

5 EXPENDITURES

Life insurance company expenditures include benefit payments, operating expenses, taxes, additions to reserves, investment expenses, and dividends to policyholders. Benefit payments accounted for 66 percent of expenditures at \$533 billion in 2006 (Table 5.1, Figure 5.1). Additions to reserves reached \$143 billion for the second-largest category at 18 percent.

Operating expenses comprised 13 percent of 2006 total expenditures, taxes claimed 3 percent and investment expenses claimed 2 percent. Each expenditure category is detailed in this chapter with the exception of reserves, which is discussed in Chapter 3.

BENEFIT PAYMENTS

Several factors affect the pattern of life insurance benefit payments. Primary among them are changes in the death rate of policyholders and the growth in group life insurance and other term insurance policies that do not incorporate a cash value.

These payments have increased steadily for many years, reflecting greater use of life insurance not only to provide funds for the family whose breadwinner dies, but also for family financial needs during the policyholder's lifetime.

Nationally, increasing life insurance ownership has been the main reason for the almost uninterrupted rise in life insurance death payments over the years, despite a general decline in death rates among policyholders.

From Life Insurance Policies To Beneficiaries

During 2006, life insurers paid \$56 billion to beneficiaries of policyholders who died, a 5 percent increase from 2005 (Table 5.2). Of this total, individual life insurance policies accounted for nearly two-thirds and provided \$35 billion (62%). Group life insurance payments to beneficiaries ranked second at \$21 billion, or 37 percent of total death payments. Benefits paid under short-term individual and group credit life insurance policies (on loans of 10 years' or less duration) totaled \$568 million in 2006.

To Policyholders

Although the basic purpose of life insurance is to protect against the economic risks of death, it can also generate value for the individual policyholder. Cash surrender values paid on life insurance policies terminated voluntarily during 2006 decreased 2 percent to \$38 billion from a year earlier (Table 5.2).

Policyholder dividends represent the return of part of the payments that policyholders made on policies sold on a participating basis, and reflect the portion not needed by the company after payment of claims, additions to reserves, and administrative expenses. Dividends accounted for \$15 billion, or 13 percent of payments from life insurance policies in 2006.

Endowment insurance guarantees that the policy's face amount will be paid by the insurance company regardless of whether the insured dies during the policy's

term, as long as premiums are paid as required. These policies specify a maturity date. Matured endowment payments totaled \$575 million in 2006, down 3 percent from the previous year.

Other payments, including disability payments and retained assets under life insurance policies, totaled \$561 million in 2006.

From Annuity Contracts

Annuity benefit payments increased to \$71 billion in 2006 (Table 5.3). Beginning in 2001, payments and withdrawals from deposit-type contracts are no longer reported as expenditures but directly as a deduction from reserves.

Fifty-five percent of the annuity benefit payments, or \$39 billion, was paid to individual annuity owners, while \$30 billion, or 42 percent, was paid to group annuity owners. The remainder was paid under supplementary contracts with life contingencies—an agreement between an insurer and a life insurance policyholder or beneficiary in which the beneficiary chooses to receive the policy's proceeds over a lifetime rather than in a lump sum.

Life insurers paid \$238 billion on voluntarily terminated annuities in 2006, \$4 billion in dividends to annuity owners, and small amounts of death benefits, disability benefits, and matured endowments.

From Health Insurance Policies

Health insurance has become a notable aspect of U.S. life insurers' services. Life insurance companies paid \$97 billion in health insurance benefits to Americans in 2006—\$62 billion under group contracts and \$34 billion under individual policies (Table 5.4). Life insurers' total health insurance benefit payments to Americans increased 22 percent from 2005.

These statistics do not include disability payments under life insurance policies, health insurance and accidental death and dismemberment payments by casualty and

other health insurance companies, or administrative-service-only arrangements.

OPERATING EXPENSES

Operating expenses of life insurance companies include commissions to agents and home- and field-office expenses. In 2006, agent commissions comprised 6 percent of expenditures at \$51 billion (Table 5.1), as did home- and field-office expenses.

Of total office expenses, \$32 billion, or 61 percent, was in salaries and payments to employee and agent benefit plans (Table 5.5). In 2006, life insurers also spent \$7 billion on office equipment and supplies, \$3 billion on office rent, \$3 billion on fees associated with policy issuance and claim settlement, \$3 billion on advertising, and \$1 billion on travel.

TAXES

Life insurance companies incurred \$20 billion in taxes to federal, state, and local governments in 2006, 14 percent more than in 2005 (Table 5.6). Over 65 percent of these taxes were income taxes at \$13 billion. Significant year-to-year variation in federal income taxes is largely due to changes in capital gain/loss obligations.

Life insurers' second-largest tax obligation is payment of taxes on premiums that companies collect in each state. In 2006, U.S. life insurers incurred \$4 billion in state taxes on premiums collected from life, health, and annuity business.

As employers of nearly half a million home-office personnel, U.S. life insurers also incurred \$2 billion in Social Security taxes in 2006. This figure does not include Social Security taxes paid by employees or self-employed agents.

Miscellaneous taxes, licenses, and fees at more than \$1 billion accounted for 6 percent of all taxes incurred in 2006. These taxes do not include amounts associated with investment management.

INVESTMENT EXPENSES

Expenses, fees, and taxes associated with investment management totaled \$15 billion in 2006 (Table 5.7). Interest is the largest category at about \$2.3 billion followed by salaries at \$1.6 billion.

Table 5.1

Expenditures of Life Insurers

	Millions			Average annual percent change	
	1996	2005	2006	1996/2006	2005/2006
Benefit payments					
Life insurance	\$76,365	\$107,573	\$109,817	3.7	2.1
Annuities ¹	172,060	258,099	312,847	6.2	21.2
Health insurance	67,594	79,571	96,995	3.7	21.9
Other payments ²	7,625	11,376	13,566	5.9	19.3
Total	323,644	456,619	533,225	5.1	16.8
Additions to policy reserve funds³	102,882	136,317	143,266	3.4	5.1
Operating expenses					
Commissions to agents	30,722	48,706	50,614	5.1	3.9
Home- and field-office expenses	36,357	48,409	51,300	3.5	6.0
Total	67,080	97,115	101,914	4.3	4.9
Taxes⁴	17,033	17,918	20,388	1.8	13.8
Investment expenses⁵	11,819	13,508	14,919	2.4	10.4
Aggregate total	522,457	721,477	813,713	4.5	12.8

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Codification effective with 2001 Annual Statement filings changed the reporting of certain lines of business, particularly deposit-type contracts, as explained in numbered footnotes. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

¹Beginning in 2001, excludes payments under deposit-type contracts (such payments are shown in Table 3.3). Does not include payments from supplementary contracts without life contingencies and annuities certain, lottery payouts, structured settlements, and income payout options.

²Includes group conversions and interest on policy or contract funds. Prior to 2001, also includes payments on dividend accumulations and supplementary contracts without life contingencies.

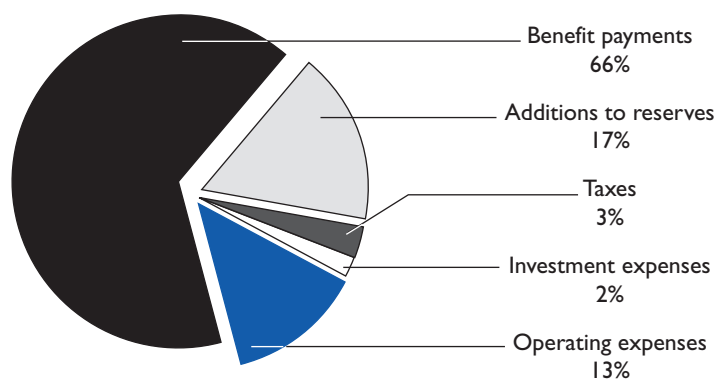
³Beginning in 2001, excludes addition to reserves for deposit-type contracts.

⁴Includes foreign and U.S. federal income, including taxes on capital gains; excludes investment taxes. Data for 1996 does not include foreign income taxes.

⁵Includes investment-related taxes and fees.

Figure 5.1

Distribution of Life Insurers' Expenditures, 2006



Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and fraternal benefit societies.

Table 5.2

Payments From Life Insurance Policies

	Millions			Average annual percent change	
	1996	2005	2006	1996/2006	2005/2006
Payments to beneficiaries					
Individual	\$21,351	\$32,760	\$34,525	4.9	5.4
Group	14,016	19,633	20,601	3.9	4.9
Credit	890	603	568	-4.4	-5.7
Total	36,257	52,996	55,694	4.4	5.1
Surrender values					
Individual	23,356	37,239	36,770	4.6	-1.3
Group	1,098	1,918	1,693	4.4	-11.8
Total	24,454	39,157	38,463	4.6	-1.8
Policyholder dividends	14,546	14,138	14,523	0.0	2.7
Matured endowments	526	594	575	0.9	-3.1
Other payments¹	582	689	561	-0.4	-18.5
Aggregate total	76,365	107,573	109,817	3.7	2.1

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Note: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

¹Includes disability benefits and retained assets.

Table 5.3

Payments From Annuity Contracts

	Millions			Average annual percent change	
	1996	2005	2006	1996/2006	2005/2006
Annuity benefits¹					
Individual ¹	\$21,852	\$35,332	\$39,373	6.1	11.4
Group ¹	29,217	26,561	29,538	0.1	11.2
Supplementary contracts with life contingencies	1,478	2,042	2,177	3.9	6.6
Total	52,547	63,935	71,087	3.1	11.2
Surrender values²					
Individual	38,066	104,670	139,612	13.9	33.4
Group	77,681	85,660	98,202	2.4	14.6
Total	115,747	190,329	237,813	7.5	24.9
Policyholder dividends	3,518	3,781	3,906	1.1	3.3
Matured endowments	215	46	36	-16.3	-21.9
Other payments³	32	7	4	-18.2	-34.2
Aggregate total	172,060	258,099	312,847	6.2	21.2

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

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¹Beginning in 2001, excludes payments under deposit-type contracts (such payments are shown in Table 3.3). Does not include payments from supplementary contracts without life contingencies and annuities certain, lottery payouts, structured settlements, and income payout options.

²Beginning in 2001, excludes surrender benefits and fund withdrawals from deposit-type contracts.

³Includes death benefits, disability benefits, and retained assets.

Table 5.4

Payments From Health Insurance Policies

	Millions			Average annual percent change	
	1996	2005	2006	1996/2006	2005/2006
Group	53,297	\$59,313	\$62,407	1.6	5.2
Individual	13,401	19,615	34,048	9.8	73.6
Credit	896	642	540	-4.9	-16.0
Total	67,594	79,571	96,995	3.7	21.9

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

Table 5.5

Life Insurer Home- and Field-Office Expenses

	Millions			Average annual percent change	
	1996	2005	2006	1996/2005	2005/2006
Rental	\$2,418	\$2,919	\$2,802	1.5	-4.0
Employment					
Salaries	16,699	23,864	25,493	4.3	6.8
Welfare contributions and payments	3,476	5,424	6,032	5.7	11.2
Total	20,175	29,288	31,525	4.6	7.6
Fees associated with policy issuance/ claim settlement	2,414	3,045	3,098	2.5	1.7
Travel	928	1,148	1,241	2.9	8.1
Advertising	1,414	2,634	2,839	7.2	7.8
Office equipment/supplies	5,548	6,677	7,082	2.5	6.1
Miscellaneous	3,460	2,697	2,714	-2.4	0.6
Aggregate total	36,357	48,409	51,300	3.5	6.0

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Figures exclude investment expenses. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

Table 5.6

Taxes, Licenses, and Fees

	Millions			Average annual percent change	
	1996	2005	2006	1996/2006	2005/2006
Income taxes¹	\$11,305	\$11,166	\$13,303	1.6	19.1
Social Security taxes	1,294	1,550	1,704	2.8	9.9
State taxes on premiums	2,998	3,942	4,084	3.1	3.6
Real estate taxes	13	12	30	8.9	142.6
Miscellaneous taxes, licenses, and fees	1,424	1,247	1,267	-1.2	1.6
Total	17,033	17,918	20,388	1.8	13.8

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Figures exclude investment taxes. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

¹Includes foreign and U.S. federal income, including taxes on capital gains; excludes non-income, state, and investment taxes. Data for 1995 does not include foreign income taxes.

Table 5.7

Investment Expenses of Life Insurers

	Millions			Average annual percent change	
	1996	2005	2006	1996/2006	2005/2006
Rental	\$185	\$238	\$213	1.4	-10.3
Employment					
Salaries	1,249	1,510	1,595	2.5	5.7
Welfare contributions/payments	209	213	279	2.9	30.6
Total	1,458	1,723	1,874	2.5	8.8
Real estate	3,768	1,739	1,350	-9.8	-22.4
Interest	NA	2,283	2,286	NA	0.1
Depreciation on invested assets	1,619	797	765	-7.2	-4.0
Investment taxes and fees¹					
Real estate	1,100	698	674	-4.8	-3.4
Other	146	91	89	-4.8	-2.4
Total	1,245	789	762	-4.8	-3.3
Other	3,544	5,939	7,668	8.0	29.1
Aggregate total	11,819	13,508	14,919	2.4	10.4

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

NA: Not available.

¹Excludes federal income taxes and taxes on capital gains.

Table 5.8

Payments Under Life Insurance Policies and Annuity Contracts, by Year (millions)

	Payments to beneficiaries	Surrender values ¹		Policyholder dividends	Annuity payments ²	Matured endowments	Other payments ³	Total
		Life policies	Annuity contracts ²					
1940	\$995	\$652	NA	\$468	\$176	\$269	\$104	\$2,664
1945	1,280	211	NA	466	216	407	88	2,668
1950	1,590	592	NA	627	327	495	100	3,731
1955	2,241	896	NA	1,021	501	614	110	5,383
1960	3,346	1,633	NA	1,512	830	673	124	8,118
1965	4,831	1,932	NA	2,259	1,300	931	163	11,416
1970	7,017	2,887	NA	3,214	2,120	978	233	16,449
1975	9,192	3,763	NA	4,544	3,665	946	426	22,536
1980	12,884	6,678	NA	6,785	10,195	908	592	38,042
1981	14,154	7,961	NA	7,838	12,021	883	627	43,484
1982	15,066	10,779	NA	7,922	12,814	839	574	47,994
1983	15,660	12,605	NA	8,641	13,564	824	566	51,860
1984	16,752	14,731	NA	9,700	17,912	771	566	60,432
1985	18,226	15,589	NA	10,121	21,259	779	536	66,510
1986	19,479	14,741	NA	10,122	22,657	766	540	68,305
1987	20,530	14,864	NA	10,466	24,316	752	504	71,432
1988	21,660	14,456	NA	11,046	25,665	751	513	74,091
1989	23,261	14,859	NA	11,417	29,383	727	554	80,201
1990	24,567	18,022	NA	11,953	32,575	700	568	88,385
1991	25,407	16,282	NA	12,066	36,615	668	547	91,585
1992	27,235	16,814	NA	12,203	37,550	649	592	95,043
1993	28,819	16,904	NA	12,714	40,325	598	615	99,975
1994	32,583	18,014	\$92,779	15,915	40,412	647	459	200,809
1995	34,545	19,501	105,449	17,816	48,457	1,007	860	227,635
1996	36,257	24,454	115,747	18,064	51,069	741	614	246,946
1997	37,488	24,016	140,842	17,981	55,080	563	608	276,578
1998	40,101	26,816	154,463	18,865	60,410	572	607	301,834
1999	41,363	32,833	198,311	19,149	62,485	528	620	355,288
2000	44,143	27,173	213,989	20,001	68,668	604	605	375,181
2001	46,512	30,653	151,315	19,993	55,197	549	648	304,867
2002	48,166	32,909	142,948	21,033	54,950	621	649	301,276
2003‡	51,661	35,943	140,261	20,761	57,110	596	650	306,982
2004‡	51,576	35,485	162,876	18,981	61,162	595	866	331,541
2005‡	52,996	39,157	190,329	17,919	63,935	640	695	365,672
2006‡	55,694	38,463	237,813	18,429	71,087	612	566	422,664

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

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NA: Not available.

‡Includes fraternal benefit societies.

¹Beginning in 1994, includes annuity withdrawals of funds. An amount comparable to prior years is not available.

²Beginning in 2001, excludes payments under deposit-type contracts (see Table 3.3).

³Includes some disability benefits and retained assets.

Table 5.9

Payments to Life Insurance Beneficiaries, by Year

Year	Policies in thousands/ Amounts in millions							
	Individual		Group		Credit ¹		Total	
	Policies	Amount	Policies	Amount	Policies	Amount	Policies	Amount
1940	974	\$891	50	\$104	—	—	1,024	\$995
1945	1,226	1,109	92	171	—	—	1,318	1,280
1950	1,246	1,307	133	283	—	—	1,379	1,590
1955	1,418	1,650	243	591	—	—	1,661	2,241
1960	1,644	2,231	394	1,115	—	—	2,038	3,346
1965	1,866	3,007	636	1,824	—	—	2,502	4,831
1970	1,974	3,990	767	3,027	—	—	2,741	7,017
1975	1,998	4,901	591	3,807	337	484	2,926	9,192
1980	2,045	6,587	637	5,671	285	626	2,967	12,884
1981	2,016	7,117	668	6,374	324	663	3,008	14,154
1982	1,997	7,457	645	6,953	331	656	2,973	15,066
1983	2,004	7,776	663	7,256	252	628	2,919	15,660
1984	2,158	8,457	675	7,655	248	640	3,081	16,752
1985	2,013	9,264	683	8,275	262	687	2,958	18,226
1986	2,039	10,030	686	8,675	246	774	2,971	19,479
1987	1,981	10,593	690	9,073	262	864	2,933	20,530
1988	2,044	11,416	695	9,346	276	898	3,015	21,660
1989	1,988	12,332	763	10,029	240	900	2,991	23,261
1990	1,965	13,439	728	10,281	238	847	2,931	24,567
1991	1,984	13,949	674	10,582	219	876	2,877	25,407
1992	1,926	15,287	643	11,022	186	926	2,755	27,235
1993	1,945	16,584	668	11,572	136	663	2,749	28,819
1994	2,388	18,792	870	12,914	240	877	2,974	32,583
1995	2,405	20,106	767	13,527	224	912	3,396	34,545
1996	2,401	21,351	867	14,016	273	890	3,541	36,257
1997	2,480	22,695	843	13,898	274	895	3,597	37,488
1998	2,435	24,838	819	14,425	391	838	3,644	40,101
1999	2,715	25,274	875	15,260	380	829	3,970	41,363
2000	2,561	27,267	877	16,055	383	821	3,821	44,143
2001	2,688*	28,346	935	17,393	313	773	3,936	46,512
2002	2,632	30,117	942	17,308	341	741	3,915	48,166
2003‡	2,673	32,901	1,107	18,064	293	695	4,073	51,661
2004‡	2,786	32,222	826	18,708	241	646	3,853	51,576
2005‡	2,586	32,760	989	19,633	310	603	3,885	52,996
2006‡	2,568	34,525	1,027	20,601	276	568	3,870	55,694

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

*Corrected to include industrial policies.

‡Includes fraternal benefit societies.

¹Prior to 1973, death payments under credit life are included in individual and group categories.

Table 5.10

Health Insurance Benefit Payments by Life Insurers, by Year (millions)

Year	Group	Individual	Total
1948	\$225	\$101	\$326
1950	375	119	494
1955	1,064	326	1,390
1960	2,102	531	2,633
1965	3,572	841	4,413
1970	6,840	1,368	8,208
1975	12,410	1,910	14,320
1980	19,759	3,279	23,038
1981	21,049	3,425	24,474
1982	22,288	3,767	26,055
1983	22,799	4,113	26,912
1984	22,782	4,271	27,053
1985	22,830	4,468	27,298
1986	24,249	4,717	28,966
1987	29,452	5,417	34,869
1988	32,063	6,320	38,383
1989	32,375	7,057	39,432
1990	32,054	7,956	40,010
1991	33,933	8,672	42,605
1992	35,434	9,516	44,950
1993	35,775	10,232	46,007
1994	48,218	11,856	60,074
1995	51,674	13,040	64,714
1996	53,297	13,401	66,698
1997	53,393	14,039	67,432
1998	55,239	14,791	70,030
1999	58,203	16,261	74,464
2000	61,098	17,685	78,784
2001	58,211	18,093	76,304
2002	59,523	19,200	78,723
2003‡	60,317	20,812	81,129
2004‡	65,237	22,551	87,789
2005‡	59,313	19,615	78,928
2006‡	62,407	34,048	96,455

Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Figures exclude policy dividends. 1994–96 data have been revised to reflect the addition of life insurers that sell accident and health insurance. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

‡Includes fraternal benefit societies.