offered by large companies in an insurance center?
   2. How long a period does a formal training program cover?

C. Has offering summer work to actuarial students proved to be a help in hiring the student after graduation?

   What types of duties and instructions during summer employment have proved particularly effective in attracting actuarial summer students for permanent employment?

D. What status is offered to an actuarial student? Are various fringe benefits (based upon examination progress) an important item in recruiting and retaining actuarial students?

   How does a company determine the number of actuarial students needed to build its staff?

E. To what extent do the smaller companies obtain their actuarial manpower from the larger companies?

MR. ANTHONY J. HOUGHTON: My company, Nelson and Warren, is not a smaller life insurance company, but it is a small company employing actuaries. Presently we have six students whose employment we feel is justified strictly on the basis of value received. We feel that our students pay their own way in terms of work accomplished and, as a result, we do not feel any need to limit the number of students to any fixed figure.

MR. GLEN H. LOVEKAMP: At the present time at Country Life we have two students studying for examinations. We do not conduct any organized classes within the company, although we do try to assist and encourage our students in their preparation for examinations.

We grant students one hour per day for study, beginning in August for

the November examinations and in December for the May examinations. Study time is increased to two hours per day during the month preceding exams. Students are expected to study for ten hours a week on their own time.

MR. JOHN G. SELIG: At Golden Rule Life, we have a formalized actuarial program consisting of three basic items: (*a*) study time, (*b*) incentive raises, and (*c*) formal schools. After an actuarial student passes the first two exams, he is eligible to attend two of the ten-week courses conducted at Northeastern University. He may choose the two portions that he wishes to attend. When I am consulted, my recommendation is usually to attend the courses for Part IV and Part V.

For the exams for which no formal schooling is given, the student has 60 hours of study time allotted to him shortly before the exam. The study time may be scheduled to fit the student's schedule, such as two hours per day for six weeks, or any other arrangement that is satisfactory to the company.

When the student passes an exam, an automatic salary increase is granted which approximates $10 per month for each hour of exam passed. Passing a five-hour exam would automatically carry a salary increase of at least $50 per month.

All of our recruiting, for both actuarial students and college graduates, is conducted within 200 miles of our home office. In order to hire an actuarial student, it is necessary to sell him on the actuarial profession. Most of the college graduates to whom I have talked know nothing of the profession, so it is essential that a specific program be available. If you speak in generalities when recruiting, you soon lose the interest of the college student and thus have no live prospects who would qualify for actuarial training.

MR. PHILLIP A. SCHORR: The main sources of actuarial student manpower for General American are local liberal arts schools, area residents attending more-distant schools, actuarial schools, and our summer program.

The local schools and area residents are important to us as a source of new people. We keep in touch with the mathematics departments of our area universities and participate in career days and similar events at the high school and college level to keep our name in front of these sources of prospects. We have obtained some prospects through referral by our agency force and general employment ads in the local newspapers.

We actively recruit at the University of Iowa and have hired three of

our eleven actuarial students from there. As one of the three, I feel that I can give you an insight into the attitude of actuarial students about smaller companies. The students are not reluctant to work for a smaller company; however, there is a feeling among them that the smaller companies do not consider completion of the actuarial examinations particularly important. This is obviously a handicap for the smaller company, since these students feel strongly about passing the examinations and receiving their Fellowship. To compete for these students, a smaller company must stress the importance of completing the exams and have some plan for study on company time along with incentives for passing exams to clearly show the importance attached to successful completion of the examinations.

In selecting actuarial students, we have not found a test which will, by itself, accurately predict future success. We believe that nothing can take the place of a face-to-face interview to get a better feeling of the prospect's interest and aptitude. We look at the applicant's background and educational record, including any actuarial exams he may have written. We like to have all prospects who visit us take the Society's Actuarial Aptitude Test. Anyone not scoring near the recommended standards is normally eliminated from further consideration unless he has already begun passing the exams.

We believe that our summer program has real possibilities for providing us with top-flight actuarial students. During the ten years it has been operating, we have had three former summer people return on a full-time basis. We usually take students who are between their Freshman and Sophomore years in college and who show real potential, both in their past records and on the Actuarial Aptitude Test. We get enough applicants for summer positions that we can afford to be selective and normally take only two or three each summer. By limiting the number, we are able to give considerable time and attention to each student.

At the time of selection, we suggest that they write Part I of the exams as soon as possible to give them an idea of what the exams are like and to give us another idea of their potential. The summer program is comprehensive and well planned. Projects are assigned to each student before he arrives. The level of projects assigned depends on the student's maturity and background, but in all cases a complete explanation of the actuarial nature of the job and of the use the results will be put to is always given.

If a student works out well the first summer, we attempt to get him back in succeeding years. The scope of his work is increased to involve more actuarial aspects and whet his interest in the actuarial field. Having a student with us for two or three summers allows us to make a good

evaluation of him and gives him a much better opportunity to decide if he is interested in actuarial work. Also, we hope that he will have begun to identify with us during his summers and come back on a permanent basis.

MR. ALFRED A. WALTER, JR.: I think that we have done an excellent job in the last five or ten years in promoting our profession. From the individual companies through the local clubs up to the Society itself, there has been an increased awareness of the shortage of actuarial talent and a positive effort to correct it.

I feel, however, that promotional activities are at the very heart of the problem of recruiting actuarial students and that we need to do still more in this area. The insurance industry needs a good public relations job to offset the unattractive image that most young people have of the insurance industry as a career. The right public relations will ultimately mean more and better candidates for all insurance industry jobs.

I think that the best source of actuarial students for the smaller company is the local or state liberal arts college with a good math and arts program. Concentrating on these schools should cut recruiting costs and also produce better persistency. Recruiting is a long-term proposition, and, to have an effective recruiting program in colleges, we must begin with high school students and teachers by speaking at career days, talking with guidance counselors, and so forth.

A smaller company actuary must be technically trained, but, in addition to this, he will be more a part of management than might be the case in a larger company. In considering the type of person we want to hire, we would look for someone of broad interest, who knows people, and who can evaluate facts and make a decision. We should select men who show a touch of reality and who show a positive interest in nonmathematical things. The young person must have the basic mathematical skills and aptitude to pass the exams, but, more important, I would look for the liberal arts background or possibly a business background with liberal arts courses.

MR. RUSSELL M. COLLINS, JR.: We have found at Minnesota Mutual that the best sources for actuarial student manpower, from the point of view of both hiring success and relatively low turnover, are the local universities and colleges. Virtually all students hired are math majors or business school graduates. We do not recruit currently on the campuses of large actuarial schools, since we have found that the fierce bidding for graduates of these schools results in salary offers well in excess of what we

consider reasonable. To bring new students in at these levels would create serious internal problems of equity.

We have found the new Actuarial Aptitude Test to be a very good selection device so far, although it is still somewhat early to correlate career success of our students with results on this test.

Our actuarial students are treated as potential managers, which, in fact, they are. Early pay is a rather direct function of exam progress, and there is otherwise heavy emphasis on successful completion of the exams until the final Fellowship exam has been passed.

We believe that a plus for the small company in competition with the large company is that the training assignments in the smaller company tend to be broader in scope and hence more interesting to the student.

We do attempt to determine the number of actuarial students to be recruited as a part of our over-all company staff projections. We have found that offering summer work to actuarial students is an effective way to recruit full-time actuaries for several reasons:

1. Competition is not as fierce at this level.
2. It affords the student an excellent opportunity to find out first-hand what an actuarial career is likely to offer.
3. It affords the company an excellent opportunity to "postselect" actuarial students.
4. The student is more likely to select our company after graduation; primarily, I believe, because of the associations he has formed there.
5. We have found that the best work assignments for summer students are research projects which can usually be completed in a few months. The student is given a free hand in completing these projects subject to adequate direction and assistance. This leaves the student with a sense of accomplishment as well as an educational experience.

MR. GEOFFREY CROFTS: I would like to give you a little more background about our program at Northeastern University. We have just completed the second year of operation. The program covers two years, with students attending for four ten-week terms during the two-year period. The program is closely oriented to the actuarial exams during these four terms, with the curriculum covering material for Part III during the first term, Part IV during the next term, and so forth.

We also have four different seminars, one in each term, in our program. During the first two terms the seminars cover general life insurance. During the next two terms they cover management theory and risk theory. We also expect the student to learn programming and to complete his graduation problems on a computer.

All our students are permanent employees of insurance companies, with the employer responsible for providing the tuition. The student can

attend for any one or all of the four terms and receives a Master's degree if he completes all four terms to our satisfaction. If any student not currently employed applies to us for admission, we try to find an employer who is willing to undertake his sponsorship. A number of smaller companies are making use of this arrangement to obtain graduating seniors for their actuarial staffs.

MR. MICHAEL H. RISEN: At Fidelity Mutual, we have what I would call a semiformal program for actuarial students. Until a student attains his Associateship, salary increases are based solely on success on examinations, with no merit raises granted. After attaining Associateship, merit raises are given in addition to increases for examinations passed.

We do rotate students among our various departments. Students are granted study time of an hour a day, starting a day after the last examination, and two hours per day during the month immediately preceding an examination.

MR. E. BRIAN STAUB: I believe that it is extremely important, especially in a small company, for actuarial students to have an opportunity to work in all phases of a company's operations. In some of the larger companies, where the actuarial department is split between group, ordinary, industrial, and so on, a student may be placed in one department and never get out of it. The advantage to the student in a smaller company is that he has an opportunity to advance in relation to his particular abilities.

An advantage of the large companies in the large insurance centers is the great number of students at the same examination level who assist in stimulating each other. The emphasis now on multiple-choice questions in the later examinations also is an advantage for the large company, because I think that these questions get circulated a little bit more than the Society is willing to admit.

One disadvantage of the small company from the student's standpoint is that many of the small company actuaries never attain Fellowship. A student may find himself at the top of the actuarial ladder in his company and decide that there is no advantage in continuing with the examinations and becoming a Fellow.

We do not offer any particular status to actuarial students at Wisconsin Life. In recruiting and training of actuarial personnel, we do what is necessary with regard to salary, study time, and so forth, in order to compete. It is in these areas that the flexibility of the smaller company can be extremely important.

The main difficulty between actuarial and non-actuarial people in a

small company is maintaining salary status quo and not alienating the non-actuarial people. The larger companies can keep their actuarial talent separate, thereby avoiding any conflict to a greater degree.

MR. MEL STEIN: I have worked for a small company, a large company, and am presently working for a consulting firm. I would like to compare the advantages of the three from the pre-Fellow's standpoint. The main advantage of the larger company is study time. There is less pressure, and it is easier to pass the examinations. On the other hand, the experience in the large company is by far the least valuable of any of the different types of employers. A person may stay in one department and know almost everything about almost nothing, or he may be rotated to the various departments and know almost nothing about almost everything.

In a small company the environment for passing the examinations is less advantageous. A student may not get much study time and will usually have much more overtime. On the other hand, he will get much more varied experience, along with an opportunity to think for himself and to do things on his own rather than the way in which they have been done for the past fifty years.

A consulting firm may have the most pressure of all employers but gives the best experience of the three. At a consulting firm, repetition is minimized. In a small company, and particularly in a consulting firm, one has the opportunity to develop his ability to the degree that his capabilities at least match his examination status.

MR. JOHN W. LAWRENCE, JR.: I am one of the graduates from Mr. Crofts's first class at Northeastern. There were thirteen of us from Northeastern who took Part V of the examinations, and ten passed. Of those who passed, four scored ten; one, nine; three, eight; one, seven; and one, six. These were all individuals taking examinations for the first time. I think that this is a tremendous record and says a lot for what Mr. Crofts has done for the students. I would urge others to participate in this course.

MR. GEORGE E. IMMERWAHR: I feel that we should try to develop interest in the actuarial profession not only among college mathematics majors but also among liberal arts and business majors, an increasing proportion of whom are now taking advanced mathematics sufficient to enable them to succeed in the actuarial examinations. The pure mathematics major may find that actuarial work will not utilize all the math he has had and that much of it may be more salable in scientific fields, which appear more glamorous to him.

ORDINARY GROSS PREMIUMS

A. Has there been a trend toward lesser profit margins in nonpar premiums? How much does competition influence the final level of premiums?
B. What variations in assumptions or special adjustments are made to arrive at monthly debit ordinary gross premiums?
C. To what extent can the individual company derive its own gross premium factors by conducting continuous studies of its own experience?

Are there any practical size minimums required to secure valid expense, mortality, and persistency statistics?

MR. JOHN F. McMANUS: My comments will treat the items in Topic A in reverse order. As to the influence of competition, our last rate revision at North American Life was completed in 1961, when we adopted the 1958 CSO Table for nonforfeiture values and reserves. We have now begun a complete examination of our rate structure because of a reported feeling by some of our field representatives that our rates are out of line on certain plans.

The agency department specified those companies with which they felt we should be competitive. Most of these companies can be classified as smaller companies.

Our comparison on the ordinary life plan was patterned after that used by Mr. Anderson in his paper on gross premiums in Volume XI of *TSA*. For the ten companies in our comparison, and at the particular ages and policy sizes set forth in that paper, the average variation was 7.7 per cent, or $1.72 per $1,000.

Six of the ten companies had special high minimum ordinary life type contracts, with $25,000 being the most common minimum. The average variation for a $30,000 policy under these special policies is $1.57 per $1,000.

Our present ratebook does not contain a low rate, high minimum policy. I have been told that an old LIAMA survey indicated that the agents surveyed indicated that they encountered competition in only about 10 per cent of their solicitations. If our sales organization is representative, the 10 per cent of their solicitations encountering competition must all involve policies over $25,000. For this reason, our company will shortly have a minimum size special policy. The comparison did enable us, however, to recommend a higher rate scale for policies under $25,000.

As to nonpar profit margins, the degree of influence of competition and the level of profit margins most certainly go hand in hand. Once an

actuary has decided on the general approach to the determination of his company's gross premium scale, that is, conservative assumptions with no specified profit margin or realistic assumptions and a specified predetermined profit margin, any adjustment in the calculated premium because of a weak competitive position must be provided for by sacrificing part of the margin for profit.

In our comparison of the ordinary life rates, the weighted average mean premium was $22.44 per $1,000. This was $1.12 lower than a similar calculation made by Mr. Anderson for the companies in his comparison. It is possible that this reduction represents some lessening of the profit margin as a result of competitive influences.

Profit margins have been the subject of several current articles published by those in the security-analysis field. One recent report states that the reason for the sharp decline in the price of life insurance stocks is an increasing awareness by investors of a change in life insurance profit margins. The writer went on to analyse the significant factors relating to profit margins and concluded that, because of the current high rate of return on investments, the leveling-off of improvement in mortality experience, rising commission rates and taxes, and the reduction in the specific profit margins provided by the current level of premiums, the trend of growth in life insurance companies profits has slowed down. Unless we can improve the profit picture by improving average policy size, reducing administrative costs, or controlling the other factors affecting premium rates, it might be necessary to increase our specific profit margins in order to satisfy the stockholders of our companies. Competition will, of course, be the ever present influence in such a decision.

MR. G. DAVID SODERQUIST: With regard to Topic A, I would like to stretch a point and talk about participating premiums. Our intention at Columbus Mutual, when we introduced our 1958 CSO line last November, was that we would move from the class of high gross premium, high dividend companies into the class of low premium, low dividend companies. It took our field force about five days to accept this fact and to go to work on it. As a result, the paid-for business during the month of December, which is normally a very slow month, was the second largest in the company's history, and January set a new record. During the first five months of this year, our paid-for business has been up more than 100 per cent over the same period last year.

The number of policies issued has not grown substantially and is about in keeping with the growth in our agency force, but the average size policy has increased better than 50 per cent.

MR. RALPH H. GOEBEL: My remarks relate to Topic C. At Northwestern National, expense and mortality studies have been conducted since the mid-1940's. At that time total ordinary insurance in force was around $500,000,000, consisting of 200,000 policies, while now it is approximately $1,800,000,000, made up of 300,000 policies.

Initially our expense studies were made to provide us with expense factors per policy, per $1,000, and as a per cent of premium, first year and renewal. Over the years these have been used for calculating asset shares to determine premiums on nonparticipating policies and dividends on participating policies. In addition, analyzing the trends in our expense factors over the years and comparing the unit expense factors with other companies led us to look further into our expenses. As a result, we have adopted other tools, such as Pedoe's expected expenses and the LOMA cost committee comparisons to assist with our expense-control work. No company, regardless of size, can afford to overlook its own experience. This experience is useful not only for the purpose of developing unit factors but, even more important, for the purpose of making analyses that may help it to control its expenses better.

Our mortality studies of standard ordinary business have been made on a two-to-three-year cycle, although we are attempting to put them on a yearly basis with the aid of our computer. We calculate ratios of actual deaths to those expected by one of the basic tables. Most recently we have used the 1955–60 15-Year Select and Ultimate Basic Table. For many years we contented ourselves with constructing our own mortality table as a fairly constant percentage of the basic table, although we are currently thinking of developing a closer fit to our own data by using the Whittaker-Henderson Type A formula with a moderate size a to graduate mortality ratios during the fifteen-year select period. We are sufficiently encouraged with the results of graduating the ultimate mortality rates themselves that we may not even bother with graduating the ratios. We generally try to take about five years of experience—for example, policy anniversaries in 1959 to policy anniversaries in 1964—when we develop a mortality table for asset-share use.

I think that our mortality studies have been especially useful in showing us where we stand, in the aggregate, with respect to industry figures. These have given us confidence, although, hopefully, not a false sense of security in modifying our underwriting to fit changing conditions.

In summary, I heartily endorse an individual company's studying its own experience, regardless of its size. It will be richly rewarded by the information obtained. Sometimes, especially with mortality studies, the data are so scanty that mortality rates or ratios fluctuate widely. Still a

company can get some valid indications of its over-all experience. Also, several years can be combined together, helping to even out some of the fluctuations.

MR. J. STANLEY HILL: We have a slightly different approach at Minnesota Mutual to developing mortality tables for rate-making. We start by developing an ultimate table. We have the greatest statistical reliability in those categories in which we have the greatest density of data, so that we actually depend, at the modal point, entirely on our mortality. Then, as we move in both directions toward the extreme ages, we have a smaller and smaller density of data and depend less and less on our own mortality and more on the published rates.

We are inclined to use our own judgment for determining the ratio of select to ultimate at a given age. We then produce the select tables by interpolating the percentages and multiplying by ultimate rates.

A. What are the minimum production levels required in an established general agency in order to provide a profitable and satisfying career to the general agent?
   1. From the profit and growth standpoint, are there any advantages to the company and general agent in locating general agencies in smaller towns rather than the large metropolitan centers?
   2. How does the size of the town or city affect the production, expense, and earnings requirements of a general agency?
   3. Are there any valid criteria for use as standards in determining the various expenses of a general agency? How much do an agency's costs vary in relation to various production levels?

B. What are the minimum levels of production necessary to offer a financially rewarding and attractive career to prospective agents?
   1. Are these levels realistic for the average agent to attain?
   2. How are agent-financing plans adjusted for different cost areas, such as the large city or small town?
   3. How widespread is the use of precontract training to reduce financing costs and to give the agent a head start in the business?

C. How are future manpower needs projected to relate budgetary expenditures for subsidy, future production goals, and market expansion? Do most companies co-ordinate their planned manpower growth, financing costs, and area expansion with the type of products offered and the merchandising techniques used?

   How are costs controlled or budgeted during agency-development periods when a company is seeking rapid growth?

CHAIRMAN HOWARD G. EIMERS: At Washington National, we conducted a very extensive research project to determine realistic cost standards for established general agencies.

These standards were invaluable in two prime areas: (1) They provided norms for an established agency against which our general agents could measure their performance and be trained in the economics of their own financial position. They provided a realistic assessment of all costs and their relationship to first-year and renewal premium collections. (2) The second area where these standards proved their worth was in working backward to develop a financing program to build new general agencies. The financing consists of three parts:

1. A fixed subsidy of decreasing amounts over a six-year period.
2. A variable subsidy based upon the amount of net annualized first-year premium produced in each of the first seven years.

3. An advance of the general agents' first-year overrides and allowances based on annualized first-year premiums was provided until such time as the actual earned overrides and allowances exceeded the advance.

Our research involved analyzing the breakdown of actual expenses of each of our general agencies and relating these items to net annualized first-year premiums.

We broke these expenses down into two categories—fixed and variable. These are relative terms referring to the flexibility aspect of the expenses and to the degree to which they can be changed.

The fixed expenses included the basic cost of the agency overhead, such as (1) clerical salaries (including all payroll taxes), (2) rent, (3) telephone, and (4) postage. It was found that these expenses were fairly constant as a percentage of first-year premium collections:

	Per Cent
Clerical salaries	7½
Rent	5¼
Telephone	1½
Postage	¾

There was a total of 15 per cent of first-year-premium collections for an *established* agency.

The variable expense had a much greater degree of variation between agencies, and we had ultimately to set minimum dollar amounts for each of the following categories: (1) sales promotion, (2) bank service charge, (3) bonds and licenses, (4) dues and publications, (5) entertainment, (6) office supplies, (7) automobile, (8) recruiting, (9) training, (10) gifts and contributions, and (11) miscellaneous.

The variable expenses could not be directly related to any percentage of first-year or renewal premium collections and, therefore, a dollar budget was devised for use as a guide. The minimum annual total of the variable expense is $1,800. In addition, our research showed that the expense of supervisors ran 8–10 per cent of first-year premium collections.

Our minimum subsidy cost over a seven-year period is almost $100,000 for a scratch agency, and it can go much higher as the bulk of the subsidy is variable. Our goals are realistic in that the first-year minimum requirement is on $15,000 of net annualized first-year premium. We give a one-year guarantee of minimum earnings to the new general agent, and thereafter he receives exactly what he earns under the program. The minimum goal for a scratch agency at the end of the seventh year is a $3½ million production level, or $70,000 in net annualized first-year premiums.

MR. ALDEN W. BROSSEAU: I would like to ask whether there is any rule of thumb by which you might determine that, if a man is going to be successful at all, he is going to be successful by one, two, or even three months after his employment.

CHAIRMAN EIMERS: In our experience, this is something you cannot predict. A man can start off by selling all his friends and relatives, and then, if he does not follow with a good prospecting program after that, he may not develop at all. On the other hand, we have men who start off slowly and, as they progress, increase their business and efficiency. I think that there are some statistics to indicate that, on the average, what a new agent writes in his first year is about two-thirds of his ultimate production as an established agent.

MR. J. STANLEY HILL: I believe that there are some statistics to indicate that the most efficient point upon which to separate the predicted failures and eliminate the least number of successes is at the end of six months.

MR. BENJAMIN R. WHITELY: About a year ago at Standard Insurance Company, we drafted for distribution to our agency managers a set of standards of performance.

One of these standards has to do with agency cost and states:

> Satisfactory performance has been attained in relation to agency cost when the cost of operating the agency is no more than 25 per cent of earned first year commissions (excluding group insurance commissions), according to the Agency Expense Ratio Report prepared by the Home Office.

The expenses referred to in this report include only those direct costs attributable to the particular agency. These include rent, office supplies, telephone, postage, dues, membership and licenses, managers' and supervisors' travel expenses, secretarial salaries, and miscellaneous sales expense.

Over a number of years we have kept a record of the ratio of these expenses to first-year commissions. We have found that some of the more efficient agencies had ratios less than 25 per cent, whereas many of the agencies were higher. This, of course, was true for newer agencies.

Beginning this year, our managers are being offered a financial incentive to give this expense goal greater meaning. Managers with agencies having expense ratios less than 25 per cent will share the expense savings with the company.

CHAIRMAN EIMERS: Our present agent-financing plan incorporates the immediate application of the concept. It has eliminated most of the evils and headaches of the salary plan that it replaced. It is extremely flexible and provides an unlimited subsidy for the exceptional agent.

Basically, our plan provides for a salary subsidy for the first six weeks under contract and then provides a variable subsidy on net annualized first-year commission *produced*. The variable subsidy automatically adjusts to any type of area, as the agent can see immediately the level of production required to attain any given level of monthly take-home pay.

The maximum subsidy during the first six weeks is $750 and thereafter is determined by the amount of net annualized first-year commissions earned. The agent's check, at the end of the eighth week, is based on business issued and paid for by that time.

The agent's variable subsidy is a percentage of the net annualized first-year commissions earned which are advanced to him. There are three levels or percentages of subsidy for each of the first three contract years and the percentage paid in any given month is based upon the total accumulated net annualized commissions to date. The agent can switch from one level of subsidy to another each month, as his production meets the validation requirements for a given level.

Our highest subsidy level requires the following amounts of net annualized first-year commission:

First year	$3,600
Second year	4,360
Third year	4,890

Using $20 per thousand as the average size premium and a 60 per cent first-year commission, these figures produce face amounts goals of:

First year	$300,000
Second year	363,000
Third year	407,500

MR. FRED DE BARTOLO: The minimum level of production necessary to offer a financially rewarding and attractive career to the prospective agents varies by geographical location, possibly by agency, surely by company, and certainly would not be the same for all individual prospective agents in any location.

If a new agent produced on the average of $50,000 per month of paid business for the Lafayette Life in his first year and wrote the same distribution of business by age, plan, and mode of payment as our average agent, his first-year income would be $4,200. An average monthly paid-

for production of $33,000 of permanent insurance over a twelve-month period would produce the same income as would $600,000 of our regular mixture for a year.

Past studies have shown relatively few men pay for $350,000 of business in their first year. A better record of survival can be obtained by: (1) adequate selection procedures, (2) precontract training, (3) continued training during the year for a first-year man, and (4) time and energy devoted to helping the new agent meet his first-year production level by his general agent and agency supervisors.

We consider the primary purpose of precontract training to be in the area of selection. When the preliminary selection steps have been successfully hurdled, precontract training, in our view, is the final step in the selection process. It affords the prospective recruit the opportunity of a close look at a sales career in life insurance before terminating his present employment and, at the same time, affords the general agent or manager the opportunity to observe his prospective recruit in training before either has made a final commitment to the other.

To be most effective as a selection tool, the precontract training program should contain "work samples," which will put the prospect in as near actual sales activities and conditions as the Insurance Code and regulations of his state will permit without his becoming a licensed agent.

MR. GEOFFREY F. N. SMITH: What constitutes a financially rewarding career varies so widely by area that it is impossible to generalize in dollar amounts. It does appear, however, that production requirements set out in terms of number of sales have fairly wide applicability.

Using our company experience and agency contract at American Mutual as an example, it appears that an established agent with average persistency and policy mix can achieve a satisfactory income by making fifty sales a year. With a cash first-year premium per sale of roughly $160–$200, this agent will have $8,000–$10,000 of first-year premium and an income of about the same amount derived equally from first-year and renewal commissions.

Financing plans ease the new man over the initial hurdle of an extremely low initial income caused by a lower-than-average premium per sale, poorer persistency, and a high proportion of monthly business combined with the deferred nature of the agent's compensation. We have four levels of agent's financing with appropriate validation requirements for each level. The monthly advance is determined by the individual circumstances and minimum budget requirements of the new man. We insist on a certain amount of precontract training before approving financing for a new man.

There is no doubt that this cuts down on training time, but, probably more important, it does eliminate a few men who might otherwise have been hired and become early and costly failures.

We have to accept the fact, that over an extended period of years, only about one out of three of the most carefully selected full-time recruits has succeeded. An examination of the records of failures shows quite clearly that in the majority of cases no reasonable lowering of validation requirements would have changed their position.

In summary, then, about the same proportion of new recruits can meet current production requirements as has been the case for the last twenty or thirty years. A new agent who survives to become an established agent can look forward to a financially rewarding career in return for an attainable and realistic level of production with proportionate additional income for exceeding that level.