

## Draft Pending Adoption

Draft: 8/20/21

Life Actuarial (A) Task Force  
Virtual Meeting (*in lieu of meeting at the 2021 Summer National Meeting*)  
August 12, 2021

The Life Actuarial (A) Task Force met Aug. 12, 2021. The following Task Force members participated: Doug Slape, Chair, represented by Mike Boerner and Rachel Hemphill (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 Jennifer Li (AL); Ricardo Lara represented by Perry Kupferman, Thomas Reedy, and Ted Chang (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); Amy L. Beard represented by Steven Chamblee (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); Eric Dunning represented by Rhonda Ahrens (NE); Marlene Caride represented by Seong-min Eom (NJ); Linda A. Lacewell 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 July 1, June 24, June 17, June 10, May 27, May 20, May 13, May 6, April 29, and April 22 Minutes

The Task Force met July 1, June 24, June 17, June 10, May 27, May 20, May 13, May 6, April 29, and April 22. During these meetings, the Task Force took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted amendment proposal 2019-33, which clarifies the definition of individually underwritten life insurance and the applicability of principle-based reserving (PBR) requirements for group contracts with individual risk selection issued under insurance certificates; 3) adopted amendment proposal 2020-10, which allows the use of a prudent level of mortality improvement beyond the valuation date; 4) adopted amendment proposal 2021-03, which updates the reference to required minimum distribution age; 5) adopted amendment proposal 2021-05, which changes the term in VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, from “model investment strategy” to “modeled company investment strategy” and clarifies the comparison to the alternative investment strategy; 6) adopted amendment proposal 2021-06, which allows for third-party submission of experience data; 7) adopted amendment proposal 2021-07, which clarifies the universal life with secondary guarantees (ULSG) net premium reserve (NPR) calculation requirements; and 8) adopted amendment proposal 2021-09, which updates the materiality language in Section 3.E.1 of VM-31 to be consistent with VM-21, Requirements for Principle-Based Reserves for Variable Annuities.

Mr. Yanacheak made a motion, seconded by Mr. Schallhorn, to adopt the Task Force’s July 1 (Attachment One), June 24 (Attachment Two), June 17 (Attachment Three), June 10 (Attachment Four), May 27 (Attachment Five), May 20 (Attachment Six), May 13 (Attachment Seven), May 6 (Attachment Eight), April 29 (Attachment Nine), and April 22 (Attachment Ten) minutes. The motion passed unanimously.

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

Mr. Weber made a motion, seconded by Ms. Ahrens, to adopt the report of the Index-Linked Variable Annuity (A) Subgroup (Attachment Eleven), including its July 15 minutes (Attachment Twelve). The motion passed unanimously.

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

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

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

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

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

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

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### 6. Adopted the Report of the IUL Illustration (A) Subgroup

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

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

Mr. Sartain said the Valuation Manual (VM)-22 (A) Subgroup completed discussions of the American Academy of Actuaries' (Academy's) Annuity Reserves and Capital Work Group (ARCWG) preliminary framework. He said the most important discussions were focused on aggregation. He said liability elements, hedging issues, and field test plans were also discussed. He noted that field testing is scheduled for the first half of 2022. He noted that the ARCWG framework is exposed for a 90-day public comment period ending Oct. 19.

Mr. Sartain said the Subgroup initially settled on two reserve categories for aggregation; i.e., one for payout annuities and another for deferred annuities. The Subgroup later decided against using the payout and deferred annuity categories. They revised the categories to refer to a principled-based approach and a prescriptive approach. The Subgroup asked for feedback on the principle-based and prescriptive approaches as part of the framework exposure.

Mr. Sartain said the Subgroup has separate drafting groups focused on developing a standard projection amount (SPA) and studying mortality underlying pension risk transfer (PRT) business. He said the SPA drafting group has not met recently. He said the PRT drafting group meets regularly and is reviewing information solicited from a small group of companies with PRT business. He said the Subgroup hopes to use the formula based or asset adequacy information from those companies in the development of the principle-based aggregation approach.

Mr. Sartain made a motion, seconded by Mr. Yanacheak, to adopt the report of the VM-22 (A) Subgroup, including its July 21 (Attachment Seventeen), July 7 (Attachment Eighteen), June 30 (Attachment Nineteen), June 16 (Attachment Twenty), May 26 (Attachment Twenty-One), May 12 (Attachment Twenty-Two), May 5 (Attachment Twenty-Three), April 28 (Attachment Twenty-Four), and April 21 (Attachment Twenty-Five) minutes. The motion passed unanimously.

### 8. Heard an Update on Future Mortality Improvement

Marianne Purushotham (Academy Mortality Improvements Life Working Group [MILWG] and Society of Actuaries [SOA] Preferred Mortality Project Oversight Group [Joint Committee]) presented a recommendation (Attachment Twenty-Six) for the methodology for developing mortality improvement rates applicable to the VM-20, Requirements for Principle-Based Reserves for Life Products, reserve valuation. The rates will be reviewed annually in a manner similar to the process used for the valuation basic table (VBT) scales. Ms. Purushotham noted that 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 scale will be initially based on the best estimate of recent historical mortality improvement. The rates will linearly grade to the long-term mortality improvement rates (LTMIRs), defined as the average of projection years 10–15 from the U.S. Social Security Administration (SSA) intermediate projection, over the first 10 years. The mortality improvement rates will then remain level for five years and linearly grade to no improvement at year 20. She noted that the mortality improvement will not be zero at year 20, it will remain at the level of accumulated mortality improvement for the 20-year period. The mortality improvement factors are expected to be available for 2022 valuations and will factor in COVID-19 impacts.

Scott O'Neal (NAIC) discussed model office results showing the impact on ULSG reserves from the application of the mortality improvement rates, including two levels of margin. He noted that instead of the reserve calculation using historical mortality improvement up to the valuation date and future mortality improvement rates beyond the valuation date, the future mortality improvement rates were used for both historical and future rates as a means of simplification. Historical mortality improvement is not applied prior to 2021. Mr. O'Neal said the model office demonstrates that the use of mortality improvement rates beyond the valuation date results in reductions of 14%, 10%, and 8% for the best estimate, best estimate with 25% margin, and best estimate with 35% margin, respectively. He said the NPR floor is not considered in the analysis but could be reflected at the request of state insurance regulators. He noted that Section 3.D.11.c of VM-31 provides an opportunity for companies to identify and quantify the impact of any perceived implicit margins present in the VM-20 methodology in their PBR Actuarial Reports. Several companies have highlighted VM-20's prohibition of future mortality improvement as a source of implicit margin in VM-20 and provided a quantification of the impact. He said a review of 2020 PBR Actuarial Reports for a sample

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of large life insurance companies revealed that companies reported between a 9% and 80% reduction to their deterministic reserves for ULSG products with the inclusion of a future mortality improvement assumption.

Ms. Purushotham said the recommendation is to use the best estimate with a 25% margin. She pointed out the 25% reduction is a material cushion to the reserve impact. She noted that the mortality improvement rates are not locked in. The scale is subject to change on an annual basis to reflect any new trends. She said there are several issues that will be considered when setting the rates, including the short-term and long-term impacts of COVID-19, the impact of opioid addiction, the threshold for materiality and the socioeconomic-based mortality differences between the general and insured populations. Mr. Carmello asked if the impacts of COVID-19 will be carved out. Ms. Purushotham said that is being considered, but a final decision is yet to be made. Mr. Carmello suggested delaying implementation of the future mortality improvement for a few years. He asked if the margin will be applied if the mortality improvement is negative. Ms. Purushotham responded that the margin will be applied as a further reduction to the negative mortality improvement. She said a zero mortality rate will receive a flat 25 basis point margin. Mr. Carmello suggested that if the mortality improvement rates are between +1 and -1, they should have a flat margin.

Mr. Yanacheak voiced concern that the SOA determination of materiality threshold would take some decision making out of the hands of the Task Force. Ms. Purushotham said the intent is to fully provide the data to the Task Force. If the SOA recommendation is to forgo changes to the mortality improvement rates, the final decision will reside with the Task Force.

### 9. Heard an Update on the ESG

Mr. O'Neal presented a slide deck (Attachment Twenty-Seven) on the status of the economic scenario generator (ESG). He said the ESG Drafting Group comprises selected Task Force members, NAIC staff, Conning Inc. staff, and industry subject matter experts (SMEs). He said the drafting group is focused on developing a set of recommendations for the GEMS Treasury model and a set of associated scenarios for consideration by the Task Force and the Life Risk-Based Capital (E) Working Group. He listed the key calibration goals. Once the key calibration goals are met and scenarios are created, a field test will be conducted. Mr. O'Neal stressed that the process of meeting the goals and setting the scenarios is iterative. He noted that technical discussions and questions are posted on SharePoint. Dan Finn (Conning Inc.) discussed the calibration targets and the tradeoffs that may be encountered when attempting to meet the calibration targets.

### 10. Exposed the 2022 GRET

Tony Phipps (SOA) discussed the 2022 Generally Recognized Expense Table (GRET) presentation (Attachment Twenty-Eight). He noted that the SOA has also supplied a letter (Attachment Twenty-Nine), which provides a deeper view of the methodology. He said there are no material changes in the process as compared to past years. He said the methodology limits percentage changes to in expense factors to 10% to minimize large jumps from one year to the next. He noted that the number of companies in the study increased from 292 to 375. He attributed the increase to fewer companies falling outside the exclusion criteria.

Mr. Chou made a motion, seconded by Mr. Leung, to expose the 2022 GRET for a 21-day public comment period ending Sept. 7. The motion passed unanimously.

### 11. Heard an Update on the LIBOR Transition

Pat Allison (NAIC) presented an update (Attachment Thirty) on the transition away from the London Interbank Offered Rate (LIBOR). She said the currently recommended replacement for LIBOR is the Secured Overnight Financing Rate (SOFR). On July 29, the Alternative Reference Rates Committee (ARRC) recommended the Chicago Mercantile Exchange's (CME Group's) forward-looking SOFR term rates, which are now published daily for one-month, three-month, and six-month tenors. As of July 2023, LIBOR tenors will no longer be published. The NAIC has identified the actions companies must take prior to that date.

Ms. Allison discussed the *Valuation Manual* language related to setting the asset spreads used in cashflow modeling. She said the language makes it clear that the three-month and six-month market observable values referenced are based on LIBOR, which requires that they be replaced. She pointed to the language that supports the move from LIBOR to its replacement. She noted that it does not name a specific replacement, such as the SOFR. She said several competing alternatives, other than the SOFR, have surfaced. She said NAIC staff are conducting research to determine if long-term benchmark spreads might also need to be replaced as part of the LIBOR transition.

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Brian Bayerle (American Council of Life Insurers—ACLI) said an industry working group has been set up to assist in the transition effort. He said the working group is monitoring the alternatives, but he believes efforts should be focused on the SOFR as the LIBOR replacement. He noted that it is important for companies to fully understand how they are currently using LIBOR to determine where a replacement may be necessary.

### 12. Discussed the Mortality Data Collection Project

Ms. Allison gave a presentation (Attachment Thirty-One) on the mortality experience data collection. She said NAIC staff provided training webinars through May 27. She said data for observation years 2018 and 2019 will be collected from 115 companies. The data must be submitted through the NAIC Regulatory Data Collection (RDC) by the end of September. Ms. Allison said the company will receive feedback from the RDC when the data is initially submitted. After the company data meets the RDC critical criteria, the data will undergo further analysis from NAIC staff. NAIC staff will provide feedback within 30 days of receiving the submission. The company must correct any errors discovered by NAIC staff before resubmitting the file. There is no limit on the number of resubmissions a company can make, but the final corrected data file must be submitted on or before Dec. 31. The NAIC has committed to provide the aggregate experience data to the SOA by May 31, 2022. To date, four companies have submitted mortality experience data; only three of the four submissions are complete. Submissions must include data for the 2018 and 2019 observation years; VM-51, Experience Reporting Formats, questionnaires; control totals; and a reconciliation to be considered complete. Five companies have loaded data into the RDC but have not yet submitted the data. The presentation included a list of resources available to participating companies.

### 13. Heard an Update on SOA Research and Education

Dale Hall (SOA) gave a presentation (Attachment Thirty-Two) on group and individual life COVID-19 mortality experience for various demographic categories and geographic regions by quarter from April 2020 through March 2021. He noted that after seeing general population mortality continue to decline in 2019, the 2020 results were 16% higher than the 2019 mortality rates. He noted that excluding deaths from COVID-19, the 2020 mortality rates were 4.4% higher than the 2019 results. He said the highest actual to expected ratios occurred in the age range from 35 to 54.

### 14. Heard an Update on the Recent Activities of the Academy LPC

Laura Hanson (Academy Life Practice Council—LPC) gave a presentation (Attachment Thirty-Three) on the LPC's recent activities. She highlighted that the Academy is providing input to the ESG Drafting Group. She also noted the ARCWG work on VM-22, Statutory Maximum Valuation Interest Rates for Income Annuities, and discussed the Academy webinars and boot camps planned for the remainder of 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.

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

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