NJ Proposal for Longevity Reinsurance C-2 Factors and Capital Development

After further review of the originally proposed C-2 factors that apply to the next 12-month benefits payable, New Jersey modifies the proposal as follows:

New Jersey proposes to leverage the current longevity risk C-2 factors without developing a separate set of factors for longevity reinsurance and apply the factors to the scheduled benefits payable by the benefit provider within the 12-month period from the date of the valuation, instead of 2% of the next 12-month period benefits and applying the previously proposed factors. Moreover, the factors will also vary based on the scheduled benefits payable in the next 12-month period.

Once this structure of the longevity risk capital amount calculation is adopted with the current C-2 factors, New Jersey proposes that the Longevity Risk (E/A) Subgroup develop specific C-2 factors with appropriate analysis reflecting the different product structure of the Longevity Reinsurance contracts. Until such C-2 factors are developed and adopted, the current C-2 factors seem to be the best available factors that could be considered.

New Jersey believes that this approach is simple and practical. It will enable companies to hold an adequate amount of capital to cover the longevity risk from Longevity Reinsurance contracts, which have different cash flows than other life contingent annuities. It is practical because companies can use the next 12-month benefits payable amounts that need to be calculated for VM-22 purposes. Similarly, for the Longevity Reinsurance contracts issued prior to the VM-22 effective date, the 12-month benefits payable amount will be easily extracted from their Asset Adequacy Testing.

Notes:

The rationale for selecting the 12-month scheduled benefits payable by the benefit provider as the base is that:

a. the reserves tend to start out very small (often at the reserve floor level), then grow substantially higher; while the impact of mortality

and mortality deterioration tends to be proportional to benefit payments 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 inforce volumes become small) and lack of credible older age mortality data.

Longevity Risk (E/A) Subgroup Exposure 10/16/25:

Exposed for 30-day comment period ending November 14, 2025.

Please submit detailed proposals or any comments for approaches to developing Life Risk Based Capital Longevity Risk C-2 factor(s) for longevity reinsurance business. The Subgroup is seeking development of specific C-2 factor values with deep technical analysis.

Proposals should include as applicable to the approach:

- Detailed descriptions of how to calculate the value where the proposed C-2 factor will be applied, including how an offset credit for future surplus not included in calculated statutory reserves is reflected in the approach, if such descriptions are not provided in the proposal (e.g. present value of benefits, with an offset credit for future surplus not included in calculated statutory reserves, as proposed by American Council of Life Insurers or a principle-based TAR approach suggested by the American Academy of Actuaries) to be reported in a new line in LR025-A.
- A redline of LR025-A and the accompanying instructions to illustrate how the proposed approach would be reported. Add new lines and columns as applicable (see next three pages).
- For principle-based C-2 factors include a redline of LR025-A to show how the company should report the factor as well as how the final calculation of the longevity requirement amount should be performed since the factors will differ between longevity reinsurance and other in scope products.

Note: Other exhibits use LR025-A Lines 5, Column 2 values therefore any structural changes to LR025-A may require non-structural changes to the following:

- LR030, CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL – Line 138b Longevity C-2 Risk, Source column
- LR031, CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL – Line 48b Longevity Risk, Source column

LR025-A LONGEVITY RISK

			(1)				(2)
		Annual Statement Source	Statement Value		Factor		Requirement
	Life Contingent Annuity Reserves Excluding Longevity Reinsurance products						
(1)	General Account Life Contingent Annuity Reserves	Exhibit 5 Column 2 Line 0299999, in part‡	$0				
(2)	General Account Life Contingent Supplemental Contract Reserves	Exhibit 5 Column 2 Line 0399999, in part‡	$0				
(3)	General Account Life Contingent Miscellaneous Reserves	Exhibit 5 Column 2 Line 0799999, in part‡	$0				
(4)	Separate Account (SA) Life Contingent Annuity Reserves	S/A Exhibit 3 Column 2 Line 0299999, in part‡	$0				
(5)	Total Life Contingent Annuity Reserves excluding Longevity Reinsurance products	Lines (1) + (2) + (3) + (4)	$0	X	†	=	$0
			========				==========
	Longevity Reinsurance						
(6)	Scheduled benefit payments over the 12-month period, following the valuation date	Company Records (pre-tax amount)	$0		†		$0
(7)	Total Life Contingent Annuity Longevity Risk Capital Amount	Lines (5) + (6)					$0
			========				==========

† The tiered calculation is illustrated in the Longevity Risk section of the risk-based capital instructions.

‡ Include only the portion of reserves for products in scope per the instructions

Denotes items that must be manually entered on the filing software.

LR025-A LONGEVITY RISK

LR030, CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL – LINE 138B LONGEVITY C-2 RISK:

SOURCE COLUMN WILL BE UPDATED TO LR025-A LONGEVITY RISK COLUMN (2) LINE (7)

LR031, CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL – LINE 48B LONGEVITY C-2 RISK:

SOURCE COLUMN WILL BE UPDATED TO LR025-A LONGEVITY RISK COLUMN (2) LINE (7)

LONGEVITY RISK

LR025-A

Basis of Factors

The factors chosen represent surplus needed to provide for claims in excess of reserves resulting from increased policyholder longevity calibrated to a 95th percentile level. For the purpose of this calibration aggregate reserves were assumed to provide for an 85th percentile outcome.

Longevity risk was considered over the entire lifetime of the policies since these annuity policies are generally not subject to repricing. Calibration of longevity risk considered both trend risk based on uncertainty in future population mortality improvements, as well as level or volatility risk which derives from misestimation of current population mortality rates or random fluctuations. Trend risk applies equally to all populations whereas level and volatility risk factors decrease with larger portfolios consistent with the law of large numbers.

For non-Longevity Reinsurance products, s~~S~~tatutory reserve was chosen as the exposure base as a consistent measure of the economic exposure to increased longevity. Factors were also scaled by reserve level since number of insured policyholders is a less accessible measure of company specific volatility risk. ~~Factors provided are pre-tax and were developed assuming a 21% tax adjustment would be subsequently applied.~~

For Longevity Reinsurance products, the scheduled benefit payments over the 12-month period, following the valuation date was chosen as the exposure base as a consistent measure of the economic exposure to increased longevity. Factors were scaled by the next 12-month benefit amount since number of insured policyholders is a less accessible measure of company specific volatility risk and reserve level may not always be a strong measure of company specific volatility risk with a material impact from the fees associated with the Longevity Reinsurance products.

Factors provided are pre-tax and were developed assuming a 21% tax adjustment would be subsequently applied.

Specific Instructions for Application of the Formula

For non-Longevity Reinsurance products, a~~A~~nnual statement reference is for the total reserve for the products in scope. The scope includes annuity products with life contingent payments where benefits are to be distributed in the form of an annuity. The entire reserve amount for contracts in scope that include any life contingent payments are in scope. For example, under a certain-and-life style annuity, the entire reserve for both the certain payments and life contingent payments are in scope. Variable immediate annuity reserves under VM-21 are also in scope where there are life contingent payments. Scope does not include annuity products that are not life contingent, or deferred annuity products where the policyholder has a right but not an obligation to annuitize. A certain-and-life style annuity, where only certain payments remain (such as following the death of the annuitant), is out of scope. Variable deferred annuity contract reserves under VM-21 are out of scope, including reserves valued under VM-21 for any contracts where policyholder account value has reached zero, but a lifetime benefit may still be payable by the insurer. Line (3) for General Account Life Contingent Miscellaneous reserves is included in the event there are any reserves for products in scope reported on Exhibit 5 line 0799999; it is not meant to include cash flow testing reserves reported on this line. Included in scope are:

- Single Premium Immediate Annuities (SPIA) and other payout annuities in pay status
- Deferred Income Annuities which will enter annuity pay status in the future
- Structured Settlements for annuitants with any life contingent benefits
- Group Annuities, such as those associated with pension liabilities with both immediate and deferred benefits

The total reserve exposure is then further broken down by size as in a tax table. This breakdown will not appear on the RBC filing software or on the printed copy, as the application of factors to reserves is completed automatically. The calculation is as follows:

Non-Longevity Reinsurance products:

Line (5)	Life Contingent Annuity Reserves	(1) Statement Value	Factor		(2) RBC Requirement
	First 250 Million		X 0.0171	=	
	Next 250 Million		X 0.0108	=	

Next 500 Million		X 0.0095 =	
Over 1,000 Million		X 0.0089 =	
Total Life Contingent Annuity Reserves			

For Longevity Reinsurance products, company-calculated amounts of the benefits payable in the next 12 months are the basis to which the factors are applied. These amounts should align with the projected benefits over the next 12 months per the company's VM-22 reserve calculations if the Longevity Reinsurance is reserved under PBR.

The total reserve exposure is then further broken down by size based on the next 12-month Longevity Reinsurance benefits payable. This breakdown will not appear on the RBC filing software or on the printed copy, as the application of factors to reserves is completed automatically. The calculation is as follows:

Longevity Reinsurance products:

Line (6)	Next 12-month Benefits Payable	(1) Next 12-month Benefits Payable	Factor	(2) RBC Requirement
	First 250 Million		X 0.0171 =	
	Next 250 Million		X 0.0108 =	
	Next 500 Million		X 0.0095 =	
	Over 1,000 Million		X 0.0089 =	
	Total Next 12-month Benefits Payable			

The amount ultimately included in the authorized control level will be subject to a guardrail factor of 0_and a correlation factor of -.25.