

from its surplus or from the pool of funds built up by older policies. As a result, and because of the lapse factor, a life insurance company often will not recoup its investment in a new policy for periods ranging from 6 to 12 years.

Most of this first-year expense is selling expense. The reason I emphasize the willingness of even the most conservative life insurance companies to invest so much in selling expense is to show that in the life insurance business the front-end load principle is universally accepted as essential.

In addition, the low proportion of the first-year life insurance loading which is made up of the mortality cost proves that the SEC has by no means succeeded in dismissing the contractual plan—mutual fund analogy when it says the purchasers of life insurance “immediately receive the full measure of the contemplated death protection.” The portion of the early year premiums that go to providing that death protection under whole life policies is very small indeed.

The SEC's report on investment company growth attempts to distinguish the life insurance analogy by arguing that while there is a very large difference in the compensation of the salesman as between a contractual plan and a voluntary plan, there are only very moderate differences in commission to the life insurance salesmen depending on the type of policy he sells. The report premises this argument on the unsubstantiated theory that customers for life insurance decide to spend a certain annual amount on premium rather than being interested in a given face amount of coverage.

The fact is that for a \$10,000 policy to a standard risk age 40, the agent's first year commission will, for a typical New York-licensed company, be \$29 if the policy is a 10-year term, \$126 if it is whole life, and \$195 if it is a 10-year endowment.

It borders on the ridiculous for the SEC report to say (p. 246) that “the front-end load effectively precludes many dealers and their salesmen from giving adequate sales presentations of level load accumulation plans to persons of modest means.” This is like saying that the substantial first year commissions paid by New York Life Insurance Co. precludes their agents from giving to prospects adequate sales presentations of savings bank life insurance plans under which no commissions at all are payable.

Just who would be compensating these mutual fund and life insurance salesmen for telling prospects about alternative plans which provide no margin or negligible margin for compensation of the salesman?

Does the SEC claim that prestige department stores should pay their salesmen to tell the customers they could get most items cheaper at Sears Roebuck?

ADEQUATE COMPENSATION FOR SALESMEN

The SEC report never faces up to the question of adequacy of compensation for salesmen. It is the position of the contractual plan industry that the front-end load is the only means by which adequate sales compensation can be achieved for contractual plans. The SEC does not deny this. It does not present an alternative method for providing adequate compensation.