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 Amount 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 Amount 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		

Appendix A -- Distribution Channels

The following is a description of distribution channels used in the development of recommended 2019 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 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	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	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	$200	$1.10	50%	$60

SOCIETY OF ACTUARIES

475 N. Martingale Road, Suite 600
Schaumburg, IL 60173
P +1-847-706-3500
F +1-847-706-3599
SOA.ORG

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

[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. 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.

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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,

R. Dale Hall

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

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