

**Committee on Life Insurance Company Expenses  
2007 Individual Life and Annuity Expense Study**

**Purpose and Objectives**

While expenses are critical to pricing, policy illustration, financial reporting and performance analysis, actuaries working in these areas have had little in the way of inter-company information in a format that is useful for measuring their company's performance against industry averages or benchmarks. The Committee on Life Insurance Company Expenses (CLICE) was formed in part to address the need to fill this void.

CLICE is working on the 2006 inter-company expenses study for individual life and annuity products which is expected to be posted on the SOA website as soon as possible.

The objective of the 2007 study is to continue this effort while expanding the level of contributions, to serve as a useful unit expense benchmark for various users, including pricing actuaries and their managements from which to assess their own unit expense performance. In addition, CLICE expects the results to be useful in enhancing the generation of the Generally Recognized Expense Table (GRET) in the U.S. used by some companies to demonstrate compliance with the NAIC model sales illustration regulation. This study is intended to be completed by U.S. companies and U.S. operations of Canadian companies.

Concurrently, CLICE has been working with the American Academy of Actuaries' Life Reserving Working Group on concepts underlying possible expense data gathering for principle based reserving. Although the efforts of the working group have not yet necessitated any revisions to the current data submission form, CLICE will continue to monitor this effort and alter the form, if needed. In this regard, because the data submitted for this study may eventually serve another purpose, CLICE is all the more appreciative of contributions to the study.

**Confidentiality**

**All responses to this survey will be kept completely confidential. Society of Actuaries staff will process the responses—no individual company data will be published. Where comparative results are presented, no companies will be identified.**

**General Instructions**

The study covers all Individual Life and Annuity business including Variable Life and Variable Annuities. Accident and Health and all group business are to be excluded.

The Committee believes that broad participation is critical to the success of the study. Therefore, it is important that you participate in the study even if you cannot provide all of the requested detail; in particular, if all of your expenses cannot be broken down by distribution system and line of business. However, when transmitting your contribution, please indicate to the Committee any information not provided in the detail requested.

This study asks for acquisition activity information by distribution channel and line of business and policy/contract maintenance activity information by line of business. Except where otherwise instructed, expenses should be those that are directly incurred by the function described in the line item. Overhead should be recorded in the line items provided for that purpose. **Use your best judgment in determining the appropriate method to allocate expenses among the various distribution channels and lines of business.**

**When data for each distribution channel is provided, please be sure to include both applicable units and expenses so they can be properly matched.** Where you are unable to provide the breakdowns by distribution channel, use the Unallocated column. **If the allocation by line of business is not available, use the Other Life or Other Annuity line of business, as appropriate.**

A separate workbook (called Data Submission Form—UL) has been created for Universal Life business only. If feasible, please complete this workbook with the unit and expense information applicable to

Universal Life that is also included in the Permanent Life category on the workbook entitled Data Submission Form – All Categories. The primary workbook (Data Submission Form) should be completed as in previous years with all Permanent Life information included. The Data Submission Form – UL should only include information related to Universal Life.

For Immediate Annuities, units and expenses for structured settlements should not be included. If for some reason, it is not possible to exclude the units and expenses for structured settlements, please note in the comments section how you treated them.

Please only input numerical values in the actual expense and unit tables; for explanatory notes, please use the comments sections.

If you find it necessary to deviate from the instructions or use the Unallocated column, please provide an explanation in the area provided for that purpose or call Steve Siegel at the Society of Actuaries (847-706-3578) or [ssiegel@soa.org](mailto:ssiegel@soa.org) for instructions.

**Completed worksheets should be e-mailed to Jeanne Nallon at [jnallon@soa.org](mailto:jnallon@soa.org).**

### **Format**

An Excel workbook is being used to collect the data. The tabs at the bottom of the workbook indicate units and expense worksheets for each line of business. You need only fill out the sheets for the lines of business that are applicable to your company. You will not be able to make entries in any cells other than those where data is expected. All other cells are protected. Totals are automatically calculated, where applicable. The width of the columns in the workbook has been left adjustable to make it easier to ensure that the correct figures are inputted (this option is only available in Excel Versions 2002 and later). If you have any problems entering data, please contact Steve Siegel at the above e-address.

### **Company Information**

Enter the name of your company and the requested information for the primary contact for this study. Place an X in the appropriate box for your Corporate Organization Type. Enter an X in the Yes box for Primarily Burial Life Insurance Company, if your company primarily sells this type of business. Enter the amount of Gross Investment Income and Investment Expenses from Lines 10 and 11, respectively, of the Exhibit of Net Investment Income of the NAIC General Account and Separate Account Annual Statement. Please note any characteristics unique to your company that might significantly impact comparisons with other companies and/or if your company underwent any major changes that would impact your 2007 results in the space provided.

### **Lines of Business**

This study covers all Individual Life and Annuity business, including Variable Life and Annuities. Accident and health and all group business are to be excluded. Lines of business descriptions are as follows:

- Term—Life insurance policies and riders that are classified as term insurance for purposes of completing the Exhibit of Life Insurance in the NAIC Annual Statement.
- Universal Life—Fixed premium universal life and flexible premium universal life.
- Permanent—Whole life, limited pay life, single premium whole life, interest sensitive life, fixed premium universal life and flexible premium universal life not included in the other lines of business.
- COLI—Corporate owned life insurance.
- BOLI—Bank owned life insurance.
- Variable Life Insurance—Variable whole life and variable universal life insurance.

- Individual Deferred Annuities—Fixed premium, flexible premium and single premium deferred annuities. Include equity-indexed annuities. Do not include variable annuities.
- Individual Immediate Annuities—Annuities for which the annuitant begins receiving periodic payments, usually fixed, within one year. Do not include variable annuities.
- Variable Individual Deferred Annuities—Fixed premium, flexible premium and single premium variable individual deferred annuities. Investment returns vary directly with underlying fund.
- Variable Individual Immediate Annuities—Annuities for which the annuitant begins receiving periodic payments within one year. Investment returns vary directly with underlying fund.

### **Distribution Channel Descriptions**

Career	An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.
Brokerage	A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.
PPGA	A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.
Home service	A system that uses full-time agents who sell industrial, ordinary, and property-casualty products in an assigned territory known as a debit. These agents may be responsible for home collection of renewal premiums.
Multi-line agency	A system that uses full-time agents licensed in property-casualty, life, health, annuities, and equity products and who primarily represent one company.
Direct response	Buyer-initiated purchases made in response to direct home office offerings through the mail, media advertising, the company's website as well as purchases resulting from home office or call center-based telemarketing efforts.
Stockbrokers	Individuals licensed by the Securities and Exchange Commission (SEC) working in a wirehouse, or an independent or regional broker dealer.
Financial institutions	Commercial banks, savings banks, savings and loans, credit unions and thrifts that distribute insurance products to their customers. Sales are made by the institution's dedicated sales force, agents of affiliated agencies, or contracted third-party marketers.
Other	Any distribution method that does not fall into one of the categories outlined above.
Unallocated	Use this column if you are unable to segregate your data into the categories shown above.

### **Expense Units**

**All expense units reported are for the calendar year 2007.** References are to the NAIC Annual Statement blank. Fraternal companies should use the corresponding lines from the Fraternal blank.

A. New Business—Direct (before reinsurance is deducted)

1. Policies/Contracts Issued—Number of individual policies/contracts issued on direct business. Joint policies should be counted as one policy. Numbers of riders should not be included on this line.
  2. Volume Issued (Round to 1000s)—For individual life insurance report the initial face amount/sum insured issued before reinsurance is deducted. Include volume of riders that increase the death benefit on the base policy insured(s). **Please round the Volume Issued to 1000s. For instance, 987,654,321,123 should be entered as 987,654,321.** Not applicable for annuities.
  3. First Year Premium Collected—First year premium collected included in Exhibit 1, Line 6.1. This should include premiums in excess of UL and VUL target premiums paid in the first policy year.
    - 3a. UL and VUL Dump-ins Included in A-3—Enter the amount of premium included in A-3 that exceeded the target premium (in the first policy year) and for which a lower commission rate was paid.
  4. Single Premium Collected—Single premium collected included in Exhibit 1, Line 10.1. This should include any Dump-ins for UL and VUL paid in renewal years and dividends used to purchase paid up insurance.
    - 4a. UL and VUL Dump-ins Included in A-4—Enter the amount of premium included in A-4 that exceeded the target premium and dump-ins (in renewal years) and for which a lower commission rate was paid.
    - 4b. Dividends used for Paid-Up Additions Included in A-4—Enter the amount of single premium included on line A-4 from dividends used to purchase paid-up insurance. Exclude any amount applied to dividend deposits.
- B. Inforce—Direct (before reinsurance is deducted)—Current Year
1. Policies/Contracts—Number of individual policies/contracts inforce at the end of the year being reported in the NAIC Policy Exhibit.
  2. Volume (Round to 1000s)—For individual life insurance, the face amount/sum insured inforce on direct business as reported in the NAIC Policy Exhibit. **Please round the Volume Inforce to 1000s.** For individual annuities, leave blank.
  3. Renewal Premium Collected—Renewal premium collected included in Exhibit 1, Line 16.1.
  4. Reserves or Account Values—For business (other than UL, VUL and Deferred Annuities), enter the amount of reserves underlying the policies/contracts for each category of business. For UL, VUL and Deferred Annuities, enter the account values underlying the policies/contracts for each category of business.
- C. Inforce—Direct (before reinsurance is deducted)—Previous Year (include business in its first policy year that was inforce at the end of the immediately preceding year)
1. Policies/Contracts—Same as B-1 above for the yearend immediately preceding the study.
  2. Volume (Round to 1000s)—Same as B-2 above for the yearend immediately preceding the study. Please round the Volume Inforce to 1000s.
  3. Renewal Premium Collected—Same as B-3 above for the yearend immediately preceding the study.
  4. Reserves or Account Values—Same as B-4 above for the yearend immediately preceding the study.
- D. Claims/Contracts

1. Number of Claims—For Life Insurance, enter the number of death and disability claims. This item is not applicable to Annuities.
2. Number of Surrenders/Lapses—For Life Insurance, enter the number of surrenders/lapses during the year. For annuities, enter the number of both surrenders/lapses and deaths.
3. Number of Annuity Contracts on which a Periodic Payment was made—For annuities, enter the number of contracts on which a periodic payment was made during 2007. This is not applicable for Life Insurance.

### Expense Type Descriptions

All expenses reported are for the calendar year 2007.

#### E. Commissions Paid

1. First Year Commissions and Related Expenses—Commissions and related expenses paid included in Exhibit 1, Line 27 of the NAIC Annual Statement. This includes any commissions associated with Dump-in premiums included in 1a.
  - 1a. UL and VUL Dump-ins Included in E-1—Enter the amount of commission included in E-1 that was paid on premium that exceeded the target premium.
2. Single Commissions—Commissions paid included in Exhibit 1, Line 28 of the NAIC Annual Statement. This includes any commissions associated with Dump-in premiums included in 2a.
  - 2a. UL and VUL Dump-ins Included in E-2—Enter the amount of commission included in E-2 that was paid on premium that exceeded the target premium.
3. Renewal Commissions—Commissions paid included in Exhibit 1, Line 29 of the NAIC Annual Statement. Include service fees paid. Asset trailing expenses for annuities should also be included.

#### F. Acquisition Expenses other than commissions

1. Sales/Marketing—All expenses, other than commissions, directly paid in the acquisition of new business, including home office, field office, licensing, sales promotion, etc.
2. Underwriting—Inspection Reports and Medical Exams—All expenses paid for inspection reports, MIB's, blood tests, para-medicals, full medicals and attending physician's statements. **This does not apply to annuities.**
3. Underwriting—All Other—All other expenses paid in relation to underwriting the risk. **This does not apply to annuities.**
4. Policy/Contract Issue—All expenses paid for the preparation and issue of policies or contracts.
5. Product Development—If your company allocates product development expenses as acquisition expenses, enter the amount here. If not, enter 0. Please note in comments where product development expenses are included.
6. Other Acquisition—All other expenses paid directly relating to the acquisition of new business. Do not include here any overhead expenses that are included in G.5 (Total Overhead). Please list separately and describe each significant type of expense included here. Please include direct response acquisition related expenses in a separate line.

#### G. Other Expenses (no distribution channel expense splits have been requested)

1. Benefits Department(s) and Claim Settlement Expenses—For life, only expenses for death, disability, and ADB claims should be included, i.e. those expenses related to Exhibit 8 claims including internal and external staff, investigation, etc.

For annuities, expenses relating to the periodic payment of annuity benefits (including both immediate and supplementary contracts) should be included. Expenses related to surrenders and lapses should be included in G.3. Surrender and Lapse Expenses.

2. Policyowner Services—All expenses paid directly relating to the servicing of the underlying life or annuity policies/contracts.
  3. Surrender and Lapse Expenses—All expenses paid relating to surrenders and lapses. For annuities, also include expenses related to terminations due to death. If it is not possible to separate these expenses, please include them with G.2 (Policyowner Services) and indicate in the notes section of the worksheet if included in G.2.
  4. Significant Unusual Non-recurring Expenses—significant unusual expenses paid that are not expected to recur. These expenses may be related, but not limited, to development or purchase of new systems, mergers and acquisitions, demutualizations or large legal judgements. Indicate the type of expense included. Only include such an expense here if it is greater than 2% of total expenses for the line of business.
  5. Total Overhead—Expenses that are not directly related to the acquisition or maintenance of policies/contracts.
  6. Amount of Total Overhead Allocable to Acquisition—In the pricing process, some companies allocate a certain portion of the total overhead expenses as part of their acquisition costs. If applicable, please enter the amount included in G5. (Total Overhead).
  7. Other Non-overhead—All other expenses paid. Please list and describe each such expense separately.
- H. Premium Tax and Guarantee Association Assessments—Premium taxes paid and guarantee association assessments paid (no distribution channel expense splits have been requested). If Premium Tax is 0, please note this in the comments section.
- I. Total Expenses—Should equal the sum of E through H. Note that this should not be entered.