

## Technical Issues and Questions

1. We have concerns about the availability of data required in the schedules. For example:
  - *Cash Surrender Value Roll forward* - We have significant concerns about the proposed cash value roll-forward, as this information is not currently available as part of our existing reporting processes. An explanation of the lines for “increases in year” and “decreases in year” was not included in the proposal, but our assumption is that this information is at the policy level. We do not believe a roll forward in this format would provide meaningful information, as increases could come from decreases in surrender charges at later durations or new contracts/deposits and decreases could come from withdrawals and any type of policy termination. This change is likely to require programming/system updates to capture the needed increases and decreases, which could involve administrative systems in addition to our valuation system. A 2018 effective date would not be practical in this case, as it would require collecting information beginning January 1, 2018.
  - *A&H Benefits* - The benefits section of the Accident and Health Page 6 has been completely overhauled to provide specific benefit types that have not previously been required. More time would be required to assess whether companies’ A&H claims systems have this information. If not, this expansion of the schedule would require programming to change the functionality of these systems to track data at a level of granularity that was not previously required.
  - *Reporting of Riders* - Effective December 31, 2017, additional language was incorporated in the annual statement instructions which implies that riders should be tracked separately from the underlying policy. As a practical matter, this change does not create issues under the current product groupings. However, under more granular reporting requirements, it is unclear how certain riders should be tracked or reported. Questions raised by member companies include the question of how we should track premiums paid for a term rider on a UL policy for which there is only a single payment, and how distinct reserves should be calculated. Some companies do not track the detailed rider data separately from the underlying policy. The level of system changes required to make a change in this area would be significant, and would require additional impact assessment.
  - *Combining Payout Annuities* - Certain Period Only payout annuities are a relatively small market, We recommend combining with Certain Period Only payout annuities with Life Contingent payout annuities into a single category of Payout Annuities.
  
2. The terms and definitions raise questions. For example:
  - The terms used in the Analysis of Operations by Lines of Business and Analysis of Increase in Reserves do not fully align with the terms used in Note 32 and proposed Note 33. For example, Note 33 identifies “universal life with secondary guarantees”,

whereas, the analyses of operations and increase in reserves use “universal life with secondary benefit”. Also, Note 33 divides Indexed Life into three categories – Indexed Life, Indexed Universal Life, and Indexed Universal Life with Secondary Guarantees, whereas the analyses of operations and increase in reserves just refer to Indexed Life. Are these differences intentional?

- The term, “secondary benefit”, used with universal life, has not been defined. What definition does the Task Force intend for insurers to apply to distinguish universal life with secondary benefits (and is it the same as “universal life with secondary guarantee”)?
  - The definition “policy value” seems to have mismatched words: The amount to which ... charges are made ....” Is this correct?
  - The definition of “whole life contract” does not seem like a complete definition for whole life insurance. Is this correct?
  - There is no explicit guidance for Interest Sensitive Whole Life. Should this be treated as Whole Life or Universal Life?
  - Individual Life Page 6, Column 8 and Group Life Page 6, Column 4 each refer to a product labeled “Variable Life Insurance.” There is no definition of this product in the instructions.
  - Supplementary contracts are only reflected on the Individual Life on Page 6. Where should group supplementary contracts be assigned?
  - How should supplementary contracts without life contingencies be treated? There appears to be no place to assign them other than the Supplementary Contracts column under Individual Life Page 6. This presentation would appear to be inconsistent with the reporting of reserves for supplementary contracts with and without life contingencies on Exhibit 5 and Exhibit 7, respectively
  - Is “Flexible Premium Adjustable Life” synonymous with Group Universal Life? The definitions appear to be consistent. If so, we would suggest a change to the column heading, as Group Universal Life is more widely understood.
  - What column in Group Life Page 6 would be appropriate for the Group VUL product? (We currently have this product mapped to Flexible Premium Adjustable Life (Column Five).
  - The definitions regarding variable annuities are missing terms that would distinguish guaranteed living benefit features. Is this not a product classification that is relevant for the purposes of the NAIC’s work? Note 32, on the other hand, divides annuity liabilities into general account, separate account, separate account with guarantees, and separate account non-guaranteed. Should the analysis of operations and increase in reserves be consistent?
  - The definitions set forth many categories of medical type insurance under the accident and health category (Medicare supplement, dental-only, etc.), yet fail to identify two of the categories that are most relevant to the life insurance industry: disability income and long-term care insurance. Is this intentional?
3. Why does the Analysis of Operations by Lines of Business for Accident and Health have so much detail on medical, and disregard disability income and long-term care insurance? As noted in the question above regarding the definitions, the Analysis of Operations by Lines of

Business for Accident and Health will show considerable detail on a host of types of medical insurance, but will not separately identify two of the most significant lines for life insurers: disability income and long-term care. Is this the intended outcome?

We noticed on the changes to the Analysis of Operations by Line of Business pages that they are removing line items not applicable for the appropriate product group in each report. However, this is causing the line item numbering across the Analysis of Operations by Line of Business pages to be different as well as not lining up with the line items reported on Summary of Operations (page 4 of the annual statement). We would propose that the line items for each Analysis of Operations by Line of Business pages be kept consistent with the Summary of Operations lines and “XXX” out rows that should not be used for a particular product group.

We also urge consistency with the new PBR Report. Terms used in the Analysis of Operations by Lines of Business and Analysis of Increase in Revenues should be consistent with terms used in the Principle-Based Reserves (PBR) VM-20 Supplement.

#### Specific Questions Regarding Analysis of Increase in Reserves During the Year

1. Individual Life Insurance. Lines 16 -19. We understand the relevance of cash surrender value, but not the roll-forward information. Completing the roll-forward (increases and decreases) will require data that separates out cash surrender value on new policies, cash surrender value on existing policies, and cash surrender value on terminated policies. We do not look at the liquidity characteristics of CSV in such a granular way, and supplying the new presentation creates significant work. What is the value to regulators in doing so? Also, relating to the question on line 20 below, is the cash surrender value intended to be a gross amount, or is it net of policy loans? [What about net of surrender charges?] While we do not believe this detail is useful, additional clarity will be needed if the Task Force moves forward.
2. Individual Life Insurance Line 20. Regulators see the amount of policy loans in the financial statements. Why is it needed here? We’re not sure what “other contractual amounts available for withdrawal by category” means? Assuming the cash surrender value in line 19 is gross, presumably the “other contractual amounts for withdrawal” is simply the difference between the gross CSV and loan balances? Or is something else intended? While we do not believe the additional information is useful, clarity will be needed if the Task Force moves forward.
3. Similar questions apply to group life insurance, individual annuities and group annuities.
4. Should the Supplementary Contracts with Life Contingencies on Exhibit 5 be included on the Individual Life Insurance page or the Individual Annuities page? The way the instructions are currently written, it appears they could be reported on either page. Since the Supplementary Contracts with Life Contingencies are included in Note 32 (Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics), should they be included on the Individual Annuities page for consistency?
5. Should the annuity reserves included in the Disability Active Lives, Disability Disabled Lives, and Miscellaneous sections of Exhibit 5 be included on the Individual Annuities page? The way the instructions are currently written for the Individual Annuities page, line 1 refers to

only the “Annuities Section of Exhibit 5”, so some additional clarification will be needed to include all annuity reserves.

6. What does the Task Force intend for Analysis of Increase in Reserves for Accident and Health? It appears we are being asked to use the existing Exhibit 6 location, but does that mean we will just continue to complete Exhibit 6? Or, are we being asked to replace Exhibit 6 with a format like U&I Part 2D in Health? If we are being asked to replace Exhibit 6 with a format like U&I Part 2D in Health, note that separate lines for the “Additional actuarial reserves – Asset/Liability analysis” are being removed. Also, will the columns remain as they currently are on Exhibit 6? Additional clarification will be needed on this.

#### Questions on Changes to the Notes to Financial Statements

More direction is needed on how Note 33 is to be completed:

- There is a reference to “deposit type liabilities”. Is this intended to overlap with the deposit type liabilities addressed in Note 32 (which may already include universal life type liabilities)? Please distinguish.
- What should the figures in Note 33 reconcile to in the annual statement? It would be helpful to have figures that allow for cross-checks to the annual statement.
- What is intended to be the difference between account value and cash value? Also, we are assuming the account value and cash value will not be populated for section B. Additional clarification on the definitions of these fields will be needed.
- Is cash value intended to be gross or net of policy loans?
- What is the definition for “Universal Life with Secondary Guarantees”?
- In some cases life products that are subject to discretionary withdrawal have reserves (e.g., classified and conversion) for which there is no surrender value. Are these to be categorized as “subject to discretionary withdrawal”, or as “miscellaneous reserves” that are “not subject to discretionary value or no cash value”?