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Life Actuarial (A) Task Force

Virtual Meeting (*in lieu of meeting at the 2021 Fall National Meeting*)

December 8, 2021

The Life Actuarial (A) Task Force met Dec. 8, 2021. The following Task Force members participated: Cassie Brown, Chair, represented by Mike Boerner, Rachel Hemphill, and Karen Jiang (TX); Judith L. French, Vice Chair, represented by Peter Weber (OH); Lori K. Wing-Heier represented by Sharon Comstock (AK); Jim L. Ridling represented by Charles Hale (AL); Ricardo Lara represented by Thomas Reedy (CA); Michael Conway represented by Eric Unger (CO); Andrew N. Mais represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Dana Popish Severinghaus represented by Bruce Sartain and Vincent Tsang (IL); Vicki Schmidt represented by Nicole Boyd (KS); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by William Leung (MO); Eric Dunning represented by Derek Wallman (NE); Marlene Caride represented by Kevin Clarkson (NJ); Adrienne A. Harris represented by Bill Carmello and Amanda Fenwick (NY); Glen Mulready represented by Andrew Schallhorn (OK); Jonathan T. Pike represented by Tomasz Serbinowski (UT); and Scott A. White represented by Craig Chupp (VA).

1. Adopted its Dec. 1, Nov. 18, Nov. 4, Oct. 21, Sept. 30, and Sept. 16 Minutes

The Task Force met Dec. 1, Nov. 18, Nov. 4, Oct. 21, Sept. 30, and Sept. 16. During these meetings, the Task Force took the following action: 1) adopted its Summer National Meeting minutes; 2) adopted its 2022 proposed charges; 3) adopted the Society of Actuaries’ (SOA’s) 2022 Generally Recognized Expense Table (GRET); 4) adopted the SOA historical mortality improvement (HMI) recommendation and the HMI scale factors; 5) adopted amendment proposal 2021-13, which corrects language that allows the addition of prescribed mortality margins for some Life/Long-Term Care (LTC) combination products to decrease, rather than increase, modeled reserves; 6) adopted amendment proposal 2021-12, which corrects a reference error in VM-21, Requirements for Principle-Based Reserves for Variable Annuities, and clarifies the requirements for variable annuity contracts with no minimum guaranteed benefits under three prescribed assumptions in VM-21 Section 6C; 7) exposed amendment proposal 2021-11, which addresses items related to VM-21 information necessary for regulatory review that companies did not include in their VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, reports; and 8) adopted revisions to *Actuarial Guideline XXV**—Calculation of Minimum Reserves and Minimum Nonforfeiture Values for Policies with Guaranteed Increasing Death Benefits Based on an Index* (AG 25), which remove the fixed 4% nonforfeiture rate floor to align AG 25 with the VM-02, Minimum Nonforfeiture Mortality and Interest, changes implemented for the 2021 *Valuation Manual*.

Mr. Leung made a motion, seconded by Mr. Yanacheak, to adopt the Task Force’s Dec. 1 (Attachment One), Nov. 18 (Attachment Two), Nov. 4 (Attachment Three), Oct. 21 (Attachment Four), Sept. 30 (Attachment Five), and Sept. 16 (Attachment Six) minutes; The motion passed unanimously.

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

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

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

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

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

Mr. Leung made a motion, seconded by Mr. Yanacheak, to adopt the report of the Experience Reporting (A) Subgroup (Attachment Nine). The motion passed unanimously.

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

Mr. Sartain said the comment letters on the VM-22, Statutory Maximum Valuation Interest Rates for Income Annuities, Framework exposure are posted on the Valuation Manual (VM)-22 (A) Subgroup web page. He said the Subgroup will work on consolidating the comments in preparation for a discussion on Subgroup calls that will begin in January, with a goal of having a second exposure next summer.

Mr. Sartain said the Subgroup created a drafting group to develop prescribed assumptions for a standard projection amount (SPA). He said it has not been decided whether the SPA will be used as a floor or a disclosure item. He said the varying nature of fixed annuities makes developing an SPA for VM-22 more challenging than the VM-21 SPA development efforts. He noted that the drafting group has been subdivided into two groups. The first group focuses on mortality, and the second group focuses on contract holder behavior. Mr. Sartain said the mortality group decided to use four product categories: structured settlements, other individual payout annuities, deferred annuities, and group annuities and pension risk transfer business. He said the short-term plan is to develop product assumptions for use in a VM-22 field test and a process for determining the appropriate assumptions for the future. He said factors generated from recent studies may be applied to existing basic mortality tables in the short-term approach. He indicated that the long-term approach for group annuities may be to collect company mortality data by adding to the VM-51, Experience Reporting Formats, data call.

Mr. Sartain said the Subgroup sent a letter to the American Academy of Actuaries (Academy) and the SOA requesting the development of mortality assumptions appropriate for use as prescribed assumptions for an SPA for structured settlements. He said similar requests for mortality assumptions have been drafted for other individual payout annuities and deferred annuities.

Mr. Leung made a motion, seconded by Mr. Chou, to adopt the report of the VM-22 (A) Subgroup. The motion passed unanimously.

1. Adopted the Report of the Index-Linked Variable Annuity (A) Subgroup

Mr. Weber said the Subgroup is charged with recommending changes to nonforfeiture or interim values to help address non- uniform state insurance department review and approval of index-linked variable annuities (ILVAs), also known as registered index-linked annuities (RILAs). He said the products are filed as variable annuity contracts and as such are exempted from the requirements of the *Standard Nonforfeiture Law for Individual Deferred Annuities* (#805). He said the Subgroup is considering what requirements are necessary for a product to be deemed a variable contract. He said the *Variable Annuity Model Regulation* (#250) defines a variable annuity as a product that provides for annuity benefits that vary according to the investment experience of a separate account or accounts. He said with respect to interim values, the ILVA should be consistent with this definition of variable products. He said state insurance regulators want to avoid the situation where the contract holder experiences losses if the separate account value drops, without experiencing commensurate reward when the separate account value increases. He said the Subgroup has developed an actuarial guideline to provide guidance on how ILVAs can be shown to have benefits consistent with the supporting assets. He said the proposed guideline is currently exposed for a public comment period ending Jan. 27, 2022.

Mr. Weber made a motion, seconded by Mr. Clarkson, to adopt the report of the Index-Linked Variable Annuity (A) Subgroup, including its Nov. 23 (Attachment Ten) and Sept. 23 (Attachment Eleven) minutes. The motion passed unanimously.

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

Mr. Andersen provided background on the indexed universal life (IUL) illustration issues that led to the development of *Actuarial Guideline XLIX**—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest* (AG 49) and *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest Sold On or After December 14, 2020* (AG 49A). He said state insurance regulator reviews have revealed that while illustrated credited rates may have lowered, they have not lowered as much as was contemplated when AG 49-A was adopted. He said a key development that has been identified is the increased use of volatility-controlled funds to rebalance between equities and fixed income assets. He said volatility-controlled funds provide downside protection. He noted that although they may be marketed as uncapped funds, they do not provide an upside that is close to the returns available from uncapped Standard and Poor’s 500 index (S&P 500) funds. He said the main issue that has been identified is companies are increasingly using a portion of the policy hedge budget to provide upside potential to applying a volatility-controlled index, with the remainder funding a fixed bonus for policyholders. He said this reflects some companies’ beliefs that a volatility-controlled fund with a fixed bonus allows illustrations that are more favorable than a traditional capped S&P 500. He said a summary of the issues will be made available to expose for public comment.

Mr. Leung made a motion, seconded by Mr. Yanacheak, to adopt the report of the IUL Illustration (A) Subgroup. The motion passed unanimously.

1. Re-Exposed Amendment Proposal 2021-11

Connie Tang (Academy Variable Annuity Reserves and Capital Work Group) said the Academy comment letter (Attachment Twelve) on the exposure of amendment proposal 2021-11 (Attachment Thirteen) suggests quantifying the assumption margins before using a floor and simplifying the assumption margin analysis by focusing on margin analysis for individual risk factors on the 70% conditional tail expectation (CTE 70) instead of CTE 70 and CTE 98. She said an alternative suggestion is to use CTE 70 (adjusted) for the individual margin analysis. Ms. Hemphill said CTE 70 (adjusted) was considered, but the drafters of the amendment proposal chose CTE 70 (best efforts) because it provides a more complete view. She said CTE 98 is needed for the Total Asset Requirement (TAR), so the drafters would not want to remove it. She agreed to consider revising the amendment proposal to incorporate the suggestion of quantifying the margins before applying a floor.

Brian Bayerle (American Council of Life Insurers—ACLI) said the ACLI comments (Attachment Fourteen) are supportive of adding the guidance in the amendment proposal to VM-21, but it questions the importance of the sensitivity testing requirements and how they can be used to help determine a reasonable margin. He said it is also not clear how the qualified actuary will use the sensitivity testing when setting their margin. He suggested removing that part of the language from the amendment proposal and VM-20, Requirements for Principle-Based Reserves for Life Products. He noted several other suggested edits in the comment letter.

Ms. Hemphill shared an updated draft of the amendment proposal for Task Force consideration. She said most of the ACLI comments were incorporated into the updated draft. The ACLI comments that were not accepted related to sensitivity testing and setting margins for more than one assumption. In response to the Academy comments, Ms. Hemphill proposed adding additional language to paragraphs ii and iii of VM-31 Section 3F(13)d.

Mr. Weber made a motion, seconded by Mr. Yanacheak, to re-expose amendment proposal 2021-11 (Attachment Fifteen), including the edits in response to the accepted ACLI and Academy comments, for a 38-day public comment period ending Jan. 14, 2022. The motion passed unanimously.

1. Heard an Update on the ESG

Scott O’Neal (NAIC) presented a slide deck (Attachment Sixteen) on the status of the economic scenario generator (ESG). He said it is unlikely that the ESG will be available for inclusion in the 2023 *Valuation Manual*. Mr. Boerner said inclusion in the 2023 *Valuation Manual* would require the Task Force adoption of changes by July 2022. He said given that the field test will not end until summer 2022, there will not be enough time for amendment proposals to be developed and adopted for inclusion in the *Valuation Manual*.

Mr. O’Neal said Conning has developed a new GEMS Treasury model calibration based on the acceptance criteria defined by the ESG Drafting Group. He said NAIC staff and Conning are analyzing the scenarios based on the new calibration. Those scenarios are expected to be presented to the Drafting Group later in the month. Upon approval of the scenarios by the Drafting Group, the scenarios will be discussed publicly at a joint meeting of the Task Force and the Life Risk-Based Capital (E) Working Group.

Mr. O’Neal discussed the key decisions in the development of the GEMS Equity Model. He said a major consideration is the theoretical and historical relationship between equities and Treasury rates. He said for equity returns and dividends, the GEMS Equity Model is configured with a linkage to Treasury rates. He said there are various ways to link equities and Treasuries, but he noted that it is unknown how much time and effort might be required to alter the existing GEMS equity/treasury linkage if the Drafting Group chooses to modify the GEMS linkage or use a different method. Mr. Bayerle stressed that the equity/treasury linkage is a critical assumption. He said it will be helpful if the Drafting Group provides an estimate of the time to modify the GEMS linkage or change to another method.

Mr. O’Neal said other decisions to be made for the Equity Model include those related to the risk/return relationship between different equity indices and the responsiveness of equity rates to changes in initial market conditions. He said the Drafting Group must also decide whether to use the GEMS Corporate Model in its current form or propose changes to the model. As with the GEMS Equity Model, changes to the GEMS Corporate Model will require development time and effort from Conning.

1. Discussed Comments on the Proposed AAT Actuarial Guideline Exposure

Mr. Andersen said the Task Force exposed the concept of an actuarial guideline focusing on the modeling of complex or high yielding assets in asset adequacy testing (AAT) on Sept. 30 for a public comment period ending Dec. 1. His presentation (Attachment Seventeen) showed that the project was precipitated by the rapid entry of private equity firms into life insurance through the purchase of life insurance companies or the acquisition of fixed annuity blocks of business. He said in coordination with the Valuation Analysis (E) Working Group, the Minnesota Department of Insurance (DOI) collected information from 27 companies, representing 17 insurance groups, with the company scope: 1) being connected to a private equity firm through ownership or reinsurance, 2) having a large fixed annuity exposure with rich guarantees; or 3) having complex assets on the books. The information included details on AAT, including the modeling of complex assets. Mr. Andersen said the findings show that one of the benefits of the private equity relationship for life insurers is the access to alternative asset classes with higher potential yields. He said from the regulatory viewpoint, there are several concerns, including that some of these complex assets are less liquid or have a greater downside risk, as well as the loss of insurance company funds due to investment-related fees.

Mr. Andersen said after reviewing the information provided by the companies, the concept of an actuarial guideline focusing on the modeling of complex assets was exposed. Commenters were asked to provide feedback on the product scope, the size scope, whether the focus should be on constraints or standards of documentation, and the potential effective date of the guideline. Mr. Andersen discussed a summary of the comments submitted. He said the consensus of the commenters is that the scope should be broadened to include all life insurance company liabilities, especially liabilities related to supporting assets that have significant investment risk. He said there was a consensus that any exemption that is allowed should not be based on the size of the company because even small companies are investing more aggressively but could potentially focus on a ratio of complex, higher-yield assets to overall assets. He said commenters were split on whether to establish constraints or establish documentation requirements. He said there was a consensus to target year-end 2022 as the adoption date for the guideline. He noted that the year-end 2021 activity of appointed actuaries could inform the degree to which the guideline resorts to drastic measures. His final slides listed some potential goals of the AAT guideline.

Mr. Bayerle said while the ACLI comment letter (Attachment Eighteen) supports the regulatory efforts, it has concerns about the need to develop a guideline. He said its preference is to address the issues by enhancing documentation. Edward L. Toy (Risk & Regulatory Consulting LLC—RRC) said the RRC comment letter (Attachment Nineteen) focused on volatility, liquidity, complexity, and credit issues. He offered to assist in the development of a definition of complex assets. Mr. Leung said in addition to his comment letter (Attachment Twenty), he recommends that the Academy practice note on the treatment of spread and default cost assumptions in modeling assets for cashflow testing may be a good source of guidance. Aaron Sarfatti (Equitable) said the Equitable comments (Attachment Twenty-One) express its preference for guardrails, as opposed to additional documentation requirements. Mr. Carmello said the New York Department of Financial Services (NYDFS) supports the development of a guideline. He suggested that the guideline could follow the framework used by the NYDFS in its Special Consideration Letter. Jason Kehrberg (Academy) said the Academy comment letter (Attachment Twenty-Two) supports the concept of the AAT actuarial guideline. Mr. Andersen asked if the Academy could provide further comments on the role of the actuary in a company that is in a relationship with a private equity firm. Mr. Kehrberg agreed to take the issue back to the Academy. Comments were also submitted by the North Carolina DOI (Attachment Twenty-Three), F&G Annuities & Life (Attachment Twenty-Four), and an anonymous source (Attachment Twenty-Five).

Mr. Andersen said he will provide a revised request for comments focused on the argument of developing constraints versus solely relying on documentation.

1. Heard an Update on the Experience Reporting Data Collection Project

Pat Allison (NAIC) gave a presentation (Attachment Twenty-Six) on the mortality experience data collection project. A total of 110 companies are subject to mortality experience data collection for the 2018 and 2019 observation years, representing 87.5% of industry claims subject to mortality experience data collection. Ms. Allison said companies began submitting data on June 7, with initial submissions due by Sept. 30. She noted that the deadline for companies to correct their submissions is the end of December. She said the schedule calls for the NAIC to submit the aggregate experience data file to the SOA by May 31, 2022. She said to date, 105 companies have submitted data. Four of the remaining five companies have uploaded their data but have yet to submit it. The state insurance regulator for the outstanding company will be contacted by NAIC staff to assist with getting the company to submit its data.

Ms. Allison explained the rules-based data checks, reconciliations, and controls applied to the data upon submission. She said communications are sent to companies whose submissions do not meet the applicable standards. She noted that because of their size and the complexity of their policies, large companies tend to have lower percentages of acceptable data than small companies. She explained that NAIC staff are also reviewing field distributions to check the reasonableness of data. The 150 field distribution charts help identity items such as systematic errors and unusual or unlikely reporting patterns. Ms. Allison noted that there could be very reasonable explanations for the anomalies in the data. She said identification of an anomaly does not mean the data is wrong, but it is merely an indication that the company should review the data and provide a valid explanation where possible. She said explanations are tracked to avoid repeating the question next year. She anticipates the process will be easier next year.

Ms. Allison said the NAIC recommends that the Task Force extend the deadline for corrected submissions to March 31, 2022. She said the extension will allow companies more time to correct and resubmit their data. She encouraged companies to not delay submitting their data; they should submit the data as soon as they have addressed the data exceptions and the questions from the data validation and field distribution reviews. She said extending the deadline will not adversely affect the target date for submitting data to the SOA. Mr. Boerner noted that the ability to extend the deadline is provided in the *Valuation Manual*.

The Task Force agreed to extend the deadline to March 31, 2022, without objection.

1. Heard an Update on FMI

Marianne Purushotham (Academy Mortality Improvements Life Working Group [MILWG] and SOA Preferred Mortality Project Oversight Group [Joint Committee]) presented an update (Attachment Twenty-Seven) on the methodology for developing future mortality improvement (FMI) rates applicable to the VM-20 reserve valuation. The rates are reviewed annually in a manner similar to the process used for the valuation basic table (VBT) scales. Ms. Purushotham noted that changes to the scale will be subject to a threshold of materiality. A best estimate scale and a loaded scale will be developed. The scales will vary by gender and attained age, and they will be applicable for a 20-year period.

Ms. Purushotham said the Joint Committee will develop a recommendation for reflecting the impact of COVID-19 and determine a method for smoothing FMI rates before presenting the scales to the Task Force for exposure by June 30, 2022. She expects to provide responses to exposure comments and seek Task Force approval of the FMI rates by mid-September 2022. She noted that the appendix to the presentation provides a review of the FMI scale development.

1. Heard an Update on SOA Research and Education

Dale Hall (SOA) gave a presentation (Attachment Twenty-Eight) on post-level term lapse and mortality predictive modeling. He said there is sufficient experience to compare graded premium, “jump to annual renewal term” premium experience, and analyze post-level term experience for 15-year level term policies. He said linear regression is used to build a model for shock lapse at the end of the level year period. He encouraged companies to access the model on the SOA website. The presentation also provided SOA analysis of HMI drivers since 1950.

1. Heard an Update on the Recent Activities of the Academy LPC

Laura Hanson (Academy Life Practice Council[LPC]) gave a presentation (Attachment Twenty-Nine) on the LPC’s recent activities. She highlighted Academy accomplishments, such as the recent Academy webinars, boot camp, and annual meeting. She mentioned the upcoming Winter 2022 Life Policy Update webinar scheduled for January. She noted Academy efforts to provide policy analysis on the use of annuities in retirement plans, the use of data and algorithms in risk classification and underwriting, and supporting efforts to promote diversity and inclusion within the actuarial profession and in life insurance products.

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/Fall 2021/TF/LifeActuarial/National Meeting/LATF Fall 2021 Minutes](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/Fall%202021/TF/LifeActuarial/National%20Meeting/LATF%20Fall%202021%20Minutes.docx)