TRANSACTIONS OF SOCIETY OF ACTUARIES
1952 VOL.4 NO. 8

AGENCY COMPENSATION

A. What have been the recent trends in the use of salary and other financing plans for new agents?

B. What steps are taken to effect change to a commission basis after an induction period on salary? How do companies relate remuneration under their salary contracts to that under their commission contract?

C. What other steps are taken in starting new agents under present cost of living conditions?

MR. W. D. PATTERSON described Imperial Life's Salary Plan, used since 1940, which pays commissions plus a subsidy for two years. The amount of salary is determined from a budget prepared by the prospective agent and the branch manager and the contract is issued if the branch manager's report, the aptitude index rating, the company's rating chart and reports from former employers indicate that the proposed objectives will be met. He gave the objectives which are, for each $100 per month of salary:

	First Year	Second Year
Paid for business	$70,000	$80,000
First year premiums	2,100	2,400
First year commissions	685	1,120
Renewal commissions	....	180

These objectives are allocated by months with emphasis changing from premiums in the early months to commissions later on. Under their plan a strict "Time Management" basis is used, with monthly reviews by the branch manager and the home office. Postselection standards have not been strictly applied, but no agent has ever succeeded who failed to meet 80% of the premium requirement by the end of 6 months. If a salary is terminated because of low production, the contract is also terminated. Reverting commissions on terminated agents' contracts have approximately equaled the company's investment.

Under section B, Mr. Patterson noted that the requirements for the second year return to the company approximately one month's salary. If it appears to be best for the agent to go off salary he is placed on a straight commission basis and any debit balance is canceled. Each agent who changes to the commission basis is paid the renewal commissions on the business he sold while on salary. He reported a recent innovation after the salary period where two-thirds of the salary is paid in the middle of the month and the remainder of the commissions at the end of the month.

MR. G. G. MYER discussed Confederation Life's new Income Plan which is designed to meet the necessity of financing at higher amounts for longer periods and to offer subsidies above the normal commission contract. Their plan requires the agent to produce sufficient commission and bonus in two years to equal approximately the payments made to him. In part, the bonus is a function of the lapse rate, so it is quite large in the first contract years. Under this plan the change from salary basis to commission basis is automatic because the two are related. However, the bonus is substantial and paid yearly so that the agent may need an advance against it when he makes the change. Mr. Myer pointed out that by exceeding the accumulative standards used, the agent can obtain salary raises after his first six months. The standards used are: (1) amount of business, (2) commissions, and (3) bonus, with the emphasis switching from (1) to (2) and (3) over the 24 months. Failure to meet standards for two consecutive months results in discharge or, if warranted, one decrease of $50 monthly.

MR. B. A. WINTER outlined the Prudential's salary plan for Ordinary agents. Under their commission scale, with high renewal commissions in the second through fourth policy years, an agent producing $300,000 should have an income of $2,500 the first year, half again as much the second year, and $5,000 thereafter. To avoid such low early compensation their salary plan was started about four years ago. The plan validates the salary against accumulated first year commissions (including deferred). According to Mr. Winter the transition to the regular commission basis presents no major difficulties because the continuing agent is entitled to regular renewal commissions. However, the high proportion of fractional premium business written makes it necessary after the salary period to provide a level income based on advances of deferred first year commissions. He indicated other difficulties with the plan. The survival rate of new agents has been no better than the Modified Bureau Survival Table developed by Messrs. McConney and Guest ten years ago. Also, payments to terminating agents over the period from the last salary validation to the date of termination lead to a very high cost of the plan per successful surviving agent. Moreover, there are apt to be recurrent crises of pressure on the agent, branch office and home office to close the business needed for continued validation. He said they are considering a revision based on a drawing account to which would be credited a few weeks of guaranteed initial training salary and a percentage (greater than 100%) of first year commissions.

In MR. T. E. GILL's company, London Life, the financing plan includes monthly salary, an advance on account of commissions and, on second year premiums, a persistency bonus. The salary is determined by discounting third to tenth year renewal commissions. Mr. Gill noted that the plan cannot effect a change to the commission basis without a reduction in earnings, and most agents have stayed on the salary contract. Unless an agent meets a reasonable part of his quota during the first three months and the full quota after five or six months, action will be taken.

Mr. Gill said that new agents attend a Head Office school for three weeks which helps produce successful agents and reduces turnover. Also, where the agent does leave the company, the manager is required to see that he gets satisfactorily placed.

MR. WALTER TEBBETTS said that New England Mutual installed an advance financing plan about two years ago. For the first three contract years they underwrite one-half of the advances, while the general agent provides the rest and thus has a substantial stake in careful administration of the plan. The contract, however, is between the agent and the general agent. To continue under the plan an agent must pay for insurance on at least ten lives in the first six months and maintain a quarterly accumulated average of at least five lives. There is also a first year commission requirement. In general, the schedule assumes first year production of $50,000 and third year production of $100,000 for each $100 of monthly advance. The plan contains an incentive of one-half the excess of first year commissions over the minimum requirement. Mr. Tebbetts reported that out of 226 new agents over a recent period only 38 were disqualified for continued advances, and 22 of these went out in the first quarter. The plan continues for three years and even though commissions on business previously placed are applied to liquidate the balance of the advance, the income in the fourth year will normally approximate the amount previously earned. The cost of this plan on the 226 participants was approximately $15,000 to the company.

MR. M. J. GOLDBERG mentioned a study of the financing practices of 94 companies published last year by the Agency Management Association. He thought that an actuary can be helpful to his company in coming up with an appropriate formula for financing good men, but that there will never be a substitute for proper supervision, training, development and hard work. Without these, you cannot finance a man into success.

MR. THOMAS IRVINE spoke about the 94-company report, mentioning the highly individualistic solutions used. Some companies, but not all, pay part commissions, and the financing periods vary from three months to three years. About a fifth of them, mostly smaller general agency companies, wipe out debit balances at the end of the financing period. He suggested that anyone interested in details should consult the report.

In Mr. Irvine's opinion many plans violate common logic or equitable principles. For instance, by prepaying renewal commissions, many plans automatically reduce the marginal agent's income after he goes off the plan. Also, better men may get no subsidy or may not exert themselves because too great an effort is required to obtain additional profits. Again, some companies fail to impose the supervisory controls necessary to safeguard their investment.

Mr. Irvine suggested that the postselection philosophy might replace the validation schedule concept which, contrary to the facts, assumes that a good new man will pay for his advance within the first two or three years. The postselection philosophy asks if the man shows reasonable promise of turning out to be a successful agent. If so, a financing loss of a couple of thousand dollars is warranted in terms of recruiting, selection and training costs as well as the value of a promising agent. He made the further point that subsidies might be concentrated in agencies which have demonstrated that they know what to do with a recruit after they get him.