



Date: 10/27/22

Virtual Meeting

**LIFE INSURANCE AND ANNUITIES (A) COMMITTEE**

Tuesday, November 15, 2022

12:00 – 1:00 p.m. ET/ 11:00 a.m. – 12:00 p.m. CT/ 10:00 – 11:00 a.m. MT/ 9:00 – 10:00 a.m. PT

**ROLL CALL**

Judith L. French, Chair	Ohio	James J. Donelon	Louisiana
Carter Lawrence, Vice Chair	Tennessee	Barbara D. Richardson	Nevada
Mark Fowler	Alabama	Marlene Caride	New Jersey
Peni Itula Sapini Teo	American Samoa	Adrienne A. Harris	New York
Karima M. Woods	District of Columbia	Cassie Brown	Texas
Colin M. Hayashida	Hawaii	Scott A. White	Virginia
Doug Ommen	Iowa	Nathan Houdek	Wisconsin
Vicki Schmidt	Kansas		

NAIC Support Staff: Jennifer R. Cook/Jolie H. Matthews

**AGENDA**

1. Consider Adoption of its Summer National Meeting Minutes Attachment A  
—*Director Judith L. French (OH)*
2. Consider Adoption of the 2023 Generally Recognized Expense Table Attachment B  
(GRET)—*Rachel Hemphill (TX)*
3. Consider Adoption of a *Valuation Manual* Amendment Attachment C  
—*Rachel Hemphill (TX)*
4. Consider Adoption of the Life Actuarial (A) Task Force’s 2023 Proposed Attachment D  
Charges—*Rachel Hemphill (TX)*
5. Consider Adoption of the Committee’s 2023 Proposed Charges Attachment E  
—*Director Judith L. French (OH)*
6. Discuss Any Other Matters Brought Before the Committee
7. Adjournment

Draft: 8/18/22

Life Insurance and Annuities (A) Committee  
Portland, Oregon  
August 11, 2022

The Life Insurance and Annuities (A) Committee met in Portland, OR, Aug. 11, 2022. The following Committee members participated: Judith L. French, Chair (OH); Carter Lawrence, Vice Chair (TN); Mark Fowler (AL); Karima M. Woods represented by Philip Barlow (DC); Colin M Hayashida represented by Patrick P. Lo (HI); Doug Ommen (IA); Vicki Schmidt (KS); James J. Donelon (LA); Marlene Caride (NJ); Barbara D. Richardson (NV); Cassie Brown represented by Chris Herrick and Mike Boerner (TX); Scott A. White (VA); and Nathan Houdek and Richard Wicka (WI). Grace Arnold and Fred Andersen (MN) also participated.

1. Adopted its July 20 Minutes

Director French said the Committee met July 20 and took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted nine *Valuation Manual* amendments; 3) adopted *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53); 4) heard a presentation on life insurance updates to the NAIC website; and 5) received an update on the survey into the use of artificial intelligence (AI) and machine learning (ML) in life insurance being developed by the Big Data and Artificial Intelligence (H) Working Group.

Commissioner Lawrence made a motion, seconded by Commissioner Ommen, to adopt the Committee’s July 20 minutes (Attachment One). The motion passed unanimously.

2. Received an Update from the Accelerated Underwriting (A) Working Group

Commissioner Arnold gave an update on the Accelerated Underwriting (A) Working Group. She noted that the Committee adopted the Working Group’s educational report on accelerated underwriting (AU) in life insurance at the Spring National Meeting. She said one of the realizations to come out of the educational report was the need for specific guidance for state insurance regulators with respect to AU in life insurance. She said since the Spring National Meeting, an ad hoc group of six or so state insurance regulators has been meeting bi-weekly to discuss, plan, and put pen to paper on regulatory guidance for state insurance regulators.

Commissioner Arnold explained that the ad hoc group has identified market conduct as one of the areas where additional guidance for state insurance regulators about AU in life insurance would be helpful. She said the ad hoc group quickly realized that collaboration with other NAIC groups is going to be critical. She said the Working Group plans to coordinate with the Market Conduct Examination Guidelines (D) Working Group, which oversees the *Market Regulation Handbook*, as well as with the Innovation, Cybersecurity, and Technology (H) Committee and the Big Data and Artificial Intelligence (H) Working Group and its workstreams. She said the Accelerated Underwriting (A) Working Group recognizes that market conduct is not the only area where regulatory guidance will be helpful, and it remains committed to considering additional guidance and working with NAIC groups in other areas in the future.

Commissioner Arnold said the Working Group hopes to hold an open call in late September or early October.

Birny Birnbaum (Center for Economic Justice—CEJ) said the AU educational paper identified several potential consumer protection issues. He said he would like to highlight a few of those issues that he hopes the Working Group will address in the regulatory guidance it is working on. He raised the issue of the filing of predictive models, like is done with credit-based property/casualty (P/C) models. He said he hoped that the Working Group would

## Draft Pending Adoption

develop a model for life predictive models, and he reminded the Life Insurance and Annuities (A) Committee of a presentation made in January 2020 to the Working Group anticipating that an NAIC model on life predictive models would be coming soon.

Mr. Birnbaum made a number of suggestions for the Working Group to consider when it is developing its recommended regulatory guidance: 1) explore and test whether the use of consumer credit information in AU is reliable and fair in terms of both the actuarial and protected class bases for unfair discrimination; and 2) explore and test whether the use of consumer biometric information, including facial and body analytics, is reliable and fair in terms of the actuarial and protected class bases for unfair discrimination.

Mr. Birnbaum suggested that the regulatory guidance should require AU applications that utilize consumer credit information to follow the same state laws and regulations governing other uses or prohibitions of consumer credit information. He said the regulatory guidance should require life insurers using AU models to follow basic consumer protections, including: 1) obtaining consent to collect, use, and disclose a consumer's information; 2) limiting the use of a consumer's information to specified and relevant purposes; 3) providing notice to consumers of any and all unfavorable actions, including access to the information relied upon in making any unfavorable decision; and 4) providing consumers with the opportunity to correct incorrect information and have any unfavorable action reconsidered.

Commissioner Arnold said she appreciates Mr. Birnbaum's suggestions, and she explained that many of these important issues Mr. Birnbaum raises are being addressed in other NAIC groups, including the Innovation, Cybersecurity, and Technology (H) Committee and the Big Data and Artificial Intelligence (H) Working Group and its workstreams. Mr. Birnbaum said he appreciates the need for the various NAIC groups looking at this issue to collaborate, and he said a list of the groups and related activities would be helpful.

### 3. Adopted the Report of the Annuity Suitability (A) Working Group

Commissioner Ommen said the Annuity Suitability (A) Working Group met July 25. He said during this meeting, the Working Group adopted its May 26 and May 3 minutes. He explained that earlier this year, the Working Group received some proposed frequently asked questions (FAQ) on the safe harbor provision in the revised *Suitability in Annuity Transactions Model Regulation* (#275). He said the Working Group agreed to include additional FAQ on the safe harbor provision in the FAQ document the Working Group adopted last May, and the Life Insurance and Annuities (A) Committee adopted it last July.

Commissioner Ommen said the Working Group discussed the proposed FAQ, and the comments received on them during its May 3 and May 26 meetings. During its May 26 meeting, the Working Group decided to form an ad hoc small drafting group to review the suggested FAQ in more detail and consider potential revisions. He said the ad hoc small drafting group met twice. During these meetings, they discussed the proposed FAQ and developed comments on them for discussion during the Working Group's July 25 meeting.

Commissioner Ommen said the Working Group walked through the ad hoc small drafting group's comments question-by-question during the July 25 meeting. He said after discussion and receiving comments from stakeholders, the Working Group decided to move forward with redrafting and restructuring the FAQ based on its discussion. He said the ad hoc small drafting group plans to take the lead on this work.

Commissioner Ommen said 27 states have adopted the revisions to Model #275, and there are six more states currently considering them. He said consistency and uniformity across the market is important, and he encouraged states who have not adopted the revisions to consider doing so. He said there is a lot of assistance available from the NAIC and other states.

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Commissioner Donelon made a motion, seconded by Commissioner Caride, to adopt the report of the Annuity Suitability (A) Working Group, including its July 25 minutes (Attachment Two). The motion passed unanimously.

### 4. Adopted the Report of the Life Actuarial (A) Task Force

Pat Allison (NAIC) gave the Life Actuarial (A) Task Force report. She said the Task Force met Aug. 8–9, 2022. She said there are a few items she wants to highlight for the Committee. She said the Task Force adopted amendment proposal 2020-12, which revises hedge modeling when future hedging strategies are not clearly defined. She said this amendment established a consistent definition of clearly defined hedging strategy for use in both VM-20, Requirements for Principle-Based Reserved for Life Products, and VM-21, Requirements for Principle-Based Reserves for Variable Annuities. She said it also added some definitions to VM-01, Definitions for Terms in Requirements, to define future hedging strategy and hedging transactions. She explained that it also includes a provision that the companies reflect all future hedging strategies in their modeling. She said there are also changes to VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation, regarding these new terms and requirements for additional disclosures from companies.

Ms. Allison also gave an update on the transition from the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR) in the procedure for setting swap spreads. She reminded the Committee that the Task Force adopted amendment proposal 2022-04, which addresses the LIBOR transition to the SOFR for 2023 and later. She said work addressing the transition for the remainder of 2022 is progressing, and the NAIC anticipates having three vendors in place to publish SOFR swap spreads on the NAIC website by the end of September.

Mr. Andersen gave an update on the Indexed Universal Life (IUL) Illustration (A) Subgroup. He said there have been issues with IUL illustrations over the past eight years. He reminded the Committee of the adoption of *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest to Policies Sold On or After December 14, 2020* (AG 49-A), which was a revision to *Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies With Index-Based Interest* (AG 49) in response to certain activity to ensure that the illustrations were accurate and not too misleading or optimistic.

Mr. Andersen said new issues have arisen, and the Task Force is considering how to address them. They are considering whether additional modifications should be made to the actuarial guidelines to address these newer concerns. He said there is an exposure period for feedback on four possible ways to address the issues that have come up, ranging from doing nothing to taking drastic action. One of the options gaining Task Force member support involves making a more immediate fix to the actuarial guidelines, but in recognition of the fact that issues are likely to continue necessitating future changes, perhaps limited, targeted revisions to the *Life Insurance Illustrations Model Regulation* (#582) should be considered. Mr. Andersen said the Task Force extended the exposure regarding options to address the current illustration concerns and included a request for comment regarding such limited, targeted revisions to Model #582 that may help to reduce or eliminate the need for addressing issues through an actuarial guideline. He said he expects comments to be submitted over the next few weeks; then, there is likely to be a more formal communication to the Committee about any recommendations. Commissioner Ommen said he would support an effort to look at Model #582.

Mr. Birnbaum said most stakeholders endorsed a fix to AG 49A to address the latest actions by insurers to game the guideline, but there was also broad recognition by many of the need to address illustration issues more broadly. He said the fundamental problem is a flawed illustration infrastructure that drives insurers towards so-called innovations after each iteration of AG 49. He said without addressing the problems with the illustration framework—projecting future returns using constant annual crediting rates, loan arbitrage, data-mined indices with made-up histories, no sequence of return risk, etc.—the state insurance regulators will be coming back again and again as insurers game each new iteration of the actuarial guideline. He said none of this even addresses the

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disparities between guidelines for indexed annuity illustrations and indexed life insurance illustrations, despite the similarities in product features.

Mr. Birnbaum said the actuaries are limited in two important ways: 1) they are limited by Model #582 because it was designed 30 years ago before indexed products existed, and it is woefully out of date; and 2) actuaries are not experts in consumer financial disclosures. He said illustrations are a consumer disclosure, and the technical expertise needed is not that of an actuary but of experts in consumer financial disclosure. He said asking the actuaries to fix problems with IUL illustrations would be like asking the Life Insurance Online Guide (A) Working Group to develop reserving requirements for indexed life insurance. He said he urges the Committee to establish a charge to examine and re-engineer life insurance and annuity illustrations for effective consumer disclosure and consistency of principles across similar products.

Commissioner White made a motion, seconded by Acting Commissioner Fowler, to adopt the report of the Life Actuarial (A) Task Force. The motion passed unanimously.

### 5. Discussed the Life Insurance Online Guide (A) Working Group

Director French reminded the Committee that during its July 20 call, it heard a presentation from NAIC Communications Director Laura Kane, about the updates the Communications Division made to the life insurance material on the NAIC website. She said that Ms. Kane identified some content, based on a review of other insurance department websites, that might make sense to add to the NAIC website, including a comparison chart from the Texas Department of Insurance (DOI) website and information about common riders. She also mentioned that the Communications Division is planning to translate the buyer's guides on the website into Spanish.

Director French reminded the Committee that Ms. Kane said the Communications Division would need assistance from subject matter experts (SMEs) to assist with these recommended revisions. She said this work is consistent with the Life Insurance Online Guide (A) Working Group's charge to "Develop an online resource on life insurance, including the evaluation of existing content on the NAIC website, to be published digitally for the benefit of the public."

Mr. Herrick said he would be happy to assist with the development of content for the website based on the chart on the Texas DOI website. Commissioner Schmidt also agreed to help. Director French said any other states willing to volunteer should reach out to Jennifer Cook (NAIC).

### 6. Discussed Enhanced Cash Value Products

Director French reminded attendees that she mentioned the enhanced cash surrender value offer issue during the Committee's July 20 call. She explained that the National Council of Insurance Legislators (NCOIL) has raised the issue of enhanced cash surrender value offers being made on universal life insurance policies and the application of the "smoothness" requirement in the *Standard Nonforfeiture Law for Life Insurance* (#808). She said NCOIL issued a resolution during its last meeting, and the American Council of Life Insurers (ACLI) wrote a letter in opposition to that resolution.

Director French said to properly discuss this issue in the Committee, it is important to gather as much information as possible about this issue. She said the NAIC Legal team has agreed to look into the history of universal life and its application to Model #808. She said a survey of state insurance departments is also planned to get a better understanding of the prevalence of these enhanced cash surrender value offers, what they look like, and to whom they apply. She said the plan is to have information to share on this issue and have a discussion in September.

Having no further business, the Life Insurance and Annuities (A) Committee adjourned.

*Adopted by the Life Actuarial (A) Task Force, 9/8/22*

*Adopted by the Life Insurance and Annuities (A) Committee, TBD*

*Adopted by the Executive (EX) Committee and Plenary, TBD*

**TABLE 1**

**PROPOSED 2023 GRET FACTORS, BASED ON AVERAGE OF 2019/2020 DATA**

DESCRIPTION	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	\$180	\$1.00	45%	\$54	141	3,073	204
Career	203	1.10	51%	61	84	2,296	197
Direct Marketing	197	1.10	49%	59	21	899	57
Niche Marketing	147	0.80	37%	44	30	507	14
Other*	153	0.90	39%	46	106	853	72
* Includes companies that did not respond to this or prior year surveys					382		

**TABLE 2**

**CURRENT 2022 GRET FACTORS, BASED ON AVERAGE OF 2017/2019 DATA**

Description	Acquisition per Policy	Acquisition per Unit	Acquisition per Premium	Maintenance per Policy	Companies Included	Average Premium Per Policy Issued During Year	Average Face Amt (000) Per Policy Issued During Year
Independent	\$183	\$1.00	46%	\$55	142	3,252	194
Career	212	1.20	53%	64	77	2,327	197
Direct Marketing	200	1.10	50%	60	23	875	72
Niche Marketing	151	0.90	37%	45	24	517	13
Other*	139	0.80	35%	42	109	786	70
* Includes companies that did not respond to this or prior year surveys					375		

**APPENDIX A -- DISTRIBUTION CHANNELS**

The following is a description of distribution channels used in the development of recommended 2022 GRET values:

1. Independent – Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.
2. Career – Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.
3. Direct Marketing – Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet, or other media. No direct field compensation is involved.
4. Niche Marketers – Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.
5. Other – Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years' surveys confirmed an "other" categorization (see below), values for the "other" category are given in the tables in this memo. It was also included to

indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

**APPENDIX B – UNIT EXPENSE SEEDS**

The  
2014

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and prior GRETS were  
differentiated between  
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branch categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.

The unit expense seeds used in the 2022 GRET and the 2021 GRET recommendations were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study. Beginning with the 2020 Annual Statement submission this information will become more readily available.

**2006-2010 (AVERAGE) CLICE STUDIES:**

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
Term				
Weighted Average	\$149	\$0.62	38%	\$58
Unweighted Average	\$237	\$0.80	57%	\$76
Median	\$196	\$0.59	38%	\$64
Permanent				
Weighted Average	\$167	\$1.43	42%	\$56
Unweighted Average	\$303	\$1.57	49%	\$70
Median	\$158	\$1.30	41%	\$67

**CURRENT UNIT EXPENSE SEEDS:**

	Acquisition/ Policy	Acquisition/ Face Amount (000)	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	\$200	\$1.10	50%	\$60

**TO:** Reggie Mazyck, ASA, MAAA, Life Actuary, LATF Support

**FROM:** Pete Miller, ASA, MAAA, Experience Study Actuary, Society of Actuaries (SOA) Research Institute  
Tony Phipps, Chair, SOA Research Institute Committee on Life Insurance Company Expenses

**DATE:** July 23, 2022

**RE:** 2023 Generally Recognized Expense Table (GRET) – SOA Research Institute Analysis

Dear Mr. Mazyck:

As in previous years, the Society of Actuaries Research Institute expresses its thanks to NAIC staff for their assistance and responsiveness in providing Annual Statement expense and unit data for the 2023 GRET analysis for use with individual life insurance sales illustrations. The analysis is based on expense and expense related information reported on companies' 2020 and 2021 Annual Statements. This project has been completed to assist the Life Actuarial Task Force (LATF) in its consideration of potential revisions to the GRET that could become effective for calendar year 2023. This memo describes the analysis and resultant findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2020 and 2021. This included data from 771 companies in 2020 and 766 companies in 2021. This decrease resumes the trend of small decreases from year to year. Of the total companies, 382 were in both years and passed the outlier exclusion tests and were included as a base for the GRET factors (375 companies passed similar tests last year).

#### **APPROACH USED**

The methodology for calculating the recommended GRET factors based on this data is similar to that followed the last several years. The methodology was last altered in 2015. The changes made at that time can be found in the recommendation letter sent to LATF on July 30, 2015<sup>1</sup>.

To calculate updated GRET factors, the average of the factors from the two most recent years (2020 and 2021 for those companies with data available for both years) of Annual Statement data was used. For each company an actual-to-expected ratio was calculated. Companies with ratios that fell outside predetermined parameters were excluded. This process was completed three times to stabilize the average rates. The boundaries of the exclusions have been modified from time to time; however, there were no adjustments made this year. Unit expense seed factors (the seeds for all distribution channel categories are the same), as shown in Appendix B, were used to compute total expected expenses. Thus, these seed factors were used to implicitly allocate expenses between acquisition and maintenance expenses, as well as among the three acquisition expense factors (on a direct of ceded reinsurance basis).

Companies were categorized by their reported distribution channel (four categories were used as described in Appendix A included below). There remain a significant number of companies for which no distribution channel was provided, as no responses to the annual surveys have been received from those companies. The characteristics of these companies vary significantly, including companies not currently writing new business or whose major line of business is not individual life insurance. Any advice or assistance from LATF in future years to increase the response rate to the surveys of companies that submit Annual Statements in order to reduce the number of companies in the "Other" category would be most welcomed. The intention is to

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<sup>1</sup> <https://www.soa.org/Files/Research/Projects/research-2016-gret-recommendation.pdf>



continue surveying the companies in future years to enable enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if in either 2020 or 2021 (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) the average first year and single premium per policy were more than \$40,000, (3) they are known reinsurance companies or (4) their data were not included in the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies' actual-to-expected ratios for each respective category was calculated. The resulting factors were rounded, as shown in Table 1.

### THE RECOMMENDATION

The above methodology results in the proposed 2023 GRET values shown in Table 1. To facilitate comparisons, the current 2022 GRET factors are shown in Table 2. Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount (\$000s) per policy issued.

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In previous recommendations, an effort was made to reduce volatility in the GRET factors from year-to-year by limiting the change in GRET factors between years to about ten percent of the prior value. The changes from the 2022 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation.

All GRET factors for the other distribution channel category experienced a change greater than ten percent so the factors for these lines were capped at this ten percent level (or slightly above 10% due to rounding of the factor) from the corresponding 2022 GRET values. The volatility occurred due to incorrect NAIC data for 2018 for some companies, which caused their actual to expected ratios to be considered outliers and they were not included in the calculation. This resulted in lower final 2022 GRET factors and subsequently the same for the 2023 recommendation. Over the next one to three years, the ten percent cap will allow this difference to be graded in so calculated GRET will be used for the final recommended GRET factors.

#### USAGE OF THE GRET

This year's survey, responded to by companies' Annual Statement correspondent, included a question regarding whether the 2022 GRET table was used in its illustrations by the company. Last year, 31% of the responders indicated their company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 29% in 2020. This year, 35% of responding companies indicated that they used the GRET in 2022 for sales illustration purposes. The range was from 33% for Career and Niche Marketing to 43% for Independent. No companies in Career or Other used GRET. Based on the information received over the last several years, the variation in GRET usage appears to be in large part due to the relatively small sample size and different responders to the surveys.

We hope LATF finds this information helpful and sufficient for consideration of a potential update to the GRET. If you require further analysis or have questions, please contact Pete Miller at 847-706-3566.

Kindest personal regards,

A handwritten signature in black ink that reads "Pete J. Miller".

Pete Miller, ASA, MAAA  
Experience Study Actuary  
Society of Actuaries Research Institute

A handwritten signature in black ink that reads "Tony Phipps".

Tony Phipps, FSA, MAAA  
Chair, SOA Research Institute Committee on  
Life Insurance Company Expenses



## APPENDIX A -- DISTRIBUTION CHANNELS

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**APPENDIX B – UNIT EXPENSE SEEDS**

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**Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force  
Amendment Proposal Form 2022-06**

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Staff of Office of Principle-Based Reserving, California Department of Insurance – VM-31 reporting of inflation assumption.

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Valuation Manual (January 1, 2022 edition), with NAIC Adoptions through August 17, 2021: VM-31 Section 3.D.5

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

Please see Appendix attached.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

Please see attached Appendix.

# Appendix

## **ISSUE:**

VM-31 contains no specific mention of a requirement to disclose the inflation assumption for Life PBR.

## **SECTIONS:**

VM-31 Section 3.D.5.f

## **REDLINE:**

(new)

f. Inflation – Assumed rate(s) of inflation and the underlying rationale/derivation, including any consideration given to making distinctions between short term and long term inflation rates.

## **REASONING:**

1. Restore mention of inflation rate assumption to VM-31 that had originally been there.
2. Have more consistency between Life and VA. The VA part of VM-31 does mention inflation.
3. Recognize that the recent uptick in the inflation rate may drive a desire/need for duration-specific inflation rates in PBR models.
4. Although VM-31 Section 3.D.1.a does refer to a website containing an optional template that includes mention of inflation, this falls short of mandating that inflation be covered in the company's VM-31 report.

Draft: 10/27/22

Adopted by the Executive (EX) Committee and Plenary, TBD  
Adopted by the Life Insurance and Annuities (A) Committee, TBD  
Adopted by the Life Actuarial (A) Task Force, Oct. 24, 2022

Attachment D

## 2023 Proposed Charges

### LIFE ACTUARIAL (A) TASK FORCE

The mission of the Life Actuarial (A) Task Force is to identify, investigate, and develop solutions to actuarial problems in the life insurance industry.

#### Ongoing Support of NAIC Programs, Products, or Services

1. The **Life Actuarial (A) Task Force** will:

- A. Work to keep reserve, reporting, and other actuarial-related requirements current. This includes principle-based reserving (PBR) and other requirements in the *Valuation Manual*, actuarial guidelines, and recommendations for appropriate actuarial reporting in blanks. Respond to charges from the Life Insurance and Annuities (A) Committee and referrals from other groups or committees, as appropriate.
- B. Report progress on all work to the Life Insurance and Annuities (A) Committee and provide updates to the Financial Condition (E) Committee on matters related to life insurance company solvency. This work includes the following:
  - i. Work with the American Academy of Actuaries (Academy) and the Society of Actuaries (SOA) to develop new mortality tables for valuation and minimum nonforfeiture requirements, as appropriate, for life insurance and annuities.
  - ii. Provide recommendations for guidance and requirements for accelerated underwriting (AU) and other emerging underwriting practices, as needed.
  - iii. Evaluate and provide recommendations regarding the VM-21, Requirements for Principle-Based Reserves for Variable Annuities/*Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43) standard projection amount (SPA), which may include continuing as a required floor or providing as disclosure. This evaluation is to be completed prior to year-end 2023.
  - iv. Work with the SOA on the annual development of the Generally Recognized Expense Table (GRET) factors.
  - v. Provide recommendations and changes, as appropriate, to other reserve and nonforfeiture requirements to address issues, and provide actuarial assistance and commentary to other NAIC committees relative to their work on actuarial matters.
  - vi. Work with the selected vendor to develop and implement the new economic scenario generator (ESG) for use in regulatory reserve and capital calculations.
  - vii. Monitor international developments regarding life and health insurance reserving, capital, and related topics. Compare and benchmark these with PBR requirements.

2. The **Experience Reporting (A) Subgroup** will:

- A. Continue the development of the experience reporting requirements within the *Valuation Manual*. Provide input, as appropriate, for the process regarding the experience reporting agent, data collection, and subsequent analysis and use of experience submitted.

## LIFE ACTUARIAL (A) TASK FORCE (*continued*)

3. The **Indexed Universal Life (IUL) Illustration (A) Subgroup** will:
  - A. Consider changes to *Actuarial Guideline XLIX-A—The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest to Policies Sold On or After December 14, 2020 (AG 49-A)*, as needed. Provide recommendations for the consideration of changes to the *Life Insurance Illustrations Model Regulation (#582)* to the Task Force, as needed.
4. The **Index-Linked Variable Annuity (A) Subgroup** will:
  - A. Provide recommendations and changes, as appropriate, to nonforfeiture, or interim, value requirements related to index-linked variable annuities (ILVAs).
5. The **Longevity Risk (E/A) Subgroup** of the Life Actuarial (A) Task Force and the Life Risk-Based Capital (E) Working Group will:
  - A. Provide recommendations for recognizing longevity risk in statutory reserves and/or risk-based capital (RBC), as appropriate.
6. The **Variable Annuities Capital and Reserve (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
  - A. Monitor the impact of the changes to the variable annuities (VA) reserve framework and RBC calculation and determine if additional revisions need to be made.
  - B. Develop and recommend appropriate changes, including those to improve accuracy and clarity of VA capital and reserve requirements.
7. The **Valuation Manual (VM)-22 (A) Subgroup** will:
  - A. Recommend requirements, as appropriate, for non-variable (fixed) annuities in the accumulation and payout phases for consideration by the Task Force. Continue working with the Academy on a PBR methodology for non-variable annuities.

NAIC Support Staff: Scott O’Neal/Jennifer Frasier

SharePoint/NAIC Support Staff Hub/Committee Charges/2023/01\_Draft Charges

Revision Marks Show Changes from 2022 Charges

Draft: 10/17/22

*Adopted by the Executive (EX) Committee and Plenary, TBD*

*Adopted by the Life Insurance and Annuities (A) Committee, TBD*

## 2023 Proposed Charges

### LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

The mission of the Life Insurance and Annuities (A) Committee is to: 1) consider issues relating to life insurance and annuities; and 2) review new life insurance products.

#### Ongoing Support of NAIC Programs, Products or Services

1. The **Life Insurance and Annuities (A) Committee** will:
  - A. Monitor the activities of the Life Actuarial (A) Task Force.
2. The **Accelerated Underwriting (A) Working Group** will:
  - A. Consider the use of external data and data analytics in accelerated life underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue; and, if appropriate, draft guidance for the states.
3. The **Annuity Suitability (A) Working Group** will:
  - A. Consider how to promote greater uniformity in the adoption of the *Suitability in Annuity Transactions Model Regulation* (#275) across NAIC member jurisdictions.
- ~~4. The **Life Insurance Online Guide (A) Working Group** will:
  - A. Develop an online resource on life insurance, including the evaluation of existing content on the NAIC website, to be published digitally for the benefit of the public.~~

NAIC Support Staff: Jennifer R. Cook/Jolie H. Matthews