



SOCIETY OF ACTUARIES

Article from:

Product Development News

November 2003 – Issue 57

2001 Individual Life and Annuity Expense Study

by Sam Gutterman

Editor's note: Sam, with Tim Harris, co-chairs the SOA's Committee on Life Insurance Company Expenses (CLICE).

CLICE has recently completed its first inter-company study of expenses for individual life and annuity business. The report of this study is now available on the SOA's Web site.

CLICE distributed a call in August 2002 for contributions of 2001 expense data from life insurance companies doing business in the United States. Over the course of several months, contributions of life insurance and annuity expense data were received from 26 life insurance companies.

Contributors were asked to provide expense data for the following product categories:

- Life insurance – term, permanent, variable, COLI and BOLI. It was thought that these product groups had product or expense characteristics that would result in distinct unit expenses. For these life insurance products, contributors were further asked to provide, to the best of their ability, acquisition expense data broken down by the following distribution channels: Career, Brokerage, PPGA, Multi-Line, Direct Response, Other and Unallocated (that

expense that wasn't split by channel).

- Annuities – immediate, deferred, variable immediate and variable deferred. For these annuity products, the following distribution channel detail was requested: Career, Brokerage, PPGA, Stockbroker, Financial Institutions, Other and Unallocated.

The data received from the contributors was aggregated and unit cost calculations were developed. As part of the aggregation process, a series of data integrity checks were performed and contributors were contacted to resolve missing or anomalous data. Based on feedback from the contributors and Committee discussions, the raw data was refined over the course of several months.

Nevertheless, due to variations in expense allocations used by companies, the variety of companies that contributed, and the limited number of contributors in certain categories provided, the results should be viewed with caution. If more companies contribute in the future, CLICE hopes that enhanced information can be provided.

The exhibits in the report present unit-cost calculations for the various product and distribution channels for which sufficient data was available. Interestingly, about 30 percent of life insurance expenses were categorized as overhead, while 13 percent of

Acquisition Expense for Individual Life Insurance							
Product Type	Number of Comp.	Per Policy Issue	Per \$1,000 Face Amount Issued	1st Year Comm. as % of Prem.	Single Prem.* Comm.	% of 1st Year Prem.	Renewal Comm.
Term	23	\$137.26	\$0.65	56.1%	N/A	39.7%	4.3%
Permanent -Fixed	26	\$120.64	\$1.27	53.5%	0.4%	17.1%	3.6%
Variable	10	\$480.38	\$0.54	44.3%	2.4%	27.4%	3.4%
Total	-	\$155.93	\$0.74	50.0%	0.6%	24.8%	3.7%

* includes dumps/pour-ins and dividends applied

Non-Acquisition Expense for Individual Life Insurance				
Product Type	Number of Companies	Per Policy Inforce	Per Death Claim	Premium Tax
Term	23	\$71.72	\$427.94	1.78%
Permanent-Fixed	26	\$52.87	\$69.40	1.32%
Variable	10	\$204.04	\$155.99	2.23%
Total	-	\$68.02	\$83.17	1.59%

Acquisition Expense for Individual Annuities					
Product Type	Number of Companies	Per Policy Issued	First Year/ Renewal Commission	Percent of First Year Commission	Renewal Commission
Deferred – Fixed	21	\$105.50	5.2%	1.0%	3.6%
Deferred – Variable	11	\$133.00	6.0%	1.3%	5.1%
Immediate	12	\$194.86	3.3%	1.3%	N/A
Total	-	\$120.31	5.6%	1.2%	4.9%

Non-Acquisition Expense for Individual Annuities				
Product Type	Number of Companies	Per Policy Inforce	Per Termination	Premium Tax
Deferred – Fixed	21	\$93.32	\$38.39	0.07%
Deferred – Variable	11	\$173.72	\$33.38	0.09%
Immediate	12	\$109.66	\$444.93	0.28%
Total	-	\$137.08	\$38.79	0.08%



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annuity expenses were categorized as overhead. Summarized results follow.

CLICE has recently called for contributions to a corresponding study of 2002 expenses; it hopes that additional compa-

nies will contribute to the future success of its studies. The Committee expresses its appreciation to all of the contributing companies for their assistance and support of this study. □