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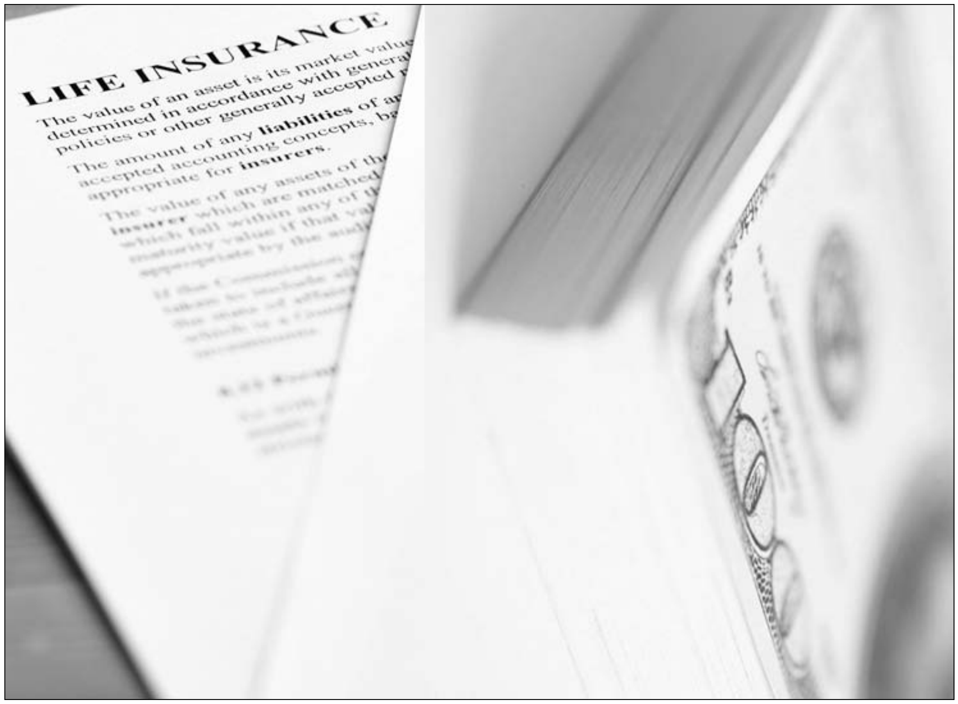
GRET 2006: What It Is and How It's Going

by James R. Thompson



Introduction

The GRET is the Generally Recognized Expense Table, and was included in the Life Insurance Illustrations Model Regulation. Although the regulation itself was passed by the NAIC at its Dec. 1995 meeting, the GRET table was produced in 1996 in time for the effective date of the regulation, Jan. 1, 1997. This newsletter had a material impact on the inclusion of the table in that model regulation. This table provides a standard, which a company can use instead of its own expense study. The use of the GRET is obviously helpful to smaller companies and startup companies, since they may use this if they do not have the resources to do their own study. Also, they may be experiencing high expenses due to years of low production, which result in high per-policy acquisition costs.

From a historical perspective, our Nov. 1996 issue (page 1) notes, "We consider the introduction of the Generally Recognized Expense Table (GRET) in the final draft to be one of our accomplishments," (along with others who worked hard for it).

Background Information on the GRET

This table is formally updated from time to time based on new data with an analysis of the need for an update performed, usually on an annual basis. The GRET analysis and update recommendations are carried out by the SOA's Committee on Life Insurance Company Expenses (CLICE). It has four categories of companies: branch office, direct marketing, home service and other.

Companies were originally sorted to one category based on information from Conning and Co. and Best's Reports. The expenses are classed as acquisition per policy, per unit and percent of premium and maintenance per policy. In order to have a starting basis for the development of the table, seed expense factors from a study which used to be done by LOMA (e-map study) were taken and then normalized to fit the level of expenses generated by the reporting companies. Because of the huge amount of data (over 1,000 companies report expenses to the NAIC) and difficulties in company categorization prior to this year's analysis, only the largest 200 companies were chosen because they would give the most complete data available (about 95 percent of expenses reported to the NAIC). In addition, they excluded some with too much reinsurance or with expenses, which deviated too much from the average (that is, the outliers). Other companies were then included so that 200 in all were used. The 2003 GRET was based on 2001 data.

Proposed GRET for 2006

An attempt was made to produce an updated GRET for 2005, but they decided to delay this for a year because initial analysis showed an inconsistent trend for some of the distribution channels. This was due in part to reassigning the distribution channel for several insurance companies based on more recent information than that used in previous versions of the table. Because of this observation, the NAIC asked CLICE to re-examine the categorization of companies as well as the GRET methodology in anticipation of producing a 2006 table.

As part of its re-examination of the GRET procedures, CLICE conducted a survey of the reporting companies to have them self-assign their own category. They thought the individual companies would use their own judgment to determine their category. About a third responded, and this information was used to update distribution channel assignments for those companies. Those who didn't respond retained their prior ones.

Because of the survey information, data for a larger number of companies (415, with the usual exclusions as before) were incorporated than for the prior tables, which only had data from the largest 200. CLICE believes that using the larger number of companies will result in an even more representative data set. For reasonability, they compared the table from this data with that for the largest 200 companies.

One problem in the past is credibility of variations in factors caused by using only one year's worth of data. The direct marketing category in particular exhibited large fluctuations. If they used multi-year averages, the data had greater risk of being out-of-date. So they studied use of one-, two- and three-year averages. Remember that the data are not from the year referred to in the GRET (2003 GRET has 2001 data). The committee produced charts showing one-, two- and three-year averages as well as annual results for calendar years 2000-2004 and for the 200 company and larger company bases. They showed these different tables in their reports so that the public could see the differences which would result.

Another difference in methodology between this study and the prior tables was the use of overall company averages instead of the use of a median company. The 2003 GRET had used the medians. The rationale for the use of the median was that it would minimize variation in the resulting calculations.

	Acquisition Per Policy	Expense Per Unit	% Premium	Maintenance Expense per Policy
Recommended:				
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
2003 GRET (Current)				
Branch Office	$66	$1.15	73 %	$33
Direct Marketing	80	1.40	44	40
Home Service	61	1.10	34	31
Other	85	1.50	47	43

Results

Based on this analysis, CLICE is recommending the use of two-year averages for the most recent data (2003 and 2004) for the expanded set of companies. The results follow and are compared with the current factors, the 2003 GRET.

The committee also noted some recommended improvements for the future. First, they want a higher response rate from the company survey to distribution channels. Also, they still need to evaluate how to handle pour-ins for UL and VUL. The unit expense seeds derived from a LOMA study are from the mid-1990s. LOMA has discontinued this study and cannot provide more recent factors. CLICE is looking at alternatives for updating these factors.

If you wish to review these results, visit the NAIC Web site at *http://www.naic.org/committees_lhatf.htm.*

Status

I have been following the conference calls of the Life and Health Actuarial Task Force (LHATF) of the NAIC in 2004 and this year. They have been interesting. The last one took place on Aug. 1. CLICE representatives Sam Gutterman and Steve Siegel reported to them on the findings above. They batted it about a bit. Of particular note is the huge increase in the direct marketing category. No written comments were received prior to the call. No other suggestions were made by other regulators or any non-regulators on that call. Mike Batte of New Mexico said he would bring this up at the Fall National Meeting of the NAIC in New Orleans for final action.

As we no know, this meeting will not occur because of the hurricane. As discussed elsewhere, it is likely that the NAIC will push things right along anyway by conference calls. For GRET, this in fact occurred on Sept. 14, by conference call, and then on Sept. 22, the "A" committee of the NAIC also adopted it. It will go to the Plenary meeting in December in Chicago, and then if passed, be effective for any illustrations in 2006.

Prediction

I know that many smaller companies are into direct marketing, and I was puzzled at the lack of interest in the huge increases in this category. If you think about it, however, do many direct marketing companies sell illustrated life products? My experience is that they often sell simplified issue or non-medical final expense products. Thus they are not really interested in this. Or, if they use illustrations, might they be using their own expense?

The other expenses decreased. Many smaller companies use independent agents to sell their products. They would fall in this category.

Ample opportunity has been given for people to speak up. This issue of *Small Talk* will reach you after the fall meeting and before the final action at the December meeting. If you have any suggestions, you have a last chance; otherwise, expect to be using this in 2006. ●

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