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Life Actuarial (A) Task Force
Boston, Massachusetts
August 2–3, 2018

The Life Actuarial (A) Task Force met in Boston, MA, Aug. 2–3, 2018. The following Task Force members participated: Kent Sullivan, Chair, represented by Mike Boerner (TX); Jillian Froment, Vice Chair, represented by Peter Weber (OH); Lori K. Wing-Heier represented by Sarah Bailey (AK); Jim L. Ridling represented by Steven Ostlund (AL); Dave Jones represented by Rachel Hemphill and Perry Kupferman (CA); Katharine L. Wade represented by Wanchin Chou (CT); Doug Ommen represented by Mike Yanacheak (IA); Jennifer Hammer represented by Bruce Sartain (IL); Ken Selzer represented by Nicole Boyd (KS); Jessica Looman represented by Fred Andersen and John W. 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); Maria T. Vullo represented by Amanda Fenwick (NY); John D. Doak represented by Cuc Nguyen (OK); and Todd E. Kiser represented by Tomasz Serbinowski (UT). Also participating was: Michael Kakuk (MT).

1. Adopted its Interim Minutes

The Task Force met June 28, June 21, June 14, June 7, May 31, May 24, May 17, May 10, May 3, April 26, April 19 and April 12. During these meetings, the Task Force took the following action: 1) adopted its Spring National Meeting minutes; 2) adopted clarifying edits to VM-31, PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation; 3) adopted revisions to VM-22, Maximum Valuation Interest Rates for Income Annuities, and an accompanying edit to the *Valuation Manual* Section IIB, Annuity Products; 4) adopted edits to VM-50, Experience Reporting Requirements, to reflect the NAIC serving as the Experience Reporting Agent on behalf of the states; 5) adopted edits to VM-51, Experience Reporting Formats, to reflect changes to VM-50 and further define the requirements for statistical plans; 6) adopted a guaranteed issue (GI) mortality table using a 75% load on the GI basic table and allowing for the use of the 2017 Commissioners Standard Ordinary (CSO) table for GI business issued in 2019; and 7) adopted amendments to the 2018 edition of the *Valuation Manual* for 2019 implementation, including amendments to: a) revise the allowable mortality for credit life policies issued after Jan. 1, 2019; b) clarify the Deterministic Exclusion Test; c) clarify that the net premium reserve (NPR) lapse rate for Universal Life with Secondary Guarantees is intended to be based on shadow account values on the valuation date and that the lapse rate will not vary by duration; d) include information about the inflation assumption in VM-31 requirements; and e) make editorial changes to the *Valuation Manual*.

Mr. Yanacheak made a motion, seconded by Ms. Ahrens, to adopt the Task Force's June 28 (Attachment One), June 21 (Attachment Two), June 14 (Attachment Three), June 7 (Attachment Four), May 31 (Attachment Five), May 24 (Attachment Six), May 17 (Attachment Seven), May 10 (Attachment Eight), May 3 (Attachment Nine), April 26 (Attachment Ten), April 19 (Attachment Eleven) and April 12 (Attachment Twelve) minutes. The motion passed unanimously.

2. Heard an Update on the Delphi Study, AUW and VM-51 Data Elements

Lauren Cross (Joint American Academy of Actuaries [Academy] Life Experience Committee and Society of Actuaries [SOA] Preferred Mortality Oversight Group—Joint Committee) explained that a Delphi study is a survey technique that searches for consensus among experts when there is no "right" answer or common practice. She said the survey participants, asked to provide their insights into emerging accelerated underwriting (AUW) practices, included actuaries, underwriters and valuation experts from reinsurers, direct writers and consultants.

Ms. Cross noted that the Joint Committee study (Attachment Thirteen) is intended to provide practitioners and regulators a framework that gives common terminology and categories with which to think about AUW practices and how to benchmark the quality of AUW practices or expected mortality that might emerge. She said the study indicates that AUW programs are not one-size-fits-all. The characteristics of the programs are driven by the companies' unique goals and objectives, as well as their distribution systems, target markets and products. She said that one of the observations from the study is that AUW expected mortality can be higher or lower than fully underwritten experience. Lower mortality experience can be achieved by reducing human error through automation, introducing new data sources or attracting a healthier population.

Matt Monson (Joint Committee) said the study does not indicate the need for a new mortality table for AUW. He said there is no evidence that companies are attempting to use AUW to develop a super preferred risk class or to subdivide the current risk classes. He noted that the Joint Committee determined that no changes to VM-20, Requirements for Principle-Based Reserves for Life Products, Section 9.C are necessary to accommodate AUW.

Mr. Serbinowski asked to what extent actual experience is being used when determining the mortality that is expected to emerge. Mary Bahna-Nolan (Joint Committee) said actual experience is limited, but many companies have done retrospective studies. She noted that retrospective studies are limited in that data not collected as part of the initial underwriting effort is not available for use in the study.

Ms. Cross said it will take five to seven years for an individual company to have credible data. She said a few AUW programs have been in place for several years, and more have been in place for a year or two. She said a new SOA project oversight group will be surveying companies to see when a sufficient amount of data might be available to make an industry-level study possible.

Ms. Bahna-Nolan said the Joint Committee's goal is to work with the experience reporting agent to incorporate the newly recommended data elements into VM-51. Among the criteria used to develop the AUW data request were: 1) the necessity of the data; 2) the availability of the data on a going forward basis; and 3) whether the data is retrospective or prospective. She said companies will be asked to voluntarily provide the data, with the understanding that submissions will become mandatory sometime in the future.

Mr. Boerner said the Experience Reporting (A) Subgroup is the appropriate group with whom Ms. Bahna-Nolan should collaborate on the development of an amendment proposal to incorporate the data elements into VM-51.

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

Mr. Andersen said the Subgroup has three current projects: 1) a request from the New York State Department of Financial Services to collect GI and simplified issue (SI) insurance data; 2) collection of VM-51 data elements associated with AUW; and 3) collection of variable annuity policyholder behavior data.

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

4. Heard an Update from the Academy SVL Interest Rate Modernization Work Group

Chris Conrad (Academy Standard Valuation Law Interest Rate Modernization Work Group) said the Task Force gave the Academy the charge of modernizing the valuation interest rate for non-variable annuities during the accumulation phase.

Mr. Conrad's presentation (Attachment Fourteen) highlighted that the proposed approach is similar to the methodology adopted for single premium immediate annuities (SPIAs), except with more sophisticated modeling to reflect policyholder behavior optionality. He said the methodology requires solving for the interest rate on reserves that would be equal to the interest rate on assets. He noted that the process is iterative. Mr. Conrad said a level interest rate scenario, a rising interest rate scenario and a falling interest rate scenario are to be examined. He said the calculations will result in a matrix of adjustments by product feature.

Ms. Fenwick said New York is not in favor of using the credit quality of the assets to determine the valuation rate on liabilities.

5. Heard an Update from the Academy Annuity Reserves Work Group

John Miller (Academy Annuity Reserves Work Group—ARWG) and Matthew Coleman (ARWG) gave a presentation (Attachment Fifteen) on the status of the ARWG work on principle-based reserving (PBR) for non-variable annuities.

Mr. Miller said the ARWG is working on an exclusion test that would allow a contract to be valued using the current actuarial guidelines if passed, or would require a modeled reserve approach, soon to be developed similar to VM-21, Requirements for Principle-Based Reserves for Life Products, if failed. Whether the contract passes the exclusion test hinges on the relationship of its formulaic reserve based on the Commissioners Annuity Reserve Valuation Method (CARVM), the cash surrender value and the account value. He said case studies might be conducted to help identify and work through a number of outstanding questions.

Ms. Hemphill questioned using the value of the formulaic CARVM reserve to determine whether the formulaic CARVM reserve is reliable. She asked if the ARWG could consider another approach in determining the value of the underlying contract features.

Mr. Serbinowski asked if elective benefits will be treated as a worst-case scenario. Mr. Miller said most companies are looking at the many permutations of the integrated benefits stream and applying asset adequacy testing when necessary.

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

Mr. Robinson said a few of the Subgroup members have participated on the calls of the Academy SVL Interest Rate Modernization Work Group and the ARWG. He said edits to VM-22 have been adopted by the Life Insurance and Annuities (A) Committee and will be considered for adoption by the Executive (EX) Committee and Plenary at this meeting. He noted a possible disconnect between the rates provided by VM-22 and the methodology provided by *Actuarial Guideline IX-B—Clarification of Methods Under Standard Valuation Law for Individual Single Premium Immediate Annuities, Any Deferred Payments Associated There with, Deferred Annuities, and Structured Settlements Contracts* (AG 9B).

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

7. Heard an Update on the Longevity Risk Survey

Paul Navratil (Academy Longevity Risk Task Force—LRTF) presented an update (Attachment Sixteen) on the work of the LRTF. He said the Academy Research Task Force (ARTF) has completed its field study testing the impact of the longevity stresses on actual blocks of business. He said the LRTF expects to receive results in mid-August. Those results will be reviewed to determine an approach to implementing a longevity risk charge in risk-based capital (RBC) and an approach for covariance of longevity and mortality risks. Nineteen companies participated in the field study.

Mr. Navratil said there are competing objectives in proposing a longevity risk charge within RBC. As it develops the risk charge, the LRTF must consider: 1) accuracy and reasonability of the charge as a measure of the longevity risk at the company level; 2) simplicity of the calculation; 3) clear linkage of the calculation to statutory financial statements; and 4) consistency with the existing RBC framework.

Mr. Navratil said the LRTF is targeting November for completion of the proposed implementation approach. Additional steps are to develop a proposed covariance approach and to continue considering an approach for additional products currently out of scope, including living benefits.

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

Ms. Ahrens said the Subgroup is awaiting completion of the LRTF work. She said that, in the meantime, the Subgroup will meet to discuss the necessity of the covariance factor. Ms. Ahrens made a motion, seconded by Mr. Leung, to adopt the report of the Longevity Risk (A/E) Subgroup. The motion passed unanimously

9. Discussed the Academy Work on Reinsurance Allocation

Sheldon Summers (Academy Reinsurance Work Group—RWG) and Richard Daillak (RWG) gave a slide presentation (Attachment Seventeen) extracted from an Arnold Dicke (AA Dicke, LLC) PBR Boot Camp presentation. Mr. Summers noted that the slides do not represent the official position of the RWG. Mr. Summers said the calculations demonstrate issues related to using the NPR as the basis for allocation of reserves when there is reinsurance on one or more blocks of business.

Leonard Mangini (Academy Life Reserves Work Group—LRWG) said the LRWG has been in discussions with the American Council of Life Insurers (ACLI) to find companies willing to submit data that could be studied to determine an allocation method that would produce reasonable, stable results under various reinsurance scenarios.

Mr. Weber asked if the allocation issue merely impacts where the reinsurance credit amount appears in the financial statement or if there is bottom-line impact. Mr. Summers said there would be bottom-line impact if there is a collateral requirement involved. Ms. Fenwick said, even without the collateral, it is important to know where the reinsurance credit properly belongs.

Paul Graham (ACLI) said the use of the NPR in the allocation process was initially considered, assuming the NPR would be the tax reserve. Because that is no longer the case, he suggested that an allocation method using something other than the NPR should be considered.

Larry Bruning (NAIC) said consideration should be given to separating reinsured blocks of business from non-reinsured blocks of business for the purpose of calculating the reinsurance credit. Mr. Mangini said, even if the blocks are separated, using the NPR in the allocation process is still problematic for reinsured blocks with differing coinsurance percentages.

Mr. Summers also discussed possible alternatives, including allocation based on stand-alone credits, allocation based on NPR credits and the use of actuarial discretion.

Ms. Fenwick said perhaps coinsurance agreements with different percentages and a yearly renewable term (YRT) agreement should be added to the study being considered.

Mr. Boerner asked the ACLI and the Academy to work on a document that the Task Force could discuss and expose for comment.

10. <u>Discussed the Academy YRT Letter</u>

Greg Gurlik (Northwestern Mutual) said Northwestern Mutual and New York Life have jointly submitted two comment letters (Attachment Eighteen) on the nonguaranteed YRT reinsurance premiums under PBR. The initial letter, dated June 11, laid out key principles that any solution to the YRT reinsurance premiums issue should satisfy. The follow-up letter, dated July 11, includes an exhibit of possible VM-20 YRT reinsurance premium proposals evaluated against key principles.

Erik Anderson (New York Life) gave an overview of the three key principles displayed on the exhibit. The first principle is that the YRT reinsurance premiums between reinsurer and ceding company must be consistent. The second principle is that YRT reinsurance premiums between ceding companies for identical treaties must be consistent. The third principle is that the proposal should be straightforward from a conceptual and auditability perspective. Mr. Anderson also discussed the five options for addressing the approaches proposed in the Academy letter and how each option aligns with the three principles. Mr. Anderson said Northwestern Mutual and New York Life support option D and option E.

Brian Bayerle (ACLI) said the ACLI comment letter (Attachment Nineteen) offers a seventh approach, but noted that the ACLI is interested in receiving regulator feedback before deciding which approach to support. He said the seventh approach relies on prudent actuarial judgment and, therefore, offers maximum flexibility. He said, while consistency between ceding company and reinsurer would be nice, if the companies are using a principle-based approach, there is an argument to be made as to why the companies would not have the same reserves.

Mr. Graham said having a set of broad principles by which companies operate would result in fewer disparities than one might expect. Mr. Boerner said the comment letters will be posted with the Academy letter on the Task Force webpage. He said if the ACLI provides a document with some operating principles, it could also be posted. Mr. Graham agreed to work on a list of principles.

Linda Lankowski (Prudential) said the comment letter (Attachment Twenty) jointly submitted by Prudential and John Hancock suggests that it is premature to put specific rules and extreme guardrails around a situation for which there is no evidence. She suggests a more measured principle-based approach that allows for actuarial judgment.

Ross Zilber (John Hancock) said the concern is over-prescription that could lead to higher margins and precipitate companies looking for alternative ways to manage capital. He suggested that the Task Force take time to consider the issue carefully.

11. <u>Exposed the 2019 GRET</u>

Leon Langlitz (SOA) provided a presentation (Attachment Twenty-One) on the 2019 Generally Recognized Expense Tables (GRET). He said the tables are based on annual financial statement data and a survey sent to companies to get information on the distribution systems used to generate the business. He said there are nine fewer companies participating in this year’s study. The percentage of companies that responded they use GRET factors for individual life sales illustration is 28%. According to NAIC data, the total number of ordinary policies issued in 2017 was down by 5% from the previous year.

Ms. Fenwick made a motion, seconded by Mr. Chou, to expose the GRET report (Attachment Twenty-Two) for a 30-day public comment period ending Sept. 6. The motion passed unanimously.

12. Discussed Amendment Proposal 2018-17

Mr. Mangini provided a presentation (Attachment Twenty-Three) summarizing the issues addressed by amendment proposal 2018-17. He noted that the amendment proposal was exposed at the Spring National Meeting. He said, after discussing it on the May 24 Task Force call, the LRWG revised the proposal and reintroduced it on the June 28 call, where it was re-exposed for a 21-day public comment period.

Mr. Mangini said the amendment proposal modifies the conditions under which experience from different mortality segments may be aggregated, while providing sufficient flexibility to allow innovation. He said the LRWG has concluded that, for the purposes of determining credibility, similar results will be obtained whether the aggregation is done using the top-down or the bottom-up approach, as long as similar underwriting processes are used and the aggregate mortality experience was used to establish experience mortality rates for the mortality segments.

Ms. Fenwick asked if more time could be given for the Task Force to review the proposal. Mr. Ostlund asked if the guidance note could be incorporated into the text. He also suggested that the existing circularity in describing the word "similar" be addressed. Mr. Mangini agreed to address the issues identified by Task Force members.

13. Exposed Amendment Proposal 2018-45

Dave Neve (LRWG) gave a presentation (Attachment Twenty-Four) demonstrating the reasoning for the proposed changes to VM-20 Section 9.C and VM-31 Section 3.D.3. The proposal revises the definition of "anticipated experience assumptions" to correct the issue of a company with mortality experience that is worse than the industry table improving its mortality rates when it grades to the industry table.

Mr. Leung made a motion, seconded by Ms. Eom, to expose amendment proposal 2018-45 (Attachment Twenty-Five) for a 30-day public comment period ending Sept. 6. The motion passed unanimously.

14. Exposed Amendment Proposal 2018-44

Dave Neve (LRWG) gave a presentation (Attachment Twenty-Six) demonstrating that the equity returns prescribed in the deterministic reserve scenario are not appropriate for indexed universal life (IUL) products and suggesting several alternative approaches. He said, as requested by the Task Force, the LRWG adjusted one of the alternative approaches to be more consistent with *Actuarial Guideline XXXVI—The Application of the Commissioners Reserve Valuation Method to Equity Indexed Life Insurance Policies* (AG 36).

Ms. Ahrens made a motion, seconded by Ms. Eom, to expose amendment proposal 2018-44 (Attachment Twenty-Seven) for a 30-day public comment period ending Sept. 6. The motion passed unanimously.

15. Adopted Amendment Proposal 2017-70

Mr. Bayerle said the ACLI is open to accepting some of the suggested clarifications addressed in the Virginia Bureau of Insurance comment letter (Attachment Twenty-Eight). He said, otherwise, the proposal is ready for adoption. He noted that there is circularity between *Valuation Manual* Section II and VM-20 Section 2.H that will need to be addressed in a separate proposal. Mr. Ostlund asked that the guidance note be removed.

Mr. Ostlund made a motion, seconded by Ms. Hemphill, to adopt amendment proposal 2017-70 (Attachment Twenty-Nine), after removing the guidance note. The motion passed unanimously.

16. Discussed Amendment Proposal 2018-39

Ms. Hemphill said amendment proposal 2018-39 (Attachment Thirty) addresses the determination of materiality in relation to the modeled reserve. To address situations where the modeled reserve is close to zero, the proposal recommends a materiality threshold that is either a percentage of the modeled reserve or a fixed amount representatively set at $100,000.

Mr. Serbinowski said setting a fixed amount materiality threshold is contrary to current practice. Ms. Fenwick suggested replacing “a material percentage thereof” with “a material amount thereof.” Ms. Hemphill agreed to consider the suggestion.

17. Exposed Amendment Proposal 2018-08

Ms. Hemphill said the proposal modifies the life PBR exemption by deleting the requirement that a company’s total adjusted capital be at least 450% of the authorized control level RBC. The proposal recommends other minor changes, including the exclusion of GI premiums from the ordinary life premium total.

Mr. Weber made a motion, seconded by Mr. Ostlund, to expose amendment proposal 2018-08 (Attachment Thirty-One) for a 45-day public comment period ending Sept. 21. The motion passed unanimously.

18. Exposed Amendment Proposal 2018-46

Ms. Hemphill made a motion, seconded by Mr. Ostlund to expose amendment proposal 2018-46 (Attachment Thirty-Two), which recommends definitions for “product group” and “term life insurance policy,” for a 30-day public comment period ending Sept. 6. The motion passed unanimously

19. Adopted Amendment Proposal 2018-03

Ms. Hemphill said the proposal clarifies the iterative process of determining starting assets, including that application of the collar to the initial starting asset amount is not required.

Ms. Hemphill made a motion, seconded by Mr. Ostlund, to adopt amendment proposal 2018-03 (Attachment Thirty-Three), after modifying the edits to VM-20 Section 7.D.3 and excluding the proposed changes to VM-20 Section 7.D.7. The motion passed unanimously.

20. Discussed Edits to the VM-20 Reserves Supplement Adopted by the Blanks (E) Working Group

Mr. Boerner said the edits to the VM-20 Reserves Supplement (Attachment Thirty-Four) have been adopted by the Blanks (E) Working Group. He said the edits included changing the name of “Companywide Exemption” to “Life PBR Exemption” and changing Part 4 of the VM-20 Reserves Supplement to include the single-state exemption and the Section II product exemptions as ways companies can be excluded from life PBR. He noted that the instructions were also changed to clarify the entries in Exhibit 5 for VM-22.

21. Discussed Plans for the ESG

Mr. Bruning gave a presentation (Attachment Thirty-Five) discussing plans for updating the economic scenario generator (ESG) currently maintained by the Academy. He said development of the plans followed discussions with the Academy, during which it indicated a desire to move away from maintaining the ESG prescribed for valuation.

Mr. Bruning discussed the current and proposed requirements prescribing the use of models, the development of the Academy equity and interest rate generators and the associated calibration criteria, and the considerations for next steps. He said regulators will need to consider the following: 1) whether a single ESG should be prescribed or a prescribed universe of scenarios be generated from a single ESG and made available; 2) whether proprietary generators should be allowed, provided they meet the calibration criteria; and 3) whether the equity generator and the interest rate generator should be integrated to reflect the correlation of equities and interest rates. Mr. Bruning said NAIC staff are prepared to pursue any direction regulators indicate.

Mr. Andersen asked that the Task Force discuss on a future call whether purchasing an ESG is the best course of action.

22. Heard an Update from the Compact

Jeanne Daharsh (Interstate Insurance Product Regulation Commission—Compact) provided an update on the Compact uniform standards development and product operations (Attachment Thirty-Six).

23. Heard an Update on the Academy Life and Health Valuation Manual

Laura Hanson (Academy Life and Health Valuation Law Manual Task Force—VLMTF) gave a presentation (Attachment Thirty-Seven) on the background of the Academy Life and Health Valuation Law Manual, the VLMTF and its goals.

Ms. Hanson said the Academy *Life and Health Valuation Law Manual* is a resource for actuaries seeking to comply with state-specific requirements and annual appointed actuary filings. Ms. Hanson noted that the VLMTF is responsible for recommending changes but is not tasked with making the changes. She discussed the reorganization of the document and the changes to its various tables being considered.

Ms. Hanson asked how many versions of the *Valuation Manual* the Task Force plans to make available online. She also asked how frequently the Valuation Manual Maintenance Agenda is updated and if amendment proposals could remain online after their adoption.

Mr. Boerner responded that adopted amendments and previous versions of the *Valuation Manual* can be retained on the Task Force web page for two years.

Reggie Mazyck (NAIC) said the Valuation Manual Maintenance Agenda will be posted monthly.

24. Discussed the Model Law Review (A) Subgroup Memorandum to the Life Insurance and Annuities (A) Committee

Mr. Boerner asked the Task Force to focus on the penultimate paragraph of the memorandum (Attachment Thirty-Eight) from the Model Law Review (A) Subgroup to the Life Insurance and Annuities (A) Committee.

Mr. Boerner said the sentence does not accurately reflect the results of the survey and suggested that the phrase, "indicated that there had been no perceived issues," be modified to say, "did not indicate any perceived issues." Mr. Boerner also recommended deletion of the last sentence of the paragraph. Finally, he said comments were received indicating that the guideline being developed by the Model #805 Drafting Group might be too strong to be considered a guideline. He said, for that reason, the Task Force might suggest retaining the *Annuity Nonforfeiture Model Regulation* (#806).

Mr. Serbinowski said the Model #805 Drafting Group is specifically addressing the prospective test in Section 6 of the *Standard Nonforfeiture Law for Individual Deferred Annuities* (#805). He said the Drafting Group's efforts are unrelated to the question of whether Model #806 should be retained. He said his preference would be to downgrade Model #806 to a guideline. He noted that the lack of state adoption of the regulation should not imply that the regulation is not being followed.

Mr. Kakuk, chair of the Model Law Review (A) Subgroup, said the Subgroup would defer to the Task Force.

Mr. Bayerle noted that the Compact refers to Model #806 in some of its materials. He suggested that to avoid conflict with the Compact language, the model should be retained. Mr. Kakuk said the Subgroup has been told that the Compact would prefer that Model #806 be a guideline.

The Task Force agreed that the memorandum should indicate that a guideline should be developed to replace Model #806.

25. Received an Update from the Model #805 Drafting Group

Mr. Serbinowski discussed the Model #805 Drafting Group draft actuarial guideline exposed for public comment by the Task Force at the Spring National Meeting (*see NAIC Proceedings – Spring 2018, Life Actuarial (A) Task Force, Attachment Twenty-Seven*).

Mr. Bayerle said the ACLI suggested that existing Compact standards should be relied upon to obtain uniformity, as opposed to developing an actuarial guideline.

Mr. Serbinowski said there was no consensus from commenters that mirroring the Compact standards is desirable. He said there were a number of comments suggesting that the quest for a guideline be abandoned.

Mr. Boerner said discussion of the issue will be continued on a future conference call.

26. Adopted the Report of the C-3 Phase II/AG 43 (E/A) Subgroup

Mr. Weber said the new variable annuity framework developed by Oliver Wyman has been adopted by the Financial Condition (E) Committee and is available on the NAIC website. He said a markup of *Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43) and the RBC instructions, based on the Dec. 17, 2017, version of the framework is available. The Subgroup will update VM-21, AG 43 and RBC instructions to reflect the changes adopted in the final framework.

Mr. Weber said there is possibly a need for an implementation team to coordinate the changes that will come through the various work streams. He said the work streams include incorporating the changes into the valuation manual, modifications to the reporting requirements, updates to the *Financial Analysts Handbook* and the *Financial Condition Examiners Handbook*, new charges to the Task Force and the Statutory Accounting Practices (E) Working Group, and a review of the ESG requirements.

Mr. Weber made a motion, seconded by Mr. Ostlund, to adopt the report of the C-3 Phase II/AG 43 (E/A) Subgroup. The motion passed unanimously.

27. Heard an Update on SOA Research and Education

Dale Hall (SOA) presented the SOA's research update (Attachment Thirty-Nine) and a list of the SOA's research and education projects currently in progress (Attachment Forty). He highlighted the study of group life waiver of premium, which is expected to be released in the third quarter of this year. He noted that the SOA has initiated an individual life waiver of premium survey in which 14 companies participated, with 11 of those companies agreeing to participate in experience study.

Mr. Hall said the SOA is continuing to partner with the Human Mortality Database to get detailed U.S. mortality data. He also provided a brief overview of the revised SOA associateship syllabus, which highlights predictive analytics as a new course of study.

28. Heard an Update from the Academy Council on Professionalism

Beth Fitzgerald (Academy) said the Actuarial Standards of Practice (ASOP) No. 17, *Expert Testimony by Actuaries* has been revised and will be effective for all expert testimony provided by the actuary on or after Dec. 1. A new standard, ASOP No. 54, *Pricing of Life Insurance and Annuity Products*, will also be effective Dec. 1. She said there is ongoing work on a revision of ASOP No. 32, *Social Insurance*, an ASOP for modeling and an ASOP for setting assumptions. Ms. Fitzgerald said revisions to the following are being developed: ASOP No. 2, *Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*; ASOP No. 11, *Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance*; and ASOP No. 22, *Statement of Actuarial Opinion Based on Asset Adequacy Analysis*.

Godfrey Perrott (Academy) said the complaints received by the Actuarial Board for Counseling and Discipline (ABCD) are reviewed by the ABCD attorney, who contacts the actuary whom the complaint is against to request a response. The information goes to the ABCD chair and two vice-chairs for preliminary review and determination of whether the code of conduct has been violated. If it is determined that a violation might have occurred, an investigator is assigned. The investigator prepares a report, which is forwarded to the ABCD for consideration. Depending on the type of violation, the ABCD will either provide counseling or conduct a hearing. He noted that the ABCD has no authority to impose discipline; instead it makes a recommendation to the actuarial body to which the actuary belongs. Mr. Perrott said, in addition to complaints, the ABCD handles requests for guidance, enabling actuaries to ask questions related to their own conduct or the conduct of another actuary.

29. Heard an Update from the Academy PBR Governance Work Group

Donna Claire (Academy PBR Governance Work Group) gave a presentation (Attachment Forty-One) on PBR resources available from the Academy. She said the Academy PBR Practice page on the Academy website provides the PBR toolkit, Academy comments on PBR, links to NAIC PBR resources and Academy publications on PBR.

Ms. Claire said there are two PBR Boot Camps planned for 2019 and consideration is being given to having a regulator PBR Boot Camp before the end of the year. She mentioned that a Boot Camp focused on training on the variable annuity framework is being considered. She said the *PBR Assumptions Governance Resource Manual* is currently being reviewed by the Academy and is expected to be released later this year.

30. Discussed State Requirements for a Certificate of Valuation

Mr. Boerner said references to the certificate of valuation have been removed from the NAIC model checklist. Mr. Ostlund said a certificate of valuation is still referenced on the checklist required for companies applying to be admitted into a state. Mr. Boerner said he will attempt to gather more information on other checklists on which the certificate of valuation might be referenced.

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

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SOA ACCELERATED UNDERWRITING DELPHI STUDY

Discussion by Academy Life Experience Committee and SOA Preferred Mortality Project Oversight Group ("Joint Committee")

NAIC LATF – Summer 2018

Agenda

- Purpose of accelerated underwriting study
- Key findings of the study
- Proposed next steps
- Feedback from the industry
- Revisions and clarifications

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* The Delphi technique uses a structured communication technique involving surveying experts in the topic, sharing anonymous survey results with those experts, and allowing revisions and refinements to responses to obtain greater convergence or divergence of views among the participants.

Purpose of accelerated underwriting (Delphi) study

- Research study utilized the Delphi* technique to draw conclusions regarding:
  - Emerging underwriting practices
  - Impact on observed mortality under emerging practices
- The output from the study was to provide practitioners and regulators with a framework that:
  - Clarifies how to categorize different underwriting practices
  - Benchmarks adjustments to base mortality tables for different practices
  - Guides if further refinements to VM-20 § 9.C necessary to accommodate the emerging underwriting practices and change in expected mortality in the determination of the anticipated mortality experience assumption

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* The Delphi technique uses a structured communication technique involving surveying experts in the topic, sharing anonymous survey results with those experts, and allowing revisions and refinements to responses to obtain greater convergence or divergence of views among the participants.

Key findings of the study

- Wide variety of programs
  - Accelerated programs are designed around unique distribution systems, markets, products
  - Carriers have different cost, mortality, and qualification percentage targets
- Current industry mortality experience is a starting point
  - Adjust current fully underwritten tables based on how the accelerated program was designed
  - Expectations of higher and lower mortality results

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Key findings of the study (cont'd)

- Accelerated programs right-size underwriting requirements
  - Expect continued refinements and broader adoption as quality and availability of data sources improve
  - Traditional methods continue to apply for cases where they work well
- Risk of being left behind
  - Perception that better risks may be attracted to accelerated products and leave a residual risk pool

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Key findings of the study (cont'd)

- Varied techniques are used to manage the risk
  - Random hold-outs, back-testing, tele-underwriting interviews, and new non-medical data sources
  - Predictive analytics and behavioral economics to prevent and predict non-disclosure
  - Monitor agent behavior
  - Participants indicated they evaluate trade-offs
    - Higher acceleration rate vs higher mortality slippage
    - More data sources and more sophistication drive accelerated program results closer to traditional results

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Proposed next steps to accommodate accelerated underwriting programs

- APF 2018-17 is a positive step
  - Allows clear path to adjust for underwriting program changes
- No new table for accelerated underwriting
  - Lack of consistency in approaches and program targets*
  - Adjustments and margins relative to traditional is more fitting
- Possible addition to *Life Principle-Based Reserves Under VM-20* practice note as experience develops
  - Adjusting and reporting of accelerated programs

* VM-51 additional data elements is an attempt to gather the appropriate program level detail to address this issue

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