

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
1949 VOL. 1 NO. 1**

**EXPENSES**

1. What is the outlook for the volume of future new business? If the tendency appears downward, what special precautions may be taken now to control future expense rates?
2. (a) What is the experience under various systems of budgetary control of expenses?  
(b) How far does it pay a small or medium-size company to go in establishing a special cost accounting and planning department?

MR. R. E. SLATER said that budgetary control of expenses must have top management support. Control which arbitrarily sets limits of expenditures without regard to workloads may produce immediate savings, but in the long run is unsatisfactory.

A sound approach would be to establish standard unit costs by analysis and time study. Estimated activity of each operation multiplied by standard unit costs would determine a provisional budget at the beginning of a quarter. At the end of the quarter, the budget would be adjusted to conform to actual activity of each operation. It would be relatively simple to determine which actual unit costs are out of line with standards and the reasons therefor; corrective measures could then be taken.

In this type of operation, cost finding and budgetary control go hand in hand and, in turn, these two activities should be tied directly to the planning function, all three of which should be under one head.

Thus, budgetary control alone is not sufficient to do the job, but should be supplemented by cost accounting and a periodic review of methods and procedures.

MR. D. M. ELLIS said that their agency officials felt that a moderate decrease in new ordinary business should be anticipated because of the decline this year in corporate earnings and an increase in the understanding of group benefits. Such would result in an increase in agency costs per \$1,000 of business issued. Certain precautions should be taken, such as the shorter renewal of leases for agency offices and to see that a manager's remuneration decreases with a decrease in new business.

The question of opening of new agencies might have to be speeded up to have them on a self-supporting basis as quickly as possible; or if new agencies were having difficulty, the opening of new ones perhaps should be postponed.

Contraction of departments involved in the issue of new business

should be planned and, also, the details of a proper conservation plan laid down.

MR. R. L. BERGSTRESSER said that in a company of 300 employees they had a Planning and Methods Department of three persons in addition to a stenographer. It did not do all the planning work that goes on in the Company but acted as a coordinator between the various departments and kept them thinking along planning lines. One of the ways they operated was through various committees such as the Loan Procedures Committee composed of representatives from various departments in *liaison* with the Planning and Methods Department. Thus, the Planning and Methods Department could see that the work was accomplished and yet it was not left to each individual department to fully implement the plans.

Another way the Planning and Methods Department was used was to lend a member to a particular department to assist in studying specific problems. This outside approach and the continual process of simplifying and improving procedures would be of help to a particular department and to the Company as a whole in reducing overhead costs. They found this resulted in speedier solutions of specific problems.

MR. G. T. PRENTICE said that they investigated branch office expenses and where they seemed out of line they were discussed with the Branch Manager and corrective action taken.

Plans had been laid for the budgetary control of some easily handled Home Office expenses.

The planning function was handled by full-time employees so that proper analysis could be made of cost accounting results and installation of routines could be followed up.