5 EXPENDITURES

Life insurance company expenditures include benefit payments and other contract payments, operating expenses, taxes, additions to reserves, and investment expenses. Contract payments accounted for 74 percent of expenditures at $507 billion in 2009 (Table 5.1, Figure 5.1). Additions to reserves were $50 billion at 7 percent in 2009.

Operating expenses comprised 15 percent of 2009 total expenditures, taxes claimed 2 percent and investment expenses claimed 2 percent. Each expenditure category is detailed in this chapter, with the exception of reserves, which are discussed in Chapter 3.

CONTRACT PAYMENTS

From Life Insurance Policies

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.

To Beneficiaries

During 2009, life insurers paid $59 billion to beneficiaries of policyholders who died, a slight decrease from 2008 (Table 5.2). Of this total, individual life insurance policies accounted for nearly two-thirds and provided $38 billion (64%). Group life insurance payments to beneficiaries ranked second at $21 billion, or 35 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 $527 million in 2009.

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 2009 declined by 18 percent to $48 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 $14 billion, or 11 percent of payments from life insurance policies in 2009.

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 2009.

Other payments, including disability payments and retained assets under life insurance policies, totaled $551 million in 2009.

From Annuity Contracts

Annuity benefit payments decreased by 4 percent to $67 billion in 2009 from 2008 (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.

Sixty percent of the annuity benefit payments, or $40 billion, was paid to individual annuity owners, while $25 billion, or 37 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 $183 billion on voluntarily terminated annuities in 2009, $3 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 $122 billion in health insurance benefits to Americans in 2009—$71 billion under group contracts and $51 billion under individual policies (Table 5.4). Life insurers' total health insurance benefit payments to Americans increased 3 percent from 2008.

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 2009, agent commissions comprised 7 percent of expenditures at $50 billion (Table 5.1). Home- and field-office expenses were $56 billion, or 8 percent of total expenditures.

Of total office expenses, $36 billion, or 64 percent, was in salaries and payments to employee and agent benefit plans (Table 5.5). In 2009, 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 $15 billion in taxes to federal, state, and local governments in 2009 (Table 5.6). The financial market downturn in 2008 created huge capital losses and tax credits for life insurers, resulting in more than $650 million in federal income tax credit. Other types of taxes changed slightly from their 2008 levels. Significant year-to-year variation in federal income taxes is largely due to changes in capital gain/loss obligations.

Another large tax obligation of life insurers' is payment of taxes on premiums that companies collect in each state. In 2009, U.S. life insurers incurred $4 billion in state taxes on premiums collected from life, health, and annuity business.

As employers of over one-third of a million home-office personnel, U.S. life insurers also incurred $2 billion in Social Security taxes in 2009. This figure does not include Social Security taxes paid by employees or self-employed agents.

Miscellaneous taxes, licenses, and fees accounted for more than $1 billion in 2009. These taxes do not include amounts associated with investment management.

INVESTMENT EXPENSES

Expenses, fees, and taxes associated with investment management totaled $12 billion in 2009 (Table 5.7). Depreciation on invested assets is the largest category at about $2.6 billion followed by interest at $2.1 billion.

Table 5.1

Expenditures of Life Insurers

	Millions			Average annual percent change	
	1999	2008	2009	1999/2009	2008/2009
Contract payments					
Life insurance	$90,333	$134,279	$122,353	3.1	-8.9
Annuities[1]	266,556	310,821	252,536	-0.5	-18.8
Health insurance	75,340	118,922	122,018	4.9	2.6
Other payments[2]	8,878	13,764	10,212	1.4	-25.8
Total	441,107	577,787	507,119	1.4	-12.2
Additions to policy reserve funds[3]	60,428	239,847	50,347	-1.8	-79.0
Operating expenses					
Commissions to agents	38,883	52,525	49,574	2.5	-5.6
Home- and field-office expenses	43,914	55,544	55,776	2.4	0.4
Total	82,798	108,069	105,350	2.4	-2.5
Taxes[4]	15,894	6,832	14,763	-0.7	116.1
Investment expenses[5]	11,146	13,839	12,143	0.9	-12.3
Aggregate total	611,373	946,374	689,721	1.2	-27.1

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. 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.

[1]Beginning 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.

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

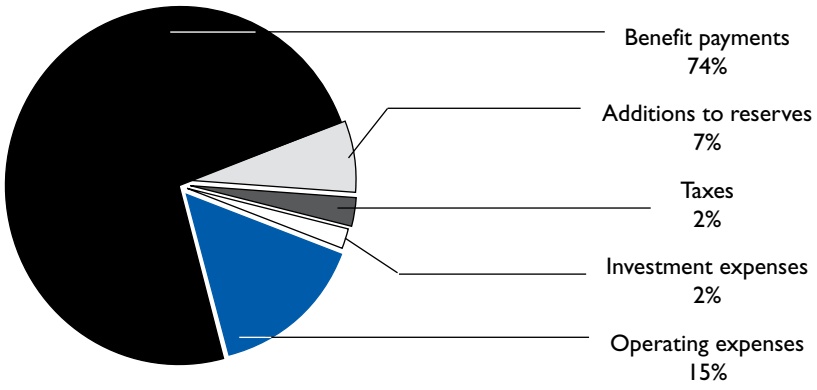
[3]Beginning in 2001, excludes addition to reserves for deposit-type contracts.

[4]Includes foreign and U.S. federal income taxes, including taxes on capital gains; excludes investment taxes. Data for 1999 do not include foreign income taxes.

[5]Includes investment-related taxes and fees.

Figure 5.1

Distribution of Life Insurers' Expenditures, 2009



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	
	1999	**2008**	**2009**	**1999/2009**	**2008/2009**
Payments to beneficiaries					
Individual	$25,274	$37,893	$38,306	4.2	1.1
Group	15,260	21,525	20,638	3.1	-4.1
Credit	829	531	527	-4.4	-0.7
Total	41,363	59,949	59,470	3.7	-0.8
Surrender values					
Individual	30,907	57,334	41,118	2.9	-28.3
Group	1,927	1,295	7,023	13.8	442.4
Total	32,833	58,629	48,141	3.9	-17.9
Policyholder dividends	15,036	14,568	13,644	-1.0	-6.3
Matured endowments	488	584	546	1.1	-6.6
Other payments[1]	612	550	551	-1.0	0.3
Aggregate total	90,333	134,279	122,353	3.1	-8.9

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.
[1]Includes disability benefits and retained assets.

Table 5.3

Payments From Annuity Contracts

	Millions			Average annual percent change	
	1999	2008	2009	1999/2009	2008/2009
Annuity benefits[1]					
Individual[1]	$27,594	$41,194	$40,263	3.9	-2.3
Group[1]	34,891	26,674	25,036	-3.3	-6.1
Supplementary contracts with life contingencies	1,601	1,780	1,770	1.0	-0.6
Total	64,086	69,648	67,068	0.5	-3.7
Surrender values[2]					
Individual	73,148	139,091	103,058	3.5	-25.9
Group	125,163	97,564	79,647	-4.4	-18.4
Total	198,311	236,654	182,705	-0.8	-22.8
Policyholder dividends	4,112	4,485	2,519	-4.8	-43.8
Matured endowments	39	29	26	-3.9	-9.1
Other payments[3]	8	5	217	39.4	3972.4
Aggregate total	266,556	310,821	252,536	-0.5	-18.8

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.

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

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

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

Table 5.4

Payments From Health Insurance Policies

	Millions			Average annual percent change	
	1999	2008	2009	1999/2009	2008/2009
Group	$58,203	$71,376	$71,077	2.0	-0.4
Individual	16,261	47,089	50,501	12.0	7.2
Credit	876	457	440	-6.6	-3.6
Total	75,340	118,922	122,018	4.9	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.

Table 5.5

Life Insurer Home- and Field-Office Expenses

	Millions			Average annual percent change	
	1999	**2008**	**2009**	**1999/2009**	**2008/2009**
Rental	$2,566	$3,078	$3,083	1.9	0.2
Employment					
Salaries	20,474	27,656	28,469	3.4	2.9
Welfare contributions and payments	3,448	5,728	7,031	7.4	22.7
Total	23,922	33,385	35,500	4.0	6.3
Fees associated with policy issuance/claim settlement	2,843	3,271	3,213	1.2	-1.8
Travel	1,050	1,394	1,050	0.0	-24.6
Advertising	1,732	3,222	2,702	4.5	-16.1
Office equipment/supplies	6,560	7,911	7,094	0.8	-10.3
Miscellaneous	5,241	3,283	3,134	-5.0	-4.5
Aggregate total	43,914	55,544	55,776	2.4	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. 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	
	1999	**2008**	**2009**	**1999/2009**	**2008/2009**
Income taxes[1]	$9,969	($657)	$7,416	-2.9	NC
Social Security taxes	1,548	1,894	1,828	1.7	-3.5
State taxes on premiums	3,279	4,255	4,065	2.2	-4.5
Real estate taxes	25	27	31	2.2	15.9
Miscellaneous taxes, licenses, and fees	1,073	1,312	1,422	2.9	8.3
Total	15,894	6,832	14,763	-0.7	116.1

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. Figures exclude investment taxes. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.

NC: Not calculated.

[1]Includes foreign and U.S. federal income taxes, including taxes on capital gains; excludes non-income, state, and investment taxes. Data for 1999 do not include foreign income taxes.

Table 5.7

Investment Expenses of Life Insurers

	Millions			Average annual percent change	
	1999	2008	2009	1999/2009	2008/2009
Rental	$139	$255	$241	5.7	-5.6
Employment					
Salaries	1,339	1,517	1,549	1.5	2.1
Welfare contributions/payments	179	260	253	3.5	-2.6
Total	1,518	1,777	1,802	1.7	1.4
Real estate expenses	2,362	1,577	1,544	-4.2	-2.1
Interest	1,680	2,225	2,063	2.1	-7.3
Depreciation on invested assets	1,051	2,110	2,558	9.3	21.2
Investment taxes and fees[1]					
Real estate	776	595	456	-5.2	-23.5
Other	140	109	96	-3.7	-12.3
Total	916	704	551	-5.0	-21.7
Other	3,481	5,191	3,385	-0.3	-34.8
Aggregate total	11,146	13,839	12,143	0.9	-12.3

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. Data represent U.S. life insurers and, as of 2003, fraternal benefit societies.
[1]Excludes federal income taxes and taxes on capital gains.

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
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
2007‡	57,957	47,670	262,343	19,519	72,332	623	564	461,008
2008‡	59,949	58,629	236,654	19,053	69,648	614	555	445,101
2009‡	59,470	48,141	182,705	16,163	67,068	573	768	374,888

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.

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

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

[3]Includes some disability benefits and retained assets.

Table 5.9

Payments to Life Insurance Beneficiaries, by Year

	Policies in thousands/Amounts in millions							
	Individual		Group		Credit[1]		Total	
Year	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
2007‡	2,483	36,272	1,016	21,168	262	516	3,761	57,957
2008‡	2,463	37,893	1,027	21,525	281	531	3,771	59,949
2009‡	2,402	38,306	964	20,638	237	527	3,603	59,470

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.

[1]Prior 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
2007‡	66,641	38,982	105,623
2008‡	71,376	47,089	118,465
2009‡	71,077	50,501	121,578

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.