**Section 903.630 Special Statements and Records Required**

a) The following types of records shall be prepared by each company or fleet in allocating salaries to companies, expense groups and primary lines of business:

1) Allocation of Salaries

2) Recapitulation of Salaries

3) Detail of Allocation Bases

b) The Allocation of Salaries and the Recapitulation of Salaries shall be prepared,

1) for the twelve months of the current calendar year, or

2) for twelve months ending not earlier than September 30th of the current year, in which case the ratios established shall be applied to the total salaries for the twelve months of the current calendar year. The method of (2) shall not be followed if operations during the period used were materially different from operations during the period to which the ratios are to be applied. All amounts included in the operating expense classification Salaries, for the period used in preparing the Allocation of Salaries and the Recapitulation of Salaries shall be accounted for on such records.

c) Forms of the records are shown hereinafter. The forms may be of any convenient size, and may be entered in ink, type, or by other mechanical means, provided the entries are legible. If the organization or method of operation of any company is such as to make desirable changes in the forms such as a rearrangement of the columns, or a separation of the forms into two or more parts, such changes may be made, provided the substituted forms do not, in any respect, show less information than called for on the forms shown herein, and do not result in confusing the presentation of salary allocation.

d) Such records shall be maintained in good order and shall at all times be readily available for examination.

e) Allocation Of Salaries Form

1) The form, Allocation of Salaries, is shown on the preceding page. To aid in the understanding of the form, specimen entries have been made thereon and, as further aids to understanding, each column is explained in the following paragraphs:

A) Column 1:

i) List each similarly employed unit within each departmental or other division in the organization. By "similarly employed" is meant employed in essentially the same or similar activities in or for the same departmental or other division.

ii) The personnel shall be divided into as many units as necessary to show each type of work done by each departmental or other division in the organization. Employees whose duties are not solely related to the work performed by one unit, such as some in supervisory positions, shall be listed separately by title or job classification.

B) Column 2: Gross salaries applicable to each unit shown in Column 1.

C) Columns 3, 4 and 5:

i) These columns are for use when the Salaries classification is affected by allocations made to other companies.

ii) A separate line is to be used for the allocation to each company or group of companies. When intercompany allocations are not made, or when quota share percentages can be applied to fleet totals, Columns 3,4 and 5 need not be used.

iii) Designating numbers shall be entered in Column 4 for the methods used in intercompany allocations.

D) Column 6: Designating numbers shall be entered in this column for the methods used in allocating salaries to expense groups.

E) Columns 7 to 10: The amounts assigned to each expense group shall be in accordance with the method shown in Column 6. At the side of each expense group column (except the column Investment Expenses) is shown a narrow column captioned "Line Distribution", wherein shall be entered designating numbers for the methods to be followed in distributing salaries to primary lines of business.

2) Pool and Quota Share Reinsurance

When quota share reinsurance is in effect and when salaries may be allocated in strict accordance with the quota share percentages, the amounts shown in the Allocation of Salaries Form may be those subject to quota share. Quota share percentages may, in such cases, be applied to the totals either on the Allocation of Salaries or the Recapitulation of Salaries.

3) Branch and Field

Branch office salaries shall be shown separately in the Allocation of Salaries and in the Recapitulation of Salaries. In combining branch employees into similarly employed units, it shall be permissible to consider as a unit all similarly employed personnel in all branch offices having similar functions, and handling approximately the same relative volume of each line of business.

4) Salary Reimbursements to Other Companies

Due to expense sharing with another company, outside of the company or fleet, debits may appear in the salary accounts for reimbursements to outside companies. Such payments are to be shown under separate caption in the Allocation of Salaries. Where such payments amount to less than 10% of gross salaries paid by the company to its own employees, the amounts shown on the Allocation of Salaries may be distributed as an overhead on all other salary distributions. If more than 10%, the distribution shall be obtained from the other company.

5) Salaries Not Specifically Reimbursable

When the employees of a company devote time to the affairs of another company, and the reimbursements therefor are handled in accordance with the instructions, Expenses for Account of Another or Income from Special Services (see Subpart b, Section 903.220(b) and (c)), the salaries for each similarly employed unit applicable to work done for such other company shall be shown separately on the Allocation of Salaries (in Columns 3 to 10 incl.).

f) Recapitulation of Salaries Form

1) When all distributions called for on the Allocation of Salaries Form have been completed, the Recapitulation of Salaries shall be made.

2) For each company to which salaries have been allocated on the Allocation of Salaries Form, the amounts shown in each expense group column shall be combined by the line distribution codes shown in the "Line Distribution" columns. The totals thus obtained shall be entered on the Recapitulation of Salaries Form and allocated to primary lines of business in accordance with the line distribution codes.

3) The forms, Recapitulation of Salaries, are shown on the preceding page.

4) Although presented on one page, there are three separate forms, one for Loss Adjustment Expenses, another for Acquisition, Field Supervision and Collection Expenses, and another for General Expenses. For purposes of illustration, the specimen entries, applicable to Company A, made on the Allocation of Salaries Form have been continued on the Recapitulation of Salaries Form. Note that, for Company A, the figures in the expense group columns on the Allocation of Salaries Form have been combined by "Line Distribution" codes, entered on the Recapitulation of Salaries Form, and then spread to primary lines of business based on the "Line Distribution" codes.

g) Detail of Allocation Bases Form

1) The bases of allocation used on the Allocation of Salaries Form shall be fully described on the Detail of Allocation Bases Form. There shall be a separate sheet for each basis and the sheets shall be kept in consecutive numerical order, available at all times for examination.

2) When the basis of allocation cannot be fully described on the form, subsidiary worksheets, compilations and data shall be either attached to the form or filed separately and readily available.

3) The Detail of Allocation Bases Form and all subsidiary worksheets, compilations and data shall be clear and legible; shall show the sources, detail and dates of all figures used; shall disclose the names of persons or groups responsible for all compilations, data, calculations, studies, estimates, judgment factors, weightings, etc., and the dates thereof; and, in general shall include complete explanations of all figures used and decisions made.

4) Note: The Detail of Allocation Bases Form need not be prepared each year, but with appropriate changes in supporting worksheets, etc., may remain current as long as the bases are in effect.

5) Four illustrations of the Detail of Allocation Bases Form are shown on the pages which follow. The allocation bases No. 1, 101, 105 and 501 shown on the Allocation of Salaries Form have been carried into the forms and specimen explanations given.

(Editor's Note: The illustrations referred to were omitted from Rule 9.03 (now 50 Ill. Adm. Code 903) as filed July 11, 1958. The Department of Insurance has advised that the specimen material intended by the rules may be found in "Instructions for Uniform classifications of Expenses of Fire-Marine-Casualty-Surety Insurers Effective January 1, 1949 (NAIC Proc. 1949 pp. 42-125)" together with official NAIC amendments thereto and interpretations thereof.)