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# 2004 Inter-Company Expense Study of U.S. Individual Life Insurance and Annuities

by Steven Siegel



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The SOA's Committee on Life Insurance Company Expenses (CLICE) has recently completed its fourth inter-company study of expenses for individual life and annuity business issued in the

United States. The full report of this study is now available on the SOA's Web site. This article provides highlights from that study.

The data requested was identical to that requested for the 2003 study. In addition, the total number of contributors (28) providing data remained the same. However, a number of contributors were new to the study this year, while some previous contributors were unable to contribute. CLICE is hoping to increase the number of contributors for the 2005 study and future ones—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 were not 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.

Overall, the data submitted to the study continues to improve in reliability and data integrity. This is due, in part, to the number of repeating contributors familiar with the data submission form and the scope of data requested.

In the study, a unit cost called “per policy index” is used to facilitate the comparison of first year expenses (excluding commissions and premium taxes) among contributors. Similarly, a per policy in force unit cost is used to compare operating expenses (excluding commissions, termination expenses, premium taxes, and for annuities, annuity payout expenses). These two unit costs provide the reader with a high-level basis for making comparisons. To the left is a table comparing these unit costs for 2003 and 2004 for companies that contributed to both studies.

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, the results should be viewed with caution, particularly the comparison of this study with the corresponding 2003 figures.

The exhibits in the full report show unit expense calculations for the various product and distribution channels for which sufficient data was available, including the weighted average by company, median, unweighted average by company and 25th and 75th percentile unit expenses where there was a sufficient number of contributors. Summarized acquisition and non-acquisition unit costs are illustrated in the tables on page 11.

The committee has distributed a request for, and received contributions to the 2005 study, which will further continue this annual effort. The committee expresses its appreciation to all of the contributing companies for their assistance and support of this study. ●

## Comparison of 2003 and 2004 Per Policy Index Unit Costs For Companies Contributing to both 2003 and 2004 Studies

	Products	Year	First Year*			Inforce#		
			25% Percentile	Weighted Average	75% Percentile	25% Percentile	Weighted Average	75% Percentile
Life	Term	2003	\$499	\$541	\$758	\$61	\$75	\$133
		2004	496	672	1,160	71	75	133
	Permanent	2003	545	1,069	1,515	57	62	120
		2004	445	1,572	2,307	51	53	116
	Variable	2003	609		2,262	112	125	195
		2004	2,129	3,319	3,974	187	195	427
Annuities	Deferred	2003	\$346	\$897	\$1,287	\$99	\$105	\$139
		2004	516	943	753	94	119	167
	Immediate	2003	258	1,246	750	78	100	107
		2004	332	731	773	53	133	137
	Variable deferred	2003	634	1,686	1,562	124	145	185
		2004	620	1,830	1,151	136	259	253

\*Excludes commissions and premium taxes

#Excludes commissions, premium taxes, termination expenses and contract expenses during payout period



## Acquisition Expense for Individual Life Insurance

Product Type	Number of Companies	Per Policy Issued	Per \$1,000 Face Amount Issued	Percent of First Year Premium	Commissions (% of premium)		
					First Year	Single Premium*	Renewal
Term	25	\$190	\$0.44	45.5%	61.3%	N/A	3.3%
Permanent	26	\$183	0.86	47.7%	50.9%	3.3%	3.6%
Variable	14	\$375	0.39	38.3%	35.4%	2.0%	4.9%
Total	27	\$197	0.54	45.6%	49.8%	3.1%	3.8%

\* includes dumps/pour-ins and dividends applied

## Non-Acquisition Expense for Individual Life Insurance

Product Type	Number of Companies	Per Policy In Force	Per Claim	Premium Tax
Term	25	\$66	\$409	1.6%
Permanent	26	\$62	\$96	1.2%
Variable	14	\$218	\$333	2.5%
Total	27	\$72	\$109	1.4%

## Acquisition Expense for Individual Annuities

Product Type	Number of Companies	Per Policy Issued	Percent of First Year Premium	Commissions (% of premium)	
				First Year/Single	Renewal Commission
Deferred - Fixed	15	\$145	1.5%	4.9%	5.1%
Deferred - Variable	13	\$144	2.3%	4.8%	3.8%
Immediate - Fixed	17	\$168	1.6%	2.4%	N/A
Total	24	\$145	2.0%	4.8%	4.1%

## Non-Acquisition Expense for Individual Annuities

Product Type	Number of Companies	Per Policy In Force	Per Termination	Per Contract	Premium Tax
Deferred - Fixed	15	\$113	\$45	\$12	0.1%
Deferred - Variable	13	\$192	\$32	\$12	0.1%
Immediate - Fixed	17	\$135	\$27	\$5	0.2%
Total	24	\$154	\$37	\$10	0.1%