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2002 Inter-Company Expense Study of U.S. Individual Life Insurance and Annuities

by Sam Gutterman

The SOA's Committee on Life Insurance Company Expenses (CLICE) has recently completed its second inter-company study of expenses for individual life and annuity business issued in the United States. The report of this study is now available on the SOA's Web site. This article provides highlights from that study.

After completion of its first study of 2001 expense experience, CLICE followed up with a similar call for 2002 expenses. The data requested was almost identical to the earlier data request—the largest difference was that the number of companies who contributed their data increased by about 50 percent. We hope that this expansion in the number of contributors continues for the upcoming 2003 study—if your company has not previously contributed, CLICE welcomes your participation.

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

- Life insurance – Term, Permanent (non-variable), Variable, COLI and BOLI. Contributors were further asked to provide acquisition expense data broken down by the following distribution channels: Career, Brokerage, PPGA, Multi-Line, Direct Response, Other and Unallocated (those expenses that weren't split by channel).
- Annuities – Immediate (non-variable), Deferred (non-variable), Variable Immediate and Variable Deferred. The following distribution channel detail was requested: Career, Brokerage, PPGA, Stockbroker, Financial Institutions, Other and Unallocated.

The data received from the contributors were 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.

Please note that due to variations in expense allocations used by the contributing companies, the variety of companies that contributed and the limited number of contributors in certain categories provided, the results should be viewed with caution—particularly the comparison of this study with the corresponding 2001 study that is included in the report.

Overall, the 2002 results are believed to be somewhat more reliable than that of 2001, due to the increased number of contributors and the ability of more companies to provide more complete expense and unit information by the categories studied. One difference in the studies is that termination expense for the 2002 study was combined with the per policy in force data, due to what appears to have been inconsistent submission of this data—it is hoped that the 2003 study will again have these expenses split out.

In the study, a new concept of a per policy index (calculated both for non-commission first year expenses and in force expenses) has been introduced. It combines all per policy, per face amount and percentage of premium expenses other than commissions and premium taxes. It can be used to more easily compare expense results by category on an overall basis and over time.

Accompanying this article on page 15 are a few of the comparisons for the largest product categories by size of company (segmented in order to have three sets of companies with roughly the same number in each category: for the 2002 study, for annuities the categories are companies with less than \$150 million, those with between \$150 million and \$1 billion and those with greater than \$1 billion of total annuity premiums, respectively; for life insurance the categories are those with less than \$100 million, those with between \$100 million and \$1 billion, and those with greater than \$1 billion of total life insurance premium, respectively).

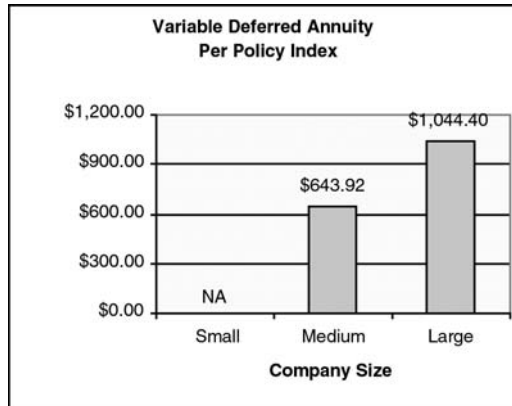
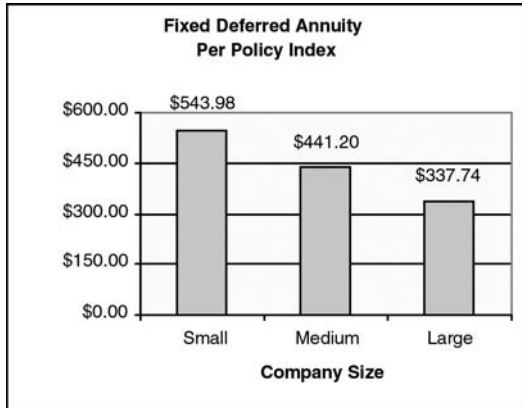
The exhibits in the report on page 16 present unit expense calculations for the various product and distribution channels for which sufficient data was available, including mean, median, unweighted average and 25th and 75th percentile unit expenses where there was a sufficient number of contributors.

We thank the contributing companies for their assistance and support of this study and encourage even wider participation for our future studies. □

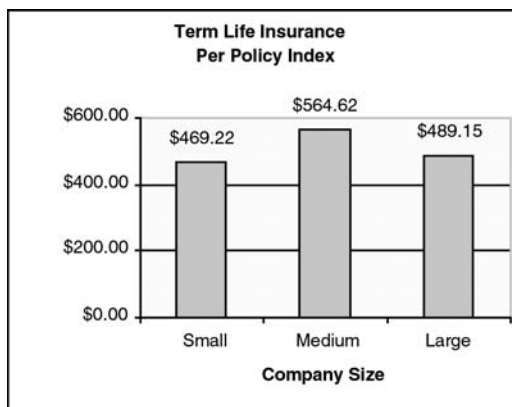
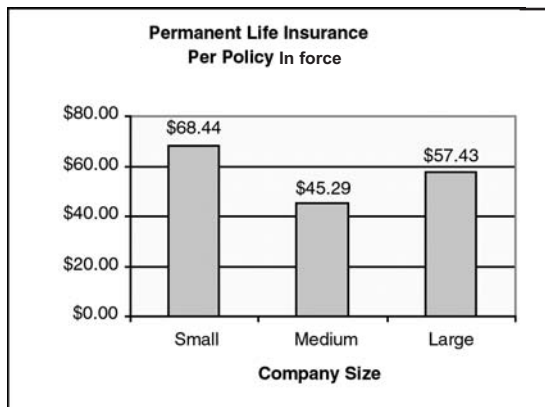


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Annuity Acquisition (Non Commission) Expense



Life Acquisition (Non Commission) Expense



Annuity Maintenance (Non Commission) Expense

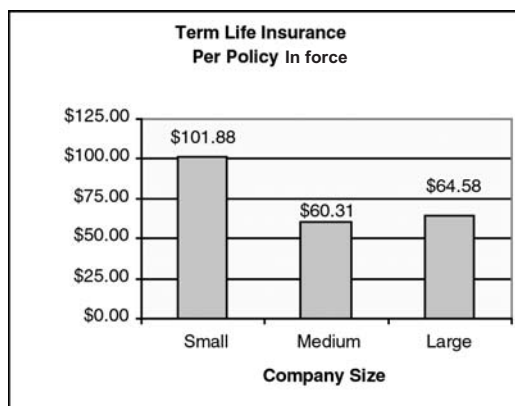
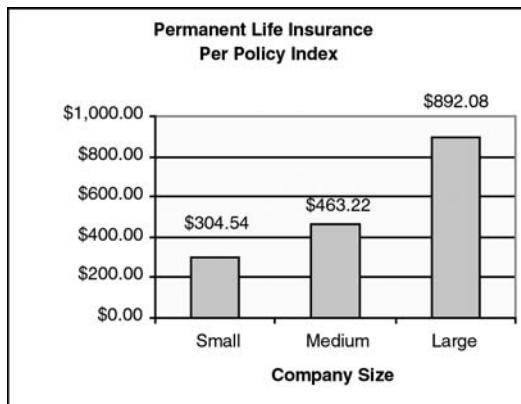


Figure 1

Acquisition Expense for Individual Life Insurance							
					Commissions (% of premium)		
Product Type	Number of Companies	Per Policy Issued	Per \$1,000 Face Amount Issued	Percent of First Year Premium	First Year	Single Premium*	Renewal
Term	35	\$151.70	\$0.44	37.0%	66.1%	n/a	3.6%
Permanent-Fixed	36	\$123.55	\$0.74	27.1%	50.7%	3.1%	3.6%
Variable	19	\$464.22	\$0.59	22.9%	38.1%	2.0%	4.4%
COLI	3	\$193.60	\$0.10	3.7%	9.3%	0.7%	6.4%
BOLI	6	\$132.62	\$0.12	12.7%	32.8%	3.3%	n/a
Total	38	\$156.70	\$0.52	25.4%	46.2%	2.9%	3.8%

*includes dumps/pour-ins and dividends applied

Figure 2

Non-Acquisition Expense for Individual Life Insurance			
Product Type	Number of Companies	Per Policy In force	Premium Tax
Term	35	\$64.08	1.8%
Permanent-Fixed	36	\$55.49	1.2%
Variable	19	\$163.48	1.8%
COLI	3	\$290.26	1.4%
BOLI	6	\$41.51	0.7%
Total	38	\$64.17	1.4%

Figure 3

Acquisition Expense for Individual Annuities					
					Commissions (% of premium)
Product Type	Number of Companies	Per Policy Issued	Percent of First Year Premium	First Year/Single	Renewal Commission
Deferred-Fixed	36	\$80.28	0.7%	6.1%	5.8%
Deferred-Variable	22	\$197.74	1.5%	5.3%	5.6%
Immediate-Fixed	27	\$194.69	1.1%	3.0%	n/a
Immediate Variable	5	\$647.75	1.8%	5.7%	n/a
Total	37	\$131.15	1.1%	5.7%	5.7%

Figure 4

Non-Acquisition Expense for Individual Annuities			
Product Type	Number of Companies	Per Policy In force	Premium Tax
Deferred-Fixed	36	\$101.57	0.04%
Deferred-Variable	22	\$142.40	0.06%
Immediate-Fixed	27	\$167.03	0.28%
Immediate-Variable	5	\$280.41	0.19%
Total	37	\$125.17	0.06%