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Life Actuarial (A) Task Force

Virtual 2020 Fall National Meeting

December 3, 2020

The Life Actuarial (A) Task Force met via conference call Dec. 3, 2020. The following Task Force members participated: Texas, Chair, represented by Mike Boerner and Rachel Hemphill (TX); Tynesia Dorsey, Vice Chair, represented by Peter Weber (OH); Jim L. Ridling represented by Steve Ostlund (AL); Ricardo Lara represented by Perry Kupferman (CA); Michael Conway represented by Eric Unger (CO); Andrew N. Mais represented by Wanchin Chou and Jim Jakielo (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); Grace Arnold represented by Fred Andersen and John Robinson (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); Russell Toal represented by Anna Krylova (NM); Linda A. Lacewell represented by Bill Carmello (NY); Glen Mulready represented by Andrew Schallhorn (OK); Tanji J. Northrup represented by Tomasz Serbinowski (UT); and Scott A. White represented by Craig Chupp (VA).

1. Adopted its Nov. 12, Nov. 5, Oct. 29, Oct. 27, Oct. 22, Oct. 8, Oct. 1, Sept. 24 and Aug. 27 Minutes

The Task Force met Nov. 12, Nov. 5, Oct.29, Oct. 27, Oct. 22, Oct. 8, Oct. 1, Sept. 24 and Aug. 27. During these meetings, the Task Force took the following action: 1) adopted its Summer Meeting minutes; 2) adopted its 2021 proposed charges;   
3) adopted the 2021 Generally Recognized Expense Tables (GRET); 4) adopted revisions to *Actuarial Guideline XLIX**—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest* (AG 49); 5) adopted changes to the *Standard Nonforfeiture Law for Individual Deferred Annuities* (#805); 6) adopted amendment proposal 2020-02, which clarifies guidance on the boundaries of a company’s latitude in following VM-20, Requirements for Principle-Based Reserves for Life Products, steps; 7) adopted amendment proposal 2020-03, which clarifies net premium reserve (NPR) calculation requirements; and 8) adopted amendment proposal 2020-09, which modifies the life principle-based reserving (PBR) exemption.

Mr. Andersen made a motion, seconded by Mr. Chou, to adopt the Task Force’s Nov. 12 (Attachment One), Nov. 5 (Attachment Two), Oct. 29 (Attachment Three), Oct.27 (Attachment Four), Oct. 22 (Attachment Five), Oct. 8 (Attachment Six), Oct. 1 (Attachment Seven), Sept. 24 (Attachment Eight) and Aug. 27 (Attachment Nine) minutes. The motion passed unanimously.

1. Adopted the Report of the Longevity Risk (E/A) Subgroup

Mr. Ostlund made a motion, seconded by Mr. Weber, to adopt the report of the Longevity Risk (E/A) Subgroup (Attachment Ten). The motion passed unanimously.

1. Adopted the Report of the Guaranteed Issue (GI) Life Valuation (A) Subgroup

Mr. Ostlund made a motion, seconded by Mr. Weber, to adopt the report of the Guaranteed Issue (GI) Life Valuation (A) Subgroup (Attachment Eleven). The motion passed unanimously.

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

Mr. Ostlund made a motion, seconded by Mr. Weber, to adopt the report of the Experience Reporting (A) Subgroup (Attachment Twelve). The motion passed unanimously.

1. Adopted the Report of the Indexed Universal Life (IUL) Illustration (A) Subgroup

Mr. Ostlund made a motion, seconded by Mr. Weber, to adopt the report of the Indexed Universal Life (IUL) Illustration (A) Subgroup (Attachment Thirteen). The motion passed unanimously.

1. Adopted the Report of the Variable Annuities Capital and Reserve (E/A) Subgroup

Mr. Ostlund made a motion, seconded by Mr. Weber, to adopt the report of the Variable Annuities Capital and Reserve (E/A) Subgroup (Attachment Fourteen). The motion passed unanimously.

1. Adopted the Report of the Valuation Manual (VM)-22 (A) Subgroup

Mr. Sartain said that during the Subgroup’s Sept. 29 meeting, Aaron Sarfatti (Equitable), who was heavily involved in the development of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, advocated for the fixed annuity PBR framework using a standard projection amount (SPA) analogous to the SPA in VM-21.

Mr. Sartain said the American Academy of Actuaries’ (Academy) Annuity Reserve Work Group (ARWG) presented a slide deck titled “ARWG Preliminary Framework” during the Subgroup’s Oct. 28 and Oct. 26 meetings. He said the most critical aspect of the presentation was addressing the aggregation issue. The deck was exposed for a 45-day public comment period ending Dec. 14. Mr. Sartain said the ARWG has begun drafting a chapter for the *Valuation Manual* reflecting the concepts in the deck. He noted that during its Oct. 21 meeting, the Subgroup voted unanimously to recommend to the Task Force that the feasibility of developing an SPA analogous to that in VM-21 be explored. He said the determination of whether the proposed SPA might serve as either a floor or disclosure item will be made later.

Mr. Sartain said that in addition to the four meetings for which the minutes are provided, the Subgroup had an educational session in November. The session was led by Rick Hayes (Willis Towers Watson), a consultant for the ARWG. Mr. Hayes presented preliminary modeling results using the ARWG’s preliminary framework as guidance. The modeling focused on a generic fixed income annuity (FIA) product with guaranteed withdrawal benefits (GWBs). The modeling results showed numerical examples of reserves calculated under the ARWG preliminary framework. The modeling results are intended to assist those parties who are interested in commenting on the framework.

Mr Sartain made a motion, seconded by Mr. Leung, to adopt the report of the VM-22 (A) Subgroup, including its Oct. 28 (Attachment Fifteen), Oct. 26 (Attachment Sixteen), Oct. 21 (Attachment Seventeen) and Sept. 29 (Attachment Eighteen) minutes. The motion passed unanimously.

1. Heard an Update from the Compact on its Activities

Katie Campbell (Interstate Insurance Product Regulatory Commission*—*Compact) provided an update on the activities of the Compact. She said the Compact Management Committee plans to meet Dec. 4 to consider a proposed emergency rule, drafted at the request of Compact officers, to stay the effectiveness of Model #805, the revisions to which are expected to be adopted by the Executive (EX) Committee and Plenary next week. She said that without the stay of effectiveness, the uniform standard would require compliance with the revisions to Model #805 once NAIC adoption has been completed, regardless of whether the revisions have been passed by individual Compact states. She said the delay will be in effect for 120 days. During that period, the Product Standards Committee (PSC) will determine whether or how to implement the revised standard.

Ms. Campbell said a subgroup of the Actuarial Working Group is working on a standard for interim values for index-linked variable annuities (ILVAs), also known as registered indexed-linked annuities (RILAs), with a goal of having it available early in 2021. She said additional standards for waiver of monthly deductions, waiver of insurance premium and waiver of surrender charges are being referred to the Management Committee.

Ms. Campbell said the Compact has received 1,135 filings through Oct. 31, of which 1,074 have been approved. Those numbers are down 20% compared to last year. She said the average wait time for review of a filing is 20 days, compared to 33 days last year. 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 21% of filings. She said 54% of the filings are for life products, 33% of the filings are for annuity products, and most of the remaining filings are for long-term care (LTC) and disability income. She said a filing information notice   
2020-01, related to companies filing changes to the life insurance nonforfeiture interest rate, has been published.

Mr. Carmello asked if the Task Force should look at the interim value requirements for ILVAs. Mr. Weber, who chairs the Compact Interim Values Subgroup, said there is no existing regulatory framework for the product. He said the Subgroup is working to develop standards. He said he anticipates bringing those standards to the Task Force for its consideration.   
Mr. Carmello suggested that, in the future, the Task Force should take the lead on developing standards for new products.

1. Heard an Update on SOA Research and Education

Dale Hall (Society of Actuaries*—*SOA) gave a presentation (Attachment Nineteen) on U.S. data on mortality by socioeconomic group and updating the Task Force on SOA research efforts. He said the mortality study period covers years 1999 through 2018 and shows the growing disparities across socioeconomic groups. He said the disparities are also evident in mortality improvement data.

Mr. Hall discussed other SOA research efforts, highlighting the recently completed SOA research study assessing the impact of COVID-19 on group life mortality. He said information on the impact of COVID-19 on individual life mortality will be available in spring 2021.

1. Heard an Update from the Academy LPC on its Recent Activities and 2021 Priorities

Laura Hanson (Academy Life Practice Council*—*LPC) gave a presentation (Attachment Twenty) on the LPC’s recent activities and its 2021 priorities. She said that in addition to the items listed as recent activities, the LPC is finalizing a letter to the Life Insurance and Annuities (A) Committee to raise awareness of the implications on underwriting and risk classification of some recent regulatory and legislative actions taken by a few states.

Ms. Hanson said the results of the asset adequacy testing survey and analysis will be presented early next year. She discussed the webinars and boot camps planned for 2021. She listed a few of the Academy efforts supporting its promotion of diversity and inclusion within the actuarial profession and in the broader insurance industry, including the NAIC initiatives related to race and insurance issues. She noted that the Academy is developing a policy statement on race and insurance issues.

1. Heard a Report on the Applicability of HIPAA Privacy and Security to the NAIC as Experience Reporting Agent

Dan Schelp (NAIC) addressed issues raised with respect to amendment proposal 2019-56 and the use of accelerated underwriting. He said the issue was raised as to whether the information collected in accordance with VM-50, Experience Reporting Requirements (VM-50), and VM-51, Experience Reporting Formats (VM-51), would be covered under the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA). He said that after legal review by an outside counsel, it is not believed that the NAIC is subject to HIPAA confidentiality requirements in its role as experience reporting agent. He said the NAIC will continue to take the most conservative approach by developing a confidentiality framework that will provide protections, similar to those required by HIPAA, for the sensitive information it is collecting.

Mr. Schelp provided a brief discussion of the NAIC Legal Division’s review of this issue and the plan of action the NAIC will take as the Experience Reporting Agent to protect the confidentiality of this information going forward. He said VM-50 designates the NAIC as experience reporting agent. The requirements in VM-50 include guidance for the experience reporting process, the roles of the relevant parties, the intended use of and access to the experience data, and the process to protect the confidentiality of the data as outlined in the *Standard Valuation Law* (#820). He said VM-50 resulted from a long and detailed series of negotiations between the regulators and the insurance industry, with the highest consideration being given to the protection of confidential experience data. He said that, with that level of confidentiality at the forefront, VM-51 was drafted to guide the implementation of statistical plans used in the collection of the experience data. Under its current statistical plan, VM-51 contains 46 data elements to be collected from individual companies on an annual basis. These data elements contain confidential and individually identifiable information. The initial collection of this data was to begin in 2020 but was delayed for one year due to the COVID-19 pandemic.

Mr. Schelp explained that some insurers are currently using accelerated underwriting techniques as a substitute for requiring a physical examination by supplementing the application process with information obtained using new analytics and modeling techniques. Amendment proposal 2019-56 was submitted in response to the need to: 1) collect data that allows comparison of accelerated underwriting findings to existing underwriting techniques; 2) identify the variables that affect and differentiate mortality; and 3) allow for the development of industry mortality experience tables, which are more reflective of actual experience. He said that during the public exposure of amendment proposal 2019-56, industry expressed a new series of concerns as to whether the expanded collection of data caused increased confidentiality concerns under HIPAA. Mr. Schelp said that while amendment proposal 2019-56 would greatly increase the number of individual data elements to be collected, it would not change the nature of these data elements or increase the NAIC’s risks under HIPAA. He said the NAIC retained the Haynes Benefits law firm, a nationally known HIPAA consulting firm, to provide an overview of any HIPAA issues and guidance on how to best address these issues. He said that Haynes Benefits has worked with the NAIC on its own HIPAA-related issues for several years and has intimate knowledge of the NAIC data systems.

Mr. Schelp shared the specific guidance on the applicability of HIPAA to VM-51 provided by Haynes Benefit:

1. To be subject to HIPAA, the NAIC must either be a Covered Entity or a Business Associate. The types of data reported under VM-50 and VM-51 most likely will not be subject to HIPAA because the NAIC as the Experience Reporting Agent will not be either a Covered Entity or Business Associate.
2. There are 3 types of Covered Entities under HIPAA:
3. Health Plans;
4. Healthcare Clearinghouses; and
5. Healthcare providers that conduct certain types of transactions in electronic format.
6. The NAIC in its role as the Experience Reporting Agent is clearly not a Health Plan, which is defined as a plan that pays for the costs of health care.
7. The NAIC in its role as the Experience Reporting Agent is clearly not a Healthcare Provider, which is defined as a provider of medical or other services, or any entity that furnishes, bills, or is then paid for healthcare in the normal course of business. This definition includes, for example, physicians, pharmacies, nursing homes, etc. Clearly the NAIC in its role as Experience Reporting Agent is not a Healthcare Provider.
8. The NAIC in its role as the Experience Reporting Agent is clearly not a Healthcare Clearinghouse, which is defined as an entity that facilitates the processing of health information received from another entity. When HIPAA was enacted, Clearinghouses served the useful function of taking non-standard provider billings and converting them into claims to be presented to health carriers. The NAIC as the experience Reporting Agent will be collecting this information solely for underwriting and rating purposes, not for community health related concerns.
9. The NAIC in its role as the Experience Reporting Agent is not a Business Associate, which is defined as an entity that performs a function or activity on behalf of a Covered Entity and uses or discloses Protected Health Information in connection with that function. Actuarial and Data Aggregation are considered to be services that can make an entity a Business Associate. Haynes Benefits is of the opinion that the NAIC in its role as Experience Reporting Agent most likely will not be deemed a Business Associate.

Mr. Schelp said that while the NAIC is not a covered entity or business associate subject to HIPAA, on the remote chance that the NAIC may be found to be either a covered entity or a business associate, it has taken and will continue to maintain measures to make sure that the experience data will be secure and in compliance with both HIPAA and VM-50, including the provision of a Statement on Standards for Attestation Engagements (SSAE) 18 Service Organization Control (SOC) 2 audit report. He said the NAIC will work with Haynes Benefits to conduct a HIPAA risk analysis and prepare corresponding policies and procedures under VM-50. He noted that the NAIC has already entered into several agreements to assure the confidentiality of the experience data being requested, including entering into an Experience Reporting Agent Agreement with the Missouri Department of Commerce and Insurance (DCI), as well as implementing a click agreement for companies submitting data that incorporates the confidentiality provisions of VM-50.

1. Adopted Amendment Proposal 2020-08

Tim Cardinal (Cardinalis 1 Consulting) said the *Valuation Manual* allows either a top-down or bottom-up method of aggregating company mortality experience. He said these methods are limiting for a company with highly granular mortality assumptions, resulting in numerous segments with lower credibility. He said amendment proposal 2020-08 recommends a hybrid approach that uses the bottom-up approach to aggregate to an acceptable level of credibility, followed by application of the top-down approach to subdivide those segments. Brian Bayerle (American Council of Life Insurers*—*ACLI) said the ACLI comment letter (Attachment Twenty-One) questions whether the bottom-up approach, the top-down approach and the approach being recommended comprise the universe of possible aggregation approaches and requests that, sometime in the future, the Task Force consider replacing the language defining the requirements of the aggregation approaches with language that is less prescriptive and more principle-based language. Ms. Hemphill said aggregation is an area where company compliance is an issue. She expressed concern that the proposed method may cause more compliance issues but agrees that the proposed method should be allowed and supports Task Force adoption of the amendment proposal. In response to the ACLI comment, she said she does not consider the three methods prescriptive and said they should comprise the universe of approaches. Leonard Mangini (Academy) said the proposed approach fixes issues with the existing approaches and offers flexibility that captures the universe of approaches.

Mr. Weber made a motion, seconded by Mr. Leung, to adopt amendment proposal 2020-08 (Attachment Twenty-Two). The motion passed unanimously.

1. Exposed Amendment Proposal 2019-33

Mary Bahna-Nolan (Academy) said amendment proposal 2019-33 addresses policies that have rate structures and underwriting similar to individual policies but are filed under group life insurance contracts. She said the proposal recommends that the policies receive the same reserve treatment as individual policies. She noted that an earlier version of the amendment proposal included edits to VM-51. She said the references to VM-51 have been removed and will be considered in a different amendment proposal that specifically addresses experience reporting data elements. The change proposed by amendment proposal 2019-33 will be applicable to policies issued on or after Jan. 1, 2024 and is optional for such policies issued on or after the VM operative date but prior to Jan. 1, 2024. Mr. Sartain asked if the proposal’s long-term guarantee requirement should be a stand-alone criterion. Mr. Boerner suggested that Mr. Sartain submit his question during the public comment period. Mr. Carmello suggested that the criteria listed in the amendment proposal are not specific enough. He said that the requirements should be more prescriptive with perhaps fewer criteria.

Mr. Robinson made a motion, seconded by Mr. Leung, to expose amendment proposal 2019-33 (Attachment Twenty-Three) for a 60-day public comment period ending Feb. 4. The motion passed unanimously.

1. Exposed Amendment Proposal 2020-11

Ms. Hemphill said amendment proposal 2020-09 (see the Nov. 5 Task Force minutes), which the Task Force adopted previously, will be effective for the 2022 *Valuation Manual*. She said states could consider allowing a permitted practice for 2020 and 2021 if companies wish to use the exemption provided in the amendment. She said amendment proposal 2020-11 adds language that supports amendment proposal 2020-09 such that after 2021, an annual granting of a permitted practice for policies issued in 2020 and 2021 is not required.

Mr. Boerner said the exposure of amendment proposal 2020-11 will include the language of amendment proposal 2020-09.

Mr. Robinson said the language of 2020-09 should not reference Appendix VM-A and Appendix VM-C. Mr. Boerner suggested making a comment to that effect during the public comment period.

Mr. Leung made a motion, seconded by Mr. Chupp, to expose amendment proposal 2020-11 (Attachment Twenty-Four) for a 60-day public comment period ending Feb. 4. The motion passed unanimously.

1. Discussed Experience Reporting Time Lag

Ms. Bahna-Nolan said that the reprieve from experience data reporting requirements in 2020 has resulted in a slowing of the SOA industry mortality development process. She asked the Task Force to consider reducing the two-year time lag for experience reporting to a one-year time lag to help alleviate the slowdown. Mr. Boerner said the Task Force will work to expose the possibility of using a one-year time lag for public comment and discuss comments during a future meeting.

1. Discussed the ESG Implementation Timeline and Overview of Treasury Model

Pat Allison (NAIC) reviewed the implementation timeline for the economic scenario generator (ESG) (Attachment Twenty-Five). She noted that the first three milestones have been completed and reminded the audience that the presentation given to the Task Force and the Life Risk-Based Capital (E) Working Group on Oct. 27 is posted on the groups’ web pages. She said there is ongoing development work on both the NAIC’s and Conning’s website to allow access to prescribed scenarios, documentation, training materials and tools. State insurance regulators can obtain access to Conning’s full documentation related to the basic dataset by requesting it directly from Conning. Interested parties will be able to obtain access to the documentation but must first sign a nondisclosure agreement.

Ms. Allison noted that there will be a single field test, unless the field test results indicate that a second field test is warranted. She said the NAIC has models remaining from the Oliver Wyman work on the yearly renewable term (YRT) field test that can be used in the ESG field test. She said the field test is still being designed but is expected to include comparisons of reserves and capital produced by the Conning GEMS Treasury Model against those produced by the Academy interest rate generator.

Ms. Allison said milestone 21, the July 2021 Life Insurance and Annuities (A) Committee adoption of the ESG-related Valuation Manual amendments, is a critical milestone that cannot be moved and cannot be missed if the project is to meet its January 2022 implementation target date. Mr. Boerner said the timeline will be adjusted as needed.

Daniel Finn (Conning) shared a slide presentation (Attachment Twenty-Six) on the GEMS model. Mr. Finn noted that while the Academy interest rate generator (AIRG) uses one-year and 20-year maturities to fit the yield curve, the GEMS model uses the three-month maturity and two other maturity points selected as part of an optimization routine that minimizes the gap between the actual and fitted curves. Mr. Finn discussed the following set of goals and the related Task Force decisions:

1. **Goals relating to the yield curve shape:**
   1. The model’s starting yield curve should match the actual yield curve as closely as possible.
2. The model should produce a variety of yield curve shapes, and they should change over time.
3. Interest rates can be negative.

**Task Force Decisions:**

How fast should the actual vs. fitted curve discrepancies disappear?

Should the model produce negative interest rates?

• If so, how low should rates be allowed to go, and how frequently should negative rates occur?

• If not, how absolute is this? Should there be a floor?

1. **Goals relating to interest rate mean reversion:**
2. The model should be capable of producing a reasonable range of results for very long simulations.
3. The ESG should be capable of producing low interest rates for an extended period of time.

**Task Force Decisions:**

• What is the mean reversion target, and what methodology will be used to determine it?

• What mean reversion speed is desired?

• How many low for long scenarios are desired?

• What sensitivities should be tested prior to field testing, and how should they be determined?

1. **Goals relating to interest rate volatility:**

a. The model should produce interest rate levels that fluctuate significantly over long periods.

**Task Force Decision:** No decision needed.

1. **Other goals:**
2. The interest rate generator should be arbitrage-free.
3. The ESG should be calibrated using an appropriate historical period.

**Task Force Decision:**

• The GEMS model is arbitrage-free. However, if a floor is introduced, it will no longer be arbitrage-free.

The audio of the timeline discussion and the overview of the GEMS Treasury Model will be posted on the Related Documents tab of the Task Force page.

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

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