

LOADINGS IN LIFE INSURANCE

For the purposes of this statement it is not necessary to go into the details of the varied and complicated arrangements for compensation of agents who sell individual life insurance policies for commercial companies using the agency system. For any life insurance company licensed in New York State the maximum commission which can be paid—and the usual commission which is paid—to the agent on a sale of an individual policy of life insurance is 55 percent of the first year's premium. This would normally be for a whole life ordinary insurance policy in contrast to a term insurance or endowment policy. For companies not licensed in New York the commission paid to the selling agent on an individual whole life insurance policy typically is 65 percent, and sometimes is as much as 80 percent of the first year's premium.

This commission to the insurance selling agent is net to that agent. There are in addition other direct selling expenses such as incentive overrides to field sales managers and assistant managers or to general agents, advertising and home office sales expense. Total selling expense on a whole life insurance policy sold by a company doing business in New York will customarily run as high as 100 percent of the first year's premium and for companies not doing business in New York will run as high as 120 percent of the first year's premium.

It is a familiar fact to any purchaser of life insurance that an individual whole life policy will typically not acquire any cash surrender or loan value during the first year after he takes it out and that such cash surrender value will be small in relation to the amount paid in for several years after the original issue of the policy. The cash surrender value represents the current savings element of a life insurance policy which is available to be withdrawn or borrowed by the policyholder.

SIMILARITY BETWEEN WHOLE LIFE INSURANCE POLICIES AND CONTRACTUAL PLANS

I do not claim that a contractual plan and a life insurance policy are identical products. I do not claim that they are bought for identical reasons. But I do say that they are both products that do not sell themselves, that in both cases people are better off for having bought them, and that in both cases they will not be bought unless a salesman with a financial incentive goes out and makes the sale.

Life insurance policies and mutual funds sold under a contractual plan each have a special feature which makes a purchaser willing to have substantial deductions made from his payments for selling expense. In the case of the life insurance policy, this special factor is the death benefit with the possibility of a very high dollar payment to the beneficiary in the event of death, particularly during the early years. In the case of the mutual fund, the special feature is the expert investment management, the diversification of investment, and the chance that the accumulated contributions will increase substantially in market value.

In this connection, it can be noted that in the period from January 1, 1956, to September 30, 1966, with capital gains reinvested and income