Mortality Improvements Life Working Group (MILWG):
2023 HMI and FMI Scale Update
2023 Plan

Presented at 2023 NAIC Spring Meeting

- Revisit historical HMI methodology in light of recent and expected experience - completed
- Revisit smoothing approach for HMI and FMI—completed
- Approach to COVID-19 impact for 2023—FMI (future mortality improvement) and HMI (historical mortality improvement)—completed
- Insured vs. general population HMI and FMI recommendations (begin work in 2023)
- Revisit FMI margin structure
- Review recommendation for MI with 2008 VBT Limited Underwriting (LU) table
Agenda

- Provide an update on work completed:
  - Revisit historical HMI methodology in light of recent and expected
  - Revisit smoothing approach for HMI and FMI
  - Approach to COVID-19 impact for 2023—FMI (future mortality improvement) and HMI (historical mortality improvement)
- Present recommendation for 2023 HMI and FMI scales
- Provide an update on next steps for remaining 2023 work plan
Revisit HMI Methodology
HMI/FMI General Methodology

Scale Year = 2023

HMI Scale: Average of Historical and Future Components

FMI Scale:
Basic Scale = grade from HMI 2023 to MI long term rate (LTR*) at projection year 10
Loaded Scale = Basic MI Scale reduced by 25%

Historical Component: SSA Historical Data (10 year geometric average)

Future/Est. Component: SSA Alt 2 Projection (20 year geometric average)

Grade from HMI level at 2023 to LTR at 2033

Grade from LTR to MI=0 at 2043

Last year SSA historical data available

FMI reaches LTR

*LTR = arithmetic average of MI implied by SSA Alt 2 projection for years 10-15 2033-2038

Items under review
HMI Methodology Review Items

1. **Historical averaging period (10 years)**
   - Mortality improvement between 2011-2021 (last year through which SSA historical data has been compiled and published)

2. **Future averaging period (20 years)**
   - From last year of historical data available

3. **Averaging method**
   - Calculation of historical and future averages
   - Weighting of historical and future averages
HMI Methodology Review Items Recommendation: Historical Averaging Period (currently 10 years)

Recommendation: remain at 10 years

- Recent experience (2011-2021)
- Reduces year-to-year potential volatility of shorter periods but experience is relevant
HMI Methodology Review Items Recommendation: Future Averaging Period (currently 20 years)

Recommendation: remain at 20 years

- Smooths out potential SSA Alt 2 early projection year bumps
HMI Methodology Review Items Recommendation: Averaging Method

Averaging method: currently use geometric average over historical and future periods

Recommendation: continue to use geometric approach for 2023

Consider moving to arithmetic average rather than geometric for both historical and future components (will re-examine for 2024 scale work)

- Relies less on only the beginning and ending year experience
- Not much difference between arithmetic and geometric average results for years since we implemented the annual life MI scale updates
- Consistent with the FMI LTR determination
Calculation of Historical Averages

Male Historical Component—10 year average, Full COVID Impact

-8.00%
-7.00%
-6.00%
-5.00%
-4.00%
-3.00%
-2.00%
-1.00%
0.00%
1.00%
2.00%
3.00%

Mortality Improvement Rate

Attained Age

Geometric Mean
Arithmetic Mean
Median
Trimmed Mean
Winsorization
HMI Methodology Review Items Recommendation: Weighting of Historical and Future Components of HMI

Recommendation:
Keep 50/50 weighting on averaging
☐ No data-focused basis for changing at this point
Revisit Smoothing Process
## Review Smoothing Approach

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Current Method</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ages 0-15 (juvenile)</td>
<td>Use adult average (18-84) x 1.5</td>
<td>Use 0-20 average</td>
</tr>
<tr>
<td>2. Ages 16-20</td>
<td>Linear interpolation from juvenile rate to adult rate at age 21 Use 0-20 average</td>
<td></td>
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<tr>
<td>3. Ages 21-84</td>
<td><strong>Use Adult Average 18-84</strong></td>
<td><strong>Break into more detailed age groups:</strong></td>
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<tr>
<td></td>
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<td>0-20</td>
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<td>65-85</td>
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<td>Linear interpolation between groups.</td>
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<tr>
<td>4. Ages 85-94</td>
<td>Linear interpolation from adult rate to .0025 per year ultimate level at age 95</td>
<td>Linear interpolation from 65-85 average to .001 per year ultimate level at age 95 (use .001 due to COVID considerations)</td>
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<tr>
<td>5. Ages 95 and later</td>
<td>Use constant .0025 (used .001 for 2022 due to COVID impact considerations)</td>
<td>Use constant .001 due to COVID considerations</td>
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</table>
Comparison of Smoothing Approaches

2023 Recommended HMI scale

Smoothing—OLD

Smoothing—NEW
COVID-19 Impact—2023 Approach
COVID-19 Impact

COVID-19 impact considerations

- Ensuring COVID-19 impact is considered
- Some companies with high credibility will use their best estimate mortality (including implied historical improvement) for long periods before grading to industry
  - Creates potential disconnect between HMI and the recommended industry FMI scale

Recommendation: COVID impact will be included in the first few years of the FMI scale for 2023 (similar to approach for 2022 scale work)
HMI 2023 Recommendation
Male, Mortality Improvement Rates

Mortality Improvement Rate

Attained Age

Males Unsmoothed 2023  M - Smoothed 2023 - new  M - Smoothed 2023 - original

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HMI 2023 Recommendation
Female, Mortality Improvement Rates
2023 vs 2022: Male—Old Smoothing
Historical Mortality Improvement Rates

Mortality Improvement Rate vs Attained Age

- M - Smoothed 2023 - original
- Males 2022 Smoothed
2023 vs 2022: Female—Old Smoothing
Historical Mortality Improvement Rates
FMI 2023 Recommendation—Basic Scale
Male, Future Mortality Improvement Rates

<table>
<thead>
<tr>
<th>Attained Age</th>
<th>2023 - VM20 Historical MI Scale</th>
<th>2024 With COVID Load</th>
<th>2025 With COVID Load</th>
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</table>
FMI 2023 Recommendation—Basic Scale
Female, Future Mortality Improvement Rates

Female 2023 - VM20 Historical MI Scale
2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043

Reaches Long Term MI Level
First Year of Zero MI
With COVID Load
No COVID Load
With COVID Load

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2023 vs 2022—Male
Future Mortality Improvement Rates

Male - Increase/Decrease in FMI Rates

Attained Age

Mortality Improvement Rate

-2.50%
-2.00%
-1.50%
-1.00%
-0.50%
0.00%
0.50%
1.00%
2023 vs 2022—Male
Future Mortality Improvement Rates

Attained Age

Mortality Improvement Rate

-2.50%
-2.00%
-1.50%
-1.00%
-0.50%
0.00%
0.50%
1.00%

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2023 vs 2022—Female
Future Mortality Improvement Rates

Female - Increase/Decrease in FMI Rate

Mortality Improvement Rates

Attained Age

-2.50%
-2.00%
-1.50%
-1.00%
-0.50%
0.00%
0.50%
1.00%

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Update on Next Steps for 2023

- Insured vs. general population HMI and FMI recommendations (work continues)
- Revisit FMI margin structure
- Review recommendation for MI with 2008 VBT Limited Underwriting (LU) table
  - Keep the HMI and FMI scales at 0 MI for all ages
  - Look at additional data sources to support this
Questions?
Contact Information

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Mark Rosa, FSA, MAAA
Cynthia MacDonald, FSA, MAAA

Members available to provide supplementary information and explanation as needed.
# HMI/FMI General Methodology

<table>
<thead>
<tr>
<th>HMI Scale Year</th>
<th>Historical Component:</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Historical Data (10 yrs)</td>
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<tr>
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<td>SSA Data = General Population Mean</td>
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</tbody>
</table>

**Estimated/Future Component:**
- SSA (Social Security Administration)
- Alt2 Projection (20 yr average)

<table>
<thead>
<tr>
<th>Year</th>
<th>Averaging Period: 2011-2021</th>
<th>Averaging Period: 2023-2043</th>
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<tbody>
<tr>
<td>2023</td>
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</table>

<table>
<thead>
<tr>
<th>FMI Scale Year</th>
<th>Process</th>
<th>Long-Term Rate (LTR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>Basic Scale:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Grades to LTR at projection yr 10 (2033)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Remains at LTR for projection yrs 10-15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Grades to no additional MI at projection yr 20 (2043)</td>
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<tr>
<td></td>
<td>• Margin for uncertainty included to develop “Loaded Scale” – 25% flat reduction in MI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average of SSA Alt 2 MI for projection years 10-15</td>
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</tbody>
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