

5 EXPENDITURES

Life insurance company expenditures include benefit payments, operating expenses, taxes, additions to reserves, investment expenses, and dividends to policyholders. Benefit payments account for 63 percent of expenditures at \$428 billion in 2004 (Table 5.1, Figure 5.1). Additions to reserves reached \$124 billion for the second-largest category at 18 percent.

Operating expenses comprised 14 percent of 2004 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.

Table 5.1 Expenditures of Life Insurers

	Millions			Average annual percent change	
	1995 ¹	2003	2004	1995/2004	2003/2004
Benefit payments					
Life insurance	\$70,303	\$105,041	\$103,414	4.4	-1.5
Annuities ²	159,046	201,941	228,127	4.1	13.0
Health insurance	65,658	81,882	88,533	3.4	8.1
Other payments ³	17,187	8,963	7,894	-8.3	-11.9
Total	312,194	397,826	427,968	3.6	7.6
Additions to policy reserve funds⁴	33,226	131,008	124,327	15.8	-5.1
Operating expenses					
Commissions to agents	29,427	46,480	48,979	5.8	5.4
Home- and field-office expenses	34,288	46,960	48,525	3.9	3.3
Total	63,715	93,441	97,504	4.8	4.3
Taxes⁵	16,991	16,866	19,603	1.6	16.2
Investment expenses⁶	13,766	11,445	11,744	-1.7	2.6
Aggregate total	439,892	650,586	681,146	5.0	4.7

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.

¹Earliest available data.

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

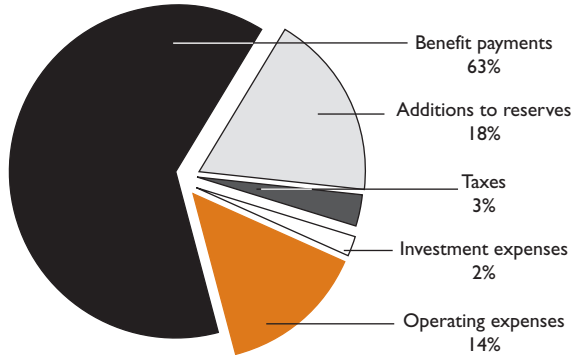
Does not include payments from supplementary contracts without life contingencies and annuities certain, lottery payouts, structured settlements, and income payout options.

³Includes group conversions and interest on policy or contract funds. Prior to 2001, also includes payments on dividend accumulations and supplementary contracts without life contingencies.

⁴Beginning in 2001, excludes addition to reserves for deposit-type contracts.

⁵Includes foreign and U.S. federal income, including taxes on capital gains; excludes investment taxes. Data for 1995 does not include foreign income taxes.

⁶Includes investment-related taxes and fees.

Figure 5.1**Distribution of Life Insurers' Expenditures, 2003**

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.

From Life Insurance Policies

To Beneficiaries

During 2004, life insurers paid \$52 billion to beneficiaries of policyholders who died, unchanged from 2003 (Table 5.2). Of this total, individual life insurance policies accounted for nearly two-thirds and provided \$32 billion (62%). Group life insurance payments to beneficiaries ranked second at \$19 billion, or 36 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 \$646 million in 2004.

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 2004 declined 1 percent to \$35 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

Table 5.2 **Payments From Life Insurance Policies**

	Millions			Average annual percent change	
	1995 ¹	2003	2004	1995/2004	2003/2004
Payments to beneficiaries					
Individual	\$20,106	\$32,901	\$32,222	5.4	-2.1
Group	13,527	18,064	18,708	3.7	3.6
Credit	912	695	646	-3.8	-7.1
Total	34,545	51,661	51,576	4.6	-0.2
Surrender values					
Individual	18,688	33,973	34,585	7.1	1.8
Group	813	1,970	900	1.1	-54.3
Total	19,501	35,943	35,485	6.9	-1.3
Policyholder dividends	14,817	16,234	14,957	0.1	-7.9
Matured endowments	575	559	546	-0.6	-2.4
Other payments²	866	645	850	-0.2	31.9
Aggregate total	70,303	105,041	103,414	4.4	-1.5

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.

¹Earliest available data.

²Includes disability benefits and retained assets.

administrative expenses. Dividends accounted for \$15 billion, or 14 percent of payments from life insurance policies in 2004.

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 \$546 million in 2004, down 2 percent from the previous year.

Other payments, including disability payments and retained assets under life insurance policies, totaled \$850 million in 2004.

Table 5.3

Payments From Annuity Contracts

	Millions			Average annual percent change	
	1995 ¹	2003	2004	1995/2004	2003/2004
Annuity benefits²					
Individual ²	\$19,030	\$29,996	\$32,970	6.3	9.9
Group ²	29,427	24,743	26,129	-1.3	5.6
Supplementary contracts with life contingencies	1,355	2,371	2,063	4.8	-13.0
Total	49,812	57,110	61,162	2.3	7.1
Surrender values³					
Individual	32,408	73,014	84,397	11.2	15.6
Group	73,043	67,248	78,479	0.8	16.7
Total	105,451	140,261	162,876	4.9	16.1
Policyholder dividends	3,281	4,527	4,024	2.3	-11.1
Matured endowments	465	37	49	-22.1	32.2
Other payments⁴	36	6	16	-8.9	182.2
Aggregate total	159,046	201,941	228,127	4.1	13.0

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. 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.

¹Earliest available data.

²Beginning 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.

³Beginning in 2001, excludes surrender benefits and fund withdrawals from deposit-type contracts.

⁴Includes death benefits, disability benefits, and retained assets.

From Annuity Contracts

Annuity benefit payments increased to \$61 billion in 2004 (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-four percent of the annuity benefit payments, or \$33 billion, was paid to individual annuity owners, while \$26 billion, or 43 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.

Table 5.4**Payments From Health Insurance Policies**

	Millions			Average annual percent change	
	1995 ¹	2003	2004	1995/2004	2003/2004
Group	\$51,674	\$60,317	\$65,237	2.6	8.2
Individual	13,040	20,812	22,551	6.3	8.4
Credit	944	753	744	-2.6	-1.2
Total	65,658	81,882	88,533	3.4	8.1

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 and, as of 2003, fraternal benefit societies.

¹Earliest available data.

Life insurers paid \$163 billion on voluntarily terminated annuities in 2004, \$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 \$89 billion in health insurance benefits to Americans in 2004—\$65 billion under group contracts and \$23 billion under individual policies (Table 5.4). Life insurers' total health insurance benefit payments to Americans rose 8 percent from 2003.

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.

Table 5.5 Life Insurer Home- and Field-Office Expenses

	Millions			Average annual percent change	
	1995 ¹	2003	2004	1995/2004	2003/2004
Rental	\$2,458	\$2,857	\$3,125	2.7	9.4
Employment					
Salaries	16,011	23,442	24,331	4.8	3.8
Welfare contributions and payments	3,285	5,532	5,598	6.1	1.2
Total	19,296	28,974	29,929	5.0	3.3
Fees associated with policy issuance/ claim settlement	2,163	3,089	3,278	4.7	6.1
Travel	876	1,034	1,137	2.9	10.0
Advertising	1,301	2,024	2,332	6.7	15.2
Office equipment/supplies	5,015	7,091	7,288	4.2	2.8
Miscellaneous	3,179	1,891	1,436	-8.4	-24.1
Aggregate total	34,288	46,960	48,525	3.9	3.3

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.

¹Earliest available data.

OPERATING EXPENSES

Operating expenses of life insurance companies include commissions to agents and home- and field-office expenses. In 2004, agent commissions comprised 7 percent of expenditures at \$49 billion (Table 5.1), as did home- and field-office expenses.

Of total office expenses, \$30 billion, or 62 percent, was in salaries and payments to employee and agent benefit plans (Table 5.5). In 2004, 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, \$2 billion on advertising, and \$1 billion on travel.

Table 5.6 Taxes, Licenses, and Fees

	Millions			Average annual percent change	
	1995 ¹	2003	2004	1995/2004	2003/2004
Income taxes ²	\$11,158	\$10,299	\$12,798	1.5	NA
Social Security taxes	1,275	1,585	1,565	2.3	-1.3
State taxes on premiums	3,029	3,823	3,935	3.0	2.9
Real estate taxes	11	13	10	-1.2	-23.0
Miscellaneous taxes, licenses, and fees	1,518	1,146	1,294	-1.8	12.9
Total	16,991	16,866	19,603	1.6	16.2

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.

¹Earliest available data.

²Includes 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.

TAXES

Life insurance companies incurred \$20 billion in taxes to federal, state, and local governments in 2004, 16 percent more than in 2003 (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 2004, 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 2004. This figure does not include Social Security taxes paid by employees or self-employed agents.

Table 5.7 Investment Expenses of Life insurers

	Millions			Average annual percent change	
	1995 ¹	2003	2004	1995/2004	2003/2004
Rental	\$190	\$233	\$213	1.3	-8.9
Employment					
Salaries	1,274	1,375	1,437	1.3	4.5
Welfare contributions/payments	170	181	214	2.6	18.2
Total	1,444	1,556	1,651	1.5	6.1
Real estate	3,903	1,775	1,695	-8.9	-4.5
Interest	NA	1,942	2,160	NA	11.2
Depreciation on invested assets	1,685	986	876	-7.0	-11.1
Investment taxes and fees²					
Real estate	1,163	708	694	-5.6	-2.0
Other	154	101	87	-6.2	-14.7
Total	1,316	810	781	-5.6	-3.6
Other	5,228	4,143	4,369	-2.0	5.5
Aggregate total	13,766	11,445	11,744	-1.7	2.6

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

¹Earliest available data.

²Excludes federal income taxes and taxes on capital gains.

Miscellaneous taxes, licenses, and fees at more than \$1 billion accounted for 7 percent of all taxes incurred in 2004. These taxes do not include amounts associated with investment management.

INVESTMENT EXPENSES

Expenses, fees, and taxes associated with investment management totaled \$12 billion in 2004 (Table 5.7). Interest is the largest category at about \$2.2 billion followed by real estate at \$1.7 billion.

Table 5.8**Payments Under Life Insurance Policies and Annuity Contracts, by Year (millions)**

Year	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

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 footnotes. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

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

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

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.