SMALLER INSURANCE COMPANY SECTION

"A KNOWLEDGE COMMUNITY FOR THE SOCIETY OF ACTUARIES"

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Principles-Based Liabilities—Just When You Thought it Was Safe to Go into the Reserves

By Norman E. Hill

This article is a follow-up to my recent article on the principles-based reserves (PBR) movement in the life and health insurance industry. In it, I made the following points:

1. There is a lot of momentum in favor of the NAIC's adoption of PBR.
2. Whenever a movement is so rapid, it is often advisable to step back and analyze ALL the implications of adoption.
3. A minority of actuaries are also pushing for mandatory use of stochastic processing for calculation of all reserves for all products by all companies (possibly, just possibly, small companies could apply for exemption here). This means hundreds or thousands of reserve runs.
4. No solid evidence has been produced in favor of general superiority of stochastic processing since:
   a. All scenarios depend on a distribution of assumptions, just like any deterministic scenario.
   b. The so called "worst case" scenarios produced by stochastic routines also depend on the distribution, and logically can't be expected to illustrate the impact of nuclear or related disasters.
5. The requirement for peer review would represent a significant additional expense, especially for small insurers. Therefore, the benefits of PBR must be weighted carefully against the possibility of reduced statutory reserves, especially the elimination of deficiency reserves.
6. Federal income tax qualification of PBR reserves is still up in the air, and a cash value floor for some products should not be relied on as a panacea.

Since then, some industry attention has focused on a new version of the 2001 CSO Table (the "interim" table), with unbundled tables of preferred and super preferred mortality tables.

Small companies should still watch the PBR movement carefully. New developments include:

1. In an Academy webcast presentation, at least one prominent actuary said that stochastic processing is the "THE correct way to calculate reserves." Since no qualifications were made to that statement, we have to conclude that this statement meant the only way for reserving all products without exception is the stochastic route.

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Small Company Concerns on Principles-Based Reserves

by R. Dale Hall

Over the past few months, small companies have been considering how they might implement proposed model regulations for life insurance reserve valuation using principles-based approaches. Several companies came together on conference calls and e-mail exchanges during the summer to outline possible changes to the model regulations being developed by the Life Reserve Working Group of the American Academy of Actuaries for consideration by the Life/Health Actuarial Task Force (LHATF) of the NAIC. LHATF will be further discussing the model regulation during their September meetings in St. Louis. The following items summarize the actions taken on the proposed changes:

- **Potential state exemption of policy forms–**Now included in the proposed model regulation is an option for a state to exempt a policy form from being valued under principles-based approaches. It will have to be sorted out how states may use this option and whether the option would be granted for new policy forms or forms already in existence when the regulation becomes effective, but it does give states more flexibility to consider when implementing the principles-based approach. A section of the model regulation now reads: "Unless a policy form, supplemental benefit or rider, is exempted by the commissioner, the method defined by this regulation applies to all individual life insurance policies."

- **Clearer timelines as to when valuation work can be performed–**In receiving comments on exposure drafts, some states were contemplating limiting the amount of time that could elapse before valuation work was done and the actual valuation date. This may have caused a flurry of activity in the last months of the year as companies would be faced with many actuarial projects at similar points in time. The model regulation now reads: "The actuary can elect to perform the reserve calculations required by this regulation on a date other than the valuation date, but in no event earlier than six months before the valuation date, as long as an appropriate method is used to adjust the reserve so determined to the valuation date. Disclosure of the results of such adjustment and the methodology used to determine the adjustment is required."

continued from page 2

- **Clearer guidance on methods to determine future earned rates used for projections and discounting of results**–At first, it was suggested that states be able to specify a set of net asset earned rates that companies could use for simplified projections, instead of doing complex internal projections to obtain future asset yields on the portfolios. This would be somewhat similar to the situation today where life insurance valuation is performed at a specified discount rate. While that idea was not included in changes, the group did decide to re-emphasize that simplified approaches to valuation do extend all the way to coming up with net asset earned rates used for projections, as long as the simplified approach does not intentionally create lower reserves. A drafting note now appears in the model regulation stating that "[The regulation] permits the use of simplified approaches to calculate the deterministic reserve and stochastic reserve. This availability for simplification includes ways to determine appropriate net asset earned rates. Small to intermediate size insurers, or any size company with smaller blocks of business, have options to create net asset earned rates under simplified approaches."

- **Stochastic modeling exemption review**–Finally, it was considered that extra margins could be added to best estimates when doing deterministic reserve calculations to be higher than the margins used for stochastic reserve calculations. This was designed to help be a way that companies might qualify better for the stochastic modeling exclusion and focus more on the somewhat simpler deterministic reserve process. After much discussion, the idea seemed to move too far away from the basics of principles-based valuation. Instead, however, it was included in the model regulation that a company could add "additional reserves" to potentially qualify for the stochastic modeling exemption. More discussion will be needed to determine if these types of additional reserves might possibly be allowable as tax reserves for the life insurance policies they support on a statutory basis.

"The actuary can elect to perform the reserve calculations required by this regulation on a date other than the valuation date, but in no event earlier than six months before the valuation date, as long as an appropriate method is used to adjust the reserve so determined to the valuation date."

Small companies still have many ways to have their input heard as the NAIC works it way to any final conclusions. Companies can directly contact the American Academy's Life Reserve Working Group to give their thoughts and opinions. Also, industry groups, such as the ACLI and NALC are actively monitoring the discussions at the NAIC and offering suggestions and comments. Finally, direct contact with state regulators can be beneficial as they consider the model regulations and decide how they might adopt them and the impacts on small companies. The next six months promises to see many active developments on the topics of principles-based reserves. ●

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2. Recently, at the June NAIC Life and Health Actuarial Task Force meeting, one consultant said that the stochastic method would be extended to risk-based capital calculations for all products. This has to mean that no exceptions would be allowed and the traditional RBC formulas would eventually give way to stochastic.

Possible Remedy

So far, NAIC drafts for changes to the Standard Valuation Law and Regulation have been worded sensibly. For principles-based reserves, they mention use of either the traditional deterministic or the newer stochastic approaches, without stating a preference or requirement for either. An additional sentence could be added to provide protection for either method, "Reserves under the deterministic or stochastic approach that otherwise comply with this law/regulation are deemed to be reserves under acceptable actuarial standards of practice." Several times, the New York Department has said their laws take precedence over actuarial standards. Up to this point, regulators have generally not been involved so directly with actuarial standards. However, there may be no other way to head off the stochastic momentum.

2001 CSO Interim Table—Possible Alternatives

The ACLI has proposed as an interim step a new version of the 2001 CSO Table. One criticism of the table's current form is that it does not provide separate rates for preferred and super preferred mortality. In fact, large writers of term insurance, where this type of underwriting classes are so predominant, made little or no contributions to underlying CSO experience. Therefore, only nonsmoker versus smoker splits were made, the same as for the 1980 CSO. Currently, the Society of Actuaries is gathering data from term writers on this type of mortality experience, both from nonsmokers and smokers. One very unique part of the process is formulating consistent underwriting definitions of what is preferred versus super preferred versus residual standard mortality. A new mortality table will undoubtedly result from this data, but is at least several years away.

The interim table uses updated experience studies and other sources to make theoretical splits of the CSO 2001 basic data (VBT) into three categories of nonsmoker and two categories of smoker (super preferred, preferred, and residual for nonsmoker, and preferred and residual for smoker). Weights assigned to each subclass cause the combination of separate mortality rates to balance back to CSO 2001 rates themselves (after applying the same loading formula to basic data).

The ACLI used a prominent consulting firm to unbundle the 2001 Table and make necessary tests for consistency and reconciliation back to the table itself.

One advantage of the interim table is that it is derived from a mortality standard. Since the CSO 2001 is recognized for federal income tax purposes, chances of an unbundled version of the 2001 Table being recognized are considered high. This is similar to the evolution of the 1980 CSO, where splits between nonsmokers and smokers are considered tax-qualified.

The interim table seems to provide reserves that fit with industry experience for super preferred and preferred issues. While data is not available, it seems likely that it could solve concerns of many insurers over deficiency reserves.

Therefore, why not make the interim table into a permanent standard and serve as an alternative to principles-based reserves? The interim table seems to answer the same type of industry concerns, while still providing greater FIT comfort.

Hidden Agenda?

It is reasonable to ask about actuarial motives behind the push for principles-based reserves and even more, for stochastic processing. Will it help the actuarial profession, in terms of prestige or even licensed prerogatives in reserve calculations?

Leaders of the actuarial profession are apparently concerned over what they view as threats from other professions. These might endanger professional tasks that, implicitly or explicitly, are now empowered to actuaries by American Academy of Actuaries or Society of Actuaries membership. The profession is attempting to have actuaries recognized as the premier "risk managers" for the insurance industry.

With this is mind, one question is, does required stochastic processing increase actuarial prestige, consistent with the above paragraph? Does covering "high risk" scenarios constitute proper risk management, where the "coverage" is really a blend of actuarial assumptions?

Instead, why not amend this question slightly? Do proper and extensive choices of scenarios constitute proper risk management? Is the actuary the logical professional to choose the complete range of scenarios that will provide adequate reserve levels for reasonably expected adverse results? For many, if not all products, can these scenarios be calculated equally as well with either deterministic OR stochastic techniques?

Today, calculation of statutory reserves from preset tables and prescribed interest ranges may be seen by some as "grunt work." Some view it as a mundane task that other professions or even non-professionals could perform just as well as professional actuaries. However, today, with asset adequacy and reserve adequacy requirements, reserve calculation itself is only the initial part of the process. A variety of scenarios is required for reserve testing. Gross premium reserves, liability-asset duration matching, and other tests usually demand more professional time and skill than reserves themselves. The intensity of reserve testing varies with the type of product, but can be great indeed.

In summary, today, statutory reserve calculations under current laws and regulations seem to demand the unique expertise of professional actuaries.

Conclusions

The outcome of pending legislation and regulations for principles-based reserves and CSO 2001 Interim Table is not certain today. However, small insurers have a big stake in these matters. Actuaries and other officers of these companies are advised to keep a keen eye on all developments, whether trial balloons, or explicit proposals. ●

On the cover

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It's Showtime! Some Decisions: Recent Developments with the ACLI Interim Proposal and the Principles-Based Approach

by Jim Thompson

Two valuation proposals have occupied the regulatory agenda this year—the ACLI Interim Proposal and SVL II (or the Principles Based Approach(PBA) to reserving). This began at the December NAIC meeting in Chicago. I was there, and I have followed most of the regulatory phone calls since then. I frankly have never seen any other significant proposals pushed along so quickly. Our newsletter attempts to keep you informed of regulatory events with enough advance warning so that you can see if you need to get involved in some way. Final copy for this issue had to be submitted before the September NAIC meeting. It is scheduled to reach you in November in advance of the December NAIC meeting.

Time Frame

Up to this point I had been under the impression that both the PBA, formerly referred to as PBR for reserving) and the ACLI Interim would be presented to the Life and Health Actuarial Task Force (LHATF) Sept. 7-8 in St. Louis and then passed in December. Randall Stevenson, the NAIC actuary, told me that PBA, if passed in December, would have to be exposed for two years (although this could be shortened to one year), then given two years for enough states to pass it and then the effective date would be two years beyond that.

The ACLI proposal is not a new law but an approach to changing Actuarial Guideline 38 to allow lapse and to allow a new preferred mortality table (a breakdown of the 2001 CSO) to be used. The intent is to view it as a modification (not a change) of current law. Thus, it would take effect whenever the NAIC decided.

LHATF decided to actually vote on the Interim Proposal in a conference call on August 29. If passed, it would be possible for it to move quickly through the NAIC A-committee (life issues), Executive Committee and plenary and, thus, be voted on September 8! Since PBA will take a long time to implement, the ACLI Interim might be the regulatory approach for years to come. It is important to understand the implications and how things went on that phone call.

What Is the ACLI Interim Proposal?

The ACLI wants to allow preferred modifications to the 2001 CSO nonsmoker /smoker mortality tables. They produced some preferred factors by a study they paid for. One frequently expressed regulatory concern is that this should be peer reviewed or that another one should be produced through the Society of Actuaries. This was introduced as a draft actuarial guideline regarding the use of preferred mortality valuation tables.

A joint AAA/SOA Review Team reviewed these mortality tables. This team was charged by the NAIC with evaluating the tables "in terms of applicability of generally accepted actuarial principles, practices and procedures" and endorsing them (modified if necessary) as a "reasonable basis for statutory reserves relative to the current 2001 CSO mortality table, if appropriate."

Although they did endorse them, there was some significant qualifying language in the details of the report. In the conclusion they note the tables would be "used on an interim basis until such time as a long-term solution is provided." The SOA is currently conducting such a study. Also under "Level of Preferred Mortality—Observations" the report notes that the 2002 survey which uses three non-tobacco classes and two tobacco classes, was based only on pricing mortality and not necessarily actual experience. "The ACLI Interim Table uses pricing mortality assumptions that may or may not be based on credible experience and which may incorporate mortality improvements as a basis for the mortality experience assumption in the underlying table."

Another issue is the annual reporting of mortality to a statistical agent. If a company wishes to use these tables, it must "annually file with the commissioner, with the NAIC or with a statistical

agent designated by the NAIC and acceptable to the commissioner, statistical reports showing mortality" and other information. The commissioner may exempt a company from doing this.

Another issue is revising Actuarial guideline 38 (which is currently a preliminary draft with a sunset date of April 2007) to allow a 3 percent lapse assumption in reserve computation for UL with secondary guarantees. This is the first introduction of an assumption other than mortality and interest into the valuation process. Actuarial guidelines are supposed to clarify, not change, valuation laws. This appears precedent-setting.

The ACLI assembled a legal opinion to the effect that lapse could be allowed in this limited sense. Their proposed revision would allow it only with the permission of the commissioner. The NAIC's attorney has concurred with the ACLI's opinion on this, but many actuaries who are voting members of LHATF do not agree. They believe adding lapse changes the valuation law and does not clarify it. In calls leading up to August 29, this has been a major source of discussion.

Milliman was commissioned by the ACLI to produce a comparative study of the effect of their proposal with PBA and with current valuation. A hypothetical example of a UL was produced and overall the Interim reserves were 93 percent of the current (p. 4 of their report.). The ratio of the PBR approach to the ACLI is 88 percent based on their model assumptions. I find it hard to believe the ACLI is pushing so strongly for precedent-setting guidelines for such a small savings.

August 29: The Vote!

This phone call was actually designated for a vote. All 19 states that are members of LHATF were represented. There was lot of parliamentary discussions of precisely how to propose the motion. Motions were withdrawn and reworded. An initial motion was only for the Preferred Mortality. This did not surprise me since I know the controversy the AG38 changes had caused. Eventually, however, they voted 11 to four to include both parts of the Interim proposal. Then they decided to vote (up or down) on the ACLI Interim proposal (both AG 38 and the preferred tables).

This was the dramatic moment. Before the vote there were several speeches, including one by California against including the 3 percent lapse. When the vote was tallied, however, it was 12 in favor and three opposed. The motion was made by Nebraska and seconded by North Dakota. Only Minnesota, California and Florida voted no. A surprise "yes" was New York, and this elicited vocal surprise.

After it was all done, the chair, Mike Batte, used his prerogative to comment on what they had just done. He said they had voted for the politically expedient and this was not a function actuaries should do. Instead they should set high standards. He said commissioners are supposed to make the politically expedient decisions. Also he noted that an authoritative SOA preferred mortality table was possibly just three to six months away.

With the actuaries not objecting, it was not a surprise that it was passed (as two proposals: a revised Actuarial Guideline 38 and a Model Regulation, the preferred mortality tables for determining minimum reserves) at the fall NAIC meeting by the Executive Plenary. It is effective for policies issued on or after January 1, 2007 with a sunset date of December 31, 2010. It has a separate asset adequacy requirement. Will this passage have any impact on the other significant proposal, SVL II?

I believe the impetus for both moves is mainly the problems of over-reserving for XXX term and term-like UL products. These are mainly sold by stock companies. Supposedly the ACLI Interim proposal will satisfy their practical concerns. My impression of the conference calls on the SVL II is that there are many issues to be worked out. It is difficult to keep track of this. The calls are conducted with the emphasis on putting something together to show the NAIC in September. Sometimes points are raised and there is no definite vote on them. Issues were raised and there are some obvious disagreements.

On the August 31 call, the procedures whereby a regulator can request (demand?) that additional work could be done under current regulatory procedures and the SVL II, were discussed. Also there was a discussion on conservatism (by each policy or by each assumption or somehow in the aggregate). The need for haste in the time frame seems to expedite discussion. But in December, if a regulation has been cobbled together, will the different viewpoints assert themselves? If the Interim proposal is in place, because of the long time to pass the SVL II, will not some people try to put together a better version?

On the August 31 call someone said that we needed a good law but not a perfect one. But if the new SVL II represents a revolutionary change in the course of regulation, why not iron it out? My own guess is that the pace for passage will be slower. I look forward to seeing how the December NAIC meeting turns out. ●

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Principles-Based Reserves for Credit Actuaries

by Chris Hause

The current drafts of the principles-based reserves (PBR) model law and accompanying regulations appear to include credit life insurance within the scope. I would expect that once the scope of PBR is expanded to include accident and health insurance, credit disability will fall within its scope as well. How will this affect credit actuaries?

It is important to remember that single-premium credit insurance has no renewal premiums to recognize, so the PBR reserve calculation merely involves present values of benefits and expenses.

Also, there is no "cash value" to serve as a floor for reserves. In SSAP 59, it states that the *aggregate* reserve cannot be less than the *net* refund liability (after recognition of recoverable commissions and expenses). We hope that these important distinctions are left intact when considering how to apply PBR to credit reserves.

One of the historically aggravating aspects of compliance with the Standard Valuation Law for credit actuaries is that the aggregate reserves must satisfy the requirements of the state of filing. While most actuaries have said that it is nearly impossible to comply with this requirement due to (mostly) minor variations in state regulation, actuaries for widely licensed credit insurers have the additional discomfort of widely varying basic standards for valuation. This is chiefly because the Standard Valuation Law effectively ignores credit insurance.

LHATF has recognized this and set out to attempt to standardize reserving requirements for credit insurance.

Recently, we worked with LHATF and the A&H Working Group to adopt a modified 1985 CIDA table for valuation of active life reserves for single premium credit disability. These are codified in the Accounting Practices and Procedures Manual and several states have specifically adopted the model. However, for states that have (and choose to enforce) unearned premium requirements in their laws or regulations, the morbidity standard is rendered ineffective.

We also recently performed a comprehensive inter-company credit life mortality study and worked with LHATF to adopt a model regulation specifying the 2001 CSO Male Composite Ultimate Table as the minimum standard for credit life reserves. Again, many states have conflicting laws on the books that supersede the model.

So, in spite of the combined efforts of industry and LHATF at reserve relief and uniform standards for credit insurance, there continues to be more diversity than uniformity in reserving standards.

Credit life standards currently in use include:
1941 CSO
1958 CET
1958 CSO
1960 CSG
1980 CSO
1980 CSO times 150 percent
1980 CET
2001 CSO
130 percent of "Recognized Table"

Credit Disability standards currently in use include:
Pro-rata gross unearned
Rule of 78 unearned
Average of Pro-rata and Rule of 78
Greater of 130 percent of 1964 CDT at 4 percent and pro rata
Greater of 64 CDT at 3 percent and mean of R78 and pro rata.
Modified 1985 CIDA and Whole Life Interest Rate

Credit insurers have held grossly redundant reserves (usually 1958 CSO or CET) for so long, it has become a way of life. So, a positive effect of PBR is that perhaps one nationwide standard can be used by an actuary with confidence, unless the states continue to require "special" standards for credit insurance.

Articles needed for *Small Talk*
Your help and participation is needed and welcomed. All articles will include a byline to give you full credit for your effort. *Small Talk* is pleased to publish articles in a second language if a translation is provided by the author. For those of you interested in working on *Small Talk*, several associate editors are also needed to handle various specialty areas such as meetings, seminars, symposia and continuing education meetings.

If you would like to submit an article or be an associate editor, please call James R. Thompson at 815.459.2083

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In order to efficiently handle articles, please use the following format when submitting articles:

Please e-mail your articles as attachments in either MS Word (.doc) or Simple Text (.txt) files. We are able to convert most PC-compatible software packages. Headlines are typed upper and lower case. Please use a 10- point Times New Roman font for the body text. Carriage returns are put in only at the end of paragraphs. The right-hand margin is not justified.

If you must submit articles in another manner, please call Joe Adduci, 847.706.3548, at the Society of Actuaries for assistance.

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Thank you for your help.

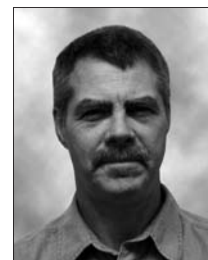
I believe that the best result for most credit carriers would be a uniform "safe harbor" mortality and interest rate. ...

On the other hand, we have heard of a lot of nervousness about the requirements (and expense) for compliance with PBR, especially with the smaller carriers. Given that various market segments and states can have significantly different loss experience, there is much concern about homogeneity and credibility of experience.

The requirement to use actual assets in developing the present value calculations seems particularly absurd when considering the duration of credit contracts.

I believe that the best result for most credit carriers would be a uniform "safe harbor" mortality and interest rate, even if it produces redundant reserves. In addition to that, those companies that choose may use PBR if the expense of compliance outweighs the cost of the excess capital required.

In my opinion, this approach would not only serve industry, but would preserve simplicity and security for regulators as well. ●



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2004 Inter-Company Expense Study of U.S. Individual Life Insurance and Annuities

by Steven Siegel

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Editor's Note: The following article is reprinted with permission. It last ran in the September 2006 issue of Product Matters!

The SOA's Committee on Life Insurance Company Expenses (CLICE) has recently completed its fourth inter-company study of expenses for individual life and annuity business issued in the United States. The full report of this study is now available on the SOA's Web site. This article provides highlights from that study.

The data requested was identical to that requested for the 2003 study. In addition, the total number of contributors (28) providing data remained the same. However, a number of contributors were new to the study this year, while some previous contributors were unable to contribute. CLICE is hoping to increase the number of contributors for the 2005 study and future ones—if your company has not previously contributed, CLICE welcomes your participation!

Contributors were asked to provide expense data for the following product categories:

- **Life insurance**–term, permanent (non-variable), variable, COLI and BOLI. Contributors were further asked to provide acquisition expense data broken down by the following distribution channels: career, brokerage, PPGA, multi-line, direct response, other and unallocated (those expenses that were not split by channel).

- **Annuities**–Immediate (non-variable), deferred (non-variable), variable immediate and variable deferred. The following distribution channel detail was requested: career, brokerage, PPGA, stockbroker, financial institutions, other and unallocated.

The data received from the contributors were aggregated and unit cost calculations were developed. As part of the aggregation process, a series of data integrity checks were performed and contributors were contacted to resolve missing or anomalous data.

Overall, the data submitted to the study continues to improve in reliability and data integrity. This is due, in part, to the number of repeating contributors familiar with the data submission form and the scope of data requested.

In the study, a unit cost called "per policy index" is used to facilitate the comparison of first year expenses (excluding commissions and premium taxes) among contributors. Similarly, a per policy in force unit cost is used to compare operating expenses (excluding commissions, termination expenses, premium taxes, and for annuities, annuity payout expenses). These two unit costs provide the reader with a high-level basis for making comparisons. To the left is a table comparing these unit costs for 2003 and 2004 for companies that contributed to both studies.

Please note that due to variations in expense allocations used by the contributing companies, the variety of companies that contributed, and the limited number of contributors in certain categories, the results should be viewed with caution, particularly the comparison of this study with the corresponding 2003 figures.

The exhibits in the full report show unit expense calculations for the various product and distribution channels for which sufficient data was available, including the weighted average by company, median, unweighted average by company and 25th and 75th percentile unit expenses where there was a sufficient number of contributors. Summarized acquisition and non-acquisition unit costs are illustrated in the tables on page 11.

The committee has distributed a request for, and received contributions to the 2005 study, which will further continue this annual effort. The committee expresses its appreciation to all of the contributing companies for their assistance and support of this study. ●

Comparison of 2003 and 2004 Per Policy Index Unit Costs For Companies Contributing to both 2003 and 2004 Studies

			First Year*			Inforce#		
	Products	Year	25% Percentile	Weighted Average	75% Percentile	25% Percentile	Weighted Average	75% Percentile
Life	Term	2003	$499	$541	$758	$61	$75	$133
		2004	496	672	1,160	71	75	133
	Permanent	2003	545	1,069	1,515	57	62	120
		2004	445	1,572	2,307	51	53	116
	Variable	2003	609		2,262	112	125	195
		2004	2,129	3,319	3,974	187	195	427
Annuities	Deferred	2003	$346	$897	$1,287	$99	$105	$139
		2004	516	943	753	94	119	167
	Immediate	2003	258	1,246	750	78	100	107
		2004	332	731	773	53	133	137
	Variable deferred	2003	634	1,686	1,562	124	145	185
		2004	620	1,830	1,151	136	259	253

*Excludes commissions and premium taxes
#Excludes commissions, premium taxes, termination expenses and contract expenses during payout period

Acquisition Expense for Individual Life Insurance

					Commissions (% of premium)		
Product Type	Number of Companies	Per Policy Issued	Per $1,000 Face Amount Issued	Percent of First Year Premium	First Year	Single Premium*	Renewal
Term	25	$190	$0.44	45.5%	61.3%	N/A	3.3%
Permanent	26	$183	0.86	47.7%	50.9%	3.3%	3.6%
Variable	14	$375	0.39	38.3%	35.4%	2.0%	4.9%
Total	27	$197	0.54	45.6%	49.8%	3.1%	3.8%

* includes dumps/pour-ins and dividends applied

Non-Acquisition Expense for Individual Life Insurance

Product Type	Number of Companies	Per Policy In Force	Per Claim	Premium Tax
Term	25	$66	$409	1.6%
Permanent	26	$62	$96	1.2%
Variable	14	$218	$333	2.5%
Total	27	$72	$109	1.4%

Acquisition Expense for Individual Annuities

				Commissions (% of premium)	
Product Type	Number of Companies	Per Policy Issued	Percent of First Year Premium	First Year/Single	Renewal Commission
Deferred - Fixed	15	$145	1.5%	4.9%	5.1%
Deferred - Variable	13	$144	2.3%	4.8%	3.8%
Immediate - Fixed	17	$168	1.6%	2.4%	N/A
Total	24	$145	2.0%	4.8%	4.1%

Non-Acquisition Expense for Individual Annuities

Product Type	Number of Companies	Per Policy In Force	Per Termination	Per Contract	Premium Tax
Deferred - Fixed	15	$113	$45	$12	0.1%
Deferred - Variable	13	$192	$32	$12	0.1%
Immediate - Fixed	17	$135	$27	$5	0.2%
Total	24	$154	$37	$10	0.1%

SOCIETY OF ACTUARIES

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