



SOCIETY OF ACTUARIES

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STUDY NOTES REVISITED

Editor's Note: Some of our profession's best expository work appears under the dismal title of "Study Note." The Society has made these works more easily available to non-students by including order forms in the Yearbook; we hope to stimulate some interest on the subject by excerpting a section from John Fraser's recent Expense Analysis note prepared for Part 7.

Acquisition Expenses

Selling Expenses

Selling expenses do not include agents' commissions, which are taken into account in the asset shares on an exact basis. Selling expenses are considered to be associated with the acquisition of business and therefore might logically be an "override" to commissions. Some companies express selling expenses as a percentage of first year commissions or total commissions, while others express them as a percentage of first year premiums or total premiums.

Just as in the case of functional unit costs, it would also be possible here to subdivide selling expenses and relate, say, a portion to first year premiums, a portion to amounts of insurance sold and a portion to number of policies sold. There seems to be some philosophical merit in expressing selling expenses as a percent of total commissions since commissions are presumably the fair price the company is willing to pay its agents for acquiring new business and selling expenses are really the costs of maintaining the agents including the costs of the "back-up" people such as marketing officers.

The effect on asset shares, cash values, premiums and dividends, of using these various bases to express selling expenses is great and should be understood by the student. For example, if selling costs are expressed per dollar of total commissions as opposed to per dollar of total premiums, it will mean higher expense rates in the early years and lower expense rates in later years, because commissions are usually higher in the early years whereas premiums are usually level. This affects asset shares, cash values and the incidence of dividends. Also, those policies which usually have lower commission rates, such as term insurance, short term endow-

EXCERPTS FROM DIARY OF A YOUNG ACTUARY

Found by Oswald Jacoby

Editor's Note: The finder reports that in going through his attic the other day, he came across some old papers including the diary of a young actuary. He is uncertain who he was but it seems he worked for a large Eastern insurance company. Any resemblance to anyone living or dead is purely coincidental.

Monday . . . Finally old enough to attend a meeting. Off to French Lick tomorrow for first joint meeting of Society and Institute. They expect almost 200 and I have orders to join in the discussion of one of the papers and get myself known.

Might as well be hung for a sheep as a lamb so will take on Arthur Hunter and his current paper on mortality.

Tuesday noon . . . Aboard one of two special cars from New York. Wish Jim, Reinie or Mal were going along. Frank Kineke will be there and hope we can organize a poker game.

Tuesday midnight . . . Poker game did develop. Twenty dollars ahead at dime limit after paying for cards and refreshments; some sort of record.

Wednesday noon . . . Car from Hartford joined us at Albany. Breakfasted with John Larus and John Laird. Wonderful pair. They are tennis players and there will be a tournament. Just happen to have my racquet along. We will be in French Lick for lunch.

Wednesday 7 P.M. . . . Good afternoon. Discovered Brown Hotel which looked like a gambling house and was. Ran my twenty to a hundred. Then won first match in tennis tournament. After that John Larus got me into a croquet game with two of the grandees, A. A. Welch and E. E. Rhodes. They can laugh after a good shot and groan after a bad

ments or annuities would be charged with less expense.

The use of first year commissions or first year premiums will give even greater weight to the first year and will also distribute the expenses in a different manner by plan than the bases mentioned above. The effect on various types of policies will often be important in the actuary's determination of the proper base to use for the expense rate. □

one with the enthusiasm of my age. Hope I will be as young as they are if and when I reach their age.

Thursday 1 A.M. . . . Dined with Earl Dunlap and some of his Institute friends. Doubt if any one of them would be able to tell a Makehamized from a Macadamized table but they sure know the insurance business from A to Z. Maybe I would like working for a small company. There was a girl at next table—apparently with parents. Not actuaries. Got Earl to introduce himself first and then me. We left Earl and parents and proceeded to Brown Hotel. Won enough to pay expenses. Turned out that girl's husband was arriving next day. Can't win 'em all.

Thursday 10 A.M. . . . Early morning call to have breakfast with western actuary. First job offer received. Won second match in tennis tournament. Off to meeting now.

Thursday 7 P.M. . . . Gave my discussion this morning. Instead of an Olympian blast, his reply was that he had arrived at the same conclusions I had some time back and was waiting for more statistics before presenting them. Second job offer received before lunch and third right after. Attended meeting in afternoon and finished up tennis tournament successfully before dinner.

Thursday 10 P.M. . . . Had planned to spend Saturday and Sunday in Marietta, Ohio. Saw Mr. Craig before dinner and asked permission to leave meeting early. Not only did he let me go but told me to take Monday off if I felt like it. Asked me if I had received any job offers and told me not to take them. After dinner, I organized reinsurance pool of twenty actuaries who contributed a dollar each to my twenty. We proceeded en masse to Brown Hotel and after an hour of careful play we liquidated with 200% profit. We weren't too popular since the House didn't seem to like long actuarial discussions about two and three dollar bets.

Friday on train. Certainly proud to be an actuary. They are a wonderful group of old men. However must tell about remark by one of most conservative Institute members to the effect the _____ life insurance company* will never get anywhere because their actuary drinks! □

*Diligent research shows this company is now in the top twenty.