

May 19, 2006

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) 2006 GRET Analysis

As in previous years, we would like to thank the NAIC for its timeliness and responsiveness in providing Annual Statement expense data for our 2006 GRET Analysis. The 2006 analysis has been completed to assist the NAIC in its consideration of potential revisions to the GRET table that would become effective for calendar year 2007. 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.

The NAIC provided Annual Statement data by life insurance company for calendar years 2004 and 2005. This included data from 1,076 companies in 2004 and 1,019 companies in 2005. The primary reason for the lower number of companies in 2005 is that some companies have not yet submitted their data to the NAIC. We estimate this to be about 30-40 companies based on the updated 2004 data we received, many of which are too small to be included in this analysis.

Our methodology for calculating GRET factors based on this data is derived from the analysis work that was completed in 2005. Please refer to that analysis for a more complete description of the process. In summary, companies are classified into one of four distribution categories: Branch Office, Home Service, Direct Marketing and Other. This classification is accomplished through a combination of a survey sent to all companies that submit Annual Statement requesting them to self-classify, and historical information or recommendations from CLICE members for companies that do not respond to the survey. This year, 317 companies responded to the survey.

In order to calculate updated GRET factors for each of the four categories, the average of the two most recent years (2004 and 2005) 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 or they have heavy reinsurance concentration. To derive the overall GRET factors, the unweighted average of the remaining companies' actual to expected ratios for each respective category is calculated (in previous years, the median was used).

Employing this methodology results in the figures shown in the table below. For comparison purposes, the current factors in the 2006 GRET are also shown.

<b>Factors Based on 2004-2005 Data – Average of Company Factors</b>				
	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Premium	Maintenance Per Policy
Branch Office	\$ 62	\$ 1.10	69%	\$ 31
Direct Marketing	\$ 130	\$ 2.30	72%	\$ 65
Home Service	\$ 64	\$ 1.15	35%	\$ 32
Other	\$ 79	\$ 1.40	44%	\$ 40

<b>Current Factors – 2006 GRET</b>				
	Acquisition Per Policy	Acquisition Per Unit	Acquisition Per Premium	Maintenance Per Policy
Branch Office	\$ 76	\$ 1.35	84%	\$ 38
Direct Marketing	\$ 111	\$ 2.00	61%	\$ 56
Home Service	\$ 72	\$ 1.30	40%	\$ 36
Other	\$ 78	\$ 1.40	43%	\$ 39

As can be observed from the tables, the Other category has remained virtually unchanged. Of the other categories, Branch Office and Home Service have decreased, while Direct Marketing exhibited a significant increase. The stability of the Other category as compared to the other categories is primarily due to the relatively larger number of companies that comprise this category. The average company counts for each of the categories in the analysis are: Other – 328, Branch Office – 47, Home Service – 23, Direct Marketing – 13. Thus, the categories with a significantly lower number of companies in the analysis would be expected to exhibit more volatility. In addition, there is some suspicion that lower response rates to direct marketed materials may be driving up expenses for these companies. However, it is unclear how much of an impact this has, if any, when considered in the context of the inherent volatility due to the relatively small number of companies whose experience is included in this category.

We hope you find this information helpful and sufficient for the NAIC'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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