



June 13, 2022

Commissioner Andrew N. Mais, Chair
 Commissioner Russell Toal, Vice Chair
 Health Actuarial (B) Task Force
 National Association of Insurance Commissioners

Re: Proposal for the revised 2022 Group Term Life Waiver of Premium Valuation Table and the revised Actuarial Guideline 44

On behalf of the Group Life Waiver Premium Valuation Table Work Group (Work Group) of the American Academy of Actuaries (Academy)¹ and the Society of Actuaries Research Institute (SOARI),² I would like to submit our recommendations and findings to the National Association of Insurance Commissioners (NAIC) Health Actuarial (B) Task Force (HATF). Specifically, we ask the NAIC for its consideration of the revised 2022 Group Life Waiver of Premium Valuation Table and the revised Actuarial Guideline XLIV (AG 44).

The work group submits the following for your consideration:

- Draft of the Revised AG 44, both marked up and clean copies.
- *Graduation of Group Life Waiver of Premium Disability Experience Rates* by Jerry Holman dated February 2022. A 32-page report on his work on the development of the table using predictive analytics. An executive summary is on pages 4 and 5.

These documents accompany the [presentation](#) made to HATF on May 16, 2022, by Susan Sames.

Background Information

Although waiver of premium (waiver) benefits on group term life insurance policies has a long history, the reserve standard was only very recently established, in 2006. This is the first proposed update to that recent standard.

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

² Serving as the research arm of the Society of Actuaries, the SOA Research Institute provides objective, data-driven research bringing together tried and true practices and future-focused approaches to address societal challenges and business needs. The Institute provides trusted knowledge, extensive experience and new technologies to actuaries, employers, regulators, research funders and the public, to help them effectively identify, predict and manage risks.

Waiver is actually a disability benefit on a group term life insurance policy. Reserves for reported claims are calculated as the actuarial present value of future claims (versus the actuarial present value of waived premiums). It requires a “double decrement” approach: tables of mortality and recovery rates.

Group life waiver is related to group long-term disability (LTD). Reserves for LTD are covered in Actuarial Guideline XLVII (AG 47) Note that deaths and recoveries are treated together as claim termination rates for LTD. Deaths and recoveries both end an LTD claim.

The work group would like to provide some historical context, as it will figure into our discussion on the proposed updates to the margins.

Historically, insurers often used 75% of the face amount as the waiver reserve. In 1971, the “Krieger Table” was published. It was based on data from 1955 to 65. It was not sex-distinct and likely there was limited data on females. Although the table was never formally adopted, it served as a de facto standard for the industry and regulators in the absence of an official statutory standard. The author of the paper proposed margins of 30% for mortality rates and 40% for recovery rates. The margins were set to cover virtually all 17 companies in the experience study, which was a historic approach. These margins were used in the industry, although they did not go through a formal regulatory process for review.

Actuarial Guideline XLIV (AG 44) created the first official statutory standard, which was based on the SOA 2005 Table. The structure of this table was consistent with the Krieger Table. The only additional variable was to include gender because female data was now available. There was widespread recognition that the margins of 30% and 40% were quite high. The margins were decreased only slightly to 25% and 35% for deaths and recoveries, respectively, as their treatment under Krieger had set a precedent.

The work group is now requesting the first update to this standard. We believe this table to be a better representation of industry experience for the following reasons:

- The experience study that it was based on is more recent and company practices have evolved, for example, regarding the common reporting of LTD and waiver claims
- It reflects significantly more data
- It reflects more variables, including diagnosis, which allows much better fit
- The use of predictive analytics better reflects the interaction of all variables

In addition, AG 47, which was adopted after AG 44, provided some of the inspiration for the changes being proposed for group life waiver, including the proposed approach to margins and credibility.

Credibility

We believe that the proposed table is a very good representation of industry experience and that companies should be enabled to reflect their own experience.

We continue the practice of assessing credibility separately for mortality and recovery. Credibility is assessed separately by claim duration group, as follows:

- Group 1: durations up to 24 months
- Group 2: durations 24 to 60 months
- Group 3: durations over 60 months

For full credibility, each mortality group requires 800 claims, while each recovery group requires 1,700 claims.

Margins

The current AG 44 assesses margin on each decrement separately:

- 25% for mortality; i.e., mortality rates are multiplied by 125%
- 35% for recovery; i.e., recovery rates are multiplied by (1-35% or 65%)
- These margins were based on Krieger's work in 1970 and result in a very high overall reserve margin of 21.0%, as well as even higher margins for "To Age 65"

Under the work group/SOARI proposal, the base reserve is first calculated on an experience basis, with the margin applied after:

- Margins start at 15% and grade down to 5% for companies with fully credible experience
- The proposed formula for group life waiver is based on that for group long-term disability in AG 47

Retroactivity

Because this table is an enhancement to the prior version, the proposal would allow companies to apply it, along with the AG 44 revisions, retroactively to all claims at their election.

- Note that the current AG 44 allows an insurer to apply the 2005 Table retroactively to pre-AG 44 claims subject to the approval of the commissioner in the state of domicile.
- Group LTD and Individual Disability Income (IDI) standards both allow companies to apply the new tables retroactively.

We welcome the opportunity to speak with you in more detail and answer any questions you have regarding these recommendations. If you have any questions or to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Susan Sames, MAAA, FSA
 Chairperson, Group Life Waiver Premium Valuation Table Work Group
 American Academy of Actuaries/Society of Actuaries Research Institute

CC: Paul Lombardo, Eric King