TRANSACTIONS OF SOCIETY OF ACTUARIES
1953 VOL. 5 NO. 12

DIGEST OF INFORMAL DISCUSSION

AGENCY

A. What serious imperfections remain in Section 213 after the adoption of the latest amendments?

B. What aid are actuaries giving the agency departments of their companies in
   1. Solving problems of agency compensation?
   2. Providing statistics of production and lapse?
   3. Measuring the value of an agent or his business to the company, taking into account such factors as production, persistency and cost?
   4. Formulating a training program for agents?

C. What plans have been evolved to meet the increasingly difficult problem of financing new agents?

D. What recent changes have been made in methods of compensating agents?

MR. G. H. DAVIS thought that the serious imperfections remaining in Section 213 can be summarized by saying that this section of the New York law tries to do too many things other than to limit the expenses of companies operating in the state. The law regulates the details of agency operation to an extent far beyond that necessary to prevent unsound expenditures. It tells a company not just how much it can pay but to a considerable degree regulates the form and methods by which compensation is paid. Some of the management decisions which are thus forced on a company by the provisions of the law seem definitely to have little or no effect on the reduction of expense, and some of them seem actually to operate to encourage extravagance rather than economy.

The drafters of the bill comprising the recent amendments did not attempt to correct all the recognized defects of Section 213. Perhaps the most important defect left uncorrected is the need for revision of the formulas for the expense limits. These formulas, in general, do not accurately reflect the actual incidence of expense. Their factors are based too much on business in force and not enough on new business, which results in inadequate margins for rapidly growing companies. Another defect is that the formula for the small company allowance, which provides increased limits for companies with less than half a billion in force, is badly out of date. Companies substantially larger than half a billion are comparatively small enough by present-day standards to require increased expense limit factors. Also, the extra allowance formula should be revised so that it does not cut off sharply at a particular point.

Another glaring defect remaining in Section 213 is the situation which results in the voucher problem. This problem, it seems, results from a false assumption, inherent in the law, that the amounts of commissions and other payments received by a general agent from his company divide themselves into amounts necessary for the general agent's expenses and amounts to be retained by him as net compensation. The expense reimbursement formulas in common use are merely a means of increasing the gross compensation of the general agent and reflect the fact that a general agency without large amounts of renewal business in force requires higher rates of commission.

There are at least two ways of attacking the voucher problem. One is to remove the false assumption of the law by revising the limits upon payments to an individual general agent to make them apply to all the payments made by the company. This would be a radical change, and it would be very difficult to make limits of this new type reasonable and fair.

Another way would be to give recognition by regulation to the fact that general agencies may be expected to have expenses of a level defined by a simple formula and to permit payment of amounts called for by such a formula without requiring vouchers from ultimate payees. This would possibly alleviate the problem rather than solve it; but it may be the most practical course to pursue for the immediate future.

Numerous other defects in the law have been cited, and some of them are important. While it appears that the law has to involve complicated provisions if it is to limit effectively the different types of expenses of life insurance companies and, at the same time, permit flexibility of company operation, something less than the extreme complications of the present statute ought to be aimed for.

Another defect often alleged is that the law puts stricter limits on general agency operation than on companies with branch managers. The 1953 amendments were intended to alleviate to some extent the difficulties of general agency companies. However, the differences of the two types of operation are such that the goal of absolutely equal treatment is probably impossible to attain except, possibly, by the adoption of a law which would include only very simple over-all expense limits.

MR. R. E. SLATER stated that without going into the problem of whether the modest liberalization which has been granted is adequate, there were, in his opinion, several problems still existing which should be solved before we, as actuaries, agree the job is completed.

One of the most pressing needs is for the complete rewriting of the expense limitation law in order to clarify the true intent of the over-all statute as well as the meaning of the various subsections. One matter needing definition is: Just what is a General Agent?

The present law does not in its entirety provide for the separation of agents' compensation into a separate category. First year commissions are for all practical purposes separated, but the method of handling renewal compensation and field expenses together so that excess expenses over a prescribed limit will be charged against first year limits is unsound. If a company is called upon to pay the maximum renewal commissions permitted by law, the present method of controlling field expenses with renewal commissions may use up all expense margins for agency compensation and thus prevent a company from further expanding its operation. Expense limitation laws should not prohibit sound expansion of the business. It would seem as though the expense controls should make some distinction between true expenses and actual investment in the business.

The present law, to some extent, is more interested in the place the expense is incurred than in the operation performed. The inclusion of field expenses with renewal commissions payable to the writing agent may not permit a company proper flexibility to determine where certain functions may be most efficiently performed. The so-called inside limit, which throws excess field expenses into the first year, may be such as to dictate where operations such as payment of death claims, surrenders, making of policy loans, etc., will be performed. It is thus conceivable that Section 213 could actually increase expenses in certain areas rather than keep them down.

Little has been said about Section 213(a), the expense limitation law for Industrial business, which has remained practically unchanged since it was placed on the books in 1950 and is more in need of revision than Section 213. From the figures available of those companies subject to Section 213(a), it would seem not only possible but probable that most of them may exceed the expense limitations during 1953.

In discussing section B, he stated that the John Hancock, as a company with so-called "Industrial Agents" writing both Ordinary and Industrial insurance, who are unionized, has found it necessary for the actuaries to give the agency department almost constant advice on compensation matters. They have found it advisable to have two Fellows sit down in labor negotiations to handle most of the discussions on compensation, and to keep all plans under scrutiny to determine whether or not the method of compensation is producing the desired result from a company point of view and producing the indicated earnings to the agents.

In addition, they have found it advisable to have actuaries make field trips with the agency department men in order to explain the problem of costs and compensation to the agency managers in the field. He felt that, in the future, actuaries cannot help but become more and more occupied with problems heretofore considered to be the primary responsibility of the agency department.

MR. E. G. FASSEL pointed out that in his opinion Section 213 has lost sight of its objective, which is not to regulate competition by companies for policyholders or agents, but to regulate the expense level at about 15–20% of premiums.

He felt that if Section 213 merely set a dollar limit on total expenses it would attain 90% of the objective. The mere fact that the state made a pronouncement to the insurance business limiting expense would go a very long way in keeping expenses at satisfactory levels.

Recognizing the effect that agency expense has on expense levels, there might be one other factor, (B) a dollar limit on the agency or first year expense in addition to (A) the dollar limit on the total expense. He felt that a law like that in Wisconsin that said simply these two things would accomplish 100% of the purpose of Section 213; a strong law is a simple law.

In 1950, outside of Louisiana and Texas, there were 450 life insurance companies in the United States. But in New York there were only 63 and in Wisconsin only 58. He attributed the small number in these two prosperous states to the fact that these two states regulate the expense level of life insurance companies.

MR. R. L. BERGSTRESSER felt that while the 1953 amendments offer at least partial relief to some of the urgent problems facing the companies, at the same time it is vital that a more thorough-going revision of Section 213 be undertaken so that it can become a reality a year from now. In addition to the defects pointed out by Mr. Davis and Mr. Slater, the present law will continue to be unsatisfactory from the standpoint of the smaller companies because the time limit of December 31, 1953 for the temporary increases in limits makes it almost impossible to engage in any long range planning involving agency expenses. This emphasizes the necessity for a real revision based on primary principles.

MR. W. W. STEFFEN, speaking on section B, said that the Lincoln National prepares an annual report for their agency officials to measure and compare for each agency the combined effect of production, persistency, average size policy written and field acquisition expenses. The principal figure shown in this report is the so-called index of value, which is a calculation of the discounted margins available to the company over a ten year period. The index of value is computed for each agency using the particular persistency rate, average size policy and field acquisition expense experienced by that agency combined with the company average factors for all other items entering the usual asset share calculation. This index of value is also computed for the company as a whole for comparison purposes. The index of value per thousand of insurance paid for is shown for comparison of the quality of business written and this factor is multiplied by the total production of the agency to give a measure of the total value of the business produced by the agency. They also show the first year investment factor per thousand of insurance paid for, and multiply this factor by the total volume paid for by the agency to arrive at the total first year investment in the business of the particular agency. In addition, the report also shows the percentage field acquisition expense, the average size policy excluding term riders, the first year lapse rate and the total production for each agency.

This report is used primarily by the agency officers as a home office report, but on some occasions the index of value is discussed with the general agent to encourage the development of a better persistency rate. By varying only the persistency rate it is easy to illustrate to the general agent that the index of value varies directly with the persistency rate and that the earnings of the general agent will increase in about the same proportion as the index of value when the lapse rate decreases.

The tables of first year investment factors and indices of value were computed for the average or composite policy issued by the company in a particular calendar year as determined from a previous study using as a sample the business paid for during a particular calendar year. In this study it was necessary to compute for each the average of all items entering into the usual asset share calculation. For example, it was necessary to determine the average gross premium per thousand including substandard extra premiums and gross premiums on policies with varying premium payments, the average cash value and terminal reserve for ten policy years, the average commissions, premium tax, overhead expense and field acquisition expense, the average death benefit when considering decreasing term riders, juvenile policies with graded benefits, and policies providing insurance for the cash value when greater than the face, and the average dividend paid in each of the ten policy years. A combined average was secured for participating and nonparticipating policies. Disability, double indemnity, payor benefits, group insurance and annuity policies were excluded from the calculation of the factors and are excluded from the periodic report.

The index of value shown in the annual report is computed on the assumption that the distribution of business by plan, age, mortality classification, etc., follows that of the composite policy. In the majority of cases, it is believed, the index of value would not be affected to a great extent if the distribution of business differed somewhat from this, with the result that the index of value is considered very reliable, especially when it is used primarily for comparison purposes.

MR. J. G. BRUCE, speaking as an agency executive, stated that in the Colonial Life the actuaries are absolutely indispensable in helping to solve problems of agency compensation. Every request for a change in their compensation plan is carefully analyzed for both immediate and far-reaching effects. Often they will suggest modifications or make counter-proposals. Furthermore, the actuarial department is the most logical source of statistics, as well as any breakdown of business that would help to solve a problem or aid in conveying a point to the field. Once a year their Vice President and Actuary travels into the field to tell the agents what the current figures show, using this opportunity to convey to the field that the home office is aware of their problems, and to clarify any legal, actuarial, or financial limitations that may exist.

Mr. Bruce cautioned the actuary never to give a blunt "no" in answers to the agency department. Undoubtedly the actuaries really want to work harmoniously with the agency men, and perhaps discovering how to do it is more important than knowing what to do.

MR. J. E. TAYLOR commented on the fine reports published by the Life Insurance Agency Management Association, and on the extent to which actuaries have participated in this organization. An examination of the 1952 program of the Association indicated that there were five actuaries on the program for the annual meeting, while ten of the twenty-six members of the Agency Cost Committee were actuaries, and eight of the nineteen members on the Compensation Committee, and at least four other actuaries appeared on various other committees. He also commented on the literature connected with some phases of agency problems that has appeared in the first four volumes of our *Transactions*. Although a limited number of actuaries have participated extensively in the field of agency problems, Mr. Taylor felt that most of us have defaulted in this important field, especially when considering the savings in cost of distribution achievable from improvements in agency management. He pointed out the extensive classification required in agency statistics and felt that the actuary could be of invaluable assistance provided he familiarizes himself with the problems.

MR. S. M. SHOTWELL, in referring to section B, stated that some years ago the Equitable Life Assurance Society felt the need for keeping readily available statistics of earnings and various other characteristics of agents, and consequently has maintained a Hollerith card for each agent in a special file.

The four principal groups of information entered on each card are:

1. Identification and personal history data (including the agent's name, company serial number, agency, year of birth, sex, previous occupation, and educational background).
2. Contract data (including date of appointment, type of contract held, previous experience with the company, present position held, Social Security classification, pension plan status, and initial salary, if any).
3. Termination data (including date and mode of termination, and curtate duration).
4. Commission data (including current calendar year, current production club rating, total commissions, and first year commissions).

Various analyses are derived from the Agents' Record File for the use of their agency department. The file is processed each year to produce the following data:

1. Distribution of agents by sex, contract, present position with the company, and Social Security classification.
2. Distribution of new agents by age at appointment, educational background, and previous occupation.
3. Analysis of earnings of agents under contract for the full year by present position, year of appointment, and contract.
4. Distribution of company's production among agents, brokers and clerks.
5. Distribution of agents by production club rating, year of appointment, and present position.
6. Distribution of agents by earnings bracket.
7. Agents' termination rates.

In addition to these annual analyses, special studies have been made frequently in recent years for the information of the agency department. The number of requests by the agency department for such studies and the number of analyses made by the actuary's department attest to the continued usefulness of the Agents' Record File.

MR. DATON GILBERT spoke on section C, dividing his discussion into four parts as follows: (1) a general approach to the problem of financing new agents; (2) some of the primary features of a financing plan recently adopted by the Connecticut Mutual; (3) the construction and use of a schedule of required minimum commissions; and (4) estimating the cost of a proposed financing plan.

An approach to the financing of new agents.—It is generally conceded that, for most job opportunities available today, the compensation per unit of work produced tends to be at a considerably higher rate for some months following date of employment than is yielded to the typical inexperienced agent recruited under the usual form of straight commission contract. Financing plans have been designed to correct this situation by providing a reasonable immediate income to the new agent.

A financing plan and the related administrative procedures are properly built on well-known management principles, including the keystone trio of selection, training and supervision. He suggested the following points as worthy of special consideration:

1. *Place primary responsibility on the agency head*—to place the authority as near the scene of action as possible.

2. *Provide incentives for the successful induction of financed agents by the agency head.* This may take many forms, but preferably should provide some degree of financial penalty for failures as well as reward for successes.

3. *Eliminate promptly the financed new agent who fails to reach reasonable minimum standards of performance.*

4. *Relieve the new agent from the psychological handicap of a financing debt.*

A recently adopted financing plan.—On February 1, 1953, the Connecticut Mutual introduced a 36 months financing plan for inexperienced agents, set up along the lines of an advance against commissions but involving the debt-free financing concept with a subsidy to successful agents. The general structure of the plan is not new, for several plans of this type had been previously established.

The level of the semimonthly advance is determined in accordance with the realistic minimum budget of the prospective agent. Continuation of the advance is subject to a quarterly check against a standard schedule of minimum accumulated cash commission credits and of minimum number of lives insured. Although no adjustments are contemplated in the basic level of advance, half of any cash commission credits in excess of the required minimum can be paid to the agent as a bonus beginning with the end of the second contract quarter. Agents surviving the entire 36 months period are entitled to any remaining excess cash commission credits. Although cash commission credits are determined in accordance with the company's career contract, all vested interest features in the contract are inapplicable to business produced during the financing period.

At the end of the financing period, the continuing agent is automatically changed to a straight commission basis with regular commissions and normal vesting on subsequent new business. Moreover, he is in effect "subsidized" by immediately commencing to receive the usual continuing rate of commission on business already in force, in spite of a normal excess of total advance payments over total credited cash commissions amounting to nearly $800 per $100 of monthly advance.

Advances are made by the company and the company bears the entire financing cost for agents who survive the 36 months period. However, on terminations during the financing period, the general agent and the company bear equal shares of any cost involved.

During the first four months of operation, 60 new agents were inducted under the new plan at an average advance of $312 per month. Of these 56 were still under contract.

Minimum commission requirements.—An essential feature of most financing plans is a standard schedule of minimum commission credits on new business resulting from the financed agent's activities. Such requirements are necessary: (1) to provide the agent and his agency head with a continuous and tangible objective as to work results, (2) to make prompt termination of the less successful agents practically automatic, and (3) to minimize the possibility that actual financing costs will differ widely from estimated costs.

Such schedules tend to be rather arbitrary, since it is impractical to set them up on a basis of liquidating the deficit out of normal commission recoveries for all durations at which termination can occur. One reasonable approach is to fix an acceptable cost relationship at some particular point and construct a minimum requirement schedule from this basic point of departure.

Having fixed the basic cost relationship, the construction of a reasonable schedule of minimum credited cash commission requirements becomes largely a matter of arithmetic, if factual information of three types is available:

1. *The typical production pattern* for inexperienced financed agents who survive the financing period. This should be by contract quarters or possibly by contract months. Usually, a rapid increase in the production rate takes place during the first few quarters with an early tendency to level off.

2. *Characteristics of the new business written* by such agents during the financing period. Since wide differences exist between individual companies, each should study its own experience. Average collection frequency tends to be higher for new agents. Average premium per thousand is typically low and, if the company sells a plan with low early premiums followed by later increases, a heavy concentration of business on that plan may be revealed. Average commission rates, first year and renewal, will be necessary, with proper subdivision made so as to earmark any portions

normally vested in the case of nonfinanced agents. Persistency of business written by new agents tends to be below par. Although a high degree of refinement may be impractical, it would seem essential to develop special persistency rates for semiannual and quarterly business, bearing a reasonable relationship to the familiar annual basis.

3. *The regular commission contract* forming the basis for commission credits and any offsetting recoveries after termination.

Using the above information, cash commission figures may be obtained by contract quarters (or months). Then assuming termination at the preselected duration, and adding expected future commission recoveries from commissions which are vested for nonfinanced agents but nonvested for financed agents, a level of advance may be determined which will reflect the acceptable cost for such terminators.

Since individual agents show wide differences in distribution of business by premium frequency, much can be said in favor of a minimum commission requirement which credits the full first year's commission on payment of the first regular premium and makes the necessary corrective deduction in case lapse occurs during the first year.

Estimating the cost of a financing plan.—The following points are suggested as worthy of attention when such estimates are made:

1. *Termination rates and survival tables for financed agents should be by quarter-years or months.*

2. *The average level of financing required* will have an important effect on the cost.

3. A carefully constructed *schedule of minimum commission requirements*, as discussed previously, provides an essential element in the estimate picture. A reasonable assumption must be made as to the average percentage of the minimum requirement attained by each delegation of terminators.

4. *An estimated average loss per agent* must be determined *not only* for each delegation of terminators during the financing period and during the subsequent period when recoveries from forfeited commissions would be made *but also* for those who survive beyond the period when such recoveries would occur.

5. Using a carefully chosen figure for the *probable number of recruits per quarter*, the foregoing factors in combination produce the *cost estimate* for a single such group of recruits followed by quarters from date of contract until such time as only survivors are left on whom no further recoveries are possible. At this point, the effect of charging part of the cost to the agency head can be introduced. The progressive sum of the quarterly

costs for this single group then provides an estimate of the unfolding costs from the inception of a continuous level recruiting program.

MR. G. T. PRENTICE stated that, in the Imperial Life, the actuaries usually assist the agency department in the determination of commission scales for new plans of insurance. Where, for any reason, a change is contemplated in the method or level of compensation, calculations are made comparing the cost and the value of remuneration, taking into account interest and termination rates.

Their actuaries are also actively involved in the establishment or modification of retirement plans and other social security benefits. Estimates are made of the cost of any proposed plan or benefit. Examples are constructed showing the amount of retirement benefits resulting from various rates of earning at different ages at entry.

Their actuarial department provides the following statistics for the agency department: (1) listing of Ordinary paid business with specified information by agent and by branch; (2) a modification of (1) for Honor Roll purposes; (3) increase in business in force by branch, showing controllable terminations as well as total terminations; (4) business in force by branch on a quarterly basis, showing new issues, additions, and terminations; (5) paid-for research figures required by L.I.A.M.A.; (6) Production Club figures which are on a commission basis; (7) conservation statements by agent on a quarterly basis listing the lapsed policies and certain persistency ratios; (8) revivals and terminations by agent on a monthly basis; (9) special contest statistics; (10) analyses of paid business on an annual basis, both for the company and for broad geographic areas.

With regard to section C, he said since 1940 the Imperial Life has had a Salary Plan in which one of the chief purposes was to avoid large advance accounts which are discouraging to the new agent.

Selection of new agents has been made on a fairly strict basis using the Aptitude Index of the L.I.A.M.A., a company rating scale, inspection reports and medical examinations. The salary agreed on aims to provide a level monthly income sufficient to cover the agent's basic needs and one which seems to be within his ultimate earning power. Originally, objectives in terms of volume, premiums paid and commissions earned were set in advance for each month in the first two contract years. The objectives vary in proportion to the amount of salary. In 1952 the volume objective was dropped due to the increase in the sale of Term business and other low premium and low commission plans.

The original objectives were planned so that the commissions earned in the second contract year would exceed the amount of salary paid in that year, but in 1952 the objectives were changed in such a way that the salary in the second contract year would be equal to the commissions earned in that year. The commission objective during the first two contract years is now $1,885 per $100 of monthly salary with an anticipated investment of $515. In the case of successful agents, the company investment in salary financing is never recovered but they feel that the advantages of the plan offset this loss.

MR. C. F. B. RICHARDSON felt that the recent amendments to Section 213 have made possible a fresh and more realistic approach to the problem of financing new agents. It is now possible to face the fact that an agent requires a moderate degree of subsidy for the first three years, and to compete with other industries to obtain a proper share of capable young men. He reported the following conclusions in regard to some of the basic objectives of a sound financing plan.

1. The starting salary should be based upon a strict minimum personal budget, but should quickly reflect actual performance. All their studies show that the best index of future success is the rate of production in the first quarter. Therefore the salary should change, up or down, after the first quarter to reflect the actual production rate.

2. If the first quarter production is so low as to require a large reduction in salary, *e.g.*, over 25%, it is better to terminate the contract.

3. There should be a continuing incentive in the form of a possible increase in salary every month, or at least every 3 months, for an agent who shows unusually good performance.

4. The payment of a portion, such as 25%, of the first year commissions in cash is expensive to administer and provides too small an incentive to make it worth while.

5. The financing period should be 30 or 36 months; 2 years is too short.

6. Volume is an unsatisfactory criterion upon which to validate the salary because many new agents write too much business on cheap plans. The best criterion is potential annual first year commissions.

7. The lapse rate of each individual agent should be reflected in the account of each agent. The importance of good persistency should be forcibly brought to the attention of the new agent at the very outset. This can be done by charging back to the agent's account the unearned commissions on first year lapses.

8. A primary objective of a sound plan is the payment of full renewal commissions on business written during the financing period when the agent goes off the plan, but these renewals should never be vested.

9. If the company writes Accident & Sickness business, this line should be integrated into the financing plan.

10. Some new agents will prefer to finance themselves. In order to avoid discrimination against such agents, provision should be made for payment of training allowances in addition to commissions, subject to proper safeguards to insure that these payments are made only to bona fide full-time men who show a satisfactory performance.

11. The manager should pay some portion of the losses on terminated agents.

12. The plan should be so designed as to make available to the better managers more funds for financing and higher starting salaries than are afforded to the poorer managers. There are tremendous differences between managers in their ability to select and train new men.

Mr. Richardson felt that if new financing plans can be developed which reduce the present high rate of turnover of new salesmen in the business, they will be one of the best investments that can be made.

MR. L. A. CANNON reported that the Great-West Life introduced a new commission scale and training allowance for new recruits at the beginning of 1953. The new commission scale is a step-down arrangement, grading into the standard contract after three contract years. The principle is to pay an additional first year commission in exchange for which the agent agrees to waive certain renewal commissions as follows. In the first contract year the additional first year is 20% in exchange for the last five renewals, in the second contract year 15% in exchange for the last four, and in the third contract year 10% in exchange for the last three renewal commissions. There is, of course, a subsidy involved in the plan. Proportionate adjustments are made when the renewal commission rate is less than 5%, and the plan does not apply to Group, A & H, reinsured business, and certain limited premium plans.

The first month's advance to a new recruit is considered a training allowance. However, the actual amount written off as a training allowance is calculated at the end of the first contract year and is equal to one-twelfth of the cash commissions earned plus 75% of the outstanding first year commissions. Any resulting debit or credit is transferred to the agent's commission account. An agent must complete one full contract year to qualify for this allowance, and the allowance is granted whether or not the new recruit is being financed.

In general the effect of this program is to increase the earnings of a new agent in his first contract year by approximately 50%. Assuming the same level of new business, earnings will increase slightly in the second and third contract years. In the fourth contract year, when the standard contract becomes effective, earnings will be at approximately the same level as in the third year, and subsequently total earnings should increase.

MR. R. A. SAUNDERS stated that the Equitable Life of Canada was presently discussing a new financing plan, their intention being to provide a frank subsidy during the first three contract years to bring the earnings of an agent to the level that would be attained in the fourth and fifth contract years on a similar production. That is, the subsidy will decrease each year so as to provide a stable income for a level production. In addition, they are considering giving a bonus to the manager for each agent who completes his first year with the minimum volume of production and no debit balance.

MR. K. K. KEENE stated that the Aetna Life introduced a salary plan shortly after the war which was made available to most of their general agencies, excluding the larger agencies capable of performing their own financing of new agents.

The initial selection is based on two written examinations which have been found quite successful in predicting the relative abilities of the agents hired. The plan allows a variable starting salary, from \$250–\$500 per month, the average being \$380 per month. The period of financing is 24 months, commissions arising from business written during this period reverting to the company.

The progress of the agent is traced by means of monthly credits which are roughly equal to the present value of the regular commissions, adjustments being made for lapses as they occur. The accumulation of these credits must equal a graded percentage of salary, reaching 76% at the end of the 24 months period. If the agent fails to meet this schedule, the general agent has the option of discharging him, but must pay two-thirds of any deficit if the agent is retained. Some agencies are required to carry one-third of the financing costs over and above the losses just mentioned. One problem not yet solved is the difficulty of switching the average agent over to the commission basis, but this is up to the general agent, the company withdrawing its financial support at this time.

The results of the plan have been most gratifying, the salary losses decreasing each year while the quality of agents has been improving.