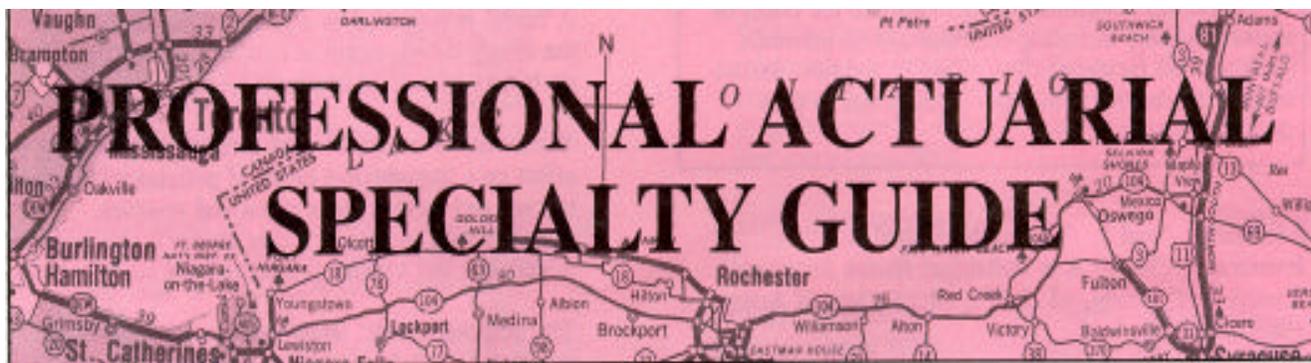


# SOCIETY OF ACTUARIES



## DISTRIBUTION COSTS AND COMPENSATION

### Overview

Historically, the principal method for distributing individual life insurance products in North America has been general agency or branch office distribution structures under which full-time agents work for general agents or agency managers who represent a company in a specified territory. Brokers, who work for several companies either directly or through agencies, have also been a significant source of business. More recently, other forms of distribution, such as stock brokerage offices, banks, and no-load vendors, have appeared in the marketplace.

This specialty guide focuses on the distribution costs, especially the field compensation costs, that are incurred through the traditional general agency, branch office or brokerage structures: the type of costs that are incurred, to whom they are paid, how they are determined and valued, and the legal restrictions that affect them. Such costs are currently the principal expenses incurred by a life insurance company in marketing its products. Those costs include commissions, overriding commissions, expense allowances, bonuses and other incentive plans, fringe benefits, fees, salaries, reimbursements, and direct paid expenses such as rent, clerical expenses and other costs of doing business. Special plans frequently exist for agency heads, supervisory personnel, specialists, newly hired agents, top producers, and brokers. Methods may differ by distribution system, by product, or by market.

This specialty guide is limited to individual life insurance, disability insurance and annuities, although much of the material would apply to other products.

Special attention must be paid to the expense limitation laws and regulations of New York State, which have a significant impact on the practices of life insurance companies licensed to do business in that state. The New York limits apply wherever a company does business, providing it is licensed in New York.

### Role of the Actuary

An actuary's strong financial skills are useful in quantifying, comparing and explaining the costs of different distribution systems and different compensation plans, in designing and valuing alternative compensation and benefit plans for agents, general agents, supervisors and managers, and in measuring the financial performance of a marketing entity, such as an agency, a distribution system, or an entire agency division.

Regardless of whether such an actuary functions separately from the pricing actuary, it is important for an actuary to ensure that the pricing factors correctly incorporate the distribution costs and that the pricing actuary, if distinct, understands the company's marketing strategy, including its distribution systems and compensation structures.

The actuary doing this work will be doing studies of the quality and profitability of business, of the retention of field personnel, and of the results of compensation plans relative to expectations.

In addition, the actuary will be involved in developing any regulatory filings needed with regard to field compensation programs, especially if the company is licensed in New York.

The Life Insurance Specialty Guides Committee of the Society of Actuaries provides this Specialty Guide for continuing education purposes. It is intended to provide the user with a summary of representative sources of current general knowledge. Neither the Society of Actuaries nor the Committee intends or represents this Specialty Guide to be complete or its use necessarily required or sufficient for meeting continuing education requirements or any other professional competency standards of any organization.

## I. Agency Distribution Systems: Financial

Different agency distribution systems have differing financial management and cost structures. Even similar distribution systems may have significantly different compensation plans and cost patterns.

Life Insurance Marketing and Research Association, *Marketing for Actuaries*. Hartford, Conn.: 1993, Chapter VIII, "Distribution Systems."

Describes and differentiates the various distribution systems.

Level: Basic Pages: 7

Stalnaker, Armand C., Chapters 1-5, 10-13. In *Life Insurance Agency Financial Management*. Homewood, Ill.: Richard D. Irwin, 1965.

Chapters 1-5 discuss the fundamentals of agency financial management, and Chapters 10-13 discuss the classification of agency expenses.

Level: Basic Pages: 159

Sondergeld, Donald R., Bourbeau, Paul T., Hill, Robert P., James, Donald W., and Gross, Daniel J., "Assessment of Today's Marketing Distribution Systems," *Record of the Society of Actuaries* 6, no. 1 (1980): p. 259.

Describes the major distribution systems, their relative costs, advantages and disadvantages of each, and differences in experience on business sold through the different systems.

Level: Basic Pages: 17

Jaffe, Jay M., Koenig, William C., Moorhouse, John D., Van Elsen, James N., and Merwald, James M., Jr., "Evaluating Financial Aspects of Different Distribution Systems," *Record of the Society of Actuaries* 12, no. 3 (1986): p. 1929.

Describes financial aspects of several distribution systems, including the impact of persistency, productivity, mortality, expenses, and recruiting levels.

Level: Intermediate Pages: 46

Life Insurance Marketing and Research Association, 1993 *Agency Expense Payment Practices*. Hartford, Conn.: 1994.

Describes expense payment practices of many individual companies (unidentified). Limited circulation.

Level: Advanced Pages: 53

The Life Insurance Marketing and Research Association has published several publications that describe in more detail the financial functions of agency-type distribution systems:

*Developing New Agencies*, 1977, 28 pages  
*What the Agency Head Does*, 1978, 16 pages  
*Managing Agency Expense: A Financial Management Study*, 1982, 13 pages  
*Field Budgeting: A Guide for Home Office Marketing Staff*, 1984, 61 pages  
*An Agency Planning Model*, 1988, 30 pages  
*Managing Agency Size*, 1988, 20 pages  
*Agency Costs by Location*, 1989, 16 pages

The Life Insurance Marketing and Research Association also publishes periodic studies that detail the costs of various distribution systems:

Distribution system cost studies, separately by system; annual. Limited quantities available.

Agency expense and performance reports, separate for U.S. and Canada and separate for branch offices and general agencies; annual. Limited quantities available.

## II. Field Compensation

Although it is becoming increasingly difficult to isolate and compare the components of cost, especially compensation, within an agency distribution system, much of the literature distinguishes between producer compensation and management compensation and also generally makes compensation distinctions between various product types.

## A. General

McConney, E.M., and Guest, A.C., "An Actuarial Study of Agency Compensation," *Transactions of the Actuarial Society of America* XLVI (1945): p. 315, Discussions, XLVII, Part 1, no. 115 (1946): p. 110.

Discusses the principles underlying field compensation; specifically it relates the field compensation approach to basic company objectives.

Level: Basic      Pages: 89 (including discussions)

Baxter, David L., Stevenson, Jeffrey G., and Van Dam, Douglas S., "Field Compensation Developments," *Record of the Society of Actuaries* 14, no. 2 (1988): p. 1003.

Discusses different distribution systems and different methods of compensation (bonuses, asset-based, level commissions, transferable fees, etc.).

Level: Basic      Pages: 19

Easton, Albert E., Clark, Robert, LaPorte, Paul D., Lykins, Marshall H., and Matson, Wendy, "Designing a Field Compensation Structure," *Record of the Society of Actuaries* 16, no. 2 (1990): p. 897, and Stontz, Carolyn J., Hazelcorn, Abraham, McDonough, James R., and McKeon, George P., *Record of the Society of Actuaries* 16, no. 3 (1990): p. 1567.

Discusses the factors affecting the design of field compensation programs. Case studies deal with motivating an agency force, making transitions between plans, and coordinating design with overall marketing strategy. New York regulations and levelized commissions are also discussed.

Level: Intermediate      Pages: 40 (total)

Gutterman, Sam, Clark, Kenneth J., Turner, John G., and Strong, Gregory S., "Field Compensation—Life Insurance and Annuities," *Record of the Society of Actuaries* 6, no. 2 (1980): p. 337, and Lowden, Robert D., Leach, L.B. "Tim," Zaret, Frank, and Shellgren, Donald F., *Record of the Society of Actuaries* 6, no. 3 (1980): p. 827.

Focuses on characteristics of traditional agency distribution systems, as affected by inflation, competition, consumerism, and economic changes. The first article uses a simulated home office/agency meeting format.

Level: Intermediate      Pages: 32 (total)

## B. Field Management Compensation

The compensation of agency management, especially general agents (GAs) and branch managers, but also variations of these types, such as personal-producing general agents (PPGAs) and brokerage general agents, is the topic of several publications. The principles apply as well to supervisory personnel (second-line management).

Stalnaker, Armand C., *Life Insurance Agency Financial Management*. Homewood, Ill.: Richard D. Irwin, 1965, Chapters 6, 7, and 9.

Chapter 6 describes the compensation of general agents, Chapter 7 the compensation of managers, and Chapter 9 the compensation of supervisors.

Level: Basic      Pages: 40

Life Insurance Marketing and Research Association, *Marketing for Actuaries*. Hartford, Conn: 1993, Chapter X, "Field Management."

Describes in detail, with examples, alternative forms of management compensation, separately for GAs and branch managers. It provides options for new hires and discusses incentives.

Level: Intermediate      Pages: 29

Life Insurance Marketing and Research Association, *Compensation Handbook*. Sections on GAs, Managers, PPGAs, and Brokerage Supervisors. Hartford, Conn.

Periodically updated sections describe actual compensation plans used by some companies (unidentified). Limited quantities available. Periodically updated.

Level: Advanced

The Life Insurance Marketing and Research Association has published several other publications on this subject:

*General Agent Compensation: A Study of How Variations in Performance Effect General Agents Compensation*, 1976, 160 pages  
*Compensation of Agency Managers (U.S)*, 1993, 16 pages  
*Compensation of Branch Managers (Canada)*, 1993, 14 pages  
*PPGA Compensation*, 1992, 83 pages  
Annual surveys (separately) of the compensation of branch managers, brokerage supervisors, and regional officers. Limited quantities available.

## Producers (Agents and Brokers) Compensation

Producers may work for one or more companies and are generally paid by some combination of commission, expense allowances, fees, bonuses and other incentives. They work pursuant to contracts with those companies for whom they sell or as sub-producers for an entity that holds such a contract with the insurance company.

Stalnaker, Armand C., *Life Insurance Agency Financial Management*. Homewood, Ill.: Richard D. Irwin, 1965, Chapter 8.

Discusses compensation principles and the elements and the rationale for the components of an agent plan.

Level: Basic Pages: 15

"Trends in Agents' Compensation," *Transactions of the Society of Actuaries* XXV, no. 2, Meeting No. 71 (1973): p. 129.

Discusses many issues underlying agent compensation.

Level: Basic Pages: 23

Life Insurance Marketing and Research Association, *Marketing for Actuaries*. Hartford, Conn.: 1993, Chapter XI, "Agents Compensation" and Chapter XV, "Home Service Compensation."

Discusses the various forms of agent compensation, the valuation of such compensation, variations by plan, and rebating.

Level: Intermediate Pages: 21

Life Insurance Marketing and Research Association, *Compensation Handbook*. Hartford, Conn. Section on Agent's Ordinary Life, Health, and Annuity Contracts

Describes actual compensation plans used by some companies (unidentified). Limited circulation. Periodically updated.

Level: Advanced

The Life Insurance Marketing and Research Association has published several other publications on this subject:

*Compensating Exceptional Producers (U.S.)*, 1987, 15 pages (separate reports for Canada and for PPGA companies)

*Bonus Compensation for Primary Producers*, 1994, 5 pages

*Producer Expenses and Expense Allowances*, 1993, 6 pages

*Number of Lives Sold as an Element in Compensation Factors*, 1993, 3 pages

The Life Insurance Marketing and Research Association also publishes annual surveys for the following agent groups:

Home service field personnel  
Multiple-line exclusive agents

## D. New Agent Compensation

Because commission-based compensation builds up rather slowly for newly hired agents (in part because some commissions are deferred; in part because sales skills are more slowly acquired), companies provide financing plans that supplement the initial commission income of the newly hired agent.

Wellborn, John M., "The Design of a Finance Plan Is the Key to Its Success," *LIMRA's MarketFacts* (Sept./Oct. 1989): p. 34.

Discusses basic factors that should be considered when designing a financing plan.

Level: Basic Pages: 4

Anderson, Neil M., Abkemeier, Noel J., Brzezinski, Joseph R., Schwartz, Jesse M., and Zaret, Frank, "Persistence and Retention of Agents," *Record of the Society of Actuaries* 4, no. 4 (1978): p. 831.

Discusses issues relating to the recruiting, training, and retention of new agents.

Level: Basic Pages: 16

Life Insurance Marketing and Research Association, *Marketing for Actuaries*. Hartford, Conn.: 1993, Chapter XII, "Financing the New Agent."

Describes the types of financing plans that are in general use as well as the advantages and disadvantages of each. It also addresses how to estimate the financing cost per agent and as a percent of premium.

Level: Intermediate

Pages: 10

Life Insurance Marketing and Research Association, *Financing New Agents*. Hartford, Conn.: 1992.

Gives detailed outlines of financing plans for the companies (coded) that participated in the study. It also summarizes many of the plan characteristics, such as training allowances paid and validation requirements.

Level: Intermediate

Pages: 81

Life Insurance Marketing and Research Association, *Investing in New Agents: A Cost Blueprint*. Hartford, Conn.: 1985.

Describes a method for calculating the cost of developing a new agent and demonstrates how improvement in certain performance factors can significantly reduce the cost of a company's future growth. The report provides illustrations based on actual industry data.

Level: Advanced

Pages: 14

Life Insurance Marketing and Research Association, *Compensation Handbook*. Hartford, Conn. Section on New Agent's Financing Plans.

Describes actual compensation plans used by some companies (unidentified). Limited circulation. Periodically updated.

Level: Advanced

## E. Product-Specific Compensation

Compensation may vary considerably from one product to another for a variety of reasons: (1) company desire to be more or less competitive, either for agents or for clients; (2) competition between the insurance industry and other financial institutions; (3) product design characteristics; (4) product persistence; and (5) regulatory constraints.

### 1. Annuities

Life Insurance Marketing and Research Association, *Individual Annuity Compensation Practices*. Hartford, Conn.: 1992, 24 pages.

## 2. Universal Life

Life Insurance Marketing and Research Association, *Universal Life: Product and Compensation Design*. Hartford, Conn.: 1984, 30 pages.

Life Insurance Marketing and Research Association, *Payroll Deduction UL: The Product and the Compensation*. Hartford, Conn.: 1987, 13 pages.

Life Insurance Marketing and Research Association, *Universal Life Compensation Practices*. Hartford, Conn.: 1993, 5 pages (separate report for Canada).

Life Insurance Marketing and Research Association, *Universal Life in Persistency Bonuses*. Hartford, Conn.: 1990, 7 pages.

## 3. Variable Universal Life

Life Insurance Marketing and Research Association, *Agent Compensation for Variable Universal Life*. Hartford, Conn.: 1993, 9 pages.

## 4. Joint-Survivor Life

Life Insurance Marketing and Research Association, *Compensation of Joint Survivor Life*. Hartford, Conn.: 1991, 6 pages.

## 5. Settlement Options

Life Insurance Marketing and Research Association, *Agent Commissions for Servicing Settlement Options*. Hartford, Conn.: 1988, 4 pages.

## F. Specialized Compensation Topics

The following references address compensation issues that are not specific to either producer-manager compensation or to individual products.

### Replacement Compensation

Life Insurance Marketing and Research Association, *Internal Replacement Compensation: A Balancing Act*. Hartford, Conn.: 1986.

Contains the results of a study of 147 U.S. and 25 Canadian companies on internal replacement practices. Differences are shown by distribution system.

Level: Basic

Pages: 39

Life Insurance Marketing and Research Association, *Replacement Compensation*, U.S. Hartford, Conn.: 1992.

Update of, but less extensive than, the 1986 report, and compares results with the earlier report (separate report for Canada, 1993).

Level: Basic Pages: 16

## **2. Asset-Based Compensation**

Life Insurance Marketing and Research Association, *Asset-Based Compensation in U.S. and Canadian Companies*. Hartford, Conn.: 1990.

Describes the type of asset-based compensation factors that companies use, as well as the products for which such compensation is used.

Level: Basic Pages: 7

## **3. Producer-Owned Reinsurance Companies**

Life Insurance Marketing and Research Association, *Producer-Owned Reinsurance Companies: The Issues*. Hartford, Conn.: 1986.

Discusses the producer-owned reinsurance company (PORC) concept, the considerations in establishing a PORC, the implementation process, the risks and benefits of such affiliations, and some company responses to PORCs. PORCs are frequently viewed as vehicles for providing additional compensation to top producers.

Level: Advanced Pages: 56

Bentzin, Charles G., Hardy, W. Grant, Schwartz, Jerome J., and Chupp, Craig C., "Agent Owned Reinsurance Companies," *Record of the Society of Actuaries* 13, no. 2 (1987): p. 635.

Discusses the pros and cons of the formation of and the participation in such companies. Specific topics include mortality, persistency and expense objectives, and standards for entry.

Level: Advanced Pages: 24

Moyse, John S., "Producer-Owned Reinsurance Companies," *CLU Journal* XLI, no. 4 (July 1987): p. 70.

Explores the advantages and disadvantages of such companies to both companies and producers, along with alternatives.

Level: Advanced Pages: 4

## **4. Annualization of Commissions**

Life Insurance Marketing and Research Association, *Annualization of Commissions*. Hartford, Conn.: 1992.

Summarizes company practices in the U.S. relative to annualizing commissions, with variations by distribution system (separate publication for Canada, 1993).

Level: Intermediate Pages: 24

## **5. Levelized Commissions**

Life Insurance Marketing and Research Association, *Level Commissions*. Hartford, Conn.: 1993.

Summarizes company practices in the U.S. and Canada on paying level or nearly level commissions.

Level: Basic Pages: 4

Moyse, John E., "Levelized Compensation—Is it Around the Corner?" *CLU Journal* XLII, no. 5 (Sept. 1988): p. 68.

Level: Basic Pages: 4

LaPorte, Paul D., and Wellborn, John M., "Level Commissions: In Search of a Middle Ground," *CLU Journal* XL, no. 3 (May 1986): p. 48.

Level: Intermediate Pages: 8

Wellborn, John M., "The Compensation Innovation at Mutual Life of Canada," *CLU Journal* XLV, no. 6 (Nov. 1991): p. 70.

Describes Mutual's plan and discusses how it was implemented, with some results.

Level: Intermediate Pages: 5

## **6. Flexible Compensation**

Cutlip, William C., Ariturk, Haluk, Polkinghorn, Philip K., and Skokan, Donald, A., "The Flexible Compensation Market," *Record of the Society of Actuaries* 13, no. 2 (1987): p. 1021.

Discusses how product features such as paid-up additions riders and term riders are used to effect different levels of agent compensation. The fee-for-service method of compensation is also discussed.

Level: Intermediate Pages: 24

## 7. Compensation Payment Practices

Level: Intermediate

Pages: 6

Life Insurance Marketing and Research Association, *Commission Payment Practices*. Hartford, Conn.: 1993.

Discusses payment practices in the U.S. (separate report for Canada, 1993).

Level: Intermediate

Pages: 10

## 8. Orphan Policy Compensation

Life Insurance Marketing and Research Association, *Orphan Policyholder Services Compensation*. Hartford, Conn.: 1994.

Survey results on how companies define and service orphans, how many there are, and what compensation is used for servicing.

Level: Intermediate

Pages: 29

## G. Compensation-Related Topics

The following references address topics that are closely related to compensation.

### 1. Conventions

Life Insurance Marketing and Research Association, *Convention Practices in Canada and the U.S.* Hartford, Conn.: 1993.

This survey reviews convention eligibility, cost, who attends, what lines of business count, and so on.

Level: Basic

Pages: 11

### 2. Security Benefits

Life Insurance Marketing and Research Association, *Marketing for Actuaries*. Hartford, Conn.: 1993, Chapter XIV, "Security Benefits for the Field Organizations."

Describes the kinds of security benefits provided for life insurance agents in the U.S. and Canada. The employment status of agents (that is, employee versus independent contractor) is also discussed.

Level: Basic

Pages: 15

Life Insurance Marketing and Research Association, *Benefits for Retired Agents*. Hartford, Conn.: 1993.

Examines the life and medical benefits provided for retired agents.

Life Insurance Marketing and Research Association, *Security Benefits for Career Agents*. Hartford, Conn.: 1993.

Examines in detail all types of life, health and retirement benefits currently available to career agents, recent changes to plans, cost-sharing provisions, and actual costs per agent, per first-year commission, and per total earnings.

Level: Advanced

Pages: 96

Life Insurance Marketing and Research Association, *Post-retirement Non-pension Accounting Changes and Benefits for Retired Agents*. Hartford, Conn.: 1994.

Summarizes life insurance company responses to the SFAS 106 accounting changes.

Level: Advanced

Pages: 6

### 3. Rebating

Life Insurance Marketing and Research Association, *Commission Rebating*. Hartford, Conn.: 1992.

Summarizes how companies are responding to rebating issues in their agent contracts.

Level: Basic

Pages: 4

Sullivan, Steven, "Legal Rebating: A Tale of Two States," *Life Association News* 88, no. 1 (January 1993): p. 48.

Discusses what has occurred in the two states, Florida and California, that no longer prohibit rebating.

Level: Basic

Pages: 7

### 4. Debt

Life Insurance Marketing and Research Association, *Debt in the Field*. Hartford, Conn.: 1994.

Survey results on the origin of, magnitude of, and company reaction to producers and agency head debt.

Level: Basic

Pages: 10

## 5. Contract Issues

All of the following are from the Life Insurance Marketing and Research Association:

*1992 Producer Contract Requirements*, 1992, 6 pages (separate for Canada, 1993)

*Minimum Performance Requirements for Home Service Agents*, 1991, 6 pages

*Contracts for Incorporated Producers*, 1992, 4 pages  
*Restrictions on Producer Activities After Termination*, 1992, 11 pages (separate report for Canada, 1993)

*Non-compete and Non-interference Clauses in Field Agreements*, 1988, 15 pages

## H. Techniques and Tables

The following articles address the techniques utilized in designing and valuing field compensation and benefit plans. These references discuss specific tables relating to persistency of policies and the retention of agents and how these would be used in valuation work.

Richardson, Charles F.B., and Hartwell, John M., "Lapse Rates," *Transactions of the Society of Actuaries* III (1951): p. 338.

Explores the causes of high lapse rates and the characteristics of business with high or low persistency. Includes an extensive bibliography.

Level: Basic      Pages: 59 (including discussions)

Richardson, Charles F.B., "Some Actuarial Observations on Agency Management Problems," *Transactions of the Society of Actuaries* I (1949): p. 131.

Reviews phases of agency management in which the actuary can help the sales executive, with particular emphasis on quality measures such as survival rates.

Level: Basic      Pages: 46 (including discussions)

Life Insurance Agency Management Association (now LIMRA), *Mathematical Tables—Supplement to the Reports of the Committee on Agents' Compensation*. 1943.

Presents tables useful in valuing compensation and provides examples of how such tables should be used.

Level: Intermediate      Pages: 46

Life Insurance Marketing and Research Association, *Agent Service Tables Handbook—Actuarial Calculations for Marketing*. Hartford, Conn.: 1981.

Presents the results, including methodology, of a LIMRA survey of 1979 agent termination experience, together with a number of calculations derived from the basic tables.

Level: Intermediate      Pages: 43

Brzezinski, Joseph R., and Archer, L. Edgar, "Field Management Survival Experience, 1956–1973," *Transactions of the Society of Actuaries* XXX (1978): p. 323.

Reviews the results of a LIMRA research project that studied the actual experience in general agent and managerial termination rates for the period 1956–73.

Level: Intermediate      Pages: 48 (including discussions)

Linton, M. Albert, "Returns under Agency Contracts," *Record of the American Institute of Actuaries* XIII, Part I, no. 27 (1924): p. 283.

Classic paper dealing with the projection of agency financial results but known especially for introducing the Linton Lapse Rate Scales.

Level: Intermediate      Pages: 65 (including discussions)

McConney, E.M., and Guest R.C., "Some Basic Principles and Mathematical Tables Related to Agents' Compensation," *Transactions of the Actuarial Society of America* XLIII (1942): p. 287; Discussions XLIV (1943): p. 96.

Classic paper that discusses the valuation of agent compensation, particularly relating to agent termination rates.

Level: Advanced      Pages: 58 (including discussions)

Moorhead, E.J., "The Construction of Persistency Tables," *Transactions of the Society of Actuaries* XII (1960): p. 545.

Considers questions that arise in constructing persistency tables and provides formulas as well as a set of illustrative tables

Level: Advanced      Pages: 18

Moorhead, E.J., "Valuation of Non-vested Renewal Commissions," *Transactions of the Society of Actuaries* XV (1963): p. 430.

Develops an alternative method to that of McConney-Guest (TASA, XLIII) for valuing non-vested renewal compensation, including illustrative tables.

Level: Advanced Pages: 35 (including discussions)

Rieder, Edward A., "A Method for Grading Commission Scales by Plan and Age at Issue," *Record of the American Institute of Actuaries* XXIX (1940): p. 251; Discussions XXX (1941): p. 244.

Presents a theoretical basis for grading commission scales by plan and issue age, assuming compensation should be a function of the protection value and investment value of the policy.

Level: Advanced Pages: 19 (including discussions)

The Life Insurance Marketing and Research Association publishes several periodic persistency surveys:

Long-term ordinary lapses, separate surveys for U.S. and Canada, annual  
U.S. and Canada 13-month lapses, semiannual  
Universal life persistency, annual  
Home service experience, quarterly  
Flexible premium annuities, periodic  
Disability income, periodic, limited quantities available  
Single-premium deferred annuities, periodic

### III. Profitability of Field Organizations

The financial performance of a field organization can be viewed both from the perspective of the field organization, especially in a general agency, or more commonly from the perspective of the company.

Stalnaker, Armand C., *Life Insurance Agency Financial Management*. Homewood, Ill.: Richard D. Irwin, 1965, Chapters 14–20.

Deals with standards and evaluations relating to the financial performance of an agency.

Level: Basic Pages: 84

Shapiro, Robert D., Gardner, John R., Hogue, Robert D., Hutchinson, Michael B., and Webster, David A., "Agency Profitability Measurement," *Record of the Society of Actuaries* 2, no. 4 (1976): p. 785.

Focuses on how agency financial performance is measured in different types of agency organizations, considering marketing objectives and strategies, short- and long-term goals, and so on.

Level: Basic Pages: 18

Life Insurance Marketing and Research Association, *Agency Profitability—Plain and Simple*. Hartford, Conn.: 1987.

An accounting approach to profitability for field offices

Level: Intermediate Pages: 47

Life Insurance Marketing and Research Association, *Managing for Profit*. Hartford, Conn.: 1977.

Discusses a number of measures of both company and agency profitability.

Level: Intermediate Pages: 126

Life Office Management Association, "An Approach to Measuring the Profitability of Field Office Operations," *Report No. 19*. Atlanta, Ga.: 1969.

The classic present value approach to measuring profitability from the company point of view.

Level: Advanced Pages: 23

Life Office Management Association, "Question and Answer Supplement to Report No. 19," *Report No. 19A*. Atlanta, Ga.: 1973.

Clarifications to *Report No. 19*.

Level: Advanced Pages: 29

Life Insurance Marketing and Research Association/Life Office Management Association, *Techniques for Measuring Agency Profitability*. Hartford, Conn./Atlanta, Ga.: 1991.

Elaborations on LOMA *Report No. 19* plus other approaches.

Level: Advanced Pages: 40

## IV. New York Expense Limitations

New York State, through its statutes, regulations and circular letters, regulates the operations of all life insurers that do business in New York. The principal impact is on field expenses, and this affects business written by such companies both inside and outside of New York. Section 4228 of the New York Code is the principal statute.

### A. New York State Laws, Regulations, Circular Letters

#### 1. Statutes

Section 4228 (formerly 213), expense and other limits  
Section 4227 (formerly 212), new business limits  
Section 4229 (formerly 213-A), expense limits on debit insurance

#### 2. Regulations

No. 49, expense allowance limits  
No. 50, new-GA limits and agent financing limits  
No. 93, limits on agency conferences

#### 3. Circular Letters

No. 4 (1983), universal life requirements  
No. 13 (1993), new agents eligible for financing

#### 4. Schedule Q

Attachment to the annual statement filed with New York

### B. Publications Relating to New York Limitations

De Palo, Armand M., McCarthy, Daniel J., Packer, Bernard, Wolfe, Joel I., and Ahwah, Gary A., "New York State Compensation Issues," *Record of the Society of Actuaries* 15, no. 3A (1989): p. 1113.

This paper discusses differences in compensation between those companies that are subject to New York limits and those that are not; also discussed are the restrictions under New York law. A New York regulator's perspective is provided.

Level: Basic

Pages: 14

Life Insurance Marketing and Research Association, *Marketing for Actuaries*. Hartford, Conn.: 1993, Chapter XVII, "Expense Limitations under Section 4228 of the New York State Insurance Law" (plus Appendix VIII).

Summary of New York limits, with explanations.

Level: Intermediate Pages: 25 (including appendix)

"Marketing Implications of Section 213," *Transactions of the Society of Actuaries* XXV, no. 2, Meeting No. 71 (1973): p. 169.

Discusses the practical effects of New York limits on company operations.

Level: Intermediate Pages: 26

Mayerson, Allan L., "A New Look at the New York Expense Limitation Law," *Transactions of the Society of Actuaries* VIII (1956): p. 258.

Gives history and philosophy of the New York laws, plus interpretations and rulings of the New York department relating to the laws. The Department often cites this paper as a basis for its positions.

Level: Advanced Pages: 57 (including discussion)

Tompa, Peter M., "Life Agent's Retirement Plan under New York State Expense Limitations," *Transactions of the Society of Actuaries* VIII (1956): p. 12.

Provides techniques for demonstrating that a retirement plan complies with New York expense limits, with a model submission.

Level: Advanced Pages: 32

## Publishing and Ordering Information

Photocopies of Society of Actuaries publications, *Transactions of the Society of Actuaries*, *Transactions of the American Society of Actuaries*, *Record of the Society of Actuaries*, and *Record of the American Institute of Actuaries* can be obtained by calling or writing:

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For non-SOA publications, please contact the publishers directly for books or reprints of articles.

*CLU Journal*

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Fax: (215) 527-4010

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*Life Association News*

National Association of Life Underwriters  
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