

**TRANSACTIONS OF SOCIETY OF ACTUARIES
1995-96 REPORTS**

LIMRA, INTERNATIONAL

**I. 1993-94 UNITED STATES LAPSES BY DURATION AND
PRODUCT LINE: LONG-TERM ORDINARY LAPSE SURVEY***

INTRODUCTION

This report examines the lapsation of ordinary insurance in the United States between 1993 and 1994 policy anniversaries. It is designed to help companies develop new products and monitor marketing and product performance.† A separate report is available for Canadian experience.

Lapse rates in this report are percentages of face amounts, policies, and annualized premiums in force on 1993 policy anniversaries that lapse on or before 1994 policy anniversaries. For new issues in 1993, amounts in force on 1993 anniversaries correspond to amounts sold during 1993.

Lapse rates are measured for policy years 1, 2, 3 to 5, 6 to 10, and 11 and over. These policy years correspond to issue years 1993, 1992, 1991 to 1989, 1988 to 1984, and 1983 and earlier. Lapse rates by face amount, number of policies, and annualized premium are measured for six types of ordinary life insurance plans (see Appendix B for product definitions):

- Traditional whole life (WL)
- Interest-sensitive whole life (ISWL)
- Individual pension trust
- Graded-premium whole life (traditional type)
- Yearly renewable term (YRT)
- Level face amount term (excluding YRT).

Lapse rates by face amount are also supplied for issue ages 20 to 29, 30 to 39, 40 to 49, 50 to 59, and all issue ages combined (including issue ages below 20 and over 59).

Appendix C lists other LIMRA lapse and persistency research studies.

DEFINITIONS

Example of a First-Year Lapse

A new policy is issued and the first 12 months of premium are subsequently paid. The premium due in policy month 13 is not paid by the end of the grace period (this is a first-year lapse, not a second-year lapse).

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†Participating companies may receive a comparison of their lapse experience with the combined lapse experience of a group of peer companies. Data for each peer company remain confidential and are not shown separately. For further information about receiving a peer analysis, contact project director Eric Sondergeld at (860) 285-7754.

Unweighted Average Lapse Rate

This rate equals the mean of individual company lapse rates; therefore, company size does not affect the results.

Weighted Average Lapse Rate

This rate equals the mean of individual company lapse rates weighted by the amount of in force; therefore, company size does affect the results.

Additional definitions appear in Appendix A.

ABOUT THE SAMPLE

Thirty-three companies participated in the study. Tables 1, 2, and 3 show face amount, number of policies, and annualized premium, respectively, that were in force at the beginning of the 1993-94 policy year. (For issue year 1993, amounts in force on 1993 anniversaries correspond to amounts sold during the year.)

TABLE 1
FACE AMOUNT IN FORCE (BILLIONS) ON 1993 ANNIVERSARIES (33 COMPANIES)

Issue Year	Traditional Whole Life	Interest-Sensitive Whole Life	Individual Pension Trust	Graded-Premium Whole Life	Level Term	
					YRT	Other
1993	\$ 84.8	\$ 20.4	\$ 2.2	\$ 0.6	\$ 84.5	\$ 56.0
1992	79.9	16.7	2.5	0.6	77.8	32.1
1989 to 1991	207.0	35.8	6.8	2.5	158.2	55.8
1984 to 1988	199.3	54.4	5.6	5.7	96.7	47.3
Before 1984	164.7	3.9	4.0	5.1	25.9	34.1
Total	\$735.7	\$131.2	\$21.1	\$14.5	\$443.1	\$225.3

TABLE 2
NUMBER OF POLICIES IN FORCE (THOUSANDS) ON 1993 ANNIVERSARIES (32 COMPANIES)

Issue Year	Traditional Whole Life	Interest-Sensitive Whole Life	Individual Pension Trust	Graded-Premium Whole Life	Level Term	
					YRT	Other
1993	1,193.3	263.5	30.1	5.3	382.3	507.9
1992	1,172.2	210.4	30.7	5.0	364.7	341.3
1989 to 1991	3,064.8	480.7	80.7	19.7	813.0	753.7
1984 to 1988	3,737.3	863.2	79.0	51.7	657.9	766.8
Before 1984	11,884.7	52.3	147.3	149.7	254.5	2,375.9
Total	21,052.3	1,870.1	367.8	231.4	2,472.4	4,745.6

TABLE 3

ANNUALIZED PREMIUM IN FORCE (MILLIONS) ON 1993 ANNIVERSARIES (25 COMPANIES)

Issue Year	Traditional Whole Life	Interest- Sensitive Whole Life	Individual Pension Trust	Graded- Premium Whole Life	Level Term	
					YRT	Other
1993	\$ 890.3	\$ 25.9	\$ 35.5	\$ 5.7	\$128.6	\$ 43.3
1992	827.4	23.4	40.2	5.9	115.2	29.8
1989 to 1991	1,877.3	78.6	100.6	32.6	233.8	30.6
1984 to 1988	1,665.6	332.4	65.9	88.3	187.2	27.0
Before 1984	2,101.5	46.4	57.7	78.6	75.3	15.2
Total	\$7,362.1	\$506.7	\$299.9	\$211.1	\$740.1	\$145.9

LAPSE RATES BY PRODUCT TYPE

Median lapse rates for the 24 companies that supplied data for face amount, policy count, and annualized premium are shown in Tables 4, 5, and 6, respectively. Not all 24 companies sell all product types.

TABLE 4

PERCENTAGE OF FACE AMOUNT LAPSING BY PRODUCT TYPE

Policy Year	All Products	Traditional Whole Life	Interest- Sensitive Whole Life	Individual Pension Trust	Graded- Premium Whole Life	Level Term	
						YRT	Other
1	12.0%	15.4%	14.6%	6.8%	—	13.5%	11.9%
2	11.3	9.2	16.4	11.7	—	13.9	13.1
3-5	10.0	6.7	8.6	10.2	—	12.4	14.8
6-10	7.2	5.7	6.8	12.1	—	9.1	7.2
11+	5.3	4.4	7.4	7.5	5.7%	7.7	7.0

—Insufficient data.

TABLE 5

PERCENTAGE OF POLICIES LAPSING BY PRODUCT TYPE

Policy Year	All Products	Traditional Whole Life	Interest- Sensitive Whole Life	Individual Pension Trust	Graded- Premium Whole Life	Level Term	
						YRT	Other
1	14.1%	16.0%	16.1%	13.4%	—	14.8%	13.3%
2	11.3	9.1	16.2	17.8	—	15.0	13.2
3-5	9.0	6.4	9.0	16.9	—	12.0	12.5
6-10	6.6	5.2	6.5	13.9	—	8.1	7.7
11+	3.8	3.7	7.2	8.2	4.7%	7.3	6.2

—Insufficient data.

TABLE 6
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING BY PRODUCT TYPE

Policy Year	All Products	Traditional Whole Life	Interest-Sensitive Whole Life	Individual Pension Trust	Graded-Premium Whole Life	Level Term	
						YRT	Other
1	10.2%	12.8%	9.2%	8.3%	—	15.3%	13.1%
2	8.6	7.5	15.9	9.8	—	15.4	14.5
3-5	7.8	5.4	6.1	8.0	—	13.4	12.5
6-10	6.6	5.1	6.5	12.3	—	9.8	8.2
11+	4.5	4.2	7.8	6.8	5.0%	8.5	7.2

—Insufficient data.

FACE AMOUNT LAPSE RATES BY ISSUE AGE

TABLE 7
MEDIAN LAPSE RATES FOR TRADITIONAL WHOLE LIFE (25 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	22.6%	14.2%	12.7%	9.3%
2	10.3	8.7	7.1	6.1
3-5	8.2	6.0	6.0	5.2
6-10	6.4	5.5	4.9	4.1
11+	4.4	4.3	3.8	3.7

TABLE 8
MEDIAN LAPSE RATES FOR INTEREST-SENSITIVE WHOLE LIFE (6 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	23.4%	16.0%	13.8%	5.2%
2	18.6	13.5	12.9	8.9
3-5	10.3	7.7	6.2	7.4
6-10	8.3	6.3	5.3	5.0

TABLE 9
MEDIAN LAPSE RATES FOR INDIVIDUAL PENSION TRUST (14 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	21.6%	12.5%	6.1%	4.7%
2	18.4	13.1	8.4	3.9
3-5	13.7	9.2	8.3	8.5
6-10	11.0	9.6	7.9	10.3
11+	6.7	6.0	6.5	8.0

TABLE 10
MEDIAN LAPSE RATES FOR YRT (23 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	16.9%	11.5%	12.1%	13.4%
2	17.7	12.7	13.5	17.6
3-5	15.1	11.9	13.1	15.6
6-10	8.6	9.8	12.9	16.3
11+	6.4	7.6	10.0	10.0

TABLE 11
MEDIAN LAPSE RATES FOR OTHER LEVEL TERM (12 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	15.8%	10.2%	9.3%	9.6%
2	13.8	10.7	9.9	8.9
3-5	14.5	10.0	9.6	8.3
6-10	9.0	6.0	6.8	5.6
11+	6.1	6.9	6.0	8.5

COMPARATIVE FACE AMOUNT LAPSE RATE TABLES

Table 12 shows median face amount lapse rates for permanent insurance (traditional whole life, interest-sensitive whole life, and graded-premium whole life combined) and term insurance (YRT and other level term). Except in the first year, permanent insurance continues to have better persistency than term insurance.

TABLE 12
PERMANENT INSURANCE VS. TERM INSURANCE

Policy Year	Permanent	Term
1	12.2%	11.8%
2	9.4	13.6
3-5	6.1	13.1
6-10	5.4	9.7
11+	4.6	8.2

The term marketplace has seen increased activity in non-YRT products, which include products with premiums increasing every 10 or 20 years. Table 13 compares face amount lapse rates for YRT and non-YRT plans. YRT lapse rates are higher than non-YRT rates in all policy years.

TABLE 13
YRT VS. NON-YRT INSURANCE

Policy Year	YRT	Non-YRT
1	12.4%	10.3%
2	13.9	9.8
3-5	13.1	7.3
6-10	11.0	5.6
11+	8.0	4.7

Table 14 provides lapse rates by company size for all products combined. Lapse rates for large companies (greater than \$15 billion face amount in force for the six products in the study) are lower than for small companies in almost all policy years.

TABLE 14
LARGE-COMPANY VS. SMALL-COMPANY LAPSE RATES

Policy Year	Median		Unweighted Average	
	Large Companies	Small Companies	Large Companies	Small Companies
1	11.2%	12.0%	11.7%	13.4%
2	10.5	11.9	10.3	13.7
3-5	8.7	11.0	8.9	12.3
6-10	6.8	7.4	6.8	8.1
11+	5.4	5.0	5.1	5.2

TRENDS IN LAPSE RATES

Traditional Whole Life

Figure 1 shows average whole life face amount lapse rates for a constant group of companies in 1993 and 1994; Table 15 summarizes companies' increases and decreases in face amount lapse rates. Since 1993, average lapse rates have declined in all durations. In 1993 lapse rates ranged from 16.6 percent in policy year 1 to 4.7 percent in policy years 11 and over. In 1994 lapse rates ranged from 15.8 percent to 4.4 percent over the same durations.

FIGURE 1

WHOLE LIFE LAPSE RATES FOR A CONSTANT GROUP OF COMPANIES

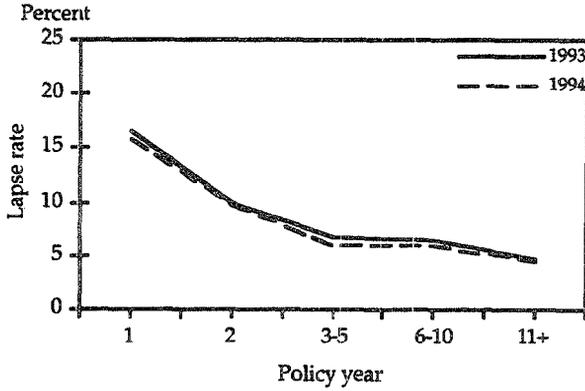


TABLE 15

INCREASES AND DECREASES IN WHOLE LIFE LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1993	1994
Policy year 1			
Increase	9	16.6%	19.0%
Decrease	17	16.5	14.0
All	26	16.6	15.8
Policy year 2			
Increase	10	8.0%	10.1%
Decrease	16	11.2	9.3
All	26	9.9	9.6
Policy years 3-5			
Increase	11	6.3%	7.0%
Decrease	18	6.9	5.4
All	29	6.7	6.0
Policy years 6-10			
Increase	11	5.5%	5.8%
Decrease	17	7.1	6.0
All	28	6.5	5.9
Policy years 11+			
Increase	9	4.5%	4.8%
Decrease	19	4.9	4.2
All	28	4.7	4.4

Interest-Sensitive Whole Life

Figure 2 shows average interest-sensitive whole life face amount lapse rates for a constant group of companies in 1993 and 1994; Table 16 summarizes companies' increases and decreases in face amount lapse rates. Average lapse rates decreased in the first policy year but remained relatively unchanged in all other years.

FIGURE 2
INTEREST-SENSITIVE WHOLE LIFE LAPSE RATES FOR A CONSTANT GROUP OF COMPANIES

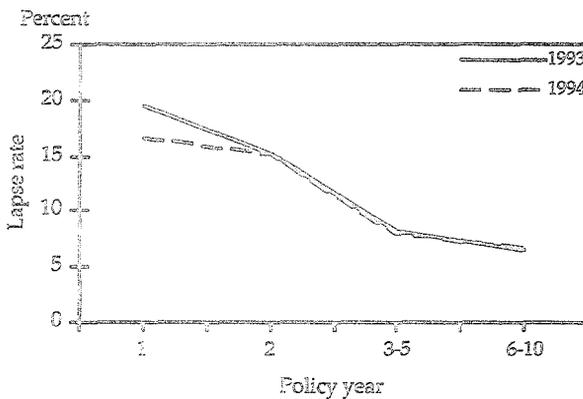


TABLE 16
INCREASES AND DECREASES IN INTEREST-SENSITIVE
WHOLE LIFE LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1993	1994
Policy year 1			
Increase	1	21.6%	27.3%
Decrease	5	19.0	14.3
All	6	19.4	16.5
Policy year 2			
Increase	4	13.5%	14.8%
Decrease	2	18.8	16.1
All	6	15.2	15.2
Policy years 3-5			
Increase	4	9.0%	9.7%
Decrease	4	7.2	5.9
All	8	8.1	7.8
Policy years 6-10			
Increase	7	6.5%	7.1%
Decrease	2	6.3	4.7
All	9	6.5	6.6

Individual Pension Trust

Figure 3 shows average individual pension trust face amount lapse rates for a constant group of companies in 1993 and 1994; Table 17 summarizes companies' increases and decreases in face amount lapse rates.

FIGURE 3
INDIVIDUAL PENSION TRUST LAPSE RATES FOR A CONSTANT GROUP OF COMPANIES

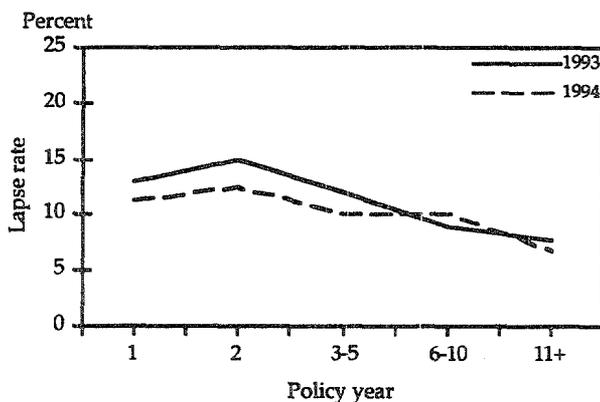


TABLE 17
INCREASES AND DECREASES IN INDIVIDUAL
PENSION TRUST LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1993	1994
Policy year 1			
Increase	6	10.7%	13.2%
Decrease	6	15.5	9.1
All	12	13.1	11.2
Policy year 2			
Increase	3	15.2%	18.8%
Decrease	9	14.7	10.5
All	12	14.8	12.6
Policy years 3-5			
Increase	4	13.2%	14.5%
Decrease	9	11.6	8.3
All	13	12.1	10.2
Policy years 6-10			
Increase	8	8.6%	13.7%
Decrease	7	9.2	6.2
All	15	8.9	10.2
Policy years 11+			
Increase	10	6.7%	7.3%
Decrease	7	9.3	5.8
All	17	7.7	6.7

Yearly Renewable Term

Figure 4 shows average 1993 and 1994 YRT face amount lapse rates for a constant group of companies; Table 18 summarizes companies' increases and decreases in face amount lapse rates. Average lapse rates decreased in the first and 11+ years, but increased or remained the same in all other policy years.

FIGURE 4
YRT LAPSE RATES FOR A CONSTANT GROUP OF COMPANIES

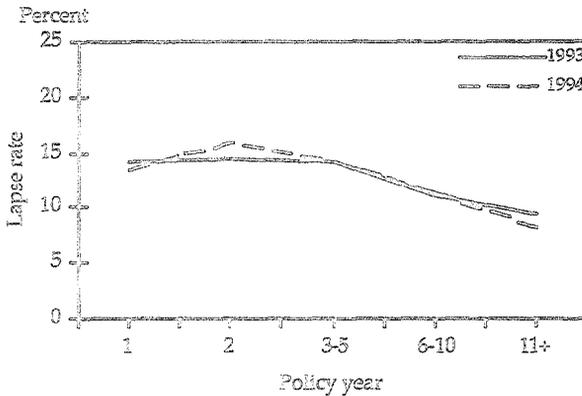


TABLE 18
INCREASES AND DECREASES IN YRT LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1993	1994
Policy year 1			
Increase	9	15.3%	18.0%
Decrease	17	13.8	10.9
All	26	14.3	13.4
Policy year 2			
Increase	15	14.1%	17.3%
Decrease	9	14.9	13.4
All	24	14.4	15.8
Policy years 3-5			
Increase	16	13.1%	14.6%
Decrease	9	16.1	13.6
All	25	14.2	14.2
Policy years 6-10			
Increase	13	11.8%	13.5%
Decrease	13	10.4	9.1
All	26	11.1	11.3
Policy years 11+			
Increase	6	7.9%	9.1%
Decrease	18	9.9	7.9
All	24	9.4	8.2

Other Level Term (Excluding YRT)

Figure 5 shows average level term face amount lapse rates for a constant group of companies in 1993 and 1994; Table 19 summarizes companies' increases and decreases in face amount lapse rates.

FIGURE 5
OTHER LEVEL TERM LAPSE RATES FOR A CONSTANT GROUP OF COMPANIES

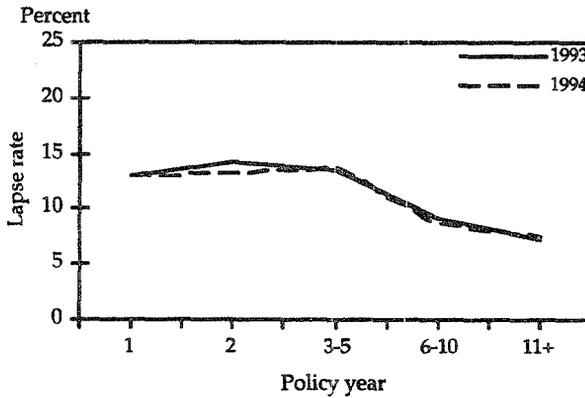


TABLE 19
INCREASES AND DECREASES IN OTHER LEVEL TERM LAPSE RATES

	Number of Companies	Unweighted Average Lapse Rate	
		1993	1994
Policy year 1			
Increase	8	12.4%	15.5%
Decrease	8	13.6	10.6
All	16	13.0	13.1
Policy year 2			
Increase	6	12.6%	15.4%
Decrease	8	15.6	11.7
All	14	14.3	13.3
Policy years 3-5			
Increase	7	13.5%	15.6%
Decrease	5	13.2	11.0
All	12	13.4	13.7
Policy years 6-10			
Increase	6	6.0%	7.2%
Decrease	7	12.0	10.1
All	13	9.2	8.7
Policy years 11+			
Increase	4	6.8%	10.9%
Decrease	10	7.4	5.9
All	14	7.3	7.4

DETAILED LAPSE RATE TABLES

Traditional Whole Life

TABLE 20
PERCENTAGE OF FACE AMOUNT LAPsing (33 COMPANIES)

Policy Year	In Force (Billions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$ 84.8	8.3%	13.9%	19.5%	15.4%	13.5%
2	79.9	5.6	8.9	11.7	9.6	8.5
3-5	207.8	5.0	6.0	7.3	6.3	5.6
6-10	199.3	3.7	5.2	6.1	5.8	4.7
11+	164.7	3.5	4.3	5.1	4.4	4.0

TABLE 21
PERCENTAGE OF POLICIES LAPsing (32 COMPANIES)

Policy Year	In Force (Thousands)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	1,193.3	10.0%	15.9%	23.5%	17.3%	17.5%
2	1,172.2	6.0	8.8	12.5	9.5	10.5
3-5	3,064.8	5.0	6.1	6.9	5.9	6.3
6-10	3,737.3	4.0	5.0	5.3	4.8	4.5
11+	11,884.7	3.3	3.7	4.2	3.8	3.4

TABLE 22
PERCENTAGE OF ANNUALIZED PREMIUM LAPsing (25 COMPANIES)

Policy Year	In Force (Millions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$ 890.3	6.3%	12.4%	17.3%	13.8%	10.8%
2	827.4	5.3	7.8	11.4	8.7	7.6
3	1,877.3	4.0	5.5	7.2	5.5	5.6
6-10	1,665.6	3.4	5.3	7.3	5.8	5.2
11+	2,101.5	3.3	4.2	4.7	4.1	3.7

TABLE 23
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM NOT LAPsing AND LAPsing

Policy Year	Face Amount ^a		Premium ^b	
	No. Lapsing	Lapsing	Not Lapsing	Lapsing
1	\$65,000	\$53,000	\$1,050	\$820
2	57,000	53,000	940	780
3-5	47,000	53,000	790	720
6-10	37,000	49,000	500	550
11+	11,000	13,000	220	220

^aRounded to the nearest \$1,000.

^bRounded to the nearest \$10.

TABLE 24
 MEDIAN FACE AMOUNT LAPSE RATES BY ISSUE AGE (25 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	22.6%	14.2%	12.7%	9.3%
2	10.3	8.7	7.1	6.1
3-5	8.2	6.0	6.0	5.2
6-10	6.4	5.5	4.9	4.1
11+	4.4	4.3	3.8	3.7

TABLE 25
 UNWEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (25 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	22.3%	17.0%	14.0%	9.3%
2	11.6	9.1	8.1	6.9
3-5	8.4	6.9	6.2	6.2
6-10	7.0	6.0	6.4	5.3
11+	4.5	4.5	4.0	3.8

TABLE 26
 WEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (25 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	22.5%	14.3%	10.7%	9.7%
2	12.7	8.7	7.2	6.1
3-5	7.4	5.4	5.1	4.8
6-10	5.6	4.8	4.7	4.0
11+	3.9	3.7	3.7	3.5

Interest-Sensitive Whole Life

TABLE 27
 PERCENTAGE OF FACE AMOUNT LAPSING (10 COMPANIES)

Policy Year	In Force (Billions)	Median	Unweighted Average	Weighted Average
1	\$20.4	13.5%	15.3%	14.2%
2	16.7	15.7	15.2	10.9
3-5	35.8	8.2	7.8	8.2
6-10	54.4	6.6	6.6	6.2
11+	3.9	4.6	4.6	5.3

TABLE 28
PERCENTAGE OF POLICIES LAPSING (10 COMPANIES)

Policy Year	In Force (Thousands)	Median	Unweighted Average	Weighted Average
1	263.5	14.7%	16.0%	15.3%
2	210.4	13.9	13.9	11.5
3-5	480.7	8.4	7.4	8.1
6-10	863.2	6.3	6.4	6.0
11+	52.3	7.2	7.8	7.6

TABLE 29
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING (9 COMPANIES)

Policy Year	In Force (Millions)	Median	Unweighted Average	Weighted Average
1	\$ 25.9	9.2%	12.4%	18.5%
2	23.4	15.9	14.6	14.6
3-5	78.6	6.1	7.2	9.0
6-10	332.4	6.5	6.4	6.7
11+	46.4	7.8	7.8	8.4

TABLE 30
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM NOT LAPSING AND LAPSING

Policy Year	Face Amount*		Premium*	
	Not Lapsing	Lapsing	Not Lapsing	Lapsing
1	\$56,000	\$50,000	\$880	\$600
2	44,000	54,000	590	590
3-5	49,000	53,000	610	560
6-10	54,000	54,000	760	760
11+	64,000	60,000	930	920

*Rounded to the nearest \$1,000.

*Rounded to the nearest \$10.

TABLE 31
MEDIAN FACE AMOUNT LAPSE RATES BY ISSUE AGE (6 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	23.4%	16.0%	13.8%	5.2%
2	18.6	13.5	12.9	8.9
3-5	10.3	7.7	6.2	7.4
6-10	8.3	6.3	5.3	5.0
11+	7.4	9.5	7.3	11.9

TABLE 32

UNWEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (6 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	20.9%	14.9%	13.1%	6.5%
2	19.6	15.9	15.1	10.2
3-5	10.7	7.5	6.1	6.4
6-10	8.0	6.9	6.6	5.5
11+	7.4	9.8	7.4	11.9

TABLE 33

WEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (6 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	18.8%	14.0%	10.7%	5.9%
2	13.8	10.4	9.1	5.8
3-5	9.0	7.7	6.6	8.2
6-10	6.8	5.6	4.6	3.8
11+	10.3	13.1	9.7	12.0

Individual Pension Trust

TABLE 34

PERCENTAGE OF FACE AMOUNT LAPSING (18 COMPANIES)

Policy Year	In Force (Billions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$2.2	6.1%	8.5%	17.7%	10.6%	9.6%
2	2.5	6.1	12.5	15.0	11.5	8.4
3-5	6.8	5.0	10.6	14.0	9.9	8.5
6-10	5.6	6.6	9.7	14.0	10.1	8.4
11+	4.0	4.4	7.3	8.7	6.8	6.2

TABLE 35

PERCENTAGE OF POLICIES LAPSING (18 COMPANIES)

Policy Year	In Force (Thousands)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	30.1	10.1%	14.2%	18.5%	14.6%	17.8%
2	30.7	10.7	17.8	21.8	17.3	16.0
3-5	80.7	8.2	15.5	18.7	13.9	14.9
6-10	79.0	9.5	11.8	15.2	12.3	11.8
11+	147.3	5.8	7.8	9.9	7.7	7.1

TABLE 36
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING (13 COMPANIES)

Policy Year	In Force (Millions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$ 35.5	4.6%	8.3%	10.3%	13.1%	6.4%
2	40.2	4.6	9.8	14.8	10.3	5.9
3-5	100.6	4.4	8.0	12.6	8.8	6.3
6-10	65.9	8.3	12.3	14.5	11.3	8.3
11+	57.7	5.0	6.8	9.0	6.8	6.4

TABLE 37
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM NOT LAPSING AND LAPSING

Policy Year	Face Amount*		Premium†	
	Not Lapsing	Lapsing	Not Lapsing	Lapsing
1	\$59,000	\$38,000	\$1,430	\$ 740
2	66,000	38,000	1,480	620
3-5	69,000	34,000	1,600	780
6-10	60,000	49,000	1,620	1,020
11+	29,000	22,000	750	580

*Rounded to the nearest \$1,000.

†Rounded to the nearest \$10.

TABLE 38
MEDIAN FACE AMOUNT LAPSE RATES BY ISSUE AGE (14 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	21.6%	12.5%	6.1%	4.7%
2	18.4	13.1	8.4	3.9
3-5	13.7	9.2	8.3	8.5
6-10	11.0	9.6	7.9	10.3
11+	6.7	6.0	6.5	8.0

TABLE 39
UNWEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (14 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	18.9%	11.0%	7.6%	6.5%
2	17.5	11.5	9.0	6.0
3-5	15.7	10.1	9.1	9.4
6-10	11.6	9.5	8.7	11.5
11+	7.6	5.2	6.8	8.2

TABLE 40
WEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (14 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	22.3%	12.1%	7.7%	6.3%
2	17.8	11.1	7.5	6.0
3-5	15.6	9.5	8.6	8.9
6-10	10.7	7.2	7.3	9.8
11+	6.7	4.8	6.6	7.8

Graded-Premium Whole Life

TABLE 41
PERCENTAGE OF FACE AMOUNT LAPSING (13 COMPANIES)

Policy Year	In Force (Billions)	Median	Unweighted Average	Weighted Average
6-10	\$5.7	5.9%	8.4%	6.5%
11+	5.1	6.0	7.1	5.6

TABLE 42
PERCENTAGE OF POLICIES LAPSING (13 COMPANIES)

Policy Year	In Force (Thousands)	Median	Unweighted Average	Weighted Average
6-10	51.7	5.9%	8.5%	6.1%
11+	149.7	5.1	5.8	4.0

TABLE 43
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM NOT LAPSING AND LAPSING

Policy Year	Face Amount*		Premium [†]	
	Not Lapsing	Lapsing	Not Lapsing	Lapsing
6-10	\$108,000	\$115,000	—	—
11+	31,000	38,000	\$770	\$860

*Rounded to the nearest \$1,000.

[†]Rounded to the nearest \$10.

—Insufficient data.

Yearly Renewable Term

TABLE 44
PERCENTAGE OF FACE AMOUNT LAPSING (32 COMPANIES)

Policy Year	In Force (Billions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$ 84.5	9.1%	12.4%	19.4%	13.6%	11.8%
2	77.8	11.9	13.9	19.9	15.9	14.1
3-5	158.2	11.3	13.1	16.3	14.8	13.4
6-10	96.7	7.6	11.0	14.5	11.8	10.1
11+	25.9	6.5	8.0	10.9	8.7	7.0

TABLE 45
PERCENTAGE OF POLICIES LAPSING (31 COMPANIES)

Policy Year	In Force (Thousands)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	382.3	10.1%	14.5%	20.0%	15.7%	15.0%
2	364.7	12.1	14.6	19.4	15.6	14.8
3-5	813.0	11.0	12.2	16.5	13.7	12.4
6-10	657.9	7.0	9.5	14.1	10.5	9.4
11+	254.5	6.2	7.7	9.7	8.1	6.5

TABLE 46
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING (24 COMPANIES)

Policy Year	In Force (Millions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$128.6	8.4%	14.5%	19.0%	14.4%	12.3%
2	115.2	12.8	15.5	18.7	16.4	13.5
3-5	233.8	11.0	13.4	18.4	14.8	12.2
6-10	187.2	8.0	9.7	13.9	11.1	9.8
11+	75.3	7.1	8.5	12.5	9.7	8.4

TABLE 47
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM NOT LAPSING AND LAPSING

Policy Year	Face Amount ^a		Premium ^b	
	Not Lapsing	Lapsing	Not Lapsing	Lapsing
1	\$244,000	\$198,000	\$490	\$430
2	226,000	215,000	450	560
3-5	197,000	200,000	530	620
6-10	135,000	153,000	440	570
11+	99,000	104,000	490	590

^aRounded to the nearest \$1,000.

^bRounded to the nearest \$10.

TABLE 48
MEDIAN FACE AMOUNT LAPSE RATES BY ISSUE AGE (23 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	16.9%	11.5%	12.1%	13.4%
2	17.7	12.7	13.5	17.6
3-5	15.1	11.9	13.1	15.6
6-10	8.6	9.8	12.9	16.3
11+	6.4	7.6	10.0	10.0

TABLE 49
UNWEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (23 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	18.8%	12.9%	14.8%	15.0%
2	19.6	14.4	15.4	19.1
3-5	15.5	13.6	14.9	18.8
6-10	9.5	10.7	13.6	16.9
11+	6.5	8.0	10.0	11.5

TABLE 50
WEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (23 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	18.0%	10.5%	15.1%	13.6%
2	17.9	12.6	13.6	19.1
3-5	13.6	11.3	13.6	18.8
6-10	8.9	9.4	13.1	15.0
11+	6.0	8.0	10.1	9.4

Other Level Term (excluding YRT)

TABLE 51
PERCENTAGE OF FACE AMOUNT LAPSING (27 COMPANIES)

Policy Year	In Force (Billions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$56.0	9.0%	11.5%	16.4%	12.1%	14.2%
2	32.1	9.3	11.5	17.5	12.2	11.4
3-5	55.8	9.0	12.9	16.3	13.7	8.0
6-10	47.3	5.7	7.1	11.1	8.6	5.0
11+	34.1	5.2	6.8	8.6	7.6	3.9

TABLE 52
PERCENTAGE OF POLICIES LAPSING (26 COMPANIES)

Policy Year	In Force (Thousands)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	507.9	8.7%	14.4%	16.9%	13.4%	21.2%
2	341.3	10.3	12.1	16.3	12.8	14.1
3-5	753.7	9.0	11.6	15.2	12.9	7.4
6-10	766.8	5.4	7.5	10.0	8.5	5.2
11+	2,375.9	4.5	6.2	7.5	6.2	3.8

TABLE 53
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING (20 COMPANIES)

Policy Year	In Force (Millions)	First Quartile	Median	Third Quartile	Unweighted Average	Weighted Average
1	\$43.3	9.2%	13.1%	16.8%	13.6%	15.0%
2	29.8	9.4	14.5	17.7	13.6	13.0
3-5	30.6	9.1	12.5	18.7	15.5	22.6
6-10	27.0	6.5	8.2	11.0	9.9	11.5
11+	15.2	3.5	7.0	8.1	6.2	4.7

TABLE 54
MEDIAN FACE AMOUNT AND ANNUALIZED PREMIUM NOT LAPSING AND LAPSING

Policy Year	Face Amount ^a		Premium ^b	
	Not Lapsing	Lapsing	Not Lapsing	Lapsing
1	\$169,000	\$114,000	\$500	\$410
2	125,000	100,000	380	290
3-5	106,000	98,000	340	340
6-10	87,000	75,000	280	300
11+	23,000	31,000	260	300

^aRounded to the nearest \$1,000.

^bRounded to the nearest \$10.

TABLE 55
MEDIAN FACE AMOUNT LAPSE RATES BY ISSUE AGE (12 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	15.8%	10.2%	9.3%	9.6%
2	13.8	10.7	9.9	8.9
3-5	14.5	10.0	9.6	8.3
6-10	9.0	6.0	6.8	5.6
11+	6.1	6.9	6.0	8.5

TABLE 56

UNWEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (12 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	16.0%	10.9%	9.3%	11.9%
2	14.1	12.1	9.3	8.9
3-5	14.4	10.7	10.7	11.1
6-10	8.7	7.3	9.7	7.7
11+	6.0	7.3	6.3	7.9

TABLE 57

WEIGHTED AVERAGE FACE AMOUNT LAPSE RATES BY ISSUE AGE (12 COMPANIES)

Policy Year	20-29	30-39	40-49	50-59
1	21.8%	14.6%	11.3%	10.2%
2	14.8	11.5	10.0	9.0
3-5	8.0	6.8	6.2	6.6
6-10	5.1	5.1	4.4	3.5
11+	3.9	4.1	3.8	3.9

APPENDIX A LAPSE DEFINITIONS

In-Force Policies. A policy is considered in force if the first premium for the new policy year starting in 1993 is paid.

In-force business includes:

- Policies issued in 1993
- Policies issued before 1993 whose premiums due on their 1993 policy anniversary dates are paid before the end of the grace period.

In-force business excludes:

- Policies that lapse before 1993 anniversaries and are on extended-term or reduced paid-up status
- Limited premium payment policies that are paid up
- Single premium policies.

In-force business examples of in-force policies are:

- A policy issued in 1993 with the first premium paid
- A policy issued in 1992 whose premium due in policy month 13 is paid
- A policy issued in 1991 whose premium due in policy month 25 is paid.

Lapses. A policy is considered a lapse if the first premium for the new policy year starting in 1993 is paid, but not all of the premium that comes due after the 1993 anniversary and before or on the 1994 anniversary date is paid.

Lapsed business includes:

- Policies surrendered after their 1993 anniversaries and before or on their 1994 anniversaries
- Policies whose premiums due after their 1993 anniversaries and before or on their 1994 anniversaries are not paid by the end of the grace period
- Term policies with renewal provisions that do not renew
- Policies that go on reduced paid-up or extended-term status.

Lapsed business excludes:

- Death claims
- Automatic premium loaned policies
- Expiries and maturities
- Conversions
- Policies that lapse during the 1993-94 policy year but are reinstated before or on their 1994 anniversaries
- Policies not taken
- Policies whose waivers of premium provision apply.

Examples of lapsed policies are:

- A policy issued in 1993 with the first premium paid. If any premium for policy months 2 through 13 is not paid by the end of the grace period, the policy is considered a first-year lapse.
- A policy issued in 1992 with the premium for policy month 13 paid. If any premium for policy months 14 through 25 is not paid by the end of the grace period, the policy is considered a second-year lapse.

An example of a policy that is not lapsed is:

- A policy issued in 1992 is not considered a lapse if the premium for policy month 13 and all premiums for policy months 14 through 25 are paid.

Annualized Premium. The amount of premiums paid if a policy remains in force for a full policy year, for example, 12 times the monthly premium or four times the quarterly premium.

Unweighted Average Lapse Rate. This rate equals the mean of individual company lapse rates; therefore, company size does not affect the results.

Weighted Average Lapse Rate. This rate equals the mean of individual company lapse rates weighted by the amount of in force; therefore, company size does affect the results.

APPENDIX B PRODUCT DEFINITIONS

Traditional Whole Life

Traditional whole life products include:

- Fixed cash value products including continuous-pay and limited-pay plans with permanent protection. Premiums may be level or indeterminate.

Traditional whole life products exclude:

- Interest-sensitive whole life
- Universal life
- Variable life with flexible premiums (VUL)
- Variable life with fixed premiums
- Endowments
- Individual pension trust.

Interest-Sensitive Whole Life

Interest-sensitive whole life products include:

- Whole life plans that credit cash values with current interest rates. Premiums may be level, may vanish, or may be adjusted periodically.

Interest-sensitive whole life products exclude:

- Universal life
- Individual pension trust.

Individual Pension Trust

Individual pension trust policies include:

- All policies sold on a pension trust basis, including universal life policies.

Graded-Premium Whole Life

Graded-premium whole life products include:

- Traditional graded-premium whole life. The premium may increase annually for five to 10 years and then level off at a premium comparable to a whole life continuous-pay plan. A typical graded-premium whole life policy for a 30-year-old male has a \$6 initial premium per \$1,000, gradually increasing over 10 years to a final premium of \$16 per \$1,000.

Graded-premium whole life products exclude:

- Individual pension trust
- Graded-premium whole life with YRT-type premiums.

Yearly Renewable Term

YRT products include:

- Level face amount products with annually increasing premiums. This includes (1) nonparticipating products with indeterminate premiums that have two schedules of premiums — current and guaranteed, (2) nonparticipating products with guaranteed premiums, and (3) participating products that pay dividends.

YRT products exclude:

- Term riders
- Nonlevel face amount term
- Graded-premium whole life with YRT-type premiums.

Level Face Amount Term (excluding YRT)

Level face amount term (excluding YRT) products include:

- Level face amount products. This includes (1) nonparticipating products with indeterminate premiums that have two schedules of premiums — current and guaranteed, (2) nonparticipating products with guaranteed premiums, and (3) participating products that pay dividends.

Level face amount term (excluding YRT) products exclude:

- YRT
- Nonlevel face amount term
- Term riders.

PARTICIPATING COMPANIES

Aetna Life & Casualty
Alfa Life
Allstate Life
American General Life (Texas)
Baltimore Life
Connecticut Mutual Life
Equitable Life of the United States
Farm Bureau of Iowa
General American Life
Guardian Life of America
Horace Mann Life
Indianapolis Life
John Hancock Mutual Life
Lafayette Life
Liberty Life of Boston*
Lutheran Brotherhood
Manufacturers Life
MetLife
Midwestern National
Minnesota Mutual Life
Mutual Of New York
Mutual of Omaha
Mutual Trust Life
New England Life
New York Life
Northwestern Mutual Life
Northwestern National Life*
Phoenix Home Life Mutual*
Principal Mutual Life
Provident Mutual Life of Philadelphia
Prudential of America
Southern Farm Bureau Life
Sun Life of Canada

*New participant (not included in trend tables).

