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TO: Rachel Hemphil, FFA, FCAS, MAAA, PHD, Chair, Life Actuarial (A) Task Force

FROM: Pete Miller, ASA, MAAA, Experience Study Actuary, Society of Actuaries (SOA) Research Institute
Tony Phipps, Chair, SOA Research Institute Committee on Life Insurance Company Expenses

DATE: August 4, 2023

RE: 2024 Generally Recognized Expense Table (GRET) – SOA Research Institute Analysis

Dear Ms. Hemphill:

As in previous years, the Society of Actuaries Research Institute expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2024 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense-related information reported on each company's 2021 and 2022 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in considering potential revisions to the GRET that could become effective for the calendar year 2024. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2021 and 2022. This included data from 766 companies in 2021 and 749 companies in 2022. This decrease resumes the trend of small decreases from year to year. Of the total companies, 379 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (382 companies passed similar tests last year).

APPROACH USED

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

To calculate updated GRET factors, the average of the factors from the two most recent years (2021 and 2022 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 years to increase the response rate to the surveys of companies that submit Annual Statements 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 the enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if in either 2021 or 2022, (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 2024 GRET values shown in Table 1. To facilitate comparisons, the current 2023 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 2023 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 2, including the average premium per policy issued and the average face amount ($000s) per policy issued.

TABLE 1

PROPOSED 2024 GRET FACTORS, BASED ON AVERAGE OF 2021/2022 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	$198	$1.10	50%	$59	140	3,433	222
Career	206	1.10	52%	62	90	2,325	196
Direct Marketing	217	1.20	54%	65	23	767	122
Niche Marketing	132	0.70	33%	40	31	347	10
Other*	162	0.90	41%	49	95	917	80
* Includes companies that did not respond to this or prior year surveys					379		

TABLE 2

CURRENT 2023 GRET FACTORS, BASED ON AVERAGE OF 2020/2021 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	$180	$1.00	45%	$54	141	3,073	204
Career	203	1.10	51%	61	84	2,296	197
Direct Marketing	197	1.10	49%	59	21	899	57
Niche Marketing	147	0.80	37%	44	30	507	14
Other*	153	0.90	39%	46	106	853	72
* Includes companies that did not respond to this or prior year surveys					382		

In previous recommendations, an effort was made to reduce volatility in the GRET factors from year to year by limiting the yearly change in GRET factors to about ten percent of the prior value. The changes from the 2023 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

All GRET factors for the Independent and the Direct Marketing distribution channel experienced changes greater than ten percent, so the factors for these lines were capped at the ten percent level (or slightly above/below 10% due to rounding of the factor) from the corresponding 2023 GRET values. The volatility occurred due to an increasing median actual-to-expected ratio for each distribution channel, which allowed for additional companies with higher actual-to-expected ratios to be included in the calculation that were previously dropped. The driving force behind the notable increase in median actual-to-expected ratios for Independent and Direct Marketing were several significant outlier companies. Niche Marketing experienced the opposite, with lower median actual-to-expected ratios allowing several additional companies with lower actual-to-expected ratios, and the factors need to be capped at a ten percent drop.

USAGE OF THE GRET

This year's survey, responded to by each company's Annual Statement correspondent, included a question regarding whether the 2023 GRET table was used in its illustrations by the company. Last year, 35% of the responders indicated their company used the GRET for sales illustration purposes, with similar percentage results by company size; this contrasted with about 31% in 2021. This year, 44% of responding companies indicated they used the GRET in 2023 for sales illustration purposes. The range covered all distribution methods, including 48% for Independent, 32% for Career, 40% for Niche Marketers, and 60% for Direct Marketing. 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,

Peter J. Miller

Pete Miller, ASA, MAAA
Experience Studies Actuary
Society of Actuaries Research Institute

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

APPENDIX A -- DISTRIBUTION CHANNELS

The following is a description of distribution channels used in the development of recommended 2023 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 2024 GRET and the 2023 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/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	$149	$0.62	38%	$58
Unweighted Average	$237	$0.80	57%	$76
Median	$196	$0.59	38%	$64
Permanent				
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/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

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TO: Reggie Mazyck, ASA, MAAA, Life Actuary, LATF Support

FROM: Pete Miller, ASA, MAAA, Experience Study Actuary, Society of Actuaries (SOA) Research Institute
Tony Phipps, Chair, SOA Research Institute Committee on Life Insurance Company Expenses

DATE: July 23, 2022

RE: 2023 Generally Recognized Expense Table (GRET) – SOA Research Institute Analysis

Dear Mr. Mazyck:

As in previous years, the Society of Actuaries Research Institute expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2023 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies' 2020 and 2021 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 2023. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2020 and 2021. This included data from 771 companies in 2020 and 766 companies in 2020. This decrease resumes the trend of small decreases from year to year. Of the total companies, 382 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (375 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[1].

To calculate updated GRET factors, the average of the factors from the two most recent years (2020 and 2021 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 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

[1] https://www.soa.org/Files/Research/Projects/research-2016-gret-recommendation.pdf

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 2020 or 2021 (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 2023 GRET values shown in Table 1. To facilitate comparisons, the current 2022 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.

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TABLE 1
PROPOSED 2023 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	$180	$1.00	45%	$54	141	3,073	204
Career	203	1.10	51%	61	84	2,296	197
Direct Marketing	197	1.10	49%	59	21	899	57
Niche Marketing	147	0.80	37%	44	30	507	14
Other*	153	0.90	39%	46	106	853	72
* Includes companies that did not respond to this or prior year surveys					382		

TABLE 2
CURRENT 2022 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	$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		

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 2022 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

All GRET factors for the other distribution channel category experienced a change greater than ten percent so the factors for these lines were capped at this ten percent level (or slightly above 10% due to rounding of the factor) from the corresponding 2022 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 2022 GRET factors and subsequently the same for the 2023 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 2022 GRET table was used in its illustrations by the company. Last year, 31% 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 29% in 2020. This year, 35% of responding companies indicated that they used the GRET in 2022 for sales illustration purposes. The range was from 33% for Career and Niche Marketing to 43% for Independent. No companies in Career or Other used GRET. 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,

Peter J. Miller

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

Tony Phipps, FSA, MAAA
Chair, SOA Research Institute 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.

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Median	$158	$1.30	41%	$67

CURRENT UNIT EXPENSE SEEDS:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

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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[1].

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

[1] 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,

Peter J. Miller

Pete Miller, ASA, MAAA
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Society of Actuaries

Tony Phipps, FSA, MAAA
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Life Insurance Company Expenses

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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.

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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/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	$149	$0.62	38%	$58
Unweighted Average	$237	$0.80	57%	$76
Median	$196	$0.59	38%	$64
Permanent				
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/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

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TO: Reggie Mazyck, NAIC

FROM: Dale Hall, Managing Director of Research, Society of Actuaries (SOA)
Leon Langlitz, Chair, SOA Committee on Life Insurance Company Expenses

DATE: July 23, 2020

RE: 2021 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 2021 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies' 2018 and 2019 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 2021. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2018 and 2019. This included data from 722 companies in 2018 and 776 companies in 2019. This increase breaks the trend of small decreases over the previous few years. Of the total companies, 292 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (326 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[1].

To calculate updated GRET factors, the average of the factors from the two most recent years (2018 and 2019 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

[1] https://www.soa.org/Files/Research/Projects/research-2016-gret-recommendation.pdf

in future 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 (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 both years of 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 2021 GRET values shown in Table 1. To facilitate comparisons, the current 2020 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 2020 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 2021 GRET FACTORS, BASED ON AVERAGE OF 2018/2019 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		

TABLE 2

CURRENT 2020 GRET FACTORS, BASED ON AVERAGE OF 2017/2018 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	$168	$0.90	42%	$50	118	3,263	200
Career	214	1.20	54%	64	63	2,661	217
Direct Marketing	217	1.20	54%	65	20	2,489	213
Niche Marketing	125	0.70	32%	38	21	757	13
Other*	140	0.80	35%	42	104	876	34
* Includes companies that did not respond to this or prior year surveys					326		

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 2020 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation. The Direct 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 2020 GRET values. The volatility occurred due to the change in the composition of the companies in this category where a small number of companies were included.

USAGE OF THE GRET

This year's survey, responded to by companies' Annual Statement correspondent, included a question regarding whether the 2020 GRET table was used in its illustrations by the company. Last year, 26% 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 2018. This year, 29% of responding companies indicated that they used the GRET in 2019 for sales illustration purposes. The range was from 22% for Direct Marketing to 48% for career carriers. 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 Dale Hall at 847-273-8835.

Kindest personal regards,

Dale Hall, FSA, MAAA, CERA, CFA
Managing Director of Research
Society of Actuaries

Leon Langlitz, 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 2021 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 2021 GRET and the 2020 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 2019 Annual Statement submission this information will become more readily available.

2006-2010 (AVERAGE) CLICE STUDIES:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	$149	$0.62	38%	$58
Unweighted Average	$237	$0.80	57%	$76
Median	$196	$0.59	38%	$64
Permanent				
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/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

SOCIETY OF ACTUARIES®

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TO: Reggie Mazyck, NAIC

FROM: Dale Hall, Managing Director of Research, Society of Actuaries (SOA)
Leon Langlitz, Chair, SOA Committee on Life Insurance Company Expenses

DATE: July 16, 2019

RE: 2020 Generally Recognized Expense Table (GRET) – SOA Analysis

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 2020 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies' 2017 and 2018 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 2020. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2017 and 2018. This included data from 707 companies in 2017 and 722 companies in 2018. This increase breaks the trend of small decreases over the previous few years. Of the total companies, 326 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (361 companies passed similar tests last year).

Approach Used

The methodology for calculating the recommended GRET factors based on this data is similar in broad outline to that followed the last several years. The methodology was last altered in 2015. The changes which were made at that time can be found in the recommendation letter sent on July 30, 2015[1].

To calculate updated GRET factors, the average of the factors from the two most recent years (2017 and 2018 for those 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 fall outside predetermined parameters are excluded and this process is competed three times in order to stabilize the average rates. The boundaries of the exclusions are modified from time to time and there was a slight adjustment this year to increase the number of companies in the final study. Unit expense seed factors (the seeds for all distribution channel categories are the same), as given 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 of this memo). There remain a significant number of companies for which no distribution channel was available, 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

[1] 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.

Prior to 2014, when responding to the survey if a company indicated they used multiple channels to distribute their individual life sales, the percentage weights provided to us were applied to that company's reported results in the tabulations of each of the distribution channel's unit expense results. In 2015 this was changed so that all expenses for a company will go to the channel with the highest percentage weight. This approach was changed because: (1) as fewer channel types were used, it was expected that fewer companies would have multiple channels as currently defined and (2) an insufficient number of multiple distribution responses were provided in that year's survey to result in a significantly different outcome. 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 (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 was more than $40,000, (3) they are known reinsurance companies or (4) companies were not in both years of 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

Employing the above methodology results in the proposed 2020 GRET values shown in Table 1. To facilitate comparisons, the current 2019 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 2020 GRET FACTORS, Based on Average of 2017/2018 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	$168	$0.90	42%	$50	118	3,263	200
Career	214	1.20	54%	64	63	2,661	217
Direct Marketing	217	1.20	54%	65	20	2,489	213
Niche Marketing	125	0.70	32%	38	21	757	13
Other*	140	0.80	35%	42	104	876	34
Total					326		

TABLE 2
CURRENT (2019) FACTORS, Based on Average of 2016/2017 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	$167	$0.90	42%	$50	130	3,496	194
Career	231	1.30	58%	69	69	2,287	203
Direct Marketing	221	1.20	55%	66	22	2,492	163
Niche Marketing	139	0.80	35%	42	21	702	20
Other*	136	0.70	34%	41	119	839	32
Total					361		

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 2019 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation. Only the Niche Marketing distribution channel category 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 more than 10% because of rounding) from the corresponding 2019 GRET values. The change occurred due to the change in the composition of the companies in this category where there is a small number of companies included.

Usage of the GRET

Also asked in this year's survey, responded to by companies' Annual Statement correspondent, was a question regarding whether the 2018 GRET table was used by the company. Last year, 28% 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 30% in the prior year. This year, 26% of responding companies indicated that they used the GRET in 2018 for sales illustration purposes, with similar results for each of the distribution channels with a significant number of responders. 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 Dale Hall at 847-273-8835.

Kindest personal regards,

Dale Hall, FSA, MAAA, CERA, CFA
Managing Director of Research
Society of Actuaries

Leon Langlitz, 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 2020 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 2019 GRET and the 2020 GRET recommendation 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 2019 Annual Statement submission this information may become more readily available.

2006-2010 (average) CLICE Studies:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	$149	$0.62	38%	$58
Unweighted Average	$237	$0.80	57%	$76
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Median	$158	$1.30	41%	$67

Current Unit Expense Seeds:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

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TO: Reggie Mazyck, NAIC
FROM: Dale Hall, Managing Director of Research, Society of Actuaries (SOA)
Leon Langlitz, Chair, SOA Committee on Life Insurance Company Expenses
DATE: July 20, 2018
RE: 2019 Generally Recognized Expense Table (GRET) – SOA Analysis

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their help and responsiveness in providing Annual Statement expense and unit data for the 2019 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies' 2016 and 2017 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 2019. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2016 and 2017. This included data from 739 companies in 2016 and 707 companies in 2017. The decrease in the number of companies is consistent with the trend of the past few years. It appears the reduction is primarily due the consolidation occurring in the industry. Because we subsequently excluded certain companies' experience because of an outlier exclusion test, the absence of these companies is not expected to significantly affect the results. Of the total companies, 361 passed the outlier exclusion tests and were included as a base for the GRET factors (370 companies passed similar tests last year).

Approach Used

The methodology for calculating the recommended GRET factors based on this data is similar in broad outline to that followed the last several years. The methodology was last altered in 2015. The changes which were made at that time can be found in the recommendation letter sent on July 30, 2015[1].

To calculate updated GRET factors, the average of the factors from the two most recent years (2016 and 2017 for those with data available for both years) of Annual Statement data was used. For each company an actual to expected ratio was calculated. Unit expense seed factors (the seeds for all distribution channel categories are the same), as given 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 of this memo). There remain a significant number of companies for which no distribution channel was available, 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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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.

Prior to 2014, when responding to the survey if a company indicated they used multiple channels to distribute their individual life sales, the percentage weights provided to us were applied to that company's reported results in the tabulations of each of the distribution channel's unit expense results. This approach was changed in 2015 because: (1) as fewer channel types were used, it was expected that fewer companies would have multiple channels as currently defined and (2) an insufficient number of multiple distribution responses were provided in this year's survey to result in a significantly different outcome. 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 (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 was more than $40,000, (3) they are known reinsurance companies or (4) companies were not in both years of 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

Employing the above methodology results in the proposed 2019 GRET values shown in Table 1. To facilitate comparisons, the current 2018 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 2019 GRET FACTORS, Based on Average of 2016/2017 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	$167	$0.90	42%	$50	130	3,496	194
Career	231	1.30	58%	69	69	2,287	203
Direct Marketing	221	1.20	55%	66	22	2,492	163
Niche Marketing	139	0.80	35%	42	21	702	20
Other*	136	0.70	34%	41	119	839	32
Total					361		

TABLE 2
CURRENT (2018) FACTORS, Based on Average of 2015/2016 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	$156	$0.90	39%	$47	125	3,522	190
Career	238	1.30	59%	71	74	1,994	189
Direct Marketing	211	1.20	53%	63	21	2,523	167
Niche Marketing	137	0.80	34%	41	26	588	19
Other*	141	0.80	35%	42	124	960	39
Total					370		

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 2018 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation. Only the Independent distribution channel category experienced a change greater than five percent from the corresponding 2017 GRET values for Acquisition per Policy and Acquisition per Premium expenses; primarily due to the change in the composition of the companies in this category.

Usage of the GRET

Also asked in this year's survey, responded to by companies' Annual Statement correspondent, was a question regarding whether the 2017 GRET table was used by the company. Last year, 30% 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 26% in the prior year. This year, 28% of responding companies indicated that they used the GRET in 2017 for sales illustration purposes, with similar results for each of the distribution channels with a significant number of responders. 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 Dale Hall at 847-273-8835.

Kindest personal regards,

Dale Hall, FSA, MAAA, CERA, CFA
Managing Director of Research
Society of Actuaries

Leon Langlitz, 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 2019 GRET values:

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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 2018 GRET and the 2019 GRET recommendation 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.

2006-2010 (average) CLICE Studies:

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	$149	$0.62	38%	$58
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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/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

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TO: Reggie Mazyck, NAIC
FROM: Dale Hall, Managing Director of Research, Society of Actuaries (SOA)
Leon Langlitz, Chair, SOA Committee on Life Insurance Company Expenses
DATE: July 25, 2017
RE: 2018 Generally Recognized Expense Table (GRET) – SOA analysis

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their help and responsiveness in providing Annual Statement expense and unit data for our 2018 GRET analysis for use with individual life insurance sales illustrations. Our analysis is based on expense and expense related information reported on companies' 2015 and 2016 Annual Statements. This analysis 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 2018. This memo describes our analysis and resulting findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2015 and 2016. This included data from 750 companies in 2015 and 730 companies in 2016. The primary reason for the lower number of companies in 2016 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this relatively small difference in number of companies between years is consistent with prior experience with this data. Because we subsequently excluded certain companies' experience because of an outlier exclusion test, the absence of these late reporting companies is not expected to significantly affect the results. Of the total companies, 370 passed the outlier exclusion tests and were included as a base for the GRET factors (381 companies passed similar tests last year).

Approach Used

The methodology we followed for calculating recommended GRET factors based on this data is similar in broad outline to that followed the last two years -- see our memo dated July 30, 2015 for a description of those changes.

To calculate updated GRET factors, the average of the factors from the two most recent years (2015 and 2016 for those with data available for both years) of Annual Statement data was used. For each company an actual to expected ratio was calculated. Unit expense seed factors (the seeds for all distribution channel categories are the same), as given 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, described in Appendix A of this memo). There remain a significant number of companies for which no distribution channel was available, as no responses to our 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. We welcome advice and assistance from LATF in future years to increase the response rate to our annual surveys of companies that submit Annual Statements in order to reduce the number of companies in the “Other” category.

Prior to 2014, when responding to the survey if a company indicated that they used multiple channels to distribute their individual life sales, the percentage weights provided to us were applied to that company’s reported results in the tabulations of each of the distribution channel’s unit expense results. This approach was not used in this analysis (or last two year’s) because: (1) as fewer channel types were used, it was expected that fewer companies would have multiple channels as currently defined and (2) an insufficient number of multiple distribution responses were provided in this year’s survey to result in a sufficiently different outcome. We intend to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if (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 was more than $40,000, (3) they are known reinsurance companies or (4) companies were not in both years of 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

Employing the above methodology results in the proposed 2018 GRET values shown in Table 1. To facilitate comparisons, the current 2017 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 2018 GRET FACTORS, based on average of 2015/2016 data

Distribution Channel	Acquisition Per Policy	Acquisition Per Face Amount ($000)	Acquisition Per Premium	Maintenance per Policy	Companies Included*	Average 1st Year Premium per Policy Issued During Year	Average Face Amount ($000) per Policy Issued During Year
Independent	$ 156	$ 0.90	39%	$ 47	125	$ 3,522	$ 190
Career	238	1.30	59	71	74	1,994	189
Direct	211	1.20	53	63	21	2,523	167
Niche	137	0.80	34	41	26	588	19
Other*	141	0.80	35	42	124	960	39
Total					370		

*Those companies who are included in the “Other” category are those companies that did not respond to this year’s survey or that of prior years. The unit factors decreased due to the removal of eleven higher cost companies.

TABLE 2
CURRENT (2017) FACTORS, based on average of 2014/2015 data

Distribution Channel	Acquisition Per Policy	Acquisition Per Face Amount ($000)	Acquisition Per Premium	Maintenance per Policy	Companies Included
Independent	$ 154	$ 0.80	38%	$ 46	128
Career	233	1.30	58	70	74
Direct	198	1.10	50	60	21
Niche	128	0.70	32	38	23
Other	155	0.90	39	47	135
Total					381

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 2017 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation. Only the Direct distribution channel category experienced a change greater than five percent from the corresponding 2017 GRET values for Acquisition per Policy expenses; primarily due to the change in the relatively small number of companies in this category.

Usage of the GRET

Also asked in this year's survey, responded to by companies' Annual Statement correspondent, was a question regarding whether the 2016 GRET table was used by the company. Last year, 26% of the responders indicated that the company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 25% in the prior year. This year, 30% of responding companies indicated that they used the GRET in 2016 for sales illustration purposes, with similar results for each of the distribution channels with a significant number of responders. We believe that, in addition, the variation in the results over the last three years in GRET use is in large part due to the relatively small sample size and different responders in these two 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 Dale Hall at 847-273-8835.

Kindest personal regards,

Dale Hall
Managing Director of Research
Society of Actuaries

Leon Langlitz
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 2018 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 2017 GRET and the 2018 GRET recommendation 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.

2006-2010 (average) CLICE studies:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
Term – Weighted Average	$ 149	$ 0.62	37.9%	$ 58
Unweighted Average	$ 237	$ 0.80	56.8%	$ 76
Median	$ 196	$ 0.59	38.1%	$ 64
Perm – Weighted Average	$ 167	$ 1.43	41.7%	$ 56
Unweighted Average	$ 303	$ 1.57	49.4%	$ 70
Median	$ 158	$ 1.30	41.1%	$ 67

Current unit expense seeds:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$ 200	$ 1.10	50%	$ 60

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August 5, 2016

To: Reggie Mazyck, NAIC

From: Dale Hall, Managing Director of Research, Society of Actuaries (SOA)
Leon Langlitz, Chair, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: 2017 Generally Recognized Expense Table (GRET) – SOA analysis

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their help and responsiveness in providing Annual Statement expense and unit data for our 2017 GRET analysis for use with individual life insurance sales illustrations. Our analysis is based on expense and expense related information reported on companies' 2014 and 2015 Annual Statements. This analysis 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 2017. This memo describes our analysis and resulting findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2014 and 2015. This included data from 763 companies in 2014 and 744 companies in 2015. The primary reason for the lower number of companies in 2015 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this relatively small difference in number of companies between years is consistent with prior experience with this data. Because we subsequently excluded certain companies' experience because of an outlier exclusion test, the absence of these late reporting companies is not expected to significantly affect the results. Of the total companies, 381 passed the outlier exclusion tests and were included as a base for the GRET factors (338 companies passed similar tests last year).

Approach used

The methodology we followed for calculating recommended GRET factors based on this data is similar in broad outline to that followed last year -- see our memo dated July 30, 2015 for a description of those changes.

To calculate updated GRET factors, the average of the factors from the two most recent years (2014 and 2015 for those with data available for both years) of Annual Statement data was used. For each company an actual to expected ratio was calculated. Unit expense seed factors (the seeds for all distribution channel categories are the same), as given 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, described in Appendix A of this memo). There remain a significant number of companies for which no distribution channel was available, as no responses to our 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. We welcome advice and assistance from LATF in future years to increase the response rate to our annual surveys of companies that submit Annual Statements in order to reduce the number of companies in the "Other" category.

Prior to 2014, when responding to the survey if a company indicated that they used multiple channels to distribute their individual life sales, the percentage weights provided to us were applied to that company's reported results in the tabulations of each of the distribution channel's unit expense results. This approach was not used in this analysis (or last year's) because: (1) as fewer channel types were used, it was expected that fewer companies would have multiple channels as currently defined and (2) an insufficient number of multiple distribution responses were provided in this year's survey to result in a sufficiently different outcome. We intend to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) their total individual life insurance non-commission and non-tax expenses were less than $50,000 in either of the two years, for which their ratios were not deemed credible, or (3) they are reinsurance companies. 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

Employing the above methodology results in the proposed 2017 GRET values shown in Table 1. To facilitate comparisons, the current 2016 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 2017 GRET FACTORS, based on average of 2014/2015 data

Distribution Channel	Acquisition			Maintenance per Policy	Companies Included*	Average 1st Year Premium per Policy Issued During Year	Average Face Amount ($000) per Policy Issued During Year
	per Policy	per Face Amount ($000)	per Premium				
Independent	$ 154	$ 0.80	38%	$ 46	128	$ 4,607	$ 249
Career	233	1.30	58	70	74	2,332	208
Direct	198	1.10	50	60	21	2,778	178
Niche	128	0.70	32	38	23	658	913
Other*	155	0.90	39	47	135	1,588	209
Total					381		

*Those companies who are included in the "other" category are those companies that did not respond to this year's survey or that of prior years.

TABLE 2
CURRENT (2016) FACTORS, based on average of 2013/2014 data

Distribution Channel	Acquisition			Maintenance per Policy	Companies Included
	per Policy	per Face Amount ($000)	per Premium		
Independent	$ 149	$ 0.80	37%	$ 45	115
Career	224	1.20	56	67	76
Direct	178	1.00	44	53	19
Niche	135	0.70	34	40	19
Other	153	0.80	38	46	109
Total					338

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 2016 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation. Only the Direct distribution channel category experienced a change greater than five percent from the corresponding 2016 GRET values for Acquisition per Policy expenses; primarily due to the change in the relatively small number of companies in this category.

Usage of the GRET

Also asked in this year's survey, responded to by companies' Annual Statement correspondent, was a question regarding whether the 2015 GRET table was used by the company. Last year, 25% of the responders indicated that the company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 30% in the prior year. This year, 26.% of responding companies indicated that they used the GRET in 2015 for sales illustration purposes, with similar results for each of the distribution channels with a significant number of responders. We believe that, in addition, the variation in the results over the last three years in GRET use is in large part due to the relatively small sample size and different responders in these two 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 Dale Hall at 847-273-8835.

Kindest personal regards,

R. Dale Hall

Dale Hall, FSA, MAAA, CERA
Managing Director of Research
Society of Actuaries

Leon Langlitz, FSA, MAAA, FLMI
Chair, Society of Actuaries'
Committee on Life Insurance Company
Expenses

Appendix A -- Distribution Channels

The following is a description of distribution channels used in the development of recommended 2017 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 2016 GRET and the 2017 GRET recommendation 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.

2006-2010 (average) CLICE studies:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
Term - weighted average	$ 149	$ 0.62	37.9%	$ 58
Unweighted average	$ 237	$ 0.80	56.8%	$ 76
Median	$ 196	$ 0.59	38.1%	$ 64
Perm - weighted average	$ 167	$ 1.43	41.7%	$ 56
Unweighted average	$ 303	$ 1.57	49.4%	$ 70
Median	$ 158	$ 1.30	41.1%	$ 67

Current unit expense seeds:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$ 200	$ 1.10	50%	$ 60

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July 30, 2015

To: Reggie Mazyck, NAIC

From: Jack Luff, Society of Actuaries (SOA) Experience Studies Actuary
Sam Gutterman, chair, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: 2016 Generally Recognized Expense Table (GRET) – SOA analysis

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their help and responsiveness in providing Annual Statement expense and unit data for our 2016 GRET analysis for use with individual life insurance sales illustrations. Our analysis is based on expense and expense related information reported on companies' 2013 and 2014 Annual Statements. This analysis 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 2016. This memo describes our analysis and resulting findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2013 and 2014. This included data from 768 companies in 2013 and 762 companies in 2014. The primary reason for the lower number of companies in 2014 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this relatively small difference in number of companies between years is consistent with prior experience with this data. Because we subsequently excluded certain companies' experience because of an outlier exclusion test, the absence of these late reporting companies is not expected to significantly affect the results. Of the total companies, 338 passed the outlier exclusion tests and were included as a base for the GRET factors (367 companies passed similar tests last year).

Approach used

The methodology we followed for calculating recommended GRET factors based on this data is similar in broad outline to that followed last year[1] -- see our memo dated July 31, 2014 for a description of those changes.

To calculate updated GRET factors, the average of the factors from the two most recent years (2013 and 2014 for those with data available for both years) of Annual Statement data was used. For each company an actual to expected ratio was calculated. Unit expense seed factors (the seeds for all distribution channel categories are the same), as given in Appendix B, were used to compute total expected expenses. Thus, these seed factors

[1] In last year's analysis, several changes from prior practice were made, the primary ones were: (1) reduced the number of distribution channels used from seven to four, (2) updated the expense seed (the basis to allocate general expense to its acquisition and maintenance expense components, and splitting acquisition expenses into three bases – per policy, per face amount and per premium), as indicated in Appendix B and (3) did not eliminate companies with significant ceded reinsurance expenses, as the study is based on gross of ceded reinsurance experience.

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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, described in Appendix A of this memo). There remain a significant number of companies for which no distribution channel was available, as no responses to our 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. This year we surveyed a number of appointed actuaries in an attempt to identify the distribution channel of more companies; the response received did not appreciably reduce the number of companies with unidentified distribution channels. We welcome advice and assistance from LATF in future years to increase the response rate to our annual surveys of companies that submit Annual Statements in order to reduce the number of companies in the “other” category.

Prior to last year, if in our survey a company indicated that they used multiple channels to distribute their individual life sales, the percentage weights provided to us were applied to that company’s reported results in the tabulations of each of the distribution channel’s unit expense results. This approach was not used in this analysis because: (1) as fewer channel types were used, it was expected that fewer companies would have multiple channels as currently defined and (2) an insufficient number of multiple distribution responses were provided in this year’s survey to result in a sufficiently different outcome. We intend to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information; in future studies our approach will be revisited.

Companies were excluded from the analysis if (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) their total individual life insurance non-commission and non-tax expenses were less than $50,000 in either of the two years, for which their ratios were not deemed credible, or (3) they are reinsurance companies. No specific ceded reinsurance exclusion test was applied (previously applied to exclude companies with a significant amount of ceded reinsurance commissions). 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

Employing the above methodology results in the proposed 2016 GRET values shown in Table 1. To facilitate comparisons, the current 2015 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.

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TABLE 1
PROPOSED 2016 GRET FACTORS, based on average of 2013/2014 data

Distribution Channel	Acquisition per Policy	Acquisition per Face Amount ($000)	Acquisition per Premium	Maintenance per Policy	Number of Companies*	Average 1st Year Premium per Policy Issued During Year	Average Face Amount ($000) per Policy Issued During Year
Independent	$ 149	$ 0.80	37%	$ 45	115	$ 4,467	$ 305
Career	224	1.20	56	67	76	1,515	204
Direct	178	1.00	44	53	19	727	47
Niche	135	0.70	34	40	19	676	54
Other*	153	0.80	38	46	109	869	43
Total					338		

*Those companies who are included in the "other" category are those companies that did not respond to this year's survey or that of prior years (for those that responded in prior years, a translation between their prior distribution channel assignment and the new set of categories was made).

TABLE 2
CURRENT (2015) FACTORS, based on average of 2012/2013 data

Distribution Channel	Acquisition per Policy	Acquisition per Face Amount ($000)	Acquisition per First Year Premium	Maintenance per Policy	Number of Companies
Independent	$ 146	$ 0.80	36%	$ 44	124
Career	235	1.30	59	70	75
Direct	161	0.90	40	48	22
Niche	136	0.70	34	41	26
Other	150	0.80	38	45	120
Total					367

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 2015 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation. Only the Direct distribution channel category experienced a change greater than five percent from the corresponding 2015 GRET values; no change was made as a result, as the indicated changes were less than eleven percent, due to the change in the relatively small number of companies in this category.

Usage of the GRET

Also asked in this year's survey, responded to by companies' Annual Statement correspondent, was a question regarding whether the 2014 GRET table was used by the company. Last year, 32% of the responders indicated that the company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 20% in the prior year. This year, 24.5% of responding companies indicated that they used the GRET in 2014 for sales illustration purposes (25 out of 102 companies that indicated that they sold more than a minimal amount of new business), with similar results for each of the distribution channels with a significant number of responders. We believe that, in addition, the variation in the results over the last three years in GRET use is in large part due to the relatively small sample size and different responders in these two 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 Jack Luff at 847-706-3571.

Sincerely,

Jack Luff
Society of Actuaries Experience Studies Actuary

Sam Gutterman
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 2016 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.

For those companies that did not respond to this year's or last year's survey of companies, the following translations from the seven distribution channel categories used in previous years' studies to the four distribution categories were made.

- Branch office → Career
- Direct marketing → Direct marketing
- Home service → Niche marketers
- Career general agency → Career
- Brokerage → Independent
- PPGA → Independent
- Multi-line → Career.

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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 2015 GRET and the 2016 GRET recommendation 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.

2006-2010 (average) CLICE studies:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
Term - weighted average	$ 149	$ 0.62	37.9%	$ 58
Unweighted average	$ 237	$ 0.80	56.8%	$ 76
Median	$ 196	$ 0.59	38.1%	$ 64
Perm - weighted average	$ 167	$ 1.43	41.7%	$ 56
Unweighted average	$ 303	$ 1.57	49.4%	$ 70
Median	$ 158	$ 1.30	41.1%	$ 67

Current unit expense seeds:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$ 200	$ 1.10	50%	$ 60

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SOCIETY OF ACTUARIES

July 31, 2014

To: Reggie Mazyck, NAIC

From: Steven Siegel
Society of Actuaries (SOA) Research Actuary

cc: Sam Gutterman, Tim Harris co-chairs, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: SOA 2015 Generally Recognized Expense Table (GRET) Analysis

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their help and responsiveness in providing Annual Statement expense and unit data for our 2015 GRET analysis for use with individual life insurance sales illustrations. Our analysis is based on expense and expense related information reported on companies' 2012 and 2013 Annual Statements. This analysis 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 2015. This memo describes our analysis and resulting findings.

NAIC staff provided Annual Statement data by life insurance company for calendar years 2012 and 2013. This included data from 788 companies in 2012 and 768 companies in 2013. The primary reason for the lower number of companies in 2013 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this relative difference in number of companies between years is consistent with prior experience with this data. Because we subsequently excluded certain companies' experience because of an outlier exclusion test, the absence of these late reporting companies is not expected to significantly affect the results. Of the total companies, 367 passed the outlier exclusion tests and were included as a base for the GRET factors (this is higher than prior years, 277 last year, because a reinsurance exclusion test was applied last year, so that companies that ceded a significant portion of their business, for example, to captive insurers, were eligible to be included in this year's analysis).

The methodology we followed for calculating recommended GRET factors based on this data is similar in broad outline to that followed last year, with several changes highlighted in the following (most of these changes had been discussed a year ago with LATF). Please refer to the submission for the previous year for a more complete description of the process previously followed. Significant changes included:

1. Distribution channels. Categories of distribution channels were reduced in number and simplified. This change was made in response to the evolution of the marketing of individual life insurance and we have been told that it was increasingly difficult to determine a single mode of distribution for many companies, as they had characteristics of several of the existing distribution channel types.

Previously, eight categories were used, reduced to five in this year's recommendation (a translation between them used for purposes of carrying forward the results of prior survey results is provided in Appendix A where we did not receive a response in this year's survey, although it is recognized that this translation may not be perfect in every situation). They are: (1) independent, (2) career, (3) direct marketing, (4) niche marketers, including home service and pre-need coverage, and (5) other. A description of the distribution channels are provided in Appendix A (in addition, a description of the previous categories are also given). Note that the assignment of distribution channel by company was based on our annual surveys of insurers – a choice of "other" was not an option; in most cases companies in the other category were non-respondents to our surveys.

We welcome advice and assistance from LATF in future years to increase the response rate to our annual surveys of companies that submit Annual Statements in order to reduce the number of companies in the "other" category.

2. Treatment of multiple distribution channels. Last year, if in our survey a company indicated that they used multiple channels to distribute their individual life sales, the corresponding percentage weights provided to us were applied to that company's reported results in the tabulations of each of the distribution channel's unit expense results. For this year's recommendation, this approach was not used because: (1) as fewer channel types were used, it was expected that fewer companies would have multiple channels as currently defined and (2) an insufficient number of multiple distribution responses were provided in this year's survey to result in a sufficiently different outcome. We intend to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information; in future studies our approach will be revisited.

3. Unit expense seed. In prior years, our analysis used unit expense allocations based on a LOMA unit expense study conducted in 1997. Since that time, the structure of unit expenses has changed considerably. The current seed used was not deemed representative of current relative unit expenses. As a result, we reviewed the results of past annual Society of Actuaries' expense studies for data on which we could base updated allocations. We developed a new set of unit expense seeds (relativities that implicitly allocate expenses between (non-commission) acquisition and maintenance expenses, and between the three unit bases over which acquisition expenses are allocated). In previous studies, separate seed values were used for branch office distribution and all other; however, because branch office is no longer a separate distribution channel category, we believe it appropriate to base the 2015 GRET on a single set of unit expense seeds, undifferentiated by distribution channel. The set of unit expense seeds (recommended and previously used, along with results from the 2006-2010 SOA studies) are given in Appendix B.

4. Reinsurance exclusion test. This test, which eliminated from GRET calculations companies with a significant amount of reinsurance commissions, was previously used to eliminate companies with a large amount of ceded or assumed reinsurance. Its application had resulted in eliminating a significant number of companies, including certain companies with captives.

> This test was not applied in developing the calculations for this year's GRET recommendations. Since the GRET calculations were performed on a direct of ceded reinsurance basis and professional reinsurers were excluded in any case, it was determined that these exclusions were not necessary. This had the effect of significantly increasing the number of companies included (277 to 367) in the GRET calculations, as indicated in Table 1.

To calculate updated GRET factors, the average of the factors from the two most recent years (2012 and 2013 for those with data available for both years) of Annual Statement data was used. For each company an actual to expected ratio was calculated. Unit expense seed factors, as given in Appendix B, were used to compute total expected expenses (note that the seeds for all distribution channel categories are now the same). 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 excluded from the analysis if (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) their total individual life insurance non-commission expenses were less than $50,000, for which their ratios were not deemed credible, or (3) they are reinsurance companies. No specific reinsurance exclusion test was applied; as indicated above, as a result many additional companies were included this year from the calculations that were excluded last year. 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.

In previous recommendations, an effort was made to reduce volatility from year-to-year in the factors by limiting the change in GRET factors between years. However, given the changes in the unit expense seed and distribution channel categories and that, as a result, the change can vary by policy (depending upon the relationship between premiums, face amount and expected policy duration of each policy), this simple capping/flooring of changes in values could not be performed. Consequently, no such cap or floor was utilized this year. We will revisit this process in next year's recommendations, with a similar cap and floor for changes likely.

Employing the above methodology results in the proposed 2015 GRET values as shown in Table 1. To facilitate comparisons, the current 2014 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 average face amount ($000s) per policy issued.

TABLE 1
PROPOSED 2015 GRET FACTORS, based on average of 2012/2013 data

Distribution Channel	Acquisition per Policy	Acquisition per Face Amount ($000)	Acquisition per Premium	Maintenance per Policy	Company Count*	Average Premium per Policy Issued	Average Face Amount ($000) per Policy Issued
Independent	$146	$ 0.80	36%	$44	124	$6,048	$255
Career	235	1.30	59	70	75	2,265	197
Direct	161	0.90	40	48	22	1,503	109
Niche	136	0.70	34	41	26	768	19
Other*	150	0.80	38	45	120	4,879	145
Total					367		

*Those companies who are included in the "other" category are those companies that did not respond to this year's survey or that of prior years (for those that responded in prior years, a translation between their prior distribution channel assignment and the new set of categories was made).

TABLE 2
Current (2014) Factors

Distribution Channel	Acquisition per Policy	Acquisition per Face Amount ($000)	Acquisition per Premium	Maintenance per Policy
Branch Office	$ 73	$ 1.30	80%	$ 36
Direct Marketing	74	1.40	41	37
Home Service	77	1.40	42	38
Career General Agency	91	1.60	50	46
Brokerage	85	1.50	47	42
PPGA	91	1.60	50	46
Multiline	144	2.60	79	72
Other	99	1.80	54	50

Also asked in this year's survey, responded to by companies' Annual Statement correspondent, was a question regarding whether the 2014 GRET table was used by the company. Last year, the first time this question was asked, about 20 percent of the responders indicated that the company used the GRET for sales illustration purposes, with similar results by type of company. This year, 31.6% of companies that wrote any new individual life insurance business during 2013 and responded to the survey indicated they used the GRET in 2013 for sales illustration purposes (38 out of 120). By distribution channel, 31% of companies using an independent distribution channel, 33% of companies that used a career distribution channel, 44% of direct marketers and 22% of niche marketers indicated they used the GRET. We believe that this apparent increase in GRET use is in part due to the relatively small sample size in these two surveys.

We hope you find this information helpful and sufficient for LATF's consideration of potential update to the GRET. If you require further analysis or have questions, please contact me at 847-706-3578.

Sincerely,

Steven Siegel
Society of Actuaries Research Actuary

Appendix A -- Distribution channels

The following is a description of distribution channels used in the development of recommended 2015 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 there were with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

The following is a description of distribution channels used in the development of 2014 and earlier GRET values:

1. Branch Office - A company or division which operates an agency building system featuring field management that are employees although their compensation may be largely based on production. The company provides significant employee benefits to field employees in addition to direct compensation.

2. Direct Marketing - A company or division that markets directly to the public through printed or other media. No direct field compensation is involved.

3. Home Service - A company or division that markets smaller insurance policies through an organization that resembles the Branch Office system in organizational and compensation structure but focuses on smaller policies and agent collections of premiums. Note that this request focuses only on the distribution of ordinary life business, not considering any industrial business written by a company.

4. Career General Agency - An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.

5. Brokerage - A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.

6. PPGA - A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.

7. Multi-Line - A system that uses full-time agents licensed to write property-casualty, life, health, annuities, and equity products and who primarily represent one company.

8. Other - Companies or divisions other than those described above. If you choose this category, please provide a brief description of the distribution system for your company's ordinary life business.

For those companies that did not respond to this year’s survey of companies, the following translations from the eight distribution channel categories above to the five distribution categories were made.

- Branch office → Career
- Direct marketing → Direct marketing
- Home service → Niche marketing
- Career general agency → Career
- Brokerage → Independent
- PPGA → Independent
- Multi-line → Career

Appendix B – Unit Expense Seeds

The recommended expense seed was differentiated between branch office and all other categories, due to a belief that branch office acquisition cost expressed on a per Face Amount basis should be given double the weight. Due to the elimination of the branch office category, it was felt that a non-differentiated unit expense seed was appropriate at this time.

The unit expense seed used in the 2015 GRET recommendation was 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 the two types of coverage, the unit expense seed was derived by judgment based on this information. The following provides the earlier used LOMA seed, the averages derived from the Annual SOA studies and the recommended seed used.

Original LOMA unit expense seed:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
Branch office:	$ 63.13	$ 1.123	69.9%	$ 31.59
All others:	$ 63.13	$ 1.123	34.8%	$ 31.59

2006-2010 (average) CLICE studies:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
Term - weighted average	$ 149	$ 0.62	37.9%	$ 58
Unweighted average	$ 237	$ 0.80	56.8%	$ 76
Median	$ 196	$ 0.59	38.1%	$ 64
Perm - weighted average	$ 167	$ 1.43	41.7%	$ 56
Unweighted average	$ 303	$ 1.57	49.4%	$ 70
Median	$ 158	$ 1.30	41.1%	$ 67

Recommended unit expense seed:

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$ 1.1	50%	$ 60

Formula for Premium Used in GRET Calculations:
[First: direct ordinary life (Page 9, line 9.1)] + .06*[[Single: direct ordinary life (Page 9, line 10.1)] – [Life dividends and refunds to PUA's (Page 11, Exhibit 4, Line 3, column 1)]]

SOCIETY OF ACTUARIES

July 30, 2013

To: Reggie Mazyck, NAIC

From: Steven Siegel
Society of Actuaries (SOA) Research Actuary

cc: Sam Gutterman, Tim Harris co-chairs, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: SOA 2014 Generally Recognized Expense Table (GRET) Analysis

As in previous years, the Society of Actuaries expresses its thanks to the NAIC for its help and responsiveness in providing Annual Statement expense and unit data for our 2014 GRET Analysis for use with individual life insurance sales illustrations (based on expense and expense related information reported on companies' 2011 and 2012 Annual Statements). This analysis 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 2014. This memo describes our analysis and resulting findings.

NAIC staff provided Annual Statement data by life insurance company for calendar years 2011 and 2012. This included data from 808 companies in 2011 and 788 companies in 2012. The primary reason for the lower number of companies in 2012 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this difference in number of companies between years is consistent with prior experience with this data. Because we subsequently excluded certain companies' experience because of outlier and reinsurance exclusion tests, the absence of these late reporting companies is not expected to significantly affect the results. Of the total companies, 277 passed the outlier and reinsurance exclusion tests and were included as a base for the GRET factors.

The methodology we followed for calculating GRET factors based on this data is similar to that followed last year. Please refer to the submission for the previous year for a more complete description of the overall process followed. The overall approach reflects the percentage of business written by each distribution channel category (see the appendix for the definitions used, the same as was used last year; for example, if 50% of a company's business was derived from category A and 50% was from category B, 50% of that company's factors was used to obtain the average of the factors for both category A and category B). Note that each company's aggregate values were used for each category, as channel-specific expenses and units are not available. Of the 277 companies included in the 2011 and 2012 results, 48 companies indicated that they had written business through more than one distribution channel.

To calculate updated GRET factors, the average of the factors from the two most recent years (2011 and 2012) of Annual Statement data was used. For each company an actual to expected ratio was calculated. Seed factors derived from a previous LOMA expense study were used to compute expected expenses (note that the seeds for all categories other than Branch Office are the same). These seed factors were used to allocate expenses between acquisition and maintenance expenses and among the three acquisition expense factors. Companies were excluded from the analysis if their actual to expected ratios were considered outliers, often due to low business volume or having a relatively large amount of ceded reinsurance. 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 the tables.

In an effort to reduce volatility in the factors, two additional steps are included in the methodology. First, only companies that passed all outlier tests for *both* 2011 and 2012 are included in the averages in the following tables; that is, the same set of companies for 2011 and 2012 are used for each category. Companies that pass the outlier tests represent 47% of industry first year individual life premium. Secondly, a limit of plus or minus ten percent (before rounding) has been imposed on any change in GRET factors from the prior year. This year, this limitation was applied for the Branch Office, Direct Marketing, PPGA, and Other categories. Without this limitation, the factor changes would be approximately 29%, -18%, -20%, and 12%, respectively.

Employing this methodology results in the proposed 2014 GRET values as shown in Table 1. The current 2013 GRET factors and the percentage change represented by each proposed factor are shown in Table 2.

Further characteristics of the type of companies represented in each category are included in Table 1, including the average premium per policy issued and average face amount ($000s) per policy issued.

TABLE 1
PROPOSED 2014 GRET FACTORS, based on average of 2011/2012 data

Distribution Channel	Acquisition per Policy	Acquisition per Face Amount ($000)	Acquisition per Prem	Maintenance per Policy	Company Count*	Average Premium per Policy Issued During Year	Average Face Amount ($000) per Policy Issued During Year
Branch Office	$ 73	$ 1.30	80%	$ 36	22	$ 4,722	$ 336
Direct Marketing	74	1.40	41	37	31	437	23
Home Service	77	1.40	42	38	10	852	24
Career General Agency	91	1.60	50	46	32	1,661	127
Brokerage	85	1.50	47	42	33	4,360	172
PPGA	91	1.60	50	46	56	2,263	102
Multiline	144	2.60	79	72	16	1,124	153
Other	99	1.80	54	50	77	1,307	62
Total					277		

TABLE 2
Current 2013 Factors

Distribution Channel	Acquisition per Policy	Acquisition per Face Amount ($000)	Acquisition per Prem	Maintenance per Policy
Branch Office	$ 66	$ 1.20	73%	$ 33
Direct Marketing	82	1.50	45	41
Home Service	86	1.50	47	44
Career General Agency	96	1.70	53	48
Brokerage	96	1.70	53	48
PPGA	101	1.80	56	51
Multiline	141	2.50	78	71
Other	90	1.60	49	45

TABLE 3
Percent Change between the proposed 2014 and current 2013 factors

Distribution Channel	Acquisition per Policy	Acquisition per Face Amount ($000)	Acquisition per Prem	Maintenance per Policy
Branch Office	11%	8%	10%	9%
Direct Marketing	-10	-7	-9	-10
Home Service	-10	-7	-10	-14
Career General Agency	-5	-6	-5	-4
Brokerage	-11	-12	-12	-13
PPGA	-10	-11	-11	-10
Multiline	2	4	2	1
Other	10	13	10	11

A question raised by LATF in 2012 was the prevalence of use of the GRET table by life companies. To gauge this prevalence, a question was added to the survey of companies (including a follow-up with non-responders of the initial information request) in which we asked the Annual Statement correspondent to confirm with the company's illustration actuary seeking company usage of the GRET in 2012. Of the companies that wrote any individual life new business during 2012 that responded to the survey with a yes or no response to the question of whether they used the GRET in 2012 for sales illustration purposes, 20% responded indicating they used the GRET (30 out of 152). This percentage was relatively consistent by size and distribution channel:

- By size of first year individual life premium. 20%, 17 of 85 small companies (less than $10 million), 20%, 17 of 85 medium size companies (between $10 million and $100 million) and 17%, 4 of 23 large companies (more than $100 million).
- By distribution channel category. 2 out of 11 branch office companies, 2 of 9 direct marketing companies, 2 of 7 home service companies, 7 of 24 career general agent

companies, 6 of 31 brokerage companies, 7 of 37 PPGA companies, 2 of 13 Multiline companies and 2 of 20 not otherwise categorized companies.

This year's survey reduced the number of those in the "other" distribution channel category from 89 to 77; efforts will continue next year to further reduce this number. We did not complete a bottom-up reassessment of the seed used for calculation of the GRET factors this year. We intend to pursue this assessment next year. We also intend to revisit the definitions of distribution channel shown in the appendix to this memo next year – the current categories are the ones we use for our annual inter-company expense experience study.

We hope you find this information helpful and sufficient for LATF's consideration of potential update to the GRET.

If you require further analysis or have questions, please contact me at 847-706-3578.

Sincerely,

Steven Siegel
Society of Actuaries Research Actuary

Appendix -- Distribution channels

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

- Branch Office - A company or division which operates an agency building system featuring field management that are employees although their compensation may be largely based on production. The company provides significant employee benefits to field employees in addition to direct compensation.

- Direct Marketing - A company or division that markets directly to the public through printed or other media. No direct field compensation is involved.

- Home Service - A company or division that markets smaller insurance policies through an organization that resembles the Branch Office system in organizational and compensation structure but focuses on smaller policies and agent collections of premiums. Note that this request focuses only on the distribution of ordinary life business, not considering any industrial business written by a company.

- Career General Agency - An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.

- Brokerage - A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.

- PPGA - A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.

- Multi-Line - A system that uses full-time agents licensed to write property-casualty, life, health, annuities, and equity products and who primarily represent one company.

- Other - Companies or divisions other than those described above. If you choose this category, please provide a brief description of the distribution system for your company's ordinary life business.

Draft: 8/31/12

The NAIC solicits comments on this draft. Comments should be sent to Reggie Mazyck, NAIC, at RMazyck@naic.org , and Eric King, NAIC, at EKing@naic.org by 9/30/12.

SOCIETY OF ACTUARIES

July 30, 2012

To: Mike Boerner, NAIC

From: Steven Siegel
Society of Actuaries (SOA) Research Actuary

cc: Sam Gutterman, Tim Harris co-chairs, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: SOA 2013 Generally Recognized Expense Table (GRET) Analysis

As in previous years, the Society of Actuaries expresses its thanks to the NAIC for its help and responsiveness in providing Annual Statement expense data for our 2013 GRET Analysis for use with individual life insurance sales illustrations (based on expense and expense related information reported on companies' 2010 and 2011 Annual Statements). This analysis 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 2013. This memo describes our analysis and resulting calculations.

NAIC staff provided Annual Statement data by life insurance company for calendar years 2010 and 2011. This included data from 826 companies in 2010 and 808 companies in 2011. The primary reason for the lower number of companies in 2011 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this difference in number of companies is consistent with prior experience with this data. Because we subsequently excluded certain companies' experience because of outlier and reinsurance exclusion tests, the absence of these late reporting companies is not expected to significantly affect the results. Of the total companies, 244 passed the outlier and reinsurance exclusion tests and were included as a base for the GRET factors.

The methodology we followed for calculating GRET factors based on this data is similar to that followed last year. Please refer to the submission for the previous year for a more complete description of the overall process followed. The following is a description of several items that were done this year:

(1) A two stage survey of information regarding the distribution channels[1] from each company that passed our criteria in order to increase the number of companies for which we have distribution channel information. This additional survey was issued in an attempt to reduce the number of companies that were included in the 'other' distribution channel category. This reduced the number of companies in the 'other' category from 124 (out of

[1] A description of distribution channels used in this and prior reports is given in Appendix 1

299 in 2009) to 118 (out of 288 in 2010). In 2011 there were only 89 (out of 244 in 2011) such companies.

(2) The overall approach reflects the percentage of business written by each category (for example, if 50% of a company's business was derived from category A and 50% was from category B, 50% of that company's factors was used in obtaining the average of the factors for both category A and category B). Note that each company's aggregate values were used for each category, as channel specific expenses and units are not available. Of the 244 companies included in the 2010 and 2011 results, 36 companies indicated that they had more than one distribution channel.

In order to calculate updated GRET factors, the average of the two most recent years (2010 and 2011) of Annual Statement data was used. For each company an actual to expected ratio is calculated. Seed factors derived from a previous LOMA expense study are used to compute expected expenses (note that the seeds for all categories other than Branch Office are the same). These seed factors were used to allocate expenses between acquisition and maintenance expenses and among the three acquisition expense factors. Companies are excluded from the analysis if their actual to expected ratios are considered outliers, often due to low business volume or they have a relatively large amount of ceded reinsurance. To derive the overall GRET factors, the unweighted average of the remaining companies' actual to expected ratios for each respective category is calculated. The resulting factors are rounded as shown in the tables.

In an effort to reduce volatility in the results, two additional steps are included in the methodology. First, only companies that passed all outlier tests for *both* 2010 and 2011 are included in the averages in the following tables; that is, the same set of companies for 2010 and 2011 are used for all categories. Companies that pass the outlier tests represent 44.6% of industry first year premium. Secondly, a limit of plus or minus 10% (before rounding) has been imposed on any change in GRET factors from the prior year. This year, this limitation was applied for the Home Service and PPGA categories. Without this limitation, the factor changes for Home Service and PPGA would be approximately 23% and 17%, respectively.

Employing this methodology results in the proposed 2013 GRET values, as shown in Table 1 below. The current 2012 GRET factors and the percentage change represented by each proposed factor are shown in Table 2.

Further characteristics of the type of companies represented in each category are included in Table 1, including the average premium per policy issued and average face amount ($000s) per policy issued.

TABLE 1
PROPOSED 2013 GRET FACTORS, based on average of 2010/2011 data

Distribution Channel	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy	Company Count*	Average Premium Per Policy Issued During Year	Average Face Amount Per Policy Issued During Year
Branch Office	66	1.2	.73	33	15	$ 3,366	$ 433
Direct Marketing	82	1.5	.45	41	13	1,127	40
Home Service	86	1.5	.47	44	15	612	18
Career General Agency	96	1.7	.53	48	31	1,907	147
Brokerage	96	1.7	.53	48	18	4,649	151
PPGA	101	1.8	.56	51	46	1,653	99
Multiline	141	2.5	.78	71	17	1,242	161
Other	90	1.6	.49	45	89	2,196	83
Total					244		

TABLE 2
Current 2012 Factors

Distribution Channel	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	64	1.10	0.71	32
Direct Marketing	80	1.40	0.45	41
Home Service	78	1.40	0.43	40
Career General Agency	101	1.80	0.55	50
Brokerage	98	1.70	0.54	49
PPGA	92	1.60	0.51	46
Multiline	127	2.30	0.70	64
Other	85	1.50	0.47	42

TABLE 3
Percent Change between the proposed 2013 and current 2012 factors

Distribution Channel	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	3%	9%	3%	3%
Direct Marketing	2	7	0	0
Home Service	10	7	9	10
Career General Agency	-5	-6	-4	-4
Brokerage	-2	0	-2	-2
PPGA	10	13	10	11
Multiline	11	9	11	11
Other	6	7	5	7

A question raised by LATF in 2011 was what are the distribution of results by distribution channel. Appendix 2 contains such a distribution for (1) all companies that had an Annual Statement filed with the NAIC at the time that data was provided for 2010 and 2011 and (2) for those companies included in the GRET calculation. Clearly a wide range of experience exists.

Another question raised by LATF related to the seed used in the GRET calculations. The currently used seed, as mentioned above, was derived from an old study conducted by LOMA. This seed has been used in the calculation of all prior GRET calculations. For the last decade the Society of Actuaries has conducted an annual study of life insurance company expenses for individual life and annuity contracts sold in the United States. The results of the two most recently published studies (2007 and 2008) have resulted in unit expenses allocated using the same metrics (per policy, percent of premium and per unit of insurance) as is used in the GRET calculations, although an insufficient number of contributors to permit a comparison by distribution channel. The findings in these studies, compared with the LOMA seed, are shown in Appendix 3.

It is clear that the relative size of the seed by metric currently differs between the two sources. If it is desired to move toward more recent parameter factors, a sudden shift may have a significant effect for many companies that use the GRET. Although the limit of annual change (10%) would reduce this effect, we believe that such a change should not be taken without allowing study by and discussion with those companies affected. In addition, since not only the relativity to the seed would change (the current approach), but also the relativity among the unit parameters would be affected, there are more than one approach that could be taken to setting the maximum annual change, it is not straightforward to determine the effect this change would represent, that would vary by product type for the companies affected. Thus, we recommend that further information be developed (updated by the upcoming 2009 SOA expense study), and exposed in the next six months as to whether it would be desirable to make a change and what an appropriate and acceptable method of change would be (e.g., a transition over a three or five year period).

We hope you find this information helpful and sufficient for LATF's consideration of potential changes to the GRET table.

If you require further analysis or have questions, please contact me at 847-706-3578.

Sincerely,

Steven Siegel
Society of Actuaries Research Actuary

Appendix 1 -- Distribution channels

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

- Branch Office - A company or division which operates an agency building system featuring field management that are employees although their compensation may be largely based on production. The company provides significant employee benefits to field employees in addition to direct compensation.

- Direct Marketing - A company or division that markets directly to the public through printed or other media. No direct field compensation is involved.

- Home Service - A company or division that markets smaller insurance policies through an organization that resembles the Branch Office system in organizational and compensation structure but focuses on smaller policies and agent collections of premiums. Note that this request focuses only on the distribution of ordinary life business, not considering any industrial business written by a company.

- Career General Agency - An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.

- Brokerage - A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.

- PPGA - A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.

- Multi-Line - A system that uses full-time agents licensed to write property-casualty, life, health, annuities, and equity products and who primarily represent one company.

- Other - Companies or divisions other than those described above. If you choose this category, please provide a brief description of the distribution system for your company's ordinary life business.

Appendix 2 -- Distribution of unit expenses by distribution channels

2013 GRET recommendation study
Distribution of companies by distribution channel, based on Annual Statements of 2010 and 2011
All companies

2010	Branch Office (a)	Direct Marketing (b)	Home Service (c)	Career Gen Agen (d)	Brokerage (e)	PPGA (f)	Multi Line (g)	Other (h)	Total
A/E Range									
<=50%	14	15	6	13	30	20	6	226	330
>50<=75%	6	2	2	7	9	8	1	24	59
75<90%	4	1	1	4	7	7	0	15	39
90<100%	3	1	0	5	6	2	1	10	28
100<110%	2	1	1	3	1	6	0	3	17
110<125%	3	1	1	3	6	8	0	12	34
125<150%	3	2	2	5	12	11	2	24	61
150+%	14	18	10	24	30	44	16	102	258
Total	49	41	23	64	101	106	26	416	826

2011	Branch Office (a)	Direct Marketing (b)	Home Service (c)	Career Gen Agen (d)	Brokerage (e)	PPGA (f)	Multi Line (g)	Other (h)	Total
A/E Range									
<=50%	16	13	7	14	26	13	6	218	313
>50<=75%	8	2	2	7	12	10	1	16	58
75<90%	1	2	0	1	5	8	1	23	41
90<100%	1	0	0	4	8	3	0	6	22
100<110%	2	1	1	3	4	5	0	3	19
110<125%	2	2	3	4	3	10	0	11	35
125<150%	2	2	1	3	6	9	2	21	46
150+%	17	19	9	28	35	44	16	106	274
Total	49	41	23	64	99	102	26	404	808

2013 GRET recommendation study
Distribution of companies by distribution channel, based on Annual Statements of 2010 and 2011
Matched qualified companies

2010	Branch Office (a)	Direct Marketing (b)	Home Service (c)	Career Gen Agen (d)	Brokerage (e)	PPGA (f)	Multi Line (g)	Other (h)	Total
A/E Range									
<=50%	3	2	0	2	1	2	0	10	20
>50<=75%	1	2	2	4	1	4	1	13	28
75<90%	3	1	1	1	4	5	0	8	23
90<100%	3	1	0	2	0	0	1	2	9
100<110%	1	0	1	3	0	4	0	1	10
110<125%	2	0	1	3	2	4	0	8	20
125<150%	1	2	2	4	3	6	2	15	35
150+%	1	5	8	12	7	21	13	31	98
Total	15	13	15	31	18	46	17	88	243

2011	Branch Office (a)	Direct Marketing (b)	Home Service (c)	Career Gen Agen (d)	Brokerage (e)	PPGA (f)	Multi Line (g)	Other (h)	Total
A/E Range									
<=50%	3	2	0	2	2	2	0	7	18
>50<=75%	1	1	2	4	3	4	1	10	26
75<90%	4	1	0	1	0	2	1	14	23
90<100%	0	0	0	2	2	1	0	3	8
100<110%	0	0	1	2	2	3	0	1	9
110<125%	1	1	3	3	1	6	0	4	19
125<150%	2	2	1	3	0	6	2	14	30
150+%	4	6	8	14	8	22	13	35	110
Total	15	13	15	31	18	46	17	88	243

Appendix 3 -- Seed calculations

SOA CLICE studies

2007	# of		Acquisition		Non-acquisition	
	companies	/ policy	/$1,000	%Premium	/ policy	/ claim
Term	23	$ 173	$ 0.52	46.0%	$ 59	$ 149
Perm	24	$ 219	$ 1.34	50.3%	$ 58	$ 112
Variable	12	$ 244	$ 0.88	32.2%	$ 237	$ 272
Total	24	$ 196	$ 0.73	47.3%	$ 63	$ 119

2008	# of		Acquisition		Non-acquisition	
	companies	/ policy	/$1,000	%Premium	/ policy	/ claim
Term	16	$ 154	$ 0.73	34.9%	$ 56	$ 232
Perm	19	$ 157	$ 1.64	31.0%	$ 48	$ 147
Variable	8	$ 365	$ 1.63	37.6%	$ 147	$ 337
Total	21	$ 159	$ 0.96	32.5%	$ 57	$ 158

Average 2007&8	# of		Acquisition		Non-acquisition	
	companies	/ policy	/$1,000	%Premium	/ policy	/ claim
Term		$ 163.50	$ 0.63	40.5%	$ 57.50	$190.50
Perm		$ 188.00	$ 1.49	40.7%	$ 53.00	$129.50
Variable		$ 304.50	$ 1.26	34.9%	$192.00	$304.50
Total		$ 177.50	$ 0.85	39.9%	$ 60.00	$138.50

LOMA Seed Factors used in 2013 GRET recommendations

Code	Description	Acquisition Per Policy	Acquisition Per FA unit	Acquisition Per Prem	Maintenance Per Policy
a	Branch Office	63.13	1.123	0.699	31.59
b	Direct Marketing	63.13	1.123	0.348	31.59
c	Home Service	63.13	1.123	0.348	31.59
d	Career General Agency	63.13	1.123	0.348	31.59
e	Brokerage	63.13	1.123	0.348	31.59
f	PPGA	63.13	1.123	0.348	31.59
g	Multiline	63.13	1.123	0.348	31.59
h	Other	63.13	1.123	0.348	31.59

SOA studies as a % of LOMA seed (other than branch office)

	Acquisition			Non-acquisition
	/ policy	/$1,000	%Premium	/ policy
2007	310.5%	65.0%	135.9%	199.4%
2008	251.9%	85.5%	93.4%	180.4%
2007&2008	281.2%	75.2%	114.7%	189.9%

7/20/11

The NAIC solicits comments on this draft. Comments should be sent to John Engelhardt, NAIC, at JEngelha@naic.org by August 22, 2011.

SOCIETY OF ACTUARIES

June 10, 2011

To: John Engelhardt, NAIC

From: Steven Siegel
Society of Actuaries (SOA) Research Actuary

cc: Sam Gutterman, Tim Harris co-chairs, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: SOA 2012 Generally Recognized Expense Table (GRET) Analysis

As in previous years, the Society of Actuaries expresses its thanks to the NAIC for its help and responsiveness in providing Annual Statement expense data for our 2012 GRET Analysis for use with individual life insurance sales illustrations (based on expense and expense related information reported on companies' 2009 and 2010 Annual Statements). This analysis 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 2012. This memo describes our analysis and resulting calculations. For definitions of certain terms, please refer to our previous GRET analyses available on the NAIC website.

NAIC staff provided Annual Statement data by life insurance company for calendar years 2009 and 2010. This included data from 854 companies in 2009 and 827 companies in 2010. The primary reason for the lower number of companies in 2010 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this difference in number of companies is consistent with prior experience with this data. In any event, because of the outlier and reinsurance exclusion tests applied, the absence of these late reporting companies is not expected to significantly affect the results. Of the 827 companies, 288 passed the outlier and reinsurance exclusion tests in 2010 and were included as a base for the GRET factors.

The methodology we followed for calculating GRET factors based on this data is similar to that followed in the past several years, with exceptions noted below. Please refer to submissions for the previous years for a more complete description of the overall process followed. The most significant differences this year resulted from:

(1) A two stage survey of information regarding the distribution channels from each company that passed our criteria in order to increase the number of companies for which we have distribution channel information. The second request included a quote from the chair of LATF encouraging submission. This additional survey was issued in an attempt to reduce the number of companies that were included in the 'other' distribution channel category. This reduced the number of companies in the 'other' category from 124 (out of 299 in 2009) to 118 (out of 288 in 2010).
(2) Inclusion of two alternative approaches to reflect data for companies that use multiple distribution channels (of the 276 survey responses, 67 companies indicated that they had more than one distribution channel in 2010). This was undertaken, at the request of LATF, to better reflect the effect of unit expenses of companies that employ multiple distribution channels. Please see the letter from the Committee on Life Insurance Company Expenses (CLICE) to John Engelhardt dated December 17, 2010 with the caption "Proposed approach to reflect multi-channel distribution system expenses for the Generally Recognized Expense Table (GRET)" for further background information on this request.

The two approaches taken to evaluate multiple distribution channels were:

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1. As in last year's submission, each company was assigned a single distribution channel category from a list of eight options (listed below) that has been used for the last five years. Companies that indicated that they used multiple distribution systems during 2010 in their survey response were placed into the category that represented the greatest portion of their overall business.
2. The percentage of business attributed to each of the eight distribution channel categories was applied to the company's factors. For example, if 50% of a company's business was derived from category A and 50% was from category B, 50% of that company's factors was used in obtaining the average of the factors for both category A and category B.

In theory, approach 2 should somewhat better reflect the actual distribution channel's expenses in that it adjusts for the relative weight of a company in each distribution channel. Of course, a more refined approach would incorporate actual expenses and their corresponding expenses for each distribution channel. However, as we have found in our annual inter-company expense study, it can be difficult to develop accurate data for some of the companies with multiple distribution channels. **We recommend that the refinement in methodology incorporated in approach 2 be used for the final 2012 GRET factors.** As can be seen, the use of approach 2 did not make a significant difference in the final GRET factors -- in large part this is due to the relatively limited variations in the factors by distribution channel.

The distribution channel categories used follow:

- Branch Office - A company or division which operates an agency building system featuring field management that are employees although their compensation may be largely based on production. The company provides significant employee benefits to field employees in addition to direct compensation.
- Direct Marketing - A company or division that markets directly to the public through printed or other media. No direct field compensation is involved.
- Home Service - A company or division that markets smaller insurance policies through an organization that resembles the Branch Office system in organizational and compensation structure but focuses on smaller policies and agent collections of premiums. Note that this request focuses only on the distribution of ordinary life business, not considering any industrial business written by a company.
- Career General Agency - An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.
- Brokerage - A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.
- PPGA - A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.
- Multi-Line - A system that uses full-time agents licensed to write property-casualty, life, health, annuities, and equity products and who primarily represent one company.
- Other - Companies or divisions other than those described above. If you choose this category, please provide a brief description of the distribution system for your company's ordinary life business.

In order to calculate updated GRET factors, the average of the two most recent years (2009 and 2010) of Annual Statement data was used. For each company an actual to expected ratio is calculated. Seed factors derived from a previous LOMA expense study are used to compute expected expenses (note that the seeds for all categories other than Branch Office are the same). These seed factors were used to allocate expenses between acquisition and maintenance expenses and among the three acquisition expense factors. Companies are excluded from the analysis if their actual to expected ratios are considered outliers, often due to low business volume or they have a relatively large amount of ceded reinsurance. To derive the overall GRET factors, the unweighted average of the remaining companies' actual to expected ratios for each respective category is calculated. The resulting factors are rounded as shown in the tables.

In an effort to reduce volatility in the results, two additional steps are included in the methodology, identical to what has been used in the development of the last two GRET factor recommendations. First, only companies that passed all outlier tests for *both* 2009 and 2010 are included in the averages; that is, the same set of companies for 2009 and 2010 are used for all categories. Companies that pass the outlier tests represent 53.0% of industry first year premium. Secondly, a limit of plus or minus 10% (before rounding) has been imposed on any change in GRET factors from the prior year. This year, this limitation was applied for the Direct Marketing and Home Service categories. Without this limitation, the factor changes for Direct Marketing and Home Service would be approximately -19% and 35%, respectively.

Employing this methodology results in the proposed 2012 GRET values, as shown in Table 1 below. Corresponding values using the prior approach (relying on the primary distribution channel rather than percentage of distribution channels) are shown in Table 2. The current 2011 GRET factors and the percentage change represented by each proposed factor are shown in Table 3.

Further characteristics of the type of companies represented in each category are included in Table 1, including the average premium per policy issued and average face amount ($000s) per policy issued.

Table 1
PROPOSED 2012 GRET FACTORS, based on average of 2009/2010 data and recommended approach (2)

Distribution Channel	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy	Company Count*	Average Premium Per Policy Issued During Year	Average Face Amount Per Policy Issued During Year
Branch Office	64	1.10	0.71	32	19	$ 4,494	$ 379
Direct Marketing	80	1.40	0.45	41	16	901	38
Home Service	78	1.40	0.43	40	13	615	14
Career General Agency	101	1.80	0.55	50	31	2,150	157
Brokerage	98	1.70	0.54	49	25	7,506	257
PPGA	92	1.60	0.51	46	47	1,944	102
Multiline	127	2.30	0.70	64	19	1,154	155
Other	85	1.50	0.47	42	118	1,798	79
Total					288		

Table 2
2012 GRET Factors, based on average of 2009/2010 data and prior approach (1)

Distribution Channel	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy	Company Count*	Average Premium Per Policy Issued During Year	Average Face Amount Per Policy Issued During Year
Branch Office	61	1.10	0.67	30	19	$ 4,494	$ 379
Direct Marketing	80	1.40	0.45	41	16	901	38
Home Service	78	1.40	0.43	40	13	615	14
Career General Agency	102	1.80	0.56	51	31	2,150	157
Brokerage	97	1.70	0.54	49	25	7,506	257
PPGA	94	1.70	0.52	47	47	1,944	102
Multiline	128	2.30	0.71	64	19	1,154	155
Other	84	1.50	0.46	42	118	1,798	79
Total					288		

*tabulated based on the primary distribution channel of each company

Table 3
Current 2011 Factors (prior approach)

Distribution Channel	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	67	1.20	0.74	33
Direct Marketing	89	1.60	0.50	45
Home Service	71	1.30	0.39	36
Career General Agency	100	1.80	0.55	50
Brokerage	88	1.50	0.49	44
PPGA	89	1.60	0.49	45
Multiline	127	2.30	0.70	64
Other	76	1.40	0.42	38

Table 4
Percent Change between the proposed 2012 and current 2011 factors

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Distribution Channel	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	- 4%	- 8%	- 4%	- 3%
Direct Marketing	- 10	- 13	- 10	- 9
Home Service	10	8	10	11
Career General Agency	1	0	0	0
Brokerage	11	13	10	11
PPGA	3	0	4	2
Multiline	0	0	0	0
Other	12	7	12	11

We hope you find this information helpful and sufficient for LATF's consideration of potential changes to the GRET table.

If you require further analysis or have questions, please contact me at 847-706-3578.

Sincerely,

Steven Siegel
Society of Actuaries Research Actuary

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Draft: 6/22/10
Adopted by the Life and Health Actuarial Task Force at its 8/12/10 Meeting

May 28, 2010

To: John Engelhardt, NAIC

From: Steven Siegel
SOA Research Actuary

cc: Sam Gutterman, Tim Harris co-chairs, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: Society of Actuaries' (SOA) 2011 GRET Analysis

As in previous years, we express our thanks to the NAIC for its help and responsiveness in providing Annual Statement expense data for our 2011 GRET Analysis for use with individual life insurance sales illustrations (based on expense and expense related information reported on companies' 2008 and 2009 Annual Statements). The 2011 analysis has been completed to assist LHATF in its consideration of potential revisions to the GRET that could become effective for calendar year 2011. This memo describes our analysis and resulting calculations. For definitions of certain terms, please refer to our previous GRET analyses available on the NAIC website.

NAIC staff provided Annual Statement data by life insurance company for calendar years 2008 and 2009. This included data from 881 companies in 2008 and 854 companies in 2009. The primary reason for the lower number of companies in 2009 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this difference in number of companies is consistent with prior experience with this data. In any event, many of these late reporting companies would be too small to be included in this analysis and are not expected to materially impact the results.

The methodology we followed for calculating GRET factors based on this data is the same as that followed in the past several years. Please refer to submissions for the previous years for a more complete description of the process followed. As in last year's submission, each company was assigned a single distribution category from a list of eight options, the categorization of which was accepted four years ago by LHATF and represents an expansion from GRET tables prior to 2008. These assignments were based on a survey conducted over the past four weeks; it was supplemented by previous responses from this year's non-respondents and our knowledge of the distribution system of certain of these companies. Companies that indicated that they used multiple distribution systems during 2009 in their survey response were placed into the category that represented the greatest portion of their overall business.

The category list is as follows:

A. Branch Office - A company or division which operates an agency building system featuring field management that are employees although their compensation may be largely based on production. The company provides significant employee benefits to field employees in addition to direct compensation.

B. Direct Marketing - A company or division that markets directly to the public through printed or other media. No direct field compensation is involved.

C. Home Service - A company or division that markets smaller insurance policies through an organization that resembles the Branch Office system in organizational and compensation structure but focuses on smaller policies and agent collections of premiums. Note that this request focuses only on the distribution of ordinary life business, not considering any industrial business written by a company.

D. Career General Agency - An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.

E. Brokerage - A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.

F. PPGA - A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.

G. Multi-Line - A system that uses full-time agents licensed to write property-casualty, life, health, annuities, and equity products and who primarily represent one company.

H. Other - Companies or divisions other than those described above. If you choose this category, please provide a brief description of the distribution system for your company's ordinary life business.

In order to calculate updated GRET factors, the average of the two most recent years (2008 and 2009) of Annual Statement data was used. For each company an actual to expected ratio is calculated. Seed factors derived from a previous LOMA expense study are used to compute expected expenses (note that the seeds for all categories other than Branch Office are the same). Companies are excluded from the analysis if their actual to expected ratios are considered outliers, often due to low business volume, or they have a relatively large amount of ceded reinsurance. To derive the overall GRET factors, the unweighted average of the remaining companies' actual to expected ratios for each respective category is calculated. The resulting factors are rounded as indicated in the table.

In an effort to reduce volatility in the results, two additional steps are included in the methodology, identical to what was implemented last year. First, only companies that passed all outlier tests for *both* 2008 and 2009 are included in the averages; that is, the same set of companies for 2008 and 2009 are used for all categories. Companies that pass the outlier tests represent 64.2% of industry first year premium. Secondly, a limit of plus or minus 10% has been imposed on any change in GRET factors from the prior year. This year, this limitation was applied for the Branch Office, Direct Marketing, and Brokerage categories. Without this limitation, the factor changes for Branch Office, Direct Marketing and Brokerage would be approximately 40%, -23%, and -30%, respectively.

Employing this methodology results in the proposed 2011 GRET values, as shown in the table below. The current 2010 GRET factors and the percentage change represented by each proposed factor are also shown.

Further characteristics of the type of companies represented in each category are included in the table below, including the average premium per policy issued and average face amount per policy issued.

Proposed 2011 Factors Based on Average of 2008/2009 Data								
Code	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy	Description	Company Count	Average Premium Per Policy Issued During Year	Average Face Amount Per Policy Issued During Year (,000's)
a	67.00	1.20	0.74	33.00	Branch Office	12	3,107	210
b	89.00	1.60	0.50	45.00	Direct Marketing	12	618	30
c	71.00	1.30	0.39	36.00	Home Service	19	568	19
d	100.00	1.80	0.55	50.00	Career General Agency	35	2,207	176
e	88.00	1.50	0.49	44.00	Brokerage	32	7,236	293
f	89.00	1.60	0.49	45.00	PPGA	47	1,788	94
g	127.00	2.30	0.70	64.00	Multiline	18	964	156
h	76.00	1.40	0.42	38.00	Other	124	1,902	86
Total						299		

Current 2010 Factors				
	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	61.00	1.100	0.670	30.00
Direct Marketing	99.00	1.800	0.550	50.00
Home Service	69.00	1.200	0.380	35.00
Career General Agency	109.00	1.900	0.600	55.00
Brokerage	98.00	1.700	0.540	49.00
PPGA	90.00	1.620	0.500	45.00
Multiline	122.00	2.200	0.670	61.00
Other	74.00	1.300	0.410	37.00

% Change between the proposed 2011 and current 2010 factors				
	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	10%	9%	10%	10%
Direct Marketing	-10%	-11%	-9%	-10%
Home Service	3%	8%	3%	3%
Career General Agency	-8%	-5%	-8%	-9%
Brokerage	-10%	-12%	-9%	-10%
PPGA	-1%	-1%	-2%	0%
Multiline	4%	5%	5%	5%
Other	3%	8%	2%	3%

We hope you find this information helpful and sufficient for LHATF's consideration of potential changes to the GRET table.

If you require further analysis or have questions, please contact me at 847-706-3578.

Sincerely,

Steven Siegel
SOA Research Actuary

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May 26, 2009

To: John Engelhardt, NAIC

From: Steven Siegel
SOA Research Actuary

cc: Sam Gutterman, Tim Harris co-chairs, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: Society of Actuaries' (SOA) 2010 GRET Analysis

As in previous years, we express our thanks to the NAIC for its help and responsiveness in providing Annual Statement expense data for our 2010 GRET Analysis (based on 2008 expense related information as reported on companies' Annual Statements). The 2010 analysis has been completed to assist LHATF in its consideration of potential revisions to the GRET table that could become effective for calendar year 2010. This memo describes our analysis and resulting calculations. For definitions of certain terms, please refer to our previous GRET analyses available on the NAIC website.

NAIC staff provided Annual Statement data by life insurance company for calendar years 2007 and 2008. This included data from 913 companies in 2007 and 881 companies in 2008. The primary reason for the lower number of companies in 2008 is that some companies did not submit their data to the NAIC by the date the data extract was provided to us. Note that, based on previous experience, we estimate this to be about 30-40 companies, many of which will be too small to be included in this analysis and in any event are not expected to materially impact the results.

Our methodology for calculating GRET factors based on this data is derived from the analysis work done in the past three years. Please refer to submissions for the previous three years for a more complete description of the process followed. As in last year's submission, each company was assigned a distribution category from a list of eight choices, the categorization of which was accepted three years ago by LHATF and represents an expansion from GRET tables prior to 2008. This assignment was based on a survey conducted over the past two weeks; it was supplemented by previous responses from this year's non-respondents and our knowledge of the distribution system of certain additional companies. Companies that indicated multiple distribution system categories in their survey response were placed into the category that represented the greatest portion of their overall business.

The category list is as follows:

A. Branch Office - A company or division which operates an agency building system featuring field management that are employees although their compensation may be largely based on production. The company provides significant employee benefits to field employees in addition to direct compensation.

B. Direct Marketing - A company or division that markets directly to the public through printed or other media. No direct field compensation is involved.

C. Home Service - A company or division that markets smaller insurance policies through an organization that resembles the Branch Office system in organizational and compensation structure but focuses on smaller policies and agent collections of premiums. Note that this request focuses only on the distribution of ordinary life business, not considering any industrial business written by a company.

D. Career General Agency - An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.

E. Brokerage - A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.

F. PPGA - A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.

G. Multi-Line - A system that uses full-time agents licensed to write property-casualty, life, health, annuities, and equity products and who primarily represent one company.

H. Other - Companies or divisions other than those described above. If you choose this category, please provide a brief description of the distribution system for your company's ordinary life business.

In order to calculate updated GRET factors, the average of the two most recent years (2007 and 2008) of Annual Statement data was used. For each company an actual to expected ratio is calculated. Seed factors derived from a previous LOMA expense study are used to compute expected expenses (note that the seeds for all categories other than Branch Office are the same). Companies are excluded from the analysis if their actual to expected ratios are considered outliers, often due to low business volume, or they have a relatively large amount of ceded reinsurance. To derive the overall GRET factors, the unweighted average of the remaining companies' actual to expected ratios for each respective category is calculated. The resulting factors are rounded as indicated in the table.

In an effort to reduce volatility in the results, two additions to the methodology were implemented this year. First, only companies that passed all outlier tests for *both* 2007 and 2008 are included in the averages; that is, the same set of companies for 2007 and 2008 are used for all categories. Secondly, a limit of plus or minus 10% has been imposed on any change in GRET table factors from the prior year. This limit was applied for the Direct Marketing and PPGA categories.

Employing this methodology results in the proposed 2010 GRET values shown in the table below. The current 2009 GRET factors are also shown.

Further characteristics of the type of companies represented in each category are included in the table below, including the average premium per policy issued and average face amount per policy issued.

Proposed 2010 Factors Based on Average of 2007/2008 Data							
Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy	Description	Company Count	Average Premium Per Policy Issued During Year	Average Face Amount Per Policy Issued During Year ('000's)
$ 61.00	$ 1.10	67%	$ 30.00	Branch Office	16	4,709	268
$ 99.00	$ 1.80	55%	$ 50.00	Direct Marketing	15	619	33
$ 69.00	$ 1.20	38%	$ 35.00	Home Service	16	547	14
$ 109.00	$ 1.90	60%	$ 55.00	Career General Agency	40	2,723	210
$ 98.00	$ 1.70	54%	$ 49.00	Brokerage	27	8,824	318
$ 90.00	$ 1.62	50%	$ 45.00	PPGA	39	2,036	98
$ 122.00	$ 2.20	67%	$ 61.00	Multiline	17	753	134
$ 74.00	$ 1.30	41%	$ 37.00	Other	161	1,931	95

Current 2009 Factors				
	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	59.00	1.100	0.660	30.00
Direct Marketing	110.00	2.000	0.610	55.00
Home Service	66.00	1.200	0.360	33.00
Career General Agency	105.00	1.900	0.580	53.00
Brokerage	98.00	1.700	0.540	49.00
PPGA	100.00	1.800	0.550	50.00
Multiline	113.00	2.000	0.620	56.00
Other	72.00	1.300	0.400	36.00

We hope you find this information helpful and sufficient for LHATF's consideraton of potential changes to the GRET table.

If you require further analysis or have questions, please contact me at 847-706-3578.

Sincerely,

Steven Siegel
SOA Research Actuary

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May 19, 2008

To: Randall Stevenson, NAIC

From: Steven Siegel
SOA Research Actuary

cc: Sam Gutterman, Tim Harris co-chairs, SOA Committee on Life Insurance Company Expenses (CLICE)

Re: Society of Actuaries' (SOA) 2009 GRET Analysis

As in previous years, we express our thanks to the NAIC for its help and responsiveness in providing Annual Statement expense data for our 2009 GRET Analysis (based on 2007 expense related information as reported on companies' Annual Statements). The 2009 analysis has been completed to assist LHATF in its consideration of potential revisions to the GRET table that could become effective for calendar year 2009. This memo describes our analysis and resulting calculations. For definitions of certain terms, please refer to our previous GRET analyses available on the NAIC website.

NAIC staff provided Annual Statement data by life insurance company for calendar years 2006 and 2007. This included data from 970 companies in 2006 and 913 companies in 2007. The primary reason for the lower number of companies in 2007 is that some companies have not yet submitted their data to the NAIC. Note that, based on previous experience, we estimate this to be about 30-40 companies, many of which will be too small to be included in this analysis and in any event are not expected to materially impact the analysis.

Our methodology for calculating GRET factors based on this data is derived from the analysis work done in the past two years. Please refer to submissions for the previous two years for a more complete description of the process followed. As in last year's submission, each company was assigned a distribution category from a list of eight choices, the categorization of which was accepted last year by LHATF and represents an expansion from GRET tables prior to 2008. This assignment was based on a survey conducted over the past two weeks; this was supplemented by previous responses from this year's non-respondents and our knowledge of the distribution system of certain additional companies.

The category list is as follows:

A. Branch Office - A company or division which operates an agency building system featuring field management that are employees although their compensation may be largely based on production. The company provides significant employee benefits to field employees in addition to direct compensation.

B. Direct Marketing - A company or division that markets directly to the public through printed or other media. No direct field compensation is involved.

C. Home Service - A company or division that markets smaller insurance policies through an organization that resembles the Branch Office system in organizational and compensation structure but focuses on smaller policies and agent collections of premiums. Note that this request focuses only on the distribution of ordinary life business, not considering any industrial business written by a company.

D. Career General Agency - An agency-building system using full-time agents who report to managers who are company employees or general agents who are independent contractors.

E. Brokerage - A system that uses independent producers (brokers) who are contracted with multiple companies. The bulk of their income comes from overrides rather than personal production. This includes managing general agents and independent marketing organizations.

F. PPGA - A system that uses independent personal producing general agents (PPGAs) who are often contracted with multiple companies. The bulk of their income comes from personal production rather than overrides.

G. Multi-Line - A system that uses full-time agents licensed to write property-casualty, life, health, annuities, and equity products and who primarily represent one company.

H. Other - Companies or divisions other than those described above. If you choose this category, please provide a brief description of the distribution system for your company's ordinary life business.

In order to calculate updated GRET factors, the average of the two most recent years (2006 and 2007) of Annual Statement data is used. For each company an actual to expected ratio is calculated. Seed factors derived from a previous LOMA expense study are used to compute expected expenses. Companies are excluded from the analysis if their actual to expected ratios are considered outliers, often due to low business volume, or they have a relatively large amount of ceded reinsurance. To derive the overall GRET factors, the unweighted average of the remaining companies' actual to expected ratios for each respective category is calculated.

Employing this methodology results in the proposed 2009 GRET values shown in the table below. The current 2008 GRET factors are also shown.

As further descriptions of the type of companies represented in each category, the table below includes the average premium per policy issued and average face amount per policy issued.

2009 Factors Based on Average of 2006/2007 Data							
Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy	Description	Company Count	Average Premium Per Policy Issued During Year	Average Face Amount Per Policy Issued During Year ('000's)
$ 59.00	$ 1.10	66%	$ 30.00	Branch Office	20	4,799	316
$ 110.00	$ 2.00	61%	$ 55.00	Direct Marketing	17	567	40
$ 66.00	$ 1.20	36%	$ 33.00	Home Service	22	494	20
$ 105.00	$ 1.90	58%	$ 53.00	Career General Agency	35	2,366	229
$ 98.00	$ 1.70	54%	$ 49.00	Brokerage	33	8,805	256
$ 100.00	$ 1.80	55%	$ 50.00	PPGA	41	1,535	79
$ 113.00	$ 2.00	62%	$ 56.00	Multiline	16	701	128
$ 72.00	$ 1.30	40%	$ 36.00	Other	189	9,100	146

Current 2008 Factors				
	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy
Branch Office	54.00	1.000	0.600	27.00
Direct Marketing	112.00	2.000	0.620	56.00
Home Service	75.00	1.300	0.410	37.00
Career General Agency	108.00	1.900	0.600	54.00
Brokerage	83.00	1.500	0.460	42.00
PPGA	79.00	1.400	0.440	40.00
Multiline	111.00	2.000	0.610	56.00
Other	71.00	1.300	0.390	36.00

We hope you find this information helpful and sufficient for LHATF's consideration of potential changes to the GRET table.

If you require further analysis or have questions, please contact me at 847-706-3578.

Sincerely,

Steven Siegel
SOA Research Actuary

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The following proposed 2008 GRET factor table was adopted by the NAIC at the 2007 Winter National Meeting:

Proposed 2008 Factors Based on Average of 2005/2006 Data - Current Year's Expanded Category List							
Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Prem	Maintenance Per Policy	Description	Company Count	Average Premium Per Policy Issued During Year	Average Face Amount Per Policy Issued During Year ('000's)
$ 54.00	$ 1.00	60%	$ 27.00	Branch Office	33	9,231	407
$ 112.00	$ 2.00	62%	$ 56.00	Direct Marketing	16	544	70
$ 75.00	$ 1.30	41%	$ 37.00	Home Service	25	444	25
$ 108.00	$ 1.90	60%	$ 54.00	Career General Agency	33	2,480	207
$ 83.00	$ 1.50	46%	$ 42.00	Brokerage	27	6,909	235
$ 79.00	$ 1.40	44%	$ 40.00	PPGA	35	1,698	80
$ 111.00	$ 2.00	61%	$ 56.00	Multiline	17	776	125
$ 71.00	$ 1.30	39%	$ 36.00	Other	208	2,035	105

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