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2005 Inter-Company Expense Study of U.S. Individual Life Insurance and Annuities

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

The data requested was identical to that requested for the 2004 study. For this study, the total number of contributors providing data increased to 32

from the previous study's total of 28. As in previous years, a number of new contributors participated this year, while some previous contributors were unable to contribute. As in any experience study, CLICE would like to increase the number of contributors for the 2006 study as well as future ones. If your company has not previously participated in the study, CLICE would encourage you to consider and welcome you! You can find out more on how to participate in the 2006 study. Visit <http://www.soa.org/research/individual-life/pd-2006-clice-expense-study-data-request.aspx>.

For the 2005 study, contributing companies 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 companies were aggregated and unit cost calculations were developed. As part of the aggregation process, a series of data integrity checks was performed and company representatives 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. The following table compares these unit costs for 2004 and 2005 for companies that contributed to both studies.

Comparison of 2004 and 2005 Per Policy Index Unit Costs for Companies Contributing to both 2004 and 2005 Studies

Products	Year	First Year*			In Force#			
		25% Percentile	Weighted Average	75% Percentile	25% Percentile	Weighted Average	75% Percentile	
Life	Term	2004	\$396	\$661	\$891	\$44	\$66	\$102
		2005	444	634	868	44	59	91
	Permanent	2004	390	1,464	1,543	47	54	109
		2005	351	1,243	2,059	50	54	93
	Variable	2004	1,669	3,143	3,885	161	195	519
		2005	674	2,565	5,607	142	102	411
Annuities	Fixed Deferred	2004	\$361	\$751	\$687	\$59	\$117	\$149
		2005	345	950	863	62	123	149
	Fixed Immediate	2004	286	926	1,765	58	163	123
		2005	245	2,862	1,486	66	191	182
	Variable Deferred	2004	422	1,863	1,568	139	275	341
		2005	447	2,370	1,983	134	268	307

*Excludes commissions and premium taxes

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



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 2004 figures.

The exhibits in the report present 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 results for all unit costs are illustrated below:

**Acquisition Expense for Individual Life Insurance
Weighted Averages**

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	27	\$169	\$0.48	43.0%	62.9%	N/A	3.1%
Permanent	29	147	1.08	48.3	69.9	4.5%	3.5
Variable	13	255	0.58	52.9	61.0	1.6	3.3
Total	29	162	0.62	47.4	66.9	4.1	3.4

* Includes dumps/pour-ins and dividends applied

Non-Acquisition Expense for Individual Life Insurance

Product Type	Number of Companies	Per Policy Inforce	Per Claim	Premium Tax
Term	27	\$58	\$229	1.8%
Permanent	29	51	71	1.3
Variable	13	102	98	1.9
Total	29	56	80	1.5

Acquisition Expense for Individual Annuities

Product Type	Number of Companies	Per Policy Issued	Percent of First Year/Single Premium	Commissions (% of premium)	
				First Year / Single	Renewal Commission
Deferred – Fixed	26	\$177	1.5%	7.2%	4.9%
Deferred – Variable	13	205	2.8	5.8	3.2
Immediate – Fixed	17	241	2.9	2.8	N/A
Total	26	193	2.4	6.2	3.7

Non-Acquisition Expense for Individual Annuities

Product Type	Number of Companies	Per Policy Inforce	Per Termination	Per Contract	Premium Tax
Deferred – Fixed	26	\$111	\$40	\$27	0.1%
Deferred – Variable	13	241	12	42	0.1
Immediate – Fixed	17	163	18	3	0.2
Total	24	154	37	10	0.1

The committee expresses its appreciation to all of the contributing companies for their assistance and support of this study. ●

**For the 2006 study, contributors have been requested to also provide universal life information separately, if possible.*