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The 2005 Version of the Generally Recognized Expense Table (GRET)

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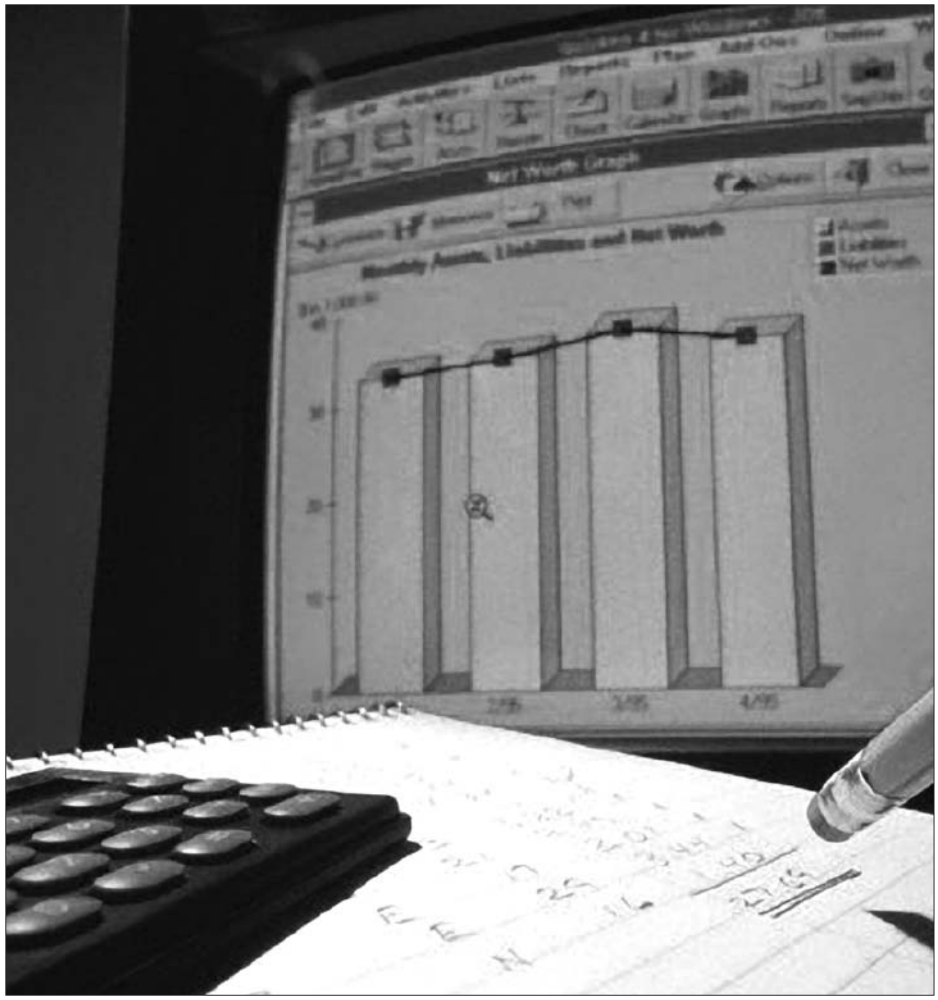

The 2005 version of the Generally Recognized Expense Table (GRET) has been recommended to the NAIC for adoption by the SOA Committee on Life Insurance Company Expenses (CLICE).

As a refresher, the GRET was initially adopted to show compliance with the NAIC Life Insurance Illustration Model Regulation and the associated Actuarial Standard of Practice, both of which became effective in 1997 and 1996, respectively. The table was to represent the average expenses of the life insurance industry on a fully allocated basis. The factors were originally to be used in life insurance illustrations. There were industry concerns over the use of these expenses. A compromise was struck between the industry and regulators allowing a company to use marginal expenses if they are not less than the GRET expenses. Also a company is allowed to use their own fully allocated expenses in any illustration. Originally, the GRET was to be updated annually, but due to constraints of time, it was renewed on a less frequent basis.

The 2005 table is replacing the 2003 table. The CLICE and SOA staff are responsible for the creation of the new table. The process used to create the 2005 factors was essentially the same as was used to develop the current factors. Annual statement data of the 200 largest life companies, as measured by life insurance expenses, was the starting point for the analysis. Companies were then grouped into four distribution system categories. These were Branch Office, Direct Marketing, Home Service and All Other. This sorting was based on public information, as well as, research performed by Conning and Co. Companies with multiple distribution systems were analyzed and placed in the group that generated the most business for the company.

As has been the case in all prior versions of the GRET, table expense factors from LOMA expense studies were used as starting points. These were then modified, based on the appropriate total units, for each group of companies. A ratio of the total group expenses to totals produced by the LOMA factors was then determined. This adjustment factor, when applied to the LOMA factors and appropriate units, will reproduce the total expenses for the group. Once this was completed, actual to expected ratios were developed for each company and they were then sorted based on the ratios.

Companies were then removed from the analysis if reinsurance commissions and allowances were at least 25 percent of total of general life expenses and commissions. Other companies were dropped if their expenses were less than 20 percent or more than 300 percent of the expenses produced by the median factors, applied to the particular company's units. An equal number of additional companies were added to replace those that were removed.

The final factors for each group were obtained by taking the actual to expected ratio of the median company for that group and multiplying it by the initial LOMA factors. The resulting factors were then rounded to the nearest dollar for per policy expenses, nearest percent for percent of premium expenses and nearest nickel in the case of per unit expenses.

Results of the above process showed an increase in all expense categories of the branch office and direct marketing groups. For the Home Service and Other Company categories, expenses were generally higher than the 2001 factors but lower than the 2003 factors. The Direct Marketing group showed significant increases which were due in a large part, if not in total, to the small number of companies in the group. The committee has recommended to the Life and Health Actuarial Task Force (LHATF) to consolidate this category into the Other Company group.

At a conference call of the LHATF in early August 2004, the committee discussed various issues of the new table. One of the key issues was the increase in Branch Office expenses over the 2003 factors. It was pointed out that the 2003 factors were lower than the 2001 factors and now they were greater. LHATF asked CLICE to review the underlying data in the 2003 and 2005 tables and try to determine if the increases were reasonable and report back to LHATF. They also asked CLICE to review whether it would be possible and appropriate to smooth the resulting factors. LHATF will consider this again at its next meeting in September in Anchorage. A vote will be taken to adopt the new table. If it does not pass, the 2003 factors will remain in effect for 2005. Stay tuned. ●

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GRET Factor Comparison

		2001 Factors	2003 Factors	Percent of 2001 Factors	2005 Factors	Percent of 2001 Factors	Percent of 2003 Factors
Branch Office							
	Acq						
	Per Policy	$70.00	$66.00	94%	$76.00	109%	115%
	Per Unit	$ 1.25	$ 1.15	92%	$ 1.35	108$	117%
	% of Prem	78%	73%	94%	84%	108%	115%
	Maint						
	Per Policy	$35.00	$33.00	94%	$38.00	109%	115%
Direct Marketing							
	Acq						
	Per Policy	$87.00	$80.00	92%	$140.00	161%	175%
	Per Unit	$ 1.55	$ 1.40	90%	$ 2.50	161%	179%
	% of Prem	48%	44%	92%	77%	160%	175%
	Maint						
	Per Policy	$43.00	$40.00	93%	$70.00	163%	175%
Home Service							
	Acq						
	Per Policy	$60.00	$61.00	102%	$59.00	98%	97%
	Per Unit	$ 1.05	$ 1.10	105%	$ 1.05	100%	95%
	% of Prem	33%	34%	103%	33%	100%	97%
	Maint						
	Per Policy	$30.00	$31.00	103%	$30.00	100%	97%
Other (excluding Direct Marketing)							
	Acq						
	Per Policy	$78.00	$85.00	109%	$80.00	103%	94%
	Per Unit	$ 1.40	$ 1.50	107%	$ 1.45	104%	97%
	% of Prem	43%	47%	109%	44%	102%	94%
	Maint						
	Per Policy	$39.00	$43.00	110%	$40.00	103%	93%
Other (including Direct Marketing in 2005)							
	Acq						
	Per Policy				$81.00		
	Per Unit				$ 1.45		
	% of Prem				45%		
	Maint						
	Per Policy				$41.00		