

Managing Unit Costs

Types of units

- Per policy, in force versus issued
- Per M (unit), in force versus issued
- % Premiums, in force versus issued
- % Commissions, in force versus issued
- Per \$1 claims
- Per \$1 reserves



Managing Unit Costs

Type of In Force

- Premium structure
 - Premium pay versus paid-up
- Type of product
 - Other types of product
 - Fixed, variable, equity - linked



Managing Unit Costs

Types of in force

- Individual
- Group
- Worksite
 - Individual
 - Group



Managing Unit Costs

Types of in force

- Product specific
- Credibility



Managing Unit Costs

Types of Expenses

- Fixed
- Variable
- Semi-fixed
- Sources – LOMA, GRET of Society of Actuaries



Managing Unit Costs

Types of Expenses

- Acquisition
- Non-Deferred Acquisition
- Maintenance
 - Direct
 - Marginal
 - Overhead



Managing Unit Costs

Preventing increases in unit costs

- Increase sales (larger base)
- Reduce expenses
 - Service cuts?
 - Regulatory requirement cut?
 - Increase efficiencies



Managing Unit Costs

Approaching Critical Mass

- Projections with pricing expenses
- Excess of actual expenses over pricing?



Managing Unit Costs

Approaching Critical Mass?

- Production growth
- Extent of excess expenses declining?



Managing Unit Costs

Approaching Critical Mass?

- Excesses vanish
- Critical mass approached



Managing Unit Costs

Recoverability Tests

- Over all lines of business
- Gross premium reserve test



Managing Unit Costs

Recoverability Tests

- Compare GPV to net of reserve over DAC
- If unfavorable, reduce DAC
- Compare trends of favorable margins



Managing Unit Costs

Recoverability Tests

- Unfavorable trends
- Lead to expense cuts
 - Acquisition
 - Maintenance/overhead



Managing Unit Costs

Recoverability/Reserve Adequacy

- Statutory use of GPV
- Compare against statutory reserve
- Possible tie-into expense cuts



Managing Unit Costs

Deferability Tests

- Current year's issues
- Contemplated acquisition expenses recoverable?



Managing Unit Costs

Deferability Tests

- Analyze premiums issued
- Portion for benefits and commissions
- Portion for closed block maintenance



Managing Unit Costs

Deferability Tests

- Remainder is premiums available (maximum recoverable acquisition premiums)
- Translate into maximum dollars
- Compare to budgeted acquisition expense



Managing Unit Costs

Reinsurance

- Transfer administration
- Expense allowance exceed commissions plus allocated expenses
- B E W A R E
 - Initial year's gain followed by losses?
 - Overhead (fixed) remains, nowhere to allocate



Managing Unit Costs

Judge a product, line, etc.

- Cover benefits, reserve increases, commissions
- Cover direct expenses
- Cover some portion of overflow (fixed) expense



Managing Unit Costs

Other Steps

- No commissions on health rate increases
- Control costs of obtaining medical records



Managing Unit Costs

Other Steps

- Is company in line with LOMA/GRET expenses?
- Understand GRET



Managing Unit Costs

Other Steps

- Derive aggregate expenses in current in force
- Derive aggregate pricing expenses in current in force
- Is any excess of actual over pricing identifiable?
- Are dollars of projected excess reducing with increased growth?



Managing Unit Costs

Analysis of managing unit costs

- Be consistent
- No one correct way
- "Don't be all things to all agents"


