The Life Actuarial (A) Task Force met in Austin, TX, Dec. 5–6, 2019. The following Task Force members participated: Kent Sullivan, Chair, represented by Mike Boerner (TX); Jillian Froment, Vice Chair, represented by Peter Weber (OH); Lori K. Wing-Heier represented by Jacob Lauten (AK); Jim L. Ridling represented by Steve Ostlund (AL); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Robert H. Muriel represented by Bruce Sartain and Vincent Tsang (IL); Stephen W. Robertson represented by Karl Knable (IN); Vicki Schmidt represented by Nicole Boyd (KS); Steve Kelley represented by Fred Andersen (MN); Chlora Lindley-Myers represented by William Leung (MO); Bruce R. Ramge represented by Rhonda Ahrens (NE); Marlene Caride represented by Seong-min Eom (NJ); John G. Franchini represented by Anna Krylova (NM); Linda A. Lacewell represented by Bill Carmello (NY); Glen Mulready represented by Andrew Schallhorn (OK); Todd E. Kiser represented by Tomasz Serbinowski (UT); and Scott A. White represented by Craig Chupp (VA). Also participating was: Rachel Hemphill (TX).


The Task Force met Oct. 17, Oct. 3, Sept. 26, Sept. 19 and Sept. 12 and took the following action: 1) adopted its Summer National Meeting minutes; 2) adopted its 2020 proposed charges; 3) adopted the 2020 Generally Recognized Expense Table (GRET); 4) provided direction to the IUL Illustration (A) Subgroup on revising Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest (AG 49); 5) adopted the American Academy of Actuaries (Academy) Life Experience Committee and the Society of Actuaries (SOA) Preferred Mortality Oversight Group Valuation Basic Table Team (Joint Committee) Individual Life Insurance Mortality Improvement Scale Recommendation—for Use with (AG 38) and VM-20; 6) heard updates on the Yearly Renewable Term (YRT) Field Test from the Academy YRT Field Test Project Oversight Work Group.

Mr. Yanacheak made a motion, seconded by Mr. Ostlund, to adopt the Task Force’s Oct. 17 (Attachment One), Oct. 3 (Attachment Two), Sept. 26 (Attachment Three), Sept. 19 (Attachment Four), and Sept 12 (Attachment Five) minutes. The motion passed unanimously.

2. **Heard an Update on the YRT Field Test**

Jason Kehrberg (Academy YRT Field Test Project Oversight Work Group) presented an update on the YRT Field Test (Attachment Six), which included a revised timeline and a graphical presentation of the workstreams. He said Oliver Wyman has been engaged to assist in the analysis of field test results. He said calls with field test participants will begin once legal agreements have been executed.

Chris Whitney (Oliver Wyman) presented the details of the design of the analysis models for the field test and some initial insights (Attachment Seven). He said that, in addition to the field test, the Academy is working on a “Range of Interpretations” survey to be distributed to all companies, regardless of whether they are field test participants. The survey seeks further understanding of the range of interpretations from a company participation base that is larger than the field test, which might be used to model the various YRT reinsurance proposals in the field test. Mr. Whitney said the analysis model and its associated tools will be delivered to the NAIC when it is completed. He noted that a secondary benefit of the project is that the NAIC will be able to use the model to analyze the long-term impact of other principle-based reserving (PBR) issues, as needed. He said the model provides a robust projection of PBR over time while unlocking assumptions to observe the impact of the various reserve components.

Ms. Hemphill asked if the model considers any interaction with the post-level term profits restriction. Mr. Whitney said the issue is being considered. Mr. Chupp asked if mortality improvement is built into the current YRT scale. Mr. Whitney said the current scale is equal to best estimate mortality with mortality improvement in future years. Dylan Strother (Oliver Wyman) discussed the mortality and PBR prescribed margins and their impacts on the PBR. He noted that the lack of including a future mortality improvement beyond the valuation date results in an implicit margin. Mr. Andersen asked whether it is important to differentiate the explicit margins from the implicit margins. Mr. Strother said the implicit margin was indicated because some of the amendment proposals that will be considered in the field test allow for the use of mortality improvement in the rates charged by reinsurers. Mr. Whitney said identifying the implicit margin provides a better understanding of what is affecting the overall margin at the various durations. Mr. Strother noted that scenarios reflecting reinsurer reactions can produce reserve.
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credits in excess of $ce. He also noted the importance of looking at long-term reserve projections when evaluating the impact of reinsurance modeling approaches because of the unlocking of mortality improvements and the impact of the margin changes over time.

Katie van Ryn (Oliver Wyman) discussed the scope of the field test, the amendment proposals being considered under various assumptions, and the results of the initial Oliver Wyman analysis. Mr. Whitney noted that modeled reinsurer reactions lag the ceding mortality experience by one year. He broadly discussed possible reinsurer reactions to a number of possible scenarios posed by Task Force members. He noted that, while there are no reinsurers participating in the field test, reinsurers are expected to respond to the “Range of Interpretations” survey. He said the reinsurer responses to the survey are expected to inform assumptions on reinsurer reaction to some of the scenarios of concern to Task Force members.

Mr. Whitney discussed the next steps for the analysis and field test. He said that assuming field test results are received by year-end: 1) point-in-time reserve results from the field test will be confirmed and shared with the Task Force in February 2020; 2) results for each of the specified amendment proposals will be ready for Task Force discussion in March 2020; and 3) company projected reserves will be developed and shared with the Task Force in April 2020.

Mr. Boerner said that given the dates of milestones and next steps, there is a chance that the Task Force could have an amendment proposal in May 2020 to consider for exposure, but the timeframe for an adoption that could be included in the 2021 Valuation Manual would be very tight.

3. Adopted the Minutes of the VM-22 (A) Subgroup

Mr. Sartain said the VM-22 (A) Subgroup did not meet subsequent to the Summer National Meeting, but several members have been participating on conference calls of the Academy Annuity Reserves Work Group (ARWG) and the SVL Interest Rate Modernization Work Group (SVLIRMWG). He said Subgroup discussions in the past year were focused on reinvestment risk issues. He said that because of developments in Academy discussions, the conversation on that issue has changed. The Subgroup will be revisiting the reinvestment risk discussions in the first quarter of 2020.

Mr. Sartain said the ARWG is working on PBR for non-variable annuities, including payout annuities. He said the SVLIRMWG is updating the rates and methodologies for the Commissioners’ Annuity Reserve Valuation Method (CARVM), including consideration of an exclusion test.

Mr. Sartain made a motion, seconded by Mr. Weber, to adopt the VM-22 (A) Subgroup’s report. The motion passed unanimously.

4. Heard an Update from the Academy Annuity Reserves Work Group

Ben Slutsker (ARWG) discussed some elements of the ARWG proposal for a revised non-variable annuity reserve framework (Attachment Eight). He said the elements are only representative, and a more comprehensive proposal will be developed in the coming months. He said the ARWG plan is to propose a PBR approach for non-variable annuities that utilizes a Conditional Tail Expectation (CTE) 70 reserve calculation. He said the baseline of the methodology is the recent revisions to VM-21, Requirements for Principle-Based Reserves for Variable Annuities, with deviations and enhancements, as needed, to handle product complexities. The complexities include guaranteed living benefits (GLBs), fixed deferred or fixed index annuities, and reinvestment risks. Mr. Slutsker said the target date for Task Force adoption of the proposed framework is Spring 2022. He said the ARWG is looking for Task Force feedback on: 1) asset assumptions related to spreads, default costs and reinvestment methodology; 2) exclusion test methodology; and 3) any concerns on the scope of the proposed framework, including possible retrospective application of the methodology to existing contracts, regardless of issue date.

Mr. Slutsker said the ARWG recommends hedging requirements consistent with VM-21, without the clearly defined hedging strategy (CDHS) distinction. Ms. Hemphill said that it would be helpful if the ARWG noted when its recommendation is not consistent with VM-21. She said the notes should be accompanied by a brief explanation of the reasons for deviating from the VM-21 framework.

Mr. Slutsker said the ARWG recommends applying the VM-21 methodology to fixed annuity PBR. The ARWG also recommends using a modified version of the VM-20, Requirements for Principle-Based Reserves for Life Products, exclusion testing methodology for fixed annuity PBR. Mr. Tsang asked if the exclusion test would be applied before or after reinsurance. Mr. Slutsker responded that the ARWG has not explored that question. He suggested that the VM-20 methodology, which applies the exclusion test both pre- and post-reinsurance ceded, would most likely prevail.

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Mr. Slutsker asked for Task Force feedback on the ARWG recommendation to use the VM-21 discount rate and starting asset methodology for fixed annuity PBR. He said the ARWG position is that company specific spreads and defaults are more appropriate because fixed annuity investments tend to be heavily dependent on general account returns. Ms. Hemphill asked what kind of guardrail would be applied for these assumptions given how dependent the reserves are on these returns, and asked how the framework would assess the credibility of company-specific spread and default assumptions. Mr. Slutsker said that this would be considered further as the framework was developed.

Mr. Boerner said retroactive application of the revised framework to contracts issued prior to the effective date of the Valuation Manual would require actuarial guideline changes and could have tax implications. Paul S. Graham (American Council of Life Insurers—ACLI) said the tax code no longer considers the date of issue, but it is instead tied to the valuation methodology. He said that should alleviate any concern about retroactivity. He said whether there might be issues that may arise by making the changes optional will require more study.

Mr. Tsang asked if there will be a floor reserve, similar to the VM-20 net premium reserve (NPR). Mr. Slutsker said there is a cash surrender value (CSV) floor and potentially a separate floor for guaranteed living income benefits (GLIBs). Ms. Hemphill said she would like to hear how the proposal handles the VM-21 standard scenario. Mr. Slutsker said the focus has been on the modeled reserve, and the floor has not yet been discussed; but it will be considered. Mr. Slutsker stated that the Academy is generally in favor of the CTEPA approach for the standard scenario, as a disclosure item.

5. Heard an Update from the Academy SVL Interest Rate Modernization Work Group

Chris Conrad (SVLIRMWG) gave an update on the work of the SVLIRMWG (Attachment Nine). He said the SVLIRMWG is working closely with the ARWG to develop valuation rates to be used by products that pass the exclusion test that the ARWG is developing. He said valuation rates will be determined by finding the single discount rate that produces the same present value of benefits and expenses at time zero as discounting the cashflows at the quarterly portfolio yields, including realized gains and losses. He said the plan is to determine the discount rate under assumptions of rising rates, falling rates and level rates. He noted that the group has yet to determine how to weight the three scenarios and whether the final rate will be locked at issue. Once calculated, the rates will be used to develop a formula which relates the initial portfolio yield and the ultimate single valuation rate. The formula will be used to update the valuation rates quarterly. Mr. Conrad noted that the proposed framework will use U.S. treasuries plus VM-20 spreads as a reference index.

6. Discussed Considerations for Changes to the Life Mortality Improvement Factor Process

Marianne Purushotham (Joint Committee) said a presentation was made to the Task Force last year to make it aware of the methodology used to annually update the mortality improvement scale used for VM-20 and AG 38. She said the purpose of the presentation was to give the Task Force an opportunity to understand and ask questions about the Joint Committee process. She said the process entails annually looking at recent historical and current projected mortality improvements and applying a set methodology to update the scale. She said the improvements are used to move the Valuation Basic Table (VBT) from the date of the table to the current valuation date (e.g., the 2019 mortality improvement scale will be used to update the 2015 VBT from mid-2015 to the end of 2019). She noted that the methodology has not changed since 2013. She provided several slides (Attachment Ten) describing the current methodology, including some of its limitations and other considerations. She said the methodology uses U.S. Social Security Administration (SSA) data as a consistent source of population mortality data. She said that population mortality data tends to be more stable than insured mortality data. She said the population data is forecasted over a 20-year period to create an unsmoothed mortality improvement scale. She said actuarial judgment is used in the process of peer reviewing the unsmoothed scale to determine whether the scale should be changed that year. She said that after the peer review, the final step is to apply smoothing to the scale. She said the process is limited in that it looks at age and gender as basis risk due to the use of population data, and it is not intended for long-term projections. She noted that mortality improvement scales for insured mortality tables generally use population data.

Ms. Purushotham said that over the next two to three years, the mortality methodology will be changing as a common tool is being developed, which will allow practitioners from life, annuity and pension to share a consistent framework for producing mortality improvement scales. She said that in the short term, the Joint Committee will be looking to revise the methodology to remove more actuarial judgment by defining clear thresholds that would trigger a change in the scale. She said another consideration is whether the updates should require the formal approval of the Task Force. She said the Valuation Manual does not require Task Force approval. She suggested that once the actuarial judgment is removed from the methodology, the improvement scale methodology could be added to the Valuation Manual. That would allow the annual update to be automatically adopted if no changes are made to the prescribed methodology.
Mr. Sartain asked if there could be a process that would allow the Task Force to formally adopt the mortality improvement factors annually. Mr. Boerner said that if the factor adoption is to be considered a *Valuation Manual* update, the mortality improvement factors may not be available until the subsequent year’s *Valuation Manual*. However, if the mortality improvement follows a process adopted in the *Valuation Manual* then annual improvements could be applied for the current valuation year. He also said there are other issues related to the timing of the availability of the population data and the availability of the scale for industry use that will need to be considered. Ms. Purushotham said companies have indicated that they would like the scale to be published earlier in the year. She said the scale can be published earlier, but that would require sacrificing an additional year of data. She said the Joint Committee is working with a three year time lag, such that the SSA data through 2016 is used for the 2019 mortality improvement scale. She said the SOA accesses Medicare data in July, provides an updated scale at the end of August, and publishes the mortality improvement scale by the end of September. She said that if the Joint Committee uses a four year time lag, the mortality improvement scale could be published earlier in the year, but it would lose the benefit of the recent mortality trends.

Ms. Purushotham summarized three possible options: 1) continue with the present process of using actuarial judgment to determine whether to change the scale; 2) have the scale change every year regardless of how immaterial the change might be; and 3) apply the current methodology, but make the changes subject to set thresholds. Mr. Boerner said Task Force members should consider the three options, as well as whether increasing the time lag might be acceptable.

7. **Exposed Amendment Proposal 2019-33**

Mary Bahna-Nolan (Academy Life Reserves Work Group—LRWG) discussed the presentation (Attachment Eleven) recommending revised PBR treatment for individually underwritten group insurance. She said amendment proposal 2019-33 proposes subjecting certain group life certificates that are marketed, underwritten and solicited in a manner similar to individual life policies to the same *Valuation Manual* requirements as individual life policies. She said the *Statement of Statutory Accounting Principles* (SSAP) No. 50—*Classifications of Insurance or Managed Care Contracts* (SSAP No. 50) provides a definition of group life that is not fully applicable to the group certificates under consideration, as individually underwritten group certificates do not preclude individual selection and are for the benefit of policyholder. She said VM-51, Experience Reporting Formats, scopes out individually solicited group life policies from the mandatory data collection. She reviewed each of the eight recommended changes proposed by amendment proposal 2019-33.

Mr. Chou made a motion, seconded by Mr. Leung, to expose amendment proposal 2019-33 (Attachment Twelve) for a public comment period ending Feb. 7, 2020. The motion passed unanimously.

8. **Exposed Amendment Proposal 2019-62**

Linda Lankowski (LRWG) said amendment proposal 2019-62 recommends requirements for disclosure and the reporting of conversion reserves.


9. **Exposed Amendment Proposal 2019-60**

Ms. Hemphill said VM-20 requires a single credibility method for all business subject to PBR. She said that because Buhlmann credibility factors are not currently available for simplified issue (SI) business, companies are forced to use the Limited Fluctuation credibility method for their SI business; therefore, they are required to use the Limited Fluctuation method for fully underwritten business subject to VM-20 as well, even if the Buhlmann credibility method is more appropriate. She said amendment proposal 2019-60 proposes to: 1) remove the single credibility method restriction from Section 9.C.5.a of VM-20 for all business, regardless of the type of underwriting; and 2) add a Guidance Note to Section 9.C.7.b.ii of VM-20.

Ms. Ahrens made a motion, seconded by Mr. Chou, to expose amendment proposal 2019-60 (Attachment Fourteen) for a public comment period ending Jan. 31, 2020. The motion passed unanimously.

10. **Exposed Amendment Proposal 2019-61**

Ms. Hemphill said amendment proposal 2019-61 clarifies that the life PBR exemption cannot be applied to a policy with a material secondary guarantee, regardless of whether the secondary guarantee is a rider or part of the base policy.
Ms. Eom made a motion, seconded by Mr. Leung, to expose amendment proposal 2019-61 (Attachment Fifteen) for a public comment period ending Jan. 31, 2020. The motion passed unanimously.

11. **Heard an Update on SOA Research and Education**

Dale Hall (SOA) provided a presentation (Attachment Sixteen) identifying recent and upcoming topics that he thought would be of interest to life insurance regulators. Referencing the earlier discussion on mortality improvement, he noted that the SOA is conducting a mortality improvement survey to gather information on how companies make assumptions for life and annuity financial projections and what factors they consider in that process. He said the report will be available in early 2020. He said another report that will be available in January 2020 is the Centers for Disease Control and Prevention (CDC) population mortality observations report, updated for 2018 experience. He said the 2018 experience shows considerable improvement over the prior three to four years.

Mr. Hall said the SOA is hosting an accelerated underwriting expert panel forum on Dec. 11 to discuss best practices for validating algorithms used for underwriting life insurance products. He said the SOA expects to issue a report of best practices and other insights gathered from the forum.

Mr. Hall said the SOA launched its Mortality & Longevity Strategic Research Program in October. He said one of the research items released is a study on the economic impact of opioid abuse. He said that while the main insurance impact is associated with healthcare, there is an economic impact on other insurance lines from premature mortality and increases in group disability and workers’ compensation claims.

Ms. Ahrens asked for more information on the report on *Public Perception of Longevity and Its Drivers*. Mr. Hall said the report resulted from surveys asking participants to evaluate their longevity. He said most people either underestimated or overestimated their life expectancy by four to five years. He said the report provides insights on the impact of individuals misestimating their longevity.


Ms. Ahrens said the Subgroup met on Nov. 25, Nov. 4, Oct. 7, Sept. 30 and Sept. 18. The minutes of these conference calls are included in the minutes of the Life Risk-Based Capital (E) Working Group. Ms. Ahrens said the Subgroup will recommend the Academy Longevity Risk Task Force (LRTF) proposed C-2 factors for longevity risk to the Working Group. She noted that the Subgroup is not comfortable with the application of the proposed factors to longevity risk transfer. They will ask that longevity risk transfers be scoped out of the application of the C-2 factors and that they receive a charge to continue studying longevity risk transfers.

Ms. Ahrens said the LRTF submitted recommendations to the Working Group in August for a correlation component for C-2 mortality and C-2 longevity in the final calculation. She said the Subgroup is not comfortable making the decision, and it will forward the issue to the Working Group.

Ms. Ahrens made a motion, seconded by Mr. Yanacheak, to adopt the Longevity Risk (A/E) Subgroup’s report. The motion passed unanimously.

13. **Recommended to the Life Insurance and Annuities (A) Committee the Formation of a GI Valuation Subgroup**

Ms. Ahrens said a new guaranteed issue (GI) table is needed to replace the 2001 Commissioners’ Standard Ordinary (CSO) table as the mortality standard for GI business. She said the 2001 CSO was used as an interim solution after the rescission of the 2017 Commissioners’ Standard Guaranteed Issue (CSGI) table upon discovering that it produced excessive deficiency reserves for some companies. She asked the Task Force to recommend that the Life Insurance and Annuities (A) Committee form a subgroup of the Task Force to address the issue. She said the recommendation to form the subgroup (Attachment Seventeen) provides a proposed charge that is aligned with an existing Task Force charge and provides justification for the subgroup formation. She said Nebraska has been asked to chair the Subgroup. Alabama, Connecticut, Illinois, New York, Ohio and Texas will be the initial members of the Subgroup, with other state insurance regulators welcome to join. Mr. Boerner proposed a more concise version of the recommendation (Attachment Eighteen).

Mr. Ahrens made a motion, seconded by Mr. Ostlund, to forward the concise version of the recommendation to form a GI subgroup of the Task Force to the Life Insurance and Annuities (A) Committee. The motion passed unanimously.
14. **Heard an Update from the Academy PBR Governance Work Group**

Donna Claire (Academy PBR Governance Work Group) gave a presentation (Attachment Nineteen) on PBR resources available from the Academy. She said the Academy PBR practice page on the Academy website provides the PBR toolkit, Academy comments on PBR, links to NAIC PBR resources, and Academy publications on PBR. She noted that Actuarial Standard of Practice (ASOP) No. 52, *Principle-Based Reserves for Life Products under the NAIC Valuation Manual* and other ASOPs apply to actuaries responsible for doing or reviewing PBR work. She said the Boot Camp following the Fall National Meeting will include a variable annuities track. She said there will also be a series of Academy webinars on variable annuity reserves. She noted that a practice note on PBR projections is soon to be released, and a “PBR Checklist” that lists important characteristics to consider for PBR valuations was released in October. Other publications referenced by Ms. Claire are the PBR analysis template and an updated VM-20 practice note reflecting changes effective in the 2020 *Valuation Manual*.

15. **Heard an Update on the RFP for the ESG**

Pat Allison (NAIC) presented an update (Attachment Twenty) on the request for proposal (RFP) for a new economic scenario generator (ESG) requested by the Task Force and the Life Risk-Based Capital (E) Working Group earlier this year. The RFP is being developed and will result in the selection of a vendor to provide a new ESG to be prescribed for life and annuity reserves and capital. More specifically, the ESG will be used for VM-20, VM-21, C-3 Phase I and C-3 Phase II. She said the target date for completion of the RFP is the first quarter of 2020. She noted that implementation of the ESG will be no earlier than 2022.

16. **Heard an Update on the Cessation of LIBOR**

Ms. Allison provided an update (Attachment Twenty-One) on the cessation of the London Interbank Offered Rate (LIBOR). She said LIBOR will no longer be available after 2021. She said the replacement of LIBOR is due to: 1) LIBOR becoming less suitable as a benchmark; 2) the reduction of LIBOR-based borrowing; 3) the unsecured nature of LIBOR; and 4) the reluctance of banks to submit LIBOR rates based on judgment rather than actual transactions.

Ms. Allison said the Alternative Reference Rates Committee (ARRC) was formed in 2014 by the Board of Governors of the Federal Reserve and the Federal Reserve Bank of New York in response to risks related to LIBOR. She said the ARRC has identified the Secured Overnight Financing Rate (SOFR) as the rate representing best practice for use in derivatives and other financial contracts. The presentation lists a number of reasons for the selection of the SOFR and the risks associated with moving to the SOFR. The Federal Reserve Bank of New York began daily publication of the SOFR in April 2018. Ms. Allison encouraged companies to consider actions that they may need to take to accommodate the replacement of LIBOR. She also noted that changes to the *Valuation Manual* and the *Accounting Practices and Procedures Manual* (AP&P Manual) will be necessary.

17. **Heard an Update on Life Insurance Mortality Experience Reporting**

Ms. Allison provided an update (Attachment Twenty-Two) on life insurance experience reporting for 2020. She said that beginning the fourth quarter of 2019, companies can begin to submit data using the Regulatory Data Collection (RDC) tool. Companies are also able to request exemptions or communicate exclusions from the data collection requirements. Ms. Allison said the initial data call begins in the second quarter of 2020, with a Sept. 30, 2020, deadline for submission. She noted that companies must correct any identified data errors by Dec. 31. She said the deadline for NAIC submission of aggregate experience data to the SOA is May 31, 2021.

Ms. Allison said the company selection process was limited because the lack of granularity of annual statement data made it difficult to exclude the lines of business outside the scope identified in the *Valuation Manual*. She said the selection process focused on groups of affiliated companies and individual companies large enough to be subject to PBR in 2020. She said the process resulted in the selection of 176 companies from 31 different domiciliary states. She noted that 107 of the selected companies have participated in the Kansas or New York data calls.

Ms. Allison said no state insurance regulator decision is necessary to determine that a company is able to meet available exclusions. She said exemptions require the NAIC to consult with a company’s domestic regulator before being granted or disallowed. She said after potential exclusions and exemptions, 148 companies are currently selected to participate in the data call. She said the NAIC is providing a number of resources to support companies in the data submission process. She also
discussed data checks currently in place to provide controls for the submission process, and she reviewed some frequently asked questions (FAQs).

18. Discussed PBR Mortality Aggregation

Ms. Hemphill said the mortality aggregation presentation (Attachment Twenty-Three) from the Summer National Meeting is provided for reference. She said there were no formal comments submitted when the materials were previously exposed. She cautioned that, even when there are no written prohibitions against the aggregation of particular segments, actuarial judgment as to the relevance and appropriateness of data is still applicable and should prevail. She noted that one informal comment suggested adding a guidance note to the Valuation Manual that would direct readers to the aggregation examples provided on the Industry tab of the NAIC webpage.

David Neve (Academy LRWG) said one of the principles of PBR is that the same assumptions should be used across all company applications. He said that developing new mortality assumptions for PBR based on VM-20’s aggregation requirements seem to be inconsistent with that principle. Ms. Hemphill said the intent of the examples was to provide general principles or dos and do nonts for aggregating, not to specifically dictate how the aggregation should be executed.

19. Heard an Update from the Compact

Jeanne Daharsh (Interstate Insurance Product Regulation Commission—Compact) provided an update (Attachment Twenty-Four) on the activities of the Compact. She said the Commission Officers and Management Committee will meet on Dec. 9 to consider approval of uniform standards for: 1) group policyholder application; 2) group annuity certificate for employer groups; and 3) group guaranteed interest contracts (GICs) for non-variable annuities for employer groups.

She said the single premium group fixed annuity contract standards adopted by the Compact will be effective for filing Jan. 14, 2020. She noted that the Product Standards Committee continues to address the gaps in uniform standards for individual life and annuity. She said a referral was sent to the Actuarial Working Group to consider developing standards for index-linked variable annuity products.

Ms. Daharsh said the Compact has received 1,367 filings through October, of which 1,305 have been approved. She said the average wait time for review of a filing is 33 days. The median number of states on a Compact filing is 43. The number of mix-and-match filings has continued to decrease and now comprises 28% of filings. She said 69% of the filings are for life products, 18% of the filings are for annuity products, and the remaining filings are for long-term care (LTC) and disability income. She noted that there has been a 50% increase in life filings due to the 2017 CSO filings.

19. Adopted the Report of the IUL Illustration (A) Subgroup

Mr. Andersen made a motion, seconded by Mr. Chou, to adopt the Nov. 14 (Attachment Twenty-Five), Nov. 1 (Attachment Twenty-Six) and Sept. 16 (Attachment Twenty-Seven) minutes of the IUL Illustration (A) Subgroup. The motion passed unanimously.

Mr. Andersen said the Task Force voted that illustrations for indexed universal life (IUL) policies with multipliers and product enhancements should illustrate no better than IUL policies without multipliers. He said one of the product enhancements of concern to the Task Force is the cap buy-up, which allows a policyholder to receive returns in excess of the investment return cap specified in the policy. He noted that there are charges associated with multipliers and product enhancements, but the net return on policies are in excess of the returns for IUL products without those features.

Mr. Andersen said the Task Force decision produced a number of comments from industry members. He said some of the letters offered opinions on what to do with the cap buy-up feature. Before considering the comment letters, he asked Task Force members to confirm that their intent was to have IUL policies with cap buy-ups illustrate no better than IUL policies without cap buy-up features. Mr. Serbinowski said his intent was to quote in that manner. He followed by saying that unless there is a restriction placed on the underlying investments returns, companies will continue to design products to circumvent the limitation. Mr. Chupp said that he no longer supports the position taken in his comment letter (Attachment Twenty-Eight). He said his preference is for the recommendation submitted by Nationwide Insurance (Attachment Twenty-Nine). Mr. Andersen discussed the table of numerical examples provided in the Nationwide recommendation. He said the recommendation differentiates between an index bonus charge, which covers the cost related to the multiplier, and an index parameter charge, which are applicable to the benchmark index account. Ms. Ahrens said the charges should be treated in a similar manner to avoid the company circumvention efforts spoken of by Mr. Serbinowski. Birny Birnbaum (Center for Economic Justice—CEJ) said cap buy-ups should be treated in the same manner as multipliers because the same principles hold for both features. He
said the multipliers, bonuses and buy-ups all show up as increased returns without demonstrating increased risks. Mr. Boerner asked if Mr. Birnbaum believes that AG 49 could be revised to show downside risk. Mr. Birnbaum said he does not believe that the current illustration model, and by extension AG 49, is able to reflect the downside risk. He also suggested that the issue with illustrations should be addressed by the Life Insurance and Annuities (A) Committee instead of the Task Force. Ms. Ahrens said that some of the actions of the Task Force seem to be aimed at stomping out product innovation. She said actions to limit product design should be the purview of the Life Insurance and Annuities (A) Committee. Mr. Birnbaum said he is in favor of the Task Force addressing this issue with illustrations, but he also thinks that the Life Insurance and Annuities (A) Committee should take a broader look at illustrations.

Tom Doruska (Global Atlantic) said the Global Atlantic comments (Attachment Thirty) recommend that cap buy-ups and multipliers should be treated the same. He also said the necessary changes should be accomplished in Section 5 of AG 49. Mr. Boerner agreed and said the inclusion of downside risk in illustrations can be considered as Phase 2. The Task Force voted to direct the IUL Illustration (A) Subgroup to revise AG 49 to subject cap buy-ups and index return enhancements to constraints reasonably similar to the constraints to be applied to multipliers, with Mr. Chupp dissenting.

Mr. Serbinowski made a motion, seconded by Ms. Ahrens, to adopt the IUL Illustration (A) Subgroup’s report. The motion passed unanimously.

20. Discussed the VBT and Expiring Experience

Ms. Bahna-Nolan introduced the VBT analysis process (Attachment Thirty-One). She plans to have the analysis completed for discussion with the Task Force at the 2020 Summer National Meeting. She said the 2015 VBT and the relative risk (RR) tables were based on 2002–2009 industry data projected forward with mortality improvement to 2015. She said the 2015 VBT, projected to the valuation date with the mortality improvement scale that Ms. Purushotham previously discussed with the Task Force, is used as the best estimate mortality. She said starting in 2020, the number of companies contributing to the mandatory data collection will grow significantly. She said the Joint Committee would like to develop analytics to determine when there is sufficient differentiation to warrant development of a new table. She said an approach has been developed that is based on a normal distribution and uses confidence intervals to determine whether to develop a new table.

Ms. Bahna-Nolan said the Joint Committee will work with MIB, Inc. and the NAIC to add calculation fields and credibility calculations to the individual mortality data. She said Task Force and industry feedback is welcome.

21. Discussed Comments Received on Amendment Proposal 2019-56

Ms. Bahna-Nolan said comments from Allstate (Attachment Thirty-Two), the ACLI (Attachment Thirty-Three) and the CEJ (Attachment Thirty-Four) were submitted on amendment proposal 2019-56 (Attachment Thirty-Five), which recommended the addition of data elements to the mandatory data call that would assist in segmenting and differentiating experience by underwriting programs. She said the comments shared concerns related to data privacy and security, data complexity, the costs of compliance, and timing. She said they are working with the NAIC Legal staff to address the data privacy issue, which is a primary concern. Dan Schelp (NAIC) said the new data elements being requested do not add to the data privacy issue. He said work was done last year to ensure that personally identifiable information was not being collected. He agreed to look at any of the new data fields about which there is concern.

22. Adopted the Report of the Experience Reporting (A) Subgroup

Mr. Andersen said it is time to begin collection of variable annuities (VA) policyholder behavior data. He said that due to the market rising since 2008, the need for the policyholder behavior data has not been as critical. He said it is important that the structure for data collection be put in place to prepare for the future.

Mr. Andersen made a motion, seconded by Mr. Yanacheak, to adopt the Experience Reporting (A) Subgroup’s report. The motion passed unanimously.

23. Heard an Update from the Academy Council on Professionalism

Kathy Riley (Academy) said the Actuarial Standards Board (ASB) has completed its review of ASOP No. 11, Financial Statement Treatment of Reinsurance Transactions Involving Life Insurance or Health Insurance. ASOP No. 11 will be posted on the ASB webpage soon, with comments due by Feb. 28, 2020. Ms. Riley said the ASB expects to complete its revisions to ASOP No. 22, Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers in February
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2020. She said the guidance in ASOP No. 22 has been expanded with changes to the language on discount rates and assumptions, and additional guidance on reinsurance and separate account assets. She said comments from the exposure draft of ASOP No. 2, *Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts* are being reviewed. ASOP No. 56, *Modeling* has been finalized after four exposure drafts.

David Ogden (Academy) said the Actuarial Board for Counseling and Discipline (ABCD) provided general descriptions of the life requests for guidance. He encouraged actuaries to utilize the process if they have questions.

Having no further business, the Life Actuarial (A) Task Force adjourned.