

NJ Proposal for Longevity Reinsurance C-2 Factor Development.

The proposed methodology is to develop the Life RBC C-2 Longevity Risk factor for Longevity Reinsurance, as the product of quantities Factor and Base, as defined below:

- **Factor** – A scalar factor (currently factors ranging from 5.0 to 9.607 are being considered, varying based on the size of the total reserves).
- **Base** – is set equal to the floor used in the PBR VM-22 reserve calculations (the floor is currently set equal to 2% of the benefits payable within the 12 months, following the valuation date).

Notes:

1. Factor will be selected such that the product of Factor x Base will approximate the impact of the 95th percentile mortality and mortality improvement shock over the 85th percentile of mortality and mortality improvement shock, on an after-tax basis.
2. The rationale for selecting the statutory reserve floor as the base is that:
 - a. the reserves tend to start out very small (often at the reserve floor level referenced above), then grow substantially higher; while the impact of mortality and mortality deterioration tends to be proportional to liabilities only (not the reserves) and
 - b. as the block of business matures, this would be consistent with higher volatility of the runoff business (when the volumes become small) and lack of credible older age mortality data.
3. Once the Factor is set, it won't be updated unless there are material changes in the mortality level and mortality trend patterns, or longevity reinsurance market distribution (e.g., expansion of the longevity reinsurance market to other countries).