



**TO:** Reggie Mazyck, NAIC  
**FROM:** Pete Miller, Experience Study Actuary, Society of Actuaries (SOA)  
Tony Phipps, Chair, SOA Committee on Life Insurance Company Expenses  
**DATE:** August 4, 2021  
**RE:** 2022 Generally Recognized Expense Table (GRET) – SOA Analysis

Dear Mr. Mazyck:

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2022 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies' 2019 and 2020 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in its consideration of potential revisions to the GRET that could become effective for calendar year 2022. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2019 and 2020. This included data from 776 companies in 2019 and 771 companies in 2020. This decrease resumes the trend of small decreases from year to year. Of the total companies, 375 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (292 companies passed similar tests last year).

#### APPROACH USED

The methodology for calculating the recommended GRET factors based on this data is similar to that followed the last several years. The methodology was last altered in 2015. The changes made at that time can be found in the recommendation letter sent to LATF on July 30, 2015<sup>1</sup>.

To calculate updated GRET factors, the average of the factors from the two most recent years (2019 and 2020 for those companies with data available for both years) of Annual Statement data was used. For each company an actual-to-expected ratio was calculated. Companies with ratios that fell outside predetermined parameters were excluded. This process was completed three times to stabilize the average rates. The boundaries of the exclusions have been modified from time to time; however, there were no adjustments made this year. Unit expense seed factors (the seeds for all distribution channel categories are the same), as shown in Appendix B, were used to compute total expected expenses. Thus, these seed factors were used to implicitly allocate expenses between acquisition and maintenance expenses, as well as among the three acquisition expense factors (on a direct of ceded reinsurance basis).

Companies were categorized by their reported distribution channel (four categories were used as described in Appendix A included below). There remain a significant number of companies for which no distribution channel was provided, as no responses to the annual surveys have been received from those companies. The characteristics of these companies vary significantly, including companies not currently writing new business or whose major line of business is not individual life insurance. Any advice or assistance from LATF in future

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<sup>1</sup> <https://www.soa.org/Files/Research/Projects/research-2016-gret-recommendation.pdf>

years to increase the response rate to the surveys of companies that submit Annual Statements in order to reduce the number of companies in the “Other” category would be most welcomed. The intention is to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if in either 2019 or 2020 (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) the average first year and single premium per policy were more than \$40,000, (3) they are known reinsurance companies or (4) their data were not included in the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies’ actual-to-expected ratios for each respective category was calculated. The resulting factors were rounded, as shown in Table 1.

### THE RECOMMENDATION

The above methodology results in the proposed 2022 GRET values shown in Table 1. To facilitate comparisons, the current 2021 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount (\$000s) per policy issued.

To facilitate comparisons, the current 2021 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount (\$000s) per policy issued.

**TABLE 1**  
PROPOSED 2022 GRET FACTORS, BASED ON AVERAGE OF 2019/2020 DATA

| Description   | Acquisition per Policy | Acquisition per Unit | Acquisition per Premium | Maintenance per Policy | Companies Included | Average Premium Per Policy Issued During Year | Average Face Amt (000) Per Policy Issued During Year |
|---|------------------------|----------------------|-------------------------|------------------------|--------------------|---|--|
| Independent   | \$183                  | \$1.00               | 46%                     | \$55                   | 142                | 3,252   | 194  |
| Career  | 212                    | 1.20                 | 53%                     | 64                     | 77                 | 2,327   | 197  |
| Direct Marketing  | 200                    | 1.10                 | 50%                     | 60                     | 23                 | 875   | 72   |
| Niche Marketing   | 151                    | 0.90                 | 37%                     | 45                     | 24                 | 517   | 13   |
| Other*  | 139                    | 0.80                 | 35%                     | 42                     | 109                | 786   | 70   |
| * Includes companies that did not respond to this or prior year surveys |                        |                      |                         |                        | 375                |   |  |

**TABLE 2**  
CURRENT 2021 GRET FACTORS, BASED ON AVERAGE OF 2017/2019 DATA

| Description   | Acquisition per Policy | Acquisition per Unit | Acquisition per Premium | Maintenance per Policy | Companies Included | Average Premium Per Policy Issued During Year | Average Face Amt (000) Per Policy Issued During Year |
|---|------------------------|----------------------|-------------------------|------------------------|--------------------|---|--|
| Independent   | \$166                  | \$0.90               | 42%                     | \$50                   | 121                | 2,916   | 194  |
| Career  | 214                    | 1.20                 | 54%                     | 64                     | 63                 | 2,517   | 195  |
| Direct Marketing  | 195                    | 1.10                 | 49%                     | 59                     | 15                 | 2,933   | 119  |
| Niche Marketing   | 137                    | 0.80                 | 34%                     | 41                     | 26                 | 590   | 11   |
| Other*  | 126                    | 0.70                 | 32%                     | 38                     | 67                 | 836   | 29   |
| * Includes companies that did not respond to this or prior year surveys |                        |                      |                         |                        | 292                |   |  |

In previous recommendations, an effort was made to reduce volatility in the GRET factors from year-to-year by limiting the change in GRET factors between years to about ten percent of the prior value. The changes from the 2021 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

The Independent, Niche Marketing and Other distribution channel categories experienced a change greater than ten percent so the factors for this line were capped at the ten percent level (the Acquisition per unit factor changed somewhat more than 10% because of rounding) from the corresponding 2021 GRET values. The volatility occurred due to incorrect NAIC data for 2018 for some companies, which caused their actual to expected ratios to be considered outliers and they were not included in the calculation. This resulted in lower final 2021 GRET factors and subsequently the same for the 2022 recommendation. Over the next one to three years, the ten percent cap will allow this difference to be graded in so calculated GRET will be used for the final recommended GRET factors.

#### **USAGE OF THE GRET**

This year's survey, responded to by companies' Annual Statement correspondent, included a question regarding whether the 2021 GRET table was used in its illustrations by the company. Last year, 29% of the responders indicated their company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 28% in 2019. This year, 31% of responding companies indicated that they used the GRET in 2020 for sales illustration purposes. The range was from 11% for Direct Marketing to 43% for Independent. Based on the information received over the last several years, the variation in GRET usage appears to be in large part due to the relatively small sample size and different responders to the surveys.

We hope LATF finds this information helpful and sufficient for consideration of a potential update to the GRET. If you require further analysis or have questions, please contact Pete Miller at 847-706-3566.

Kindest personal regards,



Pete Miller, ASA, MAAA  
Experience Study Actuary  
Society of Actuaries



Tony Phipps, FSA, MAAA  
Chair, SOA Committee on  
Life Insurance Company Expenses

## APPENDIX A -- DISTRIBUTION CHANNELS

The following is a description of distribution channels used in the development of recommended 2022 GRET values:

1. **Independent** – Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.
2. **Career** – Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.
3. **Direct Marketing** – Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet or other media. No direct field compensation is involved.
4. **Niche Marketers** – Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.
5. **Other** – Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years' surveys confirmed an "other" categorization (see below), values for the "other" category are given in the tables in this memo. It was also included to indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

**APPENDIX B – UNIT EXPENSE SEEDS**

The expense seeds used in the 2014 and prior GRETs were differentiated between branch office and all other categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.

The unit expense seeds used in the 2022 GRET and the 2021 GRET recommendations were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study. Beginning with the 2020 Annual Statement submission this information will become more readily available.

**2006-2010 (AVERAGE) CLICE STUDIES:**

|                    | Acquisition/<br>Policy | Acquisition/<br>Face Amount (000) | Acquisition/<br>Premium | Maintenance/<br>Policy |
|--------------------|------------------------|-----------------------------------|-------------------------|------------------------|
| <b>Term</b>        |                        |                                   |                         |                        |
| Weighted Average   | \$149                  | \$0.62                            | 38%                     | \$58                   |
| Unweighted Average | \$237                  | \$0.80                            | 57%                     | \$76                   |
| Median             | \$196                  | \$0.59                            | 38%                     | \$64                   |
| <b>Permanent</b>   |                        |                                   |                         |                        |
| Weighted Average   | \$167                  | \$1.43                            | 42%                     | \$56                   |
| Unweighted Average | \$303                  | \$1.57                            | 49%                     | \$70                   |
| Median             | \$158                  | \$1.30                            | 41%                     | \$67                   |

**CURRENT UNIT EXPENSE SEEDS:**

|                           | Acquisition/<br>Policy | Acquisition/<br>Face Amount (000) | Acquisition/<br>Premium | Maintenance/<br>Policy |
|---------------------------|------------------------|-----------------------------------|-------------------------|------------------------|
| All distribution channels | \$200                  | \$1.10                            | 50%                     | \$60                   |