Date: 10/19/22

Virtual Meeting

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Thursday, October 20, 2022
1:00 – 2:00 p.m. ET / 12:00 – 1:00 p.m. CT / 11:00 a.m. – 12:00 p.m. MT / 10:00 – 11:00 a.m. PT

ROLL CALL

Philip Barlow, Chair	District of Columbia	William Leung	Missouri
Sheila Travis	Alabama	Derek Wallman	Nebraska
Thomas Reedy	California	Seong-min Eom	New Jersey
Wanchin Chou	Connecticut	Bill Carmello	New York
Dalora Schafer	Florida	Andrew Schallhorn	Oklahoma
Vincent Tsang	Illinois	Rachel Hemphill	Texas
Mike Yanacheak/Carrie Mears	Iowa	Tomasz Serbinowski	Utah
Fred Andersen	Minnesota		

NAIC Support Staff: Dave Fleming

AGENDA

1. Discuss the American Academy of Actuaries' (Academy) C2 Mortality Work Group's Suggested Guidance —*Philip Barlow (DC)* Attachment 1

2. Discuss Status of Mortgage and Reinsurance Proposals — *Philip Barlow (DC)*

3. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*

4. Adjournment

October 20, 2022

Mr. Philip Barlow
Chair, Life Risk-Based Capital (E) Working Group (LRBCWG)
National Association of Insurance Commissioners (NAIC)
Via email: Dave Fleming (dfleming@naic.org)

Re: Instruction Supplement for Applying the Newly Adopted Life Insurance C-2 Mortality Factors

Dear Philip,

On behalf of the C-2 Mortality Work Group ("work group") of the American Academy of Actuaries, we are providing a suggested draft for your consideration in adopting an instruction supplement for applying the newly adopted life insurance C-2 mortality factors. The document is intended to address implementation questions. This would serve as an addendum to the instructions to be considered by the LRBCWG, and not a replacement. The format is question-and-answer.

Sincerely,

Chris Trost, MAAA, FSA
Chairperson, C-2 Mortality Work Group

Ryan Fleming, MAAA, FSA
Vice Chairperson, C-2 Mortality Work Group

American Academy of Actuaries

Life RBC—C-2 Mortality Risk

Instruction Supplement for Applying the Newly Adopted Life Insurance C-2 Mortality Instructions

To: National Association of Insurance Commissioners (NAIC) Life Risk-Based Capital (RBC) (E) Working Group

From: American Academy of Actuaries C-2 Mortality Work Group

Date: October 20, 2022

Contents

LIFE RBC—C-2 MORTALITY RISK

Introduction

This document is a suggested draft for your consideration in adopting an instruction supplement for addressing implementation questions for the newly adopted life insurance C-2 mortality structure, factors, and LR025 instructions. This would serve as an addendum to the instructions to be considered by the LRBCWG, and not a replacement. The format is question-and-answer.

Relevant Actuarial Standards of Practice

1. <u>What actuarial standards of practice are relevant in completing the life insurance C-2 work?</u>

   Actuarial Standard of Practice (ASOP) No. 2, *Nonguaranteed Elements for Life Insurance and Annuity Products*; ASOP No. 11, *Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance*; ASOP No. 11, *Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance* (effective 12/1/22); ASOP No. 15, *Dividends for Individual Participating Life Insurance, Annuities, and Disability Income*; and ASOP No. 54, *Pricing of Life Insurance and Annuity Products*, may provide relevant practice standards in assessing pricing flexibility, remaining rate terms, and reinsurance.

Default Categories

2. <u>What are the default categories if the assessment of pricing flexibility or remaining rate terms is not completed?</u>

   The intent is for the amounts (net of reinsurance ceded) to default to the highest capital requirement. Direct amounts and reinsurance, both ceded and assumed, are intended to be evaluated separately.

   Direct Policies Before Reinsurance

   - For individual life insurance direct policies, the default category will vary depending on whether the policy is a term life or permanent life product. Term life policies should be assigned to the Term Life Policies without Pricing Flexibility category and permanent life policies should be assigned to the Permanent Life Policies without Pricing Flexibility category if the assessment of pricing flexibility is not completed.

   - Group and credit life insurance direct policies should be assigned to the Group & Credit Life with Remaining Rate Terms Over 36 Months category if the assessment of remaining rate terms is not completed.

   Non-Affiliated Reinsurance Ceded Amounts

   - For individual life amounts ceded to a non-affiliated reinsurer, the amounts should be assigned to the Life Policies with Pricing Flexibility category if the assessment of pricing flexibility is not completed.

   - For group and credit life insurance amounts ceded to a non-affiliated reinsurer, the amounts should be assigned to the Group & Credit Life with Remaining Rate Terms 36 Months And Under category if the assessment of remaining rate terms is not completed.

Non-Affiliated Reinsurance Assumed Amounts

- For individual life insurance amounts assumed by a non-affiliated reinsurer, the default category will vary depending on whether the policy is a term life or permanent life product. Term life policies should be assigned to the Term Life Policies without Pricing Flexibility category and permanent life policies should be assigned to the Permanent Life Policies without Pricing Flexibility category if the assessment of pricing flexibility is not completed.
- Group and credit life insurance amounts assumed by a non-affiliated reinsurer should be assigned to the Group & Credit Life with Remaining Rate Terms Over 36 Months category if the assessment of remaining rate terms is not completed.

Affiliated Reinsurance—Both Ceded and Assumed Amounts

- Affiliated reinsurers are to assign the factor category based on the categorization for the direct policies.

Size Tiering

3. <u>How does a company allocate the size tiers to the subcategories?</u>

A company does not need to determine the allocation of the size tiers to each subcategory. These calculations will be completed within the LR025 spreadsheet. The allocation of the size tiers will be handled formulaically through a proportionate allocation based on the net amounts at risk entered in aggregate for individual & industrial life and for group & credit life and for each subcategory.

Assessing Pricing Flexibility for Individual Life Policies

4. <u>How should policies be grouped for assessing pricing flexibility?</u>

For the purposes of assessing whether business is categorized as having “Pricing Flexibility,” grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. Documentation of the grouping should follow company retention policies.

5. <u>How should pricing flexibility be assessed for individual life policies?</u>

The first step is to assess typical business practices. Typical business practices are intended to apply to companies that review mortality rates on a regular basis, there is historical precedent for changing inforce mortality pricing, and/or the company intends to change inforce mortality pricing if emerging experience warrants a change.

The second step is to assess whether pricing can be adjusted within the five policy years following the valuation date. If pricing may be adjusted within the next five policy years, then the policies meet the threshold for having the near-term ability to adjust pricing.

The third step is to quantify the amount of pricing flexibility available and determine whether the amount exceeds the minimum threshold for qualifying for the pricing flexibility category. A material rate adjustment is defined as the ability to recover, on a present value basis, the difference in mortality provided for in the C-2 factors for contracts with and without pricing flexibility. If the amount of flexibility is immediately available, then it wouldn't be necessary to do a present value calculation. A present value calculation calculated over the next five years would be necessary if it would take multiple years to recover the difference in mortality. Nonguaranteed elements that aren't mortality related—such as credited interest rates, expense charges, and policy fees—should not be assumed to be available in assessing pricing flexibility to respond to adverse mortality experience.

The product categories were designed to typically reflect the following categorizations shown in Table 1. The assessment of pricing flexibility is needed to demonstrate that the policies assigned to the Life Policies with Pricing Flexibility category have this flexibility.

Table 1. Typical Individual Life Product Categorizations		
Life Policies with Pricing Flexibility	Term Life Policies without Pricing Flexibility	Permanent Life Policies without Pricing Flexibility
1. Participating whole life insurance policies paying dividends 2. Universal life policies with current cost of insurance charges less than guaranteed 3. Annually renewable term life policies with premiums guaranteed for the next 5 or fewer years 4. Life policies with 5 years or fewer until expiration or maturity 5. Yearly renewable term reinsurance with rates guaranteed for the next 5 or fewer years	1. Annually renewable term policies with premiums guaranteed for greater than the next 5 years 2. Level term policies with guaranteed level premiums 3. Yearly renewable term reinsurance of term life policies with rates guaranteed for more than the next 5 years	1. Non-participating or fully guaranteed whole life insurance policies 2. Participating whole life insurance policies paying no dividends, or at guaranteed levels 3. Universal life policies with cost of insurance charges at guaranteed levels and/or secondary guarantees effective for more than the next 5 years 4. Universal life policies with lifetime secondary guarantees 5. Yearly renewable term reinsurance of permanent life policies with rates guaranteed for more than the next 5 years
Affiliated reinsurance and co-insurance reinsurance are intended to follow the direct policies.		

LIFE RBC—C-2 MORTALITY RISK

The following illustrative examples show the type of analysis that is to be completed. The quantification of pricing flexibility is to be aligned with a company's practices for assessing pricing margins on inforce policies and is not prescribed by the RBC instructions. To simplify, the examples assume the large size, or over $25,000 million, factors with a net amount at risk of $1,000.

Example 1. Term Life Policies without Pricing Flexibility			
	1. Are premiums on inforce policies changed as part of typical business practices?		No
		- There is no historical precedent or intent to change premiums on inforce.	
		Assign to the "Term Life Policies without Pricing Flexibility" category.	

Example 2. Term Life Policies without Pricing Flexibility			
	1. Are premiums on inforce policies changed as part of typical business practices?		Yes
		- Rates are reviewed annually, the company has precedent for changing inforce premiums, and/or the company intends to change premiums if emerging experience warrants a change.	
	2. Can pricing be changed within the next 5 years?		No
		- Current premiums on this cohort overall are guaranteed for more than the next 5 years	
		Assign to the "Term Life Policies without Pricing Flexibility" category.	

Example 3. Term Life Policies without Pricing Flexibility			
	1. Are premiums on inforce policies changed as part of typical business practices?		Yes
		- Rates are reviewed annually, the company has precedent for changing inforce premiums, and/or the company intends to change premiums if emerging experience warrants a change.	
	2. Can pricing be changed within the next 5 years?		Yes
		- Current premiums on this cohort overall may be changed within the next 5 years	
	3. Assess the level of pricing flexibility.		
			Large Size Band
		Without Pricing Flexibility Factor	0.00085
		With Pricing Flexibility Factor	0.00080
		Difference	0.00005
		Minimum Pricing Flexibility Needed	
		- Equal to $1,000 NAR times Difference	$0.05
		Pricing Flexibility Available	
		- Equal to the present value difference over the next 5 years between current and guaranteed maximum premiums on this cohort overall	$0.04
	4. Is the level of pricing flexibility greater than the minimum needed?		No
		Assign to the "Term Life Policies without Pricing Flexibility" category.	

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Example 4. Term Life Policies with Pricing Flexibility			
	1. Are premiums on inforce policies changed as part of typical business practices?		Yes
		- Rates are reviewed annually, the company has precedent for changing inforce premiums, and/or the company intends to change premiums if emerging experience warrants a change.	
	2. Can pricing be changed within the next 5 years?		Yes
		- Current premiums on this cohort overall may be changed within the next 5 years	
	3. Assess the level of pricing flexibility.		
			Large Size Band
		Without Pricing Flexibility Factor	0.00085
		With Pricing Flexibility Factor	0.00080
		Difference	0.00005
		Minimum Pricing Flexibility Needed	
		- Equal to $1,000 NAR times Difference	$0.05
		Pricing Flexibility Available	
		- Equal to the present value difference over the next 5 years between current and guaranteed maximum premiums on this cohort overall	$0.20
	4. Is the level of pricing flexibility greater than the minimum needed?		Yes
		Assign to the "Life Policies with Pricing Flexibility" category.	

Example 5. Permanent Life Policies without Pricing Flexibility			
	1. Are mortality charges on inforce policies changed as part of typical business practices?		No
		- There is no historical precedent or intent to change mortality charges on inforce policies.	
		Assign to the "Permanent Life Policies without Pricing Flexibility" category.	

Example 6. Permanent Life Policies without Pricing Flexibility			
	1. Are mortality charges on inforce policies changed as part of typical business practices?		Yes
		- Rates are reviewed annually, the company has precedent for changing inforce mortality charges, and/or the company intends to change mortality charges if emerging experience warrants a change.	
	2. Can pricing be changed within the next 5 years?		No
		- Current mortality charges on this cohort overall are guaranteed for more than the next 5 years, and/or there are secondary guarantees that will last for more than the next 5 years.	
		Assign to the "Permanent Life Policies without Pricing Flexibility" category.	

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Example 7. Permanent Life Policies without Pricing Flexibility	
1. Are mortality charges on inforce policies changed as part of typical business practices?	Yes
- Rates are reviewed annually, the company has precedent for changing inforce mortality charges, and/or the company intends to change mortality charges if emerging experience warrants a change.	
2. Can pricing be changed within the next 5 years?	Yes
- Current mortality charges on this cohort overall are guaranteed for less than the next 5 years, and there are no secondary guarantees that will last for more than the next 5 years.	
3. Assess the level of pricing flexibility.	
	Large Size Band
Without Pricing Flexibility Factor	0.00120
With Pricing Flexibility Factor	0.00080
Difference	0.00040
Minimum Pricing Flexibility Needed	
- equal to $1,000 NAR times Difference	$0.40
Pricing Flexibility Available	
- equal to the dividend liability, or present value difference over the next 5 years between current and guaranteed cost of insurance charges on this cohort overall	$0.30
4. Is the level of pricing flexibility greater than the minimum needed?	No
Assign to the "Permanent Life Policies without Pricing Flexibility" category.	

Example 8. Permanent Life Policies with Pricing Flexibility	
1. Are mortality charges on inforce policies changed as part of typical business practices?	Yes
- Rates are reviewed annually, the company has precedent for changing inforce mortality charges, and/or the company intends to change mortality charges if emerging experience warrants a change.	
2. Can pricing be changed within the next 5 years?	Yes
- Current mortality charges on this cohort overall are guaranteed for less than the next 5 years, and there are no secondary guarantees that will last for more than the next 5 years.	
3. Assess the level of pricing flexibility.	
	Large Size Band
Without Pricing Flexibility Factor	0.00120
With Pricing Flexibility Factor	0.00080
Difference	0.00040
Minimum Pricing Flexibility Needed	
- equal to $1,000 NAR times Difference	$0.40
Pricing Flexibility Available	
- equal to the dividend liability, or present value difference or the next 5 years between current and guaranteed cost of insurance charges on this cohort overall	$0.50
4. Is the level of pricing flexibility greater than the minimum needed?	Yes
Assign to the "Life Policies with Pricing Flexibility" category.	

LIFE RBC—C-2 MORTALITY RISK

Assessing Remaining Rate Terms for Group and Credit Life Policies

6. How should group policies be grouped for assessing remaining rate terms?

   For the purposes of assessing the remaining rate terms, policies should be assessed at the group contract level.

7. How should the remaining rate terms be assessed for group and credit life policies?

   The remaining rate terms should be assessed based on the premium terms of each group contract and the number of months until expiration or renewal. For group permanent life policies, the evaluation should be completed based on the ability and timeframe for adjusting mortality charges.

   The following examples illustrate the type of analysis that should be completed. To simplify, the examples assume the large size, or over $25,000 million, factors with a net amount at risk of $1,000.

Example 9. Group & Credit Life with Remaining Rate Terms 36 Months and Under			
	1. Can the premiums be changed on this group contract or cohort of policies within the next 36 months?		Yes
		- The renewal date or expiration date of the contract is within the next 36 months.	
		Assign to the "Group & Credit Life with Remaining Rate Terms 36 Months and Under" category.	

Example 10. Group & Credit Life with Remaining Rate Terms Over 36 Months			
	1. Can the premiums be changed on this group contract or cohort of policies within the next 36 months?		No
		- The renewal date or expiration date of the contract or cohort of policies is over 36 months.	
		Assign to the "Group & Credit Life with Remaining Rate Terms Over 36 Months" category.	

Reinsurance Treatment for Direct Insurers and Non-Affiliated Reinsurers

8. How should a direct insurer assess the degree of pricing flexibility on its amounts ceded to non-affiliated reinsurers?

   The terms of a direct insurer's reinsurance treaties should be assessed to determine the degree of pricing flexibility a reinsurer has to change rates on inforce policies.

9. How should a non-affiliated reinsurer assess the degree of pricing flexibility on its assumed amounts?

   The terms of a non-affiliated reinsurer's treaties should be assessed to determine the degree of pricing flexibility a reinsurer has to change rates on inforce policies.

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Individual Life Policies Changing Categories Over Time

10. Can individual life policies change categories over time if the degree of pricing flexibility changes?

Yes, policies are intended to be assessed at each year-end and could change categories in either direction if the degree of pricing flexibility changes. A few circumstances where this may arise are noted below.

- The dividends on a cohort of participating whole life policies falls below the minimum margin needed to qualify for the Life Policies with Pricing Flexibility category and is now assigned to the Permanent Life Policies without Pricing Flexibility category. Conversely, if the dividends increase above the minimum margin needed then the policies may shift to the with Pricing Flexibility category.
- The difference between current and guaranteed cost of insurance charges on a cohort of universal life policies falls below the minimum margin needed to qualify for the Life Policies with Pricing Flexibility and is now assigned to the Permanent Life Policies without Pricing Flexibility category. Conversely, if the difference between current and guaranteed cost of insurance charges on a cohort of universal life policies increases above the minimum margin needed, then the policies may shift to the with Pricing Flexibility category.
- A secondary guarantee on a universal life policy is triggered for greater than the next five years and the policy is now assigned to the Life Policies without Pricing Flexibility category. Conversely, a secondary guarantee on a universal life policy expires or has less than five years remaining, and the policy is now assigned to the with Pricing Flexibility category.
- A cohort of term life policies reaches the end of its guaranteed premium period and premiums may be adjusted and is now assigned to the with Pricing Flexibility category, whereas previously the policies were assigned to the Term Life Policies without Pricing Flexibility category.
- A reinsurance treaty is renegotiated resulting in a different level of flexibility for the reinsurer to adjust rates.

Populating the Factor Categories for Direct and Reinsured Amounts

11. How should gross, ceded, and assumed amounts be populated for individual life and group and credit life?

The intent of the RBC design is that the total C-2, for a given size band category and before covariance adjustments, across direct insurers and reinsurers should be equal regardless of whether reinsurance is used and the type of reinsurance. The relative share of C-2 between direct insurers and non-affiliated reinsurers will vary depending on the type of reinsurance used. For the direct insurer, amounts for gross and ceded net amounts at risk should be categorized separately and may fall into different categories. For the reinsurer, assumed net amounts at risk should be categorized based on the terms of the reinsurance treaty for non-affiliated reinsurers and the direct policies for affiliated reinsurers. A subcategory could end up with a negative balance if the ceded amount exceeds the gross amount. Negatives will flow through the subcategories, subject to an aggregate minimum of $0 for individual life C-2 and group life C-2.

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The following simplified examples illustrate populating the categories depending on the reinsurance used. They are intended to represent the types of categorizations and not the overall aggregate results of a typical company. The examples assume the large size, or over $25,000 million, factors with a net amount at risk of $1,000.

The first step in the process is to categorize gross amounts directly written by the insurer. The second step is to categorize amounts ceded to reinsurers. The third step is to categorize amounts assumed from other insurers. Lastly, the total amounts net of reinsurance should be entered for each subcategory into the RBC LR025 worksheet.

Note, all examples assume a total net amount at risk of $1,000 and the large size band C-2 factors.

Example 11. Permanent Life Policies without Pricing Flexibility, 100% Retained

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Term Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$1,000	$ -	**$1,000**	$ 1.20	**$ -**	$ -	
Total	$1,000	$ -	**$1,000**	$ 1.20	**$ -**	$ -	$1.20

Example 12. Permanent Life Policies without Pricing Flexibility, 90% Ceded to Non-Affiliated Reinsurer on a with Pricing Flexibility Basis

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ (900)	**$ (900)**	$(0.72)	**$ 900**	$0.72	
Term Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$1,000	$ -	**$1,000**	$ 1.20	**$ -**	$ -	
Total	$1,000	$ (900)	**$ 100**	$ 0.48	**$ 900**	$0.72	$1.20

Example 13. Permanent Life Policies without Pricing Flexibility, 90% Ceded to Non-Affiliated Reinsurer on a without Pricing Flexibility Basis

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Term Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$1,000	$ (900)	**$ 100**	$ 0.12	**$ 900**	$1.08	
Total	$1,000	$ (900)	**$ 100**	$ 0.12	**$ 900**	$1.08	$1.20

Example 14. Permanent Life Policies without Pricing Flexibility, 90% Ceded to an Affiliated Reinsurer

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Term Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$1,000	$ (900)	**$ 100**	$ 0.12	**$ 900**	$1.08	
Total	$1,000	$ (900)	**$ 100**	$ 0.12	**$ 900**	$1.08	$1.20

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Note, all examples assume a total net amount at risk of $1,000 and the large size band C-2 factors.

Example 15. Term Life Policies without Pricing Flexibility, 100% Retained

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Term Life Policies without Pricing Flexibility	$1,000	$ -	**$1,000**	$ 0.85	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$ -	**$1,000**	$ 0.85	**$ -**	$ -	$0.85

Example 16. Term Life Policies without Pricing Flexibility, 50% Ceded to Non-Affiliated Reinsurer on a with Pricing Flexibility Basis

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ (500)	**$ (500)**	$(0.40)	**$ 500**	$0.40	
Term Life Policies without Pricing Flexibility	$1,000	$ -	**$1,000**	$ 0.85	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$ (500)	**$ 500**	$ 0.45	**$ 500**	$0.40	$0.85

Example 17. Term Life Policies without Pricing Flexibility, 50% Ceded to Non-Affiliated Reinsurer on a without Pricing Flexibility Basis

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Term Life Policies without Pricing Flexibility	$1,000	$ (500)	**$ 500**	$ 0.43	**$ 500**	$0.43	
Permanent Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$ (500)	**$ 500**	$ 0.43	**$ 500**	$0.43	$0.85

Example 18. Term Life Policies without Pricing Flexibility, 100% Ceded to an Affiliated Reinsurer

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Term Life Policies without Pricing Flexibility	$1,000	$(1,000)	**$ -**	$ -	**$ 1,000**	$0.85	
Permanent Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$(1,000)	**$ -**	$ -	**$ 1,000**	$0.85	$0.85

Example 19. Life Policies with Pricing Flexibility, 100% Retained

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$1,000	$ -	**$1,000**	$ 0.80	**$ -**	$ -	
Term Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$ -	**$1,000**	$ 0.80	**$ -**	$ -	$0.80

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Note, all examples assume a total net amount at risk of $1,000 and the large size band C-2 factors.

Example 20. Life Policies with Pricing Flexibility, 75% Ceded to Non-Affiliated Reinsurer on a with Pricing Flexibility Basis

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$1,000	$ (750)	**$ 250**	$ 0.20	**$ 750**	$0.60	
Term Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$ (750)	**$ 250**	$ 0.20	**$ 750**	$0.60	$0.80

Example 21. Life Policies with Pricing Flexibility, 75% Ceded to Affiliated Reinsurer

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Life Policies with Pricing Flexibility	$1,000	$ (750)	**$ 250**	$ 0.20	**$ 750**	$0.60	
Term Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Permanent Life Policies without Pricing Flexibility	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$ (750)	**$ 250**	$ 0.20	**$ 750**	$0.60	$0.80

Example 22. Group Life Policies with Remaining Rate Terms 36 Months and Under, 60% Ceded to Non-Affiliated Reinsurer with Remaining Rate Terms 36 Months and Under

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Group & Credit Life with Remaining Rate Terms 36 Months and Under	$1,000	$ (600)	**$ 400**	$ 0.16	**$ 600**	$0.24	
Group & Credit Life with Remaining Rate Terms Over 36 Months	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Total	$1,000	$ (600)	**$ 400**	$ 0.16	**$ 600**	$0.24	$0.40

Example 23. Group Life Policies with Remaining Rate Terms Over 36 Months, 60% Ceded to Non-Affiliated Reinsurer with Remaining Rate Terms 36 Months and Under

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Group & Credit Life with Remaining Rate Terms 36 Months and Under	$ -	$ (600)	**$ (600)**	$(0.24)	**$ 600**	$0.24	
Group & Credit Life with Remaining Rate Terms Over 36 Months	$1,000	$ -	**$1,000**	$ 0.55	**$ -**	$ -	
Total	$1,000	$ (600)	**$ 400**	$ 0.31	**$ 600**	$0.24	$0.55

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Note, all examples assume a total net amount at risk of $1,000 and the large size band C-2 factors.

Example 24. Group Life Policies with Remaining Rate Terms Over 36 Months, 60% Ceded to Non-Affiliated Reinsurer with Remaining Rate Terms Over 36 Months

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Group & Credit Life with Remaining Rate Terms 36 Months and Under	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Group & Credit Life with Remaining Rate Terms Over 36 Months	$1,000	$ (600)	**$ 400**	$ 0.22	**$ 600**	$0.33	
Total	$1,000	$ (600)	**$ 400**	$ 0.22	**$ 600**	$0.33	$0.55

Example 25. Group Life Policies with Remaining Rate Terms Over 36 Months, 60% Ceded to Affiliated Reinsurer

	Direct Insurer				Reinsurer		Total
	Gross	Ceded	**Net**	C-2	**Assumed**	C-2	C-2
Group & Credit Life with Remaining Rate Terms 36 Months and Under	$ -	$ -	**$ -**	$ -	**$ -**	$ -	
Group & Credit Life with Remaining Rate Terms Over 36 Months	$1,000	$ (600)	**$ 400**	$ 0.22	**$ 600**	$0.33	
Total	$1,000	$ (600)	**$ 400**	$ 0.22	**$ 600**	$0.33	$0.55