

**TRANSACTIONS OF SOCIETY OF ACTUARIES
1988-90 REPORTS**

**REPORT OF THE LIFE INSURANCE MARKETING
AND RESEARCH ASSOCIATION, INC.**

**I. 1987-88 LONG-TERM ORDINARY LAPSE SURVEY
IN THE UNITED STATES***

PREFACE

This report was prepared in the Financial Research Department of the Life Insurance Marketing and Research Association, Inc. LIMRA has given the Society of Actuaries permission to reproduce this study as part of the Society's expansion of its experience studies. Discussions of this report as well as of any experience study are encouraged. LIMRA and the Society intend to work together to expand this report and seek additional data contributors. The Canadian version of this study appears as Part II.

INTRODUCTION

Annual Survey

This annual long-term lapse study examines the lapsation of ordinary insurance in the U.S. between 1987 and 1988 policy anniversaries. It is designed to assist companies with developing new products and in monitoring marketing and product performance.

In past reports, lapse rates were percentages of face amounts in force at the beginning of 1987 policy anniversaries that lapse on or before 1988 policy anniversaries. (See Appendix A for the definitions used in this study.) This year, the report also examines the percent of policies in force at the beginning of 1987 policy anniversaries that lapse on or before 1988 policy anniversaries.

Lapse rates by face amount and number of policies are measured for seven types of ordinary insurance plans:

- Traditional whole life
- Interest-sensitive whole life
- Individual pension trust
- Graded-premium whole life—Type 1 (traditional type premium)
- Graded-premium whole life—Type 2 (yearly renewable term, YRT, type premium)

*Copyright © 1989, Life Insurance Marketing and Research Association, Inc.

- YRT
- Level face amount term (excluding YRT).

Universal life persistency is examined in a separate report.

Lapse rates are measured for policy years 1, 2, 3–5, 6–10, and 11 and over. These policy years correspond to issue years 1987, 1986, 1985–1983, 1982–1978, and 1977 and earlier.

The report touches on each of the seven products, highlighting certain details. The report examines trends in whole life and YRT lapse rates for a constant group of companies that participated in both this year's and last year's studies. Average face amount persisting and lapsing throughout the year are analyzed for whole life and YRT, as are variations of lapse rates by company for these two products. At the end of the report, quartiles and averages are given for the products. Appendix A supplies definitions of in-force business, lapses, and products.

In-Depth Survey

The report also presents an in-depth look at lapse rates for YRT on these bases:

- Number of policies
- Face amount
- Annualized premium.

For each of these measures, the in-depth section shows lapse rates for specific issue ages by policy year. Issue ages include 20–29, 30–39, 40–49, 50–59, and all issue ages combined. Policy years include individual years 1–10 and combined policy years 11 and over.

A look at a constant group of companies that participated in the 1983–1984 study and the 1987–1988 study is included.

ABOUT THE SAMPLE

Twenty-five companies participated in this year's study. Twenty-four of these companies provided both face amount lapsing and the number of policies lapsing; one company was able to provide only face amount lapsing. Table A shows the total face amount in force at the beginning of the 1987-1988 policy year; Table B shows the total number of policies in force at the beginning of the 1987-1988 policy year.

TABLE A
FACE AMOUNT IN FORCE (BILLIONS) ON 1987 ANNIVERSARIES
(25 COMPANIES)

Issue Year	Traditional Whole Life	Interest- Sensitive Whole Life	Individual Pension Trust	Graded- Premium Type 1	Graded- Premium Type 2	Level Term	
						YRT	Other
1987*	\$ 47.0	\$ 8.5	\$ 1.9	\$ 2.0	\$ 1.7	\$ 67.2	\$ 7.2
Before 1987	268.5	42.5	9.6	8.7	18.3	172.4	20.0
Total In Force	\$315.5	\$51.0	\$11.5	\$10.7	\$20.0	\$239.6	\$27.2

*For issue year 1987, amounts in force on 1987 anniversaries correspond to amounts sold during that year.

TABLE B
NUMBER OF POLICIES IN FORCE (THOUSANDS) ON 1987 ANNIVERSARIES
(24 COMPANIES)

Issue Year	Traditional Whole Life	Interest- Sensitive Whole Life	Individual Pension Trust	Graded- Premium Type 1	Graded- Premium Type 2	Level Term	
						YRT	Other
1987*	1,090	133	37	20	6	412	105
Before 1987	18,320	650	324	180	89	1,227	570
Total In Force	19,410	783	361	200	95	1,639	675

*For issue year 1987, amounts in force on 1987 anniversaries correspond to amounts sold during that year.

LAPSE RATES BY PRODUCT TYPE

As a quick overview, Table C summarizes median face amount lapse rates by policy year, and Table D summarizes median policy count lapse rates by policy year.

TABLE C
PERCENTAGE OF FACE AMOUNT LAPSING BY PRODUCT TYPE
(25 COMPANIES)

Policy Year	Traditional Whole Life	Interest- Sensitive Whole Life	Individual Pension Trust	Graded- Premium Type 1	Graded- Premium Type 2	Level Term	
						YRT	Other
1	16.7%	16.4%	16.6%	—	—	17.8%	14.6%
2	11.5	14.2	12.0	—	—	18.7	15.2
3-5	10.5	9.7	15.6	13.1%	20.3%	17.2	15.4
6-10	11.3	—	14.2	11.8	18.0	13.9	12.5
11 and Over	8.2	—	10.0	8.2	—	9.4	8.9

—Insufficient data.

TABLE D
PERCENTAGE OF POLICIES LAPSING BY PRODUCT TYPE
(24 COMPANIES)

Policy Year	Traditional Whole Life	Interest- Sensitive Whole Life	Individual Pension Trust	Graded- Premium Type 1	Graded- Premium Type 2	Level Term	
						YRT	Other
1	17.1%	14.0%	16.7%	—	—	19.2%	14.4%
2	10.7	13.5	20.6	—	—	18.5	19.3
3-5	8.6	7.5	16.5	10.8%	22.1%	17.0	17.1
6-10	9.5	—	15.8	10.6	17.5	13.6	12.2
11 and Over	6.0	—	9.6	6.9	—	10.9	9.3

—Insufficient data.

LAPSE RATES BY COMPANY SIZE

Figure 1 shows median face amount lapse rates for *traditional whole life*. These lapse rates for all companies range from 16.7 percent in policy year 1, to 8.2 percent in policy years 11 and over. Lapse rates fluctuate between 10.5 percent and 11.5 percent in the middle durations. Large writers of whole life (\$10 billion or more) have lower lapse rates than small writers in all durations. For large writers, the first-year lapse rate is 15.1 percent, which is about twice as large as the lapse rates in their remaining durations. For small writers, the first-year lapse rate is 17.7 percent, which decreases to 8.9 percent by policy years 11 and over.

Figure 1 — Median Face Amount Lapse Rates for Traditional Whole Life

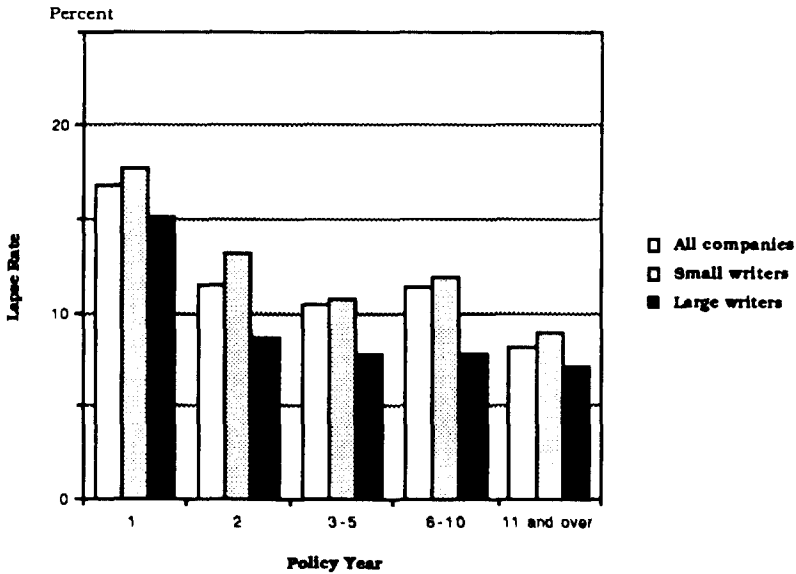
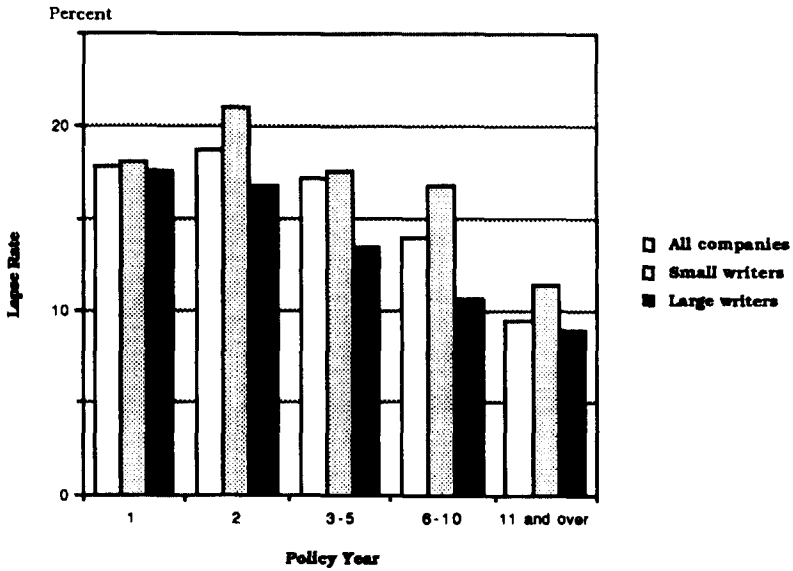


Figure 2 shows median face amount lapse rates for *yearly renewable term* insurance. For all companies, lapse rates peak in duration 2 at 18.7 percent and then decrease to 9.4 percent by policy years 11 and over. Companies that write a large amount of yearly renewable term insurance (\$5 billion or more) exhibit lower lapse rates than small writers, especially in policy year 2, policy years 3-5, and policy years 6-10. For large writers, the lapse rates range from 17.5 percent in policy year 1, to 8.9 percent in policy years 11 and over. For small writers, the first-year lapse rate is 18.1 percent; the lapse rate is 11.3 percent in policy years 11 and over.

Figure 2 — Median Face Amount Lapse Rates for Yearly Renewable Term



LAPSE RATES BY FACE AMOUNT AND NUMBER OF POLICIES

Figure 3 shows median lapse rates by face amount and number of policies for *traditional whole life*. Lapse rates by number of policies are lower than lapse rates by face amount in all but policy year 1. Lapse rates by face amount range from 16.7 percent in policy year 1, to 8.2 percent in policy years 11 and over; lapse rates by number of policies range from 17.1 percent in policy year 1, to 6 percent in policy years 11 and over.

Figure 3 — Median Lapse Rates for Traditional Whole Life

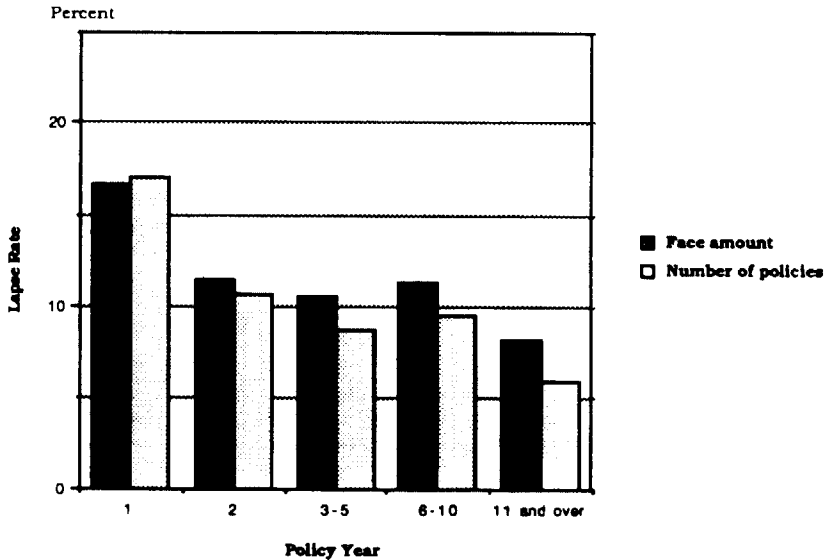


Figure 4 shows median lapse rates by face amount and number of policies for *interest-sensitive whole life*. Data are shown only for the first three durations because of limited data in the older policy years. Lapse rates decrease in both measures through the first five policy years. Lapse rates by face amount range from 16.4 percent to 9.7 percent, and lapse rates by number of policies range from 14 percent to 7.5 percent.

Figure 4 — Median Lapse Rates for Interest-Sensitive Whole Life

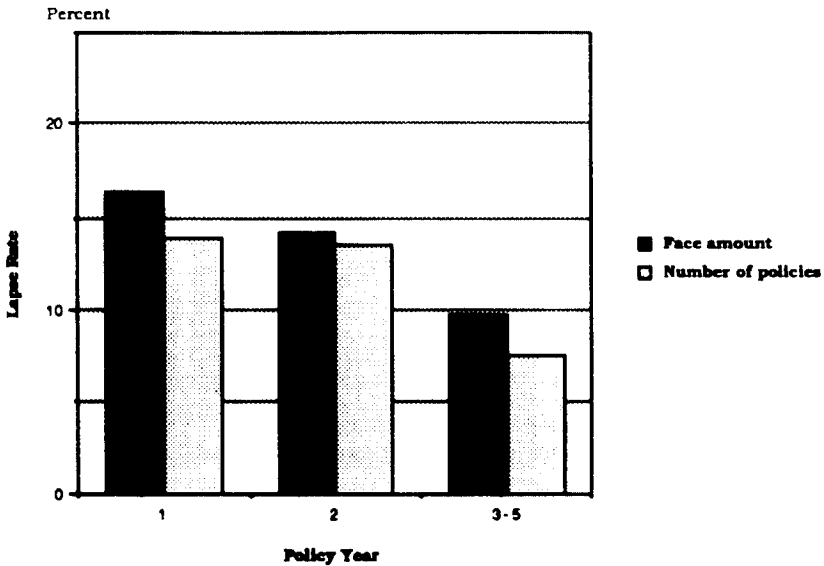


Figure 5 shows median lapse rates by face amount and number of policies for *individual pension trust*. For both measures lapse rates are close in all durations except for policy year 2. The lapse rate for this duration by face amount is 12 percent while by number of policies it is 20.6 percent.

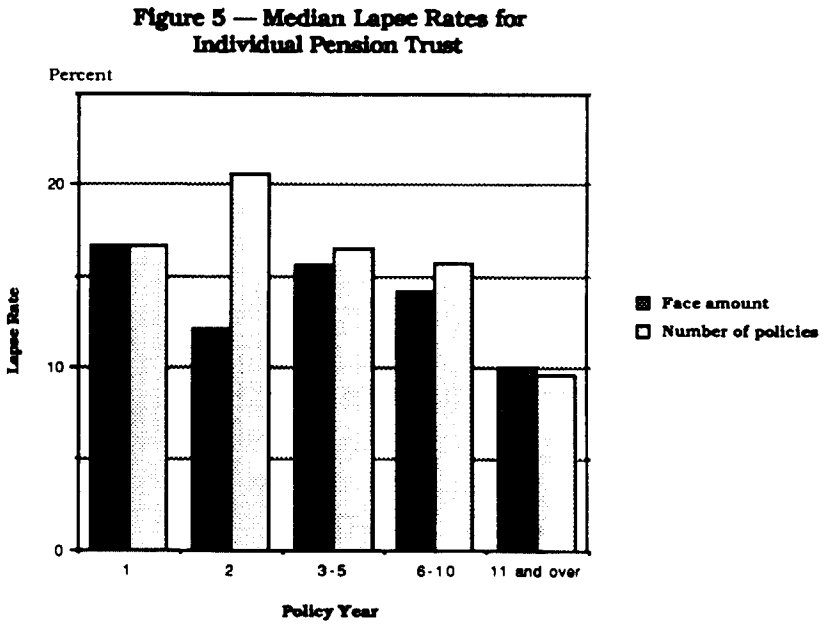


Figure 6 shows median lapse rates by face amount and number of policies for *graded-premium whole life—Type 1*. Because of insufficient data for the first two policy years, data are shown only for policy years 3 and over. Lapse rates by number of policies are lower than face amount lapse rates in all three durations. Lapse rates by face amount begin with 13.1 percent in policy years 3–5 and end with 8.2 percent in policy years 11 and over; lapse rates by number of policies range from 10.8 percent to 6.9 percent in these durations.

Figure 6 — Median Lapse Rates for Graded-Premium Whole Life — Type 1

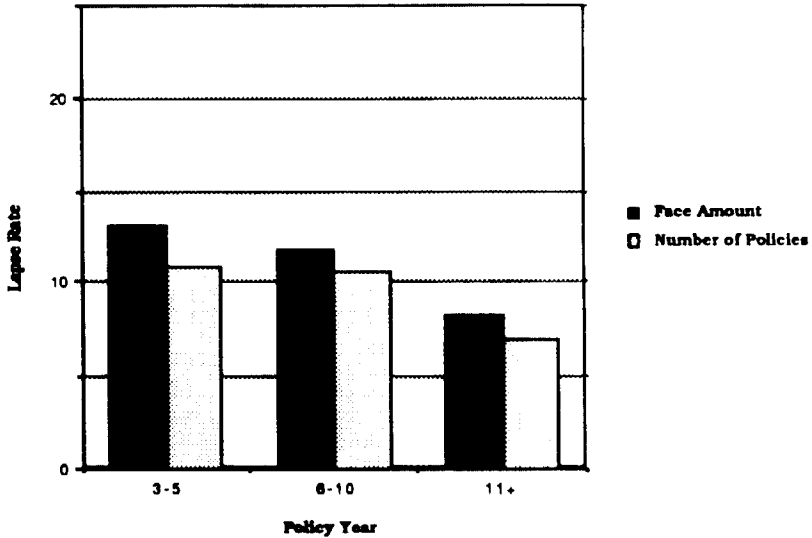


Figure 7 shows median lapse rates by face amount and number of policies for *graded-premium whole life—Type 2*. The limited amount of data in recent policy years points to the effect of the Tax Reform Act of 1984 on the sale of this product. Graded-premium whole life—Type 2 has the highest lapse rates among all products.

Figure 7 — Median Lapse Rates for Graded-Premium Whole Life — Type 2

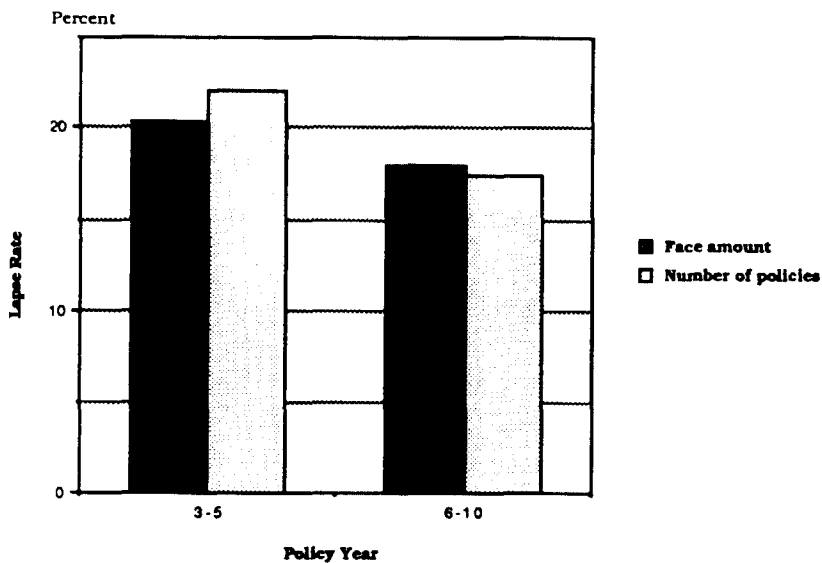


Figure 8 shows median lapse rates by face amount and number of policies for *yearly renewable term*. Face amount lapse rates peak in policy year 2 at 18.7 percent. Lapse rates decrease through the next durations ending at 9.4 percent in policy years 11 and over. Lapse rates by number of policies decrease through the durations beginning at 19.2 percent in policy year 1 and ending at 10.9 percent in policy years 11 and over.

Figure 8 — Median Lapse Rates for Yearly Renewable Term

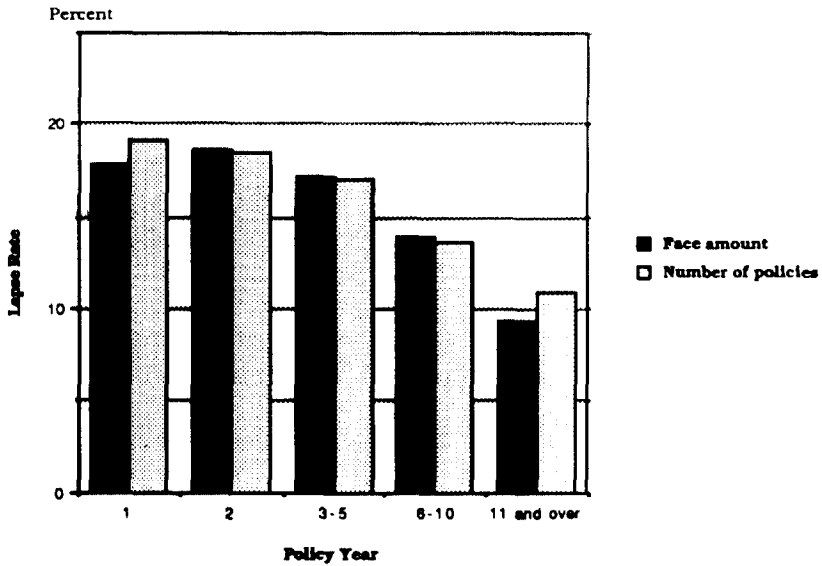
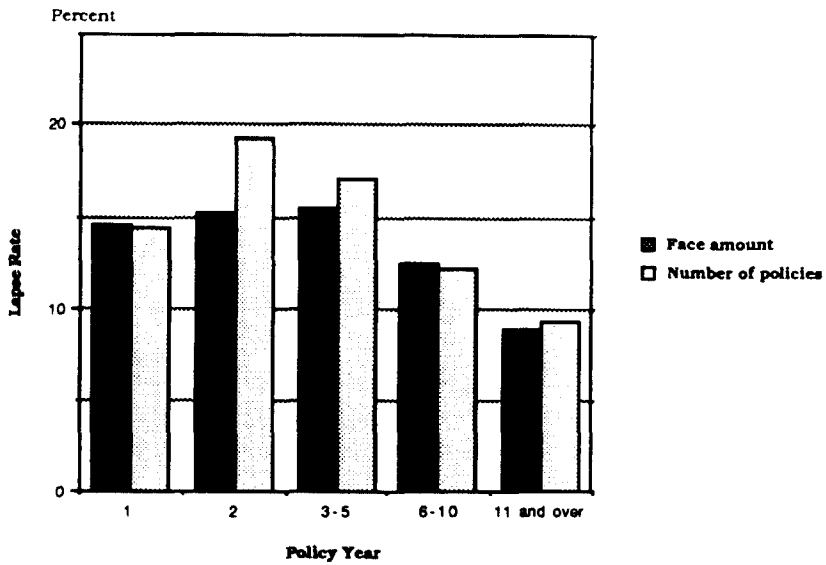


Figure 9 shows median lapse rates by face amount and number of policies for *level term (excluding YRT)* which includes products such as five-year renewable term and ten-year renewable term. Lapse rates for both measures are very close in early and later durations. For the middle years, policy year 2 and policy years 3-5, lapse rates by number of policies are higher.

Figure 9 — Median Lapse Rates for Level Term (excluding YRT)



AVERAGE FACE AMOUNT PERSISTING AND LAPSING

Medians and averages are shown in Table E for average face amount persisting and lapsing for traditional whole life. Overall, the average face amount persisting is slightly less than the average face amount lapsing. Medians of average face amount persisting and lapsing are close to 50 percent less than the corresponding averages in the first five policy years.

TABLE E
AVERAGE FACE AMOUNT PERSISTING AND LAPSING
FOR TRADITIONAL WHOLE LIFE
(24 COMPANIES)

Policy Year	Average Face Amount Persisting		Average Face Amount Lapsing	
	Median	Average*	Median	Average*
1	\$26,561	\$56,120	\$26,608	\$56,401
2	24,616	50,417	27,199	57,954
3-5	22,307	49,009	26,249	47,094
6-10	17,821	28,411	21,771	31,585
11 and Over	7,315	8,683	9,987	12,912

*All companies receive equal weight; company size does not affect the results.

Table F shows average face amount persisting and lapsing for yearly renewable term; medians and averages are provided for both measures. In policy year 1, policy year 2, and policy years 11 and over, the medians and averages for average face amount persisting are greater than the average face amount lapsing medians and averages.

TABLE F
AVERAGE FACE AMOUNT PERSISTING AND LAPSING
FOR YEARLY RENEWABLE TERM
(23 COMPANIES)

Policy Year	Average Face Amount Persisting		Average Face Amount Lapsing	
	Median	Average*	Median	Average*
1	\$161,075	\$166,619	\$133,832	\$159,146
2	158,180	174,873	159,713	171,538
3-5	128,948	146,847	132,015	144,592
6-10	101,821	107,317	109,953	113,480
11 and over	81,896	89,192	66,438	81,543

*All companies receive equal weight; company size does not affect the results.

TRENDS IN WHOLE LIFE LAPSE RATES

Figure 10 shows 1987 and 1988 face amount lapse rates for a constant group of companies. The average lapse rates for these companies have decreased in all durations. However, the decrease in policy year 2 and policy years 11 and over is slight.

Figure 10 — Whole Life Lapse Rates for Constant Group

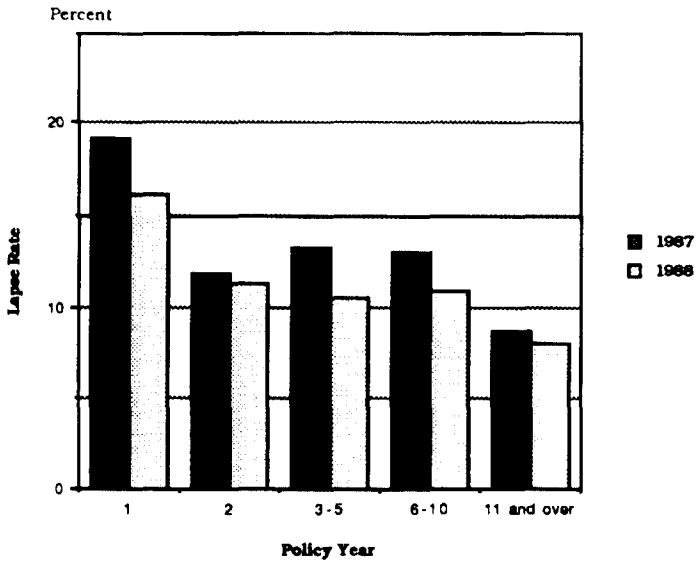


Table G summarizes the number of companies with decreases in face amount lapse rates and the number of companies with increases in face amount lapse rates.

TABLE G
INCREASES AND DECREASES IN WHOLE LIFE LAPSE RATES

	Number of Companies	Average Lapse Rate	
		1987	1988
Policy Year 1			
Increase	9	12.8	15.1
Decrease	11	24.3	18.5
All	20	19.1	17.0
Policy Year 2			
Increase	4	9.4	10.5
Decrease	16	13.1	11.1
All	20	12.0	11.4
Policy Years 3-5			
Increase	1	10.0	10.5
Decrease	19	13.0	10.2
All	20	12.8	10.2
Policy Years 6-10			
Increase	1	15.3	16.8
Decrease	19	12.6	10.4
All	20	12.8	10.7
Policy Years 11 and Over			
Increase	4	8.7	9.2
Decrease	15	9.0	8.0
All	19	8.9	8.3

TRENDS IN YEARLY RENEWABLE TERM LAPSE RATES

Figure 11 shows 1987 and 1988 face amount lapse rates for a constant group of companies. Yearly renewable term lapse rates have increased in policy year 1, policy year 2, and policy years 3-5 and have decreased in the two later durations.

Figure 11 — Yearly Renewable Term Lapse Rates for Constant Group

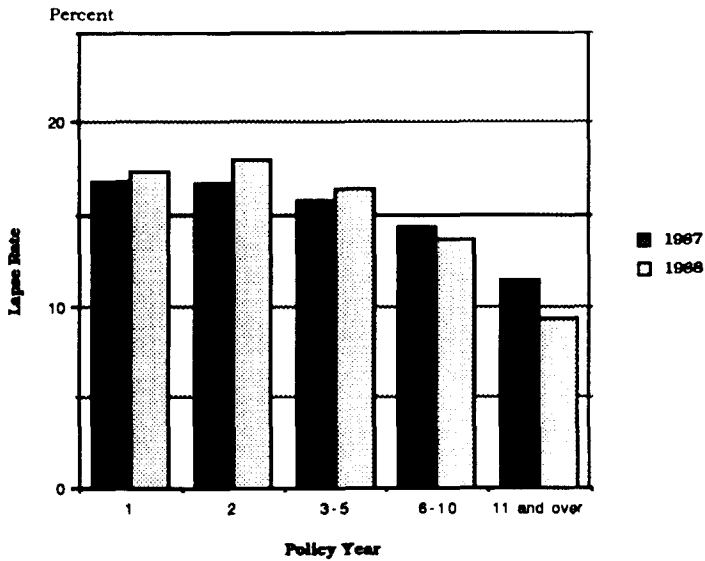


Table H summarizes the number of companies with decreases in face amount lapse rates and the number of companies with increases in lapse rates.

TABLE H
INCREASES AND DECREASES IN YEARLY RENEWABLE
TERM LAPSE RATES

	Number of Companies	Average Lapse Rate	
		1987	1988
Policy Year 1			
Increase	10	14.2	21.1
Decrease	9	17.9	15.0
All	19	16.0	18.2
Policy Year 2			
Increase	12	17.1	19.8
Decrease	8	21.9	17.0
All	20	19.0	18.7
Policy Years 3-5			
Increase	5	16.4	22.2
Decrease	14	16.2	14.0
All	19	16.3	16.1
Policy Years 6-10			
Increase	6	15.6	20.7
Decrease	13	14.5	12.1
All	19	14.8	14.8
Policy Years 11 and Over			
Increase	4	9.2	12.8
Decrease	9	11.9	9.8
All	13	11.1	10.7

VARIATION OF LAPSES AMONG COMPANIES

Table I shows the variations of face amount lapse rates by companies for traditional whole life insurance. Fifty-eight percent of the companies have lapse rates greater than 15 percent in policy year 1. In policy years 3-5, all but two companies have lapse rates less than 15 percent. All of the companies have lapse rates less than 15 percent in policy years 11 and over; 78 percent are below 10 percent.

TABLE I
VARIATIONS OF WHOLE LIFE LAPSE RATES

Lapse Rates	Policy Year		
	1	3-5	11 and Over
20% and Over	9	0	0
15-19.99%	5	2	0
10-14.99	4	11	5
Under 10.00	6	12	18
Total Number of Companies	24	25	23

Table J shows the variations of face amount lapse rates for yearly renewable term insurance. In policy year 1, 65 percent of the companies have lapse rates greater than 15 percent. In policy years 3-5, 61 percent of the companies have lapse rates above 15 percent. Lapse rates in policy years 11 and over improve; only one company has a lapse rate greater than 15 percent. Fifty-six percent of the companies in this duration have lapse rates less than 10 percent.

TABLE J
VARIATIONS OF YEARLY RENEWABLE TERM
LAPSE RATES

Lapse Rates	Policy Year		
	1	3-5	11 and Over
20% and Over	6	3	0
15-19.99%	9	11	1
10-14.99	6	5	6
Under 10.00	2	4	9
Total Number of Companies	23	23	16

LAPSE RATES BY FACE AMOUNT

TABLE 1
TRADITIONAL WHOLE LIFE
(25 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	9.1%	16.7%	24.4%	17.2%
2	7.3	11.5	16.6	11.6
3-5	7.0	10.5	12.7	9.9
6-10	7.8	11.3	12.6	10.7
11 and Over	7.1	8.2	9.8	8.5

*All companies receive equal weight; company size does not affect the results.

TABLE 2
INTEREST-SENSITIVE WHOLE LIFE
(9 COMPANIES)

Policy Year	Median	Average*
1	16.4%	17.5%
2	14.2	15.5
3-5	9.7	8.1

*All companies receive equal weight; company size does not affect the results.

TABLE 3
INDIVIDUAL PENSION TRUST
(15 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	9.6%	16.6%	25.6%	16.3%
2	7.0	12.0	20.4	16.7
3-5	8.5	15.6	21.6	16.6
6-10	8.1	14.2	22.1	15.0
11 and Over	6.3	10.0	12.6	10.4

*All companies receive equal weight; company size does not affect the results.

TABLE 4
GRADED-PREMIUM WHOLE LIFE—TYPE 1
(8 COMPANIES)

Policy Year	Median	Average*
3-5	13.1%	14.9%
6-10	11.8	11.8
11 and Over	8.2	8.6

*All companies receive equal weight; company size does not affect the results.

TABLE 5
GRADED-PREMIUM WHOLE LIFE—TYPE 2
(7 COMPANIES)

Policy Year	Median	Average*
3-5	20.3%	20.3%
6-10	18.0	16.5

*All companies receive equal weight; company size does not affect the results.

TABLE 6
YEARLY RENEWABLE TERM
(24 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	14.4%	17.8%	21.6%	18.9%
2	14.8	18.7	24.5	19.0
3-5	13.2	17.2	18.7	16.4
6-10	10.0	13.9	17.9	14.7
11 and Over	7.2	9.4	13.4	10.1

*All companies receive equal weight; company size does not affect the results.

TABLE 7
OTHER LEVEL TERM
(17 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	12.5%	14.6%	22.1%	17.2%
2	12.3	15.2	19.9	16.5
3-5	12.2	15.4	21.7	17.6
6-10	10.4	12.5	17.8	16.1
11 and Over	6.7	8.9	12.2	9.6

*All companies receive equal weight; company size does not affect the results.

LAPSE RATES BY NUMBER OF POLICIES

TABLE 8
TRADITIONAL WHOLE LIFE
(24 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	10.1%	17.1%	21.7%	17.3%
2	8.1	10.7	13.6	10.8
3-5	6.1	8.6	11.1	8.8
6-10	6.8	9.5	11.4	9.3
11 and Over	5.2	6.0	7.2	6.3

*All companies receive equal weight; company size does not affect the results.

TABLE 9
INTEREST-SENSITIVE WHOLE LIFE
(7 COMPANIES)

Policy Year	Median	Average*
1	14.0%	15.5%
2	13.5	13.3
3-5	7.5	7.2

*All companies receive equal weight; company size does not affect the results.

TABLE 10
INDIVIDUAL PENSION TRUST
(13 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	12.5%	16.7%	23.0%	17.5%
2	12.1	20.6	23.6	18.8
3-5	13.1	16.5	28.5	20.3
6-10	11.2	15.8	26.9	17.3
11 and Over	7.8	9.6	14.7	12.3

*All companies receive equal weight; company size does not affect the results.

TABLE 11
GRADED-PREMIUM WHOLE LIFE—TYPE 1
(6 COMPANIES)

Policy Year	Median	Average*
3-5	10.8%	12.2%
6-10	10.6	11.3
11 and Over	6.9	7.9

*All companies receive equal weight; company size does not affect the results.

TABLE 12
GRADED-PREMIUM WHOLE LIFE—TYPE 2
(5 COMPANIES)

Policy Year	Median	Average*
3-5	22.1%	21.1%
6-10	17.5	18.8

*All companies receive equal weight; company size does not affect the results.

TABLE 13
YEARLY RENEWABLE TERM
(23 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	15.7%	19.2%	22.1%	19.2%
2	13.6	18.5	24.5	19.0
3-5	12.7	17.0	18.6	16.2
6-10	11.1	13.6	16.0	13.8
11 and Over	7.8	10.9	12.9	10.7

*All companies receive equal weight; company size does not affect results.

TABLE 14
OTHER LEVEL TERM
(15 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	13.0%	14.4%	26.1%	17.7%
2	13.0	19.3	20.5	17.6
3-5	13.1	17.1	21.5	17.2
6-10	9.0	12.2	15.6	13.2
11 and Over	6.1	9.3	11.8	9.8

*All companies receive equal weight; company size does not affect the results.

IN-DEPTH SURVEY — YEARLY RENEWABLE TERM

Lapse Rates by Policy Year

TABLE 15
PERCENTAGE OF POLICIES LAPSING
(17 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	14.0%	19.3%	22.7%	18.4%
2	14.2	17.8	24.6	19.1
3	12.9	17.3	23.0	17.2
4	12.3	14.2	17.0	14.6
5	11.5	14.5	15.9	13.8
6	11.3	13.4	15.2	13.4
7	10.5	13.3	15.8	13.4
8	10.1	12.0	14.2	12.5
9	9.5	10.9	16.2	12.1
10	9.0	11.6	17.8	12.8
11 and Over	8.0	10.1	12.9	10.5

*All companies receive equal weight; company size does not affect the results.

TABLE 16
PERCENTAGE OF FACE AMOUNT LAPSING
(18 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	12.2%	17.2%	21.7%	17.0%
2	14.2	18.6	24.6	19.3
3	12.9	16.6	21.0	16.9
4	11.2	15.2	19.5	17.2
5	10.9	13.9	17.1	14.3
6	10.1	13.3	17.8	13.8
7	10.7	12.8	15.8	13.1
8	9.7	13.2	15.2	13.2
9	9.5	12.8	16.1	13.2
10	9.6	11.5	16.9	13.8
11 and Over	7.9	9.1	13.3	10.2

*All companies receive equal weight; company size does not affect the results.

TABLE 17
 PERCENTAGE OF ANNUALIZED PREMIUM LAPSING
 (15 COMPANIES)

Policy Year	First Quartile	Median	Third Quartile	Average*
1	13.5%	16.7%	20.9%	16.8%
2	13.5	16.7	21.7	17.6
3	13.7	16.5	21.3	18.2
4	11.6	13.6	19.5	16.3
5	11.4	12.9	17.4	14.2
6	9.9	12.6	16.3	14.3
7	9.4	11.7	15.0	12.1
8	8.9	12.0	13.8	12.1
9	10.2	13.7	18.4	15.0
10	8.0	11.5	15.3	13.6
11 and Over	7.6	9.5	13.1	10.1

*All companies receive equal weight; company size does not affect the results.

Median Lapse Rates by Issue Age

TABLE 18
 PERCENTAGE OF POLICIES LAPSING

Policy Year	Issue Ages			
	20-29	30-39	40-49	50-59
1	24.4%	18.6%	16.9%	15.8%
2	22.6	16.5	16.9	14.9
3	20.3	16.0	13.4	16.3
4	18.1	13.9	13.3	13.8
5	16.3	13.0	14.7	15.0
6	14.9	12.2	11.7	11.2
7	12.0	13.0	11.8	14.7
8	13.1	10.8	13.5	—
9	10.2	11.2	10.3	—
10	9.2	10.8	11.4	—
11 and Over	8.0	8.3	11.3	—

—Insufficient data.

TABLE 19
PERCENTAGE OF FACE AMOUNT LAPSING

Policy Year	Issue Ages			
	20-29	30-39	40-49	50-59
1	23.0%	18.1%	14.7%	14.1%
2	22.3	17.4	18.3	18.7
3	18.4	15.1	15.8	16.8
4	16.0	12.0	12.9	14.2
5	15.1	11.7	12.2	16.7
6	13.2	12.4	11.4	11.1
7	11.3	12.1	12.5	13.7
8	13.2	11.5	13.8	10.7
9	12.7	11.5	14.6	—
10	8.2	10.5	11.5	—
11 and Over	10.6	8.8	13.0	—

—Insufficient data.

TABLE 20
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING

Policy Year	Issue Ages			
	20-29	30-39	40-49	50-59
1	26.0%	18.5%	15.6%	13.8%
2	21.5	16.9	15.4	17.1
3	19.1	16.6	15.5	18.0
4	17.6	13.2	13.8	15.5
5	16.0	12.0	12.2	15.5
6	14.3	12.0	11.2	12.2
7	13.5	10.7	12.3	11.8
8	14.4	11.6	14.0	11.9
9	12.7	12.6	16.9	—
10	—	11.7	—	—
11 and Over	—	8.7	12.4	—

—Insufficient data.

Three Measures of Lapsation — Companies Reporting All Three Measures

TABLE 21
COMPARISON OF MEDIAN LAPSE RATES BY UNIT OF MEASURE
(15 COMPANIES)

Policy Year	Lapse Rates By:		
	Number of Policies	Face Amount	Annualized Premium
1	19.3%	17.1%	16.7%
2	16.6	17.5	16.7
3	16.9	16.2	15.7
4	14.7	13.6	13.4
5	13.8	13.3	12.4
6	13.4	12.7	12.6
7	12.8	12.5	11.7
8	11.9	12.9	12.1
9	10.5	12.8	12.8
10	11.6	11.5	12.6
11 and Over	9.3	9.0	9.5

Average Size Lapsing and Persisting

TABLE 22
AVERAGE FACE AMOUNT PERSISTING AND LAPSING
(17 COMPANIES)

Policy Year	Median		Average	
	Lapsing	Persisting	Lapsing	Persisting
1	\$137,000	\$165,000	\$143,000	\$165,000
2	161,000	163,000	157,000	160,000
3	142,000	146,000	143,000	145,000
4	128,000	132,000	136,000	142,000
5	135,000	129,000	129,000	130,000
6	106,000	104,000	112,000	114,000
7	105,000	96,000	104,000	102,000
8	97,000	90,000	99,000	93,000
9	93,000	85,000	100,000	91,000
10	94,000	87,000	106,000	93,000
11 and Over	66,000	95,000	82,000	87,000

TABLE 23
ANNUALIZED PREMIUMS PER POLICY
(15 COMPANIES)

Policy Year	Median		Average	
	Lapsing	Persisting	Lapsing	Persisting
1	\$320	\$380	\$350	\$380
2	420	390	380	400
3	390	370	390	390
4	390	410	420	410
5	440	420	460	440
6	460	440	550	480
7	470	490	490	500
8	510	520	480	480
9	640	520	610	500
10	550	570	570	550
11 and Over	540	530	490	540

Distribution of In Force and Lapses

TABLE 24
DISTRIBUTION OF IN FORCE BY NUMBER OF POLICIES,
FACE AMOUNT, AND ANNUALIZED PREMIUM

Policy Year	Number of Policies	Face Amount	Annualized Premium
1	25.2%	29.1%	20.7%
2	19.0	21.4	17.1
3	14.2	14.3	13.0
4	10.7	10.4	10.8
5	14.0	12.8	16.5
6	7.7	6.4	9.9
7	3.2	2.4	4.6
8	2.0	1.4	2.9
9	1.0	0.7	1.4
10	0.6	0.3	0.8
11 and Over	2.3	0.7	2.2
	100.0%	100.0%	100.0%

TABLE 25
DISTRIBUTION OF LAPSES BY NUMBER OF POLICIES,
FACE AMOUNT, AND ANNUALIZED PREMIUM

Policy Year	Number of Policies	Face Amount	Annualized Premium
1	29.0%	30.1%	23.0%
2	21.7	23.5	17.2
3	14.1	14.1	13.1
4	9.5	9.4	12.0
5	13.0	12.9	16.5
6	6.5	5.8	8.3
7	2.3	1.8	3.9
8	1.4	1.1	2.3
9	0.7	0.5	1.3
10	0.4	0.2	0.7
11 and Over	1.3	0.5	1.8
	100.0%	100.0%	100.0%

Early 1980s vs. Late 1980s (Constant Group of Companies)

TABLE 26
PERCENTAGE OF POLICIES LAPSING
(12 COMPANIES)

Policy Year	Median		Average*	
	1984	1988	1984	1988
1	20.5%	21.5%	19.5%	21.4%
2	21.4	18.8	22.3	18.7
3	41.0	16.9	20.9	16.6
4	18.4	13.9	20.3	14.6
5	18.5	14.7	20.2	13.7

*All companies receive equal weight; company size does not affect the results.

TABLE 27
PERCENTAGE OF FACE AMOUNT LAPSING
(12 COMPANIES)

Policy Year	Median		Average*	
	1984	1988	1984	1988
1	18.5%	17.9%	18.6%	19.7%
2	22.6	20.0	23.9	19.9
3	21.9	16.7	22.2	16.8
4	19.9	16.8	21.9	17.2
5	18.0	15.1	20.7	15.0

*All companies receive equal weight; company size does not affect the results.

TABLE 28
PERCENTAGE OF ANNUALIZED PREMIUM LAPSING
(8 COMPANIES)

Policy Year	Median		Average*	
	1984	1988	1984	1988
1	18.5%	19.9%	16.7%	19.7%
2	19.5	16.8	24.0	17.4
3	22.1	15.2	23.0	16.3
4	21.6	15.5	23.0	16.1
5	19.7	13.8	22.3	14.3

*All companies receive equal weight; company size does not affect the results.

TABLE 29
MEDIAN FACE AMOUNTS PER POLICY
(11 COMPANIES)

Policy Year	1984 Medians		1988 Medians	
	Lapsing	Persisting	Lapsing	Persisting
1	\$ 90,000	\$106,000	\$135,000	\$167,000
2	109,000	101,000	165,000	159,000
3	116,000	110,000	149,000	145,000
4	114,000	98,000	140,000	137,000
5	103,000	97,000	141,000	131,000

TABLE 30
AVERAGE FACE AMOUNTS PER POLICY
(11 COMPANIES)

Policy Year	1984 Averages*		1988 Averages*	
	Lapsing	Persisting	Lapsing	Persisting
1	\$ 97,000	\$108,000	\$151,000	\$178,000
2	111,000	102,000	169,000	167,000
3	115,000	106,000	158,000	155,000
4	110,000	101,000	153,000	149,000
5	107,000	99,000	146,000	142,000

*All companies receive equal weight; company size does not affect the results.

TABLE 31
 MEDIAN ANNUALIZED PREMIUMS PER POLICY
 (8 COMPANIES)

Policy Year	1984 Medians		1988 Medians	
	Lapsing	Persisting	Lapsing	Persisting
1	\$300	\$390	\$430	\$450
2	400	410	460	460
3	500	420	450	470
4	540	460	540	450
5	580	550	570	530

TABLE 32
 AVERAGE ANNUALIZED PREMIUMS PER POLICY
 (8 COMPANIES)

Policy Year	1984 Averages*		1988 Averages*	
	Lapsing	Persisting	Lapsing	Persisting
1	\$320	\$420	\$440	\$480
2	440	440	480	470
3	520	500	470	440
4	550	550	540	460
5	650	580	560	510

*All companies receive equal weight; company size does not affect the results.

APPENDIX A
 DEFINITIONS OF IN-FORCE POLICIES AND LAPSES

In Force

A policy is considered in force if the first premium for the new policy year starting in 1987 is paid.

In-force business includes:

- Policies issued in 1987.
- Policies issued before 1987 where the premium due on the 1987 policy anniversary date is paid before the end of the grace period.

In-force business excludes:

- Policies that lapse before their 1987 anniversaries and that are on extended term or reduced paid-up status.
- Limited premium payment policies that are paid up.
- Single premium policies.

Examples of policies in force are:

- A policy issued in 1987 and the first premium is paid.
- A policy issued in 1986 and the premium due in the 13th policy month is paid.
- A policy issued in 1985 and the premium due in the 25th policy month is paid.

Lapse

A policy is considered a lapse if the first premium for the new policy year starting in 1987 is paid, but not all of the premium that comes due after the 1987 anniversary and before or on the 1988 anniversary date is paid.

Lapsed business includes:

- Policies surrendered after their 1987 anniversaries and before or on their 1988 anniversaries.
- Policies where a premium due after the 1987 anniversary and before or on the 1988 anniversary date is not paid by the end of the grace period.
- Term policies with renewal provisions that do not renew.
- Policies that go on extended term or reduced paid-up status.

Lapsed business excludes:

- Death claims.
- Automatic premium loaned policies.
- Expiries and maturities.
- Conversions.
- Policies that lapse during the 1987–1988 policy year but are reinstated before or on their 1988 anniversaries.
- Policies not taken.
- Policies where the waiver of premium provision applies.

Examples of policies that lapse are:

- A policy issued in 1987 and the policyowner has paid the first premium. If any premium for policy months 2 through 13 is not paid by the end of the grace period, the policy is a lapse.
- A policy issued in 1986 and the policyowner has paid the 13th policy month premium. If any premium for policy months 14 through 25 is not paid by the end of the grace period, the policy is a lapse.
- A policy issued in 1985 and the policyowner has paid the 25th policy month premium. If any premium for policy months 26 through 37 is not paid by the end of the grace period, the policy is a lapse.

An example of a policy that does not lapse is:

- A policy issued in 1986 is not considered a lapse if the 13th policy month premium and all premiums for policy months 14 through 25 are paid.

PRODUCT DEFINITIONS

Traditional Whole Life

Includes: ● Whole life policies with level premiums or indeterminate premiums with *fixed* cash values including continuous-pay and limited-pay plans.

Excludes: ● Universal life
● Variable life with flexible premiums
● Variable life with fixed premiums
● Interest-sensitive whole life
● Endowments
● Policies that are combinations of whole life and term plans
● Individual pension trust plans.

Yearly Renewable Term

Includes: ● Term policies with level face amounts.

Excludes: ● Graded premium whole life—Types 1 and 2
● Term riders.

Level Term (Other Than YRT)

Excludes: ● Nonlevel term
● Term riders.

Individual Pension Trust

Includes: ● All policies sold on a pension trust basis.

Interest-Sensitive Whole Life

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

Excludes: ● Universal life
● Individual pension trust.

Graded-Premium Whole Life—Type 1

Includes: ● Traditional graded-premium whole life: The premium may increase annually for 5 to 10 years and then level off at a premium comparable to a whole life continuous-pay plan.

Excludes: ● Graded-premium whole life—Type 2
● Individual pension trust.

Graded-Premium Whole Life—Type 2

Includes: ● Nontraditional graded-premium whole life: The initial premium is competitive with yearly renewable term policies. The premium increases annually for 10 to 20 years and then becomes level. Usually, the policy has no cash value for the first 10 years. Some of the products developed before 1984 were designed to take advantage of Section 818 C of the tax code. With the Tax Reform Act of 1984, the advantages were substantially reduced.