


**Joint Hartford/Boston  
Actuaries Club Meeting  
November 18, 2010**

**New York Regulation 194  
Compensation Transparency**

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**If, After the "Prompt" the Purchaser Asks**

- **Reg. 194 30.2 (a)**  
**"Compensation means anything of value, including money, credits, loans, interest on premium, forgiveness of principal or interest, trips, prizes, or gifts, whether paid as commission or otherwise"**  
**Most Companies are developing disclosure documents in order to help their producers**




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**What Must the Producer Disclose?**

- 30.3 (b)(1) "A description of the nature, amount and source of any compensation to be received by the producer or any parent, subsidiary or affiliate based in **whole or in part on the sale**
- So, only those expenses that arise directly or indirectly from the potential sale must be included
- At MassMutual this would include qualified and non-qualified benefits, agent conventions, etc.
- But would NOT include agency rents, furniture and equipment, telephone charges, salary portion of new agent financing, etc.




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## Known vs. Unknown Compensation

- Compensation is “not known at the time of disclosure” when it is contingent upon some future occurrence such as:
  1. Premium payment patterns on flexible premium contracts
  2. Meeting sales/persistency standards to qualify for agents conventions or agent bonuses, etc.



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## Known Compensation

- May be described as the total dollar amount expected to be received or,
  - As the total amount expected to be received stated as a percentage of one year of premium received, or total premium over the expected contract duration
  - Most companies will not express compensation as dollar amounts in order to avoid “real time” valuation at the point of sale
  - Known compensation may include only commissions, since most other items are contingent (assumes 100% persistency)



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## Unknown Compensation

- Circular Letter 18:
- Range of %'s based on sales of similar policies in the past
  - Range of \$ amounts on sales of similar policies in the past
  - Average amount per \$/premium provided by insurer
  - Range of %'s of total premium over the avg. policy duration
  - For exclusive agents, compensation as a % or range of %'s of the producer's total yearly compensation



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### Some Qualitative Elements of Reg. 194

- Does not apply where an existing policy or contract is modified or otherwise amended. The regulation applies only upon the issuance of a new policy or contract
- A producer may combine all disclosures into one document provided to the purchaser at or prior to the time of application
- A producer may incorporate any disclosure required by Reg. 194 into other written materials as long as the disclosure is prominent



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### Other Licensed Parties at the Point of Sale

- Section 30.5 exempts those producers who have no direct sales or solicitation contact with the purchaser, which may include wholesale brokers or managing general agents
- This seems to exempt product wholesalers, sales managers, etc., however
- NYID Circular Letter guidance states that only producers with **no contact** are exempted
- So, if you are at the point of sale, and the client asks for specific compensation info, yours must be disclosed



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### Some Technical Issues

- Disclosure of compensation for flexible premium plans
- Disclosure of compensation for term/PUA "blend" riders
- Disclosure of asset based compensation
- Disclosure of other rider compensation that is "material", e.g. not waiver
- How to deal with "split" cases
- There is no guidance, so many variations are possible



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