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ORDINARY LIFE INSURANCE

Agency Problems

A. Is the average agent of today as well compensated relative to other selling careers as he was in the past?
B. Has the increase in sales of term insurance had an adverse effect on agents' earnings? Have lower premium rates? Are adjustments in commission rates on term insurance likely? On other plans?
C. Has the cost of Social Security, pension plans and other fringe benefits for agents been offset by commission reductions? By reduced turnover of agents?

MR. JOSEPH C. NOBACK presented a study which demonstrated that in the Northwestern Mutual Life Insurance Company the typical full-time agent was better situated in 1959 than his counterpart had been in 1949. The average net earnings of these full-time agents had increased 49% during the 10 year period, while the consumers price index had increased 21%. He stated that he could not find any reliable information on the income in "other selling careers." Furthermore, data for the life insurance industry itself were difficult to obtain. He noted that the recent NALU survey conducted by the Roper organization had failed to produce meaningful results because agents had overstated their income by substantial amounts.

The changes in the Northwestern Mutual compensation between 1949 and 1959 resulted from reduction in premium rates, increase in term sold, increase in policy size, decrease in retirement income sold, increase in certain commission rates and the introduction of new markets. Lower premium rates have been accompanied by an increase in policy size. The trend toward term has not resulted in a decrease in agents' earnings because of the very satisfactory conversion percentage which has been maintained. The Northwestern Mutual Life does not plan to change its term commission rates.

Finally, he stated that in the Northwestern Mutual the cost of Social Security, pension plan and other fringe benefits for the agents have not been offset by commission reductions.

MR. JULIAN M. MILLER noted that in the life insurance industry very few companies have information regarding the total income of their agents from the sales of life insurance. Furthermore, there is no satisfactory definition of what constitutes a full-time life insurance agent. Approximate statistics for the New York Life Insurance Company indicate that between 1950 and 1958 the average income received by full-time agents progressed at a rate higher than the per capita national product. He stated that their income also kept pace with the average earnings of the industrial and clerical workers in general. He stated further that the data available on salesmen in general were not comparable.

Mr. Miller commented that the increased sale of term insurance has not had an adverse effect on agents' earnings. Between 1953 and 1959 the average premium per policy has increased by 42%.

MR. RICHARD M. FRIDLEY studied the distribution of business written by the Pan-American Life during the period 1956–1959. He noted that endowment sales had decreased to half of their 1956 proportion, and that approximately 75% of the endowment business had gone to life plans, the remainder to term sales. In attempting to measure the effect of these shifts on agents' earnings he found that the average first year commission per sale had increased 8% during the period. On the other hand, the average first year commission per dollar of premium had increased 4.4%.

Finally, he concluded that while the trend from endowment to life has an adverse effect on agents' earnings, the increase in average size policy more than offsets this shift and results in a net favorable effect on agents' earnings.