

established, highly successful commission system for merchandising life insurance.

First, let me summarize my professional qualifications to discuss this life insurance aspect.

From 1950 to 1953 I served as insurance commissioner of Illinois in the cabinet of then Gov. Adlai Stevenson. During that time I was elected vice chairman of the Life Insurance Committee of the National Association of Insurance Commissioners and also served as chairman of that association's midwestern zone.

Following my term as insurance commissioner of Illinois, I became a senior officer of Prudential Insurance Co. of America, one of the two largest life insurance companies in the world, first, for 4 years, as one of the top members of their law department and thereafter, for another 4 years, as senior vice president in charge of the 13-State western region. In the former capacity I was active in working out methods for issuance of variable annuities by life insurance companies. In the latter capacity my responsibilities included direction of life insurance sales with supervision of over 4,000 life insurance agents.

I have written a number of published articles on life insurance subjects, and am a member of the board of directors of several insurance companies. I am frequently called on to make speeches to insurance industry groups on recognition and motivation of life insurance agents.

THE FRONT-END LOAD

The front-end load used by mutual fund contractual plans typically involves deducting 50 percent of the first year's payments for sales load.

On a 10-year, 120-payment, \$25 per month plan, which is a very common dollar amount for contractual plans, the 50-percent front-end load would typically equal \$150.

Under the law, if a 50-percent front-end load is used for the first year, then the sales charge deducted in each subsequent year, for a 10-year plan, for instance, cannot exceed 4.45 percent per year. The effect of the lower loads in subsequent years is that the investor who is in the plan the full 10 years ultimately pays approximately the same total sales load he would have paid had he invested directly in the underlying mutual fund shares with no front-end load.

It is important to realize that only about half of the total front-end load—one-half of \$150—or \$75—in the \$25 a month plan I referred to—goes to the salesman who actually talks to the customer and makes the sale. The balance is used for other expense, such as recruiting, training, and supervision of sales personnel, advertising, home office overhead and profit.

The mutual fund contractual plan salesman thus earns about 25 percent of the first year's payments, in contrast to the 55 percent which, as I will describe, is typically earned in the first year as a minimum by the life insurance agent on the sale of an ordinary whole-life policy. This 55 percent is, again, only about half the total first year sales expense on a whole-life policy, the balance being used for incentive compensation of the field manager or general agent and for other first year field and home office sales expense.