

GRET Factors

The purpose of the call was to discuss the recommendation of the SOA Committee on Life Insurance Company Expenses (CLICE) for GRET factors to be used for 2006. GRET is the Generally Recognized Expense Table that may be used for demonstrating compliance with the Illustration Regulation.

LHATF exposed the proposed GRET at its June meeting. To date, it has received no comments.

Sam Gutterman, Co-Chair of CLICE, reviewed the process by which the Committee developed the proposed GRET. It uses Annual Statement data provided by NAIC. This past study differed from the prior study by including more small companies, by basing the study on two years of data (2003-04) and by deriving expense factors as un-weighted means instead of medians.

Gutterman indicated that the main problem is determining how to assign each company to one type of distribution channel. Annual Statement data does not permit splitting a company into multiple channels. In fact, LHATF spent the majority of the call discussing this issue. Some regulators questioned how a company that sells a product across more than one channel would be able to use GRET. The AAA Practice Note recommends either a pro-rata approach or use of the predominant channel. NY voiced reservations about the latter approach.

LHATF's goal is to pass the proposal in September which would lead to NAIC adoption by December. If that fails, the current GRET factors, unchanged since 2003, would continue.

Under the CLICE recommendation, significant expense factor increases occur for Branch Office, Direct Marketing and Home Service channels, while the "Other" channel would experience a decrease. Consult the NAIC website – www.naic.org - for the complete set of proposed GRET factors.

Donald P. Maves, FSA, MAAA

1 August 2005

