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OFFICE MANAGEMENT AND EXPENSES

A. 1. To what extent have expense rates already increased?
   2. Is it possible to project increases in expense rates, including increases due to the effects of inflation?
   3. What are the implications of this projection for nonparticipating premium rates?
   4. To what extent may the presently indicated improvement in interest yields offset the effect of inflation upon expense rates?

B. 1. How can life insurance companies best meet the threat of severe manpower shortage?
   2. With the USA entering upon a period of total mobilization and with expenses rising, what effective steps can be taken to streamline office methods and practices? In particular, what plans can be prepared to reduce annual statement requirements and to eliminate or defer other technical procedures?

MR. R. I. JACOBSON pointed out that Best's renewal expense rates for a group of companies indicate that life insurance companies have been able to control their expense rates (excluding Federal Income Taxes) quite well for the period 1947 through 1950. An unprecedented increase in average size of policy and a steadily increasing volume of business have been the biggest factors in the experience of Northwestern National in expense rate stability. Field expenses have been stabilized by a strict adherence to an established compensation system and by a satisfactory volume of new business.

The future will no doubt reveal increasing expenses and it is not apparent that the volume of new business combined with an increasing average size of policy will offset rising expenses. Continued efforts can minimize the effect of increased costs due to inflation by simplifying procedures and eliminating all but the most essential work. However, if the use of manpower does not have to be drastically curtailed, it may be better to maintain the standard pattern of service even at a substantial increase in expense rates.

In carrying on an insurance business there is an irreducible minimum of case work that will always require individual attention. In being essentially a business for providing services, expenses will rise with rising prices regardless of improvement in office machinery and office methods. In actually projecting expenses due to inflation we are on very unfirm ground since we do not know the extent to which the dollar will be depreciated.

He pointed out that improvement in interest yields should be regarded as a welcome and much needed relief to the burden of current reserve strengthening programs rather than an offset to the effect of inflation upon expense rates. The increase in Federal Income Taxes alone requires an interest yield of 3.12% to give a yield of 3% after taxes (1950 basis). If a $6\frac{1}{2}\%$ tax on net income investment were to be adopted, a net interest earning of 3.21% would be required to produce 3% after taxes.

MR. E. C. HENDERSON gave the following expense figures of the Connecticut General on direct Ordinary insurance for 1950 compared to 1937:

Type of Expense	Change in Expense per Policy*	Change in Expense per Thousand*
Sales	....	+49%
Total Underwriting and Issue (medically examined business)	+ 91%	− 8%
Medical and Inspection	+ 64%	−21%
Selection	+116%	+ 5%
Issue	+ 83%	−11%
Handling	+ 30%	+ 2%

* Paid for (Issue); in force (Handling).

The figures do not mean that the effect of inflation on these types of expenses can be ignored, but they are not indicative of serious results from moderate inflation. The increase in sales expense was not due entirely to inflation.

MR. H. F. ROOD presented figures for direct Ordinary business of the Lincoln National. Premium taxes, agents' commissions, Federal Income Taxes, and investment expenses were excluded. Using 1940 as a base year with index 100, first year expense per policy paid for increased to 113 during the war years, dropped slightly in 1946 when production expanded rapidly, but increased to 123 in 1947, 135 in 1948, 147 in 1949, and 165 in 1950. Unit cost related to amounts of new insurance paid for showed a net reduction of 35% during the 10 year period. The significance of this trend was to give larger margins for expenses per policy from about the same loadings per thousand. Renewal business followed a somewhat similar pattern although the slopes of the trends were not as steep. He cautioned against complacency about the trends because the increase in average size of policy of new issues was taken into account in calculating recent premium schedules. Eliminating recent issues, there would be a substantial increase in the cost per thousand on old business.

Current world-wide conditions make it extremely difficult to project increases in expense rates very far into the future. He expressed the belief that special projections for nonparticipating policies must assume a continued upward trend.

Some relief to the expense trend arises from improving mortality and from interest rates which now appear to be improving. A 10% improvement in mortality at age 60 will be greater in dollars and cents than a 10% improvement at age 20. Also, the volume of business in force at the older ages is considerably more than for the younger ages where most of the improvement has taken place in the past. In counting upon expected margins arising from either improving mortality or long-term improvement in over-all interest rates earned, he called attention to the higher Federal Income Taxes.

MR. ARTHUR PEDOE reported that the trend of expenses of 20 Canadian companies investigated shows reduction in unit cost in the immediate postwar years and a steady increase year by year since then. One factor contributing substantially to increased unit costs has been the introduction and funding of pension plans for both agents and office staffs.

MR. W. A. JENKINS stated that his company's expense rates on the basis of dollar amounts had not changed very much since before the war, but that on the basis of work units its expense rates had increased about 75%. Its average home office salary had increased about half of this percentage. Consequently, the number of people per work unit had gone up substantially. He thought that this was due to a large increase in amount of business, which had resulted in a higher proportion of lower paid people.

MR. L. F. SLEZAK mentioned that the increase in costs during recent years has caused actuaries to concern themselves more and more with the effect of expenses on premium rates. Future changes in nonparticipating rates can be expected solely because of increasing expenses, if inflation continues.

In referring to expense rates and the projection of such rates, careful definition is essential. Functional expenses expressed in dollars or as costs per policy may present fairly stable trends and lend themselves to comparatively accurate projection. However, relating such functional expense rates to premiums needed on particular policies must acknowledge the characteristics—for example, average policy size or average premium per thousand—of the plan under consideration.

He stated that agents' compensation is one of the most serious problems to be faced with respect to expenses and costs of doing business. This is based on an increasing average size of policy (which is a measure of inflation) coupled with a trend toward lower priced plans resulting in lower income to the agent in comparison with other lines of endeavor where incomes have increased in step with inflation. Earnings of career agents must be increased if present trends continue.

Other observed trends which are important expensewise are greater popularity of the monthly premium payment basis and a higher minimum on the size of policy acceptable. The former may require more loading in fractional premiums. The latter may take the form of generally adopting a $2,500 minimum in order to avoid excessive premium increases, thus relegating the $1,000 policy to the industrial class to be handled on a debit basis.

MR. R. H. NILES pointed out that an increase in the average size of policy, while it affects the cost of producing new business or the cost of handling business that has a higher average size of policy, offers no relief on what was issued years ago. Much of that already in force was of lower average size and has a fixed premium income. Any increases in handling such business necessarily result in an increase in the rate of expense.

MR. D. B. WARREN expressed the belief that the insurance industry is laggard in not revising upward its minimum limitations of issue and in not making a more active campaign to sell industrial policyholders on the advantages of intermediate insurance and the intermediate policyholders on the advantages of Ordinary insurance. Many medium sized mid-Western companies are finding their first year overhead costs running from $35 to $60 per policy and their renewal costs in the premium paying period from $5 to $7.50. In most cases the overhead cost for a $1,000 policy probably exceeds the expense margin available in the usual level of premiums and dividends.

As a remedy for Ordinary companies he suggested limiting issuance below $2,000 or $2,500 to not more than two plans, for example, a continuous premium Endowment at 85 and a 20 Payment Endowment at 85. Issues over $2,000 or $2,500 should be on a relatively full line of policies but with a continuous premium Endowment at 90 and a 20 Payment Endowment at 90 as the principal forms. Five year Term forms should be restricted to $10,000 as a minimum. Each group of plans should then have an expense margin per thousand based on its expected average size.

Plans in the small-policy category should be as simple as possible; settlement options might be omitted where legally possible; provisions for change of plan, paid-up insurance nonforfeiture option and possibly the automatic premium loan option should be restricted; policy forms might be redesigned to bring all typing together at the top of the first page and at the same time eliminate the filing-back. The "semideferred" dividend methods used by some companies for small policies were recommended for the consideration of mutual companies.

MR. A. C. OLSHEN, in discussing section B, commented upon the threat of severe manpower shortage. He indicated that companies are for the most part in a much better position today to solve the problem than they were during 1941–1942 and the years that followed. However, the pressure of labor shortage already has resulted in selection standards being lowered with an accompanying result in many cases of high turnover during the first few days of employment. Attention to orientation of the new employee has also often been neglected.

A survey, "Personnel Administration in the Smaller Life Insurance Companies," prepared by the Life Office Management Association in April 1951 and covering 76 life companies, was referred to as setting forth many of the factors contributing to poor conservation of manpower. Approximately one-half of these companies did not utilize any employment tests for prospective employees and approximately the same number did not require physical examinations. Only 15% had Information Booklets for prospective employees and less than 50% had Employees' Manuals for the people they hired. Less than half of these companies had any system of job evaluation, and only one-third had any system of merit rating. Other records of the Life Office Management Association, the Insurance Accounting and Statistical Association, and of this Society have dealt with simplification and improvement of billing, accounting, and policyholders' service operations as well as the application of labor-saving devices.

He indicated that a program under sponsorship of local colleges has been developed which provides part-time work for students taking commercial training, whereby school credit is received for work performed. This plan can relieve part of the current pressure of labor shortage as well as assisting in selecting, hiring, and training full-time employees in the future.

Current statistics on sales of new agents, survival of agents, and persistency of the business produced reveal great possibilities for improvement in the field of agency representation. A severe economic waste arises from many present practices. Agents' commissions and supplemental compensation to pay more for better quality business need revising in many companies. He expressed the opinion that less attention than warranted has been given to the solution of field cost and manpower utilization problems.

MR. N. T. FUHLRODT called attention to the importance of retaining and developing the present staff. Raising salary scales to the maximum permitted, while not directly reducing expenses, tends to protect the considerable investment in older, better-trained people whose loss can hardly be afforded. Better job training programs are also much needed to improve efficiency.

In addition to employing part-time high school students, a number of companies hire married women on a part-time basis. Some companies are operating a night shift to better utilize the part-time help of students and married women.

He pointed out that the usual first suggestion of mechanization should not prevent careful investigation of other manpower-saving procedures. Many reports are being prepared that have been superseded by another. Statistics kept in one department may be unnecessary or may be better used in another. The cost of checking clerical processes may not be worth the additional accuracy. On the other hand, checking may be less expensive as a routine clerical job than the rectifying of errors by higher-priced help. The use of approximations may be possible for some types of valuations where exact methods are now being used.

He indicated that in his company during the last war detailed accuracy was sacrificed for over-all equity on noncontractual conversions. Time saved was so significant that the changed basis has been continued. A detailed statement of every policy change or reinstatement transaction was discontinued. Return of policies for endorsements has been eliminated, except when rewriting of the policy is necessary such as on conversions or final settlement on surrenders or maturities. Form letters are used whenever warranted for repetitive information sent to policyholders or agents. Often the old long-hand method of communication is usable for form letters which contain several subjects, the one requiring attention being indicated by a check mark in an appropriate box. For agency as well as policyholder correspondence on routine matters, such "check" letters can originate at the source of the work with considerable reduction in the number of intermediate steps to complete the transaction.

MR. R. J. RANDALL suggested that a partial solution of the manpower problem would be to remove whatever restrictions may exist on the hiring of qualified Negro personnel.

MR. R. C. PERRY suggested that future needs for upper level employees should be examined. A tentative replacement schedule might be used since such positions require experience and training planned in advance. Such a program should have as its aim the development of promotional material but a secondary aim should be the general improvement in the abilities and effectiveness of Home Office personnel. Two or three trained employees at a lower level and not so well trained might be substituted for one highly trained supervisor without sacrificing general efficiency or lowering performance standards.

For years the life insurance business has been attempting to improve service to agents, to prospective policyholders, to policyholders, and to beneficiaries. Perhaps the question of service could be approached more scientifically by posing certain questions. How much time and effort should we devote to handling applications which the agent has failed to complete properly? What is the responsibility for service to a prospective policyholder not seriously intending to pay even the first premium? What should be the limit in preparing special settlement agreements for life insurance proceeds? Cost of service in both time and money should be seriously justified since part of the manpower problem might thereby be solved with no real impairment of relations with customers or agents.

MR. F. E. RATHGEBER stated that severe manpower shortage will be felt in varying degrees by life insurance companies according to how well administrative policies have been carried out in preceding years. Those that have established strong staff organizations to handle personnel and methods problems, those which have developed replacement programs and programs for multiple training, and those which have been continuously striving to improve employee morale, loyalty, and good will are the ones which will have the fewest difficulties. Education of all levels of employees on basic principles of work simplification should be initiated if not presently a part of administrative policy.

One source of manpower sometimes overlooked may be found in the fairly large supply of draftable young men which many organizations hesitate to hire. A six months' period of employment before being drafted will provide excellent opportunities for re-employment after their period of military service for those who have done well. High school students and older women are now being hired as part-time employees.

An overtime schedule can be effectively used to great advantage to all concerned as long as it can be administered on a voluntary basis. Later on, a longer work week may be necessary. While opening of new sales areas cannot be entirely neglected, such expansion might have to be reduced not only for manpower reasons but because of restrictions on building and building renovation.

He also pointed out that more publicity can be given to the attractiveness of jobs in the life insurance business. Security and working conditions prevalent in most companies can be emphasized. This result can be achieved through indoctrination programs for new employees, improved lines of communication between employer and employee, and the use of morale surveys.

MR. R. G. STAGG pointed out that one of the most annoying and expensive office practices is that of permitting irregular premiums, i.e., premiums paid at other than the normal due dates contemplated by the policy.