

PANEL DISCUSSION

EQUITY PRODUCTS

I. *The Actuary's Viewpoint*

- A. Why are companies entering the equity-products field at such a rapid rate?
- B. What is the role of the actuary in determining whether the company should enter the equity field? In planning actual entry into the field? In recommending and designing the products? In securing the necessary government approvals? In preparing the training materials? In developing marketing strategies?
- C. What will be the effect—five years hence and in the long-term future—on the sale of cash-value life insurance?

II. *The Agent's Viewpoint*

- A. What will the availability of equity products mean for the agent, in terms of new knowledge required, sales approaches, sales results, and earnings?
- B. How will the financial needs of the public best be served by the various types of organizations providing equity products for sale?
- C. What will be the effect—five years hence and in the long-term future—on the sale of cash-value life insurance?

III. *The Regulatory Authority Viewpoint*

- A. What are the general principles guiding the SEC in its regulation of life insurance companies seeking to enter the equities field?
- B. What are the regulatory requirements of which actuaries should be aware when recommending and designing equity products?
- C. Are there recommended courses of action for a company wishing to market equity products?

MR. ROBERT H. JORDAN: I believe that life insurance companies are entering the equity-products field at a very rapid rate at this time for two different types of reasons. The first type might be described as trends and influences; of course, I mean those that life insurance companies recognize as indicating the desirability of providing some other mechanism for meeting the needs of the public. The second type has to do with the benefits that companies hope to realize by entering the equity-products field. Some of the trends and influences are the following:

1. Evidence has been accumulating that the public attaches far less importance to the "investment" aspects of life insurance than do many of us in the business. This effect has appeared in consumer surveys and other studies, some made by the Institute of Life Insurance. What we have gotten is a strong indica-

tion that the public thinks of life insurance as a means of providing protection rather than as an investment medium. This has been strongly underlined in surveys using the unstructured discussion technique, in which the public had to be coaxed to discuss the "investment" aspects of life insurance.

2. Inflation has been persistent and long term. Most economists seem to agree that inflation will persist, with its deteriorating effect on the value of life insurance and annuities.

3. The long-term trend of common stock prices has been upward. Over any extended period of time it has been greater than the increase in the cost of living.

4. Equity investments have increased greatly in popularity. This popularity is reflected in the actions in recent years of life insurance company portfolio managers, of pension fund portfolio managers, and of the general public.

5. Mutual funds have shown tremendous growth in the last twenty years or so. This is a special case of the increased popularity of equity investments, but perhaps it should be viewed on its own as an important trend, "the increase in the popularity in investing in mutual funds."

6. Family income has increased rapidly. It is recognized that (statistically, at least) there has been a greater increase in family income than in the consumer price index. Under such circumstances "savings" should be expected to increase and have done so. These savings have been put into securities, into banks, into extra life insurance premiums, and into mattresses. The evidence is strong that life insurance companies have not been receiving their share of these increased savings.

7. The population at higher income levels has increased. With the increased affluence of the general public, there naturally has been a trend toward an increase in the proportion of the public who may be categorized as "at high income levels." There is some tendency on the part of higher-income people (who probably are more sophisticated) to become more concerned about investment considerations. They recognize that life insurance involves an investment element, about which they become concerned when large sums are involved. They tend to be interested in having their investment funds dealt with by other investment media than by life insurance companies.

8. Since many of the influences mentioned above have been known for years, the recent surge of activity is probably related to the settlement of the variable annuity jurisdictional question. This question is now settled. After it was settled, it became apparent that in many respects variable annuities would be considered similar to mutual funds by the SEC. As a result, the question that life insurance company managements found before them was not simply whether they should go into variable annuities (which they had probably been deferring until the jurisdictional question was settled) but whether they should enter the broader equity-products market. The resolution of this question has resulted in many companies' entering the field recently.

Another way of examining the question of why life insurance companies are moving into the equity-products field is to examine the benefits that

they hope to receive from their entry. Some of those that we have knowledge of follow:

1. A product which provides some hedge against inflation can be offered. In view of the expectation of further inflation, it appears appropriate for a company in the business of making long-term fund-accumulation commitments to offer its buyers a means of protecting their fund accumulations against erosion by inflation.
2. We can retain or improve our share of the market in comparison with the likely result if we do not have an equity product to offer. There are strong indications that failure to enter the equity-product area will result in failure to maintain market position.
3. The commitment of customers and agents of the company can be increased. Certainly, filling out the programs of family protection and financial service that agents can offer will not only strengthen their ties, and their companies' ties, with the customers but also will strengthen the commitment of the agents to their companies.
4. The company and its offerings can be strengthened. The ability to obtain and retain high-quality executives and field personnel is greater in a company showing vitality and sound growth, which, it is hoped, will be enhanced by the provision of broader product offerings.
5. We can meet competition better. There is competition to be met both from life insurance companies that are offering such services and from other industries.
6. The marketing mechanism can be strengthened by providing agents a greater opportunity to increase their income and their feeling of confidence in their future with the life insurance company.

It is recognized that some of these hoped-for benefits are overlapping and that some affect others. There are without doubt many others that could be enumerated. It should be understood, also, that this list is influenced to some extent by my experience in a large mutual company working primarily with career agents.

Please note that my answers to some of the questions are related to events at my own company. Therefore, these answers should be recognized as dealing with "the role of *an* actuary rather than the role of *the* actuary."

From the beginning of our formal program to look into the equity-products area, it was expected that the Equity Products Task Force, as the unit working on the problem was originally called, would proceed through all three phases of the problem: first, the research of the problem; second, the development of the products and systems; and, third, the operation of at least the specialized securities areas of whatever product and marketing system might develop. In such a context, the subject of equity products is very broad. It touches not only on technical matters

but also on marketing, administrative, legal, and sales training areas. As a result, it very quickly became apparent that the Task Force should be detached from any department, and so our unit operates as a separate department. Therefore, to remove my answer another step from the question, while my work on this project has been done *by* an actuary, that work has not been done *as* an actuary.

What is the role of an actuary in determining whether the company should enter the equity-products field? An actuary headed this research study, working with senior management, to provide information and a framework for determining what the company's course of action should be. Among the studies made were these:

- a) The background of the problem, examining broad economic and marketing issues.
- b) A study of the markets in which equity products are likely to be used.
- c) An examination of the company's early and long-range potential in these markets.
- d) The equity-products themselves, what they are made up of, how they operate, what their special benefits and defects are relative to each other.
- e) The relationship of various equity products to the markets, with particular emphasis on the markets that appear to have the greater potential for the company.
- f) Regulatory and legal considerations involved in various kinds of equity products and corporate structures.
- g) Administrative considerations.

Throughout this phase of the work special care was necessary to assure that the particular character of the company was reflected wherever necessary and that the ramifications of the various possible decisions were thoroughly explored.

What is an actuary's role in planning entry into the field and in recommending and designing the products? Completion of research led, naturally, into work by the same staff on planning, recommending, and designing products and systems to use in connection with the decision. An important part of this function was to see that top management was provided not only with sufficient information but a proper framework for making the decisions. As indicated, an actuary headed the staff performing this work.

Among the issues to be dealt with in this phase of the work were the following: deciding upon the provisions of the prospectus; determining what new corporate structures would be needed and what relationships should exist among them; determining what broad approach for coping with regulation would be in order (for example, should the life insurance

company become a broker-dealer or should it form an affiliate for that purpose?); determining the extent to which administrative work performed by the new corporate entity should be performed within the life insurance company's existing structure and the extent to which separate organizations should be established.

What is an actuary's role in securing the necessary government approvals? We are only now at the phase where filings have been made with regulatory bodies, so that no great experience can be reported on the remaining areas of Topic I, B. We have one lawyer, located in the Task Force, working full time on SEC and state filing problems. No significant experience with these bodies is yet available, but this work will be performed under the supervision of an actuary.

What is the role of an actuary in preparing training materials and in developing marketing strategies? These are functions of the Providor Sales Company, our mutual fund sales company subsidiary, which in some respects the successor to the original task force. Determination of training methods and materials of the market strategy is presently in process under my direction.

What will be the effect on the sales of cash-value life insurance in the future? Without a crystal ball, it is only possible to state one's belief. It seems to me that we have to recognize the emphasis in the minds of the public on the protection aspect of our product. This means that widespread acceptance of cash-value life insurance is based more on recognition of level premium permanent life insurance as the best way to provide lifetime protection than on "investment" considerations. I believe that this acceptance is realistic and, therefore, do not expect any reduction in the use of ordinary life and similar coverages to cover basic long-term protection needs. Also, there is a numerically large part of the market for which it seems fair to assume that the primary purchase of life insurance will be on cash-value forms into the foreseeable future.

Certainly the hopes and plans of our company are predicated on adding to the strength of our marketing organization through the availability of equity products. By that we mean, among other things, that we look for increased sales of cash-value life insurance over what would otherwise occur.

A special problem that may arise shortly after the introduction of equity products is an increased level of policy loans as funds are shifted into the new medium. This should be a temporary effect and probably indicates that some of our present level of activity in the policy loan area is of the same sort. In our company, at least, I expect any such surge to be tem-

porary, in view of the aggressive approach that we plan to use to emphasize cash-value life insurance wherever combination sales occur.

MR. BENJAMIN L. STERN:\* My associates and I have been in the mutual fund business since 1951 and active in the sale of mutual funds since that time. We are broker-dealers, members of the NASD.

When I entered the mutual fund business, I found myself having certain problems, since I had been in the life insurance business. For quite a long time I was regarded as a rather questionable character. As you know, in the middle 50's there was a good deal of agitation among the old-line mutual companies against dual licensing of agents of those companies. In the mutual fund business I was also a strange kind of animal during that period, because mutual fund managements were not quite sure what a life insurance man was doing in their business.

It has been my observation that what, from the agent's point of view, should be a relatively simple development in his business career is being made rather complicated, and I think there is a lot of confusion, uncertainty, and fear around in the field forces of the life insurance companies. It is quite true that the entry of life insurance companies into the equity-products field is complicated from the licensing and regulatory points of view and that the list of problems you just heard is a real list. But, from the marketing point of view, I do not think that the problem is as complicated as it is being made.

Life insurance companies have traditionally performed two functions—the underwriting of death benefits and investment management in fixed-dollar portfolios. In the exercise of those functions there have been three broad types of contracts applied: pure death benefit contracts in the various forms of term insurance; combinations of death benefits, and investment management; contracts in the form of cash-value life insurance; and pure investment management contracts, which are our fixed-dollar annuities. From where we sit in the marketing of equity products, all that has happened now that we have mutual funds and variable annuities is that we have been given two new forms of pure investment contracts. When I have a problem that involves investment management, instead of having a fixed-dollar investment management policy in my bag, I now have both a fixed-dollar policy and an equity policy.

Whether you are in the family protection market, the capital protection market, the business insurance market, or the employee benefit market, when your company has equity products, you, as an agent, continue to prospect in the same way that you did before. You continue to analyze

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your client's problems and needs in the same manner, but, when it comes to devising the solutions to the problems or supplying the merchandise that your investigation indicates he should consider acquiring, you have some new tools to use. If your agency force is oriented this way, I do not think that the problem becomes a complicated problem at the marketing end, whatever the complications may be in the licensing and regulatory end. That is the first principle I would enunciate to you.

The second principle is that you cannot, in my view, ever solve a problem which requires a death benefit contract with a mutual fund or variable annuity any more than you can solve a death benefit problem with a fixed-dollar annuity. Therefore, the market for life insurance has not changed any. It is still the same market that it was before.

What we have found in our experience is that an equity product is never sold instead of life insurance; it is sold in addition to life insurance. We have never sold them in combination packages. The sale of the mutual fund was always a second or third or additional sale. It was never the primary sale.

In many cases the men to whom we talk never know that we are in the mutual fund business. If we do not see a good opportunity to sell the product, we may never even tell them that we are in the business. So our life insurance production has not been affected in any way by our being in the mutual fund business. The mutual fund business has been a source of additional business and additional sales, not a substitute for the business in which we have traditionally been involved.

Does every agent have to market equity products? I do not think so, at least not for the foreseeable future. An agent has, I think, three choices: (1) He can decide to stay out of this business completely. There is well over \$100 billion of ordinary insurance placed in this country every year, and that market is not going to dry up. A man who wants to continue to sell death benefits will be able to make a substantial living selling life insurance. There are many people who simply have not bought the equity-products concept 100 per cent and who still want some money in guaranteed dollars. A man can continue to do business in the same old way and, I think, continue to make the same kind of living that he has been capable of making up to the present time. (2) The second option is to get your license, put it in your bag, and bring it out only when you are forced to by the actual events that develop in the interview with your prospect or by competition. Operate defensively. (3) The third option is to operate aggressively. Get your license and aggressively look for equity business in addition to whatever you have been selling up to the present time.

The second question that I have been asked to comment on is, What is

going to happen to public service in the equity field? The entry of the life insurance companies into the equity-products business is a positive step, as far as the American public is concerned. Many people have had serious problems after buying life insurance and mutual funds from two different salesmen. They have been confronted with two completely conflicting philosophies. It has been very difficult for them to make intelligent decisions. Too often the decision was the result of an accident of the timing of the sales call or the relative pressure exerted by the salesman on the buyer. In too few cases have the programs of mutual funds and life insurance bought from two different men been intelligently constructed. It is my belief that, if the life insurance man has equity products in his kit and tries to do a conscientious job of programming for the American family, it is more likely that the mix of life insurance and equity products will be a sound mix for the buyer.

What is going to happen to cash-value life insurance sales in the future? There may be some temporary bulge in policy stripping as more life insurance men go into the business. But, for the kind of man who intended to do that kind of business, the opportunity was there before the life insurance companies went into the equity business. If a man wanted to sell combinations of term and mutual funds, he has been able to do so all along and he did not need your help in order to get a mutual fund license if he wanted to do it badly enough.

MR. JOHN A. DUDLEY:\* Since I have recently left the SEC, I thought that it might be helpful to you if I put on my SEC hat and gave you some of the feelings and viewpoints that you may meet when you visit the SEC and get into discussions with them. I wish to make it clear that the views which I will express this morning are those which I believe to be views of the staff of the SEC; I do not necessarily agree with each of the positions that I will talk about this morning, but I believe it is worthwhile to expose these positions for your consideration and understanding.

Let us assume that a company has decided not to go into mutual funds but to sell variable annuities only, because it is an insurance company and wants to merchandise an insurance product. You may think that this is really what a variable annuity is—an insurance product with a bit of equity tinge. I am sure that the SEC does not agree with you. I think that all of you realize that the essential element is the investment risk and, since the investment risk is borne by the investor—notice I did not say policyholder—this becomes a security and traditionally it is regulated under the federal securities laws.

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What is the consequence of this? This means that the securities must be registered under the Securities Act of 1933, which is basically a disclosure statute. You have to tell the investor what you are going to do with his money—how you are going to invest it. You have to tell him about your company. You have to have certified financial statements, which may be a surprise to a few insurance companies.

You are probably all familiar with something called “projections,” that is, informing representatives of a retirement program that, if they put a specified amount into the plan, when they retire at age 65 they can expect so much out. I do not know whether you are aware of it, but the Commission recently discovered that companies were using this technique for variable annuities—and, of course, this is objectionable to the Commission. In the case of a person selling stock, can you imagine his saying that, if you invest so much in this company, in forty years this is what you can expect in return? This is the kind of context in which you will be viewed by the SEC.

Let us talk about some insurance elements that you add to your variable annuity contracts. You have something called an “expense guarantee.” This really throws the Commission. You guarantee expenses for, let us say, five years or three years. In this case you hook the investor into a plan in which he may have a great penalty if he were to redeem the shares or cancel the contract, and in three to five years you can increase those expenses. What kind of guarantee is that? What kind of charge are you making? What is it really worth to him? What is the expense guarantee worth where you have a payment of a certain percentage of the assets so that as the assets grow your fees grow? You really are not offering him all that much.

What about the mortality guarantee? The SEC believes that this is pegged so in favor of the insurance companies that it just amounts to another way of getting profits from the investor by overcharging him. They also see such things as one company charging 0.30 per cent for investment advice and 0.85 per cent for mortality and another company charging 0.85 per cent for investment advice and 0.30 per cent for mortality. With such a precise computation made by the actuaries, how can the companies disagree?

As to the death benefit, why do you call it the death benefit? All you are doing is guaranteeing for five or so years the money that he puts in. After five years, all you are doing is redeeming his net asset in the mutual fund. It is not really a death benefit, so why do you call it a death benefit?

What about a contract loan, from which the investor can take his money and pay the insurance company interest on his own money? That also

throws the Commission. This is, from the SEC's point of view, giving the investor who redeems from the mutual fund the right to put the money back in without paying the sales load. I think that they will let you charge for that right, but they are not going to let you call it a contract loan. They are going to change most of your insurance language, which brings me to the word "guarantee." You cannot use the word because it is a promise. To the SEC, "guarantee" means that some third party is guaranteeing. This is just a promise that the insurance company hopes to pay it back.

What is a variable annuity? It is really nothing more than a mutual fund with a withdrawal plan. I know that some of the funds have withdrawal plans, where, let us say, upon retirement at age 65 one can take out a fixed amount of dollars, and with the performance of some of the funds, if he lives to age 110, he still would not outlive it and whatever is left goes to the heirs.

Some of the legal problems that you can run into depend on the kind of product that you wish to sell. Let us assume that you decide that you are interested in the H.R. 10 market. It may cut four months off your time with the SEC if you decide not to make the H.R. 10 business a part of your existing separate account, because, under the present no-action position of the SEC and if pending mutual fund legislation is enacted (as I think it will be), H.R. 10 will be exempt from the Investment Company Act. You can then have what they call a "1933 Act Registration," where you just register the securities. You have a prospectus, but you do not have such things as a board of directors and all the regulatory problems that you would have if you had a mutual fund.

It is a different matter, however, in the case of variable annuities for employees of a school district, even though it is called a group contract. Here, of course, you have to sell individually to the schoolteacher, which requires full registration under the Investment Company Act.

You probably think that, when you establish a separate account and people give you money to put into it, those are your assets. No, not at all. Those are the assets of an entity which is a registered investment company, almost as though it were a corporation, and that entity has a board of directors which you may call a committee. That board of directors must be elected by the participants, and the insurance company is merely retained at the whim of the board of directors and the participants. The participants in the separate account can at any time cancel the contract, which I am sure, shocks you.

Then, of course, you get into the 1934 Act, which regulates the dealings between the sales representative and the customer. Registration under

this Act and compliance with the various rules of bookkeeping, and so on, are problems to accomplish.

**CHAIRMAN ALAN M. THALER:** Very often a discussion of this whole subject of equity products becomes somewhat confused because of a failure to make clear the distinction between the qualified and the nonqualified market. We should always keep in mind that these are very separate markets and that the kinds of products required in these two markets are quite different. Most important of all is that the tax implications affecting these two markets are quite different, especially when we are talking about variable annuities and mutual funds.

Another important thing to keep in mind is that, in the product design of an instalment-type variable annuity, it is fair to assume that some of the experience that the insurance industry has had with the fixed-dollar instalment-type retirement annuity is relevant. Although a fixed-dollar retirement annuity may be sold initially for the express purpose of furnishing annuity payout, our experience has been that it does not turn out that way with at least half the contracts that are sold. By the time a person has reached retirement age, he may have cashed in those retirement annuities. So, when we are constructing a variable annuity investment contract, it seems to me that we should be benefiting by the experience we have had with our fixed-dollar annuity business and face up to the fact that individual circumstances change over the years. What goes on during the accumulation period and how it affects the purchaser are important considerations. I especially refer to tax problems.

In the case of a nonqualified variable annuity, as it has been typically designed, there is a really significant tax disadvantage, if its performance is compared with that of a mutual fund; there is a tax at the insurance company level on capital gains—not only on the realized capital gains but the insurance company is required to set up a reserve of  $27\frac{1}{2}$  per cent on the unrealized capital gains. This makes for a very marked difference in what you might say is the underlying investment performance of a nonqualified variable annuity and a mutual fund. Furthermore, if that annuitant cashes in his contract during the accumulation period, he is taxed in a manner, from a personal standpoint, which is not as advantageous as if he had been participating in a mutual fund. So these are, to my mind, terribly important considerations which companies must face in their design of equity products.

We have a question for Mr. Dudley. Has the SEC approved for a few companies the use, for variable annuity sales activities, of illustrative

figures based on past performance which amount to projections at relatively high rates of returns?

MR. DUDLEY: Under SEC standards, you cannot say what you are going to do in the future, but you can say what you have done in the past, with the implication that this is what you are going to do in the future. If you have five years of experience with investments, you can show what that experience has been but you cannot relate it to what you hope to do in the future.

CHAIRMAN THALER: Mr. Stern, will the insurance companies solve their salesman manpower problem by entering the mutual fund business?

MR. STERN: I do not think so.

CHAIRMAN THALER: Mr. Jordan, you have probably given a lot of thought to that question. Do you want to elaborate?

MR. JORDAN: I do not believe that we consider it a panacea, but it should help, because it will strengthen the earnings of salesmen and give them more opportunities to add to their income and more chances to be successful in their prospecting because they will have an additional tool. They will certainly be able to deal more effectively with some prospects. That means better retention of salesmen.

CHAIRMAN THALER: Mr. Jordan, what problems have been uncovered and how much success has been achieved in the area of training and licensing established traditional life insurance salesmen in the use of these new products?

MR. JORDAN: We are not yet very far into that stage. We expect that most of our people will be quite pleased to be trained and that we should be able to get them through licensing with a normal amount of administrative difficulties.

The problem is more administrative, I think, than one of getting them to understand. But the really large problem that many companies have yet to solve is the sales training problem; salesmen must be taught to understand the new approach and to apply it in addition to the life insurance approach.

MR. STERN: I am interested in Mr. Jordan's reaction on this point, because he is phrasing it in the language that I think involves the error

being made in general. He is talking about a new approach, and I do not think that this is a new approach. The people that your agents have served have always had the problem of accumulating money for the future. You have had instruments, investment instruments, for that purpose; now you have a couple of new ones. It is not a new approach.

It is at this point that most of the approaches being made to sales training are falling down. Salesmen are being told that they are going into a new business and that they will have a host of new problems and new prospects. I do not think that they will have any such thing. They will have the same prospects and the same problems that they had before, but they will have some new tools that can be used in the solution of their accumulation objectives.

If this is kept in mind, sales training becomes easy. Any time that a man has money to accumulate, you have a prospect for a mutual fund sale. But you also have a prospect for a life insurance sale any time that he has money accumulated. The whole problem comes when you consider his savings budget and put together a recommendation of how he should apply that savings budget. What is the mix? Now you have some new things to put into the mix, but it does not change the way the agent does business.

MR. DUDLEY: As you mentioned before, the regulatory problems do come in. In the case of an insurance prospect you may send a letter in the mail to that person. This is the area that the salesmen have to learn. And, of course, I think it is a terrific administrative job to get everyone licensed.

MR. JORDAN: I think that I agree with what Mr. Stern said. I did not express it too felicitously. I agree that the prospecting and sales problems are very similar, but there are some new things that they must learn.

MR. STERN: In the same way, if you bring out a new kind of insurance policy, you have to train your agents as to the characteristics of that policy.

In reference to Mr. Dudley's comment on preapproach letters, most preapproach letters used by agents do not refer specifically to product. They accent service, or they mention problems which you think your mailing list may have, or they throw little questions at the recipients that may intrigue them. You do not say, "I am Benjamin Stern, and I am in the mutual fund and insurance business." This is not the way in which you use direct mail. So I do not believe that we will have too many regulatory problems with preapproach letters. We may have problems in the proposal area.

MR. DUDLEY: I sincerely believe that the product you are selling is not the type that can get you into as much trouble as typical securities. There have not been that many fraud cases, for instance, in the mutual fund area.

CHAIRMAN THALER: Mr. Dudley, what problems exist as to overlapping officers and directors of a life insurance company for the mutual fund or variable annuity field and banks in the mutual fund field or mutual funds themselves?

MR. DUDLEY: The problem, as I understand it, is under the Glass-Steagall Act. For one thing, a board director of a bank cannot sit on the board of an open-end investment company, because an open-end investment company is considered to be merchandising its shares as an underwriter. In contrast, the director of a bank can sit on the board of a closed-end investment company which has not continuously offered its shares.

The pending legislation will permit bankers to come into the mutual fund business through the investment account. One of the provisions is that a banker may now sit on the board of a no-load mutual fund.

CHAIRMAN THALER: We have a general question here on which I think each of our panelists could have a different point of view. What is the panel's opinion of insurance guaranteeing the capital investment in mutual funds?

MR. JORDAN: It would be a wonderful thing, but it seems inconceivable to me.

CHAIRMAN THALER: There seems to be a question of degree here. Mr. Dudley mentioned previously that a typical benefit under a variable annuity is to guarantee the return of the purchase price in event of death. Now that is a limited variation of what is proposed by this question.

MR. DUDLEY: I had occasion one time to speak with an actuary who had run a series of studies on the stock market. He convinced me that this would be a proper insurance risk. My reaction is that in most states the insurance departments would let you write this kind of risk.

MR. STERN: I think that there were some mutual funds in Great Britain that did offer such a guarantee. Obviously, there are some sales advantages, but I do not think that it is worth the trouble to try to create this product. If you go out into the market, you will find that you can uncover

countless customers willing to buy an equity vehicle without a guarantee. If you have a large enough market without complicating your life any further by creating this, I do not see why you should not go out and sell what is available to you now.

CHAIRMAN THALER: Mr. Jordan, will agent compensation on equity sales be more or less than it is on an equivalent amount of fixed-income investment sales?

MR. JORDAN: Speaking roughly, the answer is that it will be slightly greater. The comparison that I would make would be between a mutual fund sale of \$10,000 and an individual fixed-dollar immediate annuity for \$10,000. I believe that in general the commission structures of life companies in the mutual fund business are slightly higher on the mutual fund sale than they are on the comparable immediate annuity sale.

I do not like to compare a \$50-a-month mutual fund consideration with a \$50-a-month life insurance premium, because I do not think that they are really comparable.

MR. STERN: Does your answer not change when you have a large sale of half a million dollars or a quarter of a million dollars?

MR. JORDAN: Yes, but most sales are not for half a million dollars or a quarter of a million dollars. Commissions on large mutual fund sales are considerably less in comparison with a quarter of a million dollar immediate annuity.

MR. STERN: In the agent's end of the business, we have come to measure commissions not so much in percentages of premiums or deposits as in relation to the amount of time and effort necessary to close the sale and in the amount of the future-service commitment.

In our office, we regard our mutual fund business as our highest-profit business, because we have found from experience that, per dollar of commission, we spend less time in the sale and practically no time in future service.

CHAIRMAN THALER: How do you plan to prevent the raiding of policy cash value for equity purchases?

MR. STERN: Companies have had varying degrees of problems, as I understand it, with this in recent years. My observation is that we have developed in the life insurance business a segment of the field force which

is gimmick-oriented and which does not have the standard of business ethics that life insurance companies would like to see employed in the sale of their products. I do not think that you can stop this. It is limited to a small percentage of the total field force, and I think that it is concentrated in the large metropolitan areas.

Simply because you enter into the equity-products field does not create any more such salesmen. They are there for you to deal with, and your well-motivated, well-trained, well-supervised agent who has not been raiding cash values to sell more life insurance is not going to raid to sell more funds.

As Mr. Jordan said, the conviction has to be in the life insurance business itself. The cash-value life insurance policy is the best way to provide protection. If your salesman believes that, that is what he is going to sell. He also has a powerful motivation at the present time because of higher commissions. And those two factors will continue to protect the sale of cash-value life insurance for most of the field force, in my humble opinion.

CHAIRMAN THALER: It is the privilege of the moderator to have the last word, and I would like to raise a question on Mr. Stern's comments. Bear in mind that the market for mutual funds is basically different from the market for life insurance. We sell most of our life insurance to people below the age of 40 and most of the mutual funds to people above 40, the people interested in capital appreciation and retirement. Where are they going to get the money for this? They are going to get it from their fixed-dollar investments, such as the bank, savings and loan associations, and life insurance.

I do not necessarily disagree with the statement that the agent motivated by commissions is going to go out and sell permanent life insurance, but, when he does not have a life insurance prospect and he is motivated by the commission of equity products, he will have some motivation to use policy loans as a source for funds to make the sale. This is a serious question, I think, in view of the many companies coming into this business, and we will have to direct our attention to it if we do not want to see a really sharp drain on fixed-dollar assets.