

7 LIFE INSURANCE

People buy life insurance to protect their dependents against financial hardship when the insured person, the policyholder, dies. Many life insurance products also allow policyholders to accumulate savings that can be used in a time of financial need. Most American families depend on life insurance to provide this economic protection: Seventy-seven percent owned some type of life insurance in 2004, according to LIMRA International.

Americans purchased \$3.0 trillion of new life insurance coverage in 2006, 1 percent less than in 2005 (Table 7.1). By the end of 2006, total life insurance coverage in the United States reached \$19.1 trillion (Figure 7.1), an increase of 4 percent from 2005

Three types of life insurance policies predominate the market. *Individual insurance* is underwritten separately for each individual who seeks insurance protection. *Group insurance* is underwritten on a group as a whole, such as the employees of a company or the members of an organization. Credit insurance guarantees payment of some debt, such as a mortgage or other loan, in the event the insured person dies, and can be bought on either an individual or a group basis. Insurance on loans of 10 years' or less duration is classified as credit insurance in National Association of Insurance Commissioners accounts; insurance on longer loans is included in individual or group policy data in this chapter. Life insurance policies offered by fraternal benefit societies are considered individual insurance.

INDIVIDUAL LIFE INSURANCE

Individual life is the most widely used form of life insurance protection—53 percent of all life insurance in force in the United States at year-end 2006 (Table 7.1). Typically purchased through life insurance agents, this insurance is issued under individual policies with face amounts as low as \$1,000, although larger minimum amounts are more typical in today's market. While individual life is principally used for family protection, it also is widely used for business purposes. A business may purchase life insurance to protect against the economic loss that would result from the death of the owner or a key employee.

Individual life insurance protection in the United States totaled \$10 trillion at the end of 2006 and has grown at an average annual rate of 4 percent since 1996, when \$7.4 trillion was in force (Table 7.1).

The size of newly purchased individual life policies also grew in 2006 (Figure 7.2). The average, new individual life policy increased 14 percent to \$167,000. The number of individual policies purchased, however, fell 4 percent in 2006 (Table 7.1).

Individual life policies offer two basic types of protection: covering a specified term, or permanently covering one's whole life.

Types of Policies

Term Insurance

Term insurance policies provide life insurance coverage for a specified period, usually greater than one year. Term policies provide no further benefits when the term expires, and no buildup of cash value occurs. If this insurance is not renewed at the end of its term, coverage lapses and no payment would be made to the beneficiary in the event of death.

Of new individual life policies purchased in 2006, 41 percent, or 4 million, were term insurance (Table 7.2), totaling \$1.3 trillion, or 71 percent, of the individual life face amount issued. The most popular form of term insurance is level term, which offers a fixed premium.

Permanent Insurance

Unlike term insurance, permanent life (or whole life) insurance provides protection for as long as the insured lives. Permanent life policies also have a savings component, building cash value that can help families meet financial emergencies, pay for special goals, or provide income for retirement years.

There are four types of permanent life insurance policies: traditional whole life, universal life (UL), variable life (VL), and variable-universal life (VUL). The annual premium for traditional whole life policies remains constant throughout the life of the policy. In earlier years, the premium is higher than the actual cost of the insurance, but in later years it becomes substantially lower than the actual cost of protection. The excess amount of each premium in the early years is held in reserve as the policy's cash value. This cash value grows over time from investment earnings and future premium payments, providing funds for the cost of coverage as the insured grows older. If a policyholder decides to give up the insurance protection, he or she receives the cash value upon surrendering the policy, less any outstanding policy loans. Universal life allows varying premium payment amounts subject to a certain minimum and maximum. For variable life, the death benefit and cash value vary subject to the performance

of a portfolio of investments chosen by the policyholder. VUL combines the flexible premium payment options of UL with the varied investment options of VL.

In 2006, direct purchases of permanent life constituted 59 percent of U.S. individual life insurance policies issued and 29 percent of the total face amount issued (Table 7.2).

Participating and Nonparticipating Insurance

Traditional whole life and term insurance policies can be purchased on a participating or nonparticipating basis. A participating policy allows the policyholder to share in the insurance company's surplus. With this type of life insurance, a policyholder receives annual dividends representing that portion of the premium not needed by the company for death payments to beneficiaries, additions to reserves, or administrative expenses. Four-fifths of individual life policies purchased were nonparticipating at \$1.4 trillion (78%) in 2006 (Table 7.3).

Characteristics of Individual Policies

Lapses and Surrenders

A policy lapses if its premium is not paid by the end of a specified time, often called the *grace period*. Policyholders have different reasons for terminating their policies, sometimes using cash values to address financial emergencies or achieve long-term goals. Rates of voluntary policy termination by policyholders vary considerably among life insurers. Each company's rate depends on many factors, including the types of policies written and the ratio of new policies to older ones in force with the company.

Over the past 10 years, the voluntary termination rate of individual life insurance policies has been declining, having reached 6.6 percent by 2006 (Table 7.4). Of the individual life policies that have been voluntarily terminated, 22% were surrendered.

The life insurance business vigorously seeks to minimize the lapsing of policies. For example, agent training focuses on realistic identification of clients' life insurance needs,

and careful analysis of the use of family income for protection. Since the voluntary termination rate is higher for policies on which loans are outstanding, companies urge that loans be used only in genuine financial emergencies, and that they be repaid promptly.

Most insurers offer policyholders time after their policy is delivered to consider whether to keep the policy. These companies will refund the premium in full if, within the prescribed time, the policyholder decides not to keep his or her policy.

Some policies that lapse still have a cash value, entitling the policyholder to some form of payment under a cash surrender value *non-forfeiture option*. All coverage under the policy terminates at the time of the surrender.

Disability Provisions

Besides the benefit payable upon death of the insured, many life insurance policies or policy riders provide disability benefits to cover financial losses that result from a sickness or injury. The most common supplementary benefit is waiver of premium. Of individual life policies in force in 2006, 89 percent, or 40 million, allowed the premium to be waived during disability (Table 7.5), representing \$3 trillion, or 98 percent, of the individual life face amount in force.

GROUP LIFE INSURANCE

Group life insurance is a contract between an insurance company and some group to insure all of the group's members, usually under term coverage. Common examples are employer-provided life insurance and insurance offered through unions and professional associations. Employees or other group members receive certificates denoting their participation in the group coverage. In 2006, group insurance represented 47 percent of all life insurance policies in force.

Group purchases fell 2 percent in 2006 to \$1.0 trillion (Table 7.1). At the end of 2006, group life insurance

provided \$8.9 trillion of protection, 8 percent more than a year earlier.

Group insurance contracts can provide benefits beyond term insurance. Employees often can retain coverage after retirement by paying premiums directly to the insurer. Many policies also offer survivor benefits, usually continuing monthly payments to the spouse of an employee who dies before retirement; payments may extend for life or to the age at which Social Security retirement payments become available, but cease on remarriage. Contingent benefits to dependent children in the event of a spouse's death are available as well. The initial value of these survivor benefits can range from three to 10 times an employee's annual salary.

As with individual life policies, group policies can be purchased on either a participating or nonparticipating basis. Most group life policies are nonparticipating (Table 7.3)—94 percent of those purchased in 2006, at \$964 billion.

The voluntary termination rate of group life insurance policies has held steady at 8.6 percent while voluntary lapses decreased slightly (Table 7.4).

Group policies also provide disability benefits (Table 7.5). Of group life policies in force in 2006, 94 percent, or 45 million, provided for waiver of premium, comprising 88 percent of the group life face amount in force at \$3.3 trillion.

CREDIT LIFE INSURANCE

Credit life insurance pays the balance on loans of 10 years' or less duration if the borrower dies before repaying the amount due. At year-end 2006, \$161 billion of credit life insurance was in force, down 3 percent from the previous year (Table 7.1).

Credit life, commonly part of consumer credit contracts, is term insurance, generally decreasing in amount as a

loan is repaid. It protects the borrower's family, as well as the lender, against unpaid debt that may be left at death. Life insurers issue credit insurance through lenders such as banks, finance companies, credit unions, and retailers, who in turn make arrangements with borrowers.

As with other life policies, credit policies can be purchased on either a participating or nonparticipating basis. Of credit life policies purchased in 2006, 83 percent, or \$93 billion, were nonparticipating (Table 7.3).

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POLICY CLAIMS RESISTED OR COMPROMISED

From time to time, life insurers find it necessary to delay or deny payment of claims due to material misrepresentation, suicide within the contestable period, or no proof of death, among other reasons. In 2006, \$285 million in new claims along with \$688 million in other claims were in dispute. Of this amount, \$128 million was paid in 2006 and \$413 million still resisted at the end of the year (Table 7.6).

Table 7.1

Life Insurance in the United States

	Life Insurance			Average annual percent change	
	1996	2005	2006	1996/2006	2005/2006
PURCHASES					
Face amount (millions)					
Individual ¹	\$1,089,268	\$1,796,384	\$1,813,100	6.6	0.9
Group	614,565	1,039,878	1,022,080	6.6	-1.7
Credit	170,514	133,952	111,964	-3.4	-16.4
Total	1,874,347	2,970,215	2,947,144	5.7	-0.8
Policies (thousands)					
Individual	12,022	11,407	10,908	-0.9	-4.4
Group (certificates)	18,761	23,112	18,378	-0.2	-20.5
Credit	27,761	20,225	16,011	-4.2	-20.8
Total	58,544	54,744	45,298	-2.3	-17.3
IN FORCE					
Face amount (millions)					
Individual	\$7,425,746	\$9,969,899	\$10,056,501	3.5	0.9
Group	5,067,804	8,263,019	8,905,646	7.6	7.8
Credit	210,746	165,605	150,289	-2.9	-9.2
Total	12,704,296	18,398,523	19,112,436	5.0	3.9
Policies (thousands)					
Individual	166,000	166,118	160,520	-0.3	-3.4
Group (certificates)	139,000	167,146	177,348	2.8	6.1
Credit	50,000	39,894	36,670	-2.7	-8.1
Total	355,000	373,159	374,539	0.6	0.4

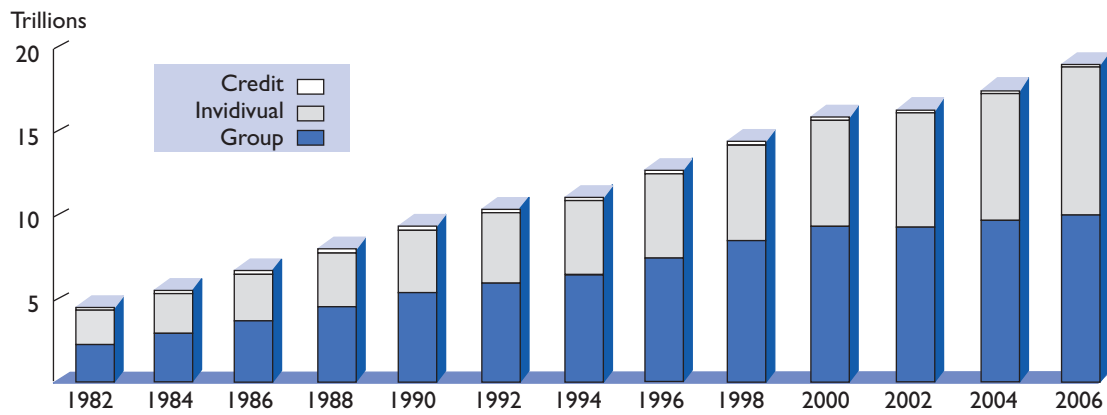
Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

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.

¹Policies issued by fraternal benefits societies are considered individual business.

Figure 7.1

Individual, Group, and Credit Life Insurance in Force in the United States (face amount)

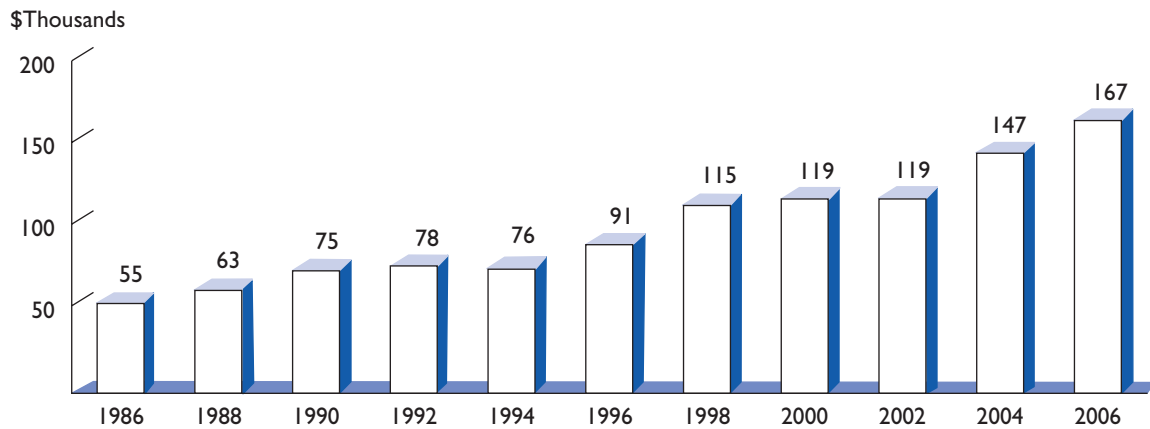


Source: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

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Figure 7.2

Average Face Amount of Individual Life Insurance Policies Purchased



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

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Table 7.2

Individual Life Insurance Purchases in the United States, by Plan Type, 2006

	Policies in thousands/Amounts in millions			
	Policies	Percent	Face amount	Percent
Term insurance				
Decreasing Level	53	0.5	\$11,336	0.6
Decreasing other term ¹	4,312	40.6	1,174,272	65.7
Level other term ²	NA	NA	3,432	0.2
Term additions	NA	NA	85,585	4.8
Total	NA	NA	769	0.0
Whole life and endowment	4,365	41.1	1,275,395	71.3
Aggregate total ³	6,251	58.9	512,387	28.7
	10,616	100.0	1,787,782	100.0

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.

NA: Not available.

¹Includes decreasing term insurance on spouses and children under family policies.

²Includes level term insurance on spouses and children under family policies.

³Does not include fraternal benefit societies.

Table 7.3

Life Insurance Purchases, by Participating Status

	Individual		Group		Credit		Total	
	Face amount (millions)	Percent	Face amount (millions)	Percent	Face amount (millions)	Percent	Face amount (millions)	Percent
1996								
Nonparticipating	\$741,544	68.1	\$398,895	64.9	\$131,671	77.2	\$1,272,110	67.9
Participating	347,724	31.9	215,670	35.1	38,843	22.8	602,237	32.1
Total	1,089,268	100.0	614,565	100.0	170,514	100.0	1,874,347	100.0
2005								
Nonparticipating	1,407,587	78.4	842,283	81.0	113,019	84.4	2,362,889	79.6
Participating	388,796	21.6	197,595	19.0	20,933	15.6	607,325	20.4
Total	1,796,384	100.0	1,039,878	100.0	133,952	100.0	2,970,215	100.0
2006								
Nonparticipating	1,421,914	78.4	964,252	94.3	92,879	83.0	2,479,045	84.1
Participating	391,186	21.6	57,828	5.7	19,085	17.0	468,099	15.9
Total	1,813,100	100.0	1,022,080	100.0	111,964	100.0	2,947,144	100.0

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

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Table 7.4

Voluntary Termination Rates for Life Insurance Policies (percent)

	1996	1997	1998	1999	2000	2001‡	2002‡	2003‡	2004‡	2005‡	2006‡
Lapse rate											
Individual	6.7	6.7	6.1	6.2	7.1	5.9	6.6	5.7	5.4	4.9	4.9
Group	7.3	7.3	7.2	8.2	9.0	11.2	8.7	8.4	9.5	8.4	8.1
Credit	4.2	4.2	4.8	4.6	3.9	6.8	5.6	5.3	5.3	6.9	7.4
Surrender rate											
Individual	2.1	2.1	2.1	2.1	2.2	1.8	1.9	1.9	1.6	1.7	1.4
Group	0.4	0.4	0.3	0.4	0.3	0.5	0.5	0.6	0.3	0.2	0.5
Credit	13.2	13.2	11.7	12.2	10.7	12.6	13.7	11.8	10.9	10.0	9.4
Combined termination rate											
Individual	8.5	8.8	8.3	8.2	9.4	7.7	8.6	7.6	7.0	6.6	6.3
Group	7.1	7.7	7.5	8.6	9.3	11.7	9.2	9.0	9.7	8.6	8.6
Credit	18.3	17.4	16.5	16.8	14.5	19.4	19.3	17.1	16.2	16.9	16.8

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

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‡Includes fraternal benefit societies.

Table 7.5

Life Insurance With Disability Provisions, 2006

	Policies and certificates in thousands/Amounts in millions			
	Policies	Percentage of policies in force	Face amount	Percentage amount in force
Individual^{1,2}				
Waiver of premium	40,320	25.1	\$3,292,494	32.7
Disability income	406	0.3	18,332	0.2
Extended benefits	0	0.0	0	0.0
Other	4,511	2.8	36,438	0.4
Total	45,237	28.2	3,347,264	33.3
Group³				
Waiver of premium	45,492	25.7	3,302,566	37.1
Disability income	750	0.4	31,573	0.4
Extended benefits	1,910	1.1	179,370	2.0
Other	388	0.2	220,534	2.5
Total	48,540	27.4	3,734,043	41.9
Credit⁴				
Waiver of premium	0	0.0	320	0.2
Disability income	1,339	3.7	13,124	8.7
Extended benefits	25	0.1	172	0.1
Total	1,364	3.7	13,616	9.1

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.

¹Does not include fraternal benefit societies.

²Policies in force totaled 161 million, with a face amount of \$10.1 trillion.

³Certificates in force totaled 177 million, with a face amount of \$8.9 trillion.

⁴Policies in force totaled 37 million, with a face amount of \$150 billion.

Table 7.6

New Policy Claims Resisted or Compromised (thousands)

	2000 ¹		2005		2006	
	Face amount	Percent	Face amount	Percent	Face amount	Percent
New claims in dispute	\$172,714	28.8	\$274,342	26.9	\$284,764	29.3
All other claims in dispute	427,952	71.2	747,275	73.1	688,342	70.7
Total claims in dispute	600,665	100	1,021,617	100	973,106	100
Amount paid for new claims	11,387	14.8	17,883	14.6	22,042	17.2
Amount paid for claims previously resisted	65,445	85.2	104,703	85.4	105,968	82.8
Total amount paid	76,831	100	122,585	100	128,010	100
Amount resisted at year's end²	278,885		428,104		412,890	

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.

¹Data for 1996 is not available.

²Not equal to subtracting total amount paid from total claims in dispute. The amount paid for claims disposed of usually varies from the amount claimed.

Table 7.7

Life Insurance Purchases, by Year

Year	Policies and certificates in thousands/Amounts in millions					
	Individual		Group		Total	
	Policies	Amount	Certificates	Amount	Policies/ Certificates	Policies/ Certificates
1940	17,872	\$10,039	285	\$691	18,157	\$10,730
1945	16,212	13,289	681	1,265	16,893	14,554
1950	20,203	22,728	2,631	6,068	22,834	28,796
1955	21,928	37,169	2,217	11,258*	24,145	48,427*
1960	21,021	59,763	3,734	14,645	24,755	74,408
1965	20,429	90,781	7,007	51,385+	27,436	142,166+
1970	18,550	129,432	5,219	63,690+	23,769	193,122+
1975	18,946	194,732	8,146	95,190+	27,092	289,922+
1980	17,628	389,184	11,379	183,418	29,007	572,602
1985	17,637	911,666	16,243	319,503*	33,880	1,231,169*
1986	17,116	934,010	17,507	374,741+	34,623	1,308,751+
1987	16,455	986,984	16,698	365,529	33,153	1,352,513
1988	15,796	996,006	15,793	410,848	31,589	1,406,854
1989	14,850	1,020,971	15,110	420,707	29,960	1,441,678
1990	14,199	1,069,880	14,592	459,271	28,791	1,529,151
1991	13,583	1,041,706	16,230	573,953+	29,813	1,615,659+
1992	13,452	1,048,357	14,930	440,143	28,382	1,488,500
1993	13,664	1,101,476	17,574	576,823	31,238	1,678,299
1994	13,835	1,057,233	18,390	560,232	32,225	1,617,465
1995	12,595	1,039,258	19,404	537,828	31,999	1,577,086
1996	12,022	1,089,268	18,761	614,565	30,783	1,703,833
1997	11,734	1,203,681	19,973	688,589	31,707	1,892,270
1998	11,559	1,324,671	20,332	739,508	31,891	2,064,179
1999	11,673	1,399,848	26,912	966,858	38,584	2,366,706
2000	13,345	1,593,907	21,537	921,001	34,882	2,514,908
2001	14,059	1,600,471	26,036	1,172,080	40,095	2,772,551
2002	14,692	1,752,941	24,020	1,013,728	38,713	2,766,669
2003‡	13,821	1,772,673	21,946	1,050,318	35,767	2,822,992
2004‡	12,581	1,846,384	25,872	1,101,599	38,453	2,947,983
2005‡	11,407	1,796,384	23,112	1,039,878	34,519	2,836,262
2006‡	10,908	1,813,100	18,378	1,022,080	29,287	2,835,180

Sources: ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission; LIMRA International.

Notes: NAIC does not endorse any analysis or conclusions based on use of its data. Data represent direct business and exclude revivals, increases, dividend additions, and reinsurance acquired. 1940–73 data exclude credit life insurance. Beginning with 1974, data include long-term credit insurance (life insurance on loans of more than 10 years' duration). Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

*Includes Federal Employees' Group Life Insurance of \$1.9 billion in 1955, \$84.4 billion in 1981, and \$10.8 billion in 1985.

+Includes Servicemen's Group Life Insurance of \$27.8 billion in 1965, \$17.1 billion in 1970, \$1.7 billion in 1975, \$45.6 billion in 1981, \$51 billion in 1986, and \$166.7 billion in 1991.

‡Includes fraternal benefit societies.

Table 7.8

Life Insurance in Force in the United States, by Year (millions)

Year	Individual		Group		Credit		Total	
	Policies	Amount	Certificates	Amount	Policies ¹	Amount	Policies/ Certificates	Amount
1900	14	\$7,573	—	—	—	—	14	\$7,573
1905	22	11,863	—	—	—	—	22	11,863
1910	29	14,908	—	—	—	—	29	14,908
1915	41	20,929	*	\$100	—	—	41	21,029
1920	64	38,966	2	1,570	*	\$4	66	40,540
1925	94	65,210	3	4,247	*	18	97	69,475
1930	118	96,539	6	9,801	*	73	124	106,413
1935	114	88,155	6	10,208	1	101	121	98,464
1940	122	100,212	9	14,938	3	380	134	115,530
1945	149	129,225	12	22,172	2	365	163	151,762
1950	172	182,531	19	47,793	11	3,844	202	234,168
1955	192	256,494	32	101,345	28	14,493	252	372,332
1960	195	381,444	44	175,903	43	29,101	282	586,448
1965	196	539,456	61	308,078	63	53,020	320	900,554
1970	197	773,374	80	551,357	78	77,392	355	1,402,123
1975	204	1,122,844	96	904,695	80	112,032	380	2,139,571
1980	206	1,796,468	118	1,579,355	78	165,215	402	3,541,038
1985	186	3,275,539	130	2,561,595	70	215,973	386	6,053,107
1990	177	5,391,053	141	3,753,506	71	248,038	389	9,392,597
1991	170	5,700,252	141	4,057,606	64	228,478	375	9,986,336
1992	168	5,962,783	142	4,240,919	56	202,090	366	10,405,792
1993	169	6,448,885	142	4,456,338	52	199,518	363	11,104,741
1994	169	6,448,758	145	4,443,179	52	189,398	366	11,081,335
1995	166	6,890,386	147	4,604,856	57	201,083	370	11,696,325
1996	166	7,425,746	139	5,067,804	50	210,746	355	12,704,296
1997	162	7,872,561	142	5,279,042	47	212,255	351	13,363,858
1998	160	8,523,259	152	5,735,273	46	212,917	358	14,471,449
1999	162	9,172,397	159	6,110,218	46	213,453	367	15,496,069
2000	163	9,376,370	156	6,376,127	50	200,770	369	15,953,267
2001	166	9,345,723	163	6,765,074	48	178,851	377	16,289,648
2002	169	9,311,729	164	6,876,075	42	158,534	375	16,346,338
2003‡	176	9,654,731	163	7,236,191	40	152,739	379	17,043,661
2004‡	168	9,717,377	165	7,630,503	39	160,371	373	17,508,252
2005‡	166	9,969,899	167	8,263,019	40	165,605	373	18,398,523
2006‡	161	10,056,501	177	8,905,646	37	150,289	375	19,112,436

Sources: 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 direct business and, beginning with 1959, include Alaska and Hawaii. 1994–97 data for individual amount and group certificates were revised. Individual and group categories include credit life insurance on loans of more than 10 years' duration; credit category is limited to life insurance on loans of 10 years' or less duration. Totals represent all life insurance (net of reinsurance) on residents of the United States, whether issued by U.S. or foreign companies.

*Fewer than 500,000.

‡Includes fraternal benefit societies.

¹Includes group credit certificates.